

GRANT'S

INTEREST RATE OBSERVER®

Vol. 44, No. 8a

233 Broadway, New York, New York 10279 • www.grantspub.com

APRIL 24, 2026

'His stream of mind was perpetual'

When his heart stopped beating, Murray Stahl was in the office and on the phone. His death would have astounded him. He was only 72.

Murray, the cofounder, chairman, chief executive officer and chief investment officer of Horizon Kinetics, LLC, expected to live to 100, or more, like his father, a building superintendent, or to become a nonagenarian, like his mother, an unregenerate smoker and Holocaust survivor.

As a child, Murray spoke Yiddish and Russian at home. He picked up English in school and on the pre-gentrified streets of the Bedford-Stuyvesant section of Brooklyn. He added French and German and, as adult, Japanese, the study of which he pursued in a weekly tutorial in the office. He read Japanese novels.

In January, Murray produced a five-page essay on quantum computing. To the uninitiated, it was a triumph—such evident mastery of technical concepts that no mere chief investment officer had any business dabbling in. Claude, the AI chatbot, read every word. The faceless critic poked some holes in the analysis (hardly up to a peer-reviewed standard, it sniffed) but nonetheless acknowledged: "The physics intuitions are directionally sound—decoherence is a real and underappreciated constraint, cooling costs are enormous, and the economics of quantum computing differ fundamentally from classical software economics. These are legitimate points."

Murray's educational c.v. pre-

saged little of the life of the mind that he led. He attended Brooklyn College, where he studied computer programming and history, and Pace University, where he took an MBA. His post-collegiate résumé featured entry-level positions at Macy's and at Bankers Trust, the latter beginning in 1978. "When you're a kid in Brooklyn," Murray told *Grant's* many moons ago, "you are not going to achieve anything in your life in the conventional way."

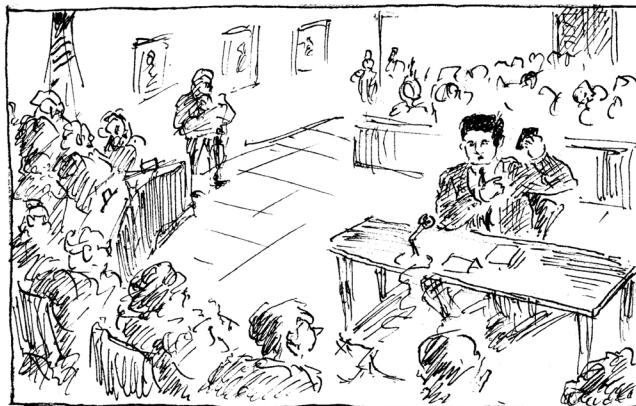
By 1984, Murray was beginning to succeed in the Brooklyn fashion. Starting at the bank as a technology analyst, he became the manager of a growth stock fund. He developed an unconventional income fund that combined yield with inflation protection. And it was at old-line, once-eminent Bankers Trust that he met Steven Bregman, his future Horizon Kinetics cofounder.

Bregman recalls that people outside the trust division began to seek

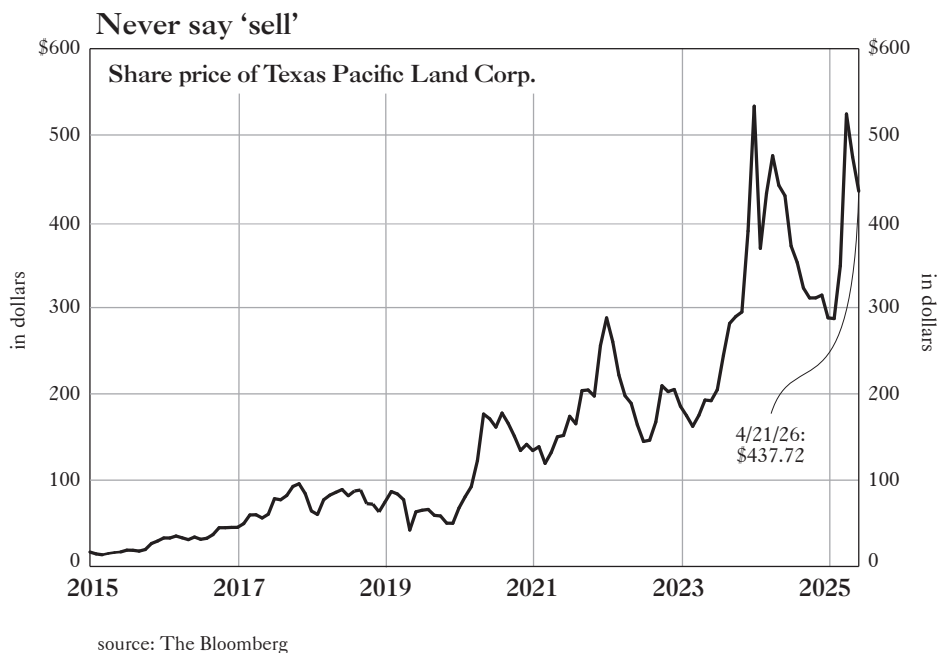
out Murray for advice on topics that were nominally beyond his professional ken—derivatives, for instance, supposedly BT's top franchise. "They would ask him, 'How do you structure this, how do you hedge that?' He'd give suggestions. 'You could do it this way; here's a better approach.' He was effectively helping them structure their derivatives business. And one of the many reasons he felt we needed to get out of the bank was what risk culture showed him about where things were heading." Down was the trend following the mid-1990s blowup of the bank's derivatives business. Murray and Steve, in company with another Bankers Trust confrère, Peter Doyle, founded HK in 1994.

Whatever else Murray proved at Bankers Trust, he showed that almost nothing was beyond his ken. He explored mathematics, physics, science fiction, history. At length he took a shine to cryptocurrencies and to the mining thereof. Like Charlie Munger, he devoured autobiography and biography. His mind was sharp, searching, retentive and, above all, open. His "style," as an investment consultant might try to pigeonhole him, was neither "growth" nor "value" nor even contrary (he, indeed, operated and thought in original ways but not because he set out to place himself above or apart from his fellow man).

Horizon Kinetics was as eclectic and eccentric as Murray himself. Its specialty was (and remains) the concept of the investment road not taken—or,



"Of course we could raise rates. Wait a minute—sorry—got to take this call."



more exactly, the investment road not yet taken by people who would one day finally come to understand what HK was driving at. With some \$9.6 billion under management, HK fields seven exchange-traded funds, seven mutual funds, three publicly traded holding companies and affiliates and a handful of private funds. It has an embryonic exposure to diamonds. “Everything we own is basically the opposite of the S&P 500,” says Bregman. “We have exposure to what the market doesn’t have.”

Murray and Bregman and their fellow partners started the firm with ideas rather than money. They had none to manage and not even the \$100,000 they needed to pay the rent and an employee or two. To bring in cash and build a reputation, they opened a subscription research service. They called it “Horizon,” as in what they strove to see over. (“Kinetics” arrived in an acquisition later on.) The first report they produced was a bullish analysis of Texas Pacific Land Corp., which, giving effect to subsequent splits, was a penny stock. Whether or not the authors persuaded the subscribers, they surely persuaded themselves. Texas Pacific today, quoted today at \$438 a share, is the firm’s largest single holding, in at least one HK mutual fund accounting for more than 50% of AUM.

Early on, the partners resolved to build cash. It would see them through the starving times of an inherently cyclical business. They determined not

to pay out the income of the firm as the partnerships of doctors and lawyers and investment advisers would do. They desired, and at length succeeded in building, “a true balance sheet.”

“We didn’t want to have to—under pressure—make investment decisions that we thought were wrong,” Bregman says. “I can hardly impress upon you how much pressure was applied during the various bubbles—like our gargantuan underperformance, running almost three years, during the internet bubble—to buy what we decried. Or give in to pressure to sell and flee to presumed safety—as others saw it—during market declines.”

It’s almost certainly true that Murray wrote more than any CEO in the history of American money management. At short intervals, he produced “Murray’s Musings” or “The Contrarian Research Report” or “The Stahl Report” on wide-ranging topics to complement the research department’s standard company-specific analyses.

Murray’s prose was strong and clear and well-crafted. Deciding that it should also be witty, the author searched for inspiration in the collected theater criticism of George Bernard Shaw. He wrote with a ball point pen, for the very purpose of regulating the speed of his composition. Thinking first, he wrote second, and, by the looks of the tidy representative draft that HK furnished, he rarely revised a line.

When a subject engaged him—a

corner of the insurance market, quantum computing, generative AI—he wouldn’t let it go, Bregman attests. “He kept reading, looking at different sources, kept developing it. And what he would do—without doing it consciously, as far as I could tell—was fold it into the existing fabric of his knowledge, the way a loom works. At first the threads are loose, then you work another in. He made sure that when he was working with something, he truly understood it. And once you understand something, you know it—and if you know it, you don’t forget it.”

A recent edition of “Murray’s Musings” ran out under the deceptively dull headline, “Diversification in theory and practice.” In fact, the argument was iconoclastic. “Among the professions,” it led off,

portfolio management is perhaps the only one in which the practitioner is strongly encouraged—and in many instances, required—to be a generalist.

A civil engineer does not undertake electrical engineering projects. A chemical engineer does not design aircraft. An attorney specializing in environmental law does not practice criminal defense. An orthopedic surgeon does not perform neurosurgery. There is a tremendous difference between a gastroenterologist and an anesthesiologist, although both are fully licensed physicians. Yet portfolio managers, both active and passive, feel at liberty to transact in the shares of any business enterprise—in any industry, in any nation. It seems they have a degree of confidence exhibited by no other profession.

It was an unwarranted confidence, Murray observed, given the well-documented failure of most active managers to outperform passive benchmarks. One might have conjectured, given the deep inroads that passive investing has made over the past several decades, that competition for “extraordinary investment ideas” would subside and active managers would thereby prosper. It has not happened.

Perhaps the problem lies with the imperative to diversify, Murray continued:

It is self-evident that, 10 years ago, there were investment funds with a 1% or a 2% position in Nvidia. In principle, those funds could be identified and studied. Of course, thus far, no academic has done so.

It is obvious that, if a fund that existed 10 years ago had a 1% or 2% position in Nvidia—and allowed that position to remain undisturbed in the portfolio—the Nvidia position would now represent, as a practical matter, essentially the entirety of the fund. But no fund would allow the position to remain undisturbed. No portfolio manager would even ask permission to leave the Nvidia position undisturbed. It is perhaps needless to observe that the probability of a portfolio manager discovering an investment superior to Nvidia—or even equal to Nvidia—is essentially zero. If this is true, the optimal strategy from a return maximization perspective would be to simply hold Nvidia. However, the pursuit of the optimal strategy is universally regarded as illegitimate. In fact, pursuit of the optimal strategy would be universally regarded as reckless.

So far, Murray had written from the portfolio manager's point of view. Now he turned to the client. Could he or she not self-diversify? By withdrawing money from one fund and depositing it in a very different alternative, a client could adjust his exposure to risk just as he does the temperature of his morning shower.

Imagine it, Murray invited his readers:

Active managers will be concentrated and undiversified, while clients who retain enough managers will always be diversified. In other words, the burden of diversi-

fication will not be placed on active managers. They will, in effect, be specialized.

Time is the secret to compounding wealth over time, Bregman observes. "It is apocryphal, but Einstein is said to have called compound interest the eighth wonder of the world, followed by: those who understand it collect it, and those who don't pay it. What is true is that vanishingly few professional investors ever actually hold something long enough to achieve genuine financial compounding. It doesn't happen in five years. If you had a great return on something over five years, growing at 15% a year, what really happened is that you bought it at a P/E of 12 and sold it at a P/E of 22, with some organic growth in between. That's a valuation change, not compounding. As any mortgage amortization table shows, you don't really see compounding for seven, eight, nine years."

You can't say that Horizon Kinetics doesn't practice what it preaches. The Paradigm Fund, one of its earliest mutual funds, came into the world on the final day of 1999. Since inception, it has delivered 12.6% per annum compared with 7.8% for the Standard & Poor's 500. Its assets sum to \$1.2 billion, and the top five holdings are these:

- 1) 62.2%, Texas Pacific Land Corp.
- 2) 12.9%, Grayscale Bitcoin Trust ETF
- 3) 4.4%, Landbridge Co., LLC

- 4) 3.8%, Brookfield Corp.
- 5) 3.4%, Hawaiian Electric Industries, Inc.

What does an idea factory do when the No. 1 idea man has departed? Fielding the question, Bregman said that HK is bubbling over with ideas—"too many new ideas to even process." Their big, strategic holdings put them in the flow of opportunity. "We're learning about new businesses. There might be a company going private to public, or ways to structure income strategies for clients. Structurally, we're now self-sustaining, not just from a balance sheet [perspective] but from idea generation."

Murray was an ordinary man to look at—his style signature was dishevelment—and he wore his genius, if that's what it was, lightly. Remembering him, we thought of Samuel Johnson's description of the 18th-century British statesman Edmund Burke. "His stream of mind is perpetual," said the lexicographer of his friend, and so it was with Murray.

*Murray Scott, an investor and a *Grant's* reader in New Zealand who has made a personal study of quantum computing, read Murray's essay, too. He pronounced himself impressed. "In New Zealand slang," he emailed us, "I would describe Murray Stahl as 'A Good Keen Man' when it came to understanding and writing about quantum computing."

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