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‘Big Short Two’

Lee Robinson, founder and chief investment officer of Altana Wealth Ltd., introduced himself to the conference-comers: “I’m a risk-reward guy. I’m a guy who’s trying to make great risk rewards.”

And he has made a few, he recounted. They include a variety of plays during the 2007–09 “Big Short” era (short Iceland and Northern Rock, for instance) and a bit of cryptocurrency.

“We got into Bitcoin in 2014,” Robinson said. “You might think, ‘Oh, this guy’s all over the place.’ But again, I said to my clients, ‘Put 1% in. You might lose half a percent or more, but if you’re right, you might make 10. And, you know what, it might go to 100,000, then to zero, and that’s still a good chance to take profits.’ But every now and again, you get a chance to be short in capped-liability situations.

“So,” Robinson went on, “that’s why I liked the Big Short One, and that’s why I think the Big Short Two is potentially available to us now. And it starts in life insurance, but it also comes to data centers. It also comes to all the other mispriced things in the world.

“Why,” our speaker rhetorically wondered, “do private equity companies own insurance companies?” And he answered, “To get the fees. But their core business is buying companies where they get a 20% carry. That’s their core business, and it was getting much more competitive over the past 10 years. And lots of new names came in. Blackstone wasn’t a big name 20 years ago. Now it’s enormous. Apollo wasn’t a big name, and they’re competing.

“And every time they were competing to buy company x,” Robinson continued, “they had to get financing to do it, and they had to compete with each other. And they went, ‘Oh, what if I can finance cheaper than the next guy? I can win every deal.’ So they own these captive insurers.

“They get a fee, but their real profit is coming from that 20% carry. What could go wrong for the person taking the paper? I mean,” he said with a wink, “it can’t possibly go wrong. There can’t possibly be a conflict of interest.”

Recall, Robinson invited the audience, the double-barrel third-quarter 2025 bankruptcies of car-dealer Tricolor Holdings, LLC and auto-parts supplier First Brands Group. “So much money had come into these private equity, private credit vehicles for two or three years that they couldn’t move it quickly enough,” he said. “So they call up these companies like First Brands and Tricolor and say, ‘Look, I’ve got a billion, half a billion, quarter of a billion, whatever. I’ve got to put it to work.’”

Suffice it to say, said Robinson, that the compulsion to lend ensnared even the likes of JPMorgan Chase & Co. So great were the lapses of bankerly diligence that something besides sloth must explain it. He pointed the finger at EZ money.

Incentives are the problem, Robinson contended—the problem, at least for the annuitants and policyholders. A private equity partnership earns a 20% carry. The temptation to dump low or dubiously rated assets into the investment portfolio of a captive in-

surance sub might even turn the head of a saint.

Robinson named the Security Benefit Life Insurance Co. 7.45s of 2033 as an example of a bond that has properly come in for market scrutiny. The issue, \$100 million’s worth, changes hands at \$93.59, to yield 8.70%, or 369 basis points wide to the Treasury curve versus a 108 basis-point spread for the BBB corporate index. Credit the Topeka, Kan., underwriter with candor, at least, said Robinson: “They’ve said we’ve got lots of affiliate investments, a lot of Level 3, hard-to-value investments, and we haven’t got much capital. The market’s starting to realize this risk.

“You won’t get a run on the insurance companies in the same way you get a run on the banks,” our speaker continued. “With a bank, you get worried about it. You pick up your phone, you pull the money out. With an annuity policy, like a bank deposit, you’re guaranteed up to \$250,000. But people don’t wake up in the morning and think about their annuity policies. So if you had a big run on the surrenders, where’s the money coming from? If you’ve got lots of Level 3 assets, you can’t sell. It’s a tail risk, and there’s no lender of last resort here.

“We trade puts, put spreads, credit default swaps,” Robinson wound up. “CDS are the easiest because you don’t have to time them as well. Being short equities, you can get carried out before you’re right. But the CDS and the bond market, these bonds aren’t going up. Their pathway is down. Some of these bonds are ma-

turing in '27, '28. Normal corporates that are good quality, you've refinanced them already. That should be an alarm bell for everybody."

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