The Knowledge Project Keypoints — Investing & Wealth

The Knowledge Project Keypoints

Episodes in this pack: 16

Bill Ackman: People are Going to Lose a Lot of Money

Guest: Bill Ackman
Date: 2026-09-29 · Duration: 1:17:27
URL: https://www.youtube.com/watch?v=Cpq8y5HpcF4

KEYPOINTS

• AI is the most transformational technology of our lifetimes, with bubble-like pockets—especially private venture.
Ackman saw a company that wasn't raising get preempted with $50M at a $400M valuation, then raise another $50M at $1B two weeks later, and a Series A at $5B pre-money. Bubbles form when money is being made, FOMO pulls more capital into the same trade, and overvaluation follows. He expects 'some form of a blow-up, a pretty high-profile one' that forces a reset.

• Founders should raise while capital is cheap but spend it as if it were their own.
He recalls a Barron's piece late in the dot-com bubble listing how many months of cash each internet company had left—published roughly a week before the crash. Companies that take $50–100M often abandon bootstrapping discipline and assume markets will always reopen. Those with years of runway survive; those needing money in three months die.

• The core investing task is judging disruption risk, and AI has massively raised it.
A business is worth the present value of its lifetime cash, so you must predict it 10–30 years out; Pershing tests holdings by asking whether they'd be happy owning them if the market shut for a decade. Even Buffett failed to foresee internet disruption (Wikipedia vs World Book). With AI 'all of us are guaranteed to look foolish' on some company. Software updates of consequence now arrive in days, not years.

• AI efficiency gains don't automatically become profit—pricing power decides who keeps them.
Cognition can rewrite banks' legacy COBOL in days instead of months, cutting the cost of running big institutions. But if every competitor adopts the same tools, savings may pass to customers; money is a commodity, so banks may not keep the margin. Infrastructure players like Brookfield (power, data centres) look like clear winners given 'effectively infinite demand for compute.'

• AI is a research aid, not an edge—Pershing's best returns came from things nobody had done before.
When everyone has the same AI, it's hard to differentiate; AI largely reviews what already happened. His biggest wins—credit default swaps before COVID, buying a bankrupt company's stock, shorting AAA-rated credit before the financial crisis—couldn't have come from a model. What remains human is outside-the-box thinking and insight from the facts.

• The investment process: a 'library' of great companies, then wait for price.
They follow the best businesses for years and shelve them when a 35x multiple can't deliver their 20%+ target, then strike on dislocations—COVID, or the 'SaaS-apocalypse' that let them buy Microsoft. Two analysts read filings and call transcripts, use expert networks, former employees and competitors, build a model and present; Ackman and the CIO do an independent lighter pass; five team members who haven't done the work stress-test it.

• After a large loss around 2015–16, principles were literally engraved on a stone tablet.
The checklist: simple, predictable, free-cash-flow-generative, large-cap, liquid companies with wide moats and top management—or a replacement CEO in mind. Plus asymmetric macro bets where a contrarian view can be expressed with a large payoff relative to capital. And an aversion to short-selling: 'asymmetry in reverse,' with infinite loss and finite gain.

• Permanent capital is the underrated Berkshire advantage Pershing has copied.
Charlie Munger told him Berkshire's most underrated edge was almost never being forced into decisions by circumstances. Hedge funds lose money when they do well (allocators trim) and when they do badly. Ackman blames his biggest mistake on being on the road fundraising. Pershing now runs only listed, permanent vehicles with large employee stakes; compounding near historic rates, he says, implies about $1 trillion in 20 years.

• Howard Hughes is being turned into a 'modern-day Berkshire Hathaway.'
Pershing owns 47%. Its master-planned communities—like The Woodlands, a Houston city of ~150,000—self-liquidate by selling land to homebuilders, plus Hawaii condos ($4B under contract) and ~$300M of net operating income. Rather than reinvest in more real estate, cash will go into Vantage, a specialty insurer with a newly recruited team. Float sits in short-term Treasuries; surplus goes into common stocks. Profitable underwriting plus strong asset returns can yield 20%+; the mix could shift from ~70% real estate to 70–75% insurance in five years.

• In venture you bet on the person; in public markets on the business.
Dominant public companies can survive a CEO swap; a startup without its founder is probably a write-off. The original idea often fails, so what matters is the founder's ability to navigate roadblocks. He judges CEOs on passion, capability, energy and character and believes he can assess that in about an hour.

EXAMPLES

• Lucy's brain haemorrhage: 19 hours of pressure before surgery.
An undiagnosed arteriovenous malformation burst around 9am, per her Oura ring. Her sister found her face-down only after she missed a luggage pickup for a wedding in Abu Dhabi. Surgeons removed about 40% of her skull; Ackman later learned they normally don't operate after five hours. She woke unable to walk, speak or see, now produces about 15 of 17 vowel sounds and is regaining walking. He ran two Pershing IPOs from Room 1107 at Mount Sinai—45-minute Zooms, 15 minutes with her.

• The brain-recovery institute bought in 60 days.
Instead of a 10-year hospital redevelopment, he bought a vacant biotech building at 65th and 11th Avenue and contracted for the full 3.4-acre site. Rehab fails because surgeons are paid per operation, insurers may cover only six weeks, and many patients end up in nursing homes and die of pneumonia within months. A great speech therapist costs ~$500/hour; AI could fill the gap.

• Netflix: sold in weeks, bought back years later.
Management told Pershing they'd never run ads; three or four weeks later, after another subscriber miss, they announced an ad tier. Ackman exited because the range of outcomes had widened, took the tax loss and bought Alphabet. Netflix executed brilliantly and won the streaming wars, but the multiple got rich—until the stock halved again and he rebought.

• The Herbalife short and the ‘squeeze Bill’ trade.

Convinced it was a pyramid scheme hurting disadvantaged people, Pershing shorted and sent analysis to the FTC, but underestimated market dynamics when Carl Icahn bought in. Other funds tried to squeeze them. He hasn’t made an activist investment since 2016.

• Coupang: the idea he hated became his best venture bet.

In 2009 Bom Kim pitched a ‘Groupon of South Korea,’ a model Ackman disliked, but he backed the founder and Korea’s internet potential. Kim built the Amazon of South Korea instead.

OTHER RELEVANT

• For most people: index funds, start young, don’t hoard cash.

Active investing requires real time and homework. Otherwise index funds have beaten most active managers; start early and don’t sit in cash because the market looks expensive.

• When new facts break the thesis, either buy much more or exit.

Netflix is his template: decide whether information is immaterial (buy more at the lower price) or thesis-breaking (sell and redeploy). You needn’t win it back in the same stock.

• Protect a daily focus ritual.

Tennis most mornings is his meditation—fully absorbed in the incoming ball—plus sleep and family. He meditated during his divorce and admits he should find 20 minutes a day again.

• Use AI to double-check medical decisions.

He leaned heavily on ‘Dr. Claude’ during Lucy’s care and thinks every doctor should check their work with an AI.

Inside Brookfield’s Trillion-Dollar Investing Playbook | Connor Teskey

Guest: Connor Teskey
Date: 2026-03-17 · Duration: 1:24:27
URL: https://www.youtube.com/watch?v=xSwHXjH8Og4

KEYPOINTS

• Brookfield invests in the ‘backbone of the global economy’—and that backbone keeps changing.
It raises money from the world’s largest pools of capital and deploys it across about 60 countries, mainly the U.S. and Western Europe. Teskey estimates two-thirds to 70% of what it invests in today wasn’t an investable asset class 15–20 years ago: hydro dams then, solar, nuclear and batteries now; ports and railroads then, plus data centres, fibre and towers now. Products grew from four a decade ago to about 60—flagship, mezzanine debt, super-core and retail-wealth versions of the same strategies.

• If a deal feels 90% right, do it—and do ten of them.
His first Brookfield boss warned against the false precision of Excel; you must overlay judgment because the model only looks certain. Waiting to de-risk everything to the nth degree means you de-risk your deals and also do none. Being right nine times out of ten is really good.

• Take execution and operating risk, never market risk.
For a solar farm the four drivers are construction cost, the power purchase agreement, the EPC (engineering, procurement and construction) contract and financing. Brookfield won’t put capital in the ground until all four are locked at once, so rates, power prices and inflation can move without hurting returns. The same template applies to build-to-suit real estate and data centres contracted with hyperscalers or sovereigns.

• Underwrite the downside; let upside be a free option.
Investment committee time goes overwhelmingly on the worst case. Buy high-quality, market-leading businesses with downside protection, make the base case depend only on things you control, and accept asymmetric upside you don’t need. Deals are usually killed after diligence for two reasons: a weak revenue construct or counterparty, or too much construction risk for the return.

• Finance asset by asset with non-recourse, long-term, fixed-rate debt, and hold excess liquidity.
It’s more work and not the cheapest, but one bad asset can’t taint a portfolio—and a great bid for one asset isn’t trapped in a shared facility. ‘Liquidity is overvalued when you don’t need it and incredibly undervalued when you do.’ Spare capital protects covenants and lets Brookfield buy when others can’t, which he calls one of its most enduring advantages.

• AI infrastructure will be overbuilt—so only build against contracts in tier-one markets.
Data-centre deals have expanded on three compounding fronts: more centres, bigger centres, and investors now funding chips, servers, power, grid connection and substations, not just racks and shells. Counterparties are ‘almost undoubtedly the greatest companies of all time.’ Overbuild happens in every cycle, but Brookfield doesn’t build on spec and picks locations with multiple users so facilities can be re-contracted after 20 years.

• Local autonomy to source and operate; central approval for every capital decision.
Each market has local investment, operating and fundraising teams. All deployment comes to a small central group, giving perspective: the best deal a region has seen in two years may lose to better risk-adjusted returns elsewhere. Committee isn’t a one-hour verdict; teams iterate for weeks and face a detailed ‘capital committee’ review three to four weeks before final approval.

• Every return bridge includes operational improvement, rooted in 100 years as an owner-operator.
Founded around 1900, Brookfield spent its first century as an industrial conglomerate, and its balance sheet remains the largest investor in its own funds. Expertise mostly sits above portfolio companies; for turnarounds it inserts people. Global health-and-safety standards roll out immediately because those who get safety right tend to be the best long-term operators.

• AI is boosting productivity more than cutting jobs across 500 portfolio companies.
Companies may trial any AI tool but must share what worked and what failed so 499 others benefit. Wins include pricing models and factory-floor redesign, plus predictive maintenance across nearly $1T of real assets—flagging a loose bolt on a machine not due for service for two years—and site-scanning phone apps listing safety risks for 300,000 operating staff. Robotics will arrive slower than expected but matter more.

• The next growth wave is individual investors.
Brookfield targets $2T by 2030. Institutional allocations to alternatives should double in a decade, but the individual market—retail, high net worth, annuities, 401(k)s—is larger with almost no alternatives exposure. As index inclusion favours mega-caps, many mid-to-large companies are hard to own publicly.

EXAMPLES

• Westinghouse: a downside bet that caught a nuclear revival.
Nuclear was out of favour, but Westinghouse was a critical supplier with a long tail and room for operational fixes. The base case worked on efficiency alone; then a global nuclear revitalisation delivered the upside.

• Oaktree: from ‘it looks cheap’ to a strategic partnership.
Early in his career Teskey analysed a struggling alternatives manager and realised he could value it by first understanding Brookfield. In early 2018 he told Bruce Flatt that counter-cyclical Oaktree looked undervalued. Flatt asked what they could do strategically, given Brookfield’s thin credit exposure. They proposed buying out the public holders while partnering with founders, closing in 2019; Oaktree then grew sharply during COVID.

• Moved to London and switched to renewables in 2016—told, not asked.
He had no particular desire to join renewables but said yes, joining a small team building a European platform. Working away from his boss forced initiative—no emailing to ask permission to send an email—and his ‘shooting percentage’ proved far higher than he feared.

• The feedback that put him in a tailspin.

About 12–14 months in, without a modelling background, a mentor said his work was great but ‘nobody knows what you’re talking about’—his explanations were too complicated. Crushed overnight, he decided it was a gift: you must do the work and explain it.

- **A small Canadian cold-storage company was his favourite learning deal.**
  An underperforming business with simple value drivers, it became a fantastic investment and taught him the fundamentals.

OTHER RELEVANT

- **Hard work is also availability.**
  Teskey thinks people call him hardworking less for building models than for always making time—calls through airports and late at night for juniors and seniors seeking advice.
- **After a win, ask ‘what are we working on now?’**
  The non-Brookfield move is a three-week victory lap. They prize nerdy, intellectually curious people who tackle problems others failed at, work well in teams, and, like Flatt, care more about others’ success than credit.
- **Read materials before the meeting; skim headlines daily.**
  Reading a deck beforehand allows more thoughtful discussion than reading and listening at once. A daily digest of ~15 infrastructure headlines gives the direction of travel; he digs only into the relevant ones.
- **Children are the best prioritisation forcing function.**
  His two priorities—family and Brookfield—are ‘miles ahead of third place.’ After starting a family he found care isn’t finite; other things fell away and he can’t even name what they were.

Managing $2 Trillion: AI Bubbles & Contrarian Investing | Nicolai Tangen

Guest: Nicolai Tangen
Date: 2026-02-17 · Duration: 1:01:47
URL: https://www.youtube.com/watch?v=zyvuM3J9QqQ

KEYPOINTS

• To be contrarian now, lean away from AI and toward unpopular real estate—especially as big investors cut exposure.

Tangen calls office 'very bad' after a near-perfect storm: COVID work-from-home, banking stress and high rates. But when large investors are reducing real estate, that's 'probably a good sign' for better times ahead. He also expects rates to stay structurally higher, partly because climate shocks raise prices for food (cocoa, coffee), raw materials and insurance, while AI efficiency pulls the other way.

• AI shows bubble signs, yet the productivity gains are real.

Bubble evidence: valuations, circular ownership and vendor financing, saturated news coverage. His favourite: when Jensen Huang ate fried chicken with Samsung executives in Korea, the restaurant chain jumped ~20%, as did a chicken breeder and a robotic-fryer maker. Against that, Norway's fund estimates about a 20% productivity gain from 'stuffing AI in wherever we can,' holding headcount flat while producing more and better work, always with a human in the loop.

• Prediction is near-useless; build speed and agility instead.

Each year Tangen and seven clever friends record predictions in a forest and replay last year's. They were about 80% wrong—missing Trump's win weeks later, tariffs and shifting U.S.–Europe relations. Speed is a first principle: a reply within a minute needs two words, the next day a paragraph, a week later a page, so being fast saves time.

• High ambition beats low ambition even in failure.

'If you have really high ambitions you achieve great things even if you fail; with low ambitions you achieve nothing even if you succeed.' Americans hear 'five' as low; Europeans as high. Norway's Janteloven discourages standing out, so a Wharton classmate saying 'I want to conquer the world' was a culture shock. You can't change a nation's ambition, but you can change your firm, family and friends.

• Golden ages end when societies close.

Rome, Venice, the Song Dynasty and the Netherlands thrived on free trade and free movement of labour and ideas. Their declines shared tariffs, immigration limits, curbs on free thought and the rise of strongmen—trends he sees today. Nobel physicist Saul Perlmutter told him we can now solve every big problem; we just don't talk, listen or cooperate.

• Great investors are stubborn yet willing to change their minds—a rare combination.

Stubbornness lets you go against the crowd and endure periods when everything goes against you; flexibility stops you riding errors. He cites Stanley Druckenmiller and, like him, would sometimes buy first and research after: good pattern recognition gives well over 50% odds, a position creates research urgency, and adding to shares you own is easier. You can't teach intuition, but you gain it with time.

• Doing nothing is often the best trade—test it with an 'inertia analysis.'

Big fortunes come from owning one or two great assets for decades, yet portfolio managers feel they must act. Compare the January 1 portfolio, untouched, with actual year-end results; often your trades detracted. He sees about three years as the realistic limit for seeing ahead, even for a fund that should think 50.

• Keep taking the same risk after losses—most people don't.

Risk appetite varies: men, the young, extroverts and Americans take more, he notes from his social-psychology studies. British Olympic sailors told him their edge was rigorous debriefs and sports psychology: you can lead, the wind shifts and you're last, but next race you must take the same risks. Magnus Carlsen takes more risk after a loss; investors typically take less.

• Norway's fund works through political consensus, transparency and a 3% spending rule.

About 25% of the state budget comes from the fund. Parties broadly agree on major decisions so changes of government don't change strategy; it has won a transparency ranking three years running; politicians spend at most 3% a year. Roughly 20% of capital is run actively and the rest with small tweaks; outperformance has been about 25 basis points a year for nearly 30 years—big in absolute terms.

• Passive investing is cheap but perpetuates bubbles.

Low fees and the difficulty of beating the market favour index funds. The downside: flows chase what has already risen. The fund uses AI to time monthly inflows around index changes and calls deep-research AI 'phenomenal,' though everything else in investing has got harder.

EXAMPLES

• The countdown clock on his office wall.

It shows days left in his job. When someone offers to sort something 'by January,' he points to 1,765 days left: let's do it now. He loves the job; the clock exists to create urgency.

• The 'straight puck' for disagreement.

Early on, nobody disagreed with him. Now hockey pucks sit on tables; sliding one over means 'I think you're wrong,' putting dissent into an object so it isn't personal. There's even a straight puck award for those who challenge him well.

• 140 conversations before starting the job.

On advice from Swiss CEO Albert Baehny, he met 140 people before day one, asking 'what's on your mind?', what's good, what to change. After about half, the themes repeated. He distilled three priorities and executed them with a united leadership team; they moved too quickly twice and slowed down. He repeats this in New York with all 100 staff.

• His worst investment: a fraudulent subprime lender.

During the financial crisis his fund held a big position in a subprime lender that turned out to have accounting fraud. The lesson: avoid dubious business models and don't profit from people in hard times. Why repeat a mistake 'when there are so

many to choose from’?

- **Voting against Elon Musk’s pay package.**
  His team judged it too big, dilutive and poorly aligned; with stakes in about 9,000 companies, billion-dollar CEO packages everywhere would be very expensive. He deliberately leaves voting to experts.

OTHER RELEVANT

- **Hire for curiosity, intelligence, integrity and drive.**
  Ask what someone is learning right now. Interpersonal skills—listening, empathy—matter even more in an AI world, and listening requires curiosity.
- **Put an ice-cream freezer by your sofa.**
  Staff stop by, he asks what they’re working on and connects people doing similar work—‘a thousand times payback at least.’
- **Over-communicate change until bored of yourself, then keep going.**
  Going alone triggers the organisation’s ‘immune system.’ When you’ve said it ten times you’re only halfway. He thinks culture change is a ten-year project; five years in, he’s about halfway.
- **Treat chaos with a student’s hat.**
  He wakes at 5 to read the FT, WSJ and NYT, scans headlines and drills into what matters, keeps a bedside notepad, and ignores both negative and positive comments about himself.

The Wealth Secrets No One Teaches You | Morgan Housel

Guest: Morgan Housel
Date: 2026-01-20 · Duration: 1:55:56
URL: https://www.youtube.com/watch?v=NWZZEa9BURw

KEYPOINTS

• Money works more like a vaccine than a performance-enhancing drug: it prevents bad days rather than creating great ones.

Housel argues people with more money have fewer bad days, not necessarily more good ones. We don't wake up grateful we don't have polio, and money's protection is similarly invisible. Happiness is fleeting like laughter at a joke—minutes, not years—so what people really want is contentment: 'I have everything I need and most of what I want, and more is the cherry on top.' Daydreams about a bigger house feel good because we imagine being content in it; in reality we notice the neighbour's nicer yard.

• Discontent drives society's progress but can hollow out an individual life.

He wants a world where smart people wake up saying 'this isn't enough'—that's the seed of innovation, and he guesses Elon Musk feels it at $400B. But shovelling money into a 'hole in your soul' rarely fills it. Evolution cares about relative status: our kids may treat a cancer diagnosis as minor and feel no better, because 'the speed at which a luxury becomes a necessity is two seconds.'

• Saving isn't delayed gratification; it buys independence you enjoy today.

Independence is a spectrum: $100 in the bank is a higher level than zero, and each dollar is 'a claim check on your future that you control.' Savings widen the channel of outcomes you can endure, and compounding in money, careers and relationships depends on endurance. If he had to sum up financial success in one word: survival.

• We feel wealth through contrast, so downgrades hurt more than levels.

Most people would rather have $500,000 after having $200,000 than $1M after $2M. He felt richest at about $1,000 as a teenager after never having more than $20. A friend with a private chef eating Michelin-quality food three meals a day probably feels little: 'when everything is great, nothing feels great.'

• Volatility is the cost of admission, not a punishment—and nobody knows their pain threshold in advance.

Asked how they'd feel if stocks fell 50%, people imagine today's world with cheaper prices; real crashes come with a scary reason. During COVID, despite writing about volatility, he had sleepless nights. Nassim Taleb's 'uncle point' is real but hard to know prospectively. That only ~10% of would-be Buffetts acted in 2009 is how it should be—few college athletes make the NBA either.

• Housing affordability is the biggest social problem, and it's a choice.

Many couples want to own a home before having kids, so unaffordability feeds the fertility crisis; he also links it to drug problems and politics, since renters feel less invested in their community. He endorses Tucker Carlson's test: can a 28-year-old buy a house? The cause is under-building due to zoning; Tokyo stays relatively affordable because it keeps building. Rising home equity is partly illusory: his last house doubled in four years, but so did the next one.

• His portfolio is deliberately 'painfully simple': house, cash, Vanguard VTI and Markel shares.

He dollar-cost averages into index funds he hopes to hold 50 years; the vast majority is VTI, with no international fund since U.S. firms earn much revenue abroad. Book checks go 40% to taxes and the rest straight into stocks the same day, even at all-time highs. Like balanced diet, sleep and exercise versus biohacking, simple likely matches complicated over a lifetime—and the simpler it is, the easier to endure.

• Being average for 50 years puts you near the top 3% of investors.

About 95% of mutual funds underperform. Lasting longer than everyone else at average returns beats almost all who try; refusing that to chase the top 2% has never appealed to him. Long-term means at least 10 years, not the three months teenagers imagine. Early experiences scar: Jeremy Grantham started in a vicious bear market and stayed bearish; 2021 meme-stock beginners expected to double money monthly.

• He keeps 20–30% of net worth in cash—irrational on paper, right for him.

Any adviser would call it excessive, and he agrees, but he values sleeping at night and suspects low early self-esteem made him prepare for collapse. We underestimate the odds of divorce, job loss or illness as a survival mechanism, so savings that feel excessive may not be. Finance should fit your personality.

• How people spend reveals their psychology.

A middle-aged man in a yellow Ferrari has 'a story'—usually being snubbed or doubting himself—and it's a trophy to himself, more common with new money. A formerly homeless relative begged his daughter to choose the most expensive college. Housel's own saving likely has similar roots. Signalling to fit in is fine; signalling to impress strangers who aren't watching is the trap.

EXAMPLES

• Kip's $25,000 ski-trip debt.

At 18–19 Housel ribbed a ski-shop coworker in his late 20s for running up credit-card debt skiing Europe and South America. Kip died in an avalanche around 30–32, and Housel instantly felt glad he'd taken those trips. The right question isn't save versus spend, but what you are likely to regret—for Housel, leaving his family unprotected.

• Levittown houses would be poverty housing today.

The famous 1950s middle-class homes were about 700 sq ft, with four kids in one bedroom, one bathroom, no garage or air conditioning, and leaky roofs. New U.S. homes are now nearly three times larger. 'We used to have it better' should be fact-checked; feeling behind still deserves empathy.

• The Vanderbilts: money as dictator.

Cornelius Vanderbilt wanted no descendant to suffer; instead heirs inheriting the equivalent of billions at 18 were told where

to live, whom to marry and to host balls on Fifth Avenue, becoming ‘character actors in their own life.’ Only as the fortune ran down could some, like Anderson Cooper, be themselves. Carnegies and Rockefellers did far better.

- **Psychology of Money’s 5,000-copy first printing became ~10 million sold.**
  That success set the bar for later books; the median review of Same as Ever was ‘good, not as good as Psychology of Money.’ He knew it would happen and still found it hard, comparing it to judging today’s U2 against The Joshua Tree.
- **Mountain town versus LA during the housing bubble.**
  Near Lake Tahoe the gap was a three-year-old pickup versus a two-year-old one; in LA a dentist earning $300K in a Mercedes feels behind next to mansions and Lamborghinis. Who you socialise with sets your expectations—and even your moral boundaries.

OTHER RELEVANT

- **If you live paycheck to paycheck: wealth is what you have minus what you want.**
  Lowering wants is often more controllable than doubling income, and saving even $5 or $10 is ‘oxygen’ when you lose a job.
- **Protect your kids’ downside; don’t be their fuel.**
  Be a safety net, not a cheque. His parents implicitly would catch him but never just write a cheque. Bill Perkins’ Die with Zero argues for giving when kids are 30–40, not at 75; Munger warned withholding everything breeds resentment.
- **Ask: what would I do if nobody was watching?**
  Housel splurges on travel comfort; his wife on gardening. Rob Henderson’s rule: rich people’s food looks better than it tastes. If nothing in a high earner’s life is cheap, they may be following society’s script.
- **Have a few people you don’t want to disappoint.**
  Borrowing from Buffett, Housel defines success as not disappointing his wife, kids and parents, and giving loyalty to those who earned it, like Collaborative Fund’s Craig Shapiro.

No. 1 Forensic Accountant: The Coming AI Collapse | Anthony Scilipoti

Guest: Anthony Scilipoti
Date: 2025-10-28 · Duration: 1:33:48
URL: https://www.youtube.com/watch?v=E4wXp-DaW8g

KEYPOINTS

• Blow-ups often hide in the footnotes, which is where Enron kept its risk.
Enron's derivative contracts, with debt that came due only if energy prices or its own stock crossed certain levels, sat off the balance sheet as contingent items mentioned only in the notes. When the early-2000s recession moved commodity prices, the contracts triggered and the money wasn't there. Arthur Andersen's auditors, where Scilipoti once worked, shredded their working papers. The conviction was later overturned on appeal, but by then the firm was gone. His rule: read the notes before the statements, because the notes tell you which accounting choices the company made.

• Audits have a built-in conflict: the client hands you its own A grade and pays you to confirm it.
Auditors work under time and cost pressure and attest only to 'fair presentation in all material respects'. Business decisions get made first, then the accounting department is asked to record them 'as brightly as possible'. 'Business is judgment. People run companies.'

• AI speeds up finding things in a filing but can make understanding worse.
Asked to find capitalized interest and capitalized costs at a REIT, AI pulled every quote instantly and saved him flipping through 300 pages. But the insight came from following the links: capitalizing a cost instead of expensing it lifts operating earnings, so you then have to check other notes and the cash flow statement. AI will replace the junior analyst's search work, but if juniors never do that grind, they won't develop the mental models needed to know which references matter. He compares it to making his kids learn times tables before using a calculator.

• He sees 'extreme euphoria' now, with risk priced very cheaply.
High-yield bond spreads over Treasuries are near the tightest in history and the VIX is benign. Investors say financial statements 'no longer matter' because AI is changing the world, which he heard before about Nortel, Lucent, Cisco and 360networks. Their infrastructure still exists but most of those companies don't, and Cisco never got back to its old valuation. He won't call it a bubble or predict timing.

• AI financing today has the same circular vendor-financing pattern that sank telecom in 2000.
Nortel and Lucent lent customers money to buy their gear, and when equity markets wobbled, the customers couldn't pay. Today Microsoft invests in OpenAI and sells it cloud services, and Nvidia invests in OpenAI and sells it chips. Nvidia supplies CoreWeave, owns a stake in it, and bought $250 million of shares to close its IPO, while JPMorgan made a pre-IPO loan and was also a lead underwriter. 'No one's cheating', but each related-party stake is too small to be material to Nvidia, so across hundreds of deals the risk goes undisclosed.

• Look for 'flammable items' and sparks, not red flags.
Stage one is to understand the business, its life cycle, how management is paid, and the accounting it uses. Stage two is to spot flammable items such as negative cash flow or expensive debt, which can be perfectly fine for a growing company with 20% + returns on invested capital. Stage three is to watch for the spark, such as a new competitor taking share, that turns a flammable item into a blow-up. This guards against crying wolf.

• Valeant fooled smart investors because rising prices create the narrative.
Veritas was the only sell rating on Valeant in 2012–13, and it didn't collapse until 2015. CEO Mike Pearson took no salary and tied everything to the stock price. Each strange acquisition was followed by the stock rising. Adjusted EBITDA was redefined from year to year, while drug price hikes and a network of online pharmacies were hidden. Cheap QE-era debt made weak deals clear their hurdle rates. Its Biovail purchase brought a Barbados tax structure, and its Quebec headquarters ensured steady support from the Caisse.

• Companies rarely start out crooked; fraud starts with 'find me 5 cents'.
Citing interviews with Enron CFO Andrew Fastow, he describes the slide: a CFO reports 95 cents against a $1 target, and the CEO says go find 5 cents, thinking of private-school fees, options and employee stock. The fudge is meant to be reversed next quarter, then it grows. He sees the same small-compromise creep in personal life.

• EBITDA is 'the mother of all disastrous measures', and stock options are an expense.
EBITDA is an operating-performance metric, not cash flow, and it gets stuffed with gains or stripped of 'one-time' acquisition costs that aren't one-time for serial acquirers. Accounting treatment depends on facts, constraints and objectives: a seller valued on EBITDA will account toward EBITDA. If options aren't an expense, what are they? Pay them in cash instead and your EPS falls. Buybacks often just offset options, so check earnings growth before dividing by share count.

• Passive investing is effectively momentum investing, and retail options flow amplifies swings.
Market-cap weighting pours money into the 'Mag 7' while the 'sloppy 493' show little earnings growth, so a slowdown at the top would drag the index down as hard as it pulled it up. Retail investors are the largest share of the market they've ever been. Short-dated options force market makers to buy stock as a hedge, which feeds moves like Oracle jumping almost 40% in a day despite investors having more data than ever.

EXAMPLES

• The Nortel sell report that founded Veritas
At 29, Scilipoti published a 2000 sell report showing Nortel booked long-term customer loans as long-term assets, outside current ratios and operating cash flow, so its true free cash flow was negative. CEO John Roth complained publicly that it hurt his ability to raise capital. FASB later changed the rules.

• The friend who paid in rivals' options
Shane's friend recruited top talent by paying cash and giving options on the stock of the public competitor they came from, not his own. That led Shane to screen for companies that have stopped issuing options.

- **Apple's debt-funded buybacks**
  With revenue barely growing, Apple borrowed to buy back shares and lift EPS. Scilipoti worries that the debt remains if growth slows, and says cash kept on hand could have bought a business it wanted after a bad quarter.
- **Down is green in China**
  On a trip to China, he noticed stock screens show falling prices in green and rising prices in red. He has asked FactSet and Bloomberg about making that an option, arguing that the reframing helps you buy fear and question euphoria.

OTHER RELEVANT

- **Avoid embarrassing losses, not all losses**
  His version of Buffett's rule 1: accept 5–20% drawdowns, but avoid holdings that can wake up down 50%, which scar you and drive clients away. Emotion has no place in investing.
- **Don't trust; verify, then trust**
  It isn't cynicism. It's what keeps you curious. 'Nothing happens without a reason': ask why there's a subsidiary in the British Virgin Islands. If management starts sweating, you have your answer.
- **Watch for incentive metrics that move**
  If management misses its bonus metric and the board changes the metric so they still get paid, treat it as a warning sign. Pay should track longevity, organic growth, cost control and cash generation.
- **Being negative sounds intelligent**
  Bearish cases come with facts and sound smart, while bull cases sell a dream. Remember both, and remember that 'none of these things matter until they matter, and then they matter a lot.'

Lessons from a lifetime of investing and outperforming | Bruce Flatt

Guest: Bruce Flatt
Date: 2025-04-01 · Duration: 1:18:31
URL: https://www.youtube.com/watch?v=VmcYu_kd7_0

KEYPOINTS

• Investing fundamentals haven't changed; the environment around them has.

Flatt's definition is unchanged after more than two decades as CEO: buy great businesses, hold them a long time, earn cash returns. What has changed are two things. First, indexing and passive investing now drive how public securities trade. Second, about 50% of what Brookfield owns today—the backbone of the economy, like water, roads, power and data centers—didn't exist as an investable asset class for investors like them 20 years ago.

• Private money now builds the backbone governments used to build.

Governments aren't so much privatizing as simply not investing, so private capital fills the gap. A podcast streamed on a morning run touches a data center, fiber, a tower and wireless—delivered to 8 billion people, almost entirely by private enterprise. Brookfield, for example, bought a large share of India's telecom towers originally built by Reliance Jio.

• Passive investing creates gaps between price and value that private buyers can exploit.

Every problem is an opportunity. Big tech stocks that every index must own trade at high multiples, while small and mid-size companies that don't fit indexes may have no buyers. Brookfield took private a $6 billion container shipping company that had one analyst and fit no index, and it 'has been an exceptional investment.' Flatt rejects market efficiency: securities very seldom trade at their actual value.

• Private ownership removes the distraction of the share price.

Most listed businesses never issue equity, so their trading price is irrelevant and often a distraction. Picture a tower business yielding 6% and growing 4% a year with little reinvestment: privately, you watch cash flow and improve it. Publicly, it can go from $20 to $10 overnight with nothing changed, prompting rash decisions. Flatt says that is why alternatives grew over 25 years—they match what institutions want, minus the noise.

• AI's known winners are big tech; the unknown winners will apply it to operations.

Telling you to buy Google isn't helpful, Flatt says. The real money will be made applying AI and AI-trained robotics to service and industrial processes, especially where companies can't find enough workers. Shrinking labor content could bring high-value plants back from Asia to where demand is. He expects productivity gains over the next 20 years to be 'probably unprecedented,' though incremental—'nobody ever flips a switch.'

• Low-carbon energy wins on cost, not ideology.

Solar and wind are now the cheapest power in most countries, so even people who don't care about carbon will choose them because nobody wants to pay more for power. Oil goes to cars, planes and chemicals, not power. U.S. natural gas is a bridge fuel at home, a long-term fuel abroad replacing coal, and a lucrative LNG export. Batteries and nuclear will increasingly provide base load and smooth the day-night mismatch of solar and wind.

• Data centers aren't overbuilt because permitting and power take years.

Most buildable sites are already contracted for 20 years, and even a new site that already has power will be years away. Brookfield doesn't build data centers speculatively; like a pre-let office tower, it builds against contracts.

• Deglobalization is re-industrializing Western countries.

COVID exposed firms whose manufacturing was stuck in China; Asia–West tensions and tariffs accelerate the shift. China, with 1.5 billion people becoming a consumer service economy, will be fine, but countries still reliant on outsourced manufacturing may struggle. Flatt sees the U.S. with dominance in energy, capital and technology—across oil, gas, solar, wind and nuclear—giving it a strong runway.

• Finance asset by asset, fix rates, and remember you borrow at treasury plus spread.

All debt is non-recourse single-asset financing spread over long durations, so problems are handled one at a time. When treasuries went to zero in COVID, lenders widened spreads from about 200 to 350 basis points, so all-in coupons barely fell—from about 5% to 4.5%. Today base rates are higher but spreads are at record lows: Brookfield just did 30-year fixed debt at 125 over. Flatt calls current rates 'pretty normal.'

• Investment committees focus almost entirely on downside.

Whether a deal targets 16%, 22% or 29% doesn't matter—'upside will always take care of itself.' The questions are what can go wrong, how bad it could get, and how to respond. Make small mistakes, never big ones. A top committee of six to eight allocates across the firm so everyone isn't making a massive bet on the same cycle unknowingly. The worst mistakes are flawed decisions in adjacent areas they didn't understand; mistiming the market is forgivable.

EXAMPLES

• 19% a year for 30 years.

Brookfield's parent has compounded at about 19% annually for 30 years, turning $1,000 into roughly $200,000. Flatt's point, like Berkshire's: 'average returns over an above-average period of time equal outstanding returns.' They promise moderate risk, not 45% years.

• Why a trillion dollars isn't that much.

Recent deals include about $20 billion for Deutsche Telekom's tower business in Germany and Austria, $13 billion of power plants being built for Microsoft and a $32 billion chip fab with Intel in Arizona.

• Applying AI inside a car battery maker.

Brookfield makes just under half of the world's car batteries, with 25,000 people in 20 plants doing repetitive work and $9 billion of costs. Improving those costs by 30% would hit the bottom line hard. In its health-care business, agents approving procedures like a $150,000 back surgery have far more information on screen than two years ago.

• Insurance as permanent capital.

Brookfield bought insurers five years ago when low rates made them unloved. It now earns about $2 billion a year in cash flow on roughly $120 billion of assets. It takes low-risk annuity and pension-risk-transfer liabilities, overcapitalizes (book equity has grown from about $4 billion to $16–17 billion), and earns excess returns on assets such as real estate and infrastructure. It is now licensed in the UK.

• Betting on a 37-year-old.

Connor Teskey was vetted internally and externally to become CEO of the asset management business. Pairing wise older people with aggressive younger ones keeps the firm current: Flatt is sure his 30-year-olds know more about technology than he does.

OTHER RELEVANT

• Prepare in good times; come out of downturns intact.

First, lose nothing while others lose a lot; then, once the house is in order, invest as the market recovers. Flatt says that separates great long-term investors from average ones.

• Only commodity anything is bad.

In real estate, the top 25% of offices, retail, industrial and hotels does well. Malls serve experiences while paper towels move online.

• Invest only where you have people on the ground.

Flatt prefers large, growing, rule-of-law countries with stable currencies; if a call comes from elsewhere: ‘no can do.’ Since Brookfield doesn’t sell across borders, politics matter only at the margin.

• Make mistakes with your own money first.

Brookfield proves a strategy with its own capital before taking clients’ money, as with U.S. insurance before the UK, because reputation is ‘the only thing we have.’ Flatt expects retail and 401(k) access to alternatives to drive the next 20 years.

The Venture Capitalist Who Bets on Science Most Investors Think Is Impossible | Josh Wolfe

Guest: Josh Wolfe
Date: 2025-03-04 · Duration: 1:54:10
URL: https://www.youtube.com/watch?v=uHT57nhzgUI

KEYPOINTS

• The web will be redesigned for AI agents, and agents may make APIs obsolete.
Just as companies optimized for Google search, Wolfe expects restaurants, shopping and booking sites to rebuild interfaces for the clicks of AI researching products—and to try to influence or even trick the AI's judgment. Rather than negotiating complex, legally restricted APIs, companies may simply let AI act as a user on the front end. Wolfe faced a split-second moral dilemma when OpenAI's Operator asked him to confirm he wasn't a bot. He expects this to evolve 'in a quarter or two.'

• A contrarian bet: 30–50% of AI inference moves onto phones, making memory chips ascendant.
Training still needs giant H100 clusters, but if much inference runs on your cached emails, WhatsApp, photos, health data and calendar, memory matters far more. Wolfe favors Android over Apple because of its more open architecture—Perplexity can already act as an assistant on Android. Among memory makers, he sees Samsung as 'more like Intel,' sclerotic and slow; Micron constrained by U.S. export controls; and SK Hynix best positioned. Just as AI researchers repurposed gaming GPUs, turning Nvidia from $15 billion to about $3 trillion, attention could shift to memory-heavy architectures.

• Efficiency increases total demand (Jevons Paradox).
Cheaper, smaller refrigerators put one in every garage and office, so total electricity demand rose. Moving from a 56k modem to fiber didn't reduce usage; it gave us 4K streaming. DeepSeek-style efficiency gains likely mean more AI demand, not less. Nvidia, with 90–95% margins on $30,000 chips, could choose lower prices for more volume—Wolfe wouldn't count Jensen Huang out.

• AI threatens elite knowledge jobs before blue-collar ones.
Peter Drucker never imagined machines would most threaten knowledge workers. Wolfe runs his medical records from top doctors through LLMs to see what they missed. Kahneman's Noise showed the same facts produce different verdicts by judge and time of day, an argument for consistent AI. Meanwhile, robots still can't serve a meal or reliably fold laundry. Wolfe cites the old plumber joke: $5 for the part, $995 for 'knowing where to tap.'

• Models will commoditize; proprietary data is the moat.
Wolfe thinks Zuckerberg is playing it smartest: open-source Llama, let models improve for free, and run them on Meta's deep, longitudinal data—WhatsApp messages, Instagram lingering time—while routing around Apple and Google via glasses and the neural wristband from CTRL-labs, a Lux company. Bloomberg's normalized financial data is 'a quant dream.' Pharma's failed clinical trials are gold. Unmined data is like 'an oil well that isn't mined'; LLMs become commodity excavators.

• Margins from technology are fleeting—benefits go to customers.
Like Buffett on new loom technology, one company stands on tiptoes and soon everyone does. Only true monopolies, like Nvidia until an alternative appears, keep fat margins—cars are vastly better today yet margins never stayed high. So when a vendor quoted a costly AI system to search Lux's Gmail, Slack and documents, Wolfe's default was to wait six months for the major LLM providers to compete for enterprise accounts.

• Machines will do science 24/7.
Like GarageBand virtualized the recording studio, you'll form a hypothesis on a beach, have AI review literature and freedom to operate, and send the protocol to a cloud lab. The robot executes, then asks, 'Run again with 10 milliliters instead of five?' The catch: discoveries like penicillin and vulcanization came from screw-ups, so you may need to engineer randomness. Physical reaction steps remain the bottleneck.

• Of informational, analytical and behavioral edges, only behavioral persists.
Regulations and brilliant data users have eroded information advantages. One hedge fund legally inferred Adobe's sales from order numbers in purchase URLs until the trick leaked. AI will make analysis abundant and may ask 'the five questions you didn't ask.' Lux's 10-year locked funds give time arbitrage. Passive indexing is itself an algorithm—'$1 in, buy; $1 out, sell'—and Wolfe expects active managers to return as the cost of capital rises.

• In a world of abundant AI content, human connection becomes scarce and valuable.
Every time we said humans would retain an edge—chess, Go, video games, creativity—it fell. Wolfe can't paint, but uses Midjourney prompts creatively and turns boring PTA emails into Matt Levine pastiches for his wife. What remains scarce is shared experience: inside jokes and commiseration. Lux is in-office Monday to Friday for serendipitous introductions and noticing when someone 'swallows' nervously, which never happens on Zoom.

EXAMPLES

• Kahneman and Barbara Tversky on aging.
Months before Kahneman died, he told Wolfe the pleasure of pleasurable things fades, but the pain of painful things fades more. Barbara Tversky disagreed: losses remain painful because you lose the partner who shared the memory and amplified the emotion—something AI will never get.

• Wolfe's case against Tesla's honesty.
He calls Musk perhaps the greatest storyteller and fundraiser ever, and SpaceX 'a national treasure,' but alleges Tesla played accounting games on warranty reserves and raised over $50 billion while vowing never to sell shares. He contrasts it with Bezos building Amazon on a few hundred million of equity and Brad Jacobs answering a short report by borrowing $2 billion to buy back stock.

• Anduril and the new defense era.
The industry went from 50 primes to five; Wolfe predicts Anduril becomes a $30–50 billion public company with software-like margins. Cheap drones threaten carriers—INDOPACOM's Adm. Paparo wants a 'hellscape' of mass on target in the Taiwan

Strait. Wolfe watched a U.S. drone strike approved with lawyers present, a moral constraint adversaries may lack.

- **His daily information diet.**
  An hour or more each morning scanning about 40 newspapers worldwide via PressReader replicas to see editorial placement, including USA Today for what the average person reads. He also uses curated X lists, Rewind recording his screen, and runs the same expert-primed prompt in ChatGPT, Claude and Perplexity side by side.
- **The Sahel as the next Afghanistan.**
  Coups, Russian mercenaries, extremists and Chinese infrastructure money make the region a low-probability, high-magnitude risk; one terror event projected into Europe could drag in NATO. He'd also declare a new Monroe Doctrine, after seeing Hezbollah, Chinese and Iranian presence in Nicaragua.

OTHER RELEVANT

- **Talent policy: staple a visa to diplomas.**
  About 50% of AI undergrads graduate in China and 38% of U.S. AI researchers are Chinese-born; the U.S. share of foreign graduates fell from about 23% to 15%. 'People go where they're welcome and stay where they're well treated.'
- **Watch the coming wave of retail money into private markets.**
  Apollo, KKR and Carlyle are pursuing retail and insurance capital; Wolfe thinks private credit, once wise, is now overdone, and new liquidity vehicles could set up a blowup.
- **Maintenance is an underrated theme.**
  With rising capital costs, CFOs will extend the life of satellites, bridges and HVAC systems rather than buy the new hot thing—creating demand for sensors and software that keep old systems running.
- **Write the story between two pages.**
  Birth date on one side, roughly 80 years later on the other; what you control is the story between. Raised by an absent father who married four times, Wolfe defines success as his kids saying he was present and that they are proud of him.

Sequoia VC Reveals: The One Trait That Built Airbnb, DoorDash & Zappos

Guest: Alfred Lin
Date: 2025-01-21 · Duration: 2:09:44
URL: https://www.youtube.com/watch?v=91WKEsbHUNc

KEYPOINTS

• Life is an infinite game, so focus on inputs and values rather than finish lines.

Lin was a self-described ‘high variance, high beta’ kid who tried to hack his way out of homework. A sixth-grade teacher, Mrs. Einstein, asked him what he would do ‘when there’s no finish line.’ That stuck. In an infinite game you help set the rules, and the people who do best know their values. His include clear inputs, consistent compounding, directness, and learning something from every person—a lesson from his father.

• Solve the first-order issue, not the to-do list.

Long to-do lists hide the item that matters most. At Zappos the slow website wasn’t fixed by cutting photos or search results—both customers wanted—but by solving it with technology through caching. A sluggish distribution center wasn’t a picking or packing problem; it was a flow problem with too many handoffs between batched steps. Stepping back to see the whole flow produced better fixes.

• Free cash flow equals freedom.

After LinkExchange, which sold to Microsoft for $265 million on about $15 million of revenue, Lin learned that eyeballs aren’t a business. Sequoia owns shares in the company, not in the founder or product, and Pat Grady’s line is that free cash flow equals freedom: no need to raise, and the ability to fund growth and new products. Company velocity—speed plus direction—only rises if someone keeps pushing, and pushing reveals the obstacles you need to remove.

• You can’t just be better; you have to be different—and right.

Lin uses a 2x2 of conventional versus contrarian and right versus wrong; contrarian and right is where outsized returns are. Sequoia passed on DoorDash’s seed round, fearing it was college kids spending parents’ money. But DoorDash’s suburban start was reasoned: suburbanites value delivery more than city dwellers who can walk downstairs, and density exists along main streets like Palo Alto’s University Avenue. Suburban profits then funded the cities, as Walmart avoided competing with Sears and Kmart head-on.

• Hire for slope, not intercept.

A LinkExchange marketer who fit every spec but not the values taught Tony Hsieh the difference between mercenaries and missionaries. In a fast-growing company, someone growing slower than the company falls further behind every day. Lin prefers high slope and low intercept, hiring people one or two ‘chapters’ ahead rather than ten, since big-company executives often relied on guardrails startups lack. Track regrettable versus unregrettable turnover, not raw turnover.

• Your best customers may have the worst-looking metric.

Zappos’ return rate rose every year and returns were the costliest warehouse process. Comparing best and worst customers showed the highest-LTV customers returned the most, because they also bought and kept the most and tried new things. The first-order fix was not a stingier policy but cheaper return processing. Zappos went from 30 to 90 to 365-day returns as a stake competitors struggled to match.

• Compounding 1% a day beats chasing 10x ideas.

Lin wrote 1.01^365 on Zappos whiteboards: a dollar compounded 1% daily becomes about $37–38. Founders who want only 10x ideas miss that steady daily improvement moves the needle more. He paired this with ‘the power of and’—shipping faster and keeping the site fast, rather than either-or tradeoffs.

• Crucible moments are one-way doors resolved by calm, principles and sequencing.

In crucible moments, Lin says, you stop, look around 360 degrees, pick a direction and accelerate. Tony Xu notes that everyone knows what to do; sequencing determines whether you’re remembered. Values tell you the order. Lin uses Bezos’s type-one versus type-two test: for irreversible decisions, borrow Chesky’s ‘run out the clock’; for reversible ones, decide fast and iterate.

EXAMPLES

• Zappos after 9/11: sales went to zero.

Founded after Nick Swinmurn’s voicemail—shoes were $40 billion, mail order 5%—Venture Frogs invested $500,000. After 9/11 sales hit zero, so Zappos ran at breakeven for years with supplier credit and a Wells Fargo line until Sequoia’s 2004–05 investment. It reached $1.6 billion in sales on roughly $10 million of Tony Hsieh’s money, with 80% of orders from repeat customers.

• Airbnb’s pandemic principles.

Revenue fell 80% and both guests and hosts wanted roughly $3–4 billion in deposits. Chesky cut marketing and contractors first, raised about $2 billion in debt to avoid a down round so both sides could be covered, found demand in local travel by May, and laid off staff last. It became 2020’s top IPO.

• DoorDash uploaded restaurants’ menus for them.

Tony Xu, who washed dishes in his mother’s restaurant, knew restaurants have under 30 days of cash. In 2020 DoorDash proactively loaded menus and offered standard terms—a solution no one designed before the crisis.

• Airbnb’s Instant Book.

Facebook Connect verification still meant 24–72 hours of waiting, capping growth. The team defaulted new hosts into instant booking to prove trust, and eventually most hosts converted.

• Focus beat breadth in delivery.

GrubHub only listed restaurants with their own drivers. Postmates and TaskRabbit delivered anything. DoorDash solved one deep problem—delivery for restaurants with no staff—then expanded into grocery when customers pulled it there.

OTHER RELEVANT

- **Plan culture like you plan revenue.**
  Zappos condensed 38 employee-suggested values into 10. Culture shouldn't be static—include it in the annual plan and look back at which decisions were right or wrong.
- **Work backwards and forwards.**
  Imagine the 'pre-parade' of what the company becomes if everything goes right, then also project years one to three from today. If the two don't meet, the plan is off.
- **Standardize like an accordion.**
  Stretch to win early customers, then compress into a few personas and standard offerings—standardizing on day one is hubris.
- **Don't fear incumbents in AI.**
  Microsoft lost search, and IE lost to Chrome; big companies get slowed by internal and regulatory issues. Lin avoids thin wrappers, 'roadkill' features in the path of OpenAI or Google, and products with fast adoption but high churn.

Adam Karr: Know Yourself, Pick Your Game, Build Your Blueprint (Lessons from a Janitor & Investing)

Guest: Adam Karr
Date: 2024-11-12 · Duration: 1:07:20
URL: https://www.youtube.com/watch?v=mQ-Z4_r3IzQ

KEYPOINTS

• Pick your game deliberately, because each game needs different skills and environments.
Investing runs along a continuum: algorithms scraping milliseconds, day traders, catalyst-driven pod shops trading around a quarter, Stan Druckenmiller looking 18 months out, Orbis's four-to-five-year view, and Buffett owning forever. Karr is still surprised how few people are clear about which game they're in. The skills and setup for one undermine another. Even Buffett evolved, from cigar butts to great businesses, as his capital grew and with Munger's help.

• Set your life up for your obsessions, and never compete with someone who is obsessed.
Kobe Bryant was in the gym at 4 a.m. and took up tap dancing to strengthen his ankles; 'are you at the gym at 4 a.m.?' Karr borrows Haruki Murakami's idea of arranging your life around your obsessions so you grind in a way few others will. The flip side is alignment: you can only be as long-term as your clients allow. If they redeem when you're out of sync with the market, you can't play your game.

• To spot an obsessed CEO, ask questions they can't answer from the script.
Most investors ask about the quarter, margins or capital allocation, so CEOs 'put in the CD.' Karr asks: 'My nephew starts at your company next week—what would you tell him to be successful?' or 'What's important to you?' Building something special versus hitting quarterly guidance is a very different lens. To pin down problems, frame questions so they must respond: 'We've been hearing about high turnover in your sales team—why is that?'

• Public-market turnarounds have terrible base rates.
Coming from distressed private equity, where you buy assets with a deep margin of safety and replace management, Karr carried that mindset into public markets. It's the way he has changed most in 20+ years: he's now leery of betting on management engineering a dramatic change in public. Average S&P 500 CEO tenure is roughly three to four years, and the market has little patience for hard work.

• Build a blueprint by studying someone who's done it—you can have any mentor in the world.
Karr is frustrated when young people say mentors are hard to find. Pick someone you respect, absorb everything about how and why they did it, and pose questions to yourself Socratically as they would answer. Imitate first, then keep what's authentic and adapt the rest. Jay-Z's The Blueprint, Sol Price's model for Costco, Home Depot and Walmart, and Schwarzenegger's three successive blueprints all show this. His first investing blueprint was Peter Lynch's One Up on Wall Street: invest in what you know, accept being wrong often (55% right is good), and use six stock categories.

• Write it down, track it, and let data expose your biases.
Every Orbis analyst runs a paper portfolio and writes the reasoning for each buy and sell. Results are reviewed every six months by type of decision: buys, sells, doubling down, and own versus others' ideas. A decision-analytics team runs all PM decisions through third-party software. It found Karr has endowment effect and regret aversion—his habit of scaling in 50 basis points at a time was wrong; if it clears the hurdle, buy it. Coded 'nudges' now email him when the pattern recurs. People better at naming their emotions invest better, and he never sells the same day he decides to.

• The magic is in the last 5% of research—and often the bear case is the bull case.
After months of work, Karr wants a few pages capturing the fulcrum issues and an 'essence statement' of what drives the company, not a 50-page report. Go to the source, because analysts persuading you may filter out risks. The breakthrough synthesis lives in the last 5%, when the common bear narrative can turn out to be the moat.

• Allocate time like capital: will three months of work move the odds?
Capital can be replenished; time can't. Deep work on a company's distribution network might change the probabilities. Three months on TSMC's core question—geopolitics—probably wouldn't. Like Buffett's filter, ask whether something is knowable. On the U.S. election, Karr calls it 50/50 and builds a resilient portfolio rather than tilting toward an outcome.

EXAMPLES

• Motorola Solutions and first-responder networks.
The bear thesis said broadband would make proprietary LMR radio networks obsolete. Digging in showed they were backward compatible with a huge installed base and far more redundant—during 9/11 they stayed up when others failed. That conviction supported a large, rewarding position.

• XPO's short report, read in Brad Jacobs' office.
In December, mid-meeting, an assistant dropped a 75-page short report on the table and the stock fell over 20%. Over Christmas, Orbis hired a forensic accountant and a private investigator and probed executives and short sellers. It put roughly $1 billion into the dislocation as Jacobs borrowed to buy back stock. Earlier, Jacobs' surprise Con-way LTL deal made sense given his opportunistic, oil-trader history.

• 2018: three hits in a few months.
At Symantec, Karr focused on the new CEO's tech skills and missed the aggressive sales culture until an audit review sent the stock down 35%. On his birthday, he watched a wildfire burn from his San Francisco office—a new fire threatening his PG&E position through a legislative loophole. Then came XPO. He learned to treat setbacks as part of the hero's journey.

• Cookies before Wi-Fi.
Shane Parrish makes his kids follow a recipe for the password. When it fails, they can't tell why; the baker would know instantly. Consuming others' compressions gets you to average. Mastery requires going back to the raw experience.

• Allan Gray's conviction, loosely held.
Orbis's founder was deeply convicted but sought out anyone who disagreed, flipping views without embarrassment. He said

‘there’s nothing more perishable than a great idea’ and that a 10 alpha requires turning the problem on its head. He sought younger people for less filtered, more current views—like Andy Grove staying close to engineers as ‘survival.’

OTHER RELEVANT

• Alignment must permeate everything.

Orbis hires genuinely contrarian people (‘give me an example with consequences’), gives them space, and uses performance fees that are refunded during underperformance to lengthen clients’ patience.

• Keep personal overhead low.

Once a lavish fixed lifestyle means you need an investment to work, your temperament changes and your decisions worsen. Karr generally avoids attention-seeking, high-lifestyle CEOs.

• Practice like it’s the game.

Pianists practice daily; Brady, Jordan and Kobe treated practice like games. Investors practice deferred gratification and probabilistic thinking daily.

• Success is being a ‘dream builder.’

Once just ‘getting out,’ then a number, then a career, success for Karr is now using his skills to help hungry people achieve what they can’t yet figure out.

Morgan Housel: What You Need to Master (And Avoid) to Get Rich, Stay Rich, and Build Wealth

Guest: Morgan Housel
Date: 2024-05-28 · Duration: 1:34:18
URL: https://www.youtube.com/watch?v=zEx_IGVfi7Y

KEYPOINTS

• Lacking FOMO is the single most important financial skill.

Morgan Housel says you can't imagine building significant wealth over a lifetime if you're susceptible to FOMO, especially with social media and Reddit-fuelled markets. He can't pick stocks or trade, but watching others get rich doesn't bother him at all. He quotes Brent Beshore: 'I am perfectly happy watching you get very rich doing something I would never want to do.' Howard Marks describes an investor who was never in his peers' top half in any year yet ranked in the top 4% over 20 years.

• Be average for an above-average period of time.

Housel holds 15–20% cash, his house, index funds (Vanguard Total Stock Market, a value fund, some international) and shares of Markel, where he's a director. Index funds work for two reasons. First, a tiny number of stocks drive most returns — FANG plus Nvidia lately, AOL and Cisco before that, GE and Intel earlier — and nobody can pick them in advance. Second, investing is one of the few fields where more effort tends to mean worse results. Leaving the original Dow components untouched would have beaten the index's actual changes. Nothing guarantees it: 2000–2010 delivered roughly 0% real returns.

• Compounding is returns raised to the power of time — so maximise endurance.

99% of Warren Buffett's net worth came after his 60th birthday; had he retired like a normal person, you'd never have heard of him. Michael Batnick's illustration: 8+8+8+8 is easy, 8×8×8×8 isn't intuitive even for experts. The industry obsesses over returns, the smaller variable. Earning 8% for 50 years produces absurd results. What's repeatable from Buffett isn't 1950s prices but patience and capping downside so you never get wiped out.

• Luck is what you truly can't control.

Housel rejects 'increase your luck surface area': if you can change the odds, it isn't luck. The biggest luck is where and when you were born. Income among brothers is more correlated than height or weight. A better question: what financial views would I hold if I'd been born in 1960s Nigeria? Kahneman's insight explains why the poor buy most of America's roughly $100 billion a year in lottery tickets: when all options are bad, risk-taking explodes.

• Paying off his mortgage was his worst financial decision and best money decision.

He paid off a 3.2% 30-year fixed mortgage, which looks terrible on a spreadsheet. But as a worst-case thinker, the sole breadwinner in a fickle career, he was nearly in tears with joy doing it. Money is a tool to live better, not a spreadsheet to satisfy. 'Personal finance is more personal than it is finance.' Most money debates are people with different personalities and time horizons talking over each other.

• Wealth is the money you don't spend — so it's invisible.

Rich means you can make your payments; wealthy means independence. You can see someone's car and house, not their brokerage account, so young people pick the wrong role models. His father started college at 30 with three kids and became an ER doctor when Morgan was in third grade, yet the family stayed frugal. Morgan thought they were cheapskates. After about 20 stressful years, his father could simply quit; his peers with big houses couldn't. His parents have dollar-cost averaged into Vanguard funds for over 40 years and never sold.

• Keep your expectations growing slower than your wealth.

He doesn't want every gain saved; he wants a better life. Trouble starts when net worth grows 10% and expectations 12%. Even Buffett, in the house he bought at 26, flies a private jet. People 100 years ago would be dumbfounded by our lives but probably no less happy, because we benchmark against those around us. He cares deeply about the respect of perhaps six to eight people.

• Getting rich and staying rich are different skills.

Bill Gates made one of history's most audacious bets — a computer on every desk — while insisting Microsoft keep a year of payroll in cash. Housel's barbell is lots of cash plus stocks he hopes to hold for 50 years. Success also sows its own destruction: it removes the inadequacy that drove you, and people stop telling you you're wrong.

EXAMPLES

• The Vanderbilts blew $400 billion.

Cornelius Vanderbilt's fortune, about $400 billion in today's money, was gone in three generations. Heirs were taught to outspend other socialites; they built houses too big to live in and were miserable. Anderson Cooper, the first heir with nothing left, became the most successful and probably happiest.

• An NBA rookie on social debt.

Advising rookies from inner-city poverty, Housel heard a 19-year-old say the money is Mom's, brother's, cousin's — athletes go broke buying their fifth cousin a house. Every dollar of net worth carries a few pennies of social debt.

• The Amtrak quiet car.

People seek serenity there but end up the most agitated, because the slightest whisper violates their expectations. Will Smith said getting rich while still depressed took away his hope that money would fix it.

• The stutter post he hid.

His 2017 post about overcoming a severe stutter, which he couldn't fully manage until 30, was his most popular by an order of magnitude — and he'd hidden it from the blog feed out of embarrassment.

OTHER RELEVANT

• Wide funnel, tight filter for reading.

Start any mildly interesting book; drop it without mercy. Kindle data suggests even bestseller readers average about a quarter

of the way through.

- **Write for an audience of one, and remember everyone is impatient.**
  Make the point and get out of the way; Mark Twain cut whatever made his family doze. Ken Burns times emotional words to the music's beat.
- **Teach kids by example.**
  Don't let them think poverty is all laziness or wealth all hard work. A billionaire's son stayed grounded because his parents never equated money with worth.

Christopher Davis: Timeless Investment Wisdom (Audio)

Guest: Christopher Davis
Date: 2024-03-05 · Duration: 2:38:01
URL: https://www.youtube.com/watch?v=o6rgXYt7BnE

KEYPOINTS

• Write things no one reads, because the writing is for you.
Working for his grandfather, Davis helped produce a weekly insurance-industry letter mailed to 200–300 people, many of them retired. When he asked why they bothered, his grandfather said, 'We write it for ourselves.' Covering earnings, inflation and returns every week forced them to learn. Davis now worries AI will alienate people from their work. He spends two or three hours on a reference letter for a nephew because he ends up knowing him better.

• People crave competence, so treating work as minimum effort for maximum pay makes it miserable.
Interns who wanted fully remote work told him college during COVID 'sucked': they learned nothing, made no friends, and everyone cheated. He asked why they thought work would be different. If the goal is to invest as little as possible, of course it feels degrading. Humans are tinkerers who turn everything into a chance to get better.

• Prepare rather than predict, building for resilience over optimization.
A 'prediction industrial complex' persists because people have always wanted a crystal ball. Davis focuses on businesses that are resilient, adaptable and durable, accepting that someone will always beat you in the short run. Any string of returns multiplied by zero is zero. He contrasts this with Sam Bankman-Fried's theory of betting everything whenever you have an edge, which guarantees eventual ruin.

• Each crisis felt different, and the financial crisis was the one he handled worst.
In 1975, after years of being wrong, his father sat 30% in cash and lagged badly. His grandfather, home from serving as ambassador to Switzerland, saw his net worth down 80%, went on margin, and had one of his best runs. In 2008, Davis felt smug for owning none of the 'Horsemen' (Bear, Lehman, Fannie, Freddie, WaMu, Countrywide) until AIG, a family holding since its IPO, collapsed about 90% in a day. He de-risked, for example selling some Wells Fargo for Nestlé, which planted the seeds of a long stretch of underperformance. During COVID he stayed steady.

• Money managers face an asymmetry clients don't.
Given a choice between returning 10% a year while the market does 12%, or 0% while the market falls 2%, every manager would take the zero, because beating the index builds the firm. Every client would take the 10%, because that's what pays for retirement and college. Davis says running a mutual fund tied to real people keeps him focused on the client's version.

• Risk means losing financial independence, not volatility.
For investors, risk is being forced to change your lifestyle or becoming dependent on government, relatives or children: 'there's dignity in financial independence'. The best thing an adviser can do is get clients to spend less, which lowers the spending level they'll need to fund for life. For a single investment, risk is permanent loss of capital, so size each bet to match it.

• Berkshire is built as if it were everyone's only asset.
From the inside, what struck him was 'how profoundly and deeply Warren thinks about risk' and about Berkshire withstanding almost anything. Munger noted they could have earned more with a little leverage, but that isn't who Buffett is. Like Baupost carrying 15–40% cash for decades, Berkshire's shareholders got long-term outperformance and durability with almost no real cost for the insurance.

• Munger's 'intelligent loss of sales': who you keep out matters as much as who you let in.
Davis asked why Costco didn't drop its membership fee and raise prices 2% instead. Munger said the people unwilling to show ID and sign up 'will have 100% of your shoplifters' and most of the small tickets. Similar filters let USAA insure Army officers and GEICO insure government employees cheaply. Davis applies it to his firm by keeping out fast-trading clients, which spared it during the mutual-fund trading scandals.

• Avoid your weaknesses by design, not willpower.
His research department hangs a 1960s Buffett letter listing why managers underperform: group decisions, conforming to peers, being better off failing conventionally than succeeding unconventionally, over-diversification and inertia. The firm's recent theme is inertia: being held captive by past decisions. With severe ADD, Davis goes to the office even on weekends, wears a tie to get into work mode, allows himself a sauna only after exercise, logs every drink he has each week, and weighs himself once or twice a week.

EXAMPLES

• Seven guys named Vinnie
At 26, Davis pitched his grandfather's stock-lending operation to Charlie Munger over breakfast, thinking Berkshire would be a natural buyer. Four minutes in, Munger said he had no desire to own a business 'run by seven guys named Vinnie', then asked how Davis had come to pick Berkshire. They talked for almost four hours, and Munger invited him to visit any time.

• The Costco bargain he sold
After a bad quarter, Costco fell from 41 to 27 at the open, and Davis bought 17 million shares that day. He calls selling it over time a terrible mistake, one Munger often pointed out, because the business's reach far exceeded what he imagined.

• Pooper-scooper economics
As a child in 1970s New York he ran a dog-walking business. When the pooper-scooper law arrived, walks that had paid 50 cents went for $5–10, and he made about $100 a week.

• Business class or $700
Davis offered his kids a choice: a business-class seat or the cash difference, about $700. They were delighted to take the money.

• Taos, not Aspen
He picked a modest ski town, a condo with orange shag carpet and a farmhouse, and has never been to the Hamptons,

because joining a richer peer group would feed his envy and leave his kids feeling like failures if they couldn't afford it.

OTHER RELEVANT

- **Don't impose a lifestyle you don't live**

Munger warned that being chauffeured to work while telling your teenager to work at McDonald's breeds resentment. Davis would add Barry Diller's story of a rich friend made to sleep in the servants' wing. Faked hardship backfires. Model happiness, not greed or a need for approval.

- **Board dinners build candor**

At the Washington Post, directors dined alone at the CEO's house the night before meetings, which built trust for real issues. He has helped bring the practice to Coca-Cola. Jamie Dimon: 'The bigger the group, the better the news.'

- **Tell science as stories**

His father turned businesses into stories at dinner, like the hippie in sandals raising money for Apple. Davis wishes students learned the biographies of scientists, since a film like Oppenheimer may draw more people to physics than formulas do.

Tom Gayner: Lessons That Every Investor Needs to Learn (Audio)

Guest: Tom Gayner
Date: 2024-01-23 · Duration: 2:06:52
URL: https://www.youtube.com/watch?v=vRXW9FUxfjU

KEYPOINTS

• Do things for customers, not to them.

Tom Gayner, CEO of Markel, traces this to his Quaker roots: all people are equal, so you charge everyone the same price. R.H. Macy, a Nantucket Quaker, came to New York selling dry goods at fixed prices. Because his prices were the same for everyone, he could print them in newspapers, which gave Macy's a head start of 100-plus years. Gayner saw the same principle in CarMax's no-haggle used cars. Cycle time matters too. A grocer you visit weekly has every incentive to be fair. A car dealer you see every seven years historically didn't, which is exactly why fixed-price car buying was such an opportunity.

• Always ask what you're not doing.

Munger and Buffett say mistakes of omission dwarf mistakes of commission, yet nobody keeps a spreadsheet of them. Gayner's children grew sick of hearing at dinner, 'If we do that, what are we not going to do?' At Markel, if a colleague notes that holding one stock means not buying another, that's a legitimate discussion. The alternative isn't 'X or Y'; it's X versus everything that isn't X. He borrows one CEO's line that his firm isn't a 'no' company but a 'not yet' company.

• Judge process, not short-term results.

Gayner cites Annie Duke's term 'resulting': winning a hand doesn't mean you played it well. Buffett's favourable coin flip only works when you flip it a thousand times, so size your bets to survive. With people, err on the side of staying too long, give a longer leash, and go positive and go first. Occasionally someone will take advantage of you once — 'if you deal with them over and over again, that's your mistake, not theirs.' He's been married 42 years and has 'never really looked at the marriage license.'

• He nearly quit investing in the dot-com bubble.

After strong results from 1990 to about 1996, Gayner had two and a half years of the worst underperformance of his career. He's an accountant, and he struggled to see how unprofitable companies could command such prices. He thought about dental school. At a two-week Northwestern course, a professor ran a Gap discounted-cash-flow model assuming 20–50% growth for years and wouldn't budge. Gayner walked out to watch a Cubs game in the lounge. Minutes later another attendee walked out too — John Fox, now a friend of 25 years and a long-term Markel shareholder.

• Stay positioned so circumstances never decide for you.

Put Warren Buffett in a spot with only bad options, Gayner says, and he won't make a great decision either. So everything at Markel, and in his personal life, is designed around low leverage and good options. He's a 'satisficer, not an optimizer': move from satisfactory outcome to satisfactory outcome and stay in the game, because any number multiplied by zero is zero. A friend's line: value investors get the last laugh but miss a lot of laughs in the interim.

• Leverage reveals character.

Shelby Davis's advice for buying whole companies: if you want to avoid a business run by a crook, buy one that doesn't use leverage. Crooks don't steal their own money. On the other side, when Disney issued 100-year debt at about 5!]%, Gayner saw it as fixed-cost equity — 'use all the debt they will give you.' His bankers said nobody knew Markel. He jokingly proposed buying Eskimo Pie, then worth about $20 million, and renaming Markel so it could sell 'Eskimo Pie bonds.'

• Interest rates are a curfew.

His first mortgage in the early 1980s was at 14–15%: a 6 p.m. curfew, and every spare penny went to paying it down. As rates fell, the curfew got later. Zero rates meant no curfew — and, as a comedian joked about ATMs after midnight, nothing good happens then. Every idea got funded with no sense of opportunity cost. He offers Dollar Shave Club as one example: he doesn't think it ever made much money, yet Unilever felt threatened enough to buy it for a big sum.

• Rarely sell, and do more of what works.

The tie goes to the holding you already own. Unrealized gains are effectively a loan from the government, so a replacement must be compelling enough to justify reinvesting only 60–80 cents on the dollar. He bought his first Berkshire share in 1990 and his first Markel shares at the 1986 IPO, and has kept buying both at higher prices. That takes setting aside your ego and accepting what the universe hands you.

EXAMPLES

• The RJR bond that got him hired.

The day Drexel Burnham collapsed in 1990, RJR pay-in-kind bonds traded at about 30 cents on the dollar. A recent tax law made them unattractive to most individuals. Steve Markel had interest-expense carryforwards that made them ideal for him. By December they'd paid off in full, and Gayner started at Markel soon after.

• Selling 99% within 20 minutes.

Markel closed its purchase of Terra Nova on March 1, 2001. Gayner sold almost all its NASDAQ-heavy equity portfolio within 20 minutes of getting his hands on it, days before NASDAQ's March 9 peak, saving hundreds of millions.

• COVID's correlated losses.

Event-cancellation cover for Wimbledon, the Tokyo Olympics and weddings looked diversified until one pandemic hit it all. Markel lost $118 per share in that quarter, its worst ever, and Gayner sold about 20% of equities — in hindsight not optimally timed, but he'd do it again.

• Steve Markel's monthly sentence.

For 18–24 months of underperformance, Steve ended each review with: 'I understand what you are doing and why, and what you are not doing and why. See you next month.'

• Monopoly money at the Waffle House.

His public-defender daughter described a hungry client who paid with Monopoly money: 'My clients are Zen masters of the right now.' It's a reminder that long-term thinking is a luxury.

OTHER RELEVANT

- **Let it go.**
  When a driver sideswiped their rental car in Florida, he stopped a colleague confronting him: the bumper is a certain cost; whether 'that guy has a gun' is not.
- **EBITDA is a 60% map.**
  It's fine for radio stations, misleading for oil or steel. Disney World admission has compounded faster than oil since 1974.
- **Autonomy reduces fragility.**
  Markel's roughly 20 businesses keep separate IT systems, and incentive pay is based on five-year rolling averages.

What makes a GREAT INVESTOR? | Episode 111 Joel Greenblatt

Guest: Joel Greenblatt
Date: 2021-05-18 · Duration: 1:16:25
URL: https://www.youtube.com/watch?v=8ZiLLjtAtyU

KEYPOINTS

• Good investors combine simplicity and passion.

Joel Greenblatt has graded investment write-ups for decades. He has taught at Columbia since 1996 and co-founded the Value Investors Club in 1999 with John Petry. Two traits separate the best. First, can they explain simply why an idea makes sense? Second, are they in it for the puzzle rather than the money? He knows many people who are smarter, and who can build a 40-page spreadsheet better than he can. But echoing Buffett, if you need page 40 to see it's a good investment, it isn't. You want to be able to 'drive a truck between' value and price.

• Skip what you can't figure out, and wait for your pitch.

Ask him how to value a business with fierce competition, constantly changing technology and endless new products, and he says: skip it and find one you can figure out. Like Buffett, you don't have to swing at every pitch. Swing at one of 20, do it well, and misses don't matter. Errors of omission are fine. Don't get frustrated waiting. Experience helps you recognise when something ranks among the best ten or twenty ideas you've seen in a decade.

• The edge is where and how you look, not better analysis.

Greenblatt opened You Can Be a Stock Market Genius with his in-laws, who browsed country auctions and yard sales in Connecticut. They never asked whether an artist would be the next Picasso. They asked whether the same artist's work had just sold at auction for double or triple the price. Their advantage was finding it off the beaten path. His successes rarely came from out-analysing others. They came from looking somewhere others weren't, or 'tilting your head' at something everyone was viewing the wrong way.

• Keep capital small enough to stay in your sweet spot.

Off-the-beaten-path opportunities can't absorb much money. So Gotham Capital, founded in 1985, returned half its outside capital after five years, and all of it after ten. It had done well enough to keep its staff, and the move forced it to stay small. Greenblatt quotes Buffett: a fat wallet is the enemy of high investment returns.

• Size positions by what you can lose, not what you might make.

Greenblatt calls position sizing perhaps the most important thing. Put 2% into a stock that goes up tenfold and it may be your worst investment, because it should have been 10–20%. Being too timid on the few great ideas is the biggest mistake. But his largest positions aren't the ones he thinks will go up five or ten times. They're the ones where he's looking down: a $10 stock with $9 in cash, no debt and a small business attached. Risk means what a reasonable, unleveraged holder could lose if they can choose when to sell over a couple of years — not crash-day prices. As he wrote, if you don't lose money, most of the other alternatives are good.

• Judge management by its capital-allocation record, not its story.

Greenblatt and partner Rob Goldstein, who joined in 1989, visited many management teams. Nearly all were smart and had a good story about the future. The reliable rule: if they allocated capital well before you walked in, assume they'll continue; if badly, assume the same, however logical the pitch. It's like hiring. Interviews correlate poorly with performance, so talk to people who've worked with them. He hired Goldstein despite a terrible interview because it reminded him of his own — and Goldstein said something that made total sense.

• Accounting hides some investment as expense.

Salesforce paid about $50,000 to a third party to migrate Gotham onto its system, far more than a year's fees, betting on eight to ten years of customer lifetime value. Amazon's spending on Prime Video and customer acquisition is expensed, but it's really capital spending. So losses don't always mean bad businesses. Still, the 299 companies worth over $1 billion that lost money in 2019 were, as a group, up over 100% that year, through November. Historically that's been the single worst strategy. Each one is priced as if it will be the next Amazon, Google or Microsoft, and most won't be. If he can't figure a company out, it goes in the too-hard pile.

• Long-term value requires treating stakeholders well.

Stock options are fine if disclosed and tied to long-term value. You don't create long-term value by cheating customers, mistreating employees or polluting, and only short-term appearances come that way. His advice to public-company management: do the right thing over the long term, explain the quarter honestly, and don't play for analysts. The market does reward real long-term visionaries like Bezos. If he can't decipher a company's statements, he assumes that's intentional and moves on.

EXAMPLES

• Ted Turner's MGM paper.

Turner paid what looked like an astronomical price for MGM — which he saw as a film library to replay endlessly, as he'd seen the Braves as three hours of programming 162 times a year. He paid 50% in cash and the rest in preferred securities. Greenblatt calculated the preferred was covered about six times over and bought at 60 cents; a few months later it paid a dollar.

• A Forbes article on the way to law school.

At Wharton he was taught markets were efficient, yet newspapers showed stocks swinging from 100 to 42 within a year. A one-page article on Ben Graham's formula made sense; he quit law school after a year.

• Moody's versus Coke.

Moody's traded at 20 times earnings when value multiples were six to eight. Comparing it with Buffett's Coca-Cola purchase, the equivalent of Coke at $10 was Moody's at $13 — a worse deal, but still very good.

• Buffett's graciousness.

Bringing his Columbia class to Buffett about 13 years earlier, Greenblatt found no one had ever been more gracious, and took it as proof there's no excuse for not being gracious to everyone.

- **Success Academy.**
  With John Petry, he hired Eva Moskowitz. It grew to 20,000 children in 47 schools, 87% minority, mostly low-income, outperforming wealthy districts. The model trains average teachers to be great, then shares what works across schools.

OTHER RELEVANT

- **Writing exposes fuzzy thinking.**
  His first book distilled what he was really thinking during each investment — and he wasn't a good teacher for his first two or three years.
- **Borrow long when money is cheap.**
  He supported heavy pandemic spending but argued the US should extend its roughly six-year average maturity to 30 years.
- **Employers could set alternative credentials.**
  Only one in 11 low-income urban minority students graduates college; firms like Microsoft could define tests that lead to high-paying jobs.

Chamath Palihapitiya: Freedom, Bitcoin, and First Principles | The Knowledge Project #94

Guest: Chamath Palihapitiya
Date: 2020-10-13 · Duration: 1:30:08
URL: https://www.youtube.com/watch?v=v9pipH75L_E

KEYPOINTS

• He was a billionaire at 32 and still unhappy, because he was living by a checklist set by others.

After AOL and Facebook, with a fortune and a sports team, Palihapitiya was 'meandering through life', driven by how others saw him and by family pressure. His generation's script was the best school, as much debt as needed, a credentialed job, marriage, 2.5 kids, the suburbs and a retirement account. Gen Z, he argues, is the most honest generation about what makes them happy, partly because longer lifespans let a 20-year-old see 'eight generations' of evasive, unhappy adults and decide to be different. Happy people also produce better outcomes: better artists, better engineers.

• Define happiness by your 'oh wow' moments, which aren't CNBC appearances or deals.

Mona Simpson's eulogy for her brother recorded Steve Jobs's last words as 'Oh wow, oh wow, oh wow'. Palihapitiya reads it as contentment with a loved family, a sanctuary Jobs could then channel into work. His own moments: one stressful morning he turned the car around, went home, kissed each of his four children and his partner, and felt he had built 'a sanctuary filled with love'. Others are summers in Italy, his partner's home, and a regular poker game that starts at 4 p.m. with a long family-style dinner in the middle. When he put too much weight on business milestones, he got distracted and unhappy.

• He learned to lie as a child to cope, and candor became a kind of atonement.

He grew up in a loving but 'contorted' family marked by mental illness, alcoholism, depression and poverty, and learned evasion early: 'Are you okay? I'm fine.' That became a deep habit, followed by what he calls 'organ rejection'. At Facebook he was candid for the first time, to the point of being a curmudgeonly caricature. Early in Social Capital he slid back into evasiveness out of insecurity about not having 'earned the right' to start a fund. Around 2016–17 he recalibrated his life to stop lying. He says the candor isn't about money but about self-worth, accepting your limits and loving yourself anyway.

• Imposter syndrome is his lifelong dragon. His weapon is talking.

The feeling gets more severe 'the more notches up the ladder' he climbs, which he thinks is why many people give up. As an immigrant man, he was taught that talking is weak and that talking about emotions is doubly weak. He relies on his partner, Nat, two close friends and two therapists he sees weekly. People who know him spot his patterns ('you're being insecure there'), where he used to get defensive and lash out. He compares venting to flossing: it doesn't stop all the plaque, but it stops most of it. He suspects that men's reluctance to talk is one reason women live longer. Reading Adult Children of Alcoholics showed him he wasn't broken, just 'normal' for his inputs.

• Pursue two separate paths at once: freedom, which he can teach, and happiness, which you must find yourself.

Money liberates people but doesn't make them happier. Pursuing happiness badly with cash leads to 'gambling, broke, dead, high'. Happiness is internal, iterative and personal. Financial freedom is a 'readily transferable' body of knowledge. As an example, he describes buying Tesla convertible bonds in 2015, informed by a long-tail community of physicists, chemists and finance people writing research and making videos. With everything being financialized and fractionalized, from sneakers to crypto, he wants to build communities that treat a teacher with $5,000 like an accredited investor, with his own money on the line 'as a principal, not an agent'.

• Be a keen observer of the present, and invest where you win either way.

In this 2020 conversation, he looked past the rhetoric and saw both parties aligned on Russia, China, Middle East oil losing relevance, intertwined fiscal and monetary policy, and trillions in spending, whether labeled a Green New Deal or infrastructure. He concluded the election was about style rather than substance. On investing: someone in 1980 who bet 15% rates would fall to zero rather than rise to 50%, and stayed long equities, got rich, which he sees as the essence of Buffett's model. With rates at zero, nobody knows whether they'll go to " 5 or +5. Products like Dropbox and Google Drive train people to expect more for less, which is deflationary. So he picks sectors that win in both cases (e-commerce, health care, education, clean energy, food, an alternative-asset hedge) and is 'long growth'.

• Your real opponent is your own psychology, so write down guardrails.

Panicking, overreacting, living in the past and over-believing the future are all psychological traps, and the data is there if you'll look. His rules: buy companies, not stocks; judge the CEO and the business; think in long durations; don't check prices daily; read annual reports and skip quarterlies. Understanding your blind spots through work on happiness turns out to be a money-making strategy. These guardrails let him take bigger swings. When he researches, he lets himself be 'seduced' by people with extreme views to learn the nooks and crannies, then 'comes back home' to neutral with partners who calmly de-escalate.

• He's still chasing his asymptote: learning to allocate capital in billions.

Palihapitiya thinks he's 'one to one and a half orders of magnitude' from his own ceiling, which he can just make out. Running a small company is about functional competence. Past about $10 billion, it's all capital allocation, the skill he has a 'maniacal desire' to master. He wants to move from multi-hundred-million-dollar checks to billions and feel less like an imposter doing it. His decisions come from oscillating between 'here's how this goes right' and 'here's how it goes wrong' faster and faster until he finds equilibrium. That process gave him the confidence to make calls on Bitcoin (2012), Amazon (2014) and Tesla (2015) when people thought he was crazy.

EXAMPLES

• Bezos versus Buffett

When he sold his Facebook shares in 2014 and bought Amazon, a young analyst on his team argued that Bezos out-allocates Buffett. Their chart showed Amazon turning each expense line into a product and a revenue line. 'If you generate 30% free cash flow and give me a dividend, I'd say no thanks. Reinvest it.'

• The triangle-offense question

To test a CEO's mental agility, he asks a seemingly dumb, open-ended question, such as what they think of basketball's triangle offense, and watches whether curiosity turns it into a framework. Integrity, the other trait he looks for, shows only in small things over months, like how they treat a waiter.

• Climate's architectural cost

Most emissions come from cities, and centuries-old buildings in Paris, Milan or Amsterdam will be hard to decarbonize. He sadly predicts more utilitarian, look-alike skylines, like the view crossing into Pudong.

• Redundancy turned into pay

Business schools taught that redundancy is waste to be converted into profit and compensation, leaving no PPE stockpile. He wants resilient companies and countries, not hyper-efficient ones.

OTHER RELEVANT

• Make your younger self proud

Rather than imagining his deathbed, he asks whether his 16- or 22-year-old self would see 'a legit human being' putting himself out there.

• Bitcoin as mattress insurance

He calls it a small, uncorrelated hedge while 'financial orthodoxy' is dismantled. He says he isn't emotional about central banks.

• Government's job: bleeding-edge bets

The space race spawned whole industries. He would like public money for Mars, climate, health and education, perhaps forgiving student debt in exchange for national service.

Bill Ackman: Dealing with Haters, My Largest Trade Ever, and Sounding the Alarm for the Government

Guest: Bill Ackman
Date: 2020-04-28 · Duration: 1:38:04
URL: https://www.youtube.com/watch?v=mIS3LYxgVWc

KEYPOINTS

• Success depends on how you handle failure, so climb out one step at a time.

Ackman thinks almost every successful person has faced real hardship, and that how you deal with failure largely decides how well you do. He watched it play out when his first fund closed. His partner, worn down by the stress, didn't want to start over; Ackman was excited to rebuild. His plan was simply to make a little progress every day. Staring up at the peak you fell from feels hopeless and pushes people into emotional, irrational bets to get back. Focusing on one sound decision after another, and staying healthy, compounds until you're out of the hole.

• The most important lesson elite students never learned is how to fail.

When Ackman speaks at Harvard Business School, he points out that the audience topped their high school classes, went to great colleges, excelled at summer jobs, earned glowing recommendations and has never failed. That, he tells them, is exactly the problem, because handling failure is the single most important thing to understand. He admires Elon Musk largely for how he has handled repeated brushes with catastrophe.

• Protect your judgment with health, people and perspective.

During his first reversal, Ackman walked across Manhattan to the Hudson River most nights with a friend who wanted him to succeed. The second time was easier because he had a strong marriage and colleagues he respected. He admits his worst business decisions overlapped with the turmoil of his divorce, and he's sure the personal strain made them worse. He keeps perspective: losing money on an investment is nothing like losing a job you need to feed your family, or getting cancer. He plays tennis, which he calls a form of meditation, avoids sugar and processed food, and eats only between noon and about 8 p.m.

• Invest only in simple, predictable businesses, then wait for a gap between price and value.

An asset is worth the cash it produces over its life, so Pershing Square needs to forecast cash flows for decades; most businesses are too complex to predict even three years out. The first test is quality: simple, predictable and generating free cash. The second is a wide gap between price and value. Starbucks qualified because coffee is a daily habit, each new store earns high returns, and understanding one store lets you model thousands. When same-store sales flattened, the stock traded as if the business had broken. Ackman's team concluded it was a blip, and management was already making the changes he would have pushed for.

• Permanent capital lets you ignore next quarter, and that is the real edge.

Ackman doesn't try to out-predict quarterly earnings; he bets that markets overreact to short-term noise. About 85% of Pershing's capital comes from a publicly listed holding company, so investors can't withdraw it at short notice. He copied the idea from Warren Buffett, who gave up a 25% share of profits in his partnership to run what he called a 'crappy textile company,' Berkshire Hathaway, for its permanent capital. The firm adds only one or two ideas a year, and Ackman says that if an idea needs months of work and still isn't obvious, it's probably not a good investment.

• The COVID hedge was a lopsided bet with good timing.

In late February 2020, as friends thought he was overreacting, Ackman called a rare Sunday-night team call. With credit spreads near all-time tights, insurance against corporate defaults was unusually cheap. Pershing built about $71 billion of credit-default protection, which carried roughly $500 million a year in premium commitments. Because he expected the outcome to be clear within weeks, he treated the real risk as about $125 million, under 2% of assets. It ended up costing about $27 million in premiums. By March 12 the position was worth about $2.6 billion, and Pershing cashed in and bought about $2 billion of stocks within a week.

• Hedging instead of selling preserved relationships, taxes and the position.

Selling everything would have meant abandoning companies whose boards and CEOs Pershing helped install. At Chipotle, for example, it added four directors and helped recruit CEO Brian Niccol. Selling would also have triggered big taxes on gains and risked missing a short-lived bottom. The hedge cost little if nothing happened and paid off hugely if it did. He went on TV on March 18 with what he saw as a bullish message: shut the country down for 30 days and markets will recover. Critics accused him of driving the market down, although it had already fallen about 7% before he spoke.

• After the pandemic, expect a slower recovery and less appetite for debt.

Ackman argued in April 2020 that a deliberate, temporary, health-driven shutdown, backed by government support and some 70 vaccine and treatment trials, was nothing like the open-ended Great Depression. He expected a slower than V-shaped recovery, a heavier lasting government debt load, and a generation of boards rethinking 'optimized' balance sheets, since the companies that suffer most will be those that borrowed too aggressively. He also predicted people would be desperate for human connection, so the best-located malls would be reinvented rather than abandoned.

EXAMPLES

• Herbalife's paid ad.

Years after closing his short position, Ackman says a Google search of his name still surfaced a Herbalife-paid ad implying he financed the documentary Betting on Zero. He says he only agreed to be filmed. Herbalife later paid $20 million to settle SEC charges over how it described its China business, which he calls a slap on the wrist.

• Buffett's advice at Harvard Business School.

Look around the room, pick the classmates you most admire, and adopt their qualities. Unlike playing the cello, you can choose hard work, punctuality, prompt callbacks, honesty and fairness tomorrow.

• Bailouts on Buffett's terms.

Ackman says don't prop up businesses already in structural decline, and don't rescue shareholders of airlines that spent billions on buybacks. Let bondholders take over through bankruptcy. Any government money should come on terms no better

than Buffett would offer. He quotes Munger: ‘Capitalism without failure is like religion without hell.’

- **Short sellers as fraud detectors.**
  He says frauds are typically exposed by short sellers or journalists they feed, not regulators, so the SEC should listen to the best short sellers. He has quit public shorting himself; the ‘return on invested brain damage’ is too low at 53 with a new baby.

OTHER RELEVANT

- **Philanthropy is learned.**
  His father taught it, and John Rawls’s ‘veil of ignorance’ convinced him to give back.
- **Index funds and governance.**
  Fees near zero leave little money to vote tens of thousands of proxies, and less tradable stock can amplify volatility.
- **Companies stay private too long.**
  He thinks private funding like SoftBank’s let founders become ‘godlike,’ and WeWork exposed what venture-backed boards miss.
- **Berkshire’s engine.**
  Insurance float has grown about 8% a year at a negative cost, and Buffett can invest it in stocks.

Howard Marks | The Knowledge Project #53

Guest: Howard Marks
Date: 2019-09-12 · Duration: 1:32:42
URL: https://www.youtube.com/watch?v=jZMbKvJqEVo

KEYPOINTS

• In 2008 the logic for investing was simple: if the system melts down, nothing matters.

After Lehman Brothers collapsed in September 2008, many people believed the financial system was melting down. Marks reasoned that this couldn't be analyzed or known, that anything done to prepare for a meltdown would be a disaster in any other case, and that 'most of the time the financial world doesn't end.' If Oaktree invested and the world ended, its choices wouldn't matter. If it held back and the world survived, it would have failed clients during the best buying environment there could be. So over the last 15 weeks of 2008, Oaktree invested an average of $650 million a week, about $10 billion in total, sometimes feeling it was moving too fast and sometimes too slow.

• Markets are people, and people's feelings make them buy at the top and sell at the bottom.

Marks quotes Richard Feynman: physics would be much harder if electrons had feelings. 'There's no such thing as a market,' just people trading on their views. In most of life we buy more when prices fall, but in markets, rising prices, good earnings and upbeat headlines pull in buyers until the last one has spent his money and the market peaks. On the way down, people sell to stop the pain until the last panicked seller is out. Psychology swings from 'perfect' to 'no chance of survival' while the real world moves only between 'pretty good and not so hot.'

• Acting against the crowd takes practice, temperament and a culture that doesn't punish mistakes.

Marks and his distressed-debt partner Bruce Karsh had already lived through severe downturns in 1990–91 and 2002, and buying bankrupt companies is contrarian by nature. In 31 years as partners, neither has told the other 'boy, that worked out badly.' Even a great investor will be right only 60–70% of the time, and second-guessing makes people afraid of mistakes. Oaktree's motto is 'if we avoid the losers, the winners take care of themselves'; it has earned about 16–17% a year in distressed debt over 30 years without leverage. It deliberately hires people without much ego or hubris.

• Cycles come from excesses and the corrections that overshoot them.

US growth averages about 2% a year but swings between negative and 4% because people overdo things. Coming out of a recession, every company in an industry builds a factory, hires a thousand workers and stocks up on inventory at once, producing a boom year. Then they discover they overbuilt and cut back, producing a bust. Success sows the seeds of its own failure. Marks expected the slow post-2009 recovery to become the longest on record precisely because it lacked excesses. He called the 2017 cut in the corporate tax rate to 21% overstimulative: 'doctors do not give adrenaline to healthy patients.'

• Economic reality always wins in the end.

Governments don't make anything; they collect and redistribute. Tax rates can't ignore the rest of the world: France's 75% top rate pushed wealthy people out, and many 'New Yorkers' Marks meets claim Florida residence and stay 181 days. Venezuela capped toilet paper prices, so production fell and it got even scarcer. Politicians promise two $10 hamburgers for nothing, but economics is the science of choices. Marks calls the idea of a 'fair share' of taxes a philosophical claim, not an economic one.

• Trade and productivity explain more than China does.

With specialization, a sheep-raising country and a shoemaking country make 100 pairs of shoes together; ban trade and each manages 40. A trade deficit is like paying a barber $20 for a haircut. Tariffs are paid by American consumers, not the Chinese, and protecting steelmakers hurts American motorcycle makers who buy foreign steel. Marks says US manufacturing output roughly doubled in 40 years while jobs fell from about 19 million to 12 million, so productivity cost about 24 million jobs versus roughly 3 million lost to China. He's not optimistic about self-driving cars: cars sit idle most of the day, so sharing them could shrink the fleet and the jobs that depend on it.

• Risk is the chance of bad outcomes, including missed gains, not volatility.

Academics use volatility because it can be measured. Marks defines risk as the probability of bad outcomes, and missing out on gains counts as one too, even though managers get fired mainly for losses. He quotes Elroy Dimson: 'Risk means more things can happen than will.' With two dice, seven is the most likely total, six chances in 36, yet you can't know the next roll. Even with the right odds you don't know the outcome. And the choice with the highest expected value may include outcomes you can't survive, which is why he doesn't go cliff diving.

• Second-level thinking: be different, and be right.

Anyone can be average cheaply with an index fund. To beat the market you must think differently from the crowd, but the crowd is usually close to right, so you also have to be correct. A first-level thinker says 'great company, buy the stock.' A second-level thinker says 'great company, but not as great as the price assumes, so sell.' When Marks's son pitched Ford because of an exciting new Mustang, Marks always asked, 'Who doesn't know that?' You must dare to be different, to be wrong, and to look wrong, because even right calls can look wrong for a while.

EXAMPLES

• You can't judge a decision by its outcome.

It was the first thing Marks learned at Wharton 55 years earlier. His backgammon partner Bruce Newberg likes to say improbable things happen all the time and probable things fail to happen all the time.

• The 'Greenspan put.'

Marks thinks Greenspan's readiness to rescue every wobble helped cause the crisis. People stopped planning for hard times, so they weren't ready when those times came.

• Getting Lucky.

Marks's most-responded-to memo argues that luck is real and unfair; you didn't earn your IQ. He quotes Cicero: gratitude is 'the parent of all the other virtues.'

• The credit card with no bills.

His daughter wanted a card like a friend's that 'doesn't get bills.' Instead she paid her own statements from a monthly

allowance.

OTHER RELEVANT

- **Money is finite.**
  Talk about money openly with children, don't let the richest kid set the standard, and say 'in our family we don't do that.'
- **Let kids decide.**
  His daughter picked a different high school than her parents preferred, and it went fine. A first mistake at 5 teaches; a first mistake at 35 can crush you.
- **Doubts about universal basic income.**
  Work provides purpose, colleagues and self-respect, which income alone can't.
- **Being wrong is part of the job.**
  'No baseball player expects to bat a thousand.' Review the process instead of blaming yourself, your staff or your kids.