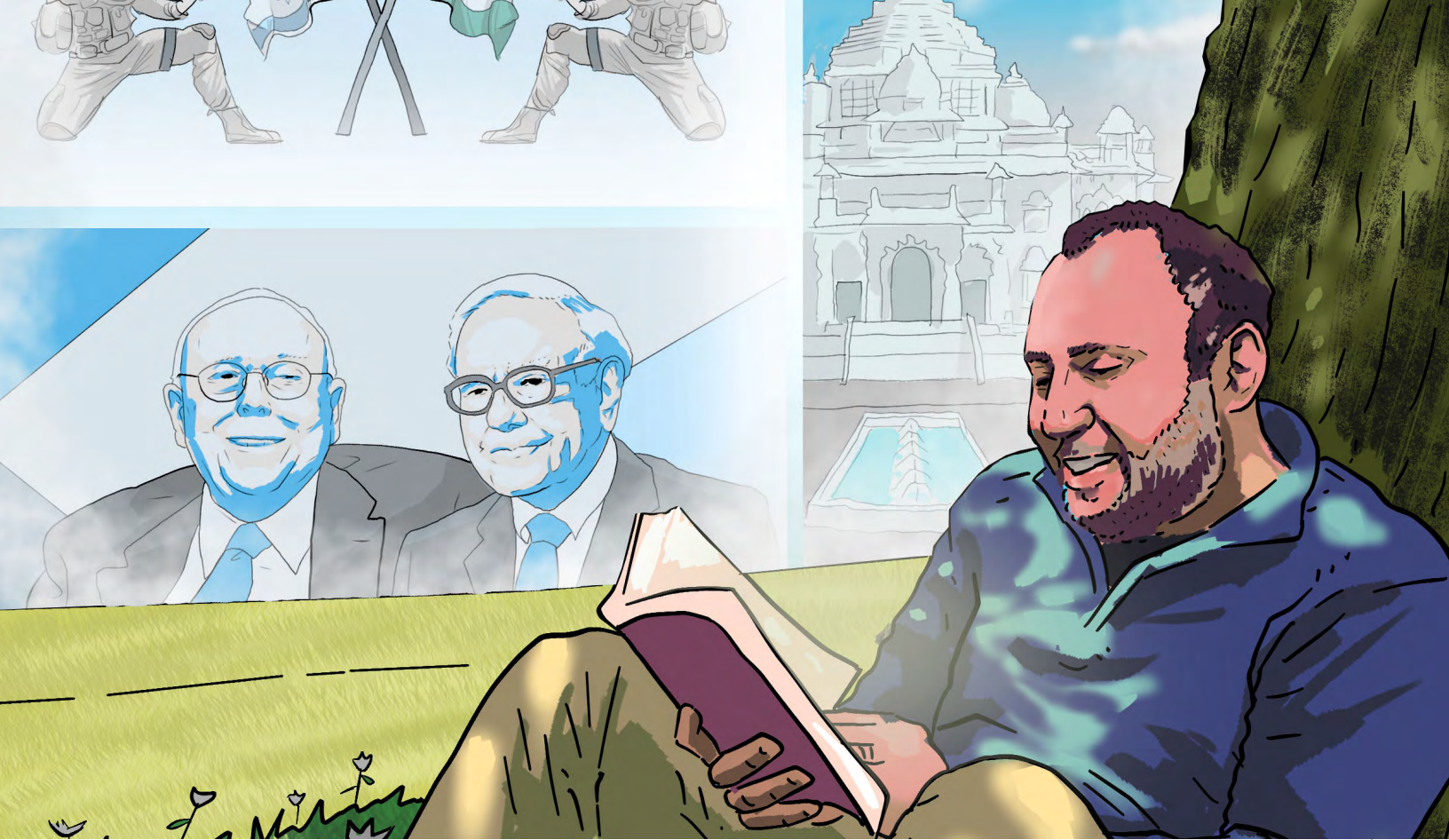


Vitaliy's

ARTICLE ALMANAC

2023



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From Vitaliy

A few years ago, the IMA team started a new tradition. At the end of the year, we gather all of the essays I had written throughout the year, organize them by topic, sprinkle in some art, nip and tuck them into a single PDF, and voila, we have an almanac.

Our hope is that this almanac will allow new readers to explore my past essays and dedicated readers to revisit any essays they may have missed originally.

I love working on this project for this moment, for right now. While writing this intro, I reflected on the passing year through the lens of the essays I've written. In 2023 I published 32 essays (I just counted them). Judging solely by quantity, this was my most prolific year. I wrote 22 essays in 2021 and 28 in 2022. (Although, in defense of those years, I was writing and then releasing a book during that period.)

I have to confess; writing is a very capricious adventure. I have little control over where the stream of thoughts that passes from my subconscious to my conscious awareness will take me. I just have to show up and be ready to be the vessel for it. Just as you cannot reenter the same river twice, I cannot write the same essay twice.

If what I just said has a metaphysical feel to it, so be it. I have been writing for twenty years. Almost every single time, when I read what I just wrote, I get a hard-to-describe feeling somewhere between wonder and amazement. Not because what I wrote is so brilliant, but because the lack the ownership I experience for the sentences that came out of my own mind. I did not know I was going to write them when I sat down to write. It's a surreal experience.

I can relate so much to what Jhumpa Lahiri (supposedly) said: "Writing is a transcendental experience, where I am both the creator and the created, author and character, writer and reader."

Rereading my essays, I relive the year again; they are tiny bookmarks of my life, which makes the almanacs bookends of the year. As I am reliving 2023 through my essays, I find that four of them had lasting impacts on me, which I want to highlight here.

[The Real Country of Contrasts: Our Trip to India](#) (page 109). In January, my then-17-year-old daughter Hannah and I went on a ten-day trip to India. Hannah, who, like most teenagers, is a part time student at TikTok University, told me a few days ago that she had been informed on TikTok that most men think about the Roman Empire on a daily basis. She said, "The trip to India is my Roman Empire; I think about it daily."

I personally don't think about the Roman Empire every day (maybe only when I think about the gradual decay of the US – okay, so maybe more often than I care to admit), but Hannah

and I do think about this trip to India daily. It has recalibrated the lenses through which I look at the world. I cannot wait to go back to India again.

Life is a Walk – Santa Fe (page 150). My family started a tradition in 2013 when my father and I took my then-12-year-old son, Jonah, to Santa Fe. We have gone every year since, even during the pandemic. I have been writing and adding to this essay since 2013, including something new after each trip. This year, I added a section titled "Life is a Walk."

Santa Fe has become a special place for my children, where they have spent time with their grandfather and father. It holds wonderful memories for them. On this year's trip, I noticed a shift in my kids: These trips have changed them, and art has become part of the internal fabric of their being.

You Are – What You Think About (page 55) This essay is very short, but it had a significant impact on me. Though the initial purpose of the essay was to explore how much we should think about the economy, this paragraph really made me reexamine many aspects of my life:

*There are three versions of ourselves: what people think of us, what we think of ourselves, and who we actually are. There is a saying, "Don't tell me what you care about, show me how you spend your time." We are at peace when who we think we are and who we actually are largely overlap. **We are even more at peace if the two overlap in the version we'd like to be.***

The alignment of who you want to be and who you actually are is one of the most important secrets to happiness in life. When your behavior is misaligned with your values, when what you do day in and day out is misaligned with what you want to be and to be doing, and when the version of yourself you show to the world is very different than the real you, you will experience dissonance – an internal conflict.

And then there's Fyodor Dostoevsky's advice in *Brothers Karamazov*: "Above all, don't lie to yourself. The man who lies to himself and listens to his own lie comes to a point where he cannot distinguish the truth within him or around him, and so loses all respect for himself and for others."

This is why meditation is so important; it is a way for us to listen within ourselves for this dissonance.

My Father – a Life Worth Living (page 157). This was the most important and most difficult essay I've ever written, for several reasons. It was my way of mourning the loss of one of the most important people in my life. I wanted the world to see who it lost – an incredible responsibility. Writing about my father's life made me go back to dark corners of my own life. I squeezed out every ounce of myself for four weeks to get it right.

This essay has changed me. Mark Twain said, "The two most important days in your life are the day you are born and the day you find out why." Writing this essay, examining my father's life, inadvertently turned into an examination of my own life and a better understanding of my "why."

As I was thinking about my father's life, I realized that he always stood up for what he believed was right, no matter the consequences. I also realized that my father's life was a blueprint for mine. I want my life to be a blueprint for my kids. I want my kids to experience the same pride when, hopefully a long time from now, they examine the life I lived.

Most importantly, I realized I want to be an agent for positive change in the lives of others.

My first responsibility is of course to my family, especially my kids. Kids don't come with an instruction manual, so I am doing the best I can. I am sure I can do better, and I will.

I am doing that at IMA, too – I am constantly trying to improve as an investor.

Then I have my writing. This is where this essay about my father changed me the most. I have a large audience and thus a large responsibility. I found I was holding back. I was not afraid to write about important, difficult, often divisive topics that were important to me, but I was held back by my default programming flaw – I like to be liked.

Up to now I had for the most part avoided these topics. I stuck to the "safe" ones – the stock market, philosophy, classical music, life. Even my views about Russia's invasion of Ukraine, while they may not be mainstream in Russia, they are in the US.

However, when you go through life trying to be liked and avoid upsetting other people, you may end up standing for nothing. I don't want to look back at my life and think I held back, that I didn't stand up for what is right, that I didn't make the positive change I could have because I didn't want to make some people upset at me. [Unions: From Stimulant for the Economy to Cancer](#) (page 87) was an essay I should have written a decade ago. I am sure it upset some readers and even lost me some.

My father's death changed me. The events of October 7th in Israel and the antisemitic marches that followed around the world, before Israel even had a chance to respond, have also changed me. I wrote about this change in essays about [Israel](#) (see page 6). I am a different person now; my self-censorship is gone, I'll stand up for what (I think) is right, regardless of the consequences. This doesn't mean that I'll only be writing about sharp topics, not at all. But I won't be avoiding them either.

2023 was a year of alignment, an important year when I figured my "why". I am more aligned with what I want to be in this life. As Marcus Aurelius said: "Waste no more time arguing about what a good man should be. Be one."

A stylized, handwritten signature in blue ink that reads "Vitaliy". The letters are fluid and connected, with a prominent flourish at the end of the word.



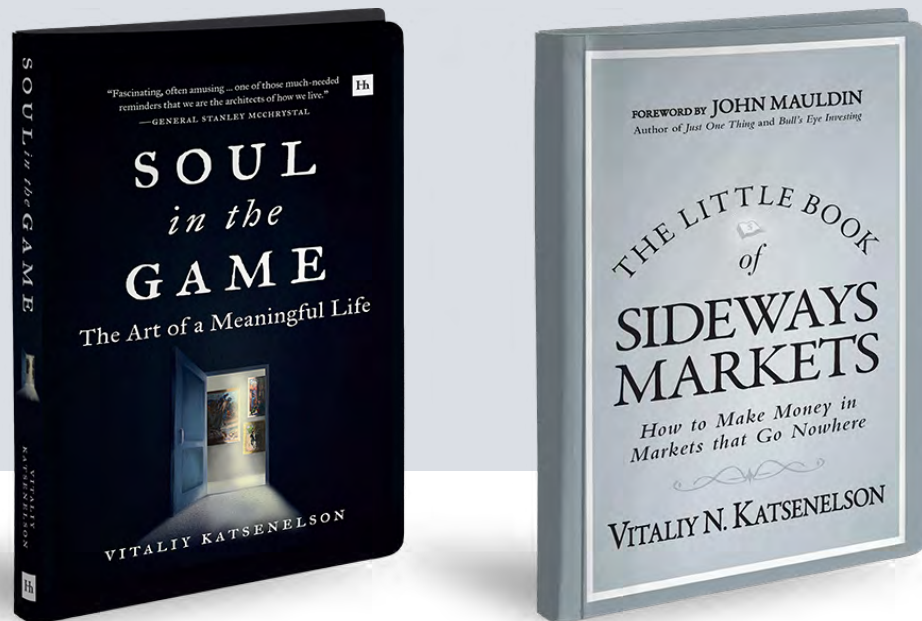
Painting by my father Naum Katsenelson. Prints available on Katsenelson.com

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Donate to these charities and receive a signed copy of Soul in the Game

If you donate \$100 or more to any charity on the list, I'd be delighted to mail you a **signed copy** of one of my books – [***Soul in the Game: The Art of a Meaningful Life***](#) or [***The Little Book of Sideways Markets***](#). Donate \$200 or more and we'll send you both. Just email a copy of your receipt to Barbara at pa@imausa.com and indicate which book you'd like to receive. If you already have a copy, we can mail it to your friends. We can only mail it in the US.



If you are interested in learning more about some of the charities I donated to, please [visit our website](#) to learn more.





OCTOBER 12, 2023

Atrocities in Israel

“ My son, Jonah, asked me why I hadn’t written anything about what has happened in Israel. I had to pause and think; I was frozen.

I have shared my thoughts on the horror of what is happening in Israel on [Twitter](#). I was going to write something longer, but it is simply too painful:

My son, Jonah, asked me why I hadn’t written anything about what has happened in Israel. I had to pause and think; I was frozen.

I had to comfort my daughter Hannah, whose boyfriend is visiting Israel, and reassure her that he was going to be okay. (He is fine, spending a lot of time in a bomb shelter.)

Jonah, who is 22, has three of his high school friends in the IDF, most likely going to Gaza soon. He is worried about them, and so am I.

I contacted my friends and clients in Israel to make sure they hadn’t been hurt. A big part of me is just in shock at the barbaric, animal-like behavior – beheading civilians with shovels, raping young girls and then murdering them.

What also saddens me is that the Western media is currently supporting Israel, but this will change in about a week after the *New York Times* starts showing pictures of dead Palestinians. The US administration will be asking Israel to show restraint.

We have seen this movie before so many times, except this time it is a blockbuster.

I have only two words: Never Again.

Seeing images of innocent casualties of Israel’s necessary retaliation against Hamas will be as painful as seeing images of tortured Israelis.

This reminds me of what Golda Meir, prime minister of Israel, said half a century ago: “When peace comes, we will perhaps in time be able to forgive the Arabs for killing our sons, but it will be harder for us to forgive them for having forced us to kill their sons. Peace will come when the Arabs will love their children more than they hate us.”

The last few days were incredibly challenging, filled with a lot of complex emotions and anger. I was reminded of this Buddhist wisdom: “Holding onto anger is like drinking poison and expecting the other person to die.”

You can find list of charities I donate to here: <https://investor.fm/donate/>



NOVEMBER 9, 2023

Israel is Not Hamas' Final Solution



Click to listen to a narration of this article

“ Hamas, with sadistic creativity that made the Nazis look like amateurs, in just a few hours slaughtered 1,500 Jewish civilians. The Nazis tried hard to hide their atrocities. Not Hamas.

In 2011, my then 10-year-old son Jonah and I visited the Holocaust Museum in Washington, DC.

The two-story room with the wall of photos brought tears to my eyes. Hundreds of family pictures and portraits from a small Lithuanian town that was home to 4,000 Jews for nine centuries. These people looked like my relatives. A young man in his thirties looked just like my uncle at that age, a 15-year-old kid looked like Jonah in five years, a Hassidic man almost exactly resembled my cousin who is a rabbi in Rego Park, Queens, and so on. The Nazis killed every single Jew in that town, in two days. Nine centuries of history and tradition were wiped from the face of the Earth in just two days!

Jewish history is littered with senseless and gut-wrenching pogroms (massacres) like this. For centuries Jews were killed for no other reason than they were Jews, had their own different religion, and their own different customs and traditions. In a sense, the Nazis simply continued the long history of pogroms, though on vastly larger, industrial scale.

After World War II, a miracle happened – the Jews got their own state. Unfortunately, it was in a hostile neighborhood. Israel, a tiny nation of musicians and scientists who have given so much to this world, was surrounded by twenty Arab countries, which normally could not stand each other but which could finally agree on something – they wanted Israel gone, for no other reason than that they hated Jews.

Jews, now Israelis, had to put down their violins and pens and learn how to defend their country from its neighbors, who attacked it on the day it was born and have kept trying to erase it from the map since. “Jews”, as Golda Meir said, “had a secret weapon: They had nowhere to go.” Against the odds, each time Israel was attacked (and it was never the attacker), it prevailed.

When I left the Holocaust Museum, I felt incredible sadness but also relief. Relief that my kids and future generations would never have to experience anything like this again. Yes, the words *never again* have a special meaning to Jews. Never again are we going to be weak and to be slaughtered because we are different.

But then came October 7th. Hamas, with sadistic creativity that made the Nazis look like amateurs, in just a few hours slaughtered 1,500 Jewish civilians. The Nazis tried hard to hide their atrocities. Not Hamas; jihadists celebrated theirs, live-streaming their sadism for the world to see. If only they loved life as much as they loved death, and had used their creativity to bring light instead of darkness, Gaza would have been another gem in the Middle East.

In chess, there is a concept called a “forced move,” where a king, when in check (attacked by an opponent’s piece), is left with no alternative moves and is forced to make a single, predictable move.

The brutality of this massacre by Hamas *forced* Israel to move. Hamas knew Israel would have no choice but to invade Gaza (which Israel had previously vacated in 2005) to rid it of Hamas. The problem with forced moves is that they are the worst and only moves. Israeli parents did not want to send their sons and daughters to die in Gaza, but the words *never again* are forever fresh in their minds, and memories of the Holocaust are still a deep, aching pain in their hearts.

Pause and think: The United States lost 2,996 people in the 9/11 terrorist attack. We scorched the earth to destroy Al Qaeda. Israel’s population is only 9.3 million people. The 1,500 casualties Israel suffered would be equivalent to 45,000 people in the US. Can you imagine the response if the US lost 45,000 people in a terrorist attack?

Can you imagine what the US response would be if Mexico had kept launching rockets into Texas, Arizona, and California for over a decade? The Mexicans would already be speaking only English and hamburgers would be their staple food. But this is the reality Israel faces year after year after year. It’s why most Israeli houses have bomb shelters. They have been heavily used over the past month, as Hamas and Hezbollah have barraged Israel with more than 8,000 rockets since October 7. The unceasing rocket attacks alone belie Hamas’ calls for a cease fire.

Hamas knew that Israel, as any other nation that must protect its citizens, would respond to assure nothing like this could ever happen again. “Let’s have peace” (a ceasefire) or a “proportionate” response would not be on their minds.

Then there is the issue of the Palestinians.

Hamas, the elected government of Gaza, cares even less about the Palestinians in the Gaza Strip than it cares about the lives of the terrorists in its army. One of the Hamas commanders was asked why they didn’t let the Palestinian populace hide in their tunnels. He answered that it was the responsibility of the UN to take care of the Palestinians. Hamas has taken two million Palestinians and 244 Jews as hostages.

This is why they are launching missiles at Israel from hospitals and schools and hiding in tunnels. They are restricting **fuel** to their own hospitals, which are running on generators. They are stealing humanitarian funds from their own people and have **shot** those who tried to flee from the war zone to the south of Gaza.

Today Israel is fighting two wars, against Islamic jihadists and public opinion. One war it will win while paying a high price in casualties; the other one it is losing.

Israel, the only real democracy in the Middle East, values all life and goes out of its way to avoid harming innocent civilians. However, it is at war with an enemy that welcomes death and uses Palestinian citizens as human shields. This is Hamas' intention: It is willing to lose the battle over Gaza to turn Western allies and potential Israeli friends (such as Saudi Arabia) against Israel.

Hamas is fine with putting Palestinian lives in the line of fire from the Israeli Defense Forces. The lives of Palestinians, in their minds, are no price to pay to destroy Israel. If Hamas would put down their weapons, there would be peace. If Israel puts down their weapons, there would be no Israel.

Hamas is playing up to a weak, self-doubting Western world, turning us into useful idiots. The West has been conditioned to think of itself as oppressors, especially if someone has a darker skin color. The West's collective guilt from centuries of colonial past is there for Hamas to exploit. We lose objectivity and the ability to reason. If we were to look at a chess board, we'd automatically assume that the white pieces were at fault.

It is shocking to see Al Qaeda and ISIS **flags** at these demonstrations in Europe, on the same streets where these terrorists killed and injured thousands of Europeans over the last twenty years in shootings and suicide bombings. Europeans have already forgotten the attacks in Madrid in 2004 (191 killed), two attacks in London in 2005 (52 killed), the attack in Brussels in 2016 (32 killed), and many others (the list is **long**). And what about the thousands killed by Al Qaeda on 9/11?

There is no difference (none!) between the flags of Al Qaeda and ISIS and the Nazi swastika, except that the Nazi banner was raised by light-skinned Germans and Islamic jihadists flags are paraded by darker skinned terrorizers.

Our "colonial" guilty conscience is willing to overlook the atrocities committed by Al Qaeda and ISIS followers and the values they represent. Yes, values matter. We forget, or are unwilling to assert, that our Western values are better than theirs because they represent enlightenment – liberty, democracy, equality, freedom of speech, due process. I am not apologetic about it – yes, they are better. Not all values are created equal.

The jihadists are winning the hearts and minds of university students.

University campuses are becoming cradles of antisemitism. Jewish students are being bullied and threatened. Even before the bodies of 1500 slaughtered Jews had time to cool, instead of condemning terror, students jumped into anti-Israeli demonstrations. Several dozen Ivy League school clubs signed a letter blaming Israel for the massacre.

Again, just pause and think about it. I keep coming back to 9/11, but imagine if US students went out onto the streets with Al Qaeda flags and Ivy League organizations signed letters in support of Saudi Arabia (or Iran). Just realize how absurd this is.

In their demonstrations, students are chanting "From the river to the sea, Palestine will be free". I have a suspicion that most of them don't understand what this slogan really means. Israel is located between the Jordan *River* and the Mediterranean *Sea*, and thus there would be no Israel and no Jews. They are basically chanting "Death to Israel."

What is even more incredible is that the university administrations, instead of assuring their campuses are places where students' views are challenged (this is how we grow) and ideas are debated, has turned them into "safe places" where opposing ideas or use of a wrong pronoun are treated as acts of violence. Yes, these are the same universities that are afraid that **culturally** appropriated Halloween costumes will offend their students. These universities have a surprisingly high tolerance for antisemitism and hate speech that incites violence towards Jewish students. These universities are normalizing antisemitism.

I experienced antisemitism in the Soviet Union when I was a cadet in college. It was always normalized from the top. A joke from my commanding officer, in front of other cadets, about my Jewish roots was like a starting pistol for other cadets in the college to make fun of my heritage, and it led to perpetual bullying. Yes, this is what antisemitism feels like – perpetual bullying by one's society. It gets worse. After a while, you get a feeling that you belong to a lower caste than everyone else and have an inexplicable feeling of guilt for... I'm still not sure for what.

A university administration struggling with its colonialist past should just try to imagine that its Jewish students have dark skin and treat antisemitism with the same vigor as they would treat any other form of racism. They shouldn't have a special "endangered group" list like Harvard University, where the diversity and equality office protects *only* people of color, women, and LGBTQ+. Instead, they should protect and defend all students – regardless of religion, skin color, or sexual orientation – from racism and discrimination. All students matter!

A poem by German pastor Martin Niemoller, on the wall at the end of the exhibit at the Holocaust Museum, has always stuck with me:

First they came for the communists

And I did not speak out
Because I was not a communist
Then they came for the socialists
And I did not speak out
Because I was not a Socialist
Then they came for the trade unionists
And I did not speak out
Because I was not a trade unionist
Then they came for the Jews
And I did not speak out
Because I was not a Jew
Then they came for me
And there was no one left
To speak out for me

I am shocked that I even have to say this: Don't be fooled; the version of Islam propagated by the jihadists of Hamas and ISIS is not a peaceful religion. It promotes a dystopia of hatred and intolerance that wants you to either join it or be beheaded or burned in the ovens.

First, they'll come after the only light of freedom in the darkness of the Middle East, but they won't stop there. They think their values are superior to ours. They will want the rest of the Western "infidels" to bend the knee, too. Jews are their first stop but not their final solution.

If you are standing still when they come for the Jews, remember the words of the pastor:
"And there was no one left to speak out for me."



NOVEMBER 10, 2023

Don't Let History Repeat Itself



Click to listen to a narration of this article

“ I always wondered what I would have done if I were a Jew living in Germany on November 9th, 1938. Kristallnacht, the night when Germans attacked Jews across the country. Would I run? Would I fight? Would it make a difference?

I am a value investor who typically writes about topics such as stocks and the economy and ventures into softer, “life” topics like classical music, parenting, and philosophy. Why did I intentionally step into a topic that will likely not make me many friends and possibly alienate some subscribers and maybe even a few clients?

Why did I write this?

Subconsciously I always wondered what I would have done if I were a Jew living in Germany on November 9th, 1938. Kristallnacht, the night when Germans attacked Jews across the country – a pogrom. Hundreds of synagogues were destroyed, Jewish businesses and hospitals were ransacked, thousands of Jews were arrested. Would I run? Would I fight? Would it make a difference?

In Soviet Russia, I kept my true nationality – my being Jewish – to myself. (I did not know that there was such a thing as the Jewish religion until I was 18, but that is a topic for the future.) In America, I have always embraced my Jewish identity with pride. But now, for the first time, I am afraid for the future of my kids and wondering if they will have to hide their identity like I did. For the first time in over 30 years, thoughts of hiding my Jewishness cross my mind. I absolutely hate these thoughts.

To my shock, my wife asked me if we should get a gun. And for the first time, I am actually considering it. I talked to a lot of my Jewish friends, and to my surprise a lot of them are getting them.

For the first time, I understood on a tactile level why Jews always lived in small communities. And this was also the first time I had to worry that Israel – a nation created to be a place where Jews were safe from antisemitism – might no longer exist. I am shocked that the United Nations has not passed a resolution condemning Hamas for their brutal killing of civilians, but with ease passed a resolution that condemned Israel for the deaths of Palestinians due to the collateral damage of war.

I am also shocked by the anti-Israel demonstrations we see all over the world. There are twenty Arab nations surrounding Gaza, yet none of them want to take in Palestinians. Even Egypt, which shares a southern border with Gaza, does not want to take them or to help them. Ironically, Israel has done more for Palestinians than any Arab nation. (It provides them with water and electricity, for starters.)

The world equates a shining light of democracy in the Middle East, Israel to the barbaric organization, Hamas. The world puts them on the same moral scale. Israel has incredible military might and nuclear weapons. If Hamas had Israel's military power, it would have killed every Jew three times over just for kicks. "Death to Israel" is what these sadists think about before they have breakfast. It is in the founding documents of Hamas – destroy Israel.

You don't see Israel leveling Gaza the way the Allies destroyed Dresden during WWII or the way the US firebombed Tokyo and then dropped atom bombs on Hiroshima and Nagasaki, obliterating the populace. The IDF is going out of its way to avoid civilian casualties, putting their soldiers at risk to provide safe corridors for Gazans. I don't recall any other army taking similar actions to protect civilians. This includes the US in Afghanistan and Iraq (though feel free to correct me).

Israel is a state created for Jews, but there are 1.5 million Arabs living in Israel who are Israeli citizens and have the same rights and protections as Jews. Take any Middle Eastern country, and you'll see that the Jewish population has declined by 99.9% over the last five decades. The common thread here is the antisemitism that I had not thought about for decades but that is now out in the open. The pretext for Kristallnacht was that a German diplomat was assassinated by a 17-year-old German-born Polish Jew. Yes, the pretext – the antisemitism was there just waiting for a spark.

However, I am not only concerned about my descendants. This world makes no sense to me. When George Floyd was killed, the world was engulfed in demonstrations. Most were peaceful (many of my Jewish and non-Jewish friends marched in them – and I've never divided my friends into these categories before). But many caused downtowns to burn, destroying private property. And we as a society appeared to be fine with that. Many were afraid to speak out because they were scared to be accused of being racist. I wrote it off as a diminished mental state caused by the pandemic lockdowns.

More than a thousand Israeli civilians were slaughtered in extremely sadistic ways on October 7th. However, even before Israel had a chance to formulate a strategy of how to respond to this horror, people took to the streets with terrorist flags and chanted "gas the Jews." Please tell me, does any of this make sense? Are we now a society with clear double standards? Have we simply traded one form of racism for another? The whole point of racism (and discrimination) is to treat people differently – and usually worse – because of their identity (their skin color, race, sexual orientation, what have you).

Just imagine if the policeman who killed George Floyd had received a medal and was celebrated in mass marches, instead of being sent to prison. This is exactly what these marches in support of Hamas feel like. And should feel like to anyone. Our goal is to become a society where every life matters. Yes, I said it. Cancel me! All life matters!

BLM has clearly turned into an antisemitic organization of hate. It is one thing to support the plight of the Palestinian people, but it is a completely different matter to put a paraglider on the logo, one day after 1,500 innocent civilians were sadistically slaughtered as paragliders swooped down on Israel. If I was a member of BLM, I'd cancel my membership, just as I would if I was part of a Jewish organization that put the KKK hood on its flag.

We fear being canceled for speaking our minds. That fear runs deep in our society. If we touch any topic that pertains to a protected minority, we risk having our professional career ruined. We start sheepishly self-censoring ourselves.

Visit your local synagogue on any high holiday and you'll see armed to the teeth security as if the President was in town. You never see this type of security on high holidays at mosques or churches. Why? Jews represent less than 2% of the US population. Yet, half of all religion-based hate crimes are directed towards Jews. This hate-crime statistic is based on [2022](#) data from the FBI. Can you imagine what that figure is today, after October 7th? You'd think universities would be concerned about the safety of all of their students.

Diversity and equity offices in our colleges value the lives of people of color, LGBTQ+ people, and women, but if you are a Jewish young man at an Ivy League school and are mugged by a mob, locked in the library, or afraid to come out of your dorm room, you are out of luck. Your skin is white, you are straight, and you are male. Sorry.

Given hate crime statistics and the surge in antisemitism, how much sense does it make for our country's vice president to come out with a "National Strategy to Counter Islamophobia"? Antisemitism is skyrocketing, reaching new highs, and the message you send is "Let's fight islamophobia"?

We should stop categorizing people as we do endangered species. Yes, this is coming from a Jew, and there are only 15 million Jews in the world, or 0.19% of the world's population. All lives should matter. Yes, I said it again – you can cancel me twice. And no, hate speech inciting violence towards any group should not be tolerated. All students on campus should matter.

So, October 7th feels like a Kristallnacht moment for me. Writing only about investing, the economy, classical music, and parenting when the world around you is crumbling, when your kids are scared and confused, is impossible now.

I know young adults who have gone to Israel to fight to protect it from evil. I have friends who have put their lives on hold and gone to Israel to volunteer to help that country in any way they can. My pen is my gift. This is how I can make a difference. If I don't stand up now, then when? When my family is sent to the gas chambers?



Sign Up for Articles

2004 was probably the most important year in shaping the direction of the rest of my life – I started writing. First I wrote for TheStreet.com, but I couldn't sit still, and so I wrote for almost every major financial publication you can imagine, from *The Financial Times* to *The Christian Science Monitor* and *Barron's*.

Writing forced me to think exponentially more than I had before, which accelerated my growth as an investor and as a human being. If the articles in this almanac have also helped your thinking, feel free to subscribe to my newsletter here. You will receive both fresh articles as well as older ones that are still relevant today.

[SUBSCRIBE](#)



Painting by my father Naum Katsenelson. Prints available on Katsenelson.com

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JANUARY 19, 2023

Why We're Not Celebrating the Vindication of Our Investing Principles



*Click to listen to a narration
of this article*

“ Value investors have had a miserable time over the past years. Now that our investing principles are finally being vindicated, you’d expect us to gloat. But Herr Schadenfreude is not a friend of ours.

Herr Schadenfreude Is Not a Friend of Ours

Everybody needs to have his or her *why*.

Why gives us meaning in life. This is what pulls us forward, what makes us grow as individuals, what gives us purpose in life. It’s the reason we get up in the morning. We usually have multiple whys. For instance, my why as a parent is to raise kids who are good human beings that can thrive in this world. My why as a writer is to help and inspire people. My why as an investor, which perfectly aligns with IMA’s why (being CEO and IMA’s locomotive is helpful here), is to produce uninterrupted compounding for the IMA Tribe.

For years, the “uninterrupted” part of IMA’s *why* did not matter. The music was blasting loudly, the punch bowl was continuously refilled with the cheap liquor of low interest rates, and everyone was dancing and making money. The less common sense you had, and the richer your imagination was, the more money you made. Sure, risks were everywhere. Everybody knew about them. But for a long time, the more risk you took, the more you easily and quickly became more and more “wealthy”. *Profits, cash flows, valuations and margin of safety* were not the words that were popular at that party.

And then... interest rates went up, the music stopped, the punch bowl was taken away and, predictably, the speculative bubble burst.

Warren Buffett said: “Over the years, a number of very smart people have learned the hard way that a long stream of impressive numbers multiplied by a single zero always equals zero.”

Over the last year, I observed many smart people who had shown incredible, mouthwatering returns for the last 5-10 years, only to have them multiplied by a negative 70-90%. It is difficult to continue compounding one’s capital when you are down this much on a *portfolio* level; at this point, volatility becomes a permanent loss of capital. You might as well multiply them by Buffett’s proverbial zero. This is how compounding gets *permanently* interrupted. Their portfolios profited from the bubble, and then perished because of the bubble. Of course, most of their clients came to them at the top, chasing high returns.

It is only natural for us to entertain a visit from our German friend Schadenfreude; after all, anyone who was not dancing but rather was concerned about what would happen to their clients' capital when the music stopped looked inadequate – not quite a failure, but not as smart or enlightened as the ones dancing at the party. But now the tables have turned.

Being a value investor became an incredibly lonely and painful place to be over the last five years. If you ran a value investment firm, attracting clients was very difficult. I've read about mutual funds closing value investment strategies and consultants removing the "value" boxes from their "value-core-growth" portfolio construction framework.

IMA was a rare exception; we have grown significantly in a shrinking universe. I think this is because we are attracting "misfits" like you, who are drawn by our common sense and are fine with getting rich slowly and not having to worry about the music stopping one day. Or, if you'd like me to go Disney on you, the clock strikes midnight and their shiny carriage turns into a pumpkin.

From the bottom of my heart, thank you for your trust!

Though we achieved very reasonable returns that I am proud of over the last decade, I have to admit that I have personally had unpleasant experiences when prospective clients almost laughed at me when our returns did not measure up to the out-of-this-world returns they received from their "growth" money managers whose portfolios were drowning in bubbly stocks.

I am embarrassed to say that in recent months we did on occasion consort with Herr Schadenfreude, but we quickly sent him away. Deriving pleasure from someone else's misfortune just doesn't seem like the right thing to do. Also, for me it's personal.

I have some value investment friends who have had their investment principles slowly eroded by the seemingly never-popping bubble. You don't lose your principles overnight; it's a slow, painfully incremental process. (This applies not only to investing but to other parts of life as well.) One compromise led to another, and, God forbid, they produced returns, and did so for quite a long time. Today, these friends are hurting; they are good, smart, even brilliant people. I talk to them all the time and value them as human beings; I treasure their friendships.

Pain destroys any arrogance that has infiltrated our thinking. It occupies our subconscious mind, effectively trapping us in a loop of self-reflection where nothing else matters. It serves as an effective reminder of our mistakes, allowing us to reexamine and refine every aspect of our investment process. It is the best teacher, helping us to ensure that we learn from our mistakes and never make them again. It is an invaluable tool that can help us grow.

Ben Graham, the father of value investing, developed his investing framework after he suffered significant losses during the Great Depression. I've benefited tremendously from

pain, too – I wrote about my painful travails from 2015 in [***Soul in the Game***](#), in the chapter called “Pain, Opera, and Investing.”

If I did not have all my investable assets managed by IMA (which is the right thing to do for a money manager), I might have let some of these friends manage my family's money.

That is just one of many reasons Herr Schadenfreude is not welcome at IMA.

Of course, there are a lot of people who lost their money, whose lives have been ruined by the bubble burst. Unfortunately, a Jeremy Grantham quote comes to mind as I type this: “We will learn an enormous amount in a very short time, quite a bit in the medium term, and absolutely nothing in the long term.” Most people (not all) who lost their money will learn a lot from this bubble. But society as a whole, especially its future iteration, will learn very little. We'll have other bubbles, likely with different actors, in our future.

Our why – uninterrupted compounding – is our North Star. This doesn't mean that we are not going to have down years – volatility is an inescapable part of the stock market journey. But we are going to continue building and improving our all-terrain portfolio. We are prepared to be a responsible adult at future parties filled with drunken teenagers.



JANUARY 26, 2023

Stock Market Roller Coaster: Prepare for a Decade or Two of Disappointing Returns!



*Click to listen to a narration
of this article*

“ Investors who own index funds have likely strapped themselves into a giant stock market roller coaster which, to this point, has only gone up.

I am very pessimistic about the returns from the average US stock over the next decade or two. If you owned index funds over the last decade, you were richly rewarded by the stock market.

It is time for the payback.

Investors who own index funds have likely strapped themselves into a giant roller coaster which, to this point, has only gone up. Over the next decade or two they will experience an exhilarating ride filled with mini bull and bear markets, but at the end of the journey they will not be far from where they started.

John Wiley & Sons, publisher of *The Little Book of Sideways Markets* approached me about re-releasing this book. With the benefit of hindsight, the thesis of the book is more relevant today than when it was published in 2010.

Let me explain.

We are coming off a tremendous bubble. Though valuations of dotcom 2.0 and tech stocks got crushed, the market is still very expensive.

When you own a stock, your returns come from two sources: appreciation of the stock and dividends. The same logic applies to the stock market – after all, the stock market is just a collection of stocks. The average dividend yield of the stock market today is about 1.7%.

If you deconstruct price appreciation, it comes from two sources: earnings growth and/or price-to-earnings growth.

We need to take an important detour into second-grade math.

As of this writing, the S&P 500 is at \$3,850 and earnings estimates for 2022 are around \$200. This means that the average stock in this index is trading at approximately 19x earnings, which is a high number, especially in the current rising-interest-rate environment, but not insane (the historical average is around 15x). I am using the S&P 500 as a proxy for the stock market. It is anything but a perfect proxy, but it is easy to find current and historical data for this index, and we will still reach a vaguely correct conclusion.

What really worries us is the “E” in the P/E ratio.

Another way to think of the “E” is that it is sales multiplied by profit margin. Here, I will be using data for the full economy that the US government has been tracking since 1947. Therefore, gross domestic product (GDP) is the sales of the economy. Currently, profit margins are 11.5%, down from 12.1%, which was an all-time high just a few months ago.

Over the last 75 years, corporate profit margins have averaged about 7.1%.

Over the last 30 years profit margins were 8.2%.

Profit margins in the past were one of the most mean-reverting figures in finance. They mean-revert because capitalism works – excess profits eventually get competed away. Of course, the composition of the economy has changed tremendously over the years – a lot of production has been shipped overseas and the US is more of a services economy today than it was in the past.

In the 1980s, profits averaged 5.3%, in the 1990s 5.7%, and in the first decade of the century they were 7.9%.

I don't know where they are going to settle, but...

If profit margins settle at the level of the past decade, at 10.2%, then the market will be trading at about 22 times earnings. However, over the last decade corporate profits have benefited tremendously from globalization, low (near-zero) interest rates, and the Trump tax cuts.

Knowing what we know today, it is unlikely that profit margins will remain at their recent elevated levels. Globalization is rapidly reversing, corporate tax rates are likely to go up due to our government debt being at the highest level since WWII, and nobody knows where interest rates will be. If they decline, it is because we are in a recession, which is not good for profit margins. If interest rates stay at this level or, even worse, increase, this will be taking place when corporate debt to GDP is at the highest level ever!

If margins return to their former levels, we may find that the earnings power of the S&P 500 is \$91-\$143 per share, or in other words, stocks are trading 27-42 times earnings. Very expensive!

It gets worse. When debt increases, it is the fuel for economic growth; conversely, high debt sucks the oxygen out of economic growth. Thus, it is likely that our economy will grow at a slower pace over the decade or two than in the past.

As P/Es stop going up, investors who got used to making money by the bucketload will get dispirited with returns from stocks and start losing interest in them. This is why P/Es embark on a long, often multi decade journey of decline. This decline chips away at earnings

growth, which is likely to be lower (in real, after-inflation terms) than in the previous two decades. As I mentioned above, this is why the stock market may levitate a lot, bounce up and down (you'll have mini bull and bear markets), but decades later you end up at the same place you started.

Now you can see why my *Little Book of Sideways Markets* is even more relevant today than when I wrote it.

We will continue to employ our Active Value Investing strategy, which I described in both [*Active Value Investing*](#) and [*The Little Book of Sideways Markets*](#). It's a strategy built on the secure foundation of the good old value investing philosophy.

Become an active value investor. Traditional buy-and-forget-to-sell investing is not dead but is in a coma waiting for the next secular bull market to return — and that bull is still far, far afield. Sell discipline needs to be kicked into higher gear.

Increase your margin of safety. Value investors seek a margin of safety by buying stocks at a significant discount to protect them from overestimating the "E." In this environment that margin needs to be even more beefed up to account for the impact of constantly declining P/Es.

Don't fall into the relative valuation trap. Many stocks will appear cheap based on historical valuations, but past bull market valuations will not be helpful again for a long time. Absolute valuation tools such as discounted cash flow analysis should carry more weight.

Don't time the market. Though market timing is alluring, it is very difficult to do well. Instead, value individual stocks, buying them when they are cheap and selling them when they become fairly valued.

Don't be afraid of cash. Secular bull markets taught investors not to hold cash, as the opportunity cost of doing so was very high. The opportunity cost of cash is a lot lower during a sideways market. And staying fully invested will force you to own stocks of marginal quality or ones that don't meet your heightened margin of safety.

A few additional thoughts.

We have discussed our position sizing before (you can [read it here](#)). Despite the stock market's recent relative calmness, we are anything but sanguine. We have been and are going to reduce the size of each individual position by a percent or two. We are transitioning portfolios to holding 30 stocks rather than 20-25.

We have been and are going to continue expanding our horizons for opportunities outside of the US. Today, we have about a third of the portfolio in non-US stocks (this varies a lot from one account to another), and we can see this number rising to 50%. In fact, if you

look at stocks we added to your portfolio over the last few months, most were either based outside of the US or have almost all of their sales from international markets.

I am optimistic about our investment process and the IMA team. We keep tweaking our process, trying to learn from our mistakes as well as the mistakes of others. We keep working on improving our portfolio, but we are also aware that sometimes the best and hardest thing to do is to do nothing.

I am incredibly proud of our IMA team. ***Soul in the Game*** was not just the title of a book and a chapter in it; the concept itself is deeply ingrained in IMA's DNA.



FEBRUARY 9, 2023

Why We're Confident in our Charter Investment



Click to listen to a narration of this article

“ The CHTR decline may have kicked us in the face, but our extensive research is telling we’re not wrong about our Charter investment. Here’s why:

December 12, 2022

When my wife Rachel and I were getting married, the preparations for the wedding were stressful. It was the usual stuff – finding caterers, picking a wedding dress and invitations, shrinking the enormous guest list, and making a lot of other (in hindsight), unimportant decisions. (My advice to my kids: Have a destination wedding in Hawaii on the beach; this will shrink your guest list by 90%, leaving only those who really care about you. This way, you’ll be planning a small party, not orchestrating a giant brawl.)

I remember the preparations for the wedding being unnecessarily frustrating. My bride and I thought once we got married and the wedding was behind us, life would get easier. My father made an important observation: “Do you think all your problems will go away once you get married? This is when a different, often more difficult, chapter of your life begins – you’ll be facing different, more important, problems.”

He was so right.

This applies to investing as well. Researching companies is preparation for the wedding. But after we buy a stock – “get married” – is when the real research begins, because life happens to companies. I have to admit, this wedding analogy is imperfect on many levels: Selling stocks is not as traumatic as getting divorced (our stocks don’t know we own them). We are not really married to our stocks; we would love to own them for a long time but will sell them with ease if new information starts hinting that our initial thesis was wrong.

I did not enjoy the preparations for my wedding, but I actually love doing research. Most of our research doesn’t turn into weddings – we buy only a few companies a year but research hundreds.

If this analogy is so bad, why keep it? It highlights what investing is and, as importantly, what it is not. Plus, I sank an hour into it, which I’ll never get back.

We had done a tremendous amount of research before we bought Charter Communications (CHTR). It seems like we have done twice as much research since we bought CHTR (“~~got married to it~~”) and have been kicked in the face by the declining stock price. However,

we are convinced that our initial decision, although in hindsight it was imperfectly timed (an understatement), was the correct one.

The market's concerns about the competitive threat to cable operators from fiber and fixed wireless drove all cable stocks down, creating an opportunity (more on that later). The more work we have done, the more we are convinced that this threat, though it may shave off a few percent from revenue growth in the short run, will have little impact on cable operators' cash flows in the long term.

This is what I wrote about wireless competition:

Let's start with 5G. It is exponentially better than 4G. It is faster, has less latency, and drains batteries less. But it is still constrained by the scarcity of wireless spectrum – the "air pipe." This is why wireless providers usually limit how much you can download on your device. Typical wireless providers put a cap of 50GB a month of downloads per household. The average cable customer consumes 400GB of data if they have TV service and 700GB if they don't. (Remember, if you don't have TV, you stream it over the internet, and thus consume more data.) Our internet data consumption is only moving in one direction, at a very fast pace, indefinitely: up! This will put further stress on the finite 5G spectrum, whereas broadband's upward bound is virtually unlimited.

5G wireless customers will pay as much as Charter cable customers but will get 10-15x less data and slower speeds. If each 5G customer used as much internet as broadband customers, wireless providers would either go broke (they'd have to be spending hundreds of billions of dollars on new spectrum) or download speeds would slow to a crawl.

The observation above is partially correct. T-Mobile, after merging with Sprint, has more spectrum than AT&T and Verizon and has been offering unlimited broadband, at very fast download speeds, for only \$30 a month.

Brendan Snow (IMA analyst) and I went to the T-Mobile store to check it out. T-Mobile offered broadband in Brendan's neighborhood but not in mine. I live in a very average suburban neighborhood, but despite owning more spectrum than its rivals, T-Mobile doesn't have enough spectrum capacity to offer its service to me. Remember, broadband users consume 50–70 times more broadband than traditional wireless consumers.

Also, this offer is only available to customers who have wireless service with T-Mobile. I have read reviews of T-Mobile's broadband service, and they all mention one thing in common: Service is intermittent and speed fluctuates a lot depending on the time of day. Bottom line: This service will take some market share from cable providers in areas with low population density, where cable companies have limited presence anyway.

Fiber is another threat that drove cable stocks down. "Fiber to the home providers" offer 1 gigabit speed on both downloads and uploads. Both Charter and Comcast have

announced they will be upgrading their networks to DOCSIS 4.0, a new technology which, at a relatively small cost (less than \$200 per customer), will put cable data speeds at parity with fiber. Comcast announced that they will roll out the technology everywhere by 2025, while Charter said they will focus on markets where they face the most competition from fiber. DOCSIS 4.0 will turn cable networks from smart to “brilliant” (this is how one cable executive described this technology), promising to increase uptime and reduce maintenance capital expenditures.

Our thinking on the wireless offerings by Charter and Comcast has changed. Initially, we thought it was a defensive move to compete with wireless providers, with the ultimate goal of bundling it with internet service and reducing churn. We assumed it would produce a limited stream of cash flows.

We changed our thinking here.

Cable companies have a structural cost advantage in offering wireless service, as consumers have been trained to connect their phones to Wi-Fi. This means that when we are on our mobile phones, we offload 90–95% of our data to wired networks, where cable companies have virtually unlimited capacity.

Wireless companies have to spend a tremendous amount of money on building and maintaining wireless networks, and pay tens of billions of dollars for spectrum. Cable companies, however, are able to shortcut this expense by buying buckets of data from wireless companies (AT&T and Verizon). As a result, both Charter and Comcast are offering wireless service at a significant discount to their wireless competitors.

The wireless business is growing at a rate of 30–40% a year, requiring minimal investment from cable companies. In a few years, once it reaches scale, it will become a significant contributor to earnings.

December 18th, 2022

Just as we were ready to send out this letter, right after I wrote the above, Charter held an investor day on December 13th. Management said they would roll out DOCSIS 4.0 across their full footprint in three years. The cost per customer is going to be \$100, not the \$200 that we, and everyone else, had expected. This was great news! \$100 is less than two months of internet subscription.

Charter has 55 million customers, so additional investment (capital expenditure) over the next three years will total \$5.5 billion. Charter will pay for it from its abundant cash flows. This new technology will allow customers to download and upload at 1 gigabit per second (with potential to take it up to 10 gigabits per second), putting cable technology completely on par with fiber.

In addition to increasing the company's competitive advantage and pricing power (its product is priced lower than the fiber competition), management said that this investment in DOCSIS 4.0 will reduce its maintenance capital expenditures by \$600 million to \$1 billion a year.

The stock declined by 20% in response to the news. We laughed!

The market did not appreciate this investment, as it meant that Charter would have to reduce the amount of money it spends on buying back its own stock by the increase in capital expenditures. This is one of the best examples of time arbitrage we have ever seen. The market is not looking past its nose. Charter's management's time horizon is years into the future, as it should be.

The value of any asset, be it a company, cow, or bond, is the present value of its future cash flows. We put the new assumptions into our Charter discounted cash flow model: We reduced its cash flows by \$5.5 billion over the next three years, and then increased them by \$800 million after that (a midpoint number in the company's guidance). Cost savings alone, ignoring the improved ability to raise prices and grow market share, increase Charter's value (the present value of cash flows) by about 10%.

Paraphrasing Ben Graham, in the short term the market is a speculative casino but in the long term it is an Excel spreadsheet running discounted cash flows.

All cable stocks have declined, so we did some minor reshuffling of the portfolio. In taxable accounts we sold all of Charter, took a short-term loss, and bought Comcast. In nontaxable accounts we reduced our position in Charter and bought Comcast. We also bought Liberty Broadband in almost all accounts. Liberty Broadband is a company controlled by John Malone that owns about 30% of Charter. The Liberty discount for Charter has widened to about 25%, giving us the opportunity to buy Charter at a significant discount. Though this number may vary by portfolio, our exposure to the cable industry is now about 5%.

Charter and Comcast are like two first cousins who share the same grandparent – John Malone. A large part of Comcast is TCI, a company started by Malone. Today, Malone personally owns roughly 2% of Charter through his Liberty Broadband holding.

Cable is a much better business than wireless, for one reason: It has much less competition. Charter and Comcast compete with wireless carriers and phone companies, but they don't compete against each other. Their footprints don't overlap and will never overlap. In fact, they have joint ventures together. Charter's and Comcast's cable businesses are of a similar size. Charter has a laser focus on the cable business, whereas Comcast also has a media business (it owns NBC, Sky, and other media properties). Charter is more leveraged than Comcast, but its stock is cheaper. We like the management of both companies.



MARCH 13, 2023

The Stock Market, The Economy, Possible Outcomes, How to Invest



*Click to listen to a narration
of this article*

“ This is part one of the winter seasonal letter I wrote to IMA clients, sharing my thoughts about the economy and the market. I tried something I’ve never done before. Instead of conveying my message through storytelling, I tried to compress my thoughts into short sentences...

The Stock Market

- Stock market math: Total returns = earnings per share growth + P/E change + dividends. This formula applies to any stock and any stock market.
- Stock market returns over the last 100+ years have followed a pattern: long-term bull markets (15 +/- years) followed by sideways markets (15 +/- years), not bear markets. The Great Depression was the only exception.
- Sideways markets, though, have a flat slope consisting of mini bull, bear, and sideways markets – a lot of volatility but no real returns.
- If the stock market P/E never changed, stayed at 15x, there would be no market cycles. The stock market would appreciate with earnings growth (4-6% a year) + dividends (4-5% a year).
- Human behavior causes and follows a pendulumlike momentum – excitement leads to more excitement (CNBC on all day long) → bull market. When momentum breaks, stock declines lead to more declines (CNBC off) → sideways market.
- Historically, economic growth was similar during bull and sideways markets. Changes in P/E were the cause of bull and sideways markets.
- Bull markets start when P/E is much below average: P/E increase + earnings growth → high (above-average) returns.
- At the end of bull markets P/E stops expanding, stagnates, declines. The expectation of endless nirvana is broken – welcome to sideways markets.
- Sideways markets start when P/E is much above average (end of bull market): P/E decline + earnings growth → low or no returns.

- Current valuations: If we normalize for high profit margins, P/Es are very high. P/Es are likely to decline for a long-time.
- Low interest rates boosted P/Es; higher interest rates take P/Es down.
- Profit margins are likely to decline for several reasons: selective deglobalization (widgets made in Ohio more expensive than ones made in Shanghai), higher interest rates, likely higher taxes.
- *If we are lucky*, we will have a sideways market.
- If unlucky, and economy goes into long-term stagnation, we'll have a secular bear market. The most recent secular bear market was in Japan: Both P/Es and earnings declined for a long time. We are not Japan, but nor was Japan "Japan" in the early 1990s.

The Economy

- The economy is still difficult to analyze. It has been impacted by Covid distortions – too much/too little demand, supply chain disruptions, \$5 trillion of debt issued by the US government.
- Tailwinds: Historically, a bet against the US consumer and US economy was a losing one. The consumer has a lot of pandemic cash. Unemployment is low. The financial/banking system is in great shape from the perspective of reserves and credit quality. Selective deglobalization will bring some jobs to the US.
- Major headwind: rising interest rates. The economy is addicted to low interest rates. It will take time and pain to readjust from zero rates to average/above average rates.
- Trillions of dollars of long-term, low-coupon debt have been issued, which will bring pain to holders who will be taking realized or unrealized losses. First-, second-, and third-order effects will be surfacing in the financial system. (The Silicon Valley Bank bankruptcy leaps to mind here.)
- Corporate **debt** is at an all-time high – debt paydown will take place at the expense of share buybacks, fewer capital investments, less growth.
- Housing market good news: Most mortgages are fixed-rate, not impacted by higher rates. If homeowners don't move, they don't feel the impact of high rates. End of good news.
- Home prices in relation to income are at an all-time high. Unless income skyrockets, homes are unaffordable to new buyers. Declining home prices will erode home equity and consumer confidence.

- The number of transactions in the housing market will reset to a semi-permanent lower level. At the new, higher rates, if you sell your house and buy one next door, your mortgage payment doubles. This also impairs workforce mobility.
- It's unclear if unemployment will stay low. Tech companies have just started laying off high-earning workers; a lot more pain is likely.
- This is the worst geopolitical environment in generations: war in Europe and China soon to be the largest economy but not a friend. Defense spending increases are almost a certainty.
- US debt-to-GDP is 130% (the highest level since WWII) – higher interest rates will lead to more money printing to pay for higher interest payments and increases in defense spending.
- Companies are choosing resilience of supply chains over efficiency. Selective deglobalization leads to higher costs – and adds to inflation.
- Inflation leads to the reduction of purchasing power, lower savings, decline in production, which causes stagflation.
- Higher corporate and income taxes are likely – it's almost irrelevant who runs the country. High taxes are de-stimulative and lower growth. Higher unemployment is likely.

Possible outcomes

- Inflation gradually subsides: The economy slows down a little but is still growing. Interest rates normalize at a semi-normal level. That's a Nirvana 1.0 outcome, a garden-variety sideways market. Or even better...
- Corporate margins don't deflate but stay at current all-time high levels. That is the Nirvana 2.0 outcome. Market appreciation more or less matches the growth of the economy.
- Inflation persists: Inflationary sideways market – nominal earnings growth + declining P/Es. Eventually, inflation breaks by itself through stagflation or with the help of the Fed. See next.
- Inflation is broken: Economy in short-term recession – short-term bear market, long-term sideways market.
- Inflation leads to deflation or long-term recession: Bear market rhyming with the one in Japan or, if interest rates go negative, shoot-the-moon bull market!
- An outcome I did not think of.

To summarize the above, long-term stock market returns have two sources: earnings growth, which is under pressure for a longer list of reasons than usual + valuations, which are at historical highs and also under pressure.

How to invest

Worry macro, this is what I did above, invest micro – this is what I'll discuss next:

- Look for companies that can survive and prosper in all of the above scenarios.
- Be process-driven – the market will likely be more bipolar than usual. Know what you own, why own it, how much it is worth.
- You need to have patience – wait for opportunities to come to you.
- Competitive intensity will likely increase when the economic pie is not growing. Stick to high-quality companies run by great people.
- Increase your margin of safety – you'll need it.
- Don't be afraid of cash (short-term bonds) when you don't find opportunities. Cash is better than overvalued stocks or low-quality companies – or especially the combination of the two.
- Look for stocks in other markets – they expand choice greatly.
- Don't time markets; it's impossible to put market timing into a process. Buy undervalued companies and sell them when they are dear.
- "Sell" is a four-letter word in secular bull markets; it is an important practice during sideways markets.

Until my father read my book, *Active Value Investing*, he thought investing was a legalized form of gambling and that I should do something "real", such as open a bagel store or doughnut shop. He even offered to help. After writing this, I realized that over the next decade or two, there will be times when I wish I had taken my father up on his offer. Investing will be challenging as the stock market and economy enter a phase of repaying for the excesses of the past. I am fortunate to have a passion for investing, not bagels.

P.S. I asked IMA clients for feedback on this style of writing. Some appreciated the conciseness of the format. One client, a software engineer, suggested that I reduce the compression rate from 50:1 to 10:1. However, most felt that storytelling is what attracted them originally to my writing. I have to confess, though I enjoyed the challenge of compressing thoughts into compact sentences, the highlight of the essay for me was writing about the bagel shop.



MARCH 23, 2023

What to Expect After the Silicon Valley Bank Collapse



Click to listen to a narration of this article

“ The Silicon Valley Bank collapse may be an extreme event, but it gives us a preview at a 100x magnification of what other banks are facing.

Over the past decade, the Federal Reserve has manipulated asset prices by interfering with free markets by deciding what both short-term and long-term interest rates should be. This resulted in an increase in risk-taking behavior among investors. *Risk* became a four-letter word uttered only by curmudgeons; the only thing investors feared was being left out. The more risk you took, the more money you made – until you lost it all.

The First Law of Thermodynamics states that energy cannot be created or destroyed, but can be converted from one form to another. This principle applies to financial markets as well, where risk does not dissipate but, like a hot potato, gets transferred through time from one party to another.

We are observing this today in our economy. For every issuer and seller of long-term bonds that yielded next to nothing, there was a buyer who is losing money today as interest rates have risen suddenly and the prices of bonds dropped.

Over the past decade, consumers refinanced their houses with 2.5% mortgages. Some of these loans were kept by banks, while others were converted into mortgage-backed securities and sold to insurance companies, pension funds, corporations, and consumers. The majority of mortgages are fixed-rate, so consumers' ability to remain in their homes is not affected by rising interest rates. However, the risk did not leave the system; it just got transferred from consumers to banks.

Today, long-term mortgages, these seemingly low-risk instruments, have declined in value by 20-30%. Not only mortgages have suffered these declines, trillions in long-term bonds issued by government and corporations at near-zero interest rates are burning holes in the pockets of those who bought them.

The human mind is conditioned to fight the last war. We usually compare inklings of new crises to past ones. Mark Twain famously said, “History does not repeat itself, but it does rhyme.” The scars and pain from past mistakes have been seared into us and changed our behavior, at least while the memory of past pain remains with society. This is why past wars and past crises rarely repeat verbatim; they merely rhyme in slightly different ways.

The Great Financial Crisis (GFC) of 2008 is still fresh in our society's memory, so the US financial system is in better shape today, at least to avoid or survive through a crisis of the same type and magnitude. That's what we thought. The US banking system now has higher reserves and more conservative underwriting standards. No more "liar" loans or "ninja" loans.

But.

Thanks to Uncle Sam spraying 5 trillion dollars from helicopters during the pandemic, all banks were flooded with consumer deposits that either paid no interest (non-interest-bearing) or almost no interest (interest-bearing). Banks had a dilemma: They had all this free money (deposits) that did nothing for profits if it sat idle. So, they loaned or invested the money, and they had learned their lesson from the GFC and did not take on higher credit risk; but they took a different risk – duration risk. And why not – for the last three decades interest rates had gone only one way – down.

Also, this is what banks do – they borrow short-term (deposits) and lend long-term. However, because rates were so low, many banks had to go very long-term to capture extra yield. This worked for a long time, and banks were minting money. But then inflation spiked, rates went vertical, and losses skyrocketed – long-term bonds declined 20-40% in months.

Banks were hurt twice, on both the asset and liability sides of the balance sheet. If they chose to categorize long-term bonds as available for sale, they had to mark them to market and immediately book losses, reducing their equity, which capped their ability to lend without shrinking their cushion to withstand future losses.

But if they categorized long-term bonds in the hold-to-maturity section of the balance sheet, they didn't have to realize the losses, but the nightmare would reappear for a decade or longer on their income statements.

Silicon Valley Bank (SVB) may be an extreme example, but it gave us a preview at a 100x magnification of what many banks are facing today. SVB is also a sad demonstration of how volatile deposits are. SVB was awash with deposits from its customers, mainly startups, raising money in the venture capital boom. It invested a large portion of these deposits into mortgages and US Treasuries that paid around 2.5%. Then the boom ended, and startups, which are usually in a perpetual state of losing money, started to deplete their cash balances. As they withdrew their deposits, SVB had to sell its underwater bond portfolio and realize about a 10% loss. With every dollar of deposits withdrawn, it had to transfer 10 cents from the equity (shareholder) side of the balance sheet. SVB was running out of those 10 cents.

SVB was going to raise equity (issue stock) to fill in the hole caused by the decline in bonds, but depositors ran for the door, forcing further liquidations of underwater securities. SVB ran out of equity, which put the company into bankruptcy.

SVB went through an *almost* a classic run on the bank (we'll come back to that later, in part 2).

Even if SVB had managed to issue equity, substantially diluting its shareholders, it would have had to find a new way to finance its long-term loan portfolio, while interest rates had gone up a lot – borrowing at 4% and being paid 2.5% is not a sustainable business model.

A similar scenario awaits the rest of our banking system, which is drowning in consumer deposits today, if interest rates and prices stay at this level or go higher. American consumers will do what they are unmatched at: withdraw and spend the savings that were given to them by their kind Uncle Sam. Thus deposits (both interest and non-interest-bearing), the banks' cheapest cost of funding, will be leaving banks to pay for the rising costs of tomatoes and avocados at Kroger and shoes at Macy's.

Also, while interest rates were near zero, consumers did not care if their deposits paid interest or not, as the interest amounted to almost nothing. However, as inflation has spiked and interest rates have jumped, leaving money in a checking account that pays nothing has become very costly. As consumers shift more money to interest-bearing deposits, then, just like SVB, more banks will be forced to borrow at 4% (instead of 0%) to be paid 2.5% for 30-year mortgages that are in the hold-till-maturity column of their balance sheets.

God forbid inflation rages on (less likely now; more on that next) and short-term rates rise higher, or those 2.5% mortgages will be financed at 7-8% deposits and other sources of funding.

This has a significant implication for the economy. What we are likely going to experience is the opposite of what we observed over last 10 years: Credit will become dear and financial institutions will not be stretching for yield. Losses from the declines in long-dated assets are going to reduce banks' equity and their earnings power. From the perspective of the economy as a whole, this also reduces banks' ability to lend, sucking credit out of the economy. The cost of financing of everything from cars to factories will rise.

The decline in banks' equity also weakens the banking system's ability to handle the higher defaults that will inevitably come in the next recession.

The above may prove to be wrong if inflation turns to deflation, the Fed stops tightening and resumes its normal behavior of helicoptering money, and long-term interest rates decline, taking bond prices higher.



MARCH 30, 2023

Libertarian's (Unexpected) View on the Bailout of the Banking System



Click to listen to a narration of this article

“ Bailout of the banking system create social tension. Eventually, bailouts introduce so much risk into the system that failures and bailouts become too costly for the society to bear, government creates draconian rules trying to prevent them in future, which in turn kills innovation and the formation of new businesses, and the result is a...

We have a fractional reserve banking system: For every dollar banks lend out, 85 cents comes from deposits and 15% from their own equity. The problem with deposits, as we saw in the SVB case, is that depositors are fickle – they can ask for their money back at any time.

If half of the country were to withdraw their deposits from their banks, we would not have a banking system or an economy. Banks lend out depositors' money to others. There is an inherent imbalance of liquidity in the banking system that we never notice, which is absolutely fine as long as banks have proper reserves, do not experience losses on their loans or investments that exceed their reserves, and, most importantly, society believes in the continuity of the banking system as a whole.

Bank runs occur when depositors lose their confidence, show up at the bank, and ask for their money, depleting the bank's reserves (equity) and forcing it into bankruptcy. At the beginning of the 20th century, bank runs were a common occurrence, leading to the establishment of the Federal Reserve in 1913. The Fed was created to act as a lender of last resort to help prevent bank runs from occurring.

In Part 1, I referred to the SVB failure as *almost* a traditional run on the bank, because SVB was functionally dead before the bank run occurred – prices of the bonds it held declined so much that its liabilities exceeded its assets. Unlike in a traditional bank run, most of its assets were not tied up in illiquid loans but in very liquid mortgage-backed securities and US government Treasuries.

I'll preface what I am about to say next by admitting that I am a libertarian at heart. What makes this country great is that it allows people to take risks and to fail. Business failure is painful; people lose their jobs; investors lose their life savings. Capitalism without failure is

heaven without hell. Failure fertilizes the ground and allows the growth of new companies, which benefits society.

Bailing out equity and bond investors introduces moral hazard; it changes investor behavior. It leads to an asymmetry of outcome – taking higher risk brings higher returns but the risk is socialized (shared) with people who are not going to reap the rewards. Bailouts create social tension. Eventually, bailouts introduce so much risk into the system that failures and bailouts become too costly for the society to bear, government creates draconian rules trying to prevent them in future, which in turn kills innovation and the formation of new businesses, and the result is a stagnating economy.

There is an argument that depositors whose deposits exceeded the FDIC limit of \$250k per individual (\$500k per couple) at SVB and other banks should not be bailed out as they are just other debt holders of the bank.

If you were to look at the bank's balance sheet, debt holders and depositors are located on the liability side of the balance sheet, with equity holders located right below them. Thus, the argument is factually correct: There is no significant difference between bondholders and depositors – both are lenders to the bank.

But.

When people invest money in debt or equity, they should be analyzing a bank's financial statements – the sort of analysis we perform at [IMA](#) when we buy ownership in any stock or bond. However, most folks are not trained to do this analysis, and so they should entrust this task to those who are capable of doing it – a mutual fund or advisor like IMA. Investors can influence the behavior of a bank. Fearing loss, not just being jubilant about prospective gain, makes equity and bond investors very *mindful* about their investment decisions and in the end reduces risk in the system overall.

However, as a society we want depositors to be *mindless* when they put money into a bank. You don't want people to have to become financial analysts. You don't want them guessing which bank is too big or too likely to fail or which will be bailed by the government if it tanks and which one won't. You don't want grandmas and teenagers to be thinking about the credit ratings of the banks, the duration of their loan portfolios, their reserve ratios, or the aptitude of their management teams.

The weekend that SVB's fate was being decided by regulators, I remember going to lunch and seeing a small bank I had never heard of in a small strip center. I caught myself thinking, the beauty of our banking system is that I can open a checking account there right now and don't need to spend hours pulling that bank's regulatory filings and studying its loan book.

The banking system is the plumbing of our economy, akin to our electric and water utilities. The banking system is responsible for creating money through generating loans, and it is our payment system as well. Certain services like water, electricity, and the safety of your deposits are and should be provided by the government. This simply saves time for society to focus on more productive tasks – doctors healing patients, truck drivers driving trucks, and grandmothers worrying about how to spoil their grandkids.

There is another reason for mindless banking: Both trust and distrust are contagious. Until SVB failed, society was for the most part pleasantly infected by trust in our banking system. People weren't worrying about their deposits, even if they were above FDIC-insured limits. If we lost trust in that system, what took more than a century to build would be lost in days and could bring down the banking system and economy as a whole.

If you ever visit South Africa, you'll be told you must visit Cape Point, the most southerly tip of the African continent. This is where the Atlantic and Indian Oceans meet. I remember visiting Cape Point and staring for twenty minutes at the mass of water, straining my eyes, looking for a demarcation between the two oceans. Of course, there was none, just a body of water. This is what our banking system is like – a giant financial body of money, where demarcations and interconnections are not as clear as you might think.

I was personally impacted by SVB. Neither IMA nor I ever had a penny at SVB, but if the government had not bailed out its depositors, IMA would have lost a few hundred thousand dollars (in the worst case). We use Bill.com for our account payables; our bookkeeper uses it to write "electronic" checks. Bill.com takes money from Vectra Bank (owned by Zions Corp), puts it in their own checking account for two days, and then delivers it to the recipient. This way, they make a few bucks on the float, and we don't care if the money arrives a few days late, so we are fine with it – we make no interest on our checking account.

This is a very typical practice in the banking system. Only after SVB was bailed out and I saw Bill.com as one of the largest depositors at SVB did I realize that our few hundred thousand dollars had been parked at SVB by Bill.com on the day the government shuttered the bank.

I am not looking for sympathy here; we would have been fine even if we had lost that money. But now, think about it – Bill.com had hundreds of thousands of customers who could have lost millions of dollars without even knowing how to spell *Silicon Valley*. Would they trust the system again? Would we go back to having our checks delivered by FedEx? (Just to be clear, I made every point I made here in personal conversations with my friends even before I discovered I had money with SVB.)

Do you want people to freak out whenever they send a money transfer to their retirement account or bank account in an amount above the FDIC limit, worrying that they have to invest this money in multiple bank CDs or the money market ASAP before their bank blows up?

Banks are utilities and should be regulated as such by the government.

Yes, my brand of capitalism believes in regulation, the pragmatic type, especially in the banking system. You may or may not like the fractional reserve system; but that is what we have, and it must be protected at all costs.

The government must regulate banks in the same way it regulates nuclear power plants. Not by introducing a lot of unnecessary paperwork (the government is great at that – I know from personal experience, as IMA is regulated by the SEC) but by programmatically making sure that if banks fail, there is enough equity so that deposits are not affected, by monitoring banks' balance sheets in real time, and maybe finally doing something about rating agencies, which are a worthless racket that downgraded SVB from investment-grade to junk only on the day the government closed its doors.

There is another solution: Removing FDIC insurance caps. Banks can pay a fee to FDIC based on the size of their deposits and pass that fee through to depositors. The more you have with the bank, the higher the FDIC insurance fee you pay.

Bank stocks have declined. Are they good buys?

Higher interest rates are a gift for banks that maintained a conservative balance sheet (by not investing in long-term bonds/loans and by having very sticky deposits) and a curse that will significantly impair the earnings power for a long time of those who reached for yield and invested in long-term assets.

A lot of banks that saw their prices tank also saw a significant decline in their book value as their long-term assets have been semi-permanently marked down. It will take those banks some time to return to their pre-2023 profitability. Lower prices may or may not have created buying opportunities.

We have been gradually buying XYZ bank (we are not disclosing our position in the stock yet, as we are still accumulating it), and this bank deserves a separate in-depth writeup, because their core business is unlike any other bank's. Unlike most banks, despite a growing inflow of deposits, its management chose to forego short-term profitability and shrink the balance sheet. Average duration of its loans is 1.5 years. That sounds easy; it is anything but – XYZ bank made less money in 2022 than in 2021 (though it was still very profitable). You need to have the right shareholder base to dare to do that.

We sold Svenska Handelsbanken. The realization that risks get transferred but don't leave the system changed our mind on Svenska. We still think it is one of the best banks in the world. Its balance sheet was positioned appropriately for rising interest rates – most mortgages in Sweden are either floating or reset every 3-5 years. This is good for Svenska, but it is horrible for consumers.

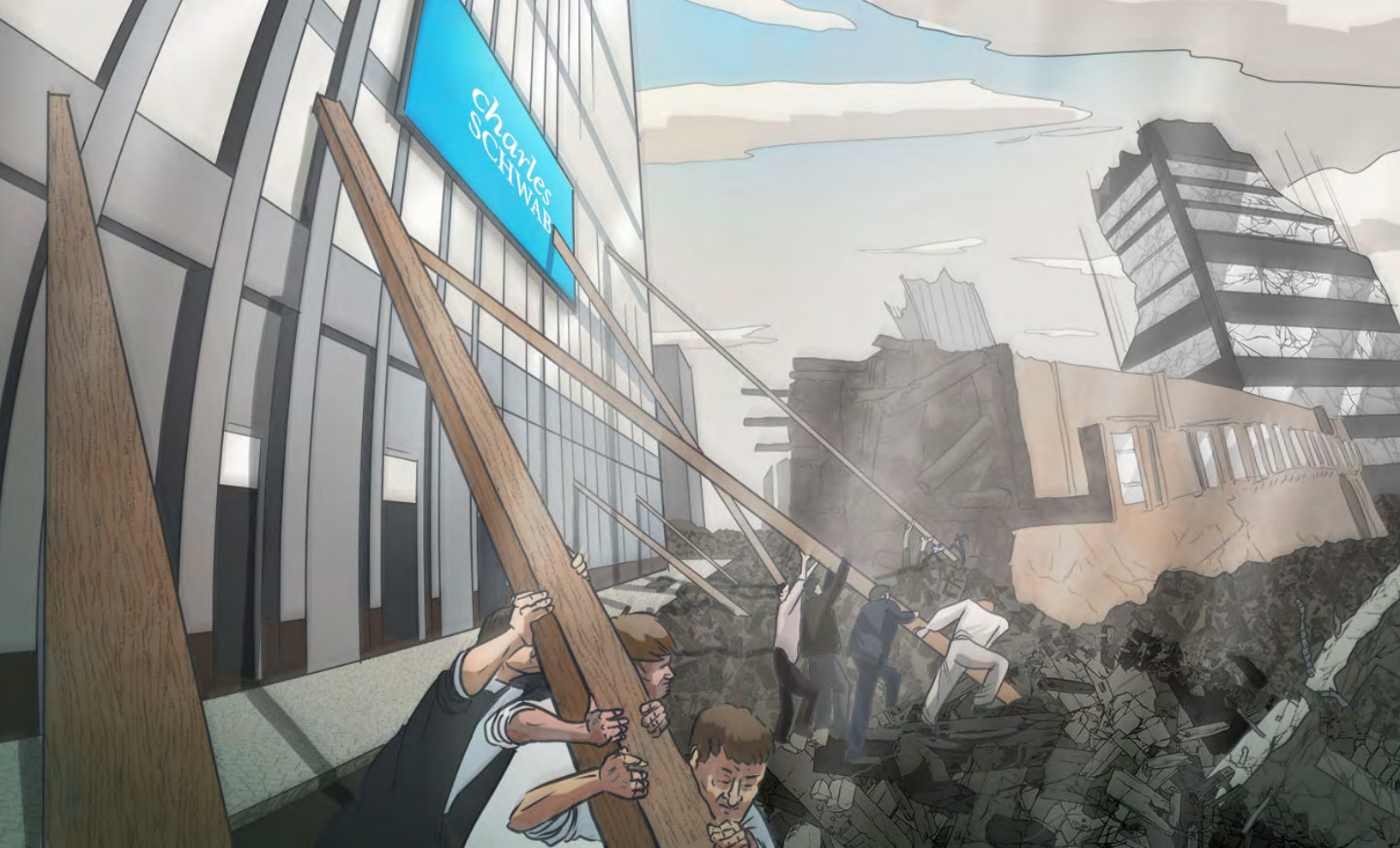
Sweden is likely to experience the opposite problem from the US. Housing prices in Sweden are extremely high, and while the cost of a mortgage was only 1.5%, consumers could afford them. Inflation in Sweden in February was 12%; and as interest rates go up, consumers will find they can no longer afford their expensive houses. We don't know how this is going to play out, but eventually risk will get transferred from the consumer to Svenska's very strong balance sheet. We have high confidence it will get through the crisis, but we think rising interest rates have changed the risk/reward substantially. We will keep following Svenska and may buy it at a later date.

What is interesting about this selling decision is that nothing has changed in Svenska; the company has performed well, meeting our expectations. However, the First Law of Thermodynamics framework has changed our understanding of risk in the financial system and thus led us to a new insight that changed our minds on the risk/reward of this investment.

US interest rates are not high by historical standards, especially when taking inflation into account. However, this argument overlooks an important fact: Our economy has become addicted to incredibly low interest rates. A generation of investors has only experienced declining interest rates, and many have made long-term commitments based on them by purchasing long-term bonds or granting long-term loans. Thus, transitioning to higher rates will be difficult and will reveal more flaws in the financial system and the economy. The flaws will be evident in hindsight but are difficult to predict today.

Over the last decade, risks were compressed by low interest rates, but they have not escaped the system; they are just trapped inside it, waiting to come out in unexpected places.

We are going to continue selecting stocks as we tiptoe across the giant field of risks, with the single goal of getting to the other side without stepping on a mine (though it will be hard). Thus, we are going to continue to maintain lower position sizes, running a 25–30-stock portfolio (instead of 20–25). We will keep focusing on high-quality companies whose health is not vulnerable to the whims of the economy, and that have strong, debt-light balance sheets and great management teams with skin (owning shares) and soul in the game (their identity is tied to the long-term success of the business). We will buy them opportunistically, with a significant margin of safety.



APRIL 6, 2023

Should I be Worried About the Safety of My Schwab Account?



Click to listen to a narration of this article

“ Many investors, including our clients, have been worried about their Schwab account safety. Are they right to be worried?”

We are sending this email to all our clients. We could have sent it only to those who have money in IMA accounts at Schwab, but in many cases our clients have assets outside of IMA management. Also, though this letter focuses on Schwab, we address TD and Fidelity as well.

We have received a few inquiries from clients expressing their concern about the safety of their money at Charles Schwab. Schwab has been in the news because the banking side of the business made investments into high-quality, long-term bonds whose prices have declined as interest rates have risen. (Please read the Spring Letter, where I discussed this subject in great detail.)

I could go into a very detailed analysis of Charles Schwab, but I won't waste your time. The situation is fluid; interest rates can rise, worsening the losses, and deposits can outflow a lot more, deepening the losses further.

I have to be honest; anything I say below this paragraph is a waste of your time. **If there is an institution too big to fail, it is Schwab, which has over \$7 trillion in assets. If Schwab goes bankrupt and even a single account holder's money is affected, we will have no economy or stock market. It is that simple.** Account holders losing their money would be like dropping a nuclear bomb on the US economy. Investors losing money on the cash at Schwab would create a run on the bank (actually on the economy) like the world has never seen. Schwab's problems are less severe than those of many other banks, and if necessary the US government will bail out its depositors.

However, for those of you who have some extra time, or maybe just continue reading because you enjoy my writing, here are a few more reasons not to worry.

Your stocks, bonds, and money market funds are registered in your name. For example, shares of Philip Morris or Schwab Treasury Obligations Money Fund (SNOXX) are database entries in your name. Any securities, other than cash, are on Schwab's custodial side of the business, belong to you, and cannot be taken away from you, even if Schwab was to go bankrupt.

Cash, which is on the bank side of the business, has several layers of insurance. It is FDIC insured up to \$500,000 per account registration; IRAs are counted separately from personal accounts, etc. There is also SIPC insurance of \$500,000 (\$250,000 counted towards cash). Additionally, Schwab has extra insurance that covers cash up to \$1.15 million per customer. For more information, please see links at the bottom.

We are striving to keep as little money in pure cash as possible. Most of your cash is in the money market, which, as I mentioned above, is on the custodial (non-bank) side of the business.

All of my and my family's investable assets are at Schwab and TD Ameritrade. Lately, I have been losing sleep over my chess game (which is getting worse), but not Schwab's liquidity. *Unfortunately, unlike Schwab, I am not too big to lose.*

Regarding TD and Fidelity:

TD Ameritrade, merging with Charles Schwab later this year, is both FDIC and SIPC insured. At TD, we minimize the amount of real cash in your accounts by purchasing money market funds which invest in short-duration US Treasuries.

For clients with accounts at Fidelity; it does not have a bank. It is not exposed to the same type of risks as Schwab. Fidelity is also SIPC insured, with additional SIPC insurance covering cash up to \$1.9 million per customer.

Here are a few more links for your reference:

- <https://www.schwab.com/legal/account-protection>
- <https://www.schwab.com/legal/fdic-insurance>
- <https://si2.schwabinstitutional.com/SI2/ASK/Content/secure/ask/servicing-accounts/features-services/account-features/introduction-to-bank-sweep-feature>
- <https://www.tdameritrade.com/account-protection.html>

IMA clients based outside of the US require a slightly different approach to ensure airtight safety of cash and securities.

International clients at all custodians are not eligible for purchase of money market mutual funds, nor are cash balances FDIC insured. However, these accounts are still SIPC insured for securities, and this coverage also extends to cash balances in accounts up to \$1.15m and \$1.9m at Schwab and Fidelity, respectively.

Further, because we cannot buy money market mutual funds the same way as for domestic clients, we will start purchasing a money market ETF (SGOV) that invests in short-term US Treasuries.



MAY 25, 2023

You are – What You Think About (Recession, Economy, Stock Market)



Click to listen to a narration of this article

“ I’ve been asked by many readers and some clients for my thoughts on the economy and recession. As I am typing this, I’m thinking about how much ink I should be spilling on writing about the recession and how much time we, as investors, should be allocating to thinking and worrying about it.

I’ve been asked by many readers and some clients for my thoughts on the economy and recession.

As I am typing this, I’m thinking about how much ink I should be spilling on writing about the recession and how much time we, as investors, should be allocating to thinking and worrying about it.

Firstly, our ability to predict it is very limited – the economy is a complex system and thus incredibly difficult to forecast. Don’t believe me? The Federal Reserve employs a few hundred PhDs who stare at economic data 24/7 and they have yet to get it right, even once.

Secondly, recessions are not a death sentence to the economy but a natural, transitory phase.

This brings me to the third and most important observation: Time is the currency of life, and attention is how we choose to allocate this currency. As an investor, I can spend most of my day fidgeting, spending my time trying to predict the unpredictable and invest as if, at some point (I don’t know when), our portfolio will encounter a recession. Yes, earnings of some businesses will temporarily decline and then come back. Their stock prices may decline as well. But the value of the businesses, if we have done our analysis right, will not really change much. Recession – a temporary decline of cash flows – is a tiny blip in the stream of discounted cash flows.

There are three versions of ourselves: what people think of us, what we think of ourselves, and who we actually are. There is a saying, “Don’t tell me what you care about, show me how you spend your time.” We are at peace when who we think we are and who we actually are largely overlap. We are even more at peace if the two overlap in the version we’d like to be. We

cannot really control what others think of us. The only thing we can do is to behave according to our values; but again, we should not tie our happiness to something we cannot control.

If you want to discover who you truly are, look at how you spend your time. If you are telling everyone and yourself, “I am a long-term investor,” but your daily attention is preoccupied with predicting and trying to avoid the next recession, then something has to change.



JUNE 8, 2023

A Story About a Story



*Click to listen to a narration
of this article*

“ Apple is the best storytelling company on the planet. In its storytelling, Apple so wants you to fall in love and have an emotional connection with its product that it even names the parts that go into it.

Apple is the best storytelling company on the planet. This was the thought that Aran through my mind as I watched Apple present its new products at the WWDC conference.

When it introduces a product, Apple doesn't just spend the time telling you what it will do for you; it directs as much effort to telling a very detailed story about how it made the product. Here is an **excerpt** from the introduction of the Apple Watch:

Our engineers have custom-designed a new alloy that is 60% stronger than standard alloys but just as light. This requires precision alloying. Raw aluminum of exceptional purity is first heated to a molten state, and tightly controlled amounts of magnesium and zinc are then added.... Next, a finely tuned extrusion process creates a uniform surface free of defects. After being meticulously formed, each case is machined, buffed and then textured with microscopic zirconia beads to achieve a consistent satin finish..."

And that's just the Apple Watch case! This is a tiny excerpt where Apple tells you a story about how much soul they put into making each little component of their product, explaining the process in technical terms the average human being doesn't understand

But at the same time giving comfort because the tech-speak is interlaced with over-the-top adjectives that make you feel that only Apple can care so much about creating such incredible products.

In its storytelling, Apple so wants you to fall in love and have an emotional connection with its product that it even names the parts that go into it: Its display is "Retina." Do you know the name of the display of your Dell laptop? I honestly don't know if Apple's display is any better or different than Dell's; it could be even identical to Dell's – probably made in the same Sony factory.

But since it has a name, Retina, and Apple spent five minutes talking about the precision with which it's made, you feel like it's worlds better than Dell's XKBS6N display (I made this one up). Apple doesn't stop with the components that go into its computers. Its keyboard

is called “Magic.” Software which only Apple users can use to call each other is called “Facetime,” which is actually a verb now.

I am not mocking Apple; quite the contrary. I want to emphasize the importance of storytelling in the company’s communications. Apple made us fall in love with its gadgets by creating or reimagining new categories of products, then by making incredibly desirable devices, and by being obsessed with quality and ease of use. But it cemented this love through storytelling – an essential element of Apple’s success.

Storytelling is one thing that separates humans from other animals. It is not just important in marketing a product; smart management uses a story to align what it does with the expectations of shareholders. Jeff Bezos used to bring on board shareholders who would align with his vision. Storytelling allowed Amazon to not turn a profit for decades, as it was reinvesting its money into yet to be profitable products.

A story is what provides cohesion among employees and influences corporate culture. If employees are only motivated by their paycheck and free meals to come to work, a competitor that offers a pay bump and better food will win them over. It is more difficult to replace a good story; the employee has already made an emotional investment in it, and there is an emotional sunk cost. A good story embeds itself in our hearts and gives a meaning to our life.

However, just like a joke is only funny when there is a kernel of truth in it, the story must have a foundation based on truth in order to be effective. I can’t stress this point enough. A story can obfuscate the truth for only so long; it will eventually come out. If Apple had told you about the precision of its craftsmanship and your Apple Watch case had rough edges that were cutting your wrist, the story Apple told you would quickly be contradicted.

A powerful, well communicated story that is aligned with one’s identity (be it company, a product or a person) is an incredible tailwind on a journey to success.

Vision Pro



JUNE 15, 2023

Vision Pro is the Vision of the Future



Click to listen to a narration of this article

“ I have read reviews of Vision Pro, Apple’s virtual reality headset. Meta’s Quest Pro suddenly started to remind me of Microsoft PCs – made by engineers for engineers, where the Vision Pro is created by humans for humans

I have read reviews of Vision Pro, Apple’s virtual reality headset. While I was watching Apple’s presentation, Meta’s Quest Pro (which I own for research purposes) suddenly started to remind me of Microsoft PCs – made by engineers for engineers, where the Vision Pro is created by humans for humans.

Two features about the product stand out. (I’d like to warn you that these are incomplete, somewhat random thoughts about Apple the company, not \$AAPL the stock – they are related but different things.)

First, the Vision Pro is both virtual and augmented reality. It allows you to be totally engrossed in the virtual world (the VR part), but Apple went out of its way to also allow you to interact with the real world – people – while you have the headset on (the AR part). In other words, if I am wearing my headset and my wife comes into the room with a question, my virtual world can interface with the real world – I can see my wife and talk to her as I pause my movie or continue talking to her while working on my wall sized spreadsheet, virtually projected between my couch and coffee table.

Vision Pro is not a see-through device that looks like a ski mask. There is plastic and a lot of electronics standing between you and the outside world. This headset has 12 inward- and outward-looking cameras that capture the movements of your eyes and the world around you. This is the genius of Apple. It added a curved screen that displays your eyes (captured by the internal cameras). This screen makes the device look like a see-through unit. Thus, when your spouse is talking to you, she feels like she is seeing your eyes, though she is looking at the display of your eyes.

The augmentation of the digital and physical worlds is going to change how we interact with the real world. I have read that Apple is working on virtual reality cameras that will be used to film sports. I recently became a basketball fan (just for a few weeks while the Denver Nuggets are in the finals); and I can just imagine watching the game with friends, all of us wearing the Vision Pro, as if we were sitting courtside or, even better, on

the court, and still conversing as we drank beer and ate junk food (this is why basketball is only an obsession for three weeks).

Meta's Quest Pro, which only has VR, no AR, makes this device incredibly antisocial. It cuts you out of this world to the point where you cannot even drink coffee while you watch a movie.

Second, and this point really shows off Apple's creativity, Meta created cartoonish avatars to let people interact with each other in the metaverse. This avatar works for Mark Zuckerberg, whose haircut already makes him look very android-like. However, Apple took a very different, much more creative route. When you set up the Vision Pro, it asks you to point it toward you, and using its array of cameras, it creates a video image (almost like a hologram) of you. Thus, when you interact with folks inside the virtual, the cameras in the headset are capturing the muscle movements of your face and manipulating your "hologram."

Finally, the Vision Pro presentation made me appreciate the moat that surrounds Apple's ecosystem. There is continuity among all Apple devices and applications. You can start writing a message on a MacBook or iMac, continue on an iPad, and finish it on your iPhone – or now on Vision Pro. You'll be able to bring apps that are running on your MacBook Air to your Vision Pro, except that instead of being constrained by a 13-inch screen, your only size constraint will be your imagination.

Apple comes into this fight with an army of developers who are writing apps for its ecosystem. Also, a lot of apps that work on its other devices will work on Vision Pro. Apple is able to use the custom processors it created for Macs and iPads for Vision Pro. Because of its enormous scale, it can manufacture them cheaper than anyone else on the planet.

For most of us, the price, \$3,500, makes this device a nice but questionably affordable product. I am a bit less skeptical. I read somewhere that when the brick phone came out in the 80s it cost \$11,000 in today's money. Now you can buy a phone that is 10,000 times better for \$30. Vision Pro will be adopted first by Apple fanatics and maybe by corporations. But I get a very strong feeling that with Vision Pro, Apple has once again showed us what the future looks like, and I don't see the current version of Meta Quest Pro in that future.



JUNE 15, 2023

What is the Value of Apple? How do We Evaluate Risk?



Click to listen to a narration of this article

“ Today I will share the Q&A section of the letter. Every time I am almost finished with the client letter, I ask clients to send me any questions they have about their portfolio or other topics. I answer these questions in the Q&A section.

Crunch Labs

I want to tell you about something I recently started doing with my nine-year-old daughter, Mia Sarah. Mia Sarah is a very curious and creative girl with some odd hobbies: For example, she loves mixing glue, baking soda, and a saline solution, making slime. She then stuffs the slime into tiny balloons, turning them into tiny stress balls. I am the biggest recipient of these balls. Either she loves giving me presents or I look stressed.

As a parent, it is my job to notice little green shoots of curiosities in my kids and encourage them. When I noticed that Mia Sarah loved to draw, I found an app on the iPad that lets her turn her drawings into cartoons.

At her school she was introduced to Mark Rober's YouTube videos. Mark used to work for Apple and NASA. His videos, while fun and entertaining, have a strong focus on science. He created a company called [CrunchLabs](#) that sends out kits for kids to assemble every month. The kits are accompanied by a video that turns them into a fun science lesson. (Here is an [example](#) – the latest one).

Even though I love assembling IKEA furniture with the same passion I feel for mowing the lawn or unclogging a drain, Mia Sarah and I assemble these kits together, and I look forward to it. It's something we do together.

My 22-year-old Jonah is going into finance, and 17-year-old Hannah is thinking about becoming a psychologist. Maybe Mia Sarah will become a chemist or an animator.

What is the Value of Apple?

Question: After reading your article on [Apple's Vision Pro](#), I wonder if you could expand your thoughts on Apple as an investment.

I love Apple products and I own so many that it's almost embarrassing. Apple stock is currently sitting at around \$185. In 2018-2020, it made approximately \$3 in earnings, but then the pandemic hit and its earnings doubled to \$6.

Its revenues went from \$274 billion in 2020 to \$394 billion in 2022, an increase of \$120 billion. However, this is where things get tricky. Part of the increase in sales and profitability can be explained by other, non-temporary factors, such as Apple increasing its global market share in smartphones and growing services which come with much higher margins than hardware.

If \$6 per share is its new earnings power, then it is trading at 30x earnings, which is very expensive. Best case, you'll make little money over the next decade; more likely you'll lose money. This sounds a lot like the state of the US stock market.

However, figuring out Apple's true earnings power is difficult. Did the pandemic borrow some of Apple's future sales? People bought laptops because they were going to work from home, iPads because their kids needed a separate device to watch Netflix while their schools were closed, and they upgraded their phones because they were bored and had extra cash. Part of Apple's \$6 earnings power has been inflated by the pandemic. None of these items are perishable and thus borrowed from future sales. However, market share gains and increases in service revenues are likely to be sustainable future profit drivers. Once you go Apple, you don't go back.

In the past, Apple used share buybacks to grow its earnings. It still generates ample cash flows, but at the current high valuation, it is difficult for buybacks to have a meaningful impact on the share count.

Apple's new earnings power is likely to be greater than \$3 but likely less than \$6. If Apple's earnings are \$4.50, then you have a stock that is trading at 40 times earnings. I can almost promise you, with a big emphasis on "almost," that if Apple's earnings over the next year or two end up being \$4.50 or less, it will not be a \$185 stock. I am in a small minority with this thinking; analysts' estimates are increasing from \$6 to the right, higher.

Apple needs to earn approximately \$12 per share to justify its current price (I am assigning a 15 price-to-earnings to this high-quality but mature business). In other words, its earnings need to almost triple. It either must raise prices by a lot, take a lot more market share or convince every current iPhone owner to own three or four iPhones (and keep replacing all of them every couple years).

Let me tell you where this analysis could be incorrect. If Apple releases their Apple Car – autos being one of the largest industries in the world – or Vision Pro becomes a huge success, bigger than the iPhone (which would be incredibly hard to do).

Such a projection requires a lot more foresight than I have. I don't know what probability to put on this outcome, but the irony is that the Apple stock pricing, giving the company a market capitalization of almost \$3 trillion, already in large part reflects this version of the future.

How do we evaluate risk?

I loved the phrasing of the next question, so I kept it (almost) as is.

Question: I recently finished *The Little Book of Sideways Markets*. Can you expound on the idea of evaluating risk? Using Tevya's superior cow:

- **A bovine virus pandemic could result in the entire herd being culled, as often happens with poultry.**
- **An autocrat might invade and destroy the breadbasket for a material part of the world, along with the resulting cattle feed.**
- **How does one (or IMA in particular) assign a numeric value to a given risk? For that matter, how confident can people be that their predictions of future cash flow are accurate?**
- **I have seen people create decision trees for evaluating legal cases. They assign x% to this risk/possibility, y% to another, and z% to a third. By the time one applies all the percentages, the value of a case declines considerably.**
- **Assigning specific percentages seems to confuse precision with accuracy.**

I'll start with the bad news. If the Earth gets hit by an asteroid or we have a nuclear war with Russia, our portfolio will not be protected from that. Money will be the last thing anyone will be thinking about while they are saying goodbye to their loved ones.

For everything else... we try very hard to build a diversified portfolio of high-quality businesses whose economic engines have different sources of fuel.

Assigning precise probabilities to risks and different outcomes is alluring, and you can easily do this when you play card games. In cards, you have a discrete data set – a deck of 52 cards – so you know that the probability of the next card being an ace is 4 out of 52, or 7.7%. In the real world, where the data set is not discrete, it is much easier to identify risks than to properly estimate the probability of their playing out.

What probability do you put on: nuclear war with Russia? China invading Taiwan? Oil prices going to \$150? A meltdown of the Chinese economy? Interest rates in the US going to 10%, or even 15%? Europe disintegrating?

If you have even an ounce of humility, you realize that assigning numerical values to such events with any degree of precision is a fool's errand.

The research we do and our gut feelings tell us that some risks are greater than others. For instance, I think the chances of the Chinese economy experiencing a Lehman moment (banking crisis) are much higher than those of a nuclear war with Russia, and maybe on par with \$150 oil.

In the past, we created a list of risks and studied their impacts on our portfolio. What we found did not surprise us: We had a well-diversified portfolio that should preserve a majority of our earnings power even if any particular risk (short of an asteroid wiping out life on Earth) materialized.

We approach portfolio construction mindfully. For instance, we usually set a hard limit of 10% of the portfolio for exposure to any industry. There are nuances to this. For example, we separate the US and European defense industries, as they have different dynamics impacting their economic engines. But these hard limits bring some humility to our portfolio construction and help us control our emotions.

Investing also has another interesting nuance: The price you paid may have already priced in a particular risk and much more. The lower the valuation, the less precise we have to be about our view of the world. For instance, when we buy an oil company, the less we pay for it, the less money we will lose if oil prices decline to, let's say, \$60. If it has a strong balance sheet, then it can survive oil prices going as low as \$30 for a year or two. Therefore, when we buy oil companies, we are looking for those with very low production costs and good balance sheets.

Keynes said, "I'd rather be vaguely right than precisely wrong." We take the vaguely right approach to investing. We don't bring a sharp pencil to our analysis; we stick with crayons.

Thoughts on value outside of the US vs. in the US.

We have found more value outside of the US than within it. Markets outside of the US did not receive the same economic stimulus as the US did, so their economies and markets appreciated less. You can see how your portfolio is becoming increasingly more European. Japan is another opportunity we are going to spend some time on. In the past, Japan was cheap, but for a good reason: Companies squandered cash and did not do anything with it. This is changing, however, as regulators and the Tokyo Stock Exchange are pushing companies to start returning capital to shareholders.



JULY 6, 2023

The Growing Pains of Maturity



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of this article*

“ Many times, we bought because they were in their “junior year”; this is what made them undervalued. Our research led us to the conclusion that their difficulties were transitory and that as they matured the market would revalue them.

Every Friday night when my family sits down for dinner, I look at my kids and remind myself how lucky I am. My older kids, 17-year-old Hannah and 22-year-old Jonah, are turning into incredible young adults with many qualities I want to emulate.

They are becoming my role models!

Jonah recently installed parental controls on his phone (completely on his own!) to limit his use of social media. He replaced that time with reading. I was inspired by Jonah and slapped parental controls on my phone, too. Hannah is reading Dale Carnegie and actively applying the concepts she’s learning to her daily life. Mia Sarah is only nine years old, but I can already see the potential for kindness, endless curiosity, and resilience in her.

Today, when I look at my kids, I experience an abundance of parental pride.

This was not always the case, especially with Jonah. I have written about this many times before. In his junior year of high school, he had a victim mentality. He had a 1.3 GPA, and he blamed his bad grades on everyone else but himself. I was only slightly worried, because I saw a huge potential in him and felt he would be okay. Sure enough, in his senior year he matured and had a 3.9 GPA for that year, and now he is a magna cum laude student at CU Boulder.

Recently, as I was reviewing our portfolio, I experienced a similar parental feeling of pride. A number of our companies whose businesses were stuck in their “junior year” for a while have matured into their “senior year.”

There is of course a significant difference between companies in the portfolio and kids: We don’t get to choose our kids, while we carefully choose our companies. Also, we cannot dispose of our kids, but we can sell our companies.

There is another nuance here. Many times, we bought these companies because they were in their “junior year”; this is what made them undervalued. Our research led us to

the conclusion that their difficulties were transitory and that as they matured the market would revalue them.

Uber (UBER)

We bought UBER when the stock was universally hated. (Read my in-depth write up [here](#)). This is the only time I can recall a handful of clients reaching out to inquire if my kids were making investment decisions for me. I ended up writing a very lengthy essay explaining our thinking behind the purchase. Of course, the timing of the purchase could not have been any worse: We bought it a few weeks before the pandemic engulfed the global economy and shut it down.

Fast-forward a few years. Uber has proved to be an antifragile business that came out of the pandemic much stronger – it reduced its workforce by a quarter, and its food delivery business mushroomed. Uber was aggressive in bringing drivers back on its platform as the economy opened up, and thus it took market share from now-struggling Lyft. Revenues have been growing at a very fast pace – last quarter they were up 29%. The company is finally cash-flow-positive; it is not relying on the kindness of strangers (equity or debt markets).

Innovation and constant improvement are signs of a great company. Here is a recent example that parents of teens may appreciate. Until recently, you had to be 18 years old to use Uber rideshare. Now, teens aged 13 to 17 can be added to their parents' accounts. When they request an Uber, their parents are alerted. The teen is matched with the highest-rated driver available, one who has been on the platform a long time. The parent can monitor their child's location at all times. Additionally, audio allows parents to listen to conversations in the car. Although this product only addresses 13% of the US population, that is the 13% who desperately needed transportation but until now had to rely solely on their parents. No more.

Uber's business is approaching escape velocity: The growth of costs significantly lags revenue growth and thus profitability is exploding to the upside. At the current price, the market capitalization of the company is about \$75 billion (this is what it would cost us to buy the whole company). Analysts project Uber to generate free cash flows and net income north of \$7.5 to \$10 billion in a few years. This is in line with our analysis. As the company starts gushing cash flows, we expect the stock to rerate much higher. If it achieves the aforementioned cash flow estimates and trades at 15-20x free cash flows, the stock will double or triple.

Uber's growth is unlikely to be linear, but we see it as an inevitable business. You don't need to have a rich imagination to see that rideshare, which is gradually becoming woven into the fabric of our society, will be used a lot more in the future, not less.

Uber, which was seen as a potential dropout by many of our clients, is steadily progressing from junior to senior year.

Qualcomm (QCOM)

QCOM's core mobile phone business is facing maturity. However, the company has been investing in businesses that have significant growth ahead of them.

QCOM has a very strong position in the automotive industry. I visited QCOM headquarters in San Diego in 2016, and even then they were discussing the digital car. Today, QCOM is the only company that offers a complete digital solution for automakers. They call it the digital chassis.

Automakers, with the exception of Tesla, are not good at software or technology in general; they are good at making mechanical parts. This is where QCOM comes in. QCOM's digital chassis allows GM, Ford, and others to build a digital, software-defined car (think Tesla). QCOM provides customizable modules that come with an operating system, software, CPUs, modems, and sensors. Automakers can customize these modules to create their own look and feel.

Tesla showed traditional automakers what the future car looks like: a computer on wheels. QCOM is their best chance to develop one.

Years and billions of dollars invested in this segment are paying off: QCOM has announced that they have a \$30 billion pipeline in this business.

QCOM's strategy in this business is brilliant. They have a working development partnership with BMW. BMW knows what its customers want, and QCOM knows how to develop it. BMW gets QCOM's intellectual property for free, in exchange for QCOM getting one of the best automaker's contributions to its technology.

Electric cars consume about 10-15 times more digital content (hardware and software) than traditional cars. As the mix of cars shifts to EVs, so will QCOM's revenue in this segment. QCOM is guiding for \$10 billion in automotive revenue by 2028.

QCOM has a good chance of making significant inroads into laptop CPUs. I am writing this on an Apple MacBook Air, which is powered by Apple's custom-developed M1 chip based on the ARM architecture. Apple dropped Intel's x86 chip and developed its own. The battery life of this MacBook is 18 hours; I was lucky to get three hours out of my Lenovo Windows laptop. I cannot tell you how liberating it is not to worry about charging your laptop.

A year ago, QCOM bought a company that was started by the Apple engineers who created the M1 chip. QCOM is working in collaboration with Microsoft to create a chip based on the ARM architecture that would power the next generation of laptops. It should be out

in 2024. It should have a similar battery life to MacBooks. These sales will be completely complementary to QCOM.

AI is all the rage today. Well, QCOM has a play there, too. It is creating processors that speed up AI processing on phones. As I understand, as of today QCOM is the only company that has a phone processor with this capability.

QCOM dominates the AR/VR space with its microchips. It is also the largest beneficiary of the Internet of Things (IoT). For example, QCOM chips can be used in connected street lights that tell cars if the light is green or red, connected industrial equipment that notifies if a part is about to wear out, and connected cattle that allow farmers to easily find a wandering cow.

The beauty of owning QCOM is that it is a forward-thinking company with an incredible competitive advantage (enormous IP, economies of scale, massive R&D), good balance sheet, and great management. The short term is likely going to be a bit rocky for QCOM, which is why the stock is down. The company is dealing with an oversupply of microprocessors due to the pandemic and the shutdown and reopening of China. Long-term, its future looks very bright. As of this writing the stock is at \$120. We think near-term earnings are about \$9 or so; however, we conservatively estimate earnings four years out at about \$13. At 15 times earnings we get a \$200 stock.

Some additional thoughts, not from the IMA client letter

I always experience a low level of anxiety when I share my stock write-ups, usually from my client letters, with my readers. I fear that someone will read my write-up and blindly buy the stock. When we buy a stock, we should consider how it fits into our portfolio; new data may come out and we may change our mind. Also, I rarely discuss position sizing.

Let me explain.

We assign a target weight for each stock based on its discount to fair value. For example, if we believe a company is worth \$100, our target position size at \$70 will be 3%; at \$50 it will be 4%; and at \$30 it will be 5%. Though these are not actual discounts, they are directionally correct.

We apply this methodology to the whole portfolio, one stock at a time.

Qualcomm, for instance, is a 2-3% position in our portfolio, though you would not know this from my write-up. The position sizing for Uber fluctuated significantly with its price; we were buying a much larger position at \$26 than we are today at \$44. These nuances are important, but they are often lost when I (and most investors) discuss individual stocks.

Also, what is lost in my, or anyone else's, individual stock write-ups is how we investors got to our conviction. There is a saying, "Life is not about the destination, but about the journey." This is also true for investing. There is tremendous value in doing research: reading annual reports, studying the industry, listening to earnings calls, and building financial models. Doing these activities gives you a tactile sense of the company, something you cannot acquire from someone else's write-up. This feeling (conviction) can only be earned through doing the work.



JULY 31, 2023

How do I Get any Research Done since I Travel a lot?



Click to listen to a narration of this article

“ I get asked at times: How do I get any research done since I travel a lot? To answer this question, I need to explain how we do research.

I will be traveling a lot over the next two months: Copenhagen, Stockholm, London, Tallinn, Riga, Paris, London, Budva (Montenegro), Dubrovnik, and Budapest.

How do I get any research done since I travel a lot?

In today's letter I want to address a question that I get asked at times: How do I get any research done since I travel a lot? And then I'll explain the reasons for two next trips.

To answer this question, I need to explain how we do research.

The writer and investor in me are on never-ending quests. The writer is always seeking new stories, while the investor is looking for new ideas, mental models, and ways to optimize our current portfolio. It is difficult to distinguish where the writer ends and the investor begins – the two identities have a considerable overlap.

As my wife would tell you, my brain is constantly active. I have written extensively about how I write (I dedicated several chapters in *Soul in the Game* to this topic). I also **wrote** a lengthy essay in the past on how I work; therefore, here I will focus specifically on research and travel.

The way we do research resembles organized chaos; it looks nothing like the work life of a typical knowledge worker.

How does typical knowledge work proceed? Even though most people reading this are not working on assembly lines (if you are, my respect!), our society's thinking about work has been shaped by Henry Ford's assembly line, which revolutionized the auto industry and then went on to revolutionize many other industries, including fast food.

Fast food restaurants – take McDonald's and Chick-Fil-A for example – are just small food factories run by assembly line processes. Here is the issue: Most people who become knowledge workers had a job at a fast-food restaurant early in their lives. There is nothing wrong with that, except that it reinforces in our young minds what work is: going into a place with four walls, clocking in, diligently working for four hours, taking a lunch break, working for another four hours, clocking out, and then going home.

The assembly line mentality is appropriate for making burgers, where the worker falls into a temporary coma as he mindlessly repeats a narrowly defined set of tasks. The work switch turns off when he punches out and goes home, unless he is making burgers at home for dinner. Something similar often takes place in corporate America.

Investing, on the other hand, is a creative activity. The key performance indicator (KPI) for a fast-food restaurant is meals per hour. Investing, like any other creative activity, is not an ideas-per-hour type of endeavor. A large part of investing is simply thinking (not acting), patiently researching, waiting for stocks to reach your desired prices, looking for insights, trying to figure out what others see and don't see. And doing all this while keeping your emotions – your biggest enemy – in a state of equanimity.

Creative thinking doesn't start and stop when you punch in and out of your office time clock. This is not how creativity happens.

I speak from experience, and I am sure anyone who has done anything creative will agree with me. Any creative activity is an ongoing tango between our conscious and subconscious minds. The subconscious mind never shuts down; it keeps creating long after I step away from the computer, and it continues when I am engaged in activities unrelated to investing or writing, such as taking a shower, walking in the park, lifting weights, or doing any other mundane activity.

In fact, getting away from the computer and switching to any of the aforementioned activities is conducive to creativity; it introduces new and different pathways of thinking that I would not have stumbled upon if I had spent all day staring at the computer. This is why an assembly line attitude is counterproductive to creative work, especially investing or writing.

I read that walking in the park (something I do daily) is conducive to creativity because it introduces asymmetry into our lives. If you are reading this in the office or at home, look around you – you are surrounded by symmetry. Door frames, windows, mirrors, tables, photo frames, and the computer screen I am looking at as I type this – are perfectly symmetrical shapes. Trees, leaves, the sky are not symmetrical. Maybe this is why being exposed to art is also important.

Spending all your time within the four walls of an office is not conducive to generating new creative ideas. However, this point is nuanced. There is a lot of value in reading companies' financial filings, listening to conference calls, reading expert transcripts, building and updating financial models to understand the economics of a business, running screens to look for new stocks, going through the holdings of other investors, or reading their client letters.

However, none of these standard investing activities have to be done within the four walls of IMA Global HQ in Denver, even though when I am in Denver, I do them in the office.

The wonders of modern technology allow me to do most of them from the comfort of my laptop at a coffee shop, on a park bench, or in an airplane or hotel room when I travel. Not all of them must be done by me, which is why IMA also employs an analyst (or two).

I don't want to diminish the importance of these activities; they are the foundational layer of any investing research. We spend a lot of time in the domain of four-walled activities, but over the years I have found that doing them solely is not enough, at least not for us. Uncommon ideas, new ways of thinking, and seeing what others don't rarely come to me from the traditional activities. If you do what everyone else does, you'll get what everyone else gets.

I spend a lot of time talking to my investment friends, and I am lucky to have many of them. They enrich my knowledge and challenge my thinking. These conversations take place over the phone, face-to-face at conferences (I attend four or five small, private conferences a year), or during my personal and business trips.

I don't think this is unique to investing, but my personal and business lives often intertwine. Many of my business relationships have developed into meaningful personal ones. And my personal travels often bring me investment insights. It's impossible for them not to. Traveling allows me to break out of my myopic circles, of which I have plenty (I wrote about that [here](#)). I am seeing the world, and I am investing in companies that operate in this world. This is why I find travel so enriching. (In [this video](#), I discussed how visiting Milan and Zurich helped me understand Philip Morris International better; a few years later, we bought the stock).

When I travel, I make an effort to meet the management of the companies we own and to break bread with IMA clients. We talk to the management of every company we own; meeting them in person is a nice bonus. IMA has about 330 clients, only a dozen of them in Colorado – they reside all over the world. When I travel, we host intimate client dinners and I get to meet them, often for the first time.

Also, traveling gives me the opportunity to meet my readers, who are all over the planet as well. I love those get togethers because they let me meet new, interesting people who have similar interests (this is why they are reading my articles) and learn from them.

When I travel, I always bring my laptop and still do some work-related activities. I talk to my analysts daily, even when I am away. Investing, if you truly love it, is not a job; it is a lifestyle. Ironically, my biggest issue is not finding enough time to work, but finding enough time to live.

My thoughts on work-life balance are always changing. But there are certain things that are absolute. Especially, I want to make sure I spend quality time with my family. This is why I bring my family members on business trips; plus, I have to confess, I hate traveling alone.

Love what you do and you'll never work a day in your life. This is what I wish for my kids. This is the life I live.

About my next two trips.

My kids are growing, and I know the time will come when they won't have time to travel with me. They love Europe. My only issue with Europe is that I cannot handle heat (growing up in a place located above the Arctic Circle had a lot do with that). This is why I decided to take my kids to a place I know (fingers crossed) will not be hot in the summer.

On August 6th, I am taking my oldest children, Jonah and Hannah, and Jonah's girlfriend Molly to Scandinavia. We are going to fly into Copenhagen, spend a few days there, then take a train to Stockholm. From Stockholm, we are going to board an overnight ferry to Tallinn, Estonia. We will spend a few days there and then drive to Riga, Latvia. I have been to Tallinn twice in my life, in 1980 and 1990. I have fond memories of Tallinn.

In 1980, I was 7 years old and Tallinn was the first European city I ever visited. I still remember the cobblestones of Viru Street, my oldest brother Leo begging my parents to buy him a book of the Dutch painter Hieronymus Bosch (they did), and chocolate-covered peanuts.

In 1990, I was a cadet at the Murmansk Marine College and my class was in Tallinn waiting to board the **Kruzenshtern**, a tall ship, and embark on a two-month voyage around Europe. My only memory from that trip is of ice cream in dozens of flavors – something I had never tried before.

Then, on September 18th, on a separate trip, I am flying to Paris to have dinner with a person I have a tremendous admiration for, Sergey Guriev. Sergey is a Russian economist; he was an advisor and speechwriter to President Medvedev (this was before Medvedev went off the rails). Sergey criticized the government for seizing Yukos from its shareholders, and, facing imminent prosecution and possible imprisonment, he fled Russia to Paris. Today, he is the Provost of Sciences Po in Paris and a critic of Putin and the war. He coauthored a book that I really enjoyed and hopefully will review in the future, ***Spin Dictators***. Sergey and I have been pen pals, and I really look forward to meeting him.

I am going to be in Paris just one night, and in the morning I am taking a train to London. I will spend an evening there with a close value investing friend, then meet with two UK companies we own and have dinner with IMA clients. The next day, my brother Alex and I are flying to Croatia.

Alex and I will spend a day in Dubrovnik, and the following day we are going to take a taxi to Montenegro, the real destination and purpose of this trip. I have a close childhood friend who lives in Russia and whom I will refer to as Mr. Z for his safety. I have not seen Mr. Z since 2008, the first and last time I visited Russia since I moved to the US in 1991.

Mr. Z's 18-year-old son left university in Saint Petersburg and moved to Serbia because he did not want to be drafted into the Russian army to fight in an unjust war. A few months

later, his older sister joined him. This is a typical story in Russia: Thinking people who oppose the war and have means have left Russia or sent their kids to other countries.

Mr. and Mrs. Z are coming to Serbia to visit their children, and then they are going to spend a week in Montenegro. Alex and I are joining them for a few days there, then we'll take an overnight train with them to Belgrade. We will meet IMA colleagues who live in Serbia, sight-see Belgrade, and fly back to Denver the next day.

As you can see, my trips, especially the second one, will be packed; but I'll try to find time to meet my readers.



OCTOBER 12, 2023

My Thoughts on the Economy



*Click to listen to a narration
of this article*

“ A collection of my thoughts on the economy, government spending, interests rates, housing market, and other important points.

- Let's put our government spending and current deficits into proper context. Our GDP (revenue of the economy) is approximately \$26 trillion, and our tax collection (revenue of the federal government) is around \$4.8 trillion (18.5% of GDP).

Our government is expected to spend approximately \$6.5 trillion in 2023, resulting in a \$1.7 trillion budget deficit, or 6.5% of GDP.

The average maturity of debt owed by the Federal government is around six years. Therefore, we have yet to feel the full impact of interest rates going from nearly 0% to 5%. If interest rates remain where they are today, our annual interest expense will go from a few hundred billion to \$1.6 trillion in six years, thus adding roughly another trillion or so to the current \$1.7 trillion deficit, pushing our budget deficit into double digits as a percentage of GDP.

God forbid we have a recession somewhere in between; the government will throw in a few more trillion trying to cure it, adding more to the debt pile.

Higher interest rates are paradoxically both inflationary and deflationary. Inflationary because the US has \$32 trillion of debt and we run multi-trillion-dollar annual budget deficits. Thus, higher interest rates force the US government to issue more debt – creating more money and thus devaluing the dollar. (This is a tailwind for commodities, but more on that later.)

It is also deflationary, because higher interest rates are impacting the consumption of goods that have to be financed – they make them expensive and thus reduce demand.

- The economy has benefited from the US government running huge budget deficits and consumers spending government pandemic handouts. Pause and think about it: What would our growth be if the US government did not borrow and spend a few trillion dollars? The economy would be growing less, if it was growing at all (in real, inflation-adjusted terms).

Most people do not change their unhealthy lifestyles until they have a health scare, and the same applies to government spending. We are unlikely to alter our frivolous spending behavior, which would be painful for all members of society to various degrees, unless an external factor gives politicians a mandate to cut government spending and raise taxes.

It is likely that consumers will run out of pandemic savings before they give up their reckless spending. We are already seeing signs of that, with revolving credit going up. The consumer will soon turn from a tailwind into a headwind for the economy.

- Today, the absolute level of interest rates is not very high by historical standards. Interest rates have returned to the low bound level observed in the 2000s. However, this line of thinking misses a very important nuance. Over the last two decades, low interest rates have seeped into the fabric of our behavior and the pricing of all assets, including stocks, bonds, real estate (residential and commercial), cars, businesses, insurance contracts, and more.

Most assets were priced at the incredibly low interest rates we observed over the last two decades; higher interest rates will lead to a repricing of these assets. Additionally, the affordability of assets that require financing (such as cars and houses) has declined dramatically.

- Housing prices have to be looked at in relation to household income, and this relationship is at one of the highest levels in modern history. It gets worse. Housing affordability (the relationship of income to mortgage payment), a byproduct of housing prices and high interest rates, is at a **forty-year low**, freezing out first-time buyers.

Actually, housing is becoming unaffordable to almost any buyer – transactions in the housing market have come nearly to a halt. Homeowners don't want to sell their houses and buy similarly priced houses, only to see their mortgage payments more than double as they trade in their 3% mortgages for 8% ones.

This sector cannot function well at these interest rates and these prices. Something will have to give; either interest rates or housing prices will have to decline, or both.

The housing sector is very important for the long-term health of the economy; housing prices drive consumer confidence and, consequently, consumer spending. I view the housing market as a giant dam built uphill of the economy. If (more like when) it breaks, it will flood the economy. The only way the dam will not break is if interest rates decline by... I don't know, half?

- Office buildings account for about 1/6 of commercial real estate. Even before the pandemic, at near-zero interest rates, prices at which office buildings changed hands made little sense. At present interest rates, they make even less sense.

To make things much worse: It is not clear what future office occupancy will look like. Employees are demanding to work from home, and today they have the upper hand in this negotiation, as unemployment is low. As unemployment rises, employees will lose their bargaining power. However, higher unemployment will come with a lower demand for office space.

Office real estate appears to be a train wreck that cannot be stopped and will require significant pain for equity and debt holders in order to be resolved. Most of the debt related to office real estate is held on the balance sheets of smaller (not too big to fail) banks.

The benign economic environment – basically, no recession for more than a decade and low interest rates – has likely resulted in a large number of bad loans, which will surface when unemployment increases. The banking sector theoretically has more capital than it has had in decades, but higher interest rates have led to a decline in the value of banks' assets and have reduced their capital ratios.

Also, if interest rates continue to rise, banks that hold long-duration assets (think housing mortgages) will have to take further write-downs to their shareholder capital. Avoiding banks or financial companies is an easy decision in today's environment.

- Unemployment, though very low by historical norms, is a lagging, rear-view-mirror indicator of the health of the economy. As companies' revenues start decelerating and debt costs continue to rise (both compressing their margins), they will begin layoffs, which will lead to a greater slowdown and more layoffs.

Also, the unemployment number has its own flaws: It only measures how many people are *looking* for a job and have not found a job. The problem is that our labor participation rate (the proportion of people in the workforce either working or actively looking for a job) has been declining for **decades**; it is down from 67% in 2000 to 63% today, meaning our unemployment rate would be 4% higher if those who have dropped out of the labor force started looking for jobs again.

- I have discussed the pitfalls of higher interest rates, but it is important to note that they are a great help to savers, especially since the rate of inflation is decreasing. Interestingly, higher interest rates are relieving the pressure from people who felt they had to work because their bond portfolio was yielding nothing, allowing them now to retire or remain retired.

- “Second marriages and the soft landing of the economy have one thing in common: they represent the triumph of hope over experience.” – Larry Summers

The market is debating whether we are going to have a recession. Just as winter follows autumn, I am 100% certain we are going to have a recession. But unlike with the seasons, I just don't know when the recession will come. My biggest concern is not a recession but significantly slower economic growth in the future than we have observed over the last two decades – a payback time for decades of excesses.

Here is another way to think about it.

Supply and demand are being impacted by forces that are both temporary (side effects of the pandemic) and structural (highest indebtedness in the US history and high interest rates), and today the economy is deeply out of sync with its future equilibrium, where the supply of goods and debt will exceed demand.

- I go through this writing and thinking exercise not to identify the next swerve in the economy but to think about significant risks and position our portfolio accordingly. What does that mean?
- We have very little exposure to businesses that rely heavily on consumers spending their discretionary income. Consumer discretionary income is going to be under attack for a long time.
- We mostly own noncyclical businesses. Demand for their goods is not tied to the health of the economy or the level of interest rates (no car companies or homebuilders).

It is impossible to create a diversified portfolio that is completely unaffected by the health of the economy. Furthermore, our goal is not to completely eliminate cyclicalities from the portfolio but to own companies that will survive a potentially prolonged recession and emerge stronger at the end.

If we purchase a cyclical business (again, we own very few of them today), we need to be adequately compensated for the cyclicalities. The company must become stronger and its earnings power needs to increase as a result of the recession. (As Nassim Taleb would put it, the company must be antifragile.)

- Inflation is a friend of companies that have debt-heavy balance sheets and that can raise prices; but while inflation is highly probable in the near term, it is not a certainty. Stagflation (inflation with a struggling economy) is another very possible outcome. For companies with debt-heavy balance sheets we do two additional tests. First, they need to be able to pay off every single maturity from

their worst-case free cash flows, and secondly, we value them assuming their interest payments will reset to higher levels.

- We have the most conservatively positioned portfolio we have had in years. If the party on Wall Street continues, we expect to be the responsible kid at the party while others are getting plastered on the spiked fruit punch.
- We are not compromising on quality and margin of safety. In fact, during the quarter we did some minor cleanup (selling) of companies whose businesses were not as strong as we initially thought or the ones which were close to fair value.
- A key to successful investing is avoiding making forced decisions – decisions that are made on someone else's terms. We are not making any decisions to buy anything that does not meet our stringent criteria for purchase. It is nice, for a change, that the opportunity cost of looking for a diamond in the rough has been so low, thanks to 5% short-term rates.
 - **In my March 2023 letter** I outlined our investment strategy for the current environment:
 - Worry macro (this is what I did above), invest micro (this is what I'll discuss next letter).
 - Look for companies that can survive and prosper in all of the above scenarios.
 - Be process-driven – the market will likely be more bipolar than usual. Know what you own, why you own it, and how much it is worth.
 - You need to have patience – wait for opportunities to come to you.
 - Competitive intensity will likely increase when the economic pie is not growing. Stick to high-quality companies run by great people.
 - Increase your margin of safety – you'll need it.
 - Don't be afraid of cash (short-term bonds) when you don't find opportunities. Cash is better than overvalued stocks or low-quality companies – or especially the combination of the two.
 - Look for stocks in other markets – they expand choice greatly.
 - Don't time markets; it's impossible to put market timing into a process. Buy undervalued companies and sell them when they are dear.
 - "Sell" is a four-letter word in secular bull markets; it is an important practice during sideways markets.



OCTOBER 17, 2023

Unions: From Stimulant for the Economy to Cancer



Click to listen to a narration of this article

“ Unions have had a very important role in shaping the US and our laws over the past hundred years. I have read stories about how working in Chicago meat packing plants a century ago was as hazardous as enduring the trenches in World War I. Unions have fixed that.

Unions: From Stimulant for the Economy to Cancer

Unions have had a very important role in shaping the US and our laws over the past hundred years. I have read stories about how working in Chicago meat packing plants a century ago was as hazardous as enduring the trenches in World War I.

Unions have fixed that.

Thanks to the unions, we have very strict government laws and regulations mandating safe working conditions, setting the work week to 40 hours, and overtime pay. We have a slew of government agencies that are there to protect the interests of workers if employers infringe upon their rights. We even have unemployment insurance (funded by employers), which provides a temporary social safety net for those who lose their jobs.

Over the last hundred years, however, the union has evolved from being a stimulant that boosts the immune system of the economy (a cause for good) to being a cancer that is slowly euthanizing industries that become engulfed by it.

In the US, we love small businesses and hate big businesses. I have never understood this. Every small business wants to succeed and become a big business; and once it succeeds, usually by creating value (which usually makes customers happy), we start hating it.

I know you'll have little sympathy for "big" GM or Ford, so let me paint the situation in very broad strokes from a small-business perspective. There is a money management firm in Colorado called IMA, run by yours truly, that employs eight folks.

Let's say that the employees of IMA unionized, got high on marijuana (of which there is plenty in Colorado), and issued a list of demands, including that the wages of every employee should match the national average wage of a brain surgeon. Additionally, they argue that since they only live once, they should have an eight-hour work week in order to maintain a positive work-life balance, and that coffee (a stimulant) should be banned from the company's cafeteria and replaced with at least three strains of marijuana.

The union representatives' demands would not be limited to pay and benefits; they would also bring their expertise to bear on how IMA was run.

They would demand that email communication with clients be banned and that all letters to IMA clients be typed on the most modern typewriters.

Furthermore, they would insist that the reconciliation of client trades and transactions, which is now automated, be done manually on computers running the latest version of Microsoft DOS, rather than with the low-cost, nonunionized cloud technology. The union representatives would explain that they were taking these measures to ensure full employment. None of these demands focus on the cost of the service, competitiveness of the service, or customer experience; they are solely focused on the wellbeing of the ever-growing union base.

These demands would result in IMA going from being a small business to a large one (at least in terms of employee count), an exponential increase in costs, and, even more importantly, a terrible customer experience; eventually leading to IMA's untimely demise.

This example may sound laughable, but this is exactly what is happening behind the scenes at our ports. Unions **dictate** how much automation ports can use, in order to preserve employment. This is why US ports are some of the least efficient in the world – we are a first-world country with third-world ports. This makes the US economy less competitive, and consumers (you and I) are paying the price for this.

The UAW is dictating to GM and Ford where EV batteries should be made and which labor should be used, regardless of whether the final product will be competitive.

The UAW is also demanding a 32-hour workweek and an increase in total compensation similar to that of a doctor. In other words, a job on the assembly line, which does not require a high school diploma, would pay as much money as that of a physician who has spent 11 years in medical school, sacrificing their time and social life and accumulating hundreds of thousands of dollars in college loans.

But it gets worse.

No matter how little soul they have in the game, how poorly they perform, how rude they are to other employees or customers, or if they are poisoning the company culture, it is

very difficult to let union members go. Firing one is not unlike suffering through the cost and trauma of a costly divorce – you have to negotiate the exit with a union representative and possibly with a third-party mediator.

Imagine if the cost of dissolving a marriage was the death penalty – fewer people would get married. Similarly, the higher the cost of dissolving union employment, the fewer employees you'll want to hire.

Don't believe me? Take France, where over 90% of jobs are covered by collective bargaining and there are similar barriers erected to letting people go. This is one of the many reasons why France has structurally higher unemployment rates – double those of the US (the same applies to many EU countries). We don't usually consider the second-order effects, but in our attempt to protect workers, we often end up harming them.

Also, unions are making it impossible to run these companies. At General Motors factories, until 2008 unions had 300 job classifications, and if you fell into one classification, you would break the union contract if you were asked to do tasks that fell into another. For example, if you were setting up a microphone in the conference room, you could not be asked to move chairs.

Wages and benefits are very important to employees, but they are not everything. We spend a third of our lives at work, and thus employees are looking for meaning in their places of employment. Unions often turn a workplace into a drone factory, where the relationship between worker and employer resembles that of a warden and a prisoner.

Imagine working in such an organization and the toxic culture that would result; immense frustration and resentment that slowly builds up between employees and management. A company like this has zero creativity or soul and cannot compete against a nonunionized company that pays even higher wages; it will not survive in the global market.

If I had to run IMA under these conditions, most of my energy would be consumed by navigating the bureaucratic minefield created by the union, which would stifle our vibrant culture and extinguish any desire I or any employees might have to come to work. Therefore, I would outsource nonessential tasks to other nonunionized companies and essential ones to other countries.

If you think things can't get worse, they can.

In a right-to-work state like Colorado (technically it is modified right-to-work state), if my employees went on strike, I could hire someone who had not been tempted by the allure of the magical plant (marijuana), either temporarily (hoping my employee would detox) or permanently and go on running IMA the way I see fit.

But if IMA were in Michigan – which is not a right-to-work state, since IMA employees have now unionized – every employee I hire would have to become a dues-paying union member, and join their brethren on strike.

I would have to decide whether I want to euthanize the business fast by shutting down or slowly by agreeing to union demands. I would also have another alternative – since money management is not a capital-intensive business, I could move IMA from Michigan to another, common-sense-friendly (right-to-work) state.

Now imagine if I had billions of dollars invested in factories and my unionized employees made demands that could potentially decapitate my business. In non-right-to-work states, in broad daylight, my employees are literally taking factories hostage if I do not succumb to their demands. I have factories and no employees to operate them, thus making them worthless assets.

This is why most new factories are being built in Southern states, which are friendly to both companies and employees. Detroit used to be a gem of corporate America; now it is turning into a ghost town, and Michigan has been [ranked](#) as one of the worst states in terms of population growth.

Unions claim they protect and help the workers. They do create jobs and boost members' pay in the short term; however, in the long term, just like cancer, they can kill the industries they are trying to save.

The US used to have a prosperous steel industry. I am certain that, at its peak, unions celebrated by boasting about how they had doubled or even tripled their members' pay. However, they drove costs so high that American steel became uncompetitive with Japanese steel, resulting in the closure of these factories and the loss of jobs for their employees. American companies are competing in a global market where competitors are not afraid to use automation and common sense.

Anything multiplied by zero is still zero. Even if unions boosted the pay of steel workers threefold, if that led to steel companies going out of business, the zero jobs that remained, paying three times as much would still result in zero income.

We participate in a free market every day; every time you buy or choose not to buy tomatoes at the grocery store, you are voting with your credit card. Why should the labor market be any different? Free markets may not be perfect, but they are the best alternative to all other options.

Employees of IMA are not my slaves, and if they find another company that pays and treats them better, they are free to leave. Hiring better employees than your competitors, treating them well, and thus retaining them is a competitive advantage.

What each IMA employee earns is not a dictatorial decision made by me (the evil, selfish employer), but a negotiation between two consenting adults. There are dozens of factors that go into their wages; the ones that come to mind right away are: the value they create, soul in the game attitude they bring to IMA, and yes, the supply and demand dynamics in the labor market.

We live in a day and age where companies and management are rated on Glassdoor, a website where employees can review corporations. If companies treat their employees poorly, they will not be able to attract good talent, resulting in lower profitability and, eventually, going out of business. This is how the free market deals with bad employers.

Today, we don't need more unions; we need more free market.

PS. I am aware that I will receive pushback regarding the ratio of CEO (management) pay to average worker pay, which has significantly increased over the last few decades. Unions are claiming that they are the cure, but I would argue that we have two unrelated problems combined into one ratio, so solving one has little to do with the other.

Let's start with the numerator – management's pay.

Top management can make a huge difference to the company. Each decision they make has great leverage, which can either improve or damage the company. Look at the value Jamie Dimon created for JP Morgan and the value Jeff Immelt destroyed at GE.

Though both were paid tens of millions of dollars, you could argue that JP Morgan got Jamie Dimon at a bargain; and even if GE had paid Immelt a minimum wage, they would have overpaid him, as he destroyed billions of dollars in shareholder capital through his misallocation of capital. We should consider management pay in the context of the value executives create.

The main problem with runaway CEO compensation is that the board, which the CEO helps to select, is the one that sets his or her pay. There is very little independent thought in the making of that decision.

I am more concerned with the slow growth of workers' pay. There are many factors that contribute to it, and though I have placed plenty of blame on unions, they are not the only culprits here.

If we had more jobs, then we'd have more demand for labor and thus higher wages. But our industrial base got hollowed out over the last three decades. This has happened for many reasons.

The US dollar, being a reserve currency, has helped us to finance huge government deficits; however, it has also made our goods more expensive for the rest of the world, thus acting as a headwind to our manufacturers.

Our competitors, mainly China, were not shy about subsidizing their manufacturing sector, again putting our companies at a competitive disadvantage.

Our education system has been focused on producing office workers (like myself), but we don't produce enough engineers.

Tim Cook explained why the iPhone is produced in China: "Making Apple products requires state-of-the-art machines and lots of people who know how to run them. In the U.S., you could have a meeting of tooling engineers, and I'm not sure we could fill the room... In China, you could fill multiple football fields."

We need more vocational (two-year) schools that spend less time on politically correct classes designed to employ otherwise unemployable professors and more time teaching students practical skills that will make them contributing, value-creating members of society. This would also reduce the student-debt burden on society and provide higher-skilled workers who would be better compensated, as their labor would add more value.

Wealth and abundance have made society complacent. We have begun to view our past successes as a God-given right and have forgotten that we achieved them through hard work and pragmatism, which has been slowly eroding. There is too much regulation and bureaucracy, and we spend too much time debating topics which, a decade ago, would have been considered laughable by our society.

The best way to improve the wages of our workers is to create more value-creating jobs, and that means we need to create a business-friendly environment – yes, it is that simple.



OCTOBER 26, 2023

Our Investments in Oil and Natural Gas Stocks



*Click to listen to a narration
of this article*

“ I am about to discuss a topic that, for reasons that are unclear to me, has been politicized: oil and natural gas stocks. I am writing this as a pragmatic analyst who looks at two factors: supply and demand.

I am about to discuss a topic that, for reasons that are unclear to me, has been politicized: oil and gas. I am writing this as a pragmatic analyst who looks at two factors: supply and demand. After all, I am not hired by you (IMA clients) to come up with environmental policy, but to grow your wealth.

We are betting that petrochemical prices are going up. Here is why:

Low oil prices before the pandemic were already reducing investments in the industry. The pandemic and negatively trending oil prices only made it worse.

I had a conversation with a friend who lives in Paris, and he told me that French youth despise businesses; they think they are evil. Americans, however, do not have this attitude towards businesses, except when it comes to oil companies.

If you are going to university, becoming a petrochemical engineer is not seen in a positive light, ranking somewhere between a baby seal killer and a garbageman. Imagine a young man asking a father for his daughter's hand in marriage and being told, "Your job causes climate change." This is why enrollment in petrochemical engineering programs has **decreased** by 75%(!).

As older petrochemical engineers retire, there are few qualified people to replace them. This does not bode well for the future long-term supply of petrochemicals.

Oil production in Russia is likely to decline slowly in the long term. Western oil companies left Russia when it invaded Ukraine, and their knowledge went with them.

It gets worse.

Politicians love to vilify oil companies. When oil prices are low, they use them as a punching bag; they are "just damaging the environment." When oil prices are high, they want to tax

their “windfall profits”. Ironically, this caps the potential upside and lowers the present value of many projects, resulting in lower investment in oil fields.

This vilification does not end with politicians. ESG policy puts oil companies in the same uninvestable universe as tobacco companies. If a mutual fund has an ESG mandate (many of them now do), they cannot buy oil (or tobacco) companies.

However, tobacco companies do not need new capital, as they are gushing cash flows and paying them out as dividends (we know this industry well, as we own many of these companies). Oil companies are a different matter. If they stop investing in oil fields, their free cash flows will initially skyrocket but then start to plummet. Thus, this is another reason today, oil companies are not allocating sufficient cash flows to big new projects.

We had a conversation with the management of one of the largest oil companies in North America (not Exxon). Here is what they said:

The difference now compared to maybe in the past is that there are no major projects going on. We are not executing on some of these major capital plans, and neither are our peers. We are optimizing production and having minimal capital programs on projects that are more ‘bite size’ rather than massive. This is a trend that is happening all across North America.

There could be underinvestment and some declines over time, but more importantly, you are not seeing those major projects of 200,000 barrels a day or even 60,000 barrels a day coming on right now. We could double our largest oil field, but it would be a 10-year project and a multi-billion-dollar program. However, the appetite for investors for that would require us to do some convincing.

We don’t know what the carbon world looks like next year, given policy, governments, intervention, and those types of things.

We complain about oil companies like Exxon drilling for oil and damaging the environment, yet we still take planes on weekend getaways and drive cars the size of tanks.

There is an excellent book by Vaclav Smil entitled [***How the World Really Works***](#), which was recommended by Bill Gates and one of IMA’s clients. Gates is very concerned about the environment and has spent billions of dollars to fight climate change.

It was the client’s recommendation that really surprised me. This client is a lawyer from Texas. Somewhat uncharacteristically for a Texan, when he joined IMA, he asked me not to buy him any oil or natural gas companies, as he felt they were damaging the environment. About a year ago, he told me that after reading this book he had changed his mind about petrochemicals – we can drown his portfolio in petrochemicals if they are good investments. I greatly admire someone’s ability to change their opinion when presented with new data, and that is what this book helps people do.

I will try to summarize the book in a few paragraphs.

Most of our modern society lives very far removed from where food is grown and things are made, so our understanding of how the world really works is distorted by our air-conditioned interactions with the modern world.

We usually think of oil when it comes to powering our cars and natural gas when we pay the bill to heat our house. Petrochemicals are everywhere around us; without them, the world would starve. They are not only used to power combines to harvest wheat and tractors to raise cattle, or to transport these products from the farm to the supermarket, but also, natural gas is the main feedstock for nitrogen fertilizer.

It takes approximately 80 milligrams of diesel fuel to make one kilogram of sourdough bread. Or between 150-750 milliliters of diesel to produce one kilogram of beef. If you are considering going vegan to help save the world, your kilogram of tomatoes would require approximately 650 milligrams of diesel. The same is true for fish, which requires about 700 milligrams of diesel. I could continue, but I think you get the point.

It doesn't matter what you think about the role petrochemicals play in climate change; our demand for them is not changing quickly, and supply is likely going to decline – thus we will see higher, not lower, prices.

Despite the popularity of electric cars, gasoline and diesel consumption is not going anywhere for a long time, as EVs represent a tiny percentage of the total cars on the road today or in the near future. There are approximately 180 million cars on the road today. We sell approximately 15 million new cars per year. Of those, one million are EVs and the rest are internal combustion vehicles. Even as EV sales increase, it will take a long time before a meaningful portion of the total 180 million is EVs. (I am not even mentioning the 100 million commercial trucks that are switching to electric motors at an even slower pace.)

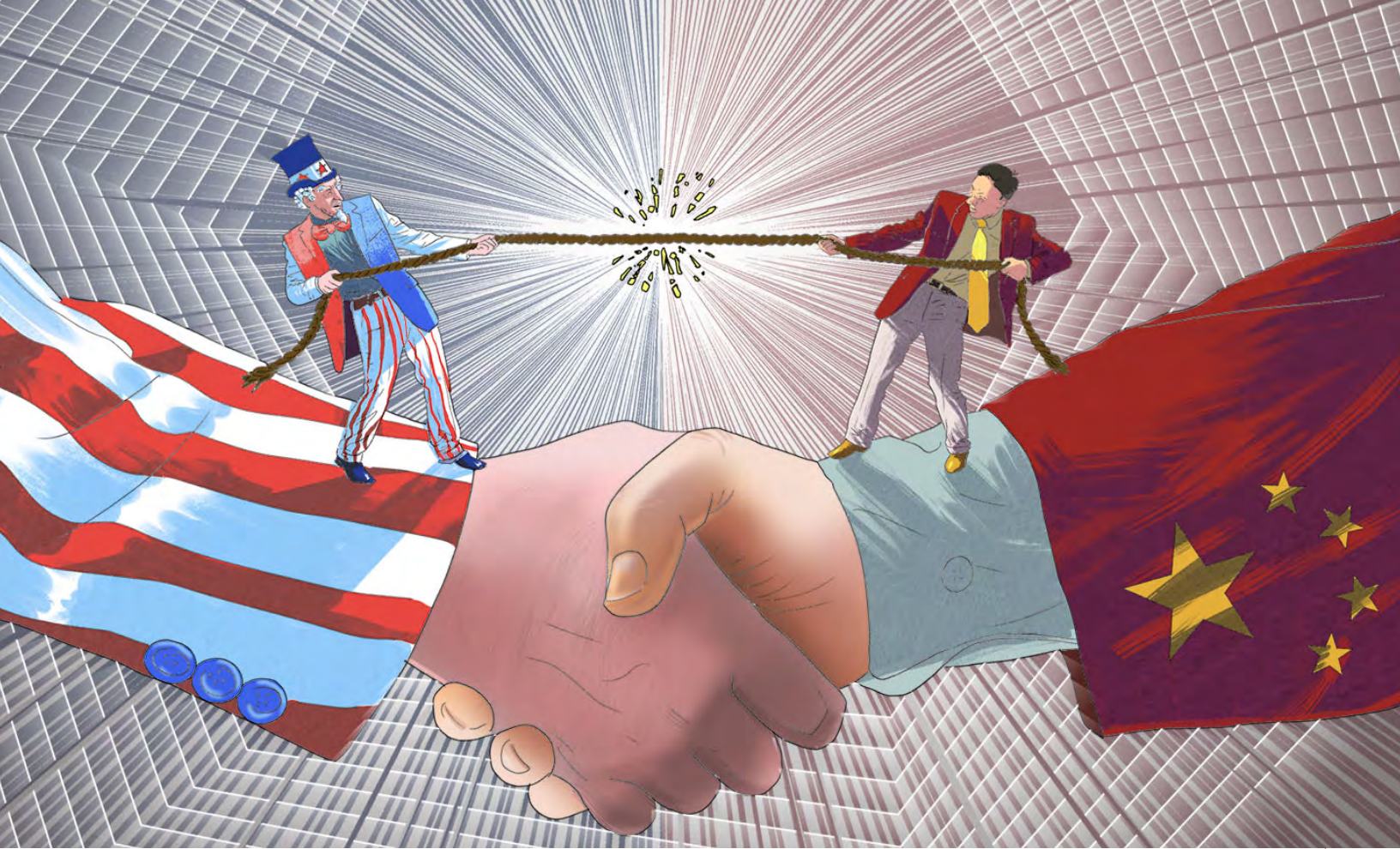
Demand for natural gas is only going to increase for a long time, for several reasons. First, electric cars need electricity, and this juice will mostly be generated by natural gas. As soon as US LNG export terminals come online (circa 2024/2025), we will be shipping more natural gas to Europe to offset the decline in the supply of gas from Russia.

No, I have not forgotten about new, green sources of energy, such as solar and wind. However, unless we have cheap battery technology to deal with their intermittency (which have not, yet), we will be faced with blackouts when the wind takes a break or clouds block the sun's rays. Transitioning to green sources of energy is a marathon, not a sprint. We may wish it to be a sprint, but it took us a hundred years to build a global economy that runs on petrochemicals, and it will take us decades to unwind it.

Finally, oil is an interesting hedge on a weakening dollar, which is a likely outcome of our budget deficits.

We have been increasing our exposure to petrochemical companies very patiently and opportunistically. The key with these companies is that they need to be low-cost producers, as they are selling a commodity; and they need to have incredibly strong balance sheets to handle commodity volatility and management that is good at capital allocation. Most mining and oil companies are run by engineers who are simply horrible at capital allocation – they buy high and sell low. To put it bluntly, they want to drill every hole they see, regardless of economics.

We have been very selective; our stock selection looks very different from the mainstream market's. Also, we need to buy them with a significant margin of safety that discounts a less than optimistic energy price scenario.



NOVEMBER 2, 2023

What Happens in China May not Stay in China



*Click to listen to a narration
of this article*

“ To understand what will happen in China and its impact on the global economy, we simply need to invert what happened over the last two decades.

- To understand what will happen in China and its impact on the global economy, we simply need to invert what happened over the last two decades.

China has had the largest housing bubble in human (and possibly galactic) history, for a decade and a half. It has lasted much longer than any reasonable analyst, including yours truly, expected it could last. One thing about bubbles is that the longer you sustain them the bigger they get and the harder they implode.

The China housing bubble is now bursting, putting immense strain on internal demand from consumers and its economy. The banking system and Chinese consumers will bear the brunt of this situation, but we'll probably feel it across the world.

- It would obviously be wrong to say that *all* economic growth in China came from the building of ghost towns; China has tremendously improved its infrastructure and a large chunk of global manufacturing has moved there. However, capital investment as a percentage of GDP was above 40% for decades, double the level of the US. It is likely that capital investment will revert towards the US level, which in turn will reduce demand for industrial commodities (think iron and copper).

Commodities are priced on incremental (marginal) demand; the last few percentage points of demand above the inelastic (short-term) supply are the ones that set prices. Secondary effects of a decline in the demand and prices of industrial commodities will be felt in countries like Australia and Brazil that benefited from China's ascent.

- There are some factors that may offset the decline in Chinese appetite for industrial commodities. Selective deglobalization is forcing companies to bring factories out of China to more friendly countries, resulting in more construction and thus more demand for industrial commodities in those regions.

The US has passed the Inflation Reduction Act, which should result in more spending on industrial goods. Lastly, India, the most populous country in the world, has one of the world's worst infrastructures, and it will be receiving upgrades.

- One bright spot in the Chinese economy was its tech sector (Alibaba, Tencent, and others), but Xi viewed it as a threat to the power of the Communist Party. Xi cracked down on these companies, reducing their competitiveness. Also, sanctions from the US have further damaged these businesses.
- The slowing (possibly shrinking) economy, an ocean of bad debt, enormous losses of life savings on investments in ghost towns, and a broken banking system all substantially increase the risk of social instability in China.
- China is becoming a more dangerous place to conduct business, as we are starting to see headlines about China not allowing capital and foreign employees to leave the country. Foreign investment into China likely peaked before the pandemic. In the past, companies emphasized their investments in China (think Starbucks, car companies); these investments will start looking like liabilities.

China, not the overheating of its iPhone 15, is the biggest risk to Apple, not just from consumption but also from the production perspective. Tim Cook has to move production out of China without China noticing it – the most difficult magic trick ever performed.

- China also has troubling demographics. The one-child policy, which was revoked in 2015, created a drastic imbalance between males and females and caused the rapid aging of China's workforce, thus limiting its economic growth. (On a sarcastic note, a marriage of inconvenience between Russia and China seems like a good idea – China has a lot of single men and Russia has a lot of single women.)
- We are no longer in the **foothills of a Cold War** with China; we are in that war. The Chinese navy may not have the same quality as the US's, but it has definitely begun to dominate the US Navy in terms of quantity. The US has little commercial shipbuilding capacity, and we will likely need a bigger navy to counter the threat from China.

Compared to the Soviet Union during the Cold War, China has a much bigger economy that is very good at building things. This is why we are doubling down on our defense stocks, especially the shipbuilders.

- A Chinese invasion of Taiwan is probably one of the most important geopolitical risks. There are two lines of thinking here: A weaker Chinese economy may diminish China's ability and willingness to start a war that would further isolate it from the West. However, it is the wounded animal that is dangerous, not the fat and happy one.



NOVEMBER 16, 2023

My Thoughts on AI



*Click to listen to a narration
of this article*

“ Innovation disrupts, but it also creates new jobs and improves the standard of living of society. AI will displace many jobs, but it will also empower people with new productivity tools.

A century ago, one fifth of the country was involved in agriculture. Due to the transformation of farming technology, only 1% of the country is now involved in farming, while our supermarkets are flooded with cheap food. I could be wrong, but I don't see the 19% of the country who used to farm wandering around unemployed. They have retrained to do other things.

Innovation disrupts, but it also creates new jobs and improves the standard of living of society. A century ago, you could not have imagined most of the jobs we have today. I'm not just talking about social media celebrities; think about software engineers, data scientists, cybersecurity experts, etc. In fact, most white-collar jobs you see today did not exist 100 years ago. Yes, if you specialized in driving horse-powered carriages, you had to acquire new skills.

AI will displace many jobs, but it will also empower people with new productivity tools. Microsoft Excel replaced jobs that required people to add up rows of numbers with calculators, but it created many more. In the 1960s, corporations had departments filled with typists. A photocopier and then the personal computer put these hardworking folks out of a job, but they retrained to do other things.

If we have a victim mentality, AI will run us over; if we embrace it and adapt it to our lives, it may become our best friend to do the jobs we are doing, while our soon-to-be-unemployed coworkers complain about AI.

AI may have a similar impact on our lives as electricity did. Unless it becomes sentient and just like the Terminator, it turns against us (smarter people than me cannot agree on this, especially on a reasonable time frame, so I withhold my opinion on it), it will likely improve our lives significantly. One industry that immediately comes to mind is healthcare – we need major disruption in that sector.

AI may disrupt and completely reshuffle the power dynamics in some industries. Travel, for example, comes to mind; we may start looking for trips and booking tickets with the help of our AI assistant without going to the travel websites. Some companies will adapt and become winners, while others won't and will become market-share donors.

As I am typing this, I realize (again, something I do daily now) how important management is. In our analysis, we should pay close attention to how companies are embracing AI. Are they giving it lip service or are they really adopting it and changing the business to take advantage of it?

When it comes to AI generating creative output, at first glance it looks impressive; but, as Nassim Taleb **put it**:

ChatGPT is a statistical representation of things found on the web, which will increasingly include ITS OWN output (directly and secondhand). You post something picked up from it and it will use it to reinforce its own knowledge. Progressively a self-licking lollipop.

If you want to see ChatGPT creating art, for the fun of it, spend some time on myfavoriteclassical.com, where I post music articles. Every single picture there is created by AI. I love impressionist artists, and thus I love these little AI creations. However, if you zoom in closer, you'll find violinists playing with toothpicks, pianists with three hands and cellists with multiple arms and legs.

This self-licking lollipop is impressive, but it still has a lot to learn. (By the way, if you have not signed up to receive my classical music-only articles, you have an opportunity to **do it here**). Also, Nassim is right (as usual): The more we rely on AI and the more content it creates, the less creative it and we become.

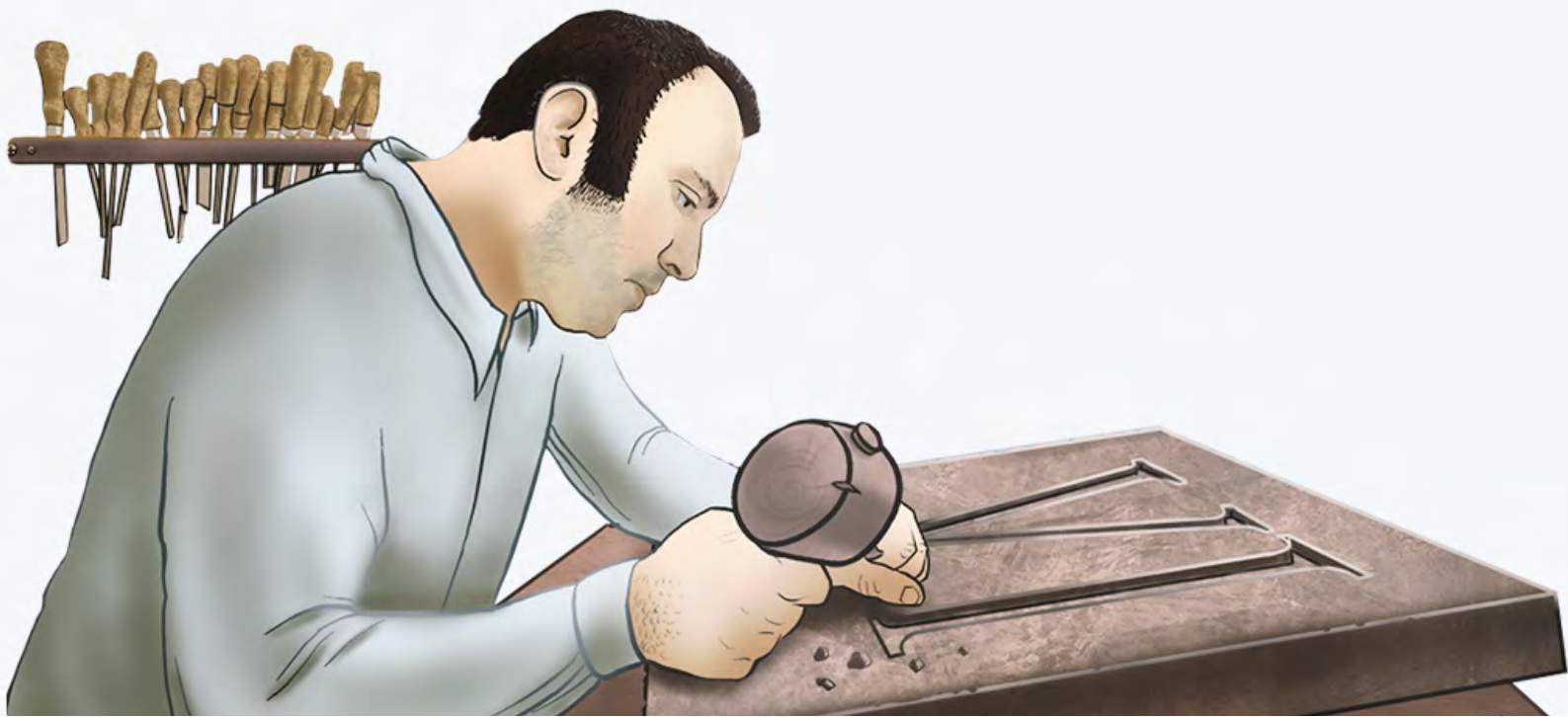
On a related topic, I have strong thoughts about AI and writing, which I shared with my kids.

AI can be either your friend or your worst enemy. I use it to answer emails that require no thinking, which is a great time and energy saver. AI is also my friend in helping me to find better words to express my thoughts as I write.

However, the most important part about writing is that it is focused thinking; it helps me to figure out what I think and exposes flaws in my thinking. This is why I still diligently put in two hours a day writing; I don't want AI to cause my thinking muscle to weaken.

Here's an analogy: I used to have good handwriting. Typing killed it. Today I have worse handwriting than a doctor, and I did not even go to medical school.

This is why I strongly encourage my kids to write their own essays, and I go a step further by encouraging them to write daily.



The Six Commandments of Value Investing

INTRODUCTION

This piece started as notes for a speech I gave at an investment conference. I then rewrote and expanded it to become a chapter in a book I wanted to write.

When and whether that book will ever be finished is unclear, but this chapter became one of the most important pieces I've written all on its own: to date, over 30,000 people have read it.

This chapter is broken up into 6 parts with a few addendums afterwards. Part 1 is below. If you'd like to read the rest, you can do so [here](#).

THE SIX COMMANDMENTS OF VALUE INVESTING

These are the Six Commandments of Value Investing. I don't expect any value investors reading this to be surprised by any one of them. They were brought down from the mountain by Ben Graham in his book *Security Analysis*.

1. A stock is fractional ownership of a business (not trading sardines).
2. Long-term time horizon (both analytical and expectation to hold)
3. Mr. Market is there to serve us (know who's the boss).
4. Margin of safety – leave room in your buy price for being wrong.
5. Risk is permanent loss of capital (not volatility).
6. In the long run stocks revert to their fair value.

These commandments are very important and they sound great, but in the chaos of our daily lives it is so easy for them to turn into empty slogans.

A slogan without execution is a lie. For these "slogans" not to be lies, we need to deeply embed them in our investment operating system – our analytical framework and our daily routines – and act on them.

The focus of this chapter goes far beyond explaining what these commandments are: My goal is to give you a practical perspective and to show you how we embed the Six Commandments in our investment operating system at my firm. 150

1. A stock is partial ownership of a business

The US and most foreign markets we invest in are very liquid. We can sell any stock in our portfolios with ease – a few clicks and a few cents per share commission and it's gone. This instant liquidity, though it can be tremendously beneficial (we wish selling a house were that easy, fast, and cheap), can also have harmful unintended consequences: It tends to shrink the investor's analytical time horizon and often transforms investors into pseudo-investors.

For true traders, stocks are not businesses but trading widgets. Pork bellies, orange futures, stocks are all the same to them. Traders try to find some kind of order or a pattern in the hourly and daily chaos (randomness) of financial markets. As an investor, I cannot relate to traders – not only do we not belong to the same religion, we live in very different universes.

Over the years I've met many traders, and I count a few as my dear friends. None of them confuse what they do with investing. In fact, traders are very explicit that their rules of engagement with stocks are very different from those of investors.

I have little insight to share with traders in these pages. My message is really to market participants who on the surface look at stocks as if they were investments but who have been morphed by the allure of the market's instant liquidity into pseudo-investors. They are not quite traders – because they don't use traders' tools and are not trying to find order in the daily noise – but they aren't investors, either, because their time horizon has been shrunk and their analysis deformed by market liquidity.

The best way to contrast the investor with the pseudo-investor is by explaining what an investor is. A true investor would do the same analysis of a public company that he would do for a private one. He'd analyze the company's business, guesstimate earnings power and cash flows. Assess its moat – the ability to protect cash flows from competition. Try to look "around the corner" to various risks. Then figure out what the business is worth and decide what price he'd want to pay for it (your required discount to what the business is worth). For an investor, the analysis would be the same if his \$100,000 was buying 20% of a private business or 0.002% of a public one. This is how your rational uncle would analyze a business – your Warren Buffett or Ben Graham.

How do we maintain this rational attitude and prevent the stock market from turning us into pseudo-investors? Very simple. We start by asking, "Would we want to own this business if the stock market was closed for 10 years?" (Thank you, Warren Buffett). This simple question changes how we look at stocks.

Now, the immediate liquidity that is so alluring in a stock, and that turns investors into pseudo-investors, is gone from our analysis. Suddenly, quality – valuation, cash flows, competitive advantage, return on capital, balance sheet, management – has a much different, more complete meaning.

This important question also brings up the next value investing commandment: having a long-term time horizon – but not just from the perspective of analyzing a company. We'll discuss it in more detail in the next part.

To read the rest of the 6 Commandments, click the link below:

[**READ MORE**](#)



Painting by my father Naum Katsenelson. Prints available on [Katsenelson.com](https://www.katsenelson.com)

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FEBRUARY 1, 2023

The Real Country of Contrasts: Our Unforgettable Trip to India

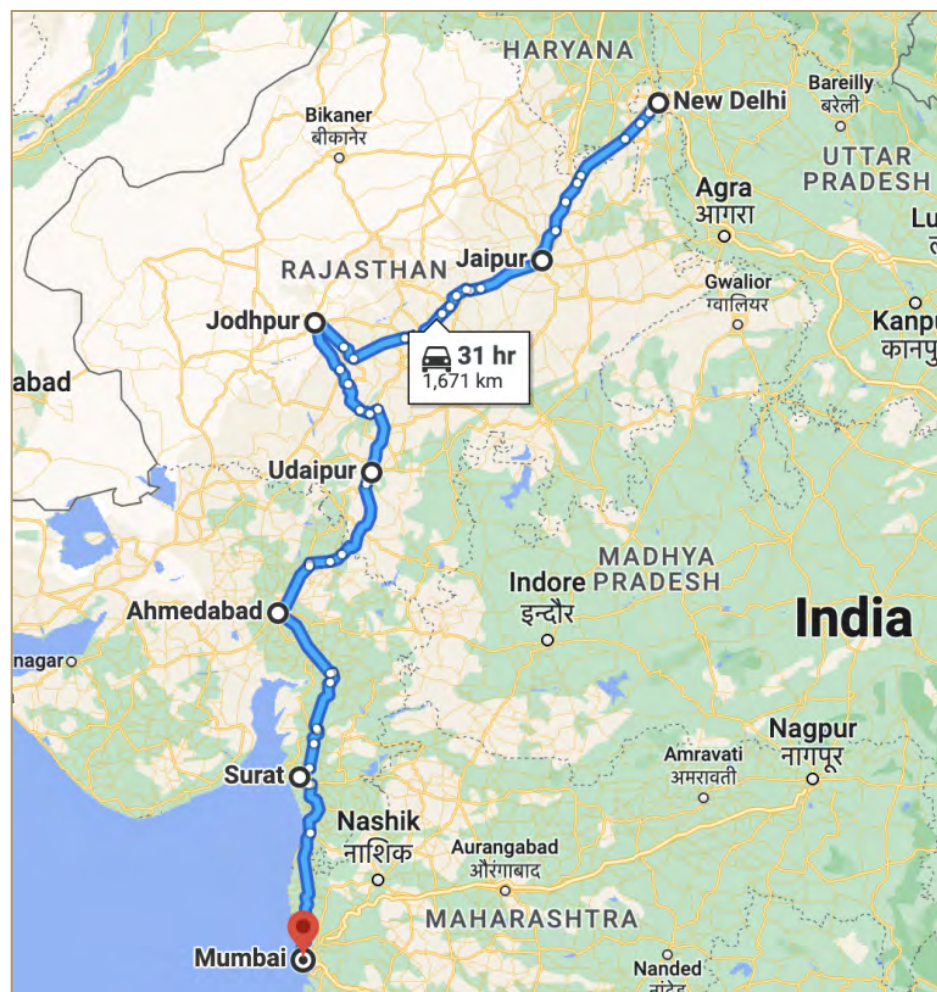


*Click to listen to a narration
of this article*

“ My daughter Hannah and I went to a trip to India. We visited a small part of this large country, the most populous in the world.

The Real Country of Contrasts: Our Unforgettable Trip to India

I must preface this essay. My seventeen-year-old daughter Hannah and I spent less than two weeks in India. We visited a small part of this large country, the most populous in the world. There are many Indias; we only saw a limited version of one. Therefore, I am well aware that my thoughts here may be incomplete (or even incorrect) and that the extent of my ignorance about India is vast.



The Real Country of Contrasts: Our Unforgettable Trip to India - map

Our trip began in New Delhi, where we were for slightly more than a day. We spent most of our time in Rajasthan, primarily in two cities: Jodhpur (“the Blue City”) and Udaipur, with its enchanting Lake Pichola). We spent a night in a tent in the Dhora Desert. We concluded our trip in Mumbai, where I gave a speech at the CFA Society of India’s annual conference.

Observe, Don’t Judge

As Hannah and I stepped off the plane in New Delhi, the three words “observing without judgment” were at the back of my mind. Our plane landed at 2 AM, and the first thing I noticed was that it was difficult to breathe. The day before, I had caught a small cold. My lungs were already inflamed, and the polluted air didn’t help. We checked the air quality index and it was well over 300, which is incredibly unhealthy. Denver’s air quality index at the time showed 20.

As we drove from the airport on empty streets, we encountered a few cows taking their nightly stroll along the road. Suddenly, we happened upon a cargo rickshaw (a three-wheeler) lying on its side by the road. Our driver stopped the car and we ran to the rickshaw to find the driver unharmed. Not only was he okay, he was soundly asleep. He must have fallen asleep and his vehicle hit the curb, causing it to flip. A few other cars pulled over, and we helped the driver get out. Then five men flipped the rickshaw and the driver was on his way to wherever he was going.

When we arrived at the hotel, the first thing that surprised me was that our car was examined by security guards as if we were entering a military facility. A guard motioned to the driver to open the hood of the car, and he carefully examined the engine compartment; then he looked through our trunk. Hannah and I were waved through a metal detector. The security guards who were doing this smiled at us, held their palms together in front of their faces, and slightly bowed, saying “Namaste” (a greeting to honor you). We encountered this custom everywhere we went, and it never got old.

India is still reeling from the attacks by Pakistani terrorists in 2008, which resulted in the deaths of 168 people. Security checks, which we encountered in every touristy location, seemed very superficial, as we walked through metal detectors with our cell phones and the detectors were buzzing, but nobody seemed to care. Or perhaps my Hannah did not fit the profile of a Pakistani terrorist. Arguably, my scruffy beard and unsophisticated choice of clothing made me more closely resemble a garden-variety terrorist. The point still stands: It is hard to maintain the same level of alertness for decades.

Country of Contrasts

When I moved to the US from the Soviet Union, my father told me that the US was a country of contrasts. He was right. In the USSR, the predominant majority was equally poor. Since

all businesses were owned by the government, wealthy people were just stealing from the government better than others, or were in positions of power and thus had a second income from bribes. Overall, we were all equally poor – socialism is great at equalizing poverty but not so good at creating wealth.

But the real country of contrasts is modern India.

The astonishing contrast between incredible opulence and large-scale poverty right next to each other was a shock to us in New Delhi. Our travel agent put us up in the Leela Hotel, which is probably the best hotel I have ever stayed in; it makes The Four Seasons look like the three seasons. However, when we left the gates of the hotel, we encountered poverty as we had never seen it before – streets full of trash, blocks upon blocks of slums (tiny houses made of plywood), and beggars.

Leo Tolstoy's first words in *Anna Karenina* were, "Happy families are all alike; every unhappy family is unhappy in its own way." I felt the opposite when we encountered poverty in every city we visited in India: Poverty in India is painted in one color, grey. The color of dirt, trash, broken roads, concrete sticking jaggedly out of buildings, and animal excrement that we had to step over on the streets.

Grey is the color of the air in New Delhi; the city is enveloped in a fog of dust. We were told that there are two main reasons for the poor air quality: the large number of cars, with 32 million people occupying the city, and farmers burning their fields. It is also not uncommon to encounter a small campfire made of trash on the street by people simply trying to stay warm and slums are not powered by natural gas but by burning wood.

The beggars had the biggest impact on Hannah and me. We were at a streetlight when a woman in her twenties, carrying her ten-month-old baby, approached us begging for money. We had just finished breakfast, which had been served by four waiters (more on this a bit later), and this woman was begging because she said she could not feed her baby. Our reaction was not rational – Hannah and I had not caused her situation, but we were overwhelmed by a feeling of guilt. We encountered beggars knocking on the windows of our car at every major intersection in New Delhi.

These were the emotional experiences that engulfed Hannah and me in our first few hours visiting New Delhi.

We arrived at our hotel at 4 AM. We slept for a few hours, had breakfast and embarked on our tour of the city, which started with a Sikh temple. To enter, we had to take off our shoes and even our socks (as we learned, a common requirement in entering any Sikh or Hindu temple). I don't remember being impressed by the temple so much as by its kitchen, which feeds 50,000 people every single day, absolutely free.

Our next stop was Akshardham, a Hindu temple that rivals in magnificence the Taj Mahal. I am basing this not on personal experience but on conversations with friends who visited both. The Taj Mahal is located in Agra, about four hours from New Delhi, and we decided not to visit, as we only had one day for New Delhi.

Akshardham is a new temple; it opened its doors in 2005. For security reasons, they don't allow any electronic devices on the grounds, not even cell phones. This is why I think it is a less-known monument than the Taj Mahal. I have to confess, I have been to temples around the world, from the Sistine Chapel in the Vatican to the Sagrada Familia in Barcelona, and none of them had the same impact on me as Akshardham. The combination of its enormous size, attention to detailed craftsmanship, and beauty of the Indian arts displayed make it an architectural masterpiece.

Though not being able to bring in cell phones is bad for Akshardham's publicity, Hannah and I found that it actually enhanced our experience. We were more present, focusing on taking pictures with our eyes.

A Country and Culture Shaped by Religion

Starting our trip by visiting a Sikh temple and Akshardham was the right way to begin, as it introduced us to the role religion plays in India. Religion is deeply embedded in this country, much more so than in the West. This can be seen in their treatment of animals. Hindus believe in reincarnation, so a cow crossing the street or a pigeon alighting at your feet for a handout may be a relative of yours. Karma is a huge factor in every individual decision; good intent and decisions will impact the outcome of your rebirth. We saw this in the market in Jodhpur, where at the end of the day a store owner brought out seeds and water containers for the pigeons.

All the cities we visited were full of stray dogs. These armies of strays were fed like family members by people who likely lived on a few dollars a day. Cows are sacred animals in India, and the consumption of beef is taboo. Even McDonald's in India is mostly vegetarian, just like most of the country's population. The only meat they serve is chicken. Cows wandering in the middle of the streets were as common as streetlights. We were told that these cows are privately owned. Their owners let them wander through the city during the day, and the cows find their way home in the evening. Cows happen to prefer busy streets because there are no flies, so this is where they spend their days.

The Indian obsession with Karma permeates their daily behavior. At first, the cynic in me attributed the kindness we encountered to the high-quality customer service of the hotels we stayed in. But as our interactions extended to random people we encountered on our journey, I noticed this culture of giving everywhere, from a taxi driver taking us to the airport to a shopkeeper I asked for directions to our hotel early in the morning.

At almost every restaurant we went to, we were served by three or four people at once. What would normally be a job for one person in the US or Europe was often performed by several. At the conference in Mumbai, it got to a comical level when I asked for tea. One person opened a tea bag, another poured water, another added honey, and the last one stirred it. The supply and abundance of low-skilled labor is so large, and the cost of labor so low (wages can be as low as \$8 a day) that there is no need to strive for efficiency.

What was amazing was that these people had very little skin in the game, yet they made us feel that they cared. Hannah joked that they had soul in the game. I think she is right; more precisely, they had soul in *our* game; they had a desire to help and to make the lives of random strangers slightly better.

This “how can I make your life a bit better” behavior was touching and disarming and had an even bigger impact on us than the magnificence of Akshardham.

India is a country with millions of gods (according to our tour guides), and they keep discovering new gods all the time. On our way from Jodhpur to Udaipur, we stopped by a **temple** where they worshiped a motorcycle. This is not a publicity gimmick; it is a real temple, and we had to take off our shoes to enter.

In 1988, Om Banna, a local resident, lost control of his motorcycle and was tragically killed. His motorcycle plunged into a ditch, where the police retrieved it and locked it up in the precinct. However, the motorcycle mysteriously showed up the next morning at the site of the accident. The police took it back and locked it up again, but it still reappeared where its owner had died. This happened enough times that the motorcycle became a subject of worship. People stop by there every day to pray for a safe journey.

While we are on the topic of driving. I have been driving for almost 30 years, but I must admit I would not be able to drive in India. I am sure there is order in the chaos, but I could not find it. Drivers are magically able to create three or four lanes of traffic from a single lane, and they calmly navigate through it, albeit with a lot of honking. On these roads, you are not only competing for space with other cars but also with auto-rickshaws (three-wheeled taxis) buzzing everywhere, cows and dogs randomly crossing the street, a man pushing a fruit cart, and incoming traffic suddenly showing up on your side of the lane.

In the West, we use the horn sparingly – usually when the driver ahead of us is too preoccupied tweeting while at a stoplight. Using the horn has a negative connotation in the West. Not in India. They use it almost nonstop, telling other drivers “I am here.” Honking horns are a constant sound (almost like a serenade) you hear in New Delhi, Jaipur, and Udaipur. (There’s a bit less of it in Mumbai.)

Is India the Next China?

The investor in me was looking at India and thinking, “Is India the next China?” It is now the most populous country. Unlike China, whose demographics are poised at the edge of an unavoidable cliff, India has a young and growing population. It is a democracy that respects property rights and is friendly to the West. It should be on the receiving side of the West’s deglobalization from China.

To my surprise, we encountered a residue of the caste system in Jodhpur. (I have a feeling it is still present in rural cities.) **The four varnas (social classes)** still exist: Brahmins (scholars, teachers), Kshatriyas (rulers, warriors), Vaishyas (farmers, merchants), and Shudras (merchants, servants). And then there are the Dalits, or “untouchables,” who fall outside the caste system. Each social class has its own traditions, cultural innuendos, dietary restrictions. While discrimination based on the caste system is illegal, people still often marry and socialize within their caste. Though it is illegal not to hire as a doctor someone born into the merchant caste, I have to wonder how much the influence of their parents and culture impact the personal development and social advancement of Indian children. And how much has the caste system impacted the development of the country?

Despite India having two dozen local languages and over a hundred dialects, a very large part of the population speaks English. At least, this is the official line. Our experience with English in India was very spotty. We found that in smaller towns, English was hit or miss (mostly miss). However, the CFA conference in Mumbai was conducted in English. I have a very large readership in India. My book *Soul in the Game* has been published in Marathi, the language spoken in Maharashtra (the state of which Mumbai is the capital). However, out of the 30 readers I met at my reader meetup in Mumbai, only one read in Marathi; everyone else preferred English.

I think this is where the multiple Indias mental model becomes useful. Yes, it is a country where it takes seven hours to travel 150 miles (our journey from Jodhpur to Udaipur), and if you are a Western driver like myself, you need a lot of help from the motorcycle god to make this trip in one piece.

I remind myself that India is a developing country that is still building out its highway system. Unlike China, India is a democracy, a system that tends to be slow and inefficient, and is even more so in India’s case. I have a good friend in America who was born in India and recently came into an inheritance. He spent the last eleven months in India trying to claim what is legally his, which is not an unusual story.

Autocracies are efficient, though generally very corrupt, which is why China can build highways and airports seemingly overnight. Government doesn’t have to worry about property rights. However, there is no shortcut to greatness. Chinese efficiency comes at the expense of the long-term robustness of its system. Democracies and free-market

economies are usually slower, but they are less oppressive towards their citizens and usually more robust in the long run. I have written many essays on China; but to sum up, I do not trust the quality and robustness of high, straight-line, uninterrupted growth mandated by a central planning committee and fueled by mountains of debt.

China has a better education system than India. For example, it has a literacy rate of 92% compared to India's 60%. But if I had to bet on either India or China over the next twenty years, I would *cautiously* place my bet on India.

India is the country where you'll find modern shopping malls and supermarkets in Mumbai, while Jodhpur, the second largest city in Rajasthan and home to 1.3 million people, has only a few supermarkets. Most people still shop for groceries in bazaars, where they have been shopping for centuries, and the pharmacies resemble tobacco stores in the US.

Ironically, this is where the upside lies for India. In time, Jodhpur will come to more closely resemble Mumbai, and the quality of life of its people will improve, as will the value-added tasks they perform, which will make society and its citizens wealthier.

As I write this, I am struggling with a thought that was in the back of Hannah's and my minds the whole trip: Would development make them happier? Hannah and I strived to observe India without judgment on this trip, constantly reminding each other to "observe, don't judge."

Poverty = Unhappiness?

When we walked the streets of Jodhpur, we saw objective poverty, but we did not see any fewer smiles on the people's faces than we see on the streets of Denver. These people live on a few dollars a day, in dwellings the size of a one-car garage, and their life appears to us in one shade of grey. But are they any less happy than the average American, who lives the life of a potentate by comparison? I realized that the color grey that I assigned to poverty was the filter through which I saw their lives.

Here is another way to look at it.

I grew up in Murmansk, a city located above the Arctic Circle, which has long, cold winters with little or no sunlight for months. I never viewed my childhood as particularly difficult or deprived, as I was born into it and didn't know any better. If you sent an average Denverite (Denver has 300 days of sunshine) or one of my kids to Murmansk, at first they would feel as though they had been sent to a gulag. However, after a year or two, they would adapt and learn to appreciate the beauty of crisp snow on the ground, tobogganing down the local hillsides, and the joy of drinking hot chocolate when they got home and out of the cold.

Writing this is making me a bit nostalgic for my childhood!

Humans adapt. The adaptation process is much easier when you are born into an environment and don't experience the alternatives. Yes, shopping in supermarkets is more efficient and probably cheaper than in Jodhpur's bazaar. But some may find value in strolling through the busy bazaar, bumping into old friends, buying tomatoes from a merchant whose family you've known for decades. My kids would look at my forcing them to use \$100 Android phones instead of iPhones as child abuse, while India seems to be "surviving" on cheap Android phones. There are many levels of poverty, I know.

In *Shantaram*, Gregory David Roberts discusses two years he spent living in the slums of Mumbai. He adapted and found beauty and meaning in that experience. When we were coming home, Hannah told me she wanted to move back in with her nine-year-old sister, Mia Sarah. Hannah and Mia Sarah used to share a room. Then, when my son Jonah moved out to go to college, Hannah moved into his room. Hannah said that, although she appreciated having her own room, she missed the time she spent with Mia Sarah when they shared a room. Mia Sarah's room is not quite a Mumbai slum, but I am very proud of Hannah's decision.

During this trip, in our conversations, Hannah and I kept coming back to the good old Stoic philosopher Epictetus: "Wealth consists not in having great possessions but in having few wants."

Reading this from a "money guy" who runs an investment firm, whose daily job is to make money for others by finding undervalued things to buy, it may not be the message you'd expect to hear. And no, I'm not about to sell my house and move my family into my neighbor's one-car garage. But there is definitely value in learning to want what you have. What we really need is not nearly as much as we think we want. This trip reminded me of this again and again.

(FYI: I wrote an essay about the value of scarcity, which is included in the bonus chapters of *Soul in the Game*. Learn how to get this essay and other chapters [here](#).)

Many friends asked if I would recommend this trip to them. I said absolutely, especially if they bring their kids. However, this is not your traditional sightseeing trip to Europe or a relaxing trip to Hawaii. Though the cheapness of the rupee allowed us to stay in five-star hotels and have a driver and a guide everywhere we went, I would not let Hannah venture outside the hotel alone. India is still a developing country with often nonexistent sidewalks and streets often full of stray dogs that may or may not be [harmless](#).

This trip widened the Western lens through which Hannah and I look at the world; it expanded our myopic circles. (I wrote about the myopic circles mental [model here](#).) I am not just talking about poverty. To experience that I could have taken Hannah to many countries south of the border that are only a few hours away. India is not just another country; it is a vastly different world with an ancient culture and rich traditions, often stunning architecture, food

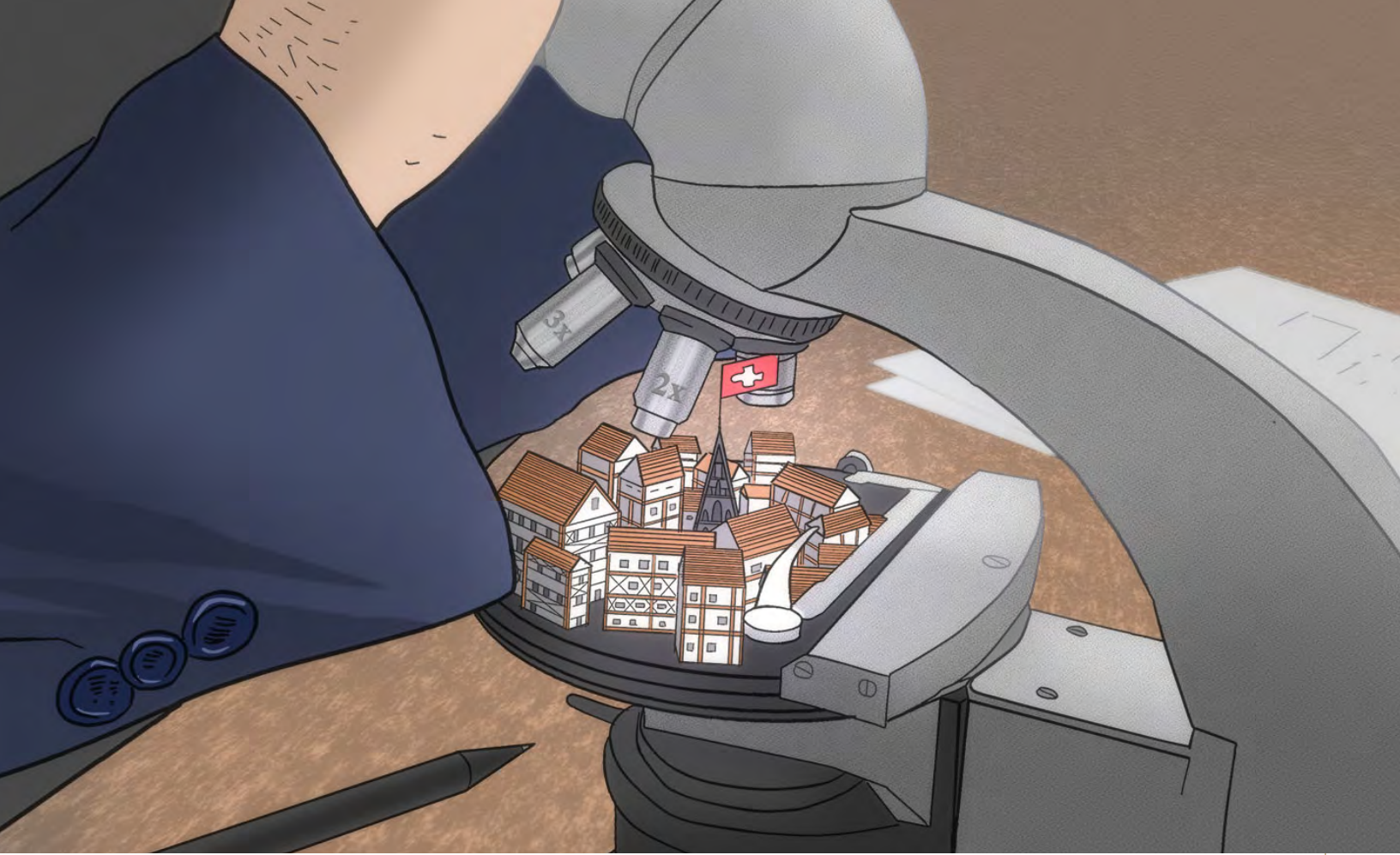
to die for, potent smells (they take their spices seriously), and people who are the warmest and most welcoming we have ever encountered. This trip stirred many deep conversations that Hannah and I would not have had otherwise. We'll remember this experience for the rest of our lives.

Here is my favorite picture from the trip: Sunrise in Dhora Desert.

Hannah Katsenelson - Sunrise in Dhora Desert - The Real Country of Contrasts Our Unforgettable Trip to India



As I was traveling, I took pictures and shared them with my Twitter followers. I collapsed all my tweets into one tweet for your convenience – [you can read it here.](#)



FEBRUARY 17, 2023

Hidden Costs of Living in Switzerland



*Click to listen to a narration
of this article*

“ After a recent trip to India, the contrast with Switzerland was stark. But there are hidden costs of living in Switzerland as well.

It feels like last month passed in a blur. I visited India for 10 days with my daughter, Hannah. When we returned, I spent less than a week in Denver before going to Switzerland with my brother Alex, where we attended VALUEx Klosters, a conference hosted by my friend Guy Spier. Finally, we spent five days in Portugal.

I must warn you, I am about to embark on a journey of generalizations that is far from perfect. It is impossible to find uniformity in the behavior of millions of Swiss, not to mention billions of Indians.

My new mantra when I travel is “observe, don’t judge.” I have been to Switzerland many times, but this time, right after visiting India, it felt very different. I noticed the stark contrasts between the two countries. When I think of India, I think of busy, chaotic streets with wandering cows and constant honking, extreme wealth alongside even more extreme poverty, trash on the streets, the incredible smell of spices, warm and kind people, colorful drawings, statues, and figurines of gods everywhere you look.

Switzerland can be described by one object – a Swiss clock – which can be found in the windows of shops on any busy street. The country runs with the efficiency of one gigantic Swiss watch. While India is a country of many colors, including grey (the color of poverty), Switzerland’s colors are blue (the color of its clear sky and endless lakes) and a mixture of disciplined, subdued shades of grey, black and white (I think of Zurich and Bern as I write this).

Swiss streets are perfect; you could almost eat off them. Everything about Switzerland is proper and pragmatic. When I think of India, I think of a country of smiles, emotion, and Bollywood, while Switzerland has the emotional volatility of a nun. Switzerland is incredibly safe; you see four-year-olds walking to school on their own. In stark contrast, in India I was afraid to let my 17-year-old daughter, Hannah, go out by herself early in the morning, and the streets were full of armies of stray dogs, making walking an unsafe adventure.

However, as I was considering the differences between the two countries, I realized that Swiss order comes with a hidden cost. It is created by a multitude of rules and incredibly strict laws.

Here are a few examples.

I have a friend, a very successful hedge fund manager, who was caught speeding – 160 km/h in a 120 km/h zone. He had to pay one sixth of his annual salary – hundreds of thousands of dollars. His application for Swiss citizenship was denied, and he has to wait ten years to apply again. Another friend of mine, at a conference in Klosters, received a \$650 ticket from a police officer for driving without having removed all the snow from his car. He had cleared the snow from the windshield and windows, but not from the roof. Additionally, you will be heavily fined in Switzerland if you drive in the snow with summer tires.

There is a law in Switzerland that prohibits any noise-making activities on Sundays, including mowing lawns or doing construction or remodeling. They take this law very seriously. Swiss people recycle their trash in four categories, and this trash is taken to recycling centers in perfectly packed boxes on Saturdays. The size of Switzerland's police force per capita is below the world average (interestingly, India's is even lower), yet it actually has the largest police force per capita of any nation – its own people. My friend's neighbor dared to take her bottles to the recycling center on Sunday, thus violating the "no noise on Sunday" ordinance. Another neighbor took a picture of her doing so and sent it to the authorities, resulting in the law-breaking neighbor being fined.

This tendency to tell on each other is very common in Switzerland. Thus, if you are looking for warmth in the people around you, look somewhere else – you are not going to have a close relationship with your neighbor after he tattletales on you to the police.

Unless you are Swiss or possibly Singaporean (which I have heard is an even more extreme place than Switzerland), the first word that such regimented behavior brings to mind is *insanity*. I must admit that this was my initial reaction. However, once I stopped judging and tried to understand these laws, they started to make a lot of sense. Initially, the libertarian in me rebelled at the idea of the government telling me what tires to put on my car or how clean my car has to be from snow or when I take out my trash.

The libertarian in me wants the government to stay out of our lives. However, the word *government* is often substituted for *other people*. We want other people to stay out of our lives, but this works both ways; we need to stay out of the lives of others, too. Driving on summer tires in a snowstorm or having snow piles on your roof puts not only your life at risk but also the lives of others. And so does speeding at 40 kilometers above the speed limit. If the country has agreed that Sundays are quiet days for people to go to church and enjoy their day off, then one should refrain from making noise on those days, even if it emanates from your noisy cans and bottles.

As I think about Switzerland, one word that keeps coming to mind is *pragmatism*. The Swiss want a certain way of life, and so they pragmatically make laws to encourage people to behave accordingly. They want their laws not to create busy courts and dirty the pages of

Lexisnexis but to have an impact and change the way people behave. Yes, their laws may seem extreme to us. But the \$100 fines I used to get for speeding were an inconvenience that I forgot about in a few months and went back to speeding. However, when you spend one sixth of a year working to pay off a speeding ticket in Switzerland, you are less likely to speed again, and thus you make society a bit safer.

I am reminded of a joke. A man dies and approaches the Pearly Gates, where he is met by St. Peter, who says, "You led a good life, so you can go to either Heaven or Hell. I can give you a day pass to Hell if you like." The man thinks, "I should at least check it out." He goes to Hell and finds it to be a paradise, with wonderful beaches, unlimited margaritas, and beautiful women everywhere. He realizes that this is the paradise he has dreamed about all his life. He rushes back to St. Peter and says, "Please send me to Hell!" St. Peter obliges. The man arrives in Hell and is instantly snatched up and thrown onto skewers. He is shocked and yells in desperation, "What happened to paradise?" He is told, "Well, you were a tourist; now you are a permanent resident."

The joke is a bit extreme, but there is a hint of truth in it. As a tourist, it is easy to fall in love with Switzerland. Every time I visit, I do; this is why I keep coming back. However, there are hidden costs that you only discover when you live there. Let me be very clear: They don't turn the country into hell. Or, if it is hell, 90% of the world population would give up their right arms for this Swiss version of it. But there are costs, and you'd have to get used to them and accept them if you lived there. This is what it takes for Switzerland to be Switzerland.

The Enchanting Charm of Portugal

I loved Portugal. It was beautiful, calm, and friendly. The country remained neutral during most of World War II, only taking the side of the Allies in 1944, so its architecture was not destroyed by the war and dates back many centuries. Porto, the city in the north where we began our trip, looks and feels very different from Lisbon. It is full of old, narrow streets, and the facades of its buildings are decorated with tiles. It looks like an old European city.

Lisbon has a distinct character and architecture, very different from Porto's. The majority of the city was destroyed in the Great Earthquake of 1755. This monstrous quake occurred on a religious holiday when most people were in church and had left candles burning at home. The collapsing buildings and lit candles resulted in the fire that destroyed most of the city and killed almost a quarter of its population. When Lisbon was reconstructed, the streets were widened; but people could not afford elaborate tiles, thus the façades are more humble than Porto's and there is more uniformity in the architecture. This does not make Lisbon less appealing than Porto, just different (though people from Porto would disagree), adding a slightly more modern feel.

We found the Portuguese to be incredibly kind and friendly. There is a lot of rivalry in this part of the world, and they kept reminding us that they are less loud than their Spanish

neighbors. One thing that stood out to me was how good the street musicians were in both Porto and Lisbon. Usually, when I encounter street musicians in the US or Europe, they are very mediocre. However, almost every musician we encountered was so good that we stopped and actually listened to the music.

Alex and I drove from Porto to Lisbon. We stopped in Coimbra, a university town with a stunning campus, for lunch. We then spent an evening in Obidos, a medieval castle town and home to my new favorite drink, ginja, a liqueur infused with cherries and cinnamon. Alex and I did the touristy thing and tried port wine in Porto – the origin of port. I am not a wine person, but I imagine Portugal is a paradise for wine connoisseurs.

I can envision myself returning to Portugal multiple times in the future. I like the slower pace of life there. The food is fantastic. I can imagine renting an Airbnb in Lisbon for a few weeks and working from there, likely during the off-season – the summers are too hot for me, and this is when Portugal is inundated with tourists.

Pictures/videos from the trip, I posted on Twitter:

- [Zurich](#)
- [Zurich Kunsthaus Museum](#)
- [Klosters](#)
- [Klosters at night](#)
- [Walking tour through Porto](#)
- [Coimbra](#)
- [Lisbon at night](#)
- [Walking tour Lisbon](#)



APRIL 20, 2023

Me, My Boy, and Warren Buffett with 2023 Postscript



*Click to listen to a narration
of this article*

“ The fourteen-year-old Jonah could not sit through the annual meeting; he was preoccupied with anything and everything but Buffett’s and Munger’s wisdom.

I’ve been attending Berkshire Hathaway Annual Meetings since 2008. I am Jewish. We Jews are big on traditions. If we do something twice, you can draw a straight line through it; it’s now a tradition. So yes, going to Omaha is what I do. I’ve written many essays on this annual pilgrimage, and even contributed a chapter to Lawrence Cunningham’s *The Warren Buffett Shareholder*. [\(You can read the chapter here.\)](#)

Today I am going to share with you the essay I wrote about my trip in 2015, and add a postscript to it. Also, this year I’ll be speaking at more events than usual, and I’ll provide that info as well.

Me, My Boy, and Warren Buffett

I have a confession to make. I want my company to someday be called Katsenelson & Kids. That doesn’t have to be its official name, but I want to work with my kids. I want my kids to be value investors. I know I am supposed to want them to be doctors or nuclear physicists. I don’t. Maybe if you go Freud on me, you’ll tell me this is my way of not wanting to let them go.

But I don’t want to push them into investing unless they absolutely love it. I want them to be happy. So far, none of my three kids — especially my 15-month-old, Mia Sarah — has shown any interest in following in my footsteps.

Six or eight times a year, I am invited to give a talk on value investing to undergraduate and graduate students at the University of Colorado Denver or Denver University. I really enjoy these talks. They are always structured in a Q&A format (I thereby pass the burden of class preparation on to the students). As part of their homework, they have to read my articles and come to the class with questions.

At these talks I always get the question “How do I start investing?” My answer: Forget everything you’ve learned about Modern Portfolio Theory. Start with an area that you know. If you like shopping, you have plenty of retailers to choose from. If you know cars, you’ve got some choices there. You don’t need a diversified portfolio, just a few stocks. But research these stocks. Read everything you can about them.

Don't do a model portfolio; do real money. Take as much money as you can afford to lose and start investing. Look at this as your tuition money. The most difficult part of investing is not the analysis but the psychology. A paper portfolio doesn't trigger fear or greed — only real money will. Charlie Munger has a saying: "Learning about investing from books is like learning about sex from romance novels." (I skip this line when my kids are in the classroom.)

There are many reasons why I do these talks. First, I'm trying to undo some of the damage that Modern Portfolio Theory dogma has done to these young minds. Second, my firm employs three or four interns from these schools, and I use these talks as a recruiting tool.

The third reason is a long shot. I have a secret plan (which is not so secret anymore). I always bring at least one of my kids with me to class (two if I'm lucky — my son Jonah is 14, and older daughter Hannah is nine). I never have to drag them because after my presentation we usually go to DQ (my bribe of choice). I don't know whether they pay attention all the time or not, but I know that they are at least listening a little because I ask them to give me a list of six things they learned from the lecture. My biggest hope is that these talks will spark some interest in investing. If they don't, I gave it a shot, and at least we got to spend time together.

Jonah is my immediate hope. My wife, a typical Jewish mother, says that he can become an investor or anything else — after he finishes medical school. (She doesn't share my dream.) Jonah has so far shown little interest in either investing or being a doctor, but he loves to make people laugh, so maybe he'll be a comedian.

In my latest attempt to gently nudge Jonah's direction in life, I am taking him to the Berkshire Hathaway annual meeting this Saturday, May 2. I don't know if he'll be able to sit through six hours of the Warren Buffett & Charlie Munger Show or if he'll just spend most of his time browsing the showroom at the convention center and eating DQ Dilly Bars (DQ, of course, being part of the Berkshire Hathaway stable). But in the worst case, he'll have a memory of this trip. And memories are important.

It was the winter of 2001. I learned that Luciano Pavarotti was going to give a concert in Denver. But by the time I found out, only the very expensive tickets were left. My wife was very pregnant with Jonah — we were a brand-new family. Those two tickets could buy the nice TV we were saving for. I was trying to figure out how to convince my wife to spend what was at the time a significant amount of money for a two-hour experience. We are both big fans of Frank Sinatra, and we were watching a biography about him. I said, would it not be incredible if you and I could see Frank Sinatra live; it would be one of those once-in-a-lifetime experiences. Then I said, we can't go to Frank's concert, but Pavarotti is coming to town, and we have a chance to see him. She was still under the influence of the Sinatra movie, and she agreed. Today neither of us regrets that decision. The TV is just a thing, but we got to see Luciano Pavarotti, the one and only, live!

Why am I telling you about this? Well, this trip to Omaha is going to be a similar experience for Jonah (though he probably doesn't understand that yet). He'll be telling his kids and grandkids that he actually went to the 50th Warren & Charlie Show.

Will Jonah become a value investor? I don't know, but I hope that some of the values of value investing will rub off on him and he'll treat the stock market not as a casino but as a place where you buy businesses at a significant margin of safety. If he decides to become a doctor or a comedian, at least I have two more kids to nudge (brainwash). Maybe it will be Katsenelson & Daughters.

Postscript – Eight Years Later

The fourteen-year-old Jonah could not sit through the annual meeting; he was preoccupied with anything and everything but Buffett's and Munger's wisdom. The highlight of the trip for him was taking a selfie with Bill Gates.

Let me take a slight detour.

I was worried about Jonah when he was 13; he had managed to get a 1.3 GPA in his junior year of high school. He had a victim mentality – he believed every bad grade was someone else's fault, not his own. It is hard to change when you think you are perfect and everyone around you is at fault. This is the problem with the victim mentality; you don't improve. But then, during the summer between his junior and senior year, something changed. He started taking school seriously and finished his senior year with a 3.9 GPA.

Neither Jonah nor I know what triggered the switch that summer. But he did go to Israel with a group of kids from Colorado, and he met Molly – they've been dating since. Molly is a wonderful girl, an A student, and a great influence on Jonah. In addition, my wife and I started giving him a weekly allowance based on his grades. I can't remember the exact formula now, but I think he was taking five classes. Every Friday we would look at his running grade in each class, and I would pay him \$20 for each A, \$8 for each B, \$0 for each C, and -\$20 for each D and F. If he got all As, he would get \$100. I guess if he got all Bs then he'd get \$40. This was the time when you could get a Chipotle lunch for \$7. Jonah responds extremely well to financial incentives, but I'm not sure if they actually did the trick. I think he just matured. He spent most of his senior year of high school in a local library studying; he found that changing his studying venue helped him a lot.

Eight years is a long time. Jonah has transformed into a thoughtful and kind young man, whom I am very proud of. He is a junior at CU Boulder. As he explains, he swore to himself that he would major in anything but finance. He took an accounting class and, to his surprise, did not hate it. Then he took a finance class and loved it; it came so naturally to him that he was setting the grading curve for his whole section.

He doesn't know exactly what he wants to do after he graduates. And that is absolutely okay. The topic of working for IMA came up, and before I could even say a word, he interrupted me and said, "I know you want me to work for IMA [he had read the essay above]. I'm sure I'll learn a lot, but I want to feel that I have accomplished something on my own, not just because I am your son."

Jonah said exactly what I was thinking. Yes, the eight-years-older version of me, the one who is typing this, has a lot less hair but also understands the importance of accomplishing things on one's own – the value of struggle, the character it builds, and the meaning that pain brings to our lives. Though we don't appreciate the pain at the time of the struggle, if I look at the most meaningful moments in my life, they were usually accompanied by pain and frustration when I was solving problems that were important to me.

If Jonah decides to join IMA after he has explored on his own, the door will always be open. In all honesty, IMA would be lucky if he chose to join it in the future. He'd be a find for any investment firm. I am as objective as any parent can be; but if you are in Omaha and see a 6'3 young man with dark hair sitting next to me, strike up a conversation with him; you'll see.

Oh yes, I forgot to mention. After coming with me to Omaha eight years ago, Jonah never asked to go back, until last year. He came to the meeting and loved it. He actually sat through almost all of the main event. He is coming with me again this year.



MAY 4, 2023

Chess Saga Continues



*Click to listen to a narration
of this article*

“ With Hannah’s passion for chess growing and the lockdowns easing, we discovered the wonderful world of chess meetups.

I have vague first memories of playing chess with my grandfather when my family visited my father’s parents in Moscow. I was five years old. As I look back, chess gently came in and out of my life in the years since. I played it often in my early teens. Throughout my twenties I played only a few games. Then I started playing again with my son Jonah when he was six. For a few years Jonah and I played chess every day after dinner. Jonah took chess lessons and played in tournaments but had no real passion for the game. Though I always admired chess players, I never took the game too seriously, never studied or took lessons.

Enter my daughter Hannah.

After she watched *Queen’s Gambit* in January 2021, she said “Dad, let’s play chess.” With these fateful words Hannah’s and my lives shifted. Unlike Jonah, Hannah is passionate about chess. She plays at least two or three dozen games a week and takes chess lessons twice a week. Just a bit more than a year later after Hannah started playing chess, I find that I can no longer beat my 16-year-old daughter. I am not her only Katsenelson victim, she beats her brother Jonah, too. My ego is less wounded than his. At least every loss is at least partially offset by parental pride. Jonah stands at 6’3 and is losing to his 5’2, five-year-younger sibling, a girl.

When Hannah started playing chess during the pandemic, she quickly got bored playing her father and started playing against other folks online. Once lockdowns were lifted, she wanted to play against live humans. I hadn’t thought about it, but there is a huge difference between playing against a person sitting across from you and a person on the other side of a chess board on your computer screen. When you play online you only focus on the game. When a living, breathing human is sitting across from you, their emotions start impacting your game.

To our surprise we discovered that there were chess meetups happening all over Denver every day. Hannah asked if we could go. I was delighted to oblige. These meetups take place at restaurants, bars, coffee shops, even at Whole Foods, all over Denver. Folks of different ages and walks of life, from electricians to software engineers and college students (mostly adults, very few kids Hannah’s age) show up with their boards looking for a game of chess.

In the beginning I looked forward to going to these chess meetups, because Hannah and I would drive 20 minutes each way, and we'd talk and listen to music. I'd look forward to the drive. I'd bring a laptop and sit in the corner and work while Hannah was playing. Then one day my laptop battery died and I had nothing to do, so I started playing, too. I discovered two things: first, that I still enjoyed the game and second that I was losing not only to Hannah.

This is how the new chess chapter in my life started.

After going to chess meetups all over town, Hannah and I settled on the Thursday night meetup at the Red Robin restaurant nearby my office. Hannah and I made new friends, folks I normally wouldn't meet in the course of my daily routine. All of them share a passion for chess. Many of them are colorful characters that any novelist would die to write about.

There is a guy named Don, – a very quiet, mild-mannered aerospace software engineer in his mid-40s. Don is not married. I don't know how, but women can sense that fact. On more than one occasion I have noticed that the single women who occasionally frequent the Red Robin meetup want to play with Don and no one else. Don is a very good player. He was one of the first people Hannah played, and she almost won. I started calling him Hannah's nemesis. Don always corrects me: "Not nemesis – opponent." I was not sure how Hannah would deal with losses. I didn't want her to get discouraged. I brought out my weapon of choice: sugar. Hannah and I have a standing arrangement that for every game she wins against Don she gets a lemonade. As Hannah's game has improved, she's been drinking more lemonade lately.

Then there is Marven, an electrician of Mexican descent. Marven loves primary colors, which you can see displayed on his T-shirts and baseball hats. Marven has a passion for chess that I have yet to see exceeded by anyone else's. He is the strongest player at these meetups. He estimates that he has played 217,000 games in his life (that was a month ago, he is probably already at 218,000).

Just as you won't see a Hollywood actress wear the same dress twice, Marven never brings the same chess board to the meetup. I get the feeling he has more chess sets than actresses have shoes. Though it is not apparent right away, once you see past the primary colors, you can tell Marven has a big heart. At the meetups, he sometimes gives free chess lessons to anyone who'll ask for them. We are about the same age and discovered that we spent our twenties in the same neighborhood where I lived when we moved to America. Hannah beat Marven once. She proclaimed, "Dad, this win is worth at least a milkshake!" Milkshake it is.

Marven comes to the Red Robin meetup a bit late, after a long day at work. He is often still eating while others are playing. But Marven is watching the games from the side. He'll notice an interesting position on the board. You can see the sparkle in his eyes and his mind

going a thousand miles an hour. He'll take a picture of the board. After the game is over, he'll show various ways to play the position. This highlights the ethos of the group, and probably of chess in general. After the game is over, all egos are put to rest. The game just played turns into a puzzle for everyone to solve. I remember when Jonah was 12 and played in a tournament. After the game I found him sitting on the floor with his ex-opponent, both of them smiling and studying the game they had just played. This comradery is very typical in chess. After the game is over it stops being you vs. me and turns into white vs. black.

Then there is Dan (his real name is Dannish), an organizer of the Red Robin meetup. Dan is a retired financial planner, a man of many stories. His mother is an American from Kentucky, and his father is Indian. Dan grew up in India. Dan is one of those rare people who with their natural smile broadcasts enormous warmth. Dan lived in India when it was aligned with the Soviet Bloc. Dan and I have this connection that is hard to explain.

Dan discovered chess only eight months ago. He is a person I play when I need to boost my chess ego, after I lose to others at the meetup. That being said, I have still managed to lose to Dan several times. I joked one day that if Hannah lost to Dan, she'd have to buy me a lemonade. Though we had a good laugh. I instantly felt bad and apologized to Dan for my joke.

Dan is the gadget man. I think Dan loves gadget discovery almost as much as he loves chess. One day he brought a contraption that records a video of your game and then transcribes each move into a text format so you can upload the game to chess analytics software. Another time he brought a chess board that wirelessly connects to a smartphone (we could not get it to work). I cannot wait to see what gadget Dan comes up with next.

And then there is Ian, an assistant to a real estate agent who is as American as apple pie. He's the best-dressed man I've seen in... ever. Ian is in his mid-twenties but loves how people dressed a century ago, in the 1930s. Imagine that we are at the Red Robin, and everyone, including yours truly, is wearing T-shirts and jeans with holes. Then there is Ian in his perfectly pressed three-piece suit, elegantly tied tie, crisp pristine white shirt, polished dress shoes, and golden pocket watch on a golden chain comfortably residing in his waistcoat. Ian's love for the thirties goes beyond his clothes. He sports the Al Capone perfectly combed and heavily gelled hair, and even glasses from that era. Sometimes I feel that he came to the Red Robin right from a Great Depression movie set.

Hannah is known as one of the most aggressive players, a force to reckon with. She goes right for the jugular. She's been drinking so much lemonade lately that I feared getting in trouble with her mother and had to adjust the incentives a little – she now gets lemonade every fifth time she beats Don. To be honest, though, I don't think she needs the incentives, and she handles her losses just fine.

Yes, on Thursday night the Red Robin turns into a place where you meet all sorts of fascinating people: a software engineer who's being hit on by single women nonstop, a Mexican-American wearing bright colors over a big heart, an Indian-American with a hugely warm smile, a time traveler from the Great Depression, a Russian-American who inadvertently insults folks (and then apologizes), and his daughter, who watched *Queen's Gambit* and now cannot get enough of chess.

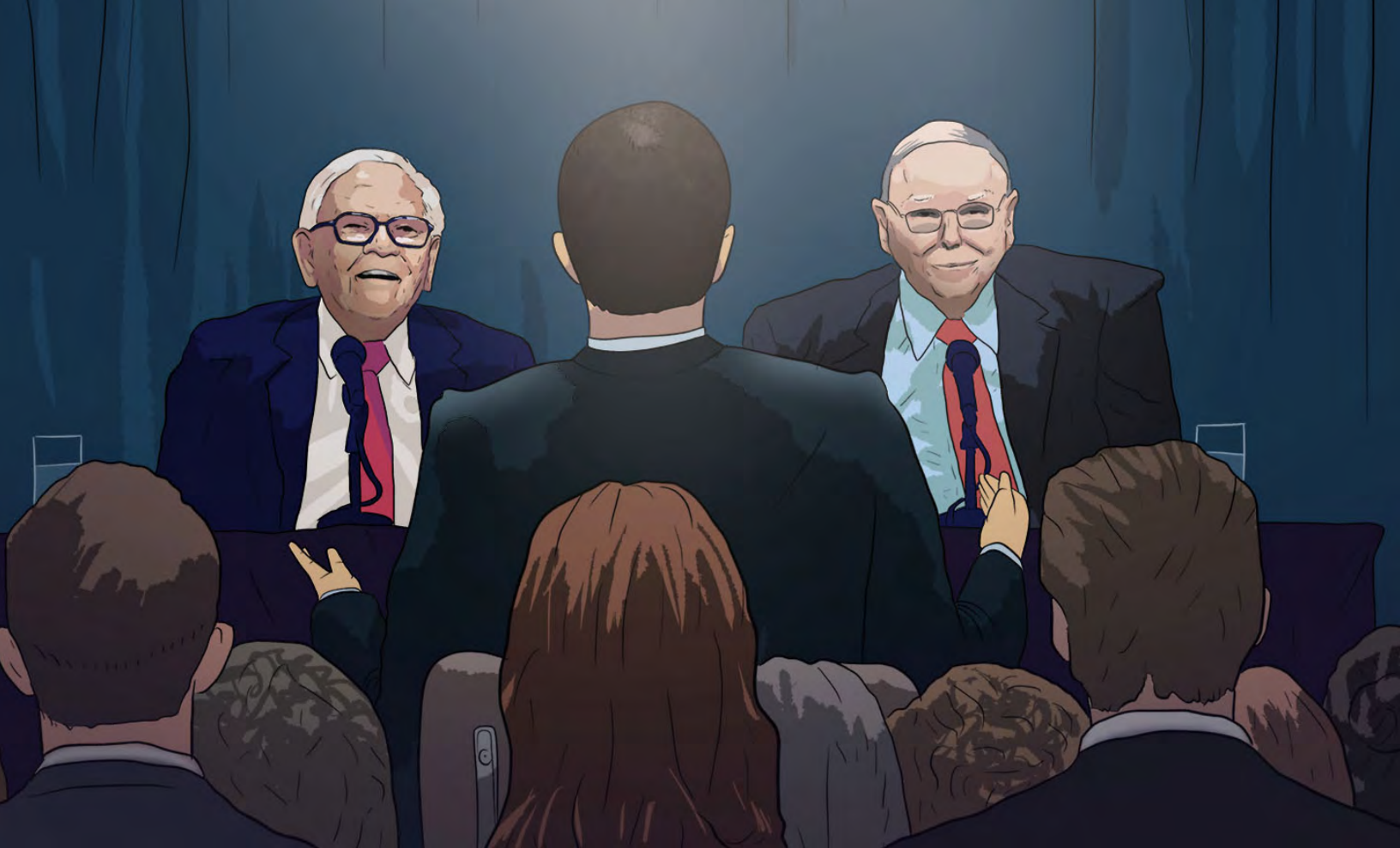
I love and treasure these Thursday nights. I never would get the chance to meet these wonderful folks inside my little everyday bubble. And I get to play chess. But most importantly, I get to spend time with Hannah. These Thursday nights are something that Hannah and I will always remember and treasure.

When Mia Sarah, my eight-year-old daughter, gets a bit better I'll start bringing her, too.

One day I'll be losing in chess to Mia Sarah... or will I?

This losing to my 16-year-old daughter and then potentially losing to my 8-year-old business wasn't sitting well with me. For the first time in my life, I started to take chess seriously. Marven has been enlisted to be my temporary chess teacher until I find someone permanent. I've been playing chess regularly online, a few games a day. Other than to assuage my wounded ego and spend time with my daughter, I have another reason to play. Naval Ravikant said, "You want to have three hobbies in life: one that makes you rich. One that makes you fit. And one that makes you smart."

My professional life is one giant hobby. I invest and I write not out of financial necessity but out of love. I'd be doing what I am doing if I was not getting paid. I walk every day in the park for about an hour – it's a light form of physical exercise but also a time for reflection, and it calms my mind. I ski in the winter – arguably not the most intense workout; it is what it is. I ride a road bike to work in the summer. I work out with a trainer – one of few things in my life that is "work." I do it because I have to stay strong and healthy. I've been trying to change my attitude towards it and approach it as play – so far not so good. Finally, I look at chess as taking my brain to the gym every day. I've also noticed that when I play chess all I think about is my next move – the world shrinks to those 64 squares.



MAY 10, 2023

What I Learned From the Oracle of Omaha & Charlie Munger



*Click to listen to a narration
of this article*

“ My favorite line from Charlie Munger was:
“Practicing law today is like a pie-eating contest,
where if you succeed, you get to eat more pie.”

When asked about the future of value investing, Buffett answered: “Value investing will be fine; people will continue to do dumb things.” I agree; I came to the same conclusion when I wrote [Active Value Investing](#) almost two decades ago (before I knew how to spell AI):

No matter how much things change, they remain the same. Whether a trade is submitted through a Western Union telegram, as was often done at the turn of the nineteenth century, or through the video game look-alike screen of an online broker, as often happens today, it still has a human originating it. And all humans come with standard emotional equipment that is, to some degree, predictable. Human emotions and thus long-term market trends are here to stay. Over the years we've become more educated, with access to fancier, faster, and better financial tools. A myriad of information is accessible at our fingertips, with speed and abundance that just a decade ago were available to only a privileged few. But despite all that, we are no less human than we were 10, 50, or 100 years ago.

Unless technology and innovations strip away our emotions, we'll behave like humans no matter how sophisticated we become. Unless we completely outsource all of our investment decision making to computers, markets will still be impacted by human emotions. Emotions are the price-and-joy-of being human.

Buffett also said, “People are trying to outsmart each other in arenas that you don't have to play in.” This is a good reminder that you don't get extra points in the market for the degree of difficulty of analysis. I can instantly raise my IQ (I need as much help as I can get) by choosing problems that I can solve.

On a morbid topic of wills, Buffett opined that “if your kids are reading your will for the first time after you have died, this is a mistake that you won't be able to correct.” He is not going to sign a will unless he shares the contents of it with his kids and gets their feedback.

Loved this from Buffett: “If you want to know how to live your life, write your obituary and then reverse engineer it so that you can live up to it.

In addition, Buffett said: “If you want your kids to have certain values, it's important that you live those values and talk about it.” I cannot agree more with it. This applies not just

to parenting but being a boss. If I don't practice what I preach, my employees will not take me seriously.

Buffett's quote that stuck with me most was "I don't know anyone who is kind to die without friends. I know plenty people with money to die without friends". Having money only attracts friends who value you for your money. Kindness, however, has an everlasting purchasing power.

Munger's advice for a good life: "It's so simple to spend less than you earn, avoid toxic people, toxic activities, keep learning all your life, defer gratification because you prefer it that way, and if you do it all this way you will succeed. If not, you will need a lot of unusual luck." Charlie doubled down on the toxic people comment: "Get them the hell out of your life."

My favorite line from Charlie Munger was: "Practicing law today is like a pie-eating contest, where if you succeed, you get to eat more pie."

Tom Gayner, the CEO of Markel, and I were speaking at a YPO event. Tom said, (I'm paraphrasing) "Buying low-quality companies at low prices is like hiring bad employees cheaply. You'd rather pay a bit more and hire a great employee." I've been noodling about it over the last few days and I agree with this sentiment, both as a CEO and an investor.

What I've learned over the years is that great employees and companies (run by great people) tend to surprise you with upside. I've painfully learned that bad employees and companies tend to surprise you with downside (they have negative optionality embedded in them). Additionally, it's so much easier to go through tough times with great companies and employees. I don't want to be flippant about the price you pay; at certain prices, even great companies become bad investments, but the point still stands.

Avoiding cheap, low quality companies and hiring mediocre employees is half of the battle.

Would you like to see Buffett and Munger saying what I said they said for yourself? [Watch these clips.](#)



MAY 18, 2023

Embrace Good Problems: Advice to Young People Today



Click to listen to a narration of this article

“ A 22-year-old daughter of a friend, for the first time in her life, has hit a brick wall. I told her that, as frustrating as her life may seem right now, she is having a good problem; and happiness in life comes from having good problems.

I don't know when I graduated to giving job-seeking advice. However, I know that my scribbles are read by a lot of students and their parents, so I thought I would share this with you.

A 22-year-old daughter of a friend, for the first time in her life, has hit a brick wall. She just graduated from Tulane University and trying to find a job in public health policy. Over the last three months, she has had dozens of interviews and has made it to the final round in a few of them but has not been successful in landing a position.

Up to this point she has not encountered many obstacles in her life. She comes from a well-to-do, loving family. She was a school senator at one of the largest high schools in Denver. She sailed through high school and Tulane University with perfect grades.

She is understandably upset about this. I told her that, as frustrating as her life may seem right now, she is having a good problem; and happiness in life comes from having good problems. Finding a job that you love is a great problem.

Think about how much worse things could have been in your life, I might have added. You live in a peaceful time, you are young and healthy, and your whole life is ahead of you. If it takes you a few months longer to find a job, nothing will really change in your life. You won't starve, and you'll have a place to live. (Stoics call this exercise negative visualization.)

If you put in enough effort, I might have assured her, you'll find the job of your dreams. Until now, you've lived in a sheltered environment governed by the laws of linearity. You studied hard and, as a result, you earned good grades – a linear outcome. Until now, you could observe a direct connection between input (hard work) and output (good grades). This doesn't always happen in the real world – it's complex. Hard work doesn't always lead to the expected outcome, but fighting and not giving up will, more often than not, eventually lead to the desired result.

Yes, in this real, nonlinear world, luck plays a role. However, you don't want to rely on luck showing up on its own; you want to create your own luck.

Here is one example: Finding a job with IMA was a miracle for me. My family had moved to the US six years earlier and I did not have great control of the language yet. I wanted to be a stock analyst in a town that had few investment firms. I tried looking for a job in the traditional way, which resulted in some interviews but no job offers.

I made looking for a job a 10-hour-a-day job. I opened the Yellow Pages and faxed my resume to every single investment firm of any size in Denver. My resume arrived at IMA before they had even advertised a job. Was I lucky? Absolutely, but I created this luck through hard work and *not* doing what everyone else was doing. Create your own luck; reduce your competition by finding a more novel way. I got the job at IMA because I had very little competition.

Right now, I could have told her, you need to have small victories. These can come from little things like having a clean room, doing a good workout, or going for a run.

In my [book](#), I discuss the Stoic concept of dichotomy of control. Despite appearances, most things in life are not under our control. We only have control over our values, our behavior, and how we respond to things. In the short term, you have little control over the outcome of getting a job, but you do have control over your process. That's life. Focus on the process and keep improving and refining it. Keep showing up; you are a smart and hard-working young woman, so it is only a matter of time before you find a job you love.

I am very excited that you have a lot of good problems ahead of you.

(If you are reading this and looking for a smart, hard-working young woman to rock your world in public health policy in Denver, please drop me a line).

My book, [Soul in The Game: The Art of a Meaningful Life](#), is now available in Russian on [Kindle](#) and in [paperback](#).



JUNE 15, 2023

Russia – History Repeats Itself



*Click to listen to a narration
of this article*

“ A few weeks ago I was asked to speak to the CFA Association of Russia about my most recent book. Here is my reply:

Over the last two decades, I have given talks on investing, mainly focused on my books, to CFA Societies around the world, from South Africa to New Zealand to Sofia, Bulgaria, and India in January of this year (you can watch that talk [here](#)). As a CFA, I love talking to fellow CFAs; we all share a common memory of the pain of three torturous years of preparing for and taking the CFA exam.

A few weeks ago I was asked to speak to the CFA Association of Russia about my most recent book.

Here is my reply:

*A year and a half ago, I would have eagerly taken the opportunity to speak to your members, especially since my book **Soul in the Game** has been translated into Russian. However, today, my heart is breaking as I witness what is happening in Ukraine.*

To give a presentation to your members without addressing the atrocities occurring there would be similar to giving a presentation in Berlin in 1942 and not mentioning the millions of people being killed by the Nazis in the Soviet Union.

Unless I can also discuss the horrors of the war, which I am sure you would not want me to do, I cannot bring myself to speak to your members.

Writing this reply made me think about Russia.

My heart is bleeding for the Ukrainian people, but once the war is over, I can see a bright future for Ukraine. I don't see a bright future for Russia in any outcome of the war. Economically, Russia has weathered this war better than I and most Western observers expected. Natural gas flows to Europe have come to a halt, but Russian oil is still flowing to India and China.

However, it is not the economy that is on my mind as I write this; it is the political system. Politically, Russia is approaching the Stalinist Soviet Union and Rocket Man's North Korea. Just like in Stalin's era, neighbors are tattle-taling on neighbors and teachers on students. The punishment for saying anything against the war is a very real prison sentence.

The majority of Russian people are brainwashed, not all of them. I don't know the number, let's say 10-20%. But, understand that in a bit more than a year, Russia turned into a fascist nation and what Russia is doing to Ukraine today is not much different than what Nazi Germany did to the Soviet Union just eighty years ago. Russians feel like prisoners in their own country, without a future. People are censoring themselves in kitchen conversations, afraid that their friends or neighbors might report them to the authorities.

I'd like to think that if we hadn't left Russia in 1991, I would have been in the group that is not brainwashed and understands what Russia is doing. Though, if I am completely honest, I cannot say that with 100% certainty. I don't think anyone can really know, unless you live in Russia today. What is certain is that, if we were there, my son Jonah would be facing the draft, at risk of being sent to Ukraine to die and to kill people who have done nothing to Russia or to him.

I am not any better than any of those people who support Putin, just luckier.

The stupidity of the situation is, what if Russia were to win the war? Of course, victory is what Putin decides it to be. But, let us say Russia captures 20-30% of Ukraine. How would that make the lives of every Russian better? Just like North Korea, Russia is quickly becoming isolated from the West and turning into a vassal state of China, which has its own agenda.

It is amazing how little we learn from history.



JUNE 22, 2023

How Not to Lose a Job That's Yours



*Click to listen to a narration
of this article*

“ Imagine withdrawing a job offer two days after it was made. This is exactly what we did. This letter about how not to lose a job that's yours, contains insights and lessons that could go beyond the intended recipient and could help anyone who is looking for a job.

Imagine withdrawing a job offer two days after it was made. This is exactly what we did.

IMA is **hiring** for an Operations Associate position, and after a lengthy hiring process, we offered the position to Sam (not his real name). However, two days later, we had to withdraw the offer. This is not our usual behavior, so I wanted to write an explanation to Sam.

I had intended to write a few paragraphs, but I made the mistake of starting to work on it at 5am, which is my most productive writing time. The writing muse took over and a few paragraphs turned into a few pages.

As I wrote, I had the opportunity to reflect on our values as a firm, the behavior I observed from the candidates we interviewed (both good and bad), and the hiring process from the perspective of an employer.

When I finished writing, I realized that this letter contained insights and lessons that could go beyond the intended recipient and could help anyone who is looking for a job, especially early in their career. I had written it as much for Sam as for my children, especially for my 22-year-old son Jonah, who is about to enter the workforce.

How Not To Lose a Job That's Yours

Dear Sam,

I am writing this letter to you to explain why we withdrew your job offer. I feel I owe you an explanation, and more importantly, I really hope this will help you in your life.

When you read this, your first emotion is likely to be anger, which I completely understand; it is a natural part of being human. My suggestion is to come back to this letter again in a day or two, once your emotions have subsided. My single goal is to help you by providing

a perspective that I did not have until I became a CEO and started thinking about company culture, and had to hire and, unfortunately, fire people.

We have received hundreds of resumes and need to hire only one excellent applicant who will hopefully improve, or at least not dilute, the talent of our firm. That is a very difficult task. Today, when I look at my colleagues, I have an almost complete mental picture of each one of them. I know their strengths, their weaknesses, what motivates them, and what doesn't. Every one of them has weaknesses, but I don't look at them as weaknesses but sources of their strength. My key job as a CEO is to make sure their strengths properly match the tasks they're performing.

Though they are all different and have diverse (often complementary) skill sets, they have certain things in common: They care about our non-traditional (often quirky) firm, they are a pleasure to work with, they are team players, and most importantly, they have soul in the game.

It is very difficult to have the same level of clarity about an applicant, especially when hiring for an entry-level position. Whereas I have an almost complete mental portrait of each of my colleagues, it took time for the full picture to come together. For an applicant, we only have a few data points that we glean from initial interactions: their body language and the language they use, how they are dressed, whether they show up on time for the Zoom call and in-person interview, the formatting of and any typos in their resume, and conversations with their references. These are tiny little pieces.

Every applicant we interviewed said the same thing, something along the lines of: "Hire me and I will do a great job." It is possible that every person who applied would be great at this job, but that is highly unlikely.

We really want to hire right. It is expensive to train a person, and even more importantly, I hate firing people. I hate how it makes them feel, and thus I cannot stand how it makes me feel.

What makes things even more difficult is that interviewees are in a "first date" mode. This is not just specific to the people we interview but applies to everyone. We all do this. I have done it, too. I wanted the girl to like me, so I presented the best version of myself, which only existed on the date and was not an accurate representation of my real, everyday self. I emphasized the points of interest where we overlapped and downplayed or omitted the ones where we did not. An interesting part of human behavior is that when we do this we are not only lying to our date, we are lying to ourselves. We want to be liked. A similar dynamic happens once we enter job interview mode: We want to be hired. The better matched you are with the girl or the job, the less aspirational your behavior needs to be.

Realizing this dynamic, an interviewer's job is not to just listen to the words the applicant says but to also pay attention to nonverbal clues.

Let's talk about your particular case. You won us over with your warm personality and the thoughtfulness you showed during the first two interviews. Having some experience in the finance industry was an added bonus. However, we started noticing some warning signs: Your resume had three typos; you provided the wrong number for your reference check; we only had a chance to talk to one of your references, and he said all the right things about you, but his voice lacked conviction.

Though we had some hesitations, which we shared with you, we still decided to give you a job offer. Then you were late to the job offer meeting. In your defense, you texted and warned us that you were running late. When asked what questions you had for us, you asked, "How can I make myself more marketable?" First, I fail to see the appropriateness of this question when you had just been given a job offer. Additionally, you asked the same question in the last interview. I can see that you were probably nervous. Instead, a more appropriate question would have been along the lines of, "How can I prepare to hit the ground running?" or "What does success or failure in this job look like?" We left this job offer meeting less confident than when we entered it.

Finally, when Cyrus called you after the job offer conversation, he left you a voicemail welcoming you to IMA and provided you with his personal cell phone number. You did not extend him the courtesy of calling him back.

It is very much possible that we made a mistake in retracting the offer and made it based on some random data points, but then your response to our email retracting the offer had grammatical errors and typos. This job requires someone who is incredibly detail oriented.

I understand how unpleasant it feels to have an offer retracted, but it is better than being let go after two weeks on the job. As a consolation, I'd like to offer feedback on what you can do better next time you apply for a job. I wish someone had done this for me when I was your age, or even ten years older.

Resume

A resume, at the very least, should not hurt your chances. It needs to have consistent formatting. It should not have typos, especially if you are applying for a job that requires meticulous attention to detail. I read that in large companies, AI is reading resumes and selecting applicants to interview. I bet AI is using grammar checks as one of the filters.

If you are applying for a creative job, the resume should showcase creativity. It would be even better if the resume told a story. I have not looked for a job in decades, but if I did today, I'd list the last 10 books I'd read and the takeaways from them. We live in the TikTok world, and maybe I am projecting values of IMA here, but we'd want to hire someone who has an attention span longer than 30 seconds and who reads.

If I was applying for an analyst job, I'd include my analysis of a company. Something that would provide insight into who I am. Write a cover letter that tells a story about you as a human being.

Be punctual

Show up at least fifteen minutes early for the interview. This sends a signal that you care. Also, if there is a hold-up in getting to the interview, you'll still be on time. I'd argue that is something you want to incorporate into your everyday life. Time is the most valuable commodity of all, and being on time (or even better, early) shows respect.

References

We used to employ an army of interns. When people reached out for reference checks, if an intern was okay or even mediocre, I would say mildly positive things about them (this is part of human nature; we don't want to say bad things about people to strangers). However, if they were great, I couldn't shut up about them. Therefore, we learned not to just listen to what references say, but also how they say it.

You need to have references ready. Even better, reach out to your references beforehand to let them know they will be contacted. I don't know whether if Cyrus had talked to more references, we might have received more enthusiastic feedback. We were only able to reach one of the references you provided, and his enthusiasm was limited.

Follow up

After every interaction with a company, follow up with a "thank you" email. This sets you apart from everyone else. It is a little thing, but it makes a huge impact. It shows that you care. It also gives us a small hint about client-service skills.

Show you care

People who hire you want to make sure they are not just hiring someone to collect a paycheck; they want a valuable contributor. When we asked you why you wanted to work for IMA, you said it was because you were tired of working for large, soulless enterprises. While I understand and share your sentiment about working for large companies, you really needed to demonstrate why you wanted to work for *this* specific company. I have seen many applicants make this mistake; they tell us how much they want to work for us, but spend very little time actually researching us.

Everything is a test

As I have mentioned, an employer is trying to get more data points, and it is difficult to do while the applicant is in "first date" mode. However, it is difficult to wear this first date mask

indefinitely. Employers will be trying to get a glimpse of the real you in all interactions: when they take you to lunch or for a walk in the park, during salary negotiations, even for a few weeks after they hire you. Yes, the interview continues after the offer is made and accepted.

Figure out what you really want

The advice given above is not to teach you how to pretend to be someone else. Quite the contrary, it should help you not to miss out on an opportunity that was yours to take.

However, you really want to make sure that you are getting the job that you actually want and that is suitable for you.

I got my first job in the investment industry when I was 23 years old. It was an administrative/computer help desk role. After I had completed the computer-related tasks, I was asked to do filing. Those were the most torturous two hours of that year. Fortunately, management noticed the distress on my face and asked me to do other tasks that were less mundane. I ended up writing a relational database that was used by the company for 20 years. I am a creative person, and that creativity comes at the expense of my ability to do detailed work. This is why I have people at IMA who are very detail-oriented to balance out my weakness.

I have a feeling, though I could be wrong, that you would be happier in a job where you spend a lot of time interacting with people, rather than focusing on details such as spelling or ensuring that zeroes and decimal points are in the correct places when entering a trade.

You have a lot of things going for you: You are a smart, warm person with a whole life ahead of you. I hope you find this advice helpful. Just remember, little things matter; on their own, you may not notice them, but they all add up. Walt Disney once said, "You can feel quality." Quality is the result of doing all the little things well, and with heart and soul.

Check out these articles:

[**Embrace Good Problems: Advice to Young People Today**](#)

[**Let's Keep Humans At The Heart Of Hiring Practices**](#)

[**Letter to a Young Investor**](#)

Books I am reading or rereading

I am starting a new section in the letter. I'll share new books that I am reading and revisit books I am rereading.

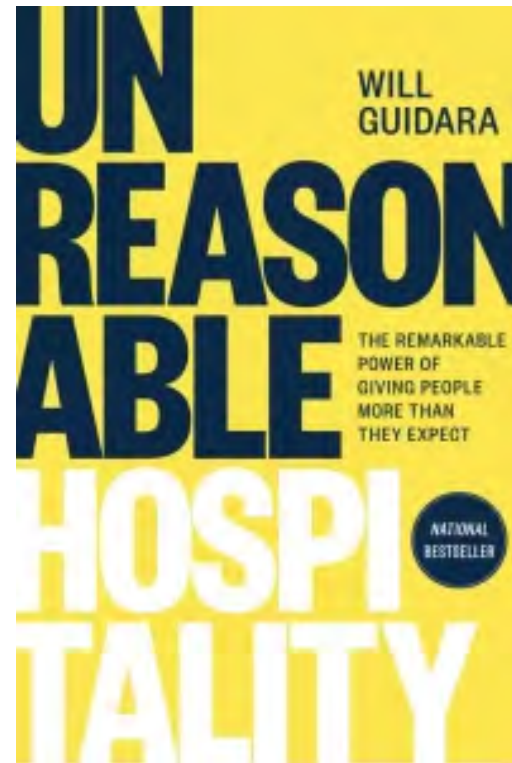
Good books should be read more than once, for several reasons: When you are reading for the first time, without even noticing, curiosity takes over and you want to know what is next, so you may miss some things. As importantly, when you reread the book, you are

not the same. This more mature you may have new life experiences and a slightly different value system. This is why I reread a lot!

I have just finished reading ***Unreasonable Hospitality***, by Will Guidara. Will and his partner took an average restaurant in NYC, Eleven Madison Park, and transformed it into a 3-star Michelin restaurant, which was also named the best restaurant in the world in 2017.

The most interesting part is that Will and his partner achieved this not only through the strength of their restaurant's food, which was great, but through providing unparalleled (unreasonably good) customer service.

I read the book both as a reader and a writer, and I really appreciated the art of storytelling, the hooks Will used to begin each chapter. The book is very well written and a fun read for everyone, but it is an important must-read for any firm that has customers. Yes, this includes investment firms like IMA. We are not only in the investment business, we are also in the service business.





AUGUST 10, 2023

Life is a Walk – Santa Fe



*Click to listen to a narration
of this article*

“ This trip to Santa Fe is more to us than just a continuation of the tradition my father started in 2013. It goes deeper and further than that; we are continuing the traditions started by my grandparents, and likely those of their ancestors. Life is a walk!

Life Is a Walk – Santa Fe

My father and I started taking my son Jonah to Santa Fe in 2013, and this was when I first wrote about it. I have been writing, rewriting, and adding to this essay for the past ten years. I repolished it and included it in [Soul in the Game](#). This time, I decided to leave it untouched. I added new thoughts at the end after our 2023 pilgrimage to this wonderful little town in New Mexico. I hope you enjoy it.

SANTA FE: “REMEMBER THIS”

Santa Fe and my family go way back to the early '90s. It all started with my father and my stepmother. My father had his paintings exhibited in a gallery on Santa Fe's famous Canyon Road. A few times a year, they would load up paintings in a minivan and drive them to Santa Fe.

My first experience with Santa Fe was in 1998 – it was not a good one. I went there with a girl I was dating. We got there. It was unbearably hot. We did not see much. Santa Fe fell flat with me (and I fell flat with the girl). I should have checked the weather before the trip.

Then eight years ago I wanted to do a road trip with my father and my then 12-year-old son, Jonah. My father suggested Santa Fe. This started one of my favorite Katsenelson family traditions of visiting Santa Fe in the summer.

Santa Fe is 400 miles from Denver. It is a gorgeous [eight-hour drive](#) through the Rocky Mountains – this beauty is worth every mile. We leave at seven in the morning, have lunch in Salida, Colorado, and arrive in Santa Fe by 4 p.m. We always finish our first day at our favorite restaurant, the India Palace.

We'd spend half a day walking Canyon Road – Santa Fe's gem. Canyon Road used to be just another residential street in a sleepy neighborhood. Then the houses were turned into

galleries. There are about a hundred galleries along the road. Going from gallery to gallery is a bit like trick or treating – you want to make sure you stop by every house on both sides of the street (even if you don't get the Halloween goodies).

My father turned this gallery “trick or treating” into a four-hour art lesson. He is a phenomenal teacher and art guide. Though in the US he became known as an artist, he has a PhD in electrical engineering and taught electrotechnics theory for 27 years at Murmansk Marine Academy. He was one of the teachers most beloved by students at the Academy. Thus, in addition to being a scientist and an artist, he is a very gifted teacher. It doesn't matter what he teaches; you want to listen to him.

Anything and everything I know about art was taught to me by my father. As I have mentioned, our summer vacations were always accompanied by trips to art museums. Even when I was older and my father and I traveled to Europe, every city of size required a visit to an art museum.

This “trick or treating” through the galleries turned into a wonderful art lesson. My father was very gentle, not inflicting his thoughts on us, wanting to know our thoughts about the art. Our opinions mattered to him. He'd treat us as art equals. Obviously we were not, but it felt so good.

STUDENT OF LIFE

In *Ego Is the Enemy*, Ryan Holiday makes the point that ego stifles our growth – we stop learning. What is the point of learning if we already know everything? Ego is a virus that is genetically programmed into all of us. It sits dormant and waiting to attack if we let it (usually triggered by failures and successes).

The best way to guard ourselves against our ego is by thinking of ourselves as evergreen students. Albert Einstein said, “As our circle of knowledge expands, so does the circumference of darkness surrounding it.” We should welcome “the circumference of darkness” wholeheartedly.

As I think about it now, my father is the embodiment of the moniker that has become near and dear to me: *student of life*. He is an accomplished artist who has won national and international awards, and his art is in an art museum in Japan. He took masterclasses from artists he admired well into his 70s. There was always something he could learn from others.

After exhausting our “trick or treating” we'd go to our favorite restaurant, sit under a big tree, have lunch, and play cards. Then we'd go to the hotel. My father would take a nap. Jonah and I would take a dip in the swimming pool. Then we'd go out to dinner. Jonah always wanted to go back to India Palace. So we did.

SANTA FE OPERA

We'd finish the evening with the Santa Fe Opera – the highlight of the trip, at least for me. I'd argue the Opera is the second (or maybe even the first) gem of Santa Fe. The Santa Fe Opera building is itself a work of art – it sits gorgeously on a hillside overlooking the Jemez Mountains to the west and the Sangre de Cristo Mountains to the east.

I've been to many operas, all over the world, but this was the first opera that had tailgate parties in the parking lot. And not your hotdog and beer football gathering. Opera lovers, dressed nicely for the occasion, brought their portable tables, with white linen cloths, and some even had flowers and candles. This was a wine, steak, and fine cheese kind of tailgate event with genuine wine glasses and fancy silverware – in the parking lot!

Saying that Jonah liked the opera is an overstatement, but he liked going there because I'd let him get Sprite during the intermission. He patiently suffered through the opera in anticipation of the intermission, when he'd have his Sprite.

On our third trip, in 2015, my father, and then 14-year-old Jonah, and I were joined by my then nine-year-old daughter, Hannah. We went to the Santa Fe Opera. This was Hannah's first time at the opera, and we saw *Rigoletto* by Giuseppe Verdi. After the performance, as we were walking to the car – this was five years ago, but I remember this conversation as if it happened today – I sheepishly asked Hannah what she thought. She said, "Dad, I know you really wanted me to like this opera. And honestly, what I am saying has nothing to do with what you want. I really, really liked this opera." My eyes are watering a little as I write this.

SANTA FE 2020

This year I went to Santa Fe with Hannah. My father and Jonah couldn't make it. It was a father-daughter trip.

The Santa Fe Hannah and I encountered this time, during the pandemic, was quite different from the Santa Fe I am used to seeing. It was a ghost town. The Santa Fe Opera was closed. It seemed like we were the only tourists in town during the virus outbreak. Though the galleries were open, we did not visit them. It was hot, and we'd have to wear our masks for hours to go trick or treating.

Instead, Hannah and I would get up at 6 a.m., arm ourselves with Starbucks, and walk the empty streets of Santa Fe for a few hours before it got too hot. We'd talk. Hannah would tell me about the fantasy novels she is reading (they sounded so good I wanted to read them too). She's been reading two books a week. We'd have breakfast, then find a bench under a big tree and read until dinner (we'd just snack for lunch). This was basically a reading trip.

THE MARTIAN

During our long drive, Hannah and I listened to the audio book of *The Martian*. Hannah has shown an interest in science since we watched Elon Musk's SpaceX rocket sending astronauts

to the International Space Station. (Now I can understand how sending men to the moon in the '60s was so inspiring to the nation.)

After that we watched astronaut Chris Hadfield's *MasterClass*, and I could see Hannah's eyes light up. The movie version of *The Martian* was the next logical stop. The book was different from the movie in that it went so much deeper into how (fictional) NASA astronaut Mark Watney, stuck on Mars, deals with incredibly difficult problems thrown at him by using science, ingenuity, and the will to survive.

As a parent, it is so important to notice these little inklings that your kids have and nurture them and help them grow. Maybe Hannah will become a scientist – as long as she is happy, I'd be delighted if she did. (Jonah has expressed no interest in investing, nor has Hannah. My six-year-old, Mia Sarah, is my last hope for IMA to become Katsenelson &... Daughter.)

Hannah used *The Martian* on me before we even finished listening to it. In the book, Mark Watney needs to travel 1,300 miles over Mars in a vehicle. It will take him a few weeks. The only food he has left is potatoes. He bakes potatoes before the trip and then freezes them. He explains that he did this not just because it is easier and more pleasant to eat cooked potatoes, but because cooking breaks down the protein in potatoes, and thus they provide more net calories than uncooked ones.

A few hours after we listened to this episode in the book, we stopped for lunch in Salida. Hannah had an ahi tuna salad (mostly uncooked tuna). Thirty minutes later, after we've eaten and are driving again, she tells me she's hungry and could we stop and get a snack. I say, "You just ate!" She says, "Dad, you don't understand. That tuna was not cooked and thus the protein was not broken down and so I didn't get as many calories as you think!" How could I refute this well-constructed scientific argument?

TRADITIONS

A friend of mine told me a story about the St. Louis Bread Company that is known today as Panera Bread. After they made their very first batch of sourdough bread, they took a lump of the dough and put it aside. The following day, when they made a new batch of sourdough, they added the lump from the day before. They did this every day thereafter – adding the dough from yesterday to today's dough. When they opened a new bakery, someone would bring a lump of yesterday's dough from another bakery. They have been doing this for 40 years.

Think about it; Panera has 2,000 restaurants today. Every piece of their sourdough bread has a tiny bit of dough from 40 years ago and every day in between. The history of the company has been strung together in its sourdough bread.

Traditions are like that. The connecting tissue (dough) of traditions are memories. We string them together when we do things together with our family. Going to Santa Fe is a tradition

for my family. When Hannah and I were walking the streets of Santa Fe, we kept saying, “Remember this place? You were looking for Pokémon with Jonah here,” or, “Remember this place? You played cards with Grandpa Naum and Jonah here.”

That is what Santa Fe is for us now. It is full of memories strung together – it is our “remember this” place.

2023 – LIFE IS A WALK

My father could not come to Santa Fe this year; he has turned 90, and this trip is no longer for him. I went with Jonah (22), his girlfriend Molly, and Hannah (17).

Before I get into the trip, let me tell you about the text I got from Jonah in February this year while I was in Zurich.

“I listened to this [Tchaikovsky’s Symphony No. 4] with my friends today. Did not even hate it. I think somewhere in my brain I actually enjoyed it!”

I have to confess that this short text brought me incredible joy and even tears to my eyes. Zurich’s grey buildings started to look a bit less grey. It is hard to put this into words, I felt I could retire from being a parent at that moment. If I had, I would have been leaving at the top! One down, two to go.

Getting this text meant that the seeds I had planted and diligently watered for so long had taken root. I have been gently exposing Jonah to classical music since he was negative in age. Yes, while he was in my wife’s tummy. My wife wore a belt with speakers that had a pocket for a CD player in it and played Mozart to the baby (read the full story in *Soul in the Game*). We listened to music in the car on our trips to school and skiing. We went to classical music performances and, yes, took annual trips to the Santa Fe Opera.

This brings me to this year’s trip. My kids are regular kids; in their free time, they listen to what other kids their age listen to. But these trips have planted something else in them: curiosity, love for art, and yes, love for classical music, even opera. When Jonah was young, on these trips he was looking forward to the treats: ice cream, soda at the opera, a game of cards during lunch. He was not quite serving



a sentence while walking the Canyon Road galleries or going to the opera, but his attention was definitely on what he considered to be the “funner” parts of the trip.

This year was different. We saw *Tosca*, one of my favorite Puccini operas. For the first time, both kids unequivocally loved it and thought it was the highlight of the trip! But it was more than that. Both Jonah and Hannah were captivated by the art in the galleries; they were present in the moment, not thinking about what was to come.

The Vietnamese monk Thích Nhất Hạnh once said, “Life is a walk.” These four simple words made me think a lot for weeks. I could write a whole essay on this brief sentence, and one day I will; but not now, to me, it means being present in the present moment. We often think of our life as something that will begin in the future – tomorrow night, when we go to the movies, or next month when we go on vacation. Life is now, this moment, and we are living it. It took ten trips to Santa Fe and dozens of visits to art museums and classical music concerts for Jonah and Hannah to start “walking” through life in Santa Fe on this trip.

I had another, important realization on this trip.

My parents grew up in very traditional Ashkenazi Jewish families. They valued books and classical music and viewed their children as the center of the universe. They attended every classical music concert they could, and they always took their kids with them. My parents followed in their parents’ footsteps, adding art museums to the mix.

We were having dinner in Santa Fe the day after we saw *Tosca*. Hannah asked Jonah if he would bring his children to Santa Fe, take them to the opera, the galleries, or even take them to classical music concerts in Denver. Jonah thought about it for a moment and then said firmly, “Yes.” Somewhat surprised, I asked, “Why?” He replied, “That is what we do.”

I realized that this trip is more to us than just a continuation of the tradition my father started in 2013. It goes deeper and further than that; we are continuing the traditions started by my grandparents, and likely those of their ancestors. Life is a walk!

P.S. In this essay, I focus on only one cultural dimension of raising children. Raising good kids is much more than just taking them to classical music concerts, museums, and art galleries. The job of a parent is to bring children into this world who can stand on their own two feet when they face adversity in life, which they inevitably will. They should be great human beings who will be a net positive to society. Perhaps *society* is a big word, but we want our kids to be people who want to make the lives of those around them a bit better. It is important to be what you want your kids to be, too – they pay much more attention to your actions than your words. This is how my kids changed me; I had to transform into what I wanted them to become.



SEPTEMBER 7, 2023

My Father – a Life Worth Living



*Click to listen to a narration
of this article*

“ I spent weeks trying to write about my father, but I failed miserably. As a writer, I have learned that there is no such thing as writer's block; either your idea is not fully developed, or there is a conflict between what you want to say and what appears on your pages.

My father, Naum Katsenelson, passed away on August 10, 2023.

I spent weeks trying to write about my father, but I failed miserably. As a writer, I have learned that there is no such thing as writer's block; either your idea is not fully developed and ready to come out, or there is a conflict between what you want to say and what appears on your pages. In this case, it was the latter. I realized I wanted to talk about him, but I kept coming back to myself. No one has had a greater impact on who I am today than my father. My mother, who dedicated her short life to her family, passed away when I was 11. Since then, my father has been both a mother and a father to me.

A life worthy of examining

As I was writing this essay, I kept noticing that instead of writing about my father's life, I was turning the piece into a “how to” essay. Aristotle said, “An unexamined life is not worth living.” Well, my father led a well-examined life that is worth learning from.

When I think of my father two nouns come to mind: warmth and kindness. Of course, he was also so much more.

A true renaissance man, he excelled in both science and art. Archimedes said, give me a lever and a firm place to place it and I can move the world. Give my father paper and pen and he could explain to you anything from the laws of thermodynamics or how the GPS satellite system worked so that even a five-year-old could understand.

My father taught and was adored by thousands of students at the Murmansk Marine Academy; he was one of the most respected professors at the academy. Many professors at Soviet universities had a god complex and were condescending towards their students, an attitude that I was often a victim of in both high school and college. However, the person I saw at home was the same person his students saw in the academy: He had a terrific sense of humor,

he cared, and he treated everyone with respect. He was always prepared; armed with chalk and a blackboard, he could unfold complexity into something simple and understandable.

It is unsurprising that many of his students remained his friends, and some even close friends, for decades after graduating.

He had boundless curiosity, lacked ego, and genuinely loved learning – a true student of life. Even when he was well into his 70s, after being an accomplished artist who had painted for 70 years, he still took master classes from artists he admired. To the whole family's astonishment, also in his late 70s, he enrolled at a local college to improve his English.

Not your typical university professor

Bravery is not usually the first word that comes to mind when you think of university professors.

A few years before we left Russia, I was ditching school, something I excelled at, and came home for lunch. As I was heading back to school, I saw smoke coming out of a neighbor's apartment. The family that lived in that apartment had seven kids. My father lovingly called them the garlic cloves – he could never tell those kids apart. I ran upstairs and told my father about the smoke. Without hesitation, he broke the door open and rushed into the fire-engulfed apartment. He checked every room and brought out two kids who were hiding under blankets. These two human beings are alive today because of his selflessness and bravery. He received a medal, "For Saving Children in a Fire."

This happened 37 years ago, but I don't think a single friend of his knows about it.

I don't think my father read the Stoics, but he led the life of a Stoic. Instead of quoting Seneca or Epictetus, he often cited words from a popular Russian song that loosely translate as "nature doesn't have bad weather; you can find beauty in all weather." We lived in Murmansk, which is located above the Arctic Circle. The weather was often objectively cold and subjectively miserable, but my father did not see it that way; he'd quote that song and find beauty in Mother Nature's daily gifts.

I understand now, after studying Stoic philosophy, that he practiced the dichotomy of control: You cannot control the weather, but you can control how you respond to it. And he also practiced reframing – the weather is what it is; good or bad is our interpretation of it.

Both of my parents believed that you could sculpt your own character and train yourself to overcome adversity with grace. My mother and father were ice swimmers; they swam in a frozen lake when it was -30 degrees outside. When we went cross-country skiing, my father would ski without a shirt.

This is merely speculation on my part, but I don't think he wanted to run into that burning apartment any more than the other neighbors did. But when he was stepping into a frozen lake wearing just his swimming trunks while the people around him were wearing burkas, he was training himself to recognize fear and then overcome it. He often referred to this as "pushing through [the feeling of] I don't want to" (Делать через не хочу).

Loyalty without bounds

My father's best friend, who was also a professor at the university where he taught, inherited books of the dissident writer Aleksandr Solzhenitsyn from his brother. At the time, these books were prohibited in the Soviet Union and ownership of them was a crime. Someone ratted out his friend. When the university held a vote to fire him, the only hand that went up to object was my father's. In Soviet Russia, this vote came with possibly grave consequences.

A day after her 50th birthday, my mom was hospitalized with a crushing headache and a few days later was diagnosed with brain cancer. My father fought hard for her. Somehow, he managed to get a famous neurosurgeon from Saint Petersburg to come to Murmansk to perform an operation. Despite the surgeon's fame, the operation was not successful. My father, a man of science, held on to the last threads of hope, even seemingly absurd ones. He read an article that water that had been passed through a device containing electricity and salt had helped some people with cancer, so he constructed the device and made the water for my mother. This contraption did not change my mom's fate. He fought for my mother and was with her until she took her last breath.

Selflessness

In 1991, after the Berlin Wall fell, my father's younger sister, who had left Moscow in 1979, invited our family to come to the US. I only understand today, as an adult and a parent, the sacrifice my father made for my brothers and me. He was 58 years old. He studied English diligently, but there was no way he could learn English well enough at that age to teach at a university.

I remember him reading an essay out loud to me in the late 1980s, about a professor from Moscow University who moved to Brooklyn and became a taxi driver to earn extra money to pay for his dental work. By moving to the US, my father was facing a highly uncertain future with many possible outcomes, where he – a highly respected professor who loved teaching and had a great life in Murmansk – might have had to start driving a taxi or washing dishes to support his family.

Though he became a successful artist in the US, that was not even in the realm of possibility in his and our minds at that time. He had painted all his life for his own pleasure and had never sold (or even attempted to sell) a single painting in Russia. Despite the personal uncertainty of his future life, there was one certainty in his mind: My brothers and I would

have a much brighter future in the US. He chose a definite bright future for us, at the expense of unpredictability in his own.

Out of all of my father's acts of kindness, for some reason this little one stands out the most to me. Soon after we moved to Denver, my 54-year-old stepmother, Fanya, who was a doctor in Russia, got a job doing housekeeping at a hotel. My father would come later in the day to help her out by cleaning rooms and making beds, so she could take a break. This seemingly small act of kindness was not so small for my stepmother. (They got married a few years before we came to the US, and she became my father's life partner and loyal friend. She stood by him and heroically – I really mean it when I say this – took care of him after he had a series of strokes in 2017 and up until his passing.)

Soul in the game

When we moved to the US, my father went from one passion to another, from science to art. To his own surprise, I think, he became a full-time artist and an art teacher. Despite living a modest life, he did not take much money for these lessons. That did not feel right to him. He taught out of love for teaching. The size of his classroom was constrained by the square footage of his basement, but those few lucky kids who were in his class are much better people today because he poured his soul into them.

He didn't just teach them how to hold a pencil or mix colors. He would spend half of his art lessons studying the paintings of the greats. I thought he did this to teach them how to paint. Today I realize that, while this was part of it, there was another, more important reason: He wanted to teach them to see the world through the lens of art. We are surrounded by beauty everywhere and just need to open our eyes to it. Looking at art makes us pause, study the painting, and search for the beauty. It is a mindful act where we let our imaginations range. This is a muscle that atrophies if we don't train and develop it.

My son Jonah said at my father's funeral, "My grandpa would pick me up from school, bringing cheese sandwiches. We'd go to the park and sit on the bench for hours. He'd tell me to look at the people around me and think about what their lives are like, what they are going through as people. We would sit and talk about the people walking by. We'd go to art museums and look at paintings. He'd look at a painting and say, 'How does this person in the painting feel? Are they happy? Are they sad? What was their life like?' And we'd talk about it."

I can see the impact of these lessons in the behavior of my kids. To this day, when we are walking in the park or sitting in a café, they tell me, "Dad, look at how the light reflects off this surface" or "See how this shadow creates contrast and illuminates this..." That is my father's investment bearing fruit.

What is truly remarkable about art and my father subtly introducing it into the lives of his students (including me) is that he changed how we experience the world. We are all given

just so many minutes in this life. We can experience the world in shades of grey that we see beneath our feet, or in full vibrant colors if we open our eyes to beauty – it is entirely up to us. My father, through his art lessons, taking my kids and me to art museums and galleries, or simply walking with us in the park or along a wet street and pointing out the miracles all around us, taught us and his many students to see and notice the beauty in this world.

I let my father's art speak for itself, and it speaks loudly. I get emails daily from readers who tell me how much they love his art. He remained true to his art – he never painted a single picture on a subject that may have been in popular demand (that is, that sold well) he was simply passionate about painting. I have never known anyone with such a strong, principled inner compass. Doing the right thing and being true to himself was at the core of everything he did.

When I was writing about having soul in the game, he was the person I modeled this concept after. Having soul in the game is what made him great at everything he did – any activity had all of him; he had his high standards, and he was uncompromising. Money was always secondary to him. When he taught, he taught; when he painted, he painted; when he was a parent, he was a parent.

Being a parent

This brings me to his most important job – being a parent. Let me clarify: *He made it* the most important job for him. He put my brothers and me above everything else.

One of my earliest memories of my father is his picking me up from kindergarten when I was five. My teacher complained to him that I had misbehaved. I don't recall what I did, but I was clearly in the wrong. I remember our walk home and holding his large, warm, slightly puffy hand.

When we arrived home, he looked at me softly and said, "I bought you this toy," pointing at a yellow truck. "I was going to give it to you. But you behaved poorly today in kindergarten. For this, you won't be able to play with this truck for five days." Then came the words that have stayed with me for the rest of my life. "I'm *not* going to hide this truck from you. I'm going to put it right here on the table [that table was well within my reach], but I know you won't play with it. *I trust you*. You're a good, honest kid." I remember how much these words shocked me then. I walked around that truck for five days. Never touched it.

I misbehaved, but I was treated with kindness, respect, and most importantly trust. Forty-five years later his words and the feeling that I am trustworthy remain deep within me.

My father believed in me, but he had his hands full with me. My teachers judged me based on my appearance. I had a perpetually smiling face – I didn't have a single mean bone in my body (life has changed that). I wore a perpetually wrinkled uniform. I enjoyed making

people laugh. I couldn't stay in one place for more than a minute. I got bored easily. I didn't have a great memory (I still don't) and thus was terrible at memorizing things (Russian schools were big on memorization). I'm sure in today's America I would be diagnosed with several four-letter "disorders." I just matured late.

My teachers prejudged me to be a C student. Actually, they prejudged me to be a D student and, in their minds, they gave me Cs out of charity. They stopped grading my homework and started giving me those automatic Cs. Unfortunately, I only figured this out too late. On the last exam I took in high school, my father's friend, a literature teacher, wrote an exit essay for me. I submitted it as is, and I, or rather she, still got a C.

As I look again at the world through the eyes of my young self, I cannot tell you how calming, encouraging, and liberating my father's belief in me was. The outside world always made me feel insignificant and small. If it weren't for my father, I would have shriveled to fit my teachers' image of me. My father made me feel like I could achieve anything; I just needed to put in the effort.

In all honesty I don't know what gave him confidence to have this belief in me. Maybe it was the unconditional love of a parent, or maybe he saw a bit of his younger self in me.

When I was thirteen, I decided to become an entrepreneur. I took photos of record covers of rock groups (Iron Maiden and Kiss, to be specific), developed the photos myself in the darkroom, and sold the product of my honest labor at school. This was 1986, before Xerox machines and copyright law arrived behind the Iron Curtain.

So breaking copyright was not my crime.

One day, a student went on a stealing spree at school; and when he was caught, he said that he had stolen money to buy Iron Maiden photos from me. I was accused, I kid you not, of being an instigator of the theft. My father went to the school and set things straight, calmly explaining to the school director that before punishing a thirteen-year-old, they should go after companies that make movies – after all, a lot more money gets stolen by kids so they can see movies. And then after the school had finished prosecuting movie studios, they could come after me. The school's director expected my parents to roll over, but my father stood firmly behind me and his logic was persuasive (his reputation definitely helped). The accusation died out of its own stupidity.

When I was fifteen, I went to marine college, a technical school where cadets had to wear the navy uniform and live under military discipline in barracks. In the evening, cadets were given time to do their homework in the classrooms. I was struggling with chemistry and physics. My father would visit me daily and help me to do homework. When other cadets voiced their protests that I got special treatment, and their parents didn't want to shlep to

the school in the freezing cold to help their kids, my father's answer was, "I'll help anyone who needs help." And he did.

My father provided me with the safety I needed as a child when the outside world was ugly and unkind, which Soviet Russia quite often was. Despite the harshness of the world around me, with my father I felt as though I was behind a large stone wall that would always protect me from the elements of the environment.

He worried about my future for a long time. He thought investing was a legalized version of gambling. He grew up in the Soviet Union, where all property was owned by the state, and so his understanding of my professional world was very limited. He even offered to help me open a real business – a bagel shop.

He stopped worrying about my future after I wrote *Active Value Investing* (the book the child in me wrote for him and dedicated to both my parents), but not until the book was published in Russian. My American publisher, John Wiley & Sons, sold the Russian rights to one of the largest business publishers in Russia, who asked me if I was willing to edit the Russian version. I agreed but overestimated my ability to read and comprehend business Russian. I asked my father to edit the book.

My father had a PhD in electrical engineering and had never opened a finance book before. He dutifully read it from cover to cover several times. We had long debates about investing. After he finished editing the book, he was no longer worried about my career and laid the idea of the bagel shop to rest. Looking back, working on this book with him turned into one of the most memorable experiences I had with my father.

What's really amazing about my father is that he didn't stop parenting with me. He went after his grandchildren. And he was obsessed that his grandchildren would turn out to be strong, thoughtful, kind human beings. He made my job as a parent a lot easier.

My father had incredibly high standards. In fact, when I was an adult, the only disagreement we had was about my parenting. Looking back, he was right on most of our disagreements. When we reached an impasse, I knew what was going to happen next – I'd get a letter from him. He would handwrite it, scan it, and email it to me. These letters were written with a level of diplomacy that would have solved the conflict in the Middle East; they were conciliatory and always offered his help.

My father was concerned about Jonah's academic progress, and he had legitimate reasons for that. Jonah was a wonderful child, but he was not a motivated student; his GPA in the 11th grade was 1.3.

I have a dear friend, Aleksandr, whom I have been friends with for over 30 years. His son, Jake, was born with the maturity of a 30-year-old. Jake, who is an accomplished artist

today, was my father's favorite painting student. In contrast to Jake, my son, Jonah, matured late, just like me. I often heard about Jake's progress and Aleksandr's parenting in these fatherly letters.

It wouldn't be my family if we didn't figure out how to get a good laugh out of the situation. In December 2016, we finally got our chance. My parents got a poodle – Chapik. My father and stepmother went to Mexico and my brother Alex was left to look after him. Alex was at my house for dinner and jokingly complained to me that our father was failing at parenting his six-month-old puppy.

We had the idea of recording a video "letter" to my father, in which Alex, using the same language my father used in his letters to me and to him (I was not the sole recipient of these letters), explained his concern for Chapik's future.

Alex, in serious, calm, carefully calibrated tones, explained that Chapik's days were not well planned out, and the dog's only focus was eating and going to the bathroom. He also stated that unfortunately Chapik had little motivation to learn, and compared him to Aleksandr's dog, who was always busy chewing his bones and playing with rubber toys. His days were planned and he didn't have a single free minute to just laze around. He also compared Chapik to other highly trained and well-cared-for dogs of my father's friends. Alex offered to take Chapik to a psychologist. He even graciously volunteered to talk to Chapik on Skype from 8:00 to 9:00 each evening. It took us seven takes to record this masterpiece – Alex could not keep a straight face and we couldn't stop busting up.

The best part came when Alex and I shared this video with my father at his house. I don't think I had ever seen my father laugh that hard before. He had a terrific sense of humor and was able to laugh at himself. The letters, however, did not stop – until they did. I would give anything to get his letters now.

Yes, it is the warmth and kindness I remember about my father. The way he patiently taught Hannah and Mia Sarah how to paint. He'd pick up Hannah from school and spend hours with her in his art studio painting together every day while they listened to classical music. On the days when Hannah couldn't come, he'd call her on Skype. He would be the last person she'd talk to before she went to sleep. As I look at it now, I understand that knowing his life was on the down side of the curve, he wanted to impart all his wisdom to her. She, in return, clung to every word he said.

I look at my kids today and I see my father in them. Hannah's patience, kindness, and love of painting; Mia Sarah's sense of humor, her need to make us laugh, and her ability to tinker with things endlessly. My father, who had been ill for the last six years, never got to see Jonah 2.0, the Jonah who is now an honor student at CU Boulder, is displaying his best qualities, the qualities my father helped to shape through his gentle parenting and his letters to me. He would be very proud of the man Jonah has become today.

A complete person

My seventeen-year-old daughter Hannah recently said, as we talked about my father, that he had a complete mind, and then she quoted Leonard da Vinci: “To develop a complete mind: Study the science of art; study the art of science. Learn how to see. Realize that everything connects to everything else.”

She is right. I remember my father teaching my kids with almost scientific precision about Vermeer’s use of light in his paintings. He had the same sparkle in his eyes and enthusiasm when, a few decades before, on a dark, cold, snowy evening, armed with pen and paper, he explained to (a fifteen-year-old) me the magic of the elements of the periodic table when I was struggling with college chemistry in Russia.

He had a complete mind, but he was so much more than that — he was a complete person. It was his kindness that made him complete. He was an optimist, but I think he simply chose to see the best in people. His optimism was contagious and uplifting — I wouldn’t be who I am today without his belief in me. My brother Alex, who embodies my father’s kindness, keeps repeating one of my father’s favorite sayings: “When people ask for help, figure out how to say yes.”

My father was an agnostic; he didn’t lead a life worthy of admiration in this world to get “brownie points” for the next one. Through small and big acts of kindness he left a lot of warmth in *this* world. As I reflect on his life, I realize that everything we put into our children doesn’t go away; it stays in them and is passed on to their children, and their children, and so on. He lived a life worth living. He may have completed his life, but he lives on in my brothers, my kids, me, and everyone his kindness touched throughout his life.

My family has a tradition that was started by my father. On special occasions such as birthdays ending in 5 and 0, we make a video about the birthday person (usually shown at the end of the birthday party). This is a “royal we” — the responsibility of making this video usually falls on me.

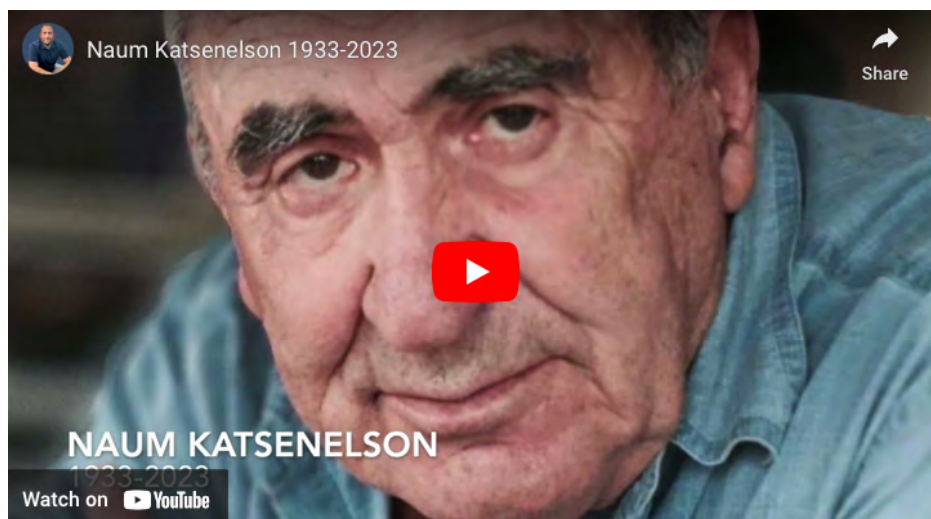
For my father’s 80th birthday, the video was slightly different. My father and I worked on it together — he directed it, and I did the technical part. You can watch it below; it provides a good overview of his life.

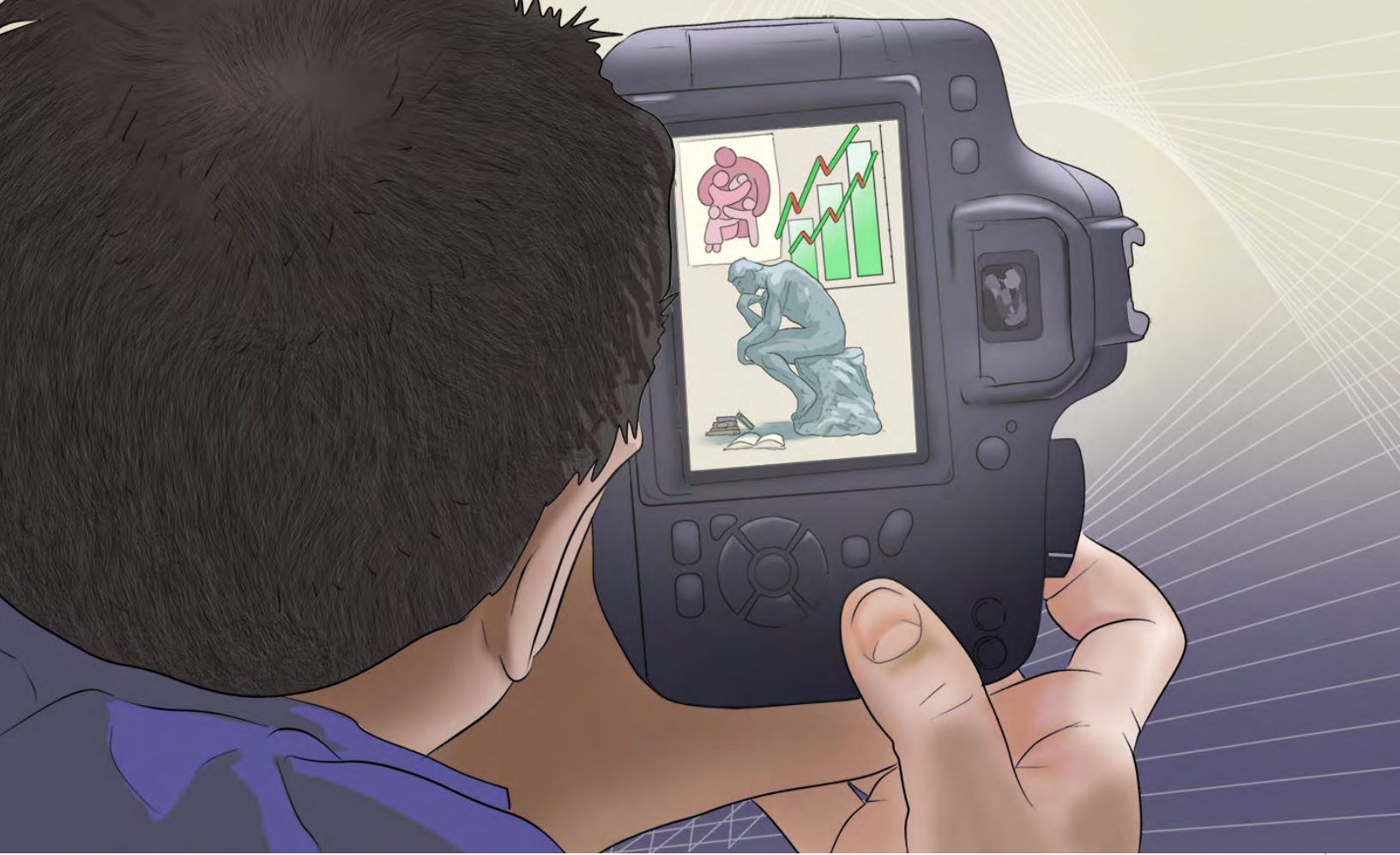


Four years later, he became very ill, and we didn't get the chance to make his 85th birthday video. I want people to remember him before he got sick, so I compiled a short video of his life from 2013–2017. I added English subtitles, but though they provide context, they don't fully capture the humor and the nuances of his speech.

In this video, you get a chance to see my father in real life: playing cards with Jonah at our favorite Indian restaurant in Santa Fe, teaching three-year-old Mia Sarah how to paint, toasting Hannah on her tenth and eleventh birthdays, spending time with Hannah in his studio in the basement, constructing buildings with magnetic blocks with his granddaughters, lovingly making fun of my stepmother's constant micromanagement of him, giving Hannah art lessons at our house, playing charades on New Year's Eve, teaching Jonah geometry, explaining to Hannah why there is wind and giving her first lessons in philosophy.

Finally, there is my favorite scene of Hannah and my father eating ice cream after we went to the Boulder Symphony.





DECEMBER 14, 2023

Broadening the Aperture of How You Look at Life



Click to listen to a narration of this article

“ The interview took place in April 2023 at Temple Sinai here in Denver. The focus of the discussion was on my book *Soul in the Game: The Art of a Meaningful Life*. The living characters of the book are from my family, so having them in the audience was a bit surreal.

Today I want to share with you a video of an interview:



The interview took place in April 2023 at Temple Sinai here in Denver. The focus of the discussion was on my book *[Soul in the Game: The Art of a Meaningful Life](#)*. The living characters of the book are from my family, so having them in the audience was a bit surreal.

The highlight of the interview came at the very end when my nine-year-old daughter, Mia Sarah, heckled me. You have to watch it, but she said, “When you say that you are being present while driving us (her and Hannah) to school, it is a total lie.” Yes, bringing people you are writing about into the audience has its own risks.

There is a postscript to this story: The reason Mia Sarah felt that I was not fully present when I was in the car with her is because for the last year, Hannah had a learner's permit and was actually driving us to school. I sat in the passenger seat up front and Mia Sarah sat in the back. As I look at the situation, I was not fully present, at least from Mia Sarah's perspective. I was trying to ensure that we didn't die from Hannah's driving – my focus was on the road and Hannah.

After the presentation, I made a course correction. By that time, Hannah had significantly improved as a driver. I sat in the back, right next to Mia Sarah. Our trip to school became like an Uber ride. In fact, Mia Sarah and I would jokingly rate Hannah after every ride. Mia Sarah would deduct points if Hannah did not open her door or offer her a bottled water. We would have a good laugh about it. If you now ask Mia Sarah if I am fully present, there is a chance she may say "yes."

This interview is very special to me for two reasons. First of all, my whole family was there; and second, I was interviewed by an incredible person, my friend Rabbi Ray Zwerin.

There are rabbis, and then there is Rabbi Zwerin. I respect him immensely, and not only for his accomplishments, which are many:

He founded one of the most successful synagogues in Denver, Temple Sinai, which has been a significant net positive in the lives of thousands. (My wife Rachel and I were married there by him.) He also founded the Denver Jewish Day School, which all of my children have attended (my daughters are still enrolled there). He was the driving force behind the creation of a Babi Yar memorial in Denver to honor the memory of the tens of thousands of Jews killed by Nazis in Kyiv. He also established an organization that advocated for the immigration of Jews from the Soviet Union. In addition to all of these accomplishments, he founded and ran a successful publishing company.

All his great accomplishments aside, I respect him because, like my father, Rabbi Zwerin is a person who immediately comes to mind when I think of someone who is a lifelong learner – a student of life. After retiring from Temple Sinai, he has continued to learn and create. He has written two novels, edited his sermons into a book, and continues to write essays.

He is constantly in awe of the world, and even at the age of 87, he approaches learning with the same enthusiasm as a 17-year-old. I receive emails from him a few times a week, where he shares things he finds fascinating, like [Akshardham](#) (a Hindu temple in New Delhi) or some discovery in science, etc.

I feel like I need to preface what I am about to say with this – I am agnostic. In the Soviet Union, all religions were banned, as they competed with Soviet propaganda for mental real estate. Rabbi and I go for a walk a few times a month, but during these walks, which often last over three hours, we have plenty to discuss, and religion rarely comes up.

I have read his book [*40 Years of Wondering*](#). It is a compilation of his 100 best sermons, delivered on high holy days at Temple Sinai from 1967 to 2004. There is an incredible amount of wisdom in it. Again, this is coming from a person whom you'll only find in the religion section of Barnes & Noble because one of his books was misplaced there. (You have to watch the interview to get the joke.)

Also, as a part-time writer, I was in awe over how great Rabbi's writing is. He is clear, thoughtful, and witty. What also sets this book apart is that it sends you on a fantastic journey down history's memory lane. Many sermons were given more than half a century ago (their wisdom is evergreen); and when Rabbi gave them, he related them to the current events of the time (the Moon landing, the Kennedy assassination, etc.).

This book does not attempt to persuade you to convert to Judaism (otherwise, I would not have read it). Instead, it aims to bring enlightenment to your life. The source of wisdom is not solely religious texts. As you will see, it is common for Rabbis to draw lessons from science, history, and philosophy, as well as other religions.

In fact, when I was reading this book and thinking about Rabbis and other religious people, I observed that religion can either broaden or narrow one's aperture of how you look at life. I have a deeply religious acquaintance who says that "All wisdom is in the bible," and as a result he has closed himself off from the world around him – art, philosophy, science, wisdom from other religions; he has no use for any of it. Rabbi and this book are examples of what a wide aperture looks like.

Here are a few excerpts:

How many of us sacrifice time and health, pushing and pulling, even sacrificing our own integrity and sense of values and ideals in order to achieve success? Once there, we often find an emptiness because in the reaching, the scratching and clawing to achieve our form of world conquest those ideals have changed and so have we.

And

One who does not stand for something will not survive the challenge to his or her personal integrity. And one who does not fully understand what it is they stand for is of little worth to themselves, and is indeed a detriment to family and community. But one whose commitment is rooted in knowledge and matched with patience and persistence can withstand the challenges of any time and any place.

Rabbi even brings wisdom from the movie *Zorba the Greek*, with Anthony Quinn, to his sermon:

Zorba summarizes his philosophy in a sentence or two. "Life is what you have while you're waiting to die." Zorba adds, "The only death you die is the death you die each day by not living." Do not wait to live. Take life as the blessing it is, and in the enjoyment thereof, defeat death.

Interestingly, I don't always agree with what Rabbi wrote. I am not sure he agrees with everything he thought decades ago. Changing your mind is a sign of growth. But this book contains an abundance of wisdom, and it certainly made me think.

One the last thing. I encouraged Rabbi to start a [Substack](#). This way you can read and listen to his essays and [excerpts](#) from *40 Years of Wondering* online. You can subscribe and read his Substack for free, [here](#). Also, you can buy his book on [Amazon](#).



Introducing
MY NEW BOOK
S O U L *in the* G A M E

Soul in the Game - The
Art of a Meaningful Life

I vividly remember the moment when I decided to write *Soul in the Game*. Now, looking back at it, I am very proud of this moment as it was a completely *selfless* one.

Let me tell you what happened. It was early in the morning of August 10th, 2020. I had just finished writing an essay. At the time I didn't have a title for it, but in the book it's called "Creative Rollercoaster".

This essay started out as a short note about Tchaikovsky's *Souvenir de Florence* that was going to accompany one of my investment articles. As I started reading about this piece, I was touched by the emotional rollercoaster Tchaikovsky suffered when he composed it. I caught myself thinking that Tchaikovsky's emotional journey looked very familiar. I don't compose music, but I write. Both are creative processes where you try to fish content out of your subconscious. What started as a short piece that was going to accompany music started to turn into a lengthy essay about creativity and writing. After I finished writing it, I realized that this essay could actually help others. But this was not the only life (non-investment) essay I had written. What if I put the life essays I had written over the last fifteen years into a book? This selfless thought "it could help others" is the one I am proud of.

I started looking through my essays. I was going to self-publish them. Nine days later I received an email from Craig Pearce, an editor at Harriman House, a British publisher that had published books by my friends Lawrence Cunningham and Morgan Housel. Craig and I had communicated a few years earlier about possibly publishing an investment book I was working on, *Intellectual Investor*. (I have yet to finish it.)

I told Craig that I was working on a very different book and sent him a sample. I was expecting a very polite (he is British, after all) response along the lines of "Vitaliy, this looks great. Good luck!" To my surprise, Harriman House expressed interest in publishing it. Now I was a bit confused. I started to question their sanity. I thought there must be something wrong with them. What kind of joint could they be running if they wanted to publish this?

I reached out to Lawrence and Morgan and asked them about their experience with Harriman House. Harriman House had just published Morgan's *Psychology of Money*, which became an international bestseller and quite deservingly sold a million copies. Both gave Harriman House glowing reviews and confirmed that there was nothing wrong with either Craig or the publisher.

I was excited to get the book out into the world, and we agreed to a publishing date of March 2021. We were in the middle of the lockdown, so I had plenty of time on my hands. I worked mornings, evenings, and weekends on the book. At first, I was mostly rewriting existing published and unpublished essays. Then the writer in me took over and I wrote many new ones.

Everything was going according to plan, and then...

Well, I stumbled on Stoicism. It was love at first sight. I wanted to learn and to write about it and share it with the world. I told Craig that this detour might take a few months. I read everything I could get my hands on. This ended up delaying the book by about a year, but I don't regret it. I ended up writing a book inside a book about Stoic philosophy.

Soul in the Game – The Art of a Meaningful Life ended up being a very personal and autobiographical book. But I truly hope that despite its being personal, *Soul in the Game* becomes not **my** but **your** book. I can only hope that I carried the selfless intention that triggered me to write it throughout the book.

The book is finally out - you can buy the book today as in hardcover, Kindle, or Audible format on [Amazon](#).

Since being released, *Soul in the Game* has received glowing endorsements from a lot of prominent people I respect, including General Stanley McChrystal, Nassim Taleb, Carl Bernstein, Wim Hof, and many others.

But as much as I am humbled by and thankful for their praise, when I was writing the book I was visualizing my regular reader – you. I wanted this book to touch you, to brighten your day, to improve your life, even if just a little. So I am particularly thrilled about the fact that this book has earned a 4.7 average reader rating on Amazon from nearly 200 reviews. Many write that *Soul in the Game* transformed their lives - what could be more fulfilling than hearing that?

To be honest, I'm having a hard time letting go of this book. I haven't really stopped writing it. Since the final draft went off to the printer, I've now written several more chapters that I would've included in the book had I the ability to do so.

So if you purchase *Soul in the Game*, send your purchase confirmation over to bonus@soulinthegame.net. I'll send you four new chapters from the book (25 pages!) to read.

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Painting by my father Naum Katsenelson.
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MARCH 13, 2023

Introduction to Rondo

Today, I would like to share with you a wonderful short, light piece, “Introduction to Rondo,” by French composer Camille Saint-Saëns (1835-1921). Saint-Saëns originally intended this piece to be the conclusion for his violin concerto but then changed his mind and left it as a standalone composition for violin and orchestra.

This is one of the most popular and frequently performed pieces for violin, and I will share with you a number of performances by some of the biggest names in the violin world. However, before you listen to the violin performances, I recommend that you first listen to Georges Bizet’s (1838-1875) arrangement for two pianos. While it provides a great silhouette of this piece, it lacks the emotional punch that the violin brings to it, thus pointing up the great contrast between the emotional impact of the violin versus that of the piano. For fun – why not – I’ll add some cello, flute, and guitar arrangements.

[To listen to the music referred to in this article, please follow this link.](#)



MAY 10, 2023

Turandot

I am taking my entire family to see Turandot, an opera composed by Giacomo Puccini, today. This is my first time seeing this magnificent opera. I have heard arias from this opera many times, and I remember how I was captivated by its most famous aria, "Nessun Dorma," when it was sung by Luciano Pavarotti at the Three Tenors World Cup performance in 1994.

To listen to the music referred to in this article, please follow this link.

My nine-year-old daughter, Mia Sarah, loves going to classical music concerts and operas. Jonah and Hannah had to be bribed with sugar to go to the concerts, but not Mia Sarah. Mia Sarah was supposed to be my third child who would accompany me skiing when her older siblings went to college. Unlike her brother and sister, she has more interest in classical music than in skiing.

Puccini died in 1924 and did not finish this opera; he fully completed two acts and part of the third act. It was completed after his death by Italian composer Franco Alfano. At its first performance in 1926, which was conducted by Arturo Toscanini, in the middle of Act 3, Toscanini stopped the music and announced, "Here the opera ends, because at this point the maestro died."



JUNE 8, 2023

Manfred

Today, I would like to share with you the *Manfred Symphony* by Pyotr Ilyich Tchaikovsky. If you had asked me a month ago how many symphonies Tchaikovsky composed, I would have answered with a straight face: six! Number Six was his final one, which he conducted days before his death.

However, I recently discovered that he had actually composed seven symphonies: The *Manfred Symphony* (also known as a tonal poem) was composed after the fourth symphony. Unlike his other symphonies, it is a program symphony based on the poem *Manfred* by Lord Byron, in which the music attempts to tell a literal story.

I love writing about Tchaikovsky for many reasons. I love his music; he is one of my favorite composers. His music is electrifying, powerful, full of incredible melodies, and super-packed with emotional content that deeply resonates with me.

But there is another reason I love writing about his music: Tchaikovsky wrote a lot of letters. Music was his life, his one and only love, and he wrote about it extensively to his friends and to his benefactor, Nadezhda von Meck, a wealthy woman who loved Tchaikovsky's music. Reading these letters is as close as one can get to reading the private diary and thus getting an intimate look at the creative process of this genius.

Through these letters, I appreciated the emotional roller coaster Tchaikovsky rode while composing his timeless music. As a creator, I found that energizing. No, I don't take joy from others' suffering. But as a writer, I can relate to the emotional highs and lows experienced by Tchaikovsky.

Let me provide you with context on how the *Manfred Symphony* came about. The Russian music critic Vladimir Stasov suggested to both Russian nationalist composer Mily Balakirev and French composer Hector Berlioz that they write a symphony based on Lord Byron's *Manfred*. Berlioz had created and popularized the program symphony genre with his *Symphonie Fantastique*. Both composers declined the suggestion, but Balakirev proposed the project to Tchaikovsky. Initially, Tchaikovsky was hesitant, as he was enamored with Robert Schumann's overture on *Manfred* and did not believe he could compose something better.

In October 1884, he writes to Balakirev:

I set about *Manfred* rather reluctantly and, if I may be frank, felt that I was *obliged* to write it, because I *promised* you, and I made a *firm* promise... but very soon I became terribly infatuated with *Manfred*, and cannot remember ever having felt such pleasure in working, which stayed with me until the end.

We often look for inspiration to come to us, as if an external muse were paying us a visit. However, inspiration comes from within us. It comes through our act of sitting down and working, whether we are composing, like Tchaikovsky, or writing, as I do.

In July 1885 Tchaikovsky writes this:

I completed the rough sketches for a symphony, which annoys me a great deal, and I feel the need to rid myself of it as soon as possible.

I can relate to this feeling so much. I get impregnated with an idea, and I don't feel at ease until I let it out on paper. Creating is a nonlinear process; and thus, during this idea pregnancy, I am full of conflicting emotions fluctuating between frustration and joy. I am often not fun to be around during this time. Though the creative process of giving birth to a piece of writing is often painful, once I am done with it, I often experience joy and incredible creative satisfaction.

A month later, in August 1885, Tchaikovsky writes:

I set about making the *sketches* for this symphony, and became so carried away, as frequently happens, that I could not stop. The symphony has come out enormous, serious and difficult; it is absorbing all my time, and sometimes wearies me in the extreme; but an inner voice tells me that I am not laboring in vain, and that this will be, perhaps, the best of my symphonic compositions.

Nobody complains better than Tchaikovsky. He writes to Nadezhda Van Meck at about the same time:

I am working on a very difficult, complicated symphonic work (on the subject of Byron's *Manfred*), which happens to have such a tragic character, that occasionally I turn into something of a Manfred myself. That apart, I am having to squeeze out every last drop of effort from myself. I want so much to quickly bring this to an end, and am using up all my strength... as a result of this, I am absolutely exhausted.

He also tells his brother:

Never before have I expended such labor and exertion as on the symphony that I am now writing.

Just a few weeks later, Tchaikovsky is full of joy and incredibly proud of his work:

It is my opinion that my symphony will be the best of all my compositions in symphonic form... I am very proud of this work, and want those persons whose sympathy I most value in the world... to experience, when they hear it, a reverberation from the enthusiasm with which I wrote it.

As much as the creative process is a deeply personal endeavor, we creators want people to love what we make. Of course, this is very dangerous, because that is something that is not under our control. When the Manfred Symphony was performed in March 1886, it was met by a very cool reception from the audience.

But Tchaikovsky was very proud of this symphony. In March 1886 he writes:

I am very pleased with myself. I think that this is my best symphonic work. It was performed excellently, but it seemed to me that the public had little concept of it and received it rather coolly, although at the end I was given an ovation.

However, his love for this piece did not last long. In October 1888 he writes:

As for Manfred, without any wish to make a mere show of modesty, I would like to say that it is an abominable piece, and that I loathe it deeply, with the exception of the first movement alone... with the agreement of my publisher, I shall destroy completely the remaining three movements, which musically are very poor (the Finale is particularly loathsome), and out of a large, impossibly long symphony...

Though the first movement is my favorite too, thankfully this symphony was not destroyed by the publisher. It is Tchaikovsky's longest symphony and requires a large orchestra and thus is not performed as often as his other, more popular symphonies.

[To listen to the music referred to in this article, please follow this link.](#)



OCTOBER 11, 2023

Tchaikovsky Symphony No. 3

Tchaikovsky composed this symphony in 1875, completing it in just a few months. Despite the pain that came with composing this masterpiece, he did not mention it much in letters to his friends, other than mentioning that he had been taking long walks while composing it. There is speculation that the 35-year-old Tchaikovsky composed this symphony soon after being scolded by a friend, pianist Nikolai Rubenstein, who said his first concerto was “unplayable.” Rubenstein’s comments had a significant impact on the highly sensitive Tchaikovsky, and he took a less risky, more conservative approach to Symphony No. 3.

I am particularly taken by the Andante (Part 3) of this symphony, the most romantic part; it is the gem of this symphony. It is almost as if it is a symphony within the symphony. I suggest you just skip to Part 3 (I did it for you), and once you fall in love with it, listen to the full symphony.

[To listen to the music referred to in this article, please follow this link.](#)



OCTOBER 12, 2023

Tchaikovsky Unfinished Symphony

Tchaikovsky composed six “numbered” symphonies, seven if you count Manfred, and eight if you count the unfinished symphony, which was supposed to be Tchaikovsky’s sixth numbered symphony.

In 1889, four years before his death, Tchaikovsky wrote, “I want terribly to write a somewhat grandiose symphony, which would crown my artistic career... For some time I have carried in my head an outline plan for such a symphony... I hope that I shall not die without carrying out this intention.”

After working on the symphony on and off for three years, Tchaikovsky decided to abandon it. He wrote:

These past few days, I have given myself over up to important considerations that are fraught with consequences. I have reviewed carefully and, you might say, objectively, my new symphony, which fortunately I didn’t manage to orchestrate and bring out. The impression it makes is not at all flattering. i.e. the symphony was written merely for the sake of having something to write—there’s nothing at all interesting or appealing in it. I have decided to throw it away and forget about it. This decision is irrevocable and I’m glad that I have made it.

Thankfully Tchaikovsky did not set the manuscript on fire; he reworked the first part into his third piano concerto.

[To listen to the music referred to in this article, please follow this link.](#)



NOVEMBER 30, 2023

Salute to Israel

On October 22, 2023, the Israel Philharmonic Orchestra held a special concert “Salute to Israel” to honor the victims of the October 7th massacre. It performed Hatikvah and Beethoven’s 3rd Symphony “Eroica”.

I have heard Hatikvah many times before but this time it had a very different, special meaning to me.

[To listen to the music referred to in this article, please follow this link.](#)



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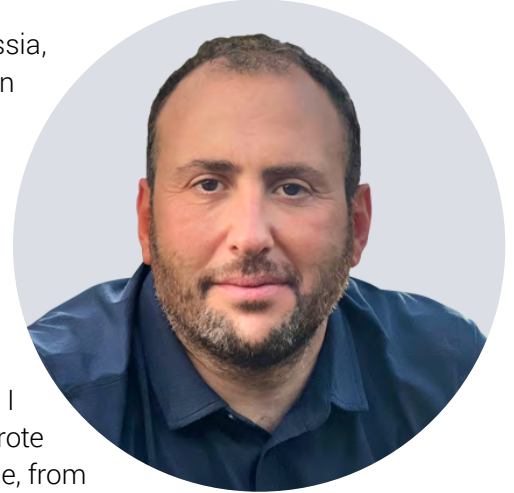
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About Vitaliy Katsenelson

I spent the first eighteen years of my life in Murmansk, Russia, a city located above the Arctic Circle in the northwestern corner of Russia. My family emigrated to the US in 1991. I received my formal education (both my graduate and undergraduate degrees) at the University of Colorado at Denver. While I was getting my master's degree I also studied for CFA exams and received my CFA charter in 2000.



2004 was probably the most important year in shaping the direction of the rest of my life – I started writing. First I wrote for TheStreet.com, but I couldn't sit still, and so I wrote for almost every major financial publication you can imagine, from *The Financial Times* to *The Christian Science Monitor* and *Barron's*. Writing forced me to think exponentially more than I had thought before and accelerated my growth as an investor and human being.

I must have been addicted to driving to the University of Colorado campus, because when I stopped going there as a student I started teaching there. In 2001 I taught my first investing class to undergraduates, and later I taught grad students. I did this dutifully until 2007, when my first book, *Active Value Investing*, came out. In 2010, the publisher, John Wiley & Sons, asked me if I could turn *Active Value Investing* into one of their "Little Books," and that's how *The Little Book of Sideways Markets* was born.

In 2022 I published my third book, and my first non-investing one, *Soul in the Game*. What originated as a simple collection of past essays on topics outside of investing turned into something more when I discovered Stoic philosophy and dedicated a third of the book to it.

In 1997 I joined **Investment Management Associates, Inc. (IMA)**, at first as an analyst. Then I became portfolio manager, CIO, and today I'm IMA's CEO and its biggest cheerleader. I helped build IMA into a firm that I'd want to be a client of (which I am – all my liquid net worth is managed by the firm). Clients come to IMA (many of them nearing retirement), turn over the bulk of their net worth for us to build them an "**all-terrain portfolio**", and basically say, "Vitaliy, don't screw it up, please." I take that responsibility seriously.

Most importantly, I am married to a wonderful wife, Rachel, and we have three incredible kids, Jonah, Hannah, and Mia Sarah.

If you have made it this far, I suggest you [sign up to receive my articles](#) by email if you haven't yet. I share a lot of content in them that never makes it to my website or my annual almanacs.

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