INVESTOR | CYCLE-AWARE CREDIT INVESTING

Howard Marks Built a Credit Empire by Refusing to Worship the Boom

Howard Marks built Oaktree around risk control, cycle awareness, and the discipline to buy credit when fear changes the odds.

The Oaktree co-founder turned risk control, cycle awareness, and distressed-credit discipline into one of modern finance's most influential investment franchises.

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In brief

Howard Marks matters because he gave credit investing a language of restraint. From high yield bonds at Citicorp and TCW to Oaktree's global alternative-credit platform, his career has been built around the idea that superior investing is less about heroic forecasts than about buying mispriced assets with a margin of safety, controlling defaults, and changing one's posture as markets swing between fear and greed. His record includes strong long-term performance in opportunistic credit and other specialized strategies, a widely read body of memos, and a firm that had $222.8 billion in assets under management at December 31, 2025. It also includes limits: distressed investing is episodic, cautious managers can lag in easy-money markets, private valuations can be hard to test, and Oaktree has faced regulatory and business risks. Marks's continuing relevance lies in a hard message for a debt-heavy market: risk control matters most when capital is easiest to get and hardest to price.

- Marks's central contribution is not a single trade but a durable framework: risk control, second-level thinking, price discipline, and cycle awareness.
- Oaktree's opportunistic credit strategy, including predecessor records from TCW professionals who joined Oaktree, reported a 15.6% net IRR from 1988 through December 31, 2025.
- The firm grew from a Los Angeles partnership founded in 1995 to a global alternative manager with $222.8 billion in AUM at December 31, 2025.
- Marks's method is strongest when capital is scarce and sellers are distressed, but it can look dull when liquidity is plentiful and speculative assets are rising.
- His biggest influence may be cultural: he made restraint, skepticism, and the avoidance of permanent loss sound like an active investment strategy rather than a lack of imagination.

Performance markers

Oaktree AUM	$222.8 billion Assets under management as of December 31, 2025, up from $201.8 billion at December 31, 2024.
Opportunistic Credit net IRR	15.6% Since inception in 1988 through December 31, 2025, including relevant predecessor track records from TCW professionals who joined Oaktree.
Opportunistic Credit AUM	$40.24 billion AUM for Oaktree's opportunistic credit strategy as of December 31, 2025.
U.S. High Yield Bonds net return	7.9% annualized Since inception in 1986 through December 31, 2025, versus a relevant benchmark of 7.6%.
Power Opportunities net IRR	27.2% Since inception in 1995 through December 31, 2025, with a 2.6 times gross multiple of drawn capital.
Late 2008 deployment pace	About $600 million per week Oaktree's stated average deployment during the last 15 weeks of 2008 after Lehman Brothers' bankruptcy.

Charts and timelines

Risk	
Distressed issuer risk	Weak financial condition, illiquidity, bankruptcy exposure
Leverage risk	Magnifies sensitivity to adverse conditions
Competitive risk	Rivals may have more resources or higher risk tolerance
Regulatory blemish	SEC Rule 105 settlement
Opportunity scarcity	Discipline can lag when risk is underpriced

Timeline	
High yield foundation	Marks meets Michael Milken while at Citibank
TCW credit platform	High yield, convertibles, and distressed work mature at TCW
First memo	The Route to Performance
Oaktree founded	Five founders, two employees, one consultant, seven strategies
Crisis deployment	About $600 million per week
Brookfield ownership deepens	Brookfield agrees to buy remaining 26% for about $3 billion

Philosophy	
Risk control	Avoid permanent impairment
Market inefficiency	Seek specialized arenas
Bottom-up analysis	Study the micro
Cycle calibration	Adjust posture, do not predict dates
Patient opportunism	Trade less, act more meaningfully

Performance	
Opportunistic Credit	15.6% net IRR
U.S. High Yield Bonds	7.9% net annualized return
High Income Convertibles	8.9% net annualized return
Power Opportunities	27.2% net IRR
AUM mix	$117.6B closed-end, $55.1B open-end, $29.8B evergreen

The investor who made caution sound aggressive

Howard Marks built his reputation in the moments when markets stop pretending. His preferred theater is not the glossy launch of a new stock or the easy applause of a bull market, but the tense interval after confidence has cracked, when lenders want out, covenants are being reread, and price discovery turns into triage. In that setting, caution is not timidity. It is inventory, patience, legal analysis, credit work, and the nerve to supply capital when other investors are nursing losses.

Marks is often described as a distressed-credit investor, but that label is too narrow. His more important role has been as a translator of market risk. Through Oaktree Capital Management and decades of client memos, he has turned an old value-investing instinct into a credit-world operating system: avoid permanent impairment, demand compensation for uncertainty, distrust easy money, and study the behavior of other investors as closely as the behavior of issuers.

That is why Marks matters beyond the funds he helped build. He became the rare money manager whose public writing is treated almost as a market text. His memos do not offer a trading calendar. They offer a discipline for thinking about odds, cycles, and the difference between volatility and real risk. The result is an influence that reaches pension trustees, credit analysts, value investors, private-credit allocators, and executives who have learned that capital markets can change character faster than balance sheets can adjust.

Why Marks matters in modern finance

Marks's significance begins with the institutionalization of credit as an active, specialized field. When he entered the investment business in 1969, much of mainstream money management still revolved around equities, blue-chip growth, and conventional fixed income. Over the next half century, high yield bonds, distressed debt, private credit, structured credit, and opportunistic lending became core components of institutional portfolios. Marks was not the only pioneer in that shift, but he was one of its clearest voices and one of its most durable business builders.

Oaktree's own scale shows the change. The firm reported $222.8 billion in assets under management at December 31, 2025, spread across closed-end funds, open-end funds, evergreen funds, and minority interests such as DoubleLine and Duration Capital. Its business now spans credit, equity, and real estate, but its identity remains rooted in a value-oriented credit culture that seeks inefficient markets rather than broad beta.

The more subtle contribution is linguistic. Marks helped give professional investors a way to discuss risk without reducing it to standard deviation. His work insists that the investor's job is not merely to buy assets with high expected returns, but to ask what can go wrong, what price compensates for that possibility, and how a portfolio behaves if the crowd's assumptions prove wrong. In a financial era that often equates confidence with precision, his importance lies in making uncertainty central rather than embarrassing.

An education in probability, not prophecy

Marks's career path was unusually well suited to a philosophy built around limits. He studied finance at the Wharton School and later earned an MBA in accounting and marketing from the University of Chicago Booth School of Business. The Chicago education placed him close to the intellectual rise of market efficiency, risk measurement, and the idea that prices usually reflect widely available information. Rather than reject that framework wholesale, Marks absorbed its humility and then looked for markets where its assumptions were less complete.

His early professional years at Citicorp began in equity research and later moved into responsibility for convertible and high yield securities. That transition mattered. Convertibles and high yield bonds sit at the intersection of equity upside, credit protection, and capital-structure complexity. They reward investors who can think across instruments rather than recite a single valuation formula. By 1978, when Marks met Michael Milken while at Citibank, high yield was moving from financial outcast to a source of corporate finance innovation.

The experience left Marks with a durable split in his thinking. He respected the power of efficient markets, but he did not view all markets as equally efficient. In the most analyzed public equities, he saw intense competition and thin opportunity. In complicated credits, dislocated securities, bankruptcies, and less trafficked corners of capital markets, he saw a better chance for specialized knowledge to matter. That distinction became one of Oaktree's defining principles.

From high yield experiment to distressed-credit craft

The origin story of Oaktree begins before Oaktree. At Citicorp, Marks helped build a high yield bond business at a time when non-investment-grade debt was still fighting for legitimacy. In 1985, he moved to TCW, where he led teams responsible for high yield bonds, convertibles, and distressed debt. Oaktree's later record explicitly includes predecessor performance generated by portfolio managers and senior investment professionals at TCW who joined Oaktree at its founding.

The crucial step was the move from buying risky bonds for income to exploiting distress for total return. Distressed investing requires a different temperament from ordinary fixed income. The investor must underwrite not only coupon and maturity, but also restructuring outcomes, collateral value, creditor rights, business viability, and the psychology of forced sellers. Marks's partnership with Bruce Karsh and other colleagues joined credit analysis with legal and strategic work, creating a platform that could buy when an issuer's securities traded at prices that implied disaster.

By 1987, the team at TCW was managing Special Credits funds for distressed debt investing. That timing was instructive. The late 1980s and early 1990s brought a collapse in parts of the high yield market and defaults among leveraged buyouts. For investors who had done the credit work, it was a demonstration that panic can punish weak underwriting but reward prepared capital. Marks's later writing about cycles was not academic abstraction. It was the record of a practitioner who watched money move from overconfidence to revulsion and back again.

The founding of Oaktree and the discipline of saying no

Oaktree opened in Los Angeles in 1995 with five founders, two employees, one consultant, and seven strategies, including high yield bonds, convertibles, distressed debt, distressed mortgages, and distress-for-control investing. The firm's early ambition was not to be the biggest alternative manager in every category. It was to be specialized in areas where skill, structure, and patience could create an edge.

That distinction shaped the firm's business model. Oaktree's filings describe an approach that adds products only when management believes a market offers attractive returns in a risk-controlled fashion and when the firm has access to investment talent capable of executing. That sounds conservative, but in asset management it is also countercommercial. The easiest revenue is often raised when a strategy is fashionable. Marks's philosophy requires the opposite instinct: raise and deploy capital when prospective returns justify it, and accept slower growth when they do not.

This is not merely personal preference. The firm's risk disclosures acknowledge that Oaktree may limit assets under management, return capital, suspend marketing, decline searches, or otherwise restrain growth in order to protect investment performance and client interests. That is a rare admission in a public filing because it makes clear that the culture Marks championed can reduce short-term economics. It is also the business argument for why investors trust a manager in cyclical markets: the refusal to gather capital indiscriminately is part of the product.

A philosophy built on fewer disasters

Marks's most compact philosophy can be stated in one sentence: if you avoid the losers, the winners can take care of themselves. The line, associated with his first investment memo in 1990 and repeated in later writing, is not a slogan for laziness. It is a strategy of compounding. Large losses require disproportionate gains to recover. Avoiding them leaves capital alive for the next opportunity.

That idea runs through Oaktree's formal investment approach. The firm describes itself as contrarian, value-oriented, focused on buying securities and companies below intrinsic value, and committed to consistency, protection of capital, and outperformance in bad times. It emphasizes risk-adjusted returns, market inefficiency, bottom-up analysis, specialization, and a disavowal of market timing. These are not decorative principles. They are a set of constraints intended to keep the organization from doing the lucrative but dangerous thing at the wrong point in the cycle.

The criticism is that such a method can sound unambitious in a roaring market. A manager who defines excellence partly as avoiding bad outcomes may not always look brilliant when expensive assets become more expensive. Marks does not deny the trade-off. His argument is that the full scorecard must include bad years, crises, recoveries, and the emotional pressure that causes investors to abandon good plans. For him, performance is not the single spectacular year. It is the absence of career-ending mistakes.

Second-level thinking and the price of being right

Marks's writing has become famous for the idea of second-level thinking. First-level thinking asks whether an asset is good. Second-level thinking asks what is already in the price, what other investors believe, and whether the consensus has overreacted. In credit, the distinction is especially important because many opportunities appear only when the surface story is ugly. A distressed issuer can be a terrible company at a wonderful price, or a tolerable company at a fatal price.

The price-value relationship is the core of the method. Marks's work does not treat quality as a free pass. A great asset bought too dear can become a mediocre investment, while a troubled claim bought cheaply enough can produce attractive returns. That is why Oaktree's process is rooted in fundamental analysis, capital-structure work, and an insistence on what the filing calls a knowledge advantage. The edge is not having an opinion; everyone has one. The edge is having a better-supported judgment about value and risk.

There is a psychological layer as well. Marks's method assumes that markets swing more than fundamentals. The crowd becomes eager when prices have already risen and despondent when prices have already fallen. The disciplined investor tries to reverse that impulse. The danger is that contrarianism can become vanity, a reflexive desire to disagree. Marks's best work does not celebrate dissent for its own sake. It asks whether the dissent is grounded in analysis, odds, and price.

Cycles without the false comfort of forecasts

Marks is often called a cycle investor, but he is not a conventional market timer. He does not claim to know when the next recession, default wave, or bull market peak will arrive. In fact, one of Oaktree's formal tenets is skepticism toward macro forecasting. Marks has written that Oaktree does not base investment decisions on macro forecasts and does not employ economists as the engine of its process.

The distinction is subtle and important. Marks believes investors can rarely know the future with enough precision to bet heavily on a single forecast. But they can sometimes assess the current climate: whether capital is abundant or scarce, whether lenders are demanding protection or giving it away, whether fear or greed dominates, whether yields compensate for likely loss, and whether the market's expectations are extreme. The goal is not prediction. It is calibration.

That calibration changes posture rather than producing all-in calls. In generous markets, Oaktree becomes more selective and defensive. In panics, it moves toward risk-bearing. This is a practical compromise between two bad extremes: ignoring cycles because they cannot be timed, and pretending cycles can be forecast with precision. Marks's enduring message is that investors should know where they stand, even if they cannot know exactly what comes next.

The 2007 warning and the 2008 test

The financial crisis gave Marks's framework its defining public test. In February 2007, his memo on the race to the bottom warned about aggressive capital-market behavior, easy financing, and the erosion of lender protections. He later wrote that he had not explicitly predicted a global crisis of multi-generational force, but had detected carelessness-induced behavior and considered it worrisome. That distinction is characteristic: he claimed cycle awareness, not clairvoyance.

Oaktree's more consequential action came after the panic arrived. Its 25-year timeline says the firm began preparing in 2007 for an expanded distressed-debt opportunity, and in the last 15 weeks of 2008 invested roughly $600 million per week after Lehman Brothers filed for bankruptcy. That episode captures the firm's method at its most powerful: caution before the break, then willingness to supply capital when forced selling created unusually favorable odds.

The lesson is not that Oaktree bought the exact bottom. Marks has repeatedly resisted that standard. The point was that expected returns had changed. Securities that previously offered too little compensation for risk now offered a margin of safety, or at least a better balance of upside and downside. In crisis, the credit investor's advantage is not serenity. It is preparation plus a decision rule that allows buying before the headlines improve.

The record: strong, but not magic

The most useful performance evidence comes from Oaktree's own reporting rather than mythology. Through December 31, 2025, Oaktree's opportunistic credit strategy, with inception in 1988 and including relevant predecessor records from TCW professionals who later joined Oaktree, reported a 21.7% gross IRR, a 15.6% net IRR, $40.24 billion in AUM, and a 1.8 times gross multiple of drawn capital. Those are significant long-term numbers for a strategy built around difficult credit markets.

Other records are more varied, as they should be in a diversified alternative-credit and asset platform. Oaktree's U.S. high yield bonds strategy, with inception in 1986, reported an 8.4% gross and 7.9% net annualized return against a 7.6% benchmark. High income convertibles, with inception in 1989, reported 9.6% gross and 8.9% net against a 6.7% benchmark. In closed-end equity strategies, Power Opportunities reported a 35.0% gross and 27.2% net IRR from a 1995 inception, while other areas such as European Principal and Real Estate Debt showed more modest returns.

The caveat is that performance tables are not a biography of one man, and they are not a promise. Oaktree's filing is explicit that historical returns should not be considered indicative of future results. Marks's role has been to shape culture, capital allocation, client communication, and philosophy, while portfolio performance reflects teams, markets, vintage years, fees, fund structures, and the availability of distressed supply. The record is impressive precisely because it is institutional, not because it can be reduced to a single investor's instinct.

The wilderness years of easy money

Marks's method was tested in a different way after the global financial crisis. From 2009 through 2021, central-bank policy, low inflation, quantitative easing, and near-zero rates encouraged risk-taking and lifted asset prices. In his 2022 memo on the interest-rate regime shift, Marks described Oaktree as having spent the years 2009 through 2019 in the wilderness because of its focus on credit, value investing, and risk control.

That phrase is revealing. It does not mean Oaktree stopped making money or lost relevance. It means the environment rewarded borrowers, asset owners, leverage, long-duration growth, and aggressive risk appetite more than it rewarded bargain hunters. When defaults are scarce, capital is abundant, and lenders compete to finance almost anything, the cautious credit investor's opportunity set narrows. Discipline can look like underparticipation.

This is the recurring cost of the Marks style. It can protect investors from ruin, but it cannot guarantee excitement. In periods when speculative capital is being rewarded, clients must tolerate relative dullness and even underperformance in some strategies. Marks's answer is that the cycle will eventually change. The danger for followers is that they may adopt the language of discipline without accepting the patience it requires.

Risk management, failure modes, and the limits of clean theory

Oaktree's own risk disclosures provide a useful antidote to the clean elegance of the philosophy. Distressed investing is not a morality play in which prudent investors automatically win. The firm invests in obligors and issuers with weak financial condition, poor operating results, high financing needs, negative net worth, competitive problems, illiquidity, and bankruptcy exposure. Such securities can be complex, hard to value, and subject to severe loss.

Leverage adds another layer. Oaktree's funds may invest in companies with leveraged capital structures, making them more sensitive to revenue declines, expense increases, and rising interest rates. Some funds may also use leverage themselves, including borrowings, swaps, and derivatives. Leverage can magnify gains, but it can also accelerate losses, trigger liquidity needs, and create conflicts between fund economics and investor relationships.

There is also business risk. Asset management is intensely competitive, and many rivals have greater resources, lower capital costs, or higher risk tolerance. The very discipline that supports Oaktree's reputation can restrain growth and profits. That is a feature from a client perspective, but a constraint from a corporate one. Marks's system is therefore not a way to abolish risk. It is a way to choose which risks to bear and which to refuse.

The blemish: Oaktree's 2005 SEC order

A serious profile of Marks also has to acknowledge that Oaktree's record includes a regulatory blemish. In 2005, the Securities and Exchange Commission announced final orders against three hedge fund advisers, including Oaktree Capital Management, for violations of Rule 105 of Regulation M. The SEC said Oaktree's Emerging Markets Fund sold securities short within five business days before the pricing of public offerings and then covered short positions with securities purchased in the offerings.

Oaktree settled without admitting or denying the SEC's findings, agreed to cease and desist from future violations, paid disgorgement and prejudgment interest totaling $175,928, paid a $169,773 civil penalty, and undertook compliance-policy changes. The amount was small relative to the firm's scale, but the episode matters because Marks and Oaktree have made integrity, discipline, and risk control central to their brand. For an investment organization, process failures are not cosmetic.

The fair interpretation is neither to inflate the case into a defining scandal nor to ignore it. It was a specific trading and compliance violation from the early 2000s, not an indictment of Oaktree's entire investment philosophy. But it is a reminder that even cultures built around caution can fail in execution, especially across specialized strategies. The same skepticism Marks applies to markets should be applied to institutions, including his own.

Brookfield, permanence, and the end of founder ownership

The later history of Oaktree is also a story of succession and permanence. In 2012, Oaktree debuted on the New York Stock Exchange, a move that helped convert a founder-led specialist into a public alternative-asset business. The 2012 annual report said AUM had grown to $77.1 billion at year-end 2012 from $25.4 billion a decade earlier. By the end of 2025, that figure had reached $222.8 billion.

In 2019, Brookfield agreed to acquire approximately 62% of Oaktree, later completing a 61.2% acquisition. The transaction combined Brookfield's real-asset scale with Oaktree's credit expertise. It also marked a turning point: Marks's firm, built around independence and a tight investment culture, became part of a much larger alternative-asset machine.

The integration deepened in October 2025, when Brookfield and Oaktree agreed that Brookfield would acquire the approximately 26% of Oaktree it did not already own for total consideration of about $3 billion, with the transaction expected to close in the first quarter of 2026. Brookfield said Marks and Karsh would continue senior involvement, and Oaktree would remain central to Brookfield's credit strategy. The strategic logic is clear. So is the question: can a culture built on saying no retain its edge inside an even bigger platform built for global growth?

The memo as market institution

Marks's influence cannot be measured only in assets. The memos are part of the franchise. He began writing them in 1990, and over time they became required reading for a certain class of investors who wanted clear thinking about risk, price, cycles, and psychology. Their power lies in tone as much as content. Marks writes with a lawyerly patience and a teacher's instinct, stripping away false precision rather than replacing it with another model.

The publication of The Most Important Thing in 2011 extended that influence beyond Oaktree's client base. Columbia Business School Publishing presented the book as a synthesis of his memos and investment philosophy, with topics including second-level thinking, value, the price-value relationship, risk, cycles, contrarianism, patient opportunism, defensive investing, and the role of luck. The publisher's page also records admiration from Warren Buffett, Seth Klarman, John Bogle, Jeremy Grantham, and other investors.

This is a different kind of fame from the celebrity stock picker or activist campaigner. Marks became a public figure by making investors less certain, not more excited. That is a strange achievement in financial media, where bold forecasts usually travel farther than caveats. His memos endure because they give professionals permission to say a useful sentence: we do not know the future, but we can still behave intelligently.

What remains useful, and what can become dangerous

The most useful part of Marks's approach today is its insistence on asking what is priced in. In a world of private credit growth, algorithmic trading, retail access to alternative assets, and fast-moving rate expectations, investors can still forget the old credit questions: What can go wrong? Who gets paid first? What is the collateral worth? How much protection is in the documents? Does the yield compensate for default, illiquidity, and uncertainty?

His framework is also useful because it separates humility from paralysis. Marks does not say investors should ignore the macro setting. He says they should resist betting heavily on forecasts that exceed their competence. The practical instruction is to study micro fundamentals, build margins of safety, and adjust aggressiveness according to observable market behavior. That is more demanding than it sounds, because it requires investors to act against their emotions when the cycle is most persuasive.

The dangerous version of Marks's approach is imitation without infrastructure. Individual investors and smaller managers can repeat the language of distressed opportunity without legal expertise, restructuring experience, access to deal flow, patient capital, or the ability to survive illiquidity. They can also confuse bearishness with insight. Marks's career is not a tribute to pessimism. It is a tribute to preparation. The enduring lesson is not simply to be cautious, but to be ready when caution finally earns the right to become aggressive.

Disclosure

Educational financial journalism and market research only. Not financial, investment, trading, tax, or legal advice. Market data and analysis may be delayed, incomplete, or inaccurate.

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