

Marks wrote 'you can't predict' in 2001. In 2008 Oaktree was ready

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Maxim: *You can't predict. You can prepare.* — Howard Marks

Nobody can tell you when the next crisis will come. Everyone can decide, in advance, how it will find them.

The future cannot be forecast, but your position when it arrives can be chosen.

In November 2001 Howard Marks sat down to write to the clients of Oaktree Capital, the firm he had co-founded to invest in distressed debt and other unloved assets. It was a grim moment. The technology bubble had burst, a recession was under way, and the attacks of 11 September had pushed an already weakening economy further down. Clients wanted to know what would happen next. Marks's answer was the title of his memo: [You Can't Predict. You Can Prepare.](#)

His argument was about cycles. "Trees don't grow to the sky, and few things go to zero," he wrote. "Rather, most phenomena turn out to be cyclical." No one could say when a cycle would turn. But "the key to dealing with the future lies in knowing where you are, even if you can't know precisely where you're going." Or, more bluntly: "We may never know where we're going, or when the tide will turn, but we had better have a good idea where we are."

Seven years later

The test of that philosophy came in 2008. That year Oaktree raised a \$10.9 billion fund to buy the debt of troubled companies, which the research firm Preqin described as the largest distressed fund ever raised, [Institutional Investor reported](#) in 2010. When the crisis peaked and sellers were desperate, the money was there to buy. Marks called the period a "bargain bonanza" for Oaktree's clients. The fund had earned a net return of 31.5% a year from inception to the end of 2009, according to an investor quoted by the magazine. By early 2011 it had already handed \$3 billion back to investors while its remaining holdings were estimated at about \$14 billion, [Buyouts reported](#).

The lesson is not that Marks saw Lehman Brothers coming. His memos are emphatic that he does not make forecasts of that kind. The lesson is that Oaktree had spent years building the thing that mattered when the cycle turned: money ready to deploy, a mandate to deploy it, and investors who understood what it was for.

Most individual investors face the same choice in miniature. When markets fall hard, some people are forced sellers: they need cash, they have borrowed, or they simply cannot stand the losses. Others are ready buyers or, at the least, calm holders. Which group you belong to is decided long before the fall.

Preparation at the industry level

India's markets regulator has started asking fund houses to prepare in a similar way. In March 2024, after a long rally in smaller companies, Sebi had mutual funds disclose stress-test results showing how long their small-cap schemes would need to sell a quarter or half of their holdings if redemptions

surged. The answers varied widely. Edelweiss Small Cap Fund said it could sell half its portfolio in three days; Quant Small Cap Fund needed about 22 days; Nippon India Small Cap Fund, the largest in the category, needed up to 27, [Business Standard reported](#).

The stress tests did not predict anything. They simply told investors where they stood: how liquid their fund was, and therefore how it might behave if many investors headed for the exit at once. That is Marks's principle applied to a factsheet.

How to prepare without predicting

You do not need a view on the next crisis to be ready for it. You need honest answers to five questions about where you are now:

1. **How warm is the market?** Marks looks at whether investors are eager or fearful, whether valuations are high or low against their own history, and whether money is easy or hard to raise. You cannot time the turn, but you can notice when caution is out of fashion.
2. **Could you be a forced seller?** List every way you might need cash in a hurry: job loss, illness, a loan coming due. Each one needs a buffer that is not invested in shares.
3. **Is any of your exposure borrowed?** Margin loans, loans against shares and leveraged products turn a fall in prices into a demand for money at the worst moment.
4. **How liquid are your holdings?** For small-cap and mid-cap funds, the stress-test results are disclosed regularly; read them before, not during, a rush for the exit.
5. **What will you do with spare cash in a fall?** Decide now how much you would add, and at what level of decline, so that the decision is already made when prices look frightening.

A simple decision rule. Once a year, write down where you think the market is in its cycle and what you would do if it fell 30% from here. If the honest answer involves selling because you need money or have borrowed, fix that now by building your cash buffer or reducing leverage. If the answer is that you could hold or buy, your preparation is done; ignore the forecasts.

Marks wrote his memo in the dark weeks of late 2001, and its title has outlasted every forecast made that year. Seven years later, his firm did not need to have predicted the crisis to profit from it. It only needed to have prepared. The same is true for an individual with an emergency fund, no margin loan and a plan written down in advance. The next fall will come at a time nobody expects. Whether it finds you as a forced seller or a patient owner is the one part of the future you get to decide today.

Sources

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- [Oaktree pays out \\$3B from \\$10.9B Fund VIIb](#), Buyouts, 28 February 2011
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