

The Optimistic Investor[®]

Focus on What Really Matters



Run Your Own Race: A \$30 Billion Lesson in FOMO

Most investors (and hopefully all K&A clients!) recognize the danger of fear in a bear market. Panic often causes people to sell their investments at precisely the wrong time, converting otherwise temporary declines into permanent losses. But there's an equally dangerous kind of fear that can arise in bull markets: the fear of missing out, or FOMO.

FOMO drives people to make investment decisions based on returns being earned by others, without due regard for the risks involved. Not surprisingly, that often ends in disaster, so it's something we need to be aware of as this bull market enters its fifth year.

When bull markets mature, they often narrow in scope. What begins as a broad-based rally gradually evolves into a single theme that promises a "new era" and seems uniquely able to drive equity markets higher. That kind of environment is where the risk of FOMO is greatest.

The driving force behind today's bull market seems to be artificial intelligence (AI). The technology's transformative potential has captivated investors, fueled enthusiasm, and inspired many predictions about the future. This summer, it also produced an incredible story that we want to share with you. It's the story of a hedge fund called Situational Awareness, and it's a cautionary tale about the risks of giving in to FOMO.

The Rise & Fall of Situational Awareness

The story began in June 2024, when a young man named Leopold Aschenbrenner published an essay called *Situational Awareness: The Decade Ahead*. Over 165 pages, he argued that AI superintelligence would transform the world within the next decade. The essay attracted widespread attention in technology circles, where Aschenbrenner was quickly hailed as a visionary.¹

Riding his essay's popularity, Aschenbrenner soon launched a hedge fund that carried the same name. He had no trading experience, but investors captivated by the potential of AI looked past that and entrusted him with huge amounts of money. By the summer of 2025, the fund managed \$1.5 billion, and investors continued to add money as it posted incredible returns early this year. It reported a 439% return in the first half of 2026, and by early July oversaw roughly \$45 billion.

The eye-popping returns flowed from a risky strategy called a "Texas hedge." The firm invested in a small group of companies it expected to benefit from broad adoption of AI while simultaneously shorting (i.e., betting against) companies it saw as likely to be disrupted. It was also heavily leveraged, borrowing over \$3 for every \$1 of investor capital.

As July unfolded, concerns about AI rippled through equity markets. The stocks Situational Awareness owned declined while those it had bet against rose. The fund's immense leverage amplified the resulting losses and forced it to liquidate most of its portfolio at discount prices. When the dust settled, \$30 billion had been permanently lost in less than a month.

A Lesson for All of Us

Perhaps the most surprising aspect of the Situational Awareness story is the identity of the investors who suffered losses. They were not naïve individuals who lacked the ability to assess risk. Though Aschenbrenner had no experience managing money, his investors were highly sophisticated and capable.² That highlights an important truth: *anyone can be susceptible to FOMO in the right circumstances.*

John Pierpont Morgan is often said to have observed that "[n]othing so undermines your financial judgment as the sight of your neighbor getting rich." That's exactly what happened here. The Situational Awareness investors could understand the risks involved, but they were swept up in the narrative of an apparent genius producing extraordinary returns. The fear of being left behind led them to take excessive risks.

We have to actively protect against that mindset as this bull market progresses. We'll continue to hear

much about the potential of AI, mega IPOs, and a handful of firms posting huge returns. But the allure of outsized returns is a siren song that we must resist if we want to properly manage risk and stay on track for our long-term goals.

Keep Your Eye on the Prize

One way to protect ourselves from FOMO is to distinguish between investment returns and our long-term goals. We all want to earn good returns and have the wealth we create work hard for us over time. However, high returns are **not** the ultimate goal we're pursuing.

Our financial goals are defined by how we want to live and experience life. They're things like retiring well, living comfortably without fear that our money will run out, and leaving a legacy for our children or organizations we're passionate about. Earning big returns is not a goal in this sense, because returns alone don't create the lives we aspire to.

Said another way, our portfolios and the returns they produce are the **means** through which we pursue our most cherished goals. Our investments must be tethered to our goals so we can properly evaluate risk and success. When we lose that connection and focus solely on generating large returns, we inevitably take unnecessary risks and set ourselves up for disappointing outcomes.

Slow & Steady Wins the Race

A related way we can protect against FOMO is by remembering that long-term wealth is built through compounding. And compounding depends more on consistency and reliability than extraordinary returns in any single year.

In his excellent book called *The Psychology of Money*, Morgan Housel used legendary investor Warren Buffett to make precisely this point. Housel explained that, while Buffett made good

¹ You can read the essay here: <https://situational-awareness.ai/>.

² One of the most esteemed trading firms on Wall Street, Jane Street Capital, is estimated to have lost \$7 billion in Situational Awareness and nearly \$15 billion after accounting for related market disruptions.

returns as an investor, others made much higher returns and ended up with much less wealth. The real differentiator that allowed Buffett to amass his fortune was that he began seriously investing in companies at age 10, which effectively started his compounding process several decades earlier than most professional investors. In other words, Buffett's success came from consistency over a long period of time, not from producing higher returns than everyone else.³

Housel summarized the lesson to be learned as follows:

[G]ood investing isn't necessarily about earning the highest returns, because the highest returns tend to be one-off hits that can't be repeated. It's about earning pretty good returns that you can stick with and which can be repeated for the longest period of time. That's when compounding runs wild. The opposite of this—earning huge returns that can't be held onto—leads to some tragic stories.⁴

That might be the best general advice an investor can receive. And it reminds us of Aesop's fable of the tortoise and the hare.⁵

Extraordinary returns generally come from speculative investment strategies that depend on

fortunate timing and/or a level of risk that makes them unsustainable over time. It may seem that the people who use them are getting ahead, but they ultimately fall behind just like the hare. We can't achieve long-term success with 400% returns that are lost a month later.

In contrast, well-diversified equity portfolios are like the proverbial tortoise. They may seem boring at times, but as markets ebb and flow over decades, the great companies of the world have consistently outpaced inflation and delivered lifetime returns that are hard to beat.

So, if you start to feel a little FOMO as this bull market carries on, think about your long-term goals, trust in the power of steady compounding, and remember that the tortoise wins in the end. If that doesn't work, you can always call us to talk it through.

³ Morgan Housel, *The Psychology of Money* (USA: Harriman House, 2020), 49-53.

⁴ *Ibid.*, 53.

⁵ If you need a refresher, you can read the classic tale here: <https://read.gov/aesop/025.html>.

Innovation and Good News

1. Much has been made about the possibility of AI creating mass unemployment, but a recent [analysis by The Economist](#) shows that AI has created a net total of roughly 800,000 jobs in the United States.
2. The FDA approved a [new pancreatic cancer treatment](#) in August. The drug is called Rasonque, and patients who received it in a clinical trial lived twice as long as those receiving chemotherapy alone.
3. The FDA also approved a [new mRNA flu vaccine](#) with great potential. It reduced flu risk by more than 26% relative to the traditional flu vaccine. And the use of mRNA cuts the time needed for production in half, which may allow the vaccine to be better matched to the dominant variant of flu virus for a particular year.
4. At a time when we're all keenly aware of how vulnerable energy markets can be to geopolitics, a recent report showed that [solar power generating capacity increased 45%](#) over the past year and can now power more than one-third of U.S. homes.
5. In a nice example of how great companies innovate and adapt to changes in the world they face, car manufacturers (and others) are [transitioning from copper to aluminum wire](#) to reduce costs as the price of copper continues to climb.
6. This summer Amazon announced that it expects to offer [drone delivery in nearly 500 cities by year-end](#), with goods arriving as fast as 30 minutes after ordering.

Team Kooman Corner

Congratulations to Jackson and Maggie Boyer, who welcomed their son Campbell and daughter Charlotte in late August! Everyone is healthy and doing well, and Jackson tells us they're all sleeping "more than expected," which is good news for everyone.



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