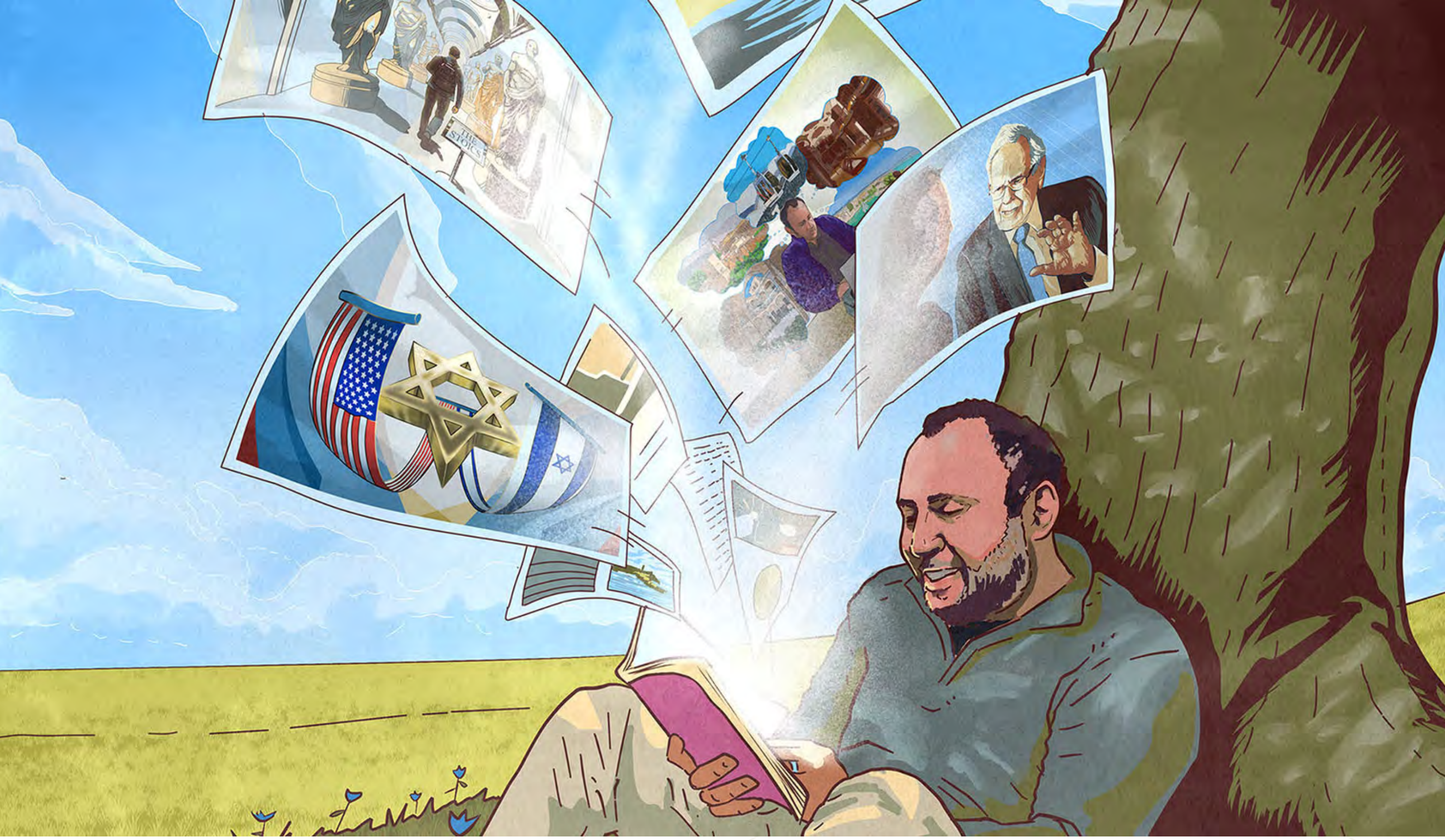
Vitaliy's

Article Almanac

2024



Contents

From Vitaliy

A few years back, the IMA team started a new tradition. At the end of each year, we take all the essays I've written, sort them by theme, add some art, trim the edges, and voilà—a single PDF almanac emerges.

This year's collection is all over the map: from topics I never imagined discussing—like antisemitism and racism on American campuses—to stock analysis, philosophy, and of course, classical music.

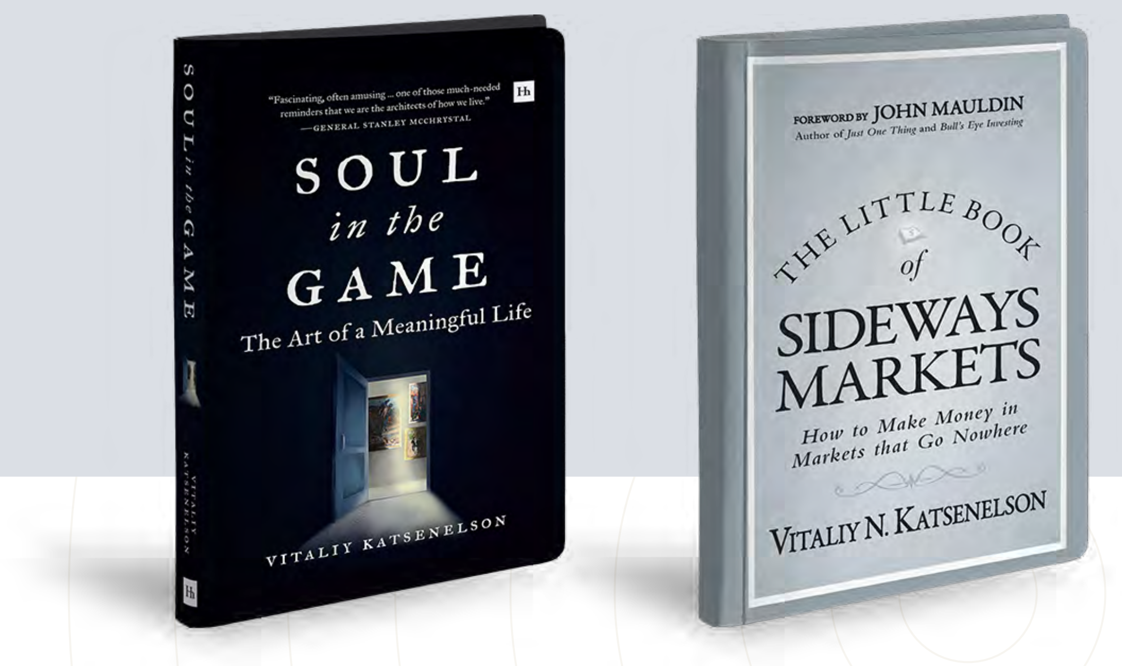
On top of that, we've raised over $330,000 for Israel and Jewish charities—an achievement I'm proud of and plan to continue supporting (though the roster of charities may change).

The offer still stands: If you want to receive a signed copy of one of my books, donate $100 to one of these charities.

Vitaliy

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 Sideway 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.

DONATE


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

Investing

JANUARY 25, 2024

Putting a Charge Back into the EV Market

> Over the last few months, electric car sales seem to have gone from hot to cold. Are electric cars a fad, like beanie babies, pet rocks, or fidget spinners?

Over the last few months, electric car sales seem to have gone from hot to cold. Hertz is dumping 20% of its 100,000 Tesla fleet, and Ford is cutting production of its F-150 Lightning. Tesla has gone from raising prices to cutting them. In fact, Tesla is reducing prices so much that the CEO of Stellantis (a merger between Fiat and Peugeot) has expressed concern that if other automakers join Tesla CEO Elon Musk in implementing similar cuts, it will result in a bloodbath for the industry.

Are electric cars a fad, like beanie babies, pet rocks, or fidget spinners?

The short answer is no. The full answer comes with a lot of nuance.

Once you have driven an electric car and experienced the magic of instant acceleration, it is very hard to go back to driving an ICE (internal combustion engine) vehicle. The instant torque of an electric motor is magical. It is something you have to experience. Explaining the feeling of driving an EV to those who have not driven one is like explaining a rainbow to a blind man.

There are many other advantages:

Your house becomes your own "gas station." You park the car in the garage, plug it in, and voila, it is fully charged in the morning. (I cannot tell you how much I don't miss gas stations.) My Tesla charges at 45 miles per hour from a 220-volt outlet. That doesn't sound like much, but most charging happens at night.

The car is very quiet. Electric motors don't make any noise. In fact, government regulations require EVs to make a slight noise so that pedestrians can hear them.

Since EV motors sit on top of the axle and don't have a transmission connecting the engine to the back wheels, there is no bulge in the middle of the car — so the cabin is roomier.

Finally, EVs are much cheaper to run. The cost of charging the car is significantly lower (by as much as half) than the gasoline for an ICE vehicle, and EVs have fewer moving parts (just a few dozen) compared to thousands for ICE competitors, thus requiring significantly less maintenance.

You'd think, with these advantages, that the rate of EV adoption would look like a hockey stick (**much like it did from 2019 to 2021**). Today, however, it looks like the adoption rate is likely to decelerate before it accelerates again.

The main obstacle is the charging process. It can be broken down into three factors: battery capacity, charging speed, and availability of charging stations.

Currently, the theoretical range for a regular EV is approximately 250-to-300 miles — emphasis on ***theoretical***. That range requires ideal conditions, such as moderate weather (not too hot or too cold) and driving within a speed limit of 70 miles per hour. When it's hot, the car not only cools the cabin but also the batteries to protect them. In colder temperatures, the batteries' chemical reactions slow down, reducing efficiency. A recent story from Chicago, where sub-zero temperatures caused a large number of electric cars to become stranded, does not make a great infomercial for EVs in cold climates.

Today, Tesla has by far the best EV charging infrastructure. Other companies' charging infrastructure is spotty and charging speeds are slower than Tesla's. If you own a house, which two thirds of Americans do, you have a charging station in your garage. Thus, daily commutes come with zero charging anxiety. But if it's a long-distance trip, it requires planning; and even with Tesla, it comes with some anxiety. Also, it takes between 20 minutes and an hour to charge a car at charging stations. If you live in states where EV adoption is very high, you may find yourself waiting in long lines to charge your car.

Early adopters — people with short and predictable commutes, households with multiple cars — are the market EV makers are addressing today, but that's just a fraction of the total car market. My family represents the average consumer who owns an electric car — affluent (these cars are usually more expensive, though government subsidies more or less put them on par with ICE vehicles), owns a house (for apartment dwellers, owning an EV makes little sense unless your building has charging), and only one family car is an EV (the second is an ICE vehicle for long-distance commuting).

If battery technology and charging infrastructure remain where they are today, the share of EVs in the total car market is unlikely to grow significantly. (One caveat is oil prices — if they skyrocket, the greater savings from driving EVs will increase their adoption.)

But battery technology and infrastructure will not remain stagnant. Car companies from Hyundai to Toyota are announcing new battery breakthroughs and introducing solid-state batteries (batteries based on new chemistry), which have higher energy density and double or triple the capacity of current batteries, with faster charging and greater safety technology. Toyota is **planning** to produce a battery with double or triple the current range, capable of fully charging in just 10 minutes. Researchers at Harvard University have **filed** patents for a fast-charging solid state battery that lasts thousands of charging cycles.

It is evident that battery technology has reached its limits with current chemistry (the one that powers our laptops and current EVs). The new chemistry will change the auto industry. I am an optimist, because I believe in free markets, human ingenuity, and the hunger for self-actualization — and yes, unadulterated greed. ***Money*** will drive new breakthroughs — the carrot for coming up with new, step-changing battery technology has never been higher.

Infrastructure will also improve. The auto industry, without the government's help, is transitioning to a single charging adapter (Tesla's). Faster charging and the expansion and improvement of charging stations (which at some point will become a staple in grocery store parking lots, office buildings, etc.) will go a long way in reducing range anxiety.

Imagine a world where it takes only 10 minutes to charge an electric car with a range of 900 miles. Whether you live in an apartment building or under a bridge, owning an EV will become a no-brainer. This is not the world of today, but we are going to see this world, not in three years but probably in less than ten.

The next several years will be very difficult for automakers. Ironically, though traditional automakers will be bleeding money on EVs, they have cash flows from ICE cars to fall back on, while Tesla is a one-trick EV pony – though it's one hell of a trick.

In 2019, I wrote a series of essays on Tesla, which I later edited into "**Tesla, Elon Musk, and the EV Revolution**." The book is available in audio, paperback, and digital formats on Amazon. Amazon allows authors to make their books free for a few days each year. You can **download** the digital version for free from Friday (tomorrow) until Monday.

Additional thoughts on EVs

Some people buy EVs because they think they are "greener" than ICE cars. The absence of a tail pipe doesn't automatically make them greener, because pollution production is shifted from the car to the electricity producer.

The "greenness" of your EV will depend on the fuel source of the electricity that charges your battery. If the source is solar, nuclear, or wind energy, your EV will be cleaner than ICE. However, if the electricity in your area is generated by a coal plant, then, unfortunately, you are essentially driving a coal-powered car.

Additionally, mining the minerals that go into EV batteries is a very energy-intensive process that also produces a lot of CO_2. Making the battery is also very energy-intensive. Thus it takes more energy and CO_2 pollution to produce an EV than an ICE car; so it takes a few years of driving for an EV to become a cleaner alternative than an ICE car (the exact number of years is **unclear**).

On one side, EVs give countries a choice in energy sources, whereas ICE cars can only be powered by gasoline, which is oil-based. Electricity can be generated from a variety of sources, including oil, natural gas, coal, nuclear, solar, wind, hydro, and geothermal. Of course, the US is the largest producer of oil in the world – giving us a measure of geopolitical independence. On the other hand, lithium and rare earth materials, which are currently components of EV batteries, create their own geopolitical and environmental dynamics. A lot of these materials come from China. (The US has reserves, but they are "**too dirty**" for us to mine them.)

Feel free to share your thoughts about this essay **here**.

Additional thoughts on my last essay about Israel, anti-Semitism, DEI, and socialism:

My long essay discussing Israel, antisemitism, DEI, and the decay of our universities took a week to write and a month to rewrite. It was a difficult and complex topic. My only regret is that I did not stress enough a very important point: Hamas is still holding over 100 Israeli civilians as hostages.

Many readers left their comments on my **website**. You can read them **here**, and feel free to share your thoughts, too.

If you would like to get an Israeli perspective on what is going on in Israel, I highly recommend the **podcast** by the American Canadian columnist, writer, and political adviser Dan Senor. Dan has written several books about Israel, including his latest, ***The Genius of Israel***, which is a very worthwhile read. It provides important insights into the uniqueness of this small but mighty country.

On his **podcast**, Dan interviews different Middle East experts, including Haviv Gur, a journalist for the *Times of Israel*. I find Haviv's perspective on Israeli history and society to be compelling.

Tom Friedman of the *Times* wrote a very interesting **essay** after a recent visit to the Middle East. This excerpt really makes you think:

> *Once Sharon pulled Israel out of Gaza [in 2005], Palestinians were left, for the first time ever, with total control over a piece of land. Yes, it was an impoverished slice of sand and coastal seawater, with some agricultural areas. And it was not the ancestral home of most of its residents. But it was theirs to build anything they wanted.*

Had Hamas embraced Oslo and chosen to build its own Dubai, not only would the world have lined up to aid and invest in it; it would have been the most powerful springboard conceivable for a Palestinian state in the West Bank, in the heart of the Palestinian ancestral homeland. Palestinians would have proved to themselves, to Israelis and to the world what they could do when they had their own territory.

But Hamas decided instead to make Gaza a springboard for destroying Israel. To put it another way, Hamas had a choice: to replicate Dubai in 2023 or replicate Hanoi in 1968. It chose to replicate Hanoi, whose Củ Chi tunnel network served as the launchpad for the '68 Tet offensive. …

There is so much to criticize about Israel's occupation of the West Bank, which I have consistently opposed. But please, spare me the Harvard Yard nonsense that this war is all about the innocent, colonized oppressed and the evil, colonizing oppressors; that Israel alone was responsible for the isolation of Gaza; and that the only choice Hamas had for years was to create an underground "skyline" of tunnels up to 230 feet deep (contra Dubai) and that its only choice on Oct. 7 was martyrdom.

FEBRUARY 29, 2024

Next Year in Omaha (2024 Edition)

> It is time to plan for my annual pilgrimage to Omaha! I am very sad because, for the first time, Warren Buffett will not be joined onstage by Charlie Munger, who passed away in November.

It is almost spring and time to plan for my annual pilgrimage to Omaha! I am very sad because, for the first time, Warren Buffett will not be joined onstage by Charlie Munger, who passed away in November, a few weeks before his 100th birthday. In his annual letter, Buffett appropriately called Charlie "the architect of Berkshire Hathaway." Berkshire would not be what it is today without Munger. I wrote about this years ago in the essay "**The Values of Value Investing**."

I will miss Charlie dearly. I want to write an essay about what I learned from Charlie Munger, but it will require a significant investment of time, because I want to do it right.

These trips to Omaha were never about trying to catch the latest insight from Buffett or Munger. Maybe, when I went for the first time in 2008, I was there at the BRK annual meeting to see them on stage and immerse myself in their wisdom. Today, I can watch the annual meeting live from the comfort of my own couch, with beer and nachos.

No, the annual meeting is just an excuse for me to spend time with my friends and the value investing community. And as a special bonus, my son Jonah (22) will be joining me for the fourth time.

Breakfast in Omaha: In 2022, I started a new tradition, and so this year too I am hosting my readers for breakfast in Omaha on May 3rd. It's a very informal gathering; there will be free breakfast, and then I will answer questions from readers for an hour or so.

This year the demand has been so huge (value investors love free food) that we had to break it up into two sessions: 7:30 to 9:00 and 9:30 to 10:30.

If you'd like to come, **register here**. Invite your friends, but they'll need to **register**. If they have not read my essays, they can catch up on **investor.fm**, where they can also **download PDF** almanacs of my essays.

I will be speaking at the YPO event at the Holland Performing Arts Center on May 5th from 4–7pm. I will be joined on stage by Tom Gaynor, CEO of Markel; Tom Russo, a terrific investor in superbrands; and Larry Cunningham, author of *The Essays of Warren Buffett.*

Larry masterfully edited Buffett's annual reports into this wonderful book. If you would like to read Warren Buffett's writings, this is the book for you. Unfortunately, admission is limited to YPO members and their friends. Larry edited another book, ***The Warren Buffett Shareholder.*** He asked me if I'd share my experiences of going to Omaha. When the book was released, I was shocked to discover that I shared pages with Jack Bogle, Joel Greenblatt, Jason Zweig, and other terrific people whom I admire. Today, I am going to share with you this essay.

Next Year in Omaha

"Next year in Jerusalem" is a phrase sung by all Jewish people at the end of Passover.

"You left Russia 24 years ago and this is your first visit to Israel?" the Israeli border officer at Ben-Gurion Airport snarled at me as she thumbed through my American passport. Yes, like most Jews, I had kept singing "Next year in Jerusalem" but had never followed through on it. Now it was 2015 and I hadn't even set foot in my holy homeland yet, and already I was overwhelmed with Jewish guilt!

Just as for Jews Israel is a homeland that we know is always there, for value investors, Omaha turns into our homeland for three (usually) sunny days in late April. For me the first pilgrimage was in 2008. I had just finished my first book on value investing and my editor at John Wiley & Sons had recommended I participate in a book signing at the Omaha Dairy Queen during the BRK event weekend. Yes, the DQ. I was a bit perplexed when she mentioned it. I had labored over this book for two years, just to do book signings at fast food restaurants? Maybe, after DQ, I'd graduate to Burger King.

She said, "You'll see."

When I arrived at the DQ it was packed with authors and book lovers, media, and ice cream. Somehow it felt natural: value investors (who usually love books) come to the DQ to meet authors, buy books, and scarf a Deluxe Cheeseburger. But then the event quickly drew so many people that the DQ simply couldn't handle the traffic, and so we were moved to Creighton University. But for a while, if you had written a value investing book and you wanted to shake the hands of your avid readers, there was no better place in the world to be.

Several things came out of this DQ visit.

Before that day I was indifferent to Dairy Queen's ice cream. Since then, however, I've been taking family, friends, colleagues, and clients to DQs not only in Denver but all over the US. I'd take a client to a fancy restaurant; we'd skip the dessert and go to DQ. I'd tell him the story about the DQ signing in Omaha, and suddenly repairing to the DQ after a fancy dinner would seem normal to both of us.

I met Jim Ross, the owner of Hudson Booksellers, who put together the book-signing event. Hudson Booksellers is a small store in the Omaha airport. It is probably the only airport store in the world that has every value investing book in print. This BRK visit turned into a series of small traditions. Every single year when I step off the airplane, my first stop is to say hello to Jim and thumb through new books. I may even sign a few books of my own that they diligently carry.

On that day in DQ I was approached by a good-looking man who looked just like me. We started talking and he told me that his name was Ethan Berg, from Lennox, MA. Due to our similar looks people had been confusing him for me. He'd be at a value investing conference and people would come up to him and say "Vitaliy, would you sign my book." At first he'd say, "I am Ethan." However, after the first few times, he started saying "Sure!" and signing the book. The DQ was the beginning of a beautiful friendship between Ethan and me.

As I discovered, the DQ signing was just the tip of a huge iceberg – there were opportunities to learn and to meet interesting folks at dozens of different events all over Omaha.

I've been lucky to be able to participate in some of these events as a panelist or speaker. I've been a panelist on a value investing panel at Creighton University for five years. One year I was an accidental guest speaker for the CFA Society of Omaha. My friend Whitney Tilson, who was scheduled to speak with Robert Hagstrom, got delayed. Somehow the CFA Society knew I was in town and asked me to step in. The Robert Hagstrom book about Buffett was the first book I'd read about him, and suddenly I was sharing the stage with its author. Only in Omaha!

My favorite event is when I get to take the stage with two Toms (Gayner and Russo) at an event organized by YPO that takes place at the Omaha Performing Arts Center. Tom Gayner is CIO of Markel, and Tom Russo is a legendary manager who runs a fund that specializes in consumer brands. Tom Russo knows more about consumer brands than the people who sell them. He has owned shares of Nestle since World War I – okay, maybe I'm exaggerating, but he has probably owned them much longer than he'd care to admit. Markel is a specialty insurance company that has modeled itself after BRK and that has been an incredible investment thanks to great underwriting and wise investments by Tom Gayner.

For about an hour, the two Toms and I answer questions from the audience. It's one of those cases where I do more listening than speaking while I'm on stage. The event is sponsored by Todd Simon, CEO of Omaha Steaks (he is the third-generation Simon to run the company).

Something interesting happened to me in Omaha in 2017. I was supposed to give a presentation at the GuruFocus conference, a day before the Berkshire Hathaway annual meeting. I was more nervous than usual. I had agreed to give this presentation because I wanted to push myself to explore a brand new topic. I wanted to zero in on the investment process. GuruFocus seemed to have the right audience for me.

I need a looming deadline to build the pressure to unleash my creativity. Two days before I was to leave for Omaha, I wrote a nine-page speech titled "How to Stay Rational in an

Irrational World." A day later I created a 40-slide PowerPoint, which I was still tweaking an hour before my talk.

The GuruFocus conference was at the DoubleTree Hotel in downtown Omaha. There were maybe two hundred attendees packed into a typical hotel ballroom. A few minutes into my talk, the power went out. Though the lights came back a few seconds later, my microphone and projector were still dead.

The speech that followed ended up being the best presentation I have probably ever given – and I have given plenty of them over the last ten years. Charlie Tian, who runs GuruFocus, emailed me and said, "Went through the surveys we collected from the attendees and found that you were rated one of the best speakers."

I am sharing this with you not to brag – not at all. The point is that I find that small, often random moments shape the journeys of our lives. When the lights came back on and I realized that the projector and mic were out, to my amazement my blood pressure ***dropped.*** I felt calmer than I had ten seconds before. A weight fell from my shoulders. Suddenly I was no longer burdened by switching slides. I didn't have to follow bullet points. I could just talk. Tell a story. My 40-slide presentation had been a huge distraction. Until the lights went out, the attendees weren't looking at me; they were trying to read my bullet-point-packed slides. Their eye contact was with the screen, not with me.

If I were to redo that presentation, it would have five slides: a "Hello" slide, three slides in between with pictures, and a "Goodbye" slide. That's it.

On my first trip to Omaha in 2008 my goal was clear: I wanted to see and hear Buffett and Munger speak. Getting up at 5 AM, standing in long lines rain or no rain (too early for sunshine), sitting in an uncomfortable seat for six hours in a humongous sports arena – All of that came with a certain sense of adventure the first few times. However, when year after year you hear the same questions and answers, the annual meeting becomes the least important event of the BRK weekend.

But all in all, I look forward to the BRK weekend more and more each year. Buffett and Munger are not the main attraction anymore, but they have created an enormous value investing ecosystem by bringing 40 thousand investors to a cow town that most people would otherwise not be able to find on a map.

The BRK weekend is a rare opportunity for me to see friends who come to Omaha from all over the world – from the UK, Australia, Germany, Switzerland – the list goes on and on. We share meals; we debate stocks. We make new friends.

As I get older I have begun to appreciate that the most important things in life are relationships. A lot of my relationships are rekindled and nurtured in Omaha, and that's why every year I say "Next year in Omaha" and mean it.

MARCH 28, 2024

Why the Survival and Dominance of Car Manufacturers is Far from Certain – Ep 215

Click to listen to a narration of this article

> Today EV sales account for a tiny rounding error of total global car sales. Can traditional automobile companies successfully transition to making EVs?

I am going to share with you excerpts from a research paper I wrote in 2018 about Tesla and electrical vehicles (EVs), which I have turned into a small book for reader convenience (**it is available for free, here**). I want to share these essays with you today because we are at a pivotal moment for traditional carmakers, and these essays, which I have not updated, present an important thinking framework about the industry.

It is easier to convince shareholders and the board of directors to invest money into new factories when the demand for EVs is growing, even if you are losing money per vehicle. At least there is hope that once you get to scale and perfect new technology, the losses will turn into profits.

However, when the demand for electrical vehicles stutters and your inventory of EVs starts piling up – which is exactly what is happening right now – investing in EVs becomes very difficult (**I wrote about it here**). Retreating to what you know, what has worked for almost a century, what doesn't generate huge losses with every vehicle sold, and what your current workforce is trained for, and comfortable producing, seems like a natural decision. The decisions traditional carmakers will make over the next year or two will be very important for what their future looks like a decade or two from now.

> *"What you really should have done in 1905 or so, when you saw what was going to happen with the auto is you should have gone short horses. There were 20 million horses in 1900 and there's about 4 million now. So, it's easy to figure out the losers; the loser is the horse. The winner was the auto overall. But 2000 companies (carmakers) just about failed."*
>
> *– Warren Buffett, speaking to University of Georgia students in 2001*

Can traditional automobile companies successfully transition to making EVs?

Today EV sales account for a tiny rounding error of total global car sales. Let's mentally transport ourselves to the late 1800s, when the streets were still busy with horse-drawn carriages and the occasional passing automobile scared a horse or two.

If you cannot relate to a century-old analogy, let's go back to something that happened just a bit more than a decade ago. In June 2008, when the iPhone 3G was introduced, Nokia was still the largest phone maker in the world. What we did not know at the time was that Nokia was the largest ***dumb*** phone maker and that Apple was about to become the largest ***smart***phone maker – a small but crucially important nuance. What we did know at that time was that smartphones were the future.

In theory, nobody knows more about making cars than the traditional ICE carmakers – the General Motors of the world – and thus EVs made by these companies should be the ones busying our streets a decade from now. A natural continuity from what we already know may be the easiest cognitive model for us to process, but it is not always the most accurate one.

In 2004, Nokia missed the flip phone boom and lost market share to Motorola, which came out with the slick Razr flip phone. Nokia had a few quarters of disappointing sales, the stock declined, and we bought it. Then Nokia came out with its own flip phone and the status quo was restored: The company was again king of the dumb (actually, let's be politically correct – mentally disadvantaged) phone castle. The flip phone was a technological change, but it was still in Nokia's domain of core competency. The stock ran up and became fully valued; we made money and sold it. We patted ourselves on the back.

Now, the mistake many investors made, including yours truly, was not seeing that although the iPhone was still called a phone, it was not really a phone but rather a portable computer that, in addition to doing a lot of other smart things, also made phone calls (which the first iPhones were not really good at, but the people who owned them didn't really care). It was not Apple that dethroned Nokia, not at all. Nokia did it to itself. Nokia should have looked at the iPhone and blown Apple a huge air kiss, thanking it for showing the future of "phone," and then gone on to develop its own smartphone.

I made the mistake of applying my 2004 mental model to our Nokia purchase in 2008. With the introduction of the iPhone, Apple took a mentally disadvantaged phone and pushed it into a very different domain with a very different ecosystem.

Assets turn into liabilities

Nokia was a very efficient designer and manufacturer of phones that had very little software and limited functionality. In 2008, the company employed thousands of engineers who knew a lot about wireless signals, plastics, moldings, coatings, and so forth. But collectively they knew little about CPUs, software, and user interfaces. Nokia tried to respond to the iPhone the only way it knew how – by taking its Symbian operating system designed for low-IQ phones and trying to remold it into a smartphone operating system. That attempt failed miserably. We realized what was happening later than we should have and gave up a good chunk of our 2004 Nokia gains.

I never thought I'd say this, but knowledge is not always an asset. *When you are in the middle of a transition from one domain to another, your knowledge of the past domain may cloud your vision.* You'll be seeing through the lenses you're used to wearing.

(tiller on early car)

When the first cars were made, they didn't have steering wheels, they had tillers, because they were made by a horse carriage manufacturer. Though it was possible to transition from making horse carriages to making cars, most companies did not; they were stuck in the old "buggy" domain and did not switch to the new "auto" domain.

It is difficult to kill your cash cow

Clayton Christensen discussed this concept in his book *The Innovator's Dilemma*. When your core business is minting money, it is difficult to create another business that may be future-proof but will undermine your core business, especially if the threat is nascent at the time and seems far away. These threats are usually nascent and far away.

When Amazon was practicing e-commerce on books, everyone believed Barnes & Noble would be able to suffocate the tiny company because B&N sold more books in a day than 1997 Amazon sold in months. However, snuffing out Amazon would require Barnes & Noble to lower online and possibly in-store prices, which would hurt its very profitable store business. Well, we all know how that story ended.

The transition from ICE cars to EVs is not just a technological shift within a domain. It is not like the transition from two-wheel-drive sedans to four-wheel-drive SUVs; *it is a radical shift into a new domain*. I laid out this very extensive domain-shift framework to show that the success of ICE manufacturers in this new domain is anything but guaranteed. Let me expand this framework even further.

ICE cars are low-IQ phones, and Tesla's Model 3 is an iPhone 3G. Cars last about 12 years and phones two to three, so this transition will happen in slow motion.

Nokia or Samsung? Why a First-Principles Approach Will Be Key for Developing EVs

As I discussed, during the transition from one domain to another, *many of the assets and much of the knowledge from the old domain become liabilities in the new one.*

Tesla created its cars by entirely breaking out of the domain of existing auto manufacturers. Although this is true for the Model S and the Tesla cars that followed, it was not the case for Tesla's first car, the Roadster. When Tesla first attempted to make an electric car, it was constrained by resources. It wanted to experiment with battery technology and electric engines and did not want to design a complete car. So, Tesla adapted the body and powertrain of the Lotus Elise, a sporty gasoline car. Later Elon Musk confessed that had been a mistake – he compared it to keeping the outside walls of a house but gutting and rebuilding the inside, including the foundation. You might as well build a new house.

Because Tesla created the EV industry, it had the advantage of acting from first principles. It could start thinking with a blank piece of paper, not redrawing what already existed. In an **interview**, Musk said, "I tend to approach things from a physics framework … physics teaches you to reason from first principles rather than by analogy."

Warren Buffett's version of first principles is "What would Martians do if they landed on our planet?" Not because of Martians' enormous IQs but because they would be new to our planet and could see with clarity things we often don't because we've been here so long.

The first-principles approach allowed Tesla to build EVs that are free of the limitations of gasoline-car thinking. No gears, a skateboard chassis, two engines, a frunk, a credit card key, a mobile app that works as a key and controls the car, and no start button, among others – Tesla applied first-principles thinking to how its cars would be sold. The Model 3 feels like it was designed starting from a completely blank piece of paper and this thinking extended beyond the car and spilled over to selling and servicing the car.

Today's ICE auto manufacturers are basically wholesalers of their cars to auto dealers that are their franchisees. This business model is a **Great Depression relic** that went basically unchallenged until Tesla came along. The model worked well for automakers and dealers for almost a century, though the experience most consumers had did not fit the definition of *well*.

Tesla decided that the traditional business model was not appropriate for the new EV domain. Instead, it borrowed a model from Apple, which controls the full customer experience, from buying a phone to servicing it to upgrading to a new one. Also, electric vehicles have fewer parts than ICEs and thus should break a lot less (at least in theory – time will tell), so the traditional dealer model that relies on service revenue doesn't work well for EVs.

This journey of opening its own stores was anything but easy for Tesla. It had to fight opposition by ICE carmakers and local dealers in every state, just as Uber had to fight taxi monopolies.

My purchase of a $51,000 Tesla (in 2018) was as easy as my purchase of a $900 iPhone. I test-drove it. A few days later, I called the Tesla store and told the salesperson that I wanted to buy a car. My information was already in the system; I had to provide it when I placed my deposit in 2015, and I had to confirm it when I scheduled a test drive. I just told the salesperson the configuration I wanted and placed a fully refundable credit card deposit. (I was traveling, but I could have done all this from Tesla's iPhone app or website.) A few days later, I got an email confirming my Model 3 delivery date and asking me to schedule a time to pick up the car. On June 29 at 9:30 a.m., I appeared for my car; by 9:40 I was driving back home. It was that simple.

Tesla changed how a car is serviced, too. A few weeks after I bought the car, its speakerphone stopped working – people could not hear me. I went into the Tesla iPhone app and requested service. I was given a choice between bringing my car to the Tesla service center or having a service technician come out to me. I chose the latter. Two days later, the technician showed up at my office. I gave him my car key and went back to doing research. An hour later, my car was fixed. Tesla's technician had simply restarted my computer. In hindsight, I could have called Tesla and my speakerphone issue could have been fixed remotely.

Now compare these buying and servicing experiences with buying and servicing an ICE car.

It is difficult for ICE companies to adapt first-principles thinking, as it requires them to unlearn what made them successful in the old domain. They are going to have to retool their factories (the smallest challenge of all). They will need to go through a significant and painful change of their workforce. Their current employees have a very different skill set and look at the world through petrochemical lenses (which explains why GM's first foray into electric was the Volt, an electric car with a gasoline engine attached).

Auto dealers, which are an asset to car companies today, will turn into liabilities tomorrow, as Tesla's direct distribution and service model should provide a cost advantage once it gets to scale. Tesla's model is more customer-friendly and efficient, allowing the company to capture the profit that ICE carmakers have to share with their dealers. Because a good chunk of Tesla's cars are built to order, the company doesn't need massive inventory sitting on giant parking lots. Also, ICE manufacturers may not be able to replicate Tesla's direct-sales business model because they are stuck with the franchise agreements they signed with their dealers.

It won't be easy for ICE carmakers to adapt first-principles thinking to their EVs, but they may not need to: They can copy Tesla. The existing players are not automatically doomed. William Durant, who turned struggling Buick into General Motors, originally made his millions on horse-drawn carriages.

Understanding the enormity of the needed investment, carmakers are creating alliances. Ford and Volkswagen are working together on artificial intelligence (AI) and skateboard chassis for EVs. Historically, such alliances in the auto industry have had mixed success.

Traditional car companies have a lot of things going for them. Their strengths are in the designing, assembling, and marketing of cars. They use hundreds of suppliers to make the parts that go into their cars. They can do the same thing when it comes to EVs. They can outsource the battery to LG Chem or Samsung. They can outsource software design to the likes of Cognizant and DXC. They can use Waymo's self-driving software and Nvidia's self-driving hardware. The traditional automakers are in their best financial shape in decades and thus have capital to finance the EV adventure. They can afford to make an enormous investment in EVs and take the losses that come with them. But will they? I don't know.

To some degree, their job is more difficult than Tesla's. They have to keep innovating as they make horse carriages – sorry, I mean ICE cars – because ICE cars are what pays their bills. At the same time, they have to focus on the future and invest enormous amounts of time and capital building EVs.

When Hernán Cortés invaded Mexico, legend has it, he ordered his army to burn all its boats. He wanted his soldiers to fight as if there was no way back. This is how Tesla is approaching EVs – no boats. ICE companies today seem like tourists in EV-land, with comfortable (ICE) cruise ships waiting for them offshore.

MARCH 21, 2024

Investing in a New Era of Global Tensions

Click to listen to a narration of this article

> **"You don't have to worry about the market and its crazy valuations. That's your neighbor's problem, not yours. In building your portfolio, we are aiming for resilience.**

Jeremy Grantham, co-founder of GMO, is a voice of sanity in a world that is becoming less sane, one TikTok at a time. He wrote in his latest letter:

> *As for the U.S. market in general, there has never been a sustained rally starting from a 34 Shiller P/E. The only bull markets that continued up from levels like this were the last 18 months in Japan until 1989, and the U.S. tech bubble of 1998 and 1999, and we know how those ended.*
>
> *The simple rule is you can't get blood out of a stone. If you double the price of an asset, you halve its future return. The long-run prospects for the broad U.S. stock market here look as poor as almost any other time in history. (Again, a very rare exception was 1998-2000, which was followed by a lost decade and a half for stocks. And on some data, 1929, which was famously followed by the Great Depression.*

I agree.

You have probably noticed that your portfolio looks nothing like the stock market or a traditional lazy, garden-variety portfolio. For the most part, it consists of undervalued cockroaches – companies that should survive anything the global environment throws at them. I know that isn't the image you wanted to start right off with when you poured a glass of wine and sat down to read this letter.

Sorry.

But think about it: You don't have to worry about the market and its crazy valuations. That's your neighbor's problem, not yours.

In building your portfolio, we are aiming for resilience. This means owning high-quality companies run by good management, companies that are undervalued, not just based on the economy and on the earnings power we see in the rearview mirror, but also going to be undervalued in an economy that is less kind or benign.

You'll notice that defense companies play a big role in your portfolio – that is by design.

On February 24, 2022, Europe (and our investing world) changed. A territorial war that seemed impossible between civilized Western nations after WWII suddenly became a reality. While the US was spending 3% of GDP on defense, most European countries spent half or a third of that. They had been collecting a peace dividend since the collapse of the USSR. And most of their defense spending did not go into building new tanks or developing new missiles but into paying the pensions of their retired armed forces.

Russia has cancelled that peace dividend.

No matter what happens in the November election in the US, Europe is realizing that it cannot rely on the US to protect it (we are a bit on the fickle side), and it should pay for its own freedom (music to your investing ears). The eventual end of the war in Ukraine will not change this – Russia, with its imperialistic tendencies, will still be there.

To make things worse, the world is starting to fracture into us vs. them. Roughly, us is the Western alliance plus Japan and South Korea; and them is China, Russia, North Korea, and Iran.

A lot of countries in the Middle East, Africa, and Asia – and this includes the most populous of all, India – are finding themselves in the uncomfortable place where at some point they will have to take sides. The world is once again turning into a powder keg, where every year the temperature of political tensions is rising.

While Europe is preoccupied with "Vlad the Terrible" (although he believes he is "the Great"), the US needs to worry about our recent friend China, who wants to invade an island nation. According to their constitution, the island belongs to them.

In all honesty, the world would care a lot less about a Chinese invasion of Taiwan if it were not for Taiwan Semiconductor, which makes the chips that power almost everything, from your smart toaster and that ***almost*** self-driving car to the AI that is writing this (okay, ***I*** am writing this – just wanted to make sure you were paying attention).

China is not the Soviet Union; it is the second most populous country in the world and also the second-largest economy, which also happens to house most of our industrial production, which we willingly shipped there after China joined the WTO in 2001.

Also, the US of 2024 is not the US of the 1980s. We are a highly indebted nation that is at war with itself (but that is the topic for another letter). China has its own issues; it is in the middle of the bursting of the biggest bubble in the Earth's history and has a rapidly aging population, but that is not stopping it from growing the world's second largest defense budget by 7.2% in 2024.

Our relationship with China is getting worse with every trade restriction. We are actively trying to deprive China from access to next generation of semiconductors and the ability to produce them.

Then there is Iran and North Korea – both are well along on their journeys to becoming nuclear nations. Iran has proven that it can make our life miserable by sponsoring terrorists around the Mideast, from Hamas to Hezbollah to the Houthis. (Note to other terrorist organizations: If your name doesn't begin with "H," don't apply for Iranian funding.)

The Middle East, which was on a journey of healing with the Abraham Accords, changed, too, on October 7th. A month later, the world discovered that the Houthis (terrorists from Yemen, not the fan club of the Hootie & the Blowfish band) were well-armed by Iran and controlling the shipping lanes of the Red Sea, through which the bulk of the cargo from Asia to Europe must pass.

Armed with $20,000 drones, the Houthis have the capability to sink a ship carrying a billion dollars of cargo, yet Western navies, which have shrunk by half since the 1990s, use $2 million missiles to shoot the drones down.

Suddenly we are waking up to the new reality that ocean shipping lanes need to be protected by our navies; and, since the oceans constitute 71% of the Earth's surface, we need many ships with guns to protect our cargo, plus new weapons to fight drones.

This paragraph from an FT article describes the sorry story state of the UK's navy:

> *In 1998, the UK had three small aircraft carriers and an escort fleet of 23 frigates and 12 destroyers and the same number of attack submarines. It is now down to just 11 ageing frigates – two of which are reportedly set to be decommissioned – six destroyers and half a dozen attack submarines, also known as hunter-killers.*

Yet, the UK has the largest navy in Western Europe, and it has also been spending **more** on defense than most large Western European countries. The US Navy is in better shape but has **shrunk** by about a third since the early 90s, even though today we are facing more and stronger adversaries.

During peaceful times, society understandably looks at defense spending skeptically. You have often heard rhetoric along the lines of "All this spending is just the enrichment of defense companies – the military-industrial complex." The spending does enrich defense companies – just as when you watch cat videos on Facebook, Mark Zuckerberg and Meta shareholders all get a bit richer.

However, what we were reawakened to on February 24, 2022 is that a strong military serves as a deterrent when a dictator starts bombing your country, killing your citizens "in order to get rid of the Nazis" in your homeland. If Ukraine had been well-armed, Russia would never have tried to “denazify” it, reeducate it about its history, and force Ukrainians to speak their “real” mother tongue.

If the world only consisted of the 27 EU nations, Canada, and the US, we would not need to spend a penny on defense. But, as Charlie Munger would have said, “A few turds ruin it for the rest of us.” Thus, we are going to have to adjust and spend a larger percentage of our economy on ships, airplanes, and missiles so they can serve as a deterrent against those who don’t share our democratic values.

Since the end of the Cold War, European nations have lived in a make-believe utopian world, one that every reader of these words would love to live in, where civilized nations don’t invade each other. Hopes for the existence of this world have been shattered by Russia.

I am not a warmonger. I’d love to see our defense spending decline to zero, with the saved money going towards education and healthcare. Unfortunately, I cannot wish this into reality. Whether we own defense stocks or not, in the future, Europe and the US will likely spend a lot more money on defense, and our portfolio may as well benefit from this spending.

There are a lot of things to like about these defense businesses, as businesses. Aside from the aforementioned tailwind, which unfortunately is only getting stronger and will be blowing in revenues for a long time, these companies are either monopolies or friendly duopolies. For instance, in the US only two companies make submarines, General Dynamics (GD) and Huntington Ingles (HII); and interestingly, they construct some submarines together.

Their revenues are not cyclical and are not impacted by interest rates. In fact, there is countercyclicality to their business – today GD and HII have a hard time hiring folks who want to work in the shipyards; thus their constraint to growth is not the order backlog that is expanding with every quarter, but low unemployment. They have a good, stable, relatively high return on capital and usually good balance sheets. Their customers’ checks don’t bounce.

Yes, every Western government including our own is running a budget deficit, but safety is right at the base of Maslow’s hierarchy of human needs, right next to shelter and food. We’ll be pushing Social Security retirement to 121 before we reduce our defense budget in today’s world. Thus, global defense spending, no matter what happens to our economies, will likely be significantly higher three to five years out; and consequently, current defense-industry earnings estimates will prove to be too low.

Also, unlike software companies, which move electrons, defense companies move both electrons *and* atoms. It takes time to restart the defense machine, which has been mostly idle over the last three decades. Budgets need to be set, voted for, and then funded; factories need to be built (and old ones upgraded); new employees need to be hired and trained; and supply chains need to be established or strengthened.

To our surprise, we still keep learning that defense (and some industrials) companies have not fully recovered from the pandemic. Almost every European defense company discusses on their conference calls that despite growing backlogs they are still experiencing interruptions in their supply chains from small suppliers that have not yet recovered from pandemic shutdowns. Large European defense companies have established funds to bolster these suppliers' equity and working capital.

We have probably seen the bulk of near-term appreciation for most of our defense companies. Their earnings will need a year or two to catch up with their prices. Despite a potential short-term weakness in share price performance, we believe that the earnings of American and (particularly) European defense companies will continue to increase at a steady, although not necessarily linear, pace and will likely surprise analysts and investors to the upside; and thus the companies will grow into today's valuations and provide good long-term returns.

Our allocation to defense companies varies from account to account, but as a firm it accounts for about $125 million – a quarter of our assets under management. We opportunistically increased our allocation to this sector over the last twelve months. Though this is a significant allocation to one sector, we are geographically well-diversified – we own defense companies in four countries.

The last couple of years have been good for our stocks. This may or may not persist this or next year. One of our clients said, "Patience is perseverance." I really like this, as it partially describes investing. Patience, thoughtfulness, and discipline will allow us to persevere.

We really like what we own and are going to make sure that every incremental decision improves the portfolio. Again, when you hear from CNBC or your neighbor that the market is expensive, they are right. The good news is that your portfolio doesn't look like the market.

MARCH 28, 2024

No Shortcuts to Greatness: The Path to Successful Investing

Click to listen to a narration of this article

> “One of my principles in life is to have a net positive impact on the people I touch. If every single stock I discussed only went straight up, I wouldn't have to worry about it. But this is not how life works.

Something weird happened to me on Twitter a few months ago. A “follower” started lashing out at me about a stock we own. When people attack me for my views it doesn’t bother me (I wrote several chapters in ***Soul in the Game*** on this topic). I don’t let personal attacks get to me, unless people start attaching bricks to their 280 characters.

This person’s lambasting of me was different. He was upset about the decline of a stock I had never publicly discussed in any of my newsletters or talks. This person was not a client. I didn’t know who he was; I had never met him. I was really confused why a stock my clients and I personally owned was so important to him. It’s like someone being upset about the color my wife chose to paint our kitchen.

Once gently confronted, he apologized, said he was a big fan, and explained that he had read my 13F (a form we have to file with the SEC 45 days after the quarter end, where we have to report our holdings in US stocks). He saw that the stock was one of our top holdings, and he bought it. Because I owned it, he made it a disproportionately large position.

I was truly upset about this incident. One of my principles in life is to have a net positive impact on the people I touch. If every single stock I discussed only went straight up, I wouldn’t have to worry about it. But this is not how life works.

Let me give you an example.

Next week I’m going to share an example of Uber’s hedging strategy. We bought Uber a few months before the pandemic. (**I wrote about it here**). Uber’s stock went up 30% right after we bought it and then declined around 80% within months (the shutdown economy was not good for the ride-sharing business). As the economy started to reopen, the stock went up a lot (we almost doubled our money on the original purchase). Then it more than halved. Two years later, it has tripled from that point.

As the American philosopher Mike Tyson says, “Everyone has a plan until they get punched in the mouth.” True investing starts at the point of your getting punched in the mouth, which will happen with almost every stock you’ll own.

Bad things can happen to good companies. That's life.

Our Uber ownership is a great example of that. This one has worked out (so far). This is not always the case. In a few weeks, I'll discuss Charter Communications and Comcast. These are still developing stories.

This is why doing your own research is so important. We added to our Uber positions several times during the pandemic and again two years ago. We put on a hedge, similar to the one I'll discuss next week, at the end of the pandemic.

It's what you do when you get punched in the mouth that matters. But just like in the boxing ring, what you do when the glove lands on your jaw is completely dependent on your preparation, the reps you put in. In investing, it depends on the research you did before you bought the stock and continued to do after you bought it.

In our case, it's literally spending dozens, sometimes hundreds, of hours between me and my team members researching the company: reading its filings, listening to conference calls, talking to management, consulting our investor network and industry experts, and building financial models.

This is why blindly copying what I or anyone else does in your portfolio is not good for your wealth and your blood pressure. Just like you cannot prepare for a fight in the boxing ring by sending your spouse to train, you cannot prepare for the blows you'll encounter in stock ownership by relying on my (or someone else's) research.

Also, as much as I don't enjoy admitting it – I will be wrong.

You want examples? I have plenty. The most public one is Apple. We bought Apple in 2012, and I wrote **a lot about it**. It was an extremely hated stock then. We owned it for years and made good money on it.

That is not the mistake part.

I thought we saw peak iPhone in 2019. For the company's earnings to grow, Apple needed to come out with new categories of products, and it had failed to do that. I was right and wrong. Apple failed miserably in coming out with an Apple car because Tim Cook is not Steve Jobs (he changed the strategy four times!). But Apple has done a great job of growing its services – a highly profitable business.

Most importantly, Apple has done something I had never seen a consumer electronics company do – raise prices. This is why Buffett got the framing of Apple's business right, and I got it wrong. Buffett saw it as a brand with pricing power. I saw it as both a hardware and software company where the software (ecosystem) component gave Apple recurrence of revenues, which is what gave me confidence to buy the stock in 2012. But my mental model was incomplete. I saw a moat and recurrence of revenues value in Apple eight years before Buffett jumped in. But I was wrong about selling in 2019. This is what investing is- you can be both right and wrong about the same stock.

Also, I did not see Apple trading at the astronomical valuation it is trading at today. I don't put this into the "I got it wrong" category, because I never make these types of bets.

I remember David Dreman, superstar value investor, being asked for his favorite stock. He said something along the lines that he didn't like giving individual stock recommendations because he never knew which one of the stocks in his portfolio would work out. I can relate to that so much. This is why we have a portfolio of stocks and, as importantly, this is why our position-sizing decisions are outsourced to a quantitative matrix. This matrix overrides my emotions.

When I share stock write-ups, they should not be looked at as stock recommendations.

First of all, they are not recommendations.

Second, these are my thoughts at just that point in time. You are on your own as to what you do when you get punched in the mouth. My day job is managing money, not answering emails about stocks. I read all the emails I receive. I appreciate you sending them; please don't stop. But I increasingly have less time to answer every one of them.

Here is what I suggest you do.

Before you go any further in running with my thoughts on stocks, ask yourself, why am I doing this? Are you looking for shortcuts? Do you want to get rich quick?

Stop.

Take the bulk of your money and hire a money manager or buy a fund. Then take a little bit of your money (as much as you can afford to lose), and gamble with it in the stock market. Yes, gamble, because that is what you are doing. It's more entertaining than going to Vegas – I get it. But if you are buying a stock completely relying on someone else's research, that's a bad form of gambling. (At least most people don't take their 401(k) to the Mirage and put it on black.)

If you have passion for investing, that's awesome. Take it seriously. Approach it as a process. Then my or someone else's 13f can be a treasure trove of information. By the way, every quarter my team and I look at 13fs of other investors I respect. I also constantly read letters written by other investors. But – and this is a key point – if an idea tickles our interest, we'll do our own research to the point that it will become *our* idea.

There is no shortcut to greatness. Please do your own research, or spend your time doing what you love and let others who love investing and have the time manage your portfolio.

APRIL 2, 2024

My Appearance on John Oliver's Last Week Tonight (Kind of)

> This past Sunday, I received a text from a friend who told me he saw me on John Oliver's "Last Week Tonight" show on HBO.

What I am about to say doesn't apply just to John Oliver's show, but to the media in general.

As much as I enjoyed seeing my mug on this show and gaining street cred with my kids, the episode highlights the reason why I stopped watching Oliver awhile back. I realized that if I kept watching, I would be intentionally suffering from Murray Gell-Mann Amnesia.

This is how Michael Crichton (author of Jurassic Park), who coined the term, **described it in a speech** in 2002:

> *Media carries with it a credibility that is totally undeserved. You have all experienced this, in what I call the Murray Gell-Mann Amnesia effect. (I refer to it by this name because I once discussed it with Murray Gell-Mann [he introduced the concept of quarks as the fundamental building blocks of the strongly interacting particles], and by dropping a famous name I imply greater importance to myself, and to the effect, than it would otherwise have.)*

> *Briefly stated, the Gell-Mann Amnesia effect is as follows. You open the newspaper to an article on some subject you know well. In Murray's case, physics. In mine, show business. You read the article and see the journalist has absolutely no understanding of either the facts or the issues. Often, the article is so wrong it actually presents the story backward—reversing cause and effect. I call these the "wet streets cause rain" stories. Papers are full of them.*
>
> *In any case, you read with exasperation or amusement the multiple errors in a story, and then turn the page to national or international affairs, and read as if the rest of the newspaper was somehow more accurate about Palestine than the baloney you just read. You turn the page, and forget what you know.*

I stopped watching John Oliver's show many years ago when he discussed business topics that I understood well. I realized that he settles on a narrative and then finds clips and edits them heavily to deliver his points, while making the audience laugh. However, the truth gets lost in the process. Oliver, like most media figures, is not really interested in the truth. There is very little intellectual honesty and no nuance in what they do.

This particular show is a case in point. He goes after "big" food delivery companies. Throughout the show, he points out how little money restaurants, drivers, and food delivery companies make in this transaction – delivering a $12 burrito – and how difficult it is for all of them to profitably consummate the transaction.

A villain is now needed to complete his narrative. He goes after food delivery companies (which according to him are losing money) for not wanting to turn drivers into employees and pay them benefits and Social Security, and thus would lose even more money. He just argued that these companies are not making money, but once labeled "big," he wants you to forget that and have them pay their drivers more. He says that because drivers are not employees but contractors, they get fleeced by "big" companies. The reality is that the only people who want the drivers to be employees are politicians (who never have had a real job in their lives) and maybe comedy show hosts, drivers don't want to be employees.

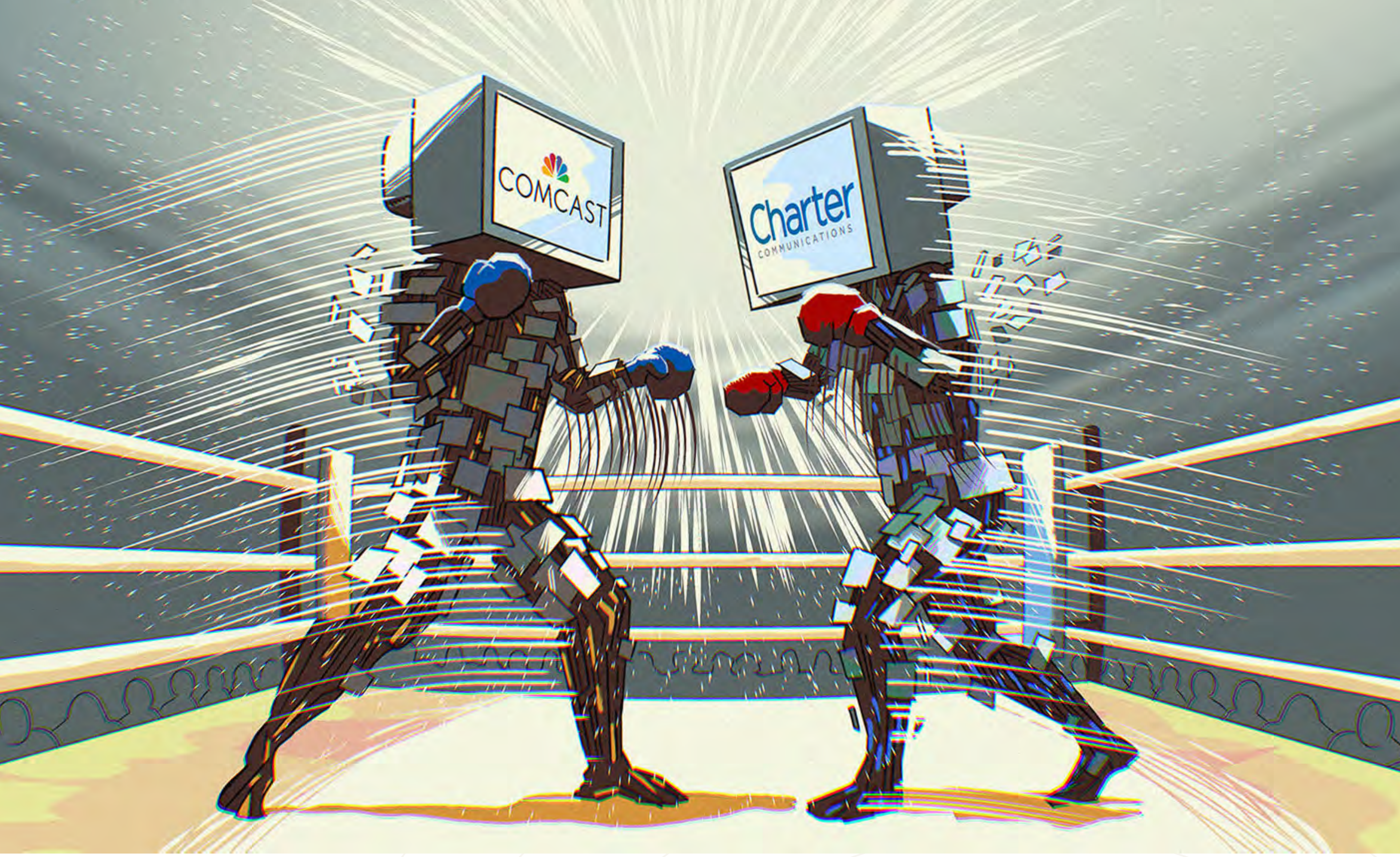
My son Jonah was a DoorDash driver during college. My favorite story is when Jonah and his girlfriend Molly went to dinner. There was a 40-minute wait at the restaurant. They put their name on the list and then Jonah opened the DoorDash app, saw there was a great demand for drivers, and asked Molly, "Do you want to do a few Door Dashes with me? It'll pay for dinner." Molly agreed. It's very difficult to put a dollar value on this flexibility.

This show is full of untruths, and I inadvertently appear right in the middle of it. As I mentioned, Oliver argues that food delivery companies don't make money. This used to be the case, but it is not anymore. They have turned profitable over the last few years. Oliver used a clip from the interview I gave to **PBS in 2020** (which also quotes Uber Eats'

CEO), right in the middle of the pandemic. At the time, these businesses – which, to their surprise, had seen a huge jump in demand – were bleeding money. That is not the case today. But by using a four-year-old clip he warps the truth – not that you would know that. I really had to squint for a second at the top-left corner to notice the 2020 time stamp. I guarantee most people missed this detail.

Shockingly, Crichton pointed out the Murray Gell-Mann Amnesia effect almost a quarter-century ago and things have gotten a lot worse. Unfortunately, today we have to bring along a very large salt shaker and our own ability to do research when we consume media.

After my 2020 PBS interview, I wrote my thoughts on Uber Eats; **you can read them here**. You can read my Uber analysis from 2020 (a few times since) **here**.



APRIL 11, 2024

Cable Stocks Keep Getting Punched in the Mouth

Click to listen to a narration of this article

> “Despite weakness in cable stock prices, our thesis on Charter Communications (CHTR) and Comcast (CMCSA) has not really changed. We made a small, superficial change in the portfolio.

Today I am going to share an excerpt from my spring letter to IMA clients where I discuss Charter (Liberty Broadband) and Comcast, two cable stocks. This is a great example of American philosopher Mike Tyson’s saying that “Everyone has a plan until they get punched in the mouth.” I wrote about Charter a year ago – you can read that **here** and **here**; and so far, I have yet to be proven right. I am in the ring and getting punched in the mouth. I want to remind you that this is not investment advice. If you are reading it as such, please do not. In my essay “**No Shortcuts to Greatness**,” I explain why.

Cable Stocks Keep Getting Punched in the Mouth

Despite weakness in cable stock prices, our thesis on Charter Communications (CHTR) and Comcast (CMCSA) has not really changed. We made a small, superficial change in the portfolio – we sold Charter and bought Liberty Broadband (LBRDK). Liberty Broadband is a company controlled by John Malone, the largest shareholder of Charter, and its single biggest asset is Charter shares. Liberty trades at a significant discount, about 20%, to Charter. Owning Charter through Liberty Broadband shares adds another layer of future returns without really bringing any extra risk.

Cable companies’ main business is not selling TV services. Though TV service accounts for a good chunk of their revenues, they make very little money from it. Most of the value in this business is captured by content providers – ESPNs and HBOs. Broadband (providing internet service) is the biggest source of their cash flows. This business has stalled over the last year and a half, and the subscriber count has actually declined, though only very slightly (a tiny fraction of a percent) in the last quarter.

Our thesis on these companies is as follows:

First, the broadband business is going through payback for pandemic growth. It grew significantly during Covid, and this growth came in part at the expense of today’s growth.

Second, fixed wireless by T-Mobile has been responsible for taking a disproportionate share of DSL customers, who in the past would switch to cable and were responsible for a good chunk of growth. Fixed wireless, which is basically mobile internet, is an inferior technology to cable and is constrained by the scarcity of the wireless spectrum it is using to roll it out. It is a cheaper but lower-quality product.

Urban customers that cable companies are losing to fixed wireless are very price-sensitive, but cable companies will likely get them back in the future as they become dissatisfied with the fickleness of the wireless product. The stocks should work out even if this doesn't happen.

Third, cable companies are rolling out wireless services, which are growing at a rate of 30–50% per year. Since cable companies' customers have multiple mobile lines per household, the size of the addressable market for wireless is several times the size of its cable customer base. For instance, Charter has about 30 million broadband customers, thus the size of the addressable wireless market for Charter is 60–90 million wireless lines. Of course, cable companies will not be able to get 100% penetration in wireless, but at 25–40% penetration they are going to enjoy a significant boost to their cash flows.

Cable companies have a significant structural cost advantage in this business, as they can utilize their broadband infrastructure (fixed cost) and, at the same time, purchase buckets of minutes and broadband from wireless providers to fill gaps in rural areas where they lack coverage.

This point is very nuanced and very important but usually missed: Cable companies are taking advantage of the fact that wireless companies have to maintain a nationwide network and provide services in both high- and low-density areas, although the majority of their profits come from customers in high-density areas. Cable companies have strong networks in high-density areas and therefore only need to purchase buckets of broadband from wireless providers in low-density (rural) areas.

Thus, cable companies have a structural advantage here and are mercilessly taking market share from wireless companies like Verizon and AT&T. I would not want to own a wireless stock in this fight. Wireless service offered by cable companies is priced lower than identical service offered by AT&T or Verizon and will become a significant cash contributor over time and further reduce churn of the broadband business.

Fourth, the churn of existing customers is extremely low, which is why we are not overly concerned about competition from wireless.

Fifth, cable companies' cash flows are temporarily depressed, as they are in the middle of a nationwide upgrade of their networks, which will put their network speeds on a par with fiber, with high speeds in both directions (download and upload). This upgrade will increase the IQ of the network and result in significant cost savings, a better product (allowing them to increase their prices once upgrades are done), and an improvement in the already broad moat around their businesses.

It is also important to note that all major cable companies are undergoing this upgrade to new technology nationwide, thus it will likely spur the development of new products that will take advantage of the much higher and bidirectional speeds.

Charter Communications is a more levered entity than Comcast, and thus its stock is more sensitive to short-term good or bad news flow. We are not worried about Charter's debt – it has very stable and growing cash flows, and its debt maturities are smartly spread out long into the future. These companies should double or triple from today's valuations.

Both Charter (Liberty) and Comcast have their strengths and weaknesses. As I have mentioned, Comcast has less debt and a more diversified revenue stream (it also owns NBC, Universal Studios, and amusement parks). We are not overly excited about the prospects for Comcast's other (non-broadband) businesses. Brian Roberts, Comcast's chairman, is the company's largest shareholder (that is a good thing), but he has a mixed capital allocation record. We are taking a dual-stock approach to investing in cable – we own two smaller positions in two companies.

Q&A

A client inquired why we are not buying regional banks, which are cheap, and why we are not buying commodity stocks, or stocks in industries that will benefit from re-electrification (the US and Europe have old electrical infrastructure which is in dire need of replacement).

I welcome these inquiries. I like when clients are engaged with their portfolios. I also love when clients do their homework and read my letters (this is why I am going to answer these questions here).

There are usually reasons why we don't own a stock or sector. For instance, regional banks (and banks in general) scare us because of their exposure to commercial real estate and other loans. We have had a financial system flooded by liquidity and a benign economy over the last decade that has not been tested by a recession. A year ago we had a small preview of what can happen to banks when interest rates go up. We have not seen what is going to happen to their credit losses when unemployment goes up a percent or two. This is why in most accounts we only own one bank, which mostly does factoring (very low-risk, short-term) loans.

We are not big fans of commodity businesses and rarely find a company whose management is good at capital allocation in this space. We have exposure to natural gas and oil in your portfolios through very special companies that are superbly managed. We have yet to find a commodity company we like outside of the ones we own.

We would have liked to get exposure to gold through gold royalty companies – they have a similar business model to Blackstone Minerals: They don't mine but receive a portion of gold company revenues from particular mines. Unlike gold miners, they have a high return on capital and historically have had better management. (I am generalizing here a bit.) However, the market recognized the superiority of the business model of these companies, and thus they are expensive. Being a good business is not good enough for us; a stock also has to be undervalued.

This quarter we spent a considerable amount of time looking at a company whose revenues are linked to commodities but that has a high return on capital (not a royalty company) and doesn't excavate minerals. We decided we'd want to buy it at a 40% lower price. It went on our watch list.

Regarding re-electrification of the US and Europe, we are in the process of analyzing a company that plays a role in this space, but we haven't finished our research.

Another client sent me some stock ideas. Thank you!

There are literally tens of thousands of stocks out there, and we may miss some. Send your ideas. Here is the promise I'll make: I'll take a look (more like glance) at your stock tips, but I may not reply – I simply don't have the time.

APRIL 24, 2024

Hedging the Portfolio with Weapons of Mass Destruction

Click to listen to a narration of this article

> Uber's business is doing extremely well. It has reached escape velocity – the company's expenses have grown at a slow rate while its revenues are growing at 22% a year.

Uber's business is doing extremely well. It has reached escape velocity – the company's expenses have grown at a slow rate while its revenues are growing at 22% a year. This caused profit margins to expand and earnings and free cash flows to skyrocket. Our investment in Uber was based on the assumption that its services would become a utility – just like water and electricity. The company's name is synonymous with ridesharing.

I must confess that the biggest risk to our investment in Uber is me. Yes, you read that right. Uber has an incredible growth runway. It is not just going after ridesharing and food delivery, where it still has plenty of room to grow, it is also making serious inroads into the grocery market. It has terrific management that is putting a lot of daylight between Uber and its competitors.

On one hand, we are managing your portfolio as though we were managing all of your net worth (this is actually the case with most, though not all, of our clients). Thus, we see it as our fiduciary duty not to let one stock dominate the portfolio. Bad things do happen to great companies.

On the other hand, we know that some companies which have a high return on capital, a dominant industry position, and a very long growth runway reward those who can maintain long-term focus. There are very few of those companies out there. Uber is one of them.

This stock requires an incredible ability to sit on your hands (not selling or trimming), which is very hard, especially when the stock more than doubles in less than a year and becomes a very large position in the portfolio and a good chunk of the company's earnings power lies far into the future.

Therefore, we did the second-best thing to trimming your Uber position; we hedged a portion of it using what is called a protective collar.

Before, I get into the structure of this trade, let me discuss options.

As a shortcut, our brains categorize words as negative or positive. Psychologists probably have a fancy name for it, but I'll just call them cognitive associations. For most people, derivatives and options are associated with giant Wall Street blowups and thus have a negative association.

Although cognitive associations can be useful (most people should not touch derivatives with a ten-foot pole), they can also be harmful, as they may lead us to overlook nuances. **Warren Buffett famously called derivatives "weapons of mass destruction" in the late 90s, but a decade later he amassed a huge position in them.** Many things are neither negative nor positive; it is our use that makes them so. Just as a hammer can be employed as a murder weapon, it can also be used to build a beautiful birdhouse.

Our approach to options comes from our guiding principle: Do no harm (don't blow up). We are very cautious in opportunistically using options to reduce risk in the portfolio (usually as hedges). Though use of options may still lead to losses, these losses should be bearable and not life-changing.

Let's discuss our UBER hedge. In simple household terms, we sold a ceiling and with the sale proceeds bought a floor.

Let me explain.

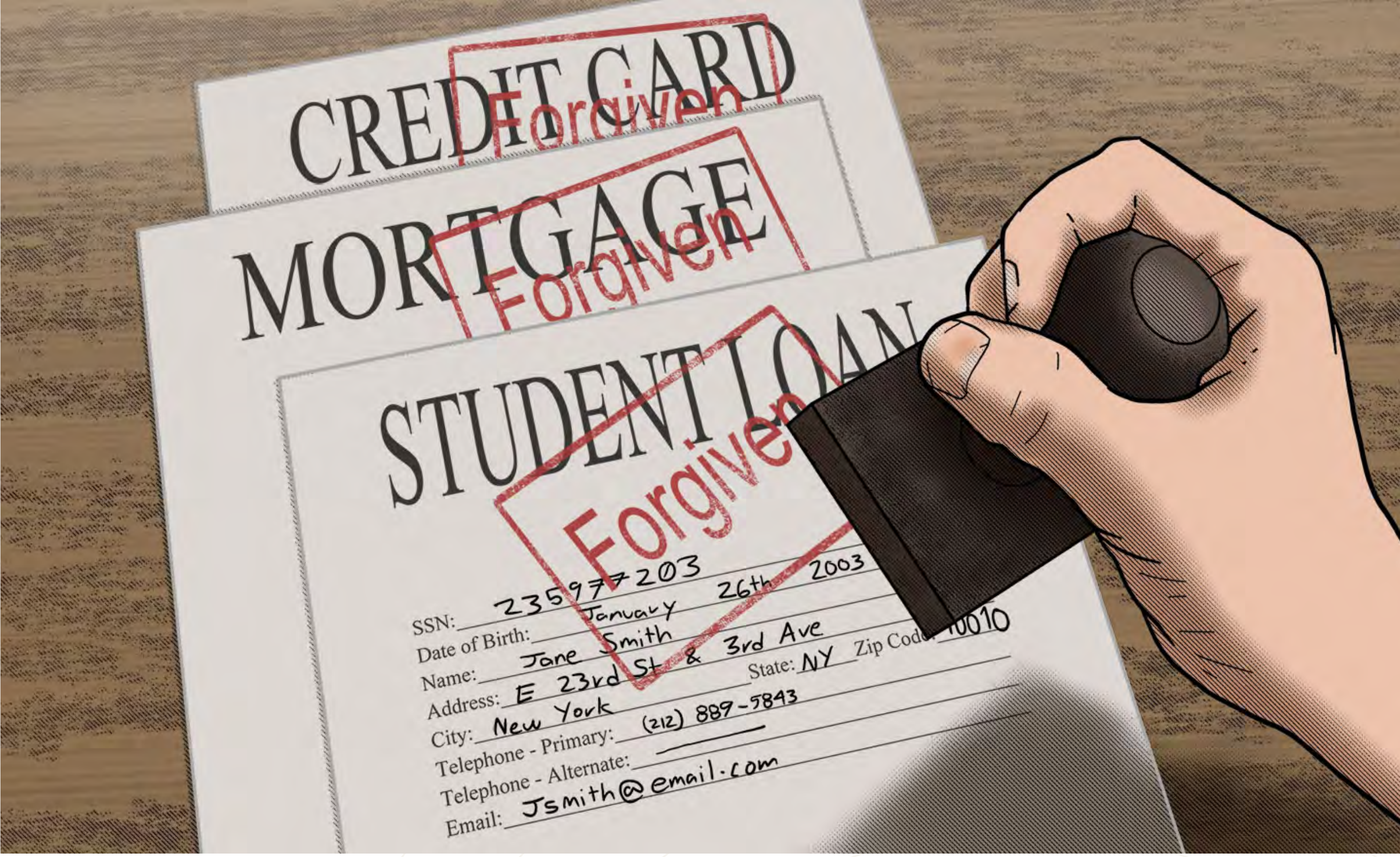
When Uber was trading at $80, we sold (wrote) a call option at $100 and received a premium of $6. This created an obligation for us to sell our Uber shares at $100. We only implemented this in accounts where we own Uber shares, so it is an obligation that we can easily fulfill. We would have reduced our Uber position at $100 anyway. Therefore, we simply got paid for something we would have done regardless.

We took this $6 and used it to buy a put at $70 (an option, not an obligation to sell at $70 – think of this as buying insurance). Both contracts have the same expiration date, December 2024. At essentially no cost, we created a 12.5% floor under our Uber stock in exchange for a 25% ceiling. We love the asymmetry in this trade. Typically, put options are more expensive than call options, but not in today's euphoric market that has been continuously rising. We took advantage of this by putting this trade on. This is how we use options sparingly and opportunistically.

If UBER goes down to, let's say, $55, the value of our shares will decline by $25 (from $80); however, the price of the put option will go up $15 – offsetting a loss on hedged shares.

We only put this collar on a portion of Uber shares. As I have mentioned, Uber has a very bright future, but risks do happen and thus we need to manage individual position sizes.

We may also use options to hedge our portfolio in the future. I wrote about it in 2018, you can **read it here**.



JUNE 6, 2024

The Slippery Slope of Student Loan Forgiveness – Edition 2024

Click to listen to a narration of this article

> "My daughter Hannah was just accepted to University of Denver. She might take out student loans. Why wouldn't she?

I wrote the following essay two years ago, but I want to share it with my readers again. I put this essay into the Public Service Announcements category. If you read it before, you can skip directly to the postscript at the end of the article.

Some of my colleagues at IMA advised me not to publish the essay you are about to read. They thought it would put me in the middle of political tribal warfare and I'd just frustrate a large group of my readers with it.

However, in the essay I shared with you a few days ago, I **reminisced** about having spent 30 years in America. I wrote:

Tribalism in the US has become so strong that it has started to impact our freedom of speech. No, the government is not going to send you to the gulag for your political thoughts. We do it to ourselves by canceling each other. …

How many of us now find ourselves afraid of being cancelled, or just don't want to get into mindless, vitriolic debates with tribal drones (people who just repeat the talking points of their tribes). The more we self-censor, the less free we become.

Despite my colleagues' insistence, I decided that I was not going to self-censor. Some readers might decide to stop reading my essays — well, they're welcome to do that.

What is the point of living in a free country if you are afraid to voice your opinion? Actually, in this case it is not even an opinion, but rather analysis with investment consequences.

I made a deliberate decision not to belong to a political party. I don't want to outsource my thinking to a collective. I am innately leery of groupthink – a useful trait in my day job as an investor.

The Slippery Slope of Student Loan Forgiveness

My wife Rachel and I had our son Jonah in 2001. I was 28 and she was 23. Rachel quit her job and became a stay-at-home mom and part-time student at CU Denver, where she was finishing her bachelor's degree.

Both Rachel and I immigrated to the US ten years earlier, from the USSR. Now, I had a master's degree in finance and a CFA license but was just a few years into my career as an analyst. I was working for a small investment firm, IMA, making $40,000 a year. As soon as Jonah was born, we opened a custodial educational account and started saving $2,000 a year for Jonah's future education.

This $2,000 in 2001 was an enormous amount of money for us; it was around 7% of my after-tax income. We had a very modest lifestyle. We were still paying off our college debt. This education money could have let us afford to eat out, enjoy a daily trip to Starbucks, or take another vacation or two. We bought used cars, drove them for decades. We made a budget and lived by it (**I wrote about it here**). We felt it was our responsibility as parents to make sure that our son went to college and was not burdened by college debt. The value of education had been drummed into our heads by our parents. We wanted to give Jonah every advantage he could get in this country.

We opened similar education accounts for our daughters Hannah and Mia Sarah when they were born in 2005 and 2014. Though my income was growing as my career advanced, funding these accounts was always an effort. We needed more bedrooms – we bought a house. Also, when storks bring babies, what follows are unending new expenses: diapers, daycares, after-school activities; and the kids keep growing, so they constantly need new clothes.

As I look back at those years, though they were often trying, they were some of the happiest of our lives. This is the behavior I'd want my kids to replicate: Live within your means. Don't get into credit card debt; pay off debts quickly. Save for a rainy day. Create a budget – which is basically categorizing and mindfully allocating your spending to things that are important to you. But making sure you take care of your kids' education is at the top of the list. In advice to my kids, I'd throw in some Stoic wisdom, in that happiness comes from wanting what you have. Once your basic needs are taken care of, material things bring little happiness.

And then…

President Biden, with an executive order (a decision that did not go through Congress) "forgave" $10,000+ of many students' loans. Aside from the fact that every member of my household, including my 8-year-old daughter Mia Sarah, is now on the hook for about $1,000 for this "forgiveness", it felt like what Rachel and I were trying to teach our kids is now thrown out the window.

As I promised you, this is not a political essay, so here's the analysis part.

This loan forgiveness is a very dangerous, slippery slope. Some will argue it started with Uncle Sam bailing out the big banks during the Great Financial Crisis. That is debatable, and there are a few important differences: The government did not "forgive" the banks or give them money but provided high-interest loans. Uncle Sam came out ahead in the end. Arguably, if the US had not bailed out its financial institutions, our whole economy would have crumbled. However, I am aware these nuances are somewhat lost, as the public looks at the government's actions as a bailout. This sets a dangerous precedent. Yes, the government came out ahead, but it could have lost money.

Then, during the pandemic, the government opened the door wide-open by throwing trillions of dollars at anyone and anything with a bank account with a multi-trillion-dollar PPP shower. Arguably, this was necessary in the face of a global emergency, though the magnitude and follow-up stimulus are open to debate. Although this time around the government wanted to make sure that everyone got the money (not just the fat cats on Wall Street), due to its ineptitude a lot of this money was misappropriated. Some were showered with more PPP money than others.

Now today, anyone who went to college, has student loan debt, and makes less than $250,000 a year (per couple) receives "forgiveness" from Uncle Sam and my daughter Mia Sarah.

This executive order doesn't even attempt to fix the core issue of runaway inflation in college tuition. In fact, it will likely make tuition inflation even worse by throwing more taxpayer money at colleges and lead to endless "forgiveness" in the future.

But what about the plumber or truck driver who never went to college and thus has no college debt to forgive? This where the slippery slope turns into a giant landslide. They are next. As interest rates go up, people go upside down on their houses and mortgage interest cripples them. No worries, Uncle Sam and Mia Sarah will come to the rescue; they'll forgive those loans. But what if you are not lucky enough to own a house but have a mountain of credit card debt? Don't worry, you'll be absolved of those sins, too – you won't be left behind.

In the meantime, people who are like Rachel and I were 20 years ago, folks who give up vacations, new cars, Starbucks frappuccinos and Chipotle burritos to save for their offsprings' education are incentivized to do the opposite. Why bother?

Making choices as to what college to attend, selecting a major, and deciding how much debt to take on falls into the personal responsibility bucket, too. When the government decides to forgive student loans (and then, maybe, mortgages and credit card debt), that is a plain-vanilla wealth transfer to those absolved from their debt (their past choices) from the rest of the society, who made painful, responsible choices, and from future generations (the Mia Sarahs and those who are yet to be born).

The US has earned the right for its dollar to be a world reserve currency. It was earned because we had the strongest free market economy. There is a very good reason why most innovation doesn't take place in Europe but in the US. We are the country where people want to take risks, enjoy the fruits of their successes, and pay the price of their failures. A free-market economy cannot exist without failure, just like heaven cannot exist without hell.

The reason companies fail, and empires collapse is simple – they become arrogant. They forget that their success was earned by sweat and paranoia. They start taking it for granted. They become fat, lazy, and happy. Just like companies and empires, the US is not absolved from the laws of economics.

As our government adds more debt and probably raises taxes, inflation will not be transitory but will become a nightmare of everyday life, and our economy will weaken. With every "forgiveness," the US dollar will become a less attractive currency, as it will buy fewer and fewer goods. It will be less differentiated from the currencies of other troubled countries.

As an investor who is hired to preserve and grow my clients' nest eggs, I'm finding, unfortunately, that diversifying away from the US dollar is becoming a responsible thing to do.

Postscript: My daughter Hannah was just accepted to University of Denver. She might take out student loans. Why wouldn't she? The government will forgive them anyway. More importantly, millions of other "Hannahs" will do the same. Yes, there are unintended consequences to government actions.

Post-postscript: Countries don't degrade overnight; the change happens slowly, one loan forgiveness, one giveaway, one social redistribution at a time, and then it happens overnight. You wake up one day and don't recognize the world around you.

A century ago, Argentina was one of the wealthiest countries in the world. Yes, you read that right. Buenos Aires was built by Europeans; it looks like Paris and is often called the Paris of Latin America. As its success went to its head, the socialists took over; they started to take past success for granted as a God-given right. Argentina went from one of the richest countries to a poor one, enduring high-inflation bouts every other year. (I hope Milei changes its course.)

Nothing precludes us from becoming another Argentina. Absolutely nothing. Argentina's decline did not happen overnight; it took decades.

Today, the US dollar's status as the world's primary reserve currency is what allows us to run insane budget deficits and do forgiveness giveaways – while the economy is not in a recession. But the "exorbitant privilege" accorded the US dollar is the fading legacy of our past success. Our current behavior is not worthy of the trust the world places in our currency. At the moment, the world doesn't have better alternatives, but slowly, countries will start diversifying to other baskets of currencies or commodities. Again, these changes happen slowly, and then very fast.

JUNE 27, 2024

Traditions, Investment Conferences and Presentations

> “Investment conferences are the constants in my life. This year, we heard 24 presentations in three days at VALUEx Vail.

Traditions are the melody of life, Nassim Taleb once said, and that saying has always stuck with me. My life is a continuous melody only occasionally punctuated by new traditions.

It seems that investment conferences are the constants in my life. I attend **VALUEx Klosters,** hosted by my friend Guy Spier every February. Then there's the Berkshire Hathaway trip to Omaha in May. Mid-June is when my company puts together VALUEx Vail (more on that later). Then my kids and I drive to Santa Fe in late July to see the Santa Fe Opera. Okay, it's not a conference, but it's something we do every year. Then in October, I attended a small private conference in Richmond and another in NYC in November.

This year, I may be adding two more conferences to my list. My son Jonah, my brother Alex, and I are traveling to Trani, Italy in early July to attend the **Value Investing Seminar**. The last time I was at this conference was in 2010.

Then in September, Jonah and I are joining my friend Ben for a trip to Japan. Ben is setting up company visits. Hopefully, we'll have an opportunity to meet0 with a dozen companies. I'm really interested in Japan but haven't yet made an investment. It's my first time in Japan, and Jonah and I are going to play tourist for a few days.

If the schedule permits, from Japan, Jonah and I are going to fly to Cyprus to attend a **value conference** put together by my friend Sophocles.

What's really amazing is that I'll be meeting a lot of my investment friends at these conferences, and we'll continue conversations we started at previous events. This is what's so great about the value investing community: Though we theoretically compete with each other, in reality we love sharing ideas and teaching and learning from one another. There's a huge culture of learning and kindness in the value investing community.

Back to VALUEx Vail. This year, we heard 24 presentations in three days. Despite the market making new highs and being at the highest valuation since the dotcom bubble, I have more ideas to research from this conference than ever before.

You can browse through presentations from this year and past years on the **VALUEx Vail website**. We were given permission to share some but not all presentations.

In our quest to help and educate, we have created these resources:

- You can read my **primer on value investing**, "Six Commandments of Value Investing." It's a game-changer, trust me. **(click here)**
- I created a **curriculum for young investors**, inspired by my own kids taking their first steps in the real world. It covers value investing, career tips, a bit of Stoicism, and some life wisdom. Pretty handy stuff. **(more info here)**
- **You can dive into my Almanacs** – all my articles over the years, neatly packed into PDFs. It's like a time capsule of investing insights. **(check them out here)**
- **Want signed copies of my books?** Easy. Just donate to **these great charities** and I'll send them your way. Books for you, help for others – win-win. **(here's how)**

JULY 2, 2024

From Bull to Sideways Markets to Nvidia

> I discussed my condensed views on the stock market, economy, and our investment strategy in a letter to IMA clients.

Today I am sharing with you an excerpt from a letter I wrote to IMA clients in the winter of 2023. I discussed my condensed views on the stock market, economy, and our investment strategy. I think it is a good overview of where we are still today, almost a year and a half later. If you've read it before, skip to the end, where I share my updated thoughts on the Magnificent Seven and Nvidia.

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 is 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 event 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 the book, 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.

P.P.S. (July 2024): From Nvidia to Nirvana: Decoding Market Expectations

Yes, not much has really changed in a year and a half. Well, maybe a little.

We have another war, this time in the Middle East. Also, Houthis are sinking ships in the Red Sea. China, Russia, Iran, and North Korea are getting ever cozier with each other; the world is more clearly dividing into us vs them.

We're approaching the US election (on which I won't comment here), but it's not eliciting the world's confidence in the US and its currency. And yes, the US debt keeps marching higher, as do our budget deficits.

AI and seven (supposedly magnificent) stocks are driving the market's performance. I agree with the market – these companies are magnificent. I'd want my kids to work for any of them.

But there's a magnificent difference between a magnificent company and a magnificent stock – the difference lies in magnificent valuation. The price you pay for even a magnificent company matters. (I tried to use *magnificent* seven times in one paragraph). Of course, I could have written this about Nvidia a hundred, even three hundred percent ago. I'll always look dumb questioning apostasy until I'm not. I'm used to it.

I'm fairly certain what I'm about to say will age well, though not in a linear way.

Let me tell you a story.

I was talking to a friend. He told me a tree had fallen on his almost-new car. His car was totaled, and he got a check from insurance. He still had the memory of buying a car during the pandemic, how difficult it was and how expensive cars were. He said, to his shock, when he went to buy a replacement, he found car dealers fighting for his business. He got a car at a huge discount to the sticker price, because the market today is oversupplied with cars. Predictably, high prices a few years ago led to higher supply today, and thus lower prices.

Then the conversation (as you would expect) shifted to the stock market and, of course, Nvidia. He asked me what I thought about it.

Here's what I said:

Remember how you were just telling me how difficult it was to get a car a few years ago, and now the market is flooded with them? Well, the same is happening with GPU chips.

A few years ago, some people thought those high prices would persist in the car market forever. Though I imagine most (thinking) people thought that at some point it would end in low prices. Most people, including yours truly, can relate to cars a lot more than to microprocessors; after all, we interact directly with cars daily. Here's all we need to know: The laws of economics work the same way with microchips.

Today, Google, Apple, Facebook, Tesla, and Amazon are buying a very large number of chips from Nvidia, as it is the only game in town. Nvidia's skyrocketing profitability is at their expense. Actually, it's a capital expenditure – only a portion of their spending that shows up in Nvidia's revenue shows up in Google's earnings (income statement expenses).

Let me explain:

Nvidia is currently selling some of its AI microprocessors for $40,000 a pop. Microprocessors are capital expenditures, thus they are depreciated over five years, or so. Per accounting rules, only $8,000 of the $40,000 check written by Google to Nvidia shows up in Google's income statement in the form of depreciation, while the full $40,000 shows up in Nvidia's revenues. This is why these companies' free cash flow often is much lower than their income.

All these companies are as happy to write checks to Nvidia as much as I am to write another article about a bubbly market (not so much). So, in addition to Intel and AMD, these companies are spending billions on R&D to develop their own AI chips so they don't have to keep writing billion-dollar checks to Nvidia. Also, several dozen other companies we've never heard of yet are working on AI chips.

Fast-forward a few years, and these chips will be selling at a small fraction of today's ("We are the only game in town") price. It may take more or less time than it did with autos, but the cure for high prices is high prices. This is what I love about capitalism.

The argument I hear about Nvidia is that it's not insanely expensive, as it is trading at somewhere around 30-40 times future earnings. True. Though it's a high valuation for a three-trillion-dollar company, it's not "insane."

But, and this is a huge but, the "E" in this P/E calculation is a bit misleading and provides a false sense of security. As competing products hit the market, Nvidia's sales will falter, and so will its margins and thus earnings.

A few years from now, the demand for microchips will likely be higher, but the buyers of microprocessors may experience a similar deja vu as car buyers today.

JULY 18, 2024

Understanding Today's Economic Landscape

Click to listen to a narration of this article

> Interest rates that stay low and actually keep declining for almost a quarter of a century slowly propagate deep into the fabric of the economy.

Interest rates went up and refused to decline. They are high in relation to where they came from, but they look reasonable in relation to inflation, which is running about 3%.

Bulls argue that current interest rates only appear to be high in relation to the last 20 years, and they are actually low if you look at the 30 years before the turn of the century. This argument is historically accurate, but it is missing a very important point – interest rates that stay low and actually keep declining for almost a quarter of a century slowly propagate deep into the fabric of the economy.

Let me try this analogy.

Think of interest rates as gravity. Imagine if for almost a quarter of a century we lived in an artificially low-gravity environment. This low gravity impacted everyone. We could almost fly for nearly a generation. This new low gravity became the new normal.

And then suddenly, in less than a year, normal gravity came back.

We had gotten so used to low gravity that it seeped deep into our behavior. We didn't realize it, but though we appeared to be fit, our muscles, while strong in low gravity, atrophied for a normal-gravity environment.

This low gravity had become deeply embedded in our muscle memory. Suddenly, normal gravity returned, and what we did with ease for almost a generation– walking, running, lifting – became much harder.

The fact that a quarter of a century ago previous generations lived in a high-gravity environment tells us only that our species will survive in normal and even high-gravity situations, but it's going to take a while to get used to a new normal-gravity environment. Everything was easier in the low-gravity setting, even mistakes.

Though the level of interest rates is not high, to truly understand their impact on the economy it's important to look at where they came from, as decisions made by businesses, consumers, and government (the economy) are in tension with the decisions they made when interest rates were a lot lower.

Every one of these participants made daily choices that inadvertently assumed low interest rates.

Consumers buy houses, cars, RVs, remodel their houses. They pay careful attention to what those things are going to cost them on a monthly basis (in relation to their paychecks). This monthly cost is a function of three factors – price, interest rate, and length of a loan.

The interest rate is an important part of the cost of capital for a business when it decides to build new corporate headquarters, invest in a new factory, or expand into a new market.

And then there's government. Climbing debt in peacetime is a byproduct of promises made by politicians to current voters that exceed available means (at the expense of future generations). When interest rates are near zero, government economists come up with optimistically sounding theories like Modern Monetary Theory, which basically says debt is irrelevant, giving them a license to issue unlimited debt.

For a while, when interest rates are near zero, they sound brilliant; also, they have the word ***modern*** in front of the theory. I'm not a psychologist, but I have a suspicion that new generations always think they are smarter (and more entitled) than previous generations, and thus the laws of economics somehow bend before their giant intellects. This is how we got to $33 trillion of government debt.

Where interest rates came from has a significant impact on the economy.

But.

There is another element that we have to pay closer attention to – time.

It takes time for higher interest rates to have an impact on the economy. Projects that were already financed at low interest rates but have yet to be built are not going to be impacted.

The majority of consumers have locked in 30-year mortgages, and as long as they stay put, the doubling of mortgage rates has had no impact on them. However, if they make a lateral move, let's say to the house across the street, the cost of their monthly mortgage will double. This is why transactions in the housing market declined by **almost 50%** in the last few years. Right now, homeowners feel like they are prisoners in what their grandparents would consider mansions – they cannot afford to sell their houses.

Our government would have been smart to lock in low interest rates, but it was not – our **average debt maturity** is about six years. We are already adding a few trillion in debt every few months, and it will only get worse unless interest rates decline.

Most corporations have locked in low interest rates for **about eight years**, and so far higher interest rates have had very little impact on a typical corporation. Going forward, more corporations will be choosing to pay off their debt when it comes due – which is de-stimulating to the economy.

But even this sector is not immune to higher interest rates. They will start impacting lower-credit-quality corporations that need to keep rolling over their debt. If you add the stress of economic weakness (which we have escaped for years), we'll start seeing higher defaults in this area.

Office buildings are the sector of the corporate debt market that is easiest to see as a trainwreck in slow motion.

Most debt in this market is in balloon loans that need to be refinanced every 10 years (usually originated by small/medium-sized banks). The problem with the low-gravity – sorry – low-interest-rate environment is that it inflated a lot of asset prices – the hurricane called FOMO (fear of missing out) was raging in this sector. Cap rates (net rent income divided by price paid) got into low to mid single digits here, just a few percent above the ten-year Treasury. Folks were buying assets simply on yields, assuming that interest rates would always remain low and occupancy would stay high.

This sector was experiencing problems of overcapacity even before the pandemic. Add work-from-home workers, and the occupancy in office buildings is hitting new multi-decade lows. Prices will have to decline a lot, and thus refinancing this debt will be difficult. Unless low interest rates and higher occupancy come to the rescue, office buildings are a train without brakes heading into a wall.

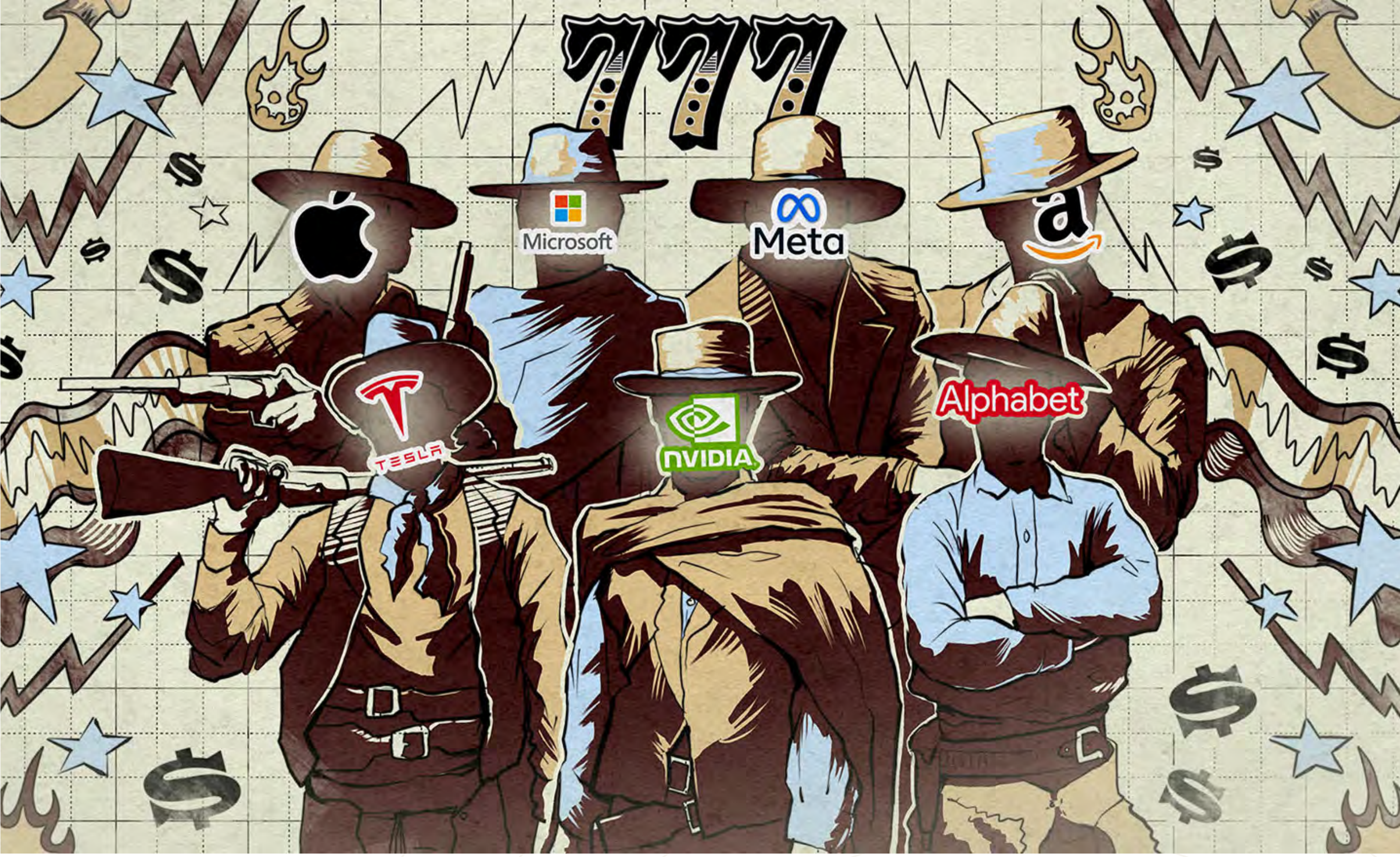
This "low-gravity" behavior was not just limited to office buildings; it will take a combination of higher interest rates and slowing economy to expose it.

We (intentionally) own only a very few highly indebted companies in our portfolio, and they have several important characteristics: They have very stable, noncyclical, highly recurring cash flows; their debt maturities are spread far (several decades) into the future; and they can pay off any maturity from their free cash flow (a liquidity crunch will not impact them).

Higher interest rates made everything that needed to be financed more expensive. Consumers were spending the pandemic money, which has either run out or is close to running out. Add to that higher prices for almost everything, and I wouldn't be surprised if consumer spending resets lower. We have already started hearing from companies that consumer spending has started to weaken.

Since consumers are a very large part of the economy, this will slow the economy down and push unemployment (which is already rising) higher.

Higher interest rates will eventually make their way into the economy; it will just take time. We have been preparing for this. We intentionally have very little exposure to economically sensitive sectors. Over the last few years, we have substantially increased the quality of companies in the portfolio through both subtraction (selling) and addition (buying).



JULY 25, 2024

The Magnificent 7 and the Dangers of Market Hype

Click to listen to a narration of this article

> **Despite the S&P 500 showing gains in the mid-teens, the average stock on the market is either up slightly or flat for the year.**

Despite the S&P 500 showing gains in the mid-teens, the average stock on the market is either up slightly or flat for the year. Most of the gains in the index came from the Magnificent 7 stocks, which constitute 35% of the index! The equal-weighted index, where the Mag 7 have only a 1.4% weight, is up only about 4% this year (as of this writing).

The Magnificent 7 are starting to look like the Nifty Fifty stocks from the 1970s (Kodak, Polaroid, Avon, Xerox, and others) – stocks you "had to own" or you were left behind – until all your gains were taken away or you faced a decade or two of no returns. Forty years later, it's easy to dismiss these companies as has-beens. They've all either gone bankrupt or become irrelevant. But back then, they were the stars of corporate America, just like the Magnificent 7 are today.

As an investor, it's crucial to know which games you play and which ones you don't.

Let me explain.

For every company we own, we build a financial model; make reasonable projections of revenues, margins etc. for decades into the future, estimate and then discount cash flows (bring them to today's dollars). Finally, we aim to buy the company at a discount (margin of safety) to whatever range of fair values the model spits out. Magnificent 7 stocks require us to draw straight lines with cash flows growing at significantly elevated rates far into the future, and even then, we get values yielding either mediocre or negative returns – forget about any margin of safety.

Their valuation demands a perfect, highly prosperous vision of the future with little competition and insatiable demand for whatever they produce. Though these are truly terrific companies, which dominate their industries, and have track records of success and growth, the financial history of markets is not on their side. Their valuation reflects only optimism and nothing else. In all fairness, I am discussing these seven stocks as a monolith, and they are not. For instance, Nvidia's valuation is a lot more demanding (it is a very expensive stock) than Google's (which is less expensive), and so on.

The reason I am zooming in on these stocks is because they are "the market" today, or at least a huge part of it. When you hear or read about "the market" being up or down at any specific point, this is usually a reference to the S&P 500 (SPY) market-capitalization-weighted index. If you look at the equal-weighted cousin of the S&P 500, the RSP, it has underperformed SPY by **27% since January 2023**.

Don't get me wrong, the average stock in these indices is expensive. We have a hard time finding new stocks to buy, and we have been looking nonstop (most opportunities have come outside of the US). But most of the action and price appreciation that has driven "the market" has happened in those seven oh-so-magnificent stocks.

The majority of people who are buying these stocks today are not thinking about cash flows decades into the future. They're thinking, will these companies beat estimates over the next six months? What happens to their earnings (they don't even pay attention to cash flows) past this short time frame is irrelevant; it's not part of that game.

We don't play this game for several reasons. Let's be honest – we're not good at it. It would be like a marathon runner trying to compete in a 100-meter race. It's endurance vs. quickness. We focus on the endurance (survival) strategy.

Also, if people are honest with themselves, most are horrible at that quick game. You're looking for a greater fool to buy an overvalued asset. When the market runs out of greater fools, as it always does, the punishment is equally quick, and it's severe.

A Small Hedge

We put in a small hedge (in accounts where we had option authorization) by buying puts on the S&P 500 (SPY). These instruments appreciate in price when the market declines. Think of it as minimal insurance with a 10-15% deductible that will expire on January 17, 2025. I wrote about option hedging in the past; you can read about it **here**.

The question comes to mind: Why not hedge the full portfolio? Answer: because that's very expensive, despite options being relatively cheap today. There is a well-known investor I respect who had horrendous returns over the last 20 years (his fund is down 50%) because he ran a fully hedged portfolio.

This hedge is not supposed to "save" the portfolio if the market declines, but to provide a tiny buffer and cash infusion if/when "the market" significantly cracks. Our biggest hedge is our carefully constructed portfolio (of high-quality, undervalued businesses) itself.

AUGUST 1, 2024

Lessons from History's Technology Booms

Click to listen to a narration of this article

> The technology at the core of the mania is different every time. What doesn't change over time is human emotion – the fear of missing out and then the fear of loss.

AI has a feel of "this time is different." Optimism rarely erupts about the same technology twice; this is why history doesn't repeat but rhymes. The technology at the core of the mania is different every time. What doesn't change over time is human emotion – the fear of missing out and then the fear of loss, in that order.

Humans are an optimistic bunch. We need it; it's essential to our survival and progress; but eventually, we take our optimism too far. The graveyard of financial ruins is full of these stories.

I have beat the dotcoms and Nifty Fifties to death, so let's go to back another century. My friend the brilliant **Edward Chancellor wrote** about the railroad boom and bust in England in the 1800s. Here he is, edited for brevity:

> *The first railway to use steam locomotives opened in 1825 and was designed to carry coal, not passengers. Railway promoters simply did not appreciate the potential demand for high-speed travel. The successful launch of the Liverpool and Manchester Railway in 1830, however, demonstrated the commercial viability of passenger travel. By the early 1840s, Britain's railway network stretched to more than 2,000 miles. Railway companies were delivering acceptable, if not spectacular, returns for investors.*
>
> *Then railway fever suddenly gripped the nation. Enthusiasts touted rail transport not just for its economic benefits, but for its benign effects on human civilization. One journal envisaged a day when the "whole world will have become one great family speaking one language, governed in unity by like laws, and adoring one God." In the two years after 1843, the index of rail stocks doubled.*
>
> *Investment peaked at around 7% of Britain's national income. Railway enthusiasts predicted that rail would soon replace all the country's roads and that "horse and foot transit shall be nearly extinct."*
>
> *In 1845, Britain's railways carried nearly 34 million passengers. If the 8,000 miles of newly authorized railways were to deliver their expected 10% return, then the industry's total*

> *revenue and passenger traffic would have to climb fivefold or more – all within the space of just five years.* ***"This should have alarmed observers by itself… But they were deluded by the collective psychology of the Mania",*** *writes Odlyzko.*
>
> *In 1847 a severe financial crisis broke out, induced in part by the diversion of large amounts of capital into unprofitable railway schemes. It turned out that the revenue projections provided by so-called "traffic takers" were wildly overoptimistic. Railway engineers underestimated costs. The vogue for constructing direct lines between large urban centers proved mistaken, as most traffic turned out to be local.* ***As a result, Britain's rail network was plagued with overcapacity. By the end of the decade, the index of railway stocks was down 65% from its 1845 peak.***

The railroad bubble in England is just one example; there are hundreds of similar stories across market history. They all share this theme:

A new technology appears on the horizon. In the early stages, investment is rational, but then at some point excitement, imagination, and optimism take over, leading to overinvestment (usually creating a financial bubble). Investors make a lot of money until most lose it all. When the dust settles, only a few companies survive.

This AI boom reminds me of the telecom sector in the 1990s. The internet was going to change the world, and it did, but first we had tremendous overcapacity in global fiber and telecom equipment.

One could say that telecommunications companies overestimated demand for broadband and underestimated changes in technology, and that would be true. But there was a more nuanced dynamic at play, what economists call the fallacy of composition: What's true for one participant isn't necessarily true for the group.

Here's a quick example: If you're at a football game and you stand up, you'll see better. But if everyone stands up, nobody sees any better. In the telecom industry, optimism led to collective action by hundreds of participants who poured hundreds of billions of dollars into fiber and infrastructure investment, ultimately killing the economics of the business.

What made this situation even more complex was the institutional imperative. It would have been difficult for the CEOs of these companies to opt out of making these investments and still keep their jobs. Shareholders would have likely revolted and fired them.

New technological advancements are built on the backs of optimistic equity investors (your neighbor) and piles of debt. Billions of dollars of malinvestment, hundreds of billions in market value wipeout, a few large bankruptcies, and we ended up with an incredible global telecommunications network. These companies are mostly forgotten and not there to remind us of their short-lived glory. Most investors today don't remember magnificent companies in the telecommunications space that were going to change the world and had to be owned at any price: Nortel, JDS Uniphase, Ciena, Level 3 Communications, Qwest Communications – the list is long.

Something similar is happening in AI investments today. Look at the spending and the scale at which each company is investing in AI – they believe they cannot not make these investments. The total bill will be in the hundreds of billions.

Unlike telecom companies of the 1990s, the Magnificent 7 have highly cash-flow-generative businesses, so I'm not predicting they'll go bankrupt. But it's very likely that they have *collectively* overinvested in AI, and the returns on this investment will be very disappointing.

Also, though it's hard to imagine today, it's very likely that five to ten years from now, their magnificence will have faded. Ego, new competition, almost unavoidable malinvestment, and poor stock performance and thus diminished employee morale are usually responsible for that. There will be new, no less magnificent companies, and new bubbles. And hopefully this marathon runner will still be writing about why he doesn't run sprints.

In the meantime, we're going to play games we think we understand and can win in the long term (though we can't make any promises). Our goal isn't to bring "excitement" to your portfolio, and what we own is going to make for a boring conversation with your neighbor who has a hot hand right now.

Hopefully, this boredom will pay off. Your neighbor, after losing a good chunk of his net worth, will hire someone like us to manage his shrunken and less magnificent nest egg and will probably be embarrassed to talk to you about his portfolio and instead switch to sports and politics.

I have a very selfish interest in being rational and process-driven – my family's entire liquid net worth is invested right alongside yours. I don't have any other outside investments. I'm in the same boat as you, eating the same soup I'm serving you.

Being thoughtful, rational, and process-driven is just another day at IMA – it's in our DNA. We don't play the games that are exciting and even rewarding in the short term but are destined to fail when the dust settles.

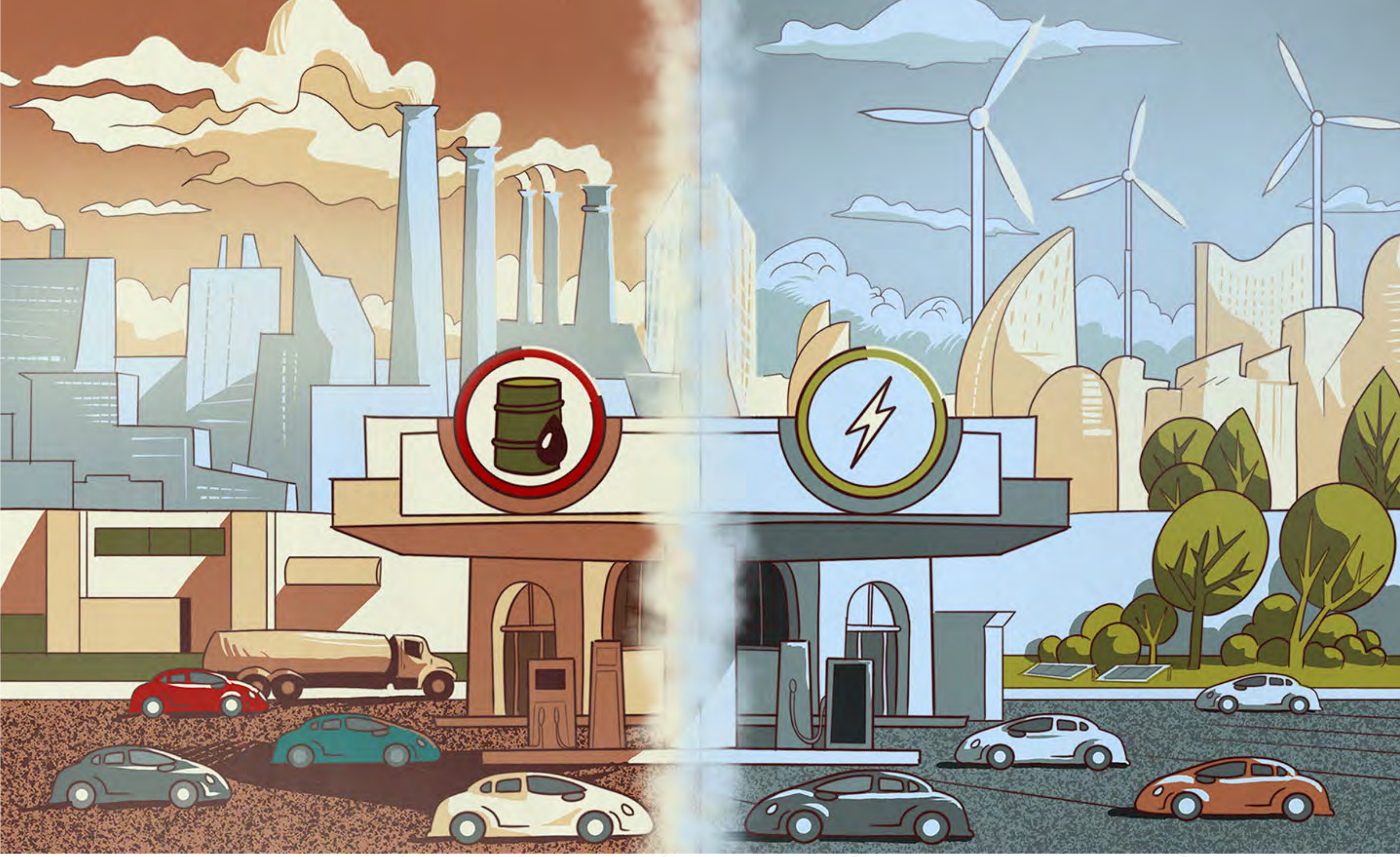
On a personal note, I have to thank Michael Conn, IMA's cofounder, for building a foundational layer of IMA DNA and the impact he had on me. Mike is definitely a visionary. He hired me on August 31, 1997, when I had been in the US for only six years. This was years before I received a graduate degree in finance and my CFA, before I taught investments at university, before I wrote books. My English was horrible, and I was in my last semester completing my undergraduate degree in finance at CU Denver. He saw more in me than I saw in myself.

The US stock market was in the very early stages of the dotcom bubble, and the next three years were treacherous. I remember countless meetings with clients who were upset with Mike for not playing the game of dotcoms and tech stocks that everyone "had to own". The IMA portfolio was doing fine, but it lacked the excitement and high-octane returns that the new world had offered. Mike patiently explained that we owned a lot of high-quality, undervalued companies. Though he didn't know when this mania would end, he knew that it would, bringing a lot of tears to those who had been uncorking champagne.

Some clients appreciated his insights, some did not and cancelled their accounts and found managers who would "perform." Mike was unfazed by cancellations and stuck to what made sense. He was willing to lose clients but not their money; ***he had soul in the game.***

There's a quote often attributed to Albert Einstein: "Insanity is doing the same thing over and over again and expecting different results." As an investor, especially if you manage someone else's capital, you have to be slightly insane. During market manias, time slows down to dog years. You have to keep doing the same (rational) thing but expect a different outcome, knowing that at some point it will come.

Watching Mike being unafraid of being rational – contrarian, if you like – when the world was going bananas over the latest craze, instilled this contrarian gene in me.



AUGUST 8, 2024

The EV Industry Landscape

Click to listen to a narration of this article

> As a part of a summer letter to IMA clients, I will discuss investments in the EV industry, spurred by the following question from a client.

Today, I will share part four of what has become a five-part summer **letter to IMA** clients. The letter is quite lengthy, so for easier reading, I have divided it into smaller parts. In the previous three parts, I discussed **the economy, the Magnificent 7** and **past booms and busts**. In this part, I will discuss investments in EVs, spurred by the following question from a client:

Question: I've read Vitaliy's thoughts on EVs. As a Rivian owner, I agree they'll upend the auto industry once battery, charging, and cost issues are solved. How can IMA invest to benefit from the EV industry?

In the remaining part, I will cover AI, as well as the impact AI will have on the economy.

In these client letters, I am not selling anything; they are written to IMA clients, who have already bought into what we are doing. I don't like sanitizing my letters (rewriting them into articles), as I don't learn anything from doing it, so I am leaving them as I wrote them.

Investment Strategies in the Age of EVs

When we see a new trend in the economy, we think about how to benefit from it and, crucially, how to not get run over by it. The key is not just identifying the "wind" but finding good businesses that will ride the wind, and as importantly, making sure that these businesses are undervalued.

This was the case with our investments in defense stocks. We saw building global tensions and found defense companies that met our quality and valuation criteria.

The EV Industry Landscape

Now, let's talk about EVs.

We could play EVs by buying traditional companies. Making cars is a very difficult business with high fixed costs and very cyclical revenues. Cars are expensive and need to be financed, and thus affordability is impacted by the level of interest rates. Also, this business has been fundamentally broken by unions. I've written on **this subject in the past**, so I'm not going to belabor this point here, but unions have a call option on these companies' future profitability. As automakers start making profits, unions strike and demand to share the spoils. Shareholders are unlikely to make much money investing in these businesses.

Also, managing the transition from internal combustion engines to EVs will be very difficult for these companies.

Of course, there is a more obvious choice to participate in EV transition – Tesla.

I wrote a small book on **Tesla and the EV industry** in 2019. At the time when I wrote the book, Tesla was losing money and had a pile of debt. I wasn't sure if Tesla would be able to reach escape velocity and profitability. It has. The stock went up a lot and became very expensive.

History cements only one path of what has taken place, but there were many other high- and low-probability alternative historical paths for Tesla, and they were mostly not as glamorous or rewarding as the one that played out. Even Elon Musk confessed that Tesla was on the verge of going bankrupt a few times.

I have smart (a number of them are brilliant) investment friends who are both long and short the stock. Most Tesla bulls recognize that, as a car company, Tesla is overvalued or at best fully valued. They believe today's investment case in Tesla is future cash flow streams from AI, semitrucks, robotaxis, the charging network, and robots. I hope my bull friends are right about Tesla's success in these areas, as that would benefit society as a whole. But at this point, most of their investment thesis is based on hopium.

Out of all these businesses, the only one that actually exists and is making money now is the charging infrastructure – but Tesla has announced significant cutbacks to the expansion of its charging network.

Then, my friends who are short the stock will point to Musk's flawed ethics, his distractedness with his growing business empire – I keep losing count of how many Sci-Fi companies he is running now. They'll point out significant competition from Chinese EVs (which many argue are superior to Tesla's current offerings). And, though Tesla would like you to believe otherwise, it is still a cyclical car business. By the way, those Chinese EVs are also a potential threat to traditional automakers – GM and Ford sell a lot of cars in China. And Chinese EVs are making their way to Europe and Latin America, too.

Also, up to this point, Tesla was able to escape unions because it gave out stock options to its employees – the stock went up, so employees were happy. But a stagnating – or, God forbid, declining – stock could send employees into the arms of unions, who are constantly camping outside of Tesla HQ. I don't want to write another book about Tesla; but at this valuation, which still exceeds that of the US and European automotive industry combined, it is not of interest to us. At a much lower price, we'd be willing to give it another look.

Then there is Rivian, which is losing tens of thousands of dollars on every car it makes. We have little insight as to whether this company will be around tomorrow or not.

We have a small position in Dowlais (a spinoff from Melrose Industries), an automotive supplier that makes transmission components and motors for EVs. They are number one or two in the markets they compete in. It's a very profitable, conservatively managed business that is currently on the wrong side of the automotive cycle (the industry is struggling from post-COVID hangover). The company is trading at an extremely undemanding 3–4 times earnings – it could potentially double or triple from its current level. The transition to EVs is a net positive for Dowlais, but it is just icing on this undervalued cake. We keep this position intentionally small – we like the company; we are not fans of the industry.

Energy Infrastructure and EVs

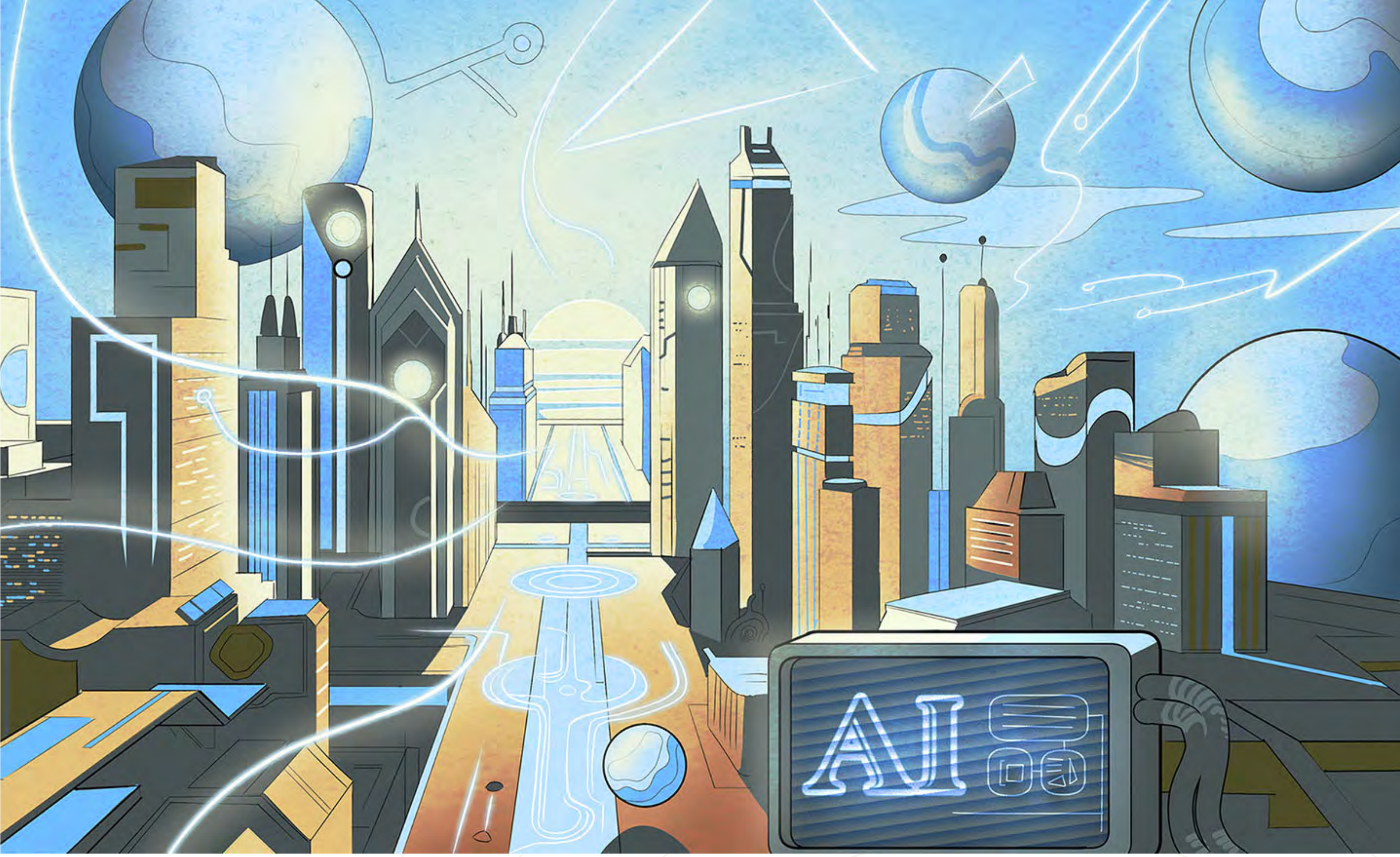
The adoption of EVs and AI will both result in high electricity consumption.

The world is coming to terms with the fact that we'll need to use more nuclear energy, but this transition will take decades. One of our companies (Babcock International) has exposure to nuclear. Modular nuclear reactors may actually be the future, but we have not found a good way to invest in them.

In the meantime, most incremental electricity will be generated by natural gas. We own two stocks (in most accounts where we're allowed to own them) that are positioned to benefit from increasing demand for natural gas: Blackstone Minerals (BSM) and Kinder Morgan (KMI).

BSM is a royalty trust structured as a master limited partnership (MLP) for tax reasons. It is one of the largest mineral rights owners in the US. Energy (oil and gas) companies drill on its land and pay BSM a quarter of their revenues for this privilege. About one-third of BSM revenues come from natural gas. KMI operates a large network of (mostly natural gas) pipelines. Both companies are paying handsome dividends while the transition to higher natural gas consumption takes place.

We have looked into energy infrastructure and found a lot of good companies, but we were unable to find stocks that meet our criteria (everything is very expensive). We have a few of them on the watch list – a code word for we'd like to own them but at lower prices.



AUGUST 15, 2024

The AI Revolution

Click to listen to a narration of this article

> **"The discussion of AI quickly falls into a domain bordering on Sci-Fi. My thoughts here are only marginally shaped by scientific facts.**

Today, I will share the final part of what has become a five-part summer **letter to IMA** clients. The letter is quite lengthy, so for easier reading, I have divided it into smaller parts. In the previous **four parts**, I discussed the **economy**, the **Magnificent 7, past booms** and busts and **EVs**. In this part, I will discuss AI from the following question:

Question: AI is changing a number of industries. Citi released a report predicting that 54% of jobs in the banking industry could be automated with AI. How is IMA able to invest in a way to take advantage of AI disruption?

In these client letters, I am not selling anything; they are written to IMA clients, who have already bought into what we are doing. I don't like sanitizing my letters (rewriting them into articles), as I don't learn anything from doing it, so I am leaving them as I wrote them.

The AI Revolution

Now, let's look at AI.

Let's state the obvious: The discussion of AI quickly falls into a domain bordering on Sci-Fi. My thoughts here are only marginally shaped by scientific facts.

If you look at technological progress over the centuries through the lens of productivity, the improvement was tiny, barely noticeable. Our ability to do the same tasks maybe improved a few basis points a year for millennia. People figured out fire, learned how to use levers, created a wheel.

Then the pace of technological progress started to accelerate with the first and second industrial revolutions – steam engine, internal combustion engine, electricity, microprocessors, internet – productivity went from improving a few percent a century to a few percent a year. The beauty of productivity growth is that it is the magic that improves our lives. Technology allows us to spend fewer resources as we grow tomatoes and build new houses.

Serendipitously, as I was typing this I received an email from Edward Chancellor, who, in his article titled "**The Trouble with Prosperity,**" argues that productivity growth has slowed down to 1% from 3% since the 1970s. Edward thinks that the main causes were: (1) prosperity – the wealthier we get, the less hard we want to work, (2) the larger role governments play in the economy (Western governments have run deficits for nearly fifty years), and (3) regulation – it is up tenfold.

I hope AI can reverse this. Back to the future.

I have been battling between two conflicting frameworks here.

On one side, the technological progress we observed over the last hundred years has changed the nature of employment. We used to have one-third of the population working on farms, but today only a tiny percentage work there – a single combine replaces dozens of workers.

I am quite sure that this transition was painful for many farmers, but it was positive for society as a whole. While a transition happens, we can only see the jobs we will lose but don't yet know the jobs that will be created, because those occupations are yet to be invented. Just look how many jobs that we take for granted today did not exist 50 or 100 years ago – laparoscopic surgeon, data scientist, Chief Listening Officer – I kid you not, this one was suggested by ChatGPT (maybe it can see the future).

On another side, as Larry Summers pointed out, the biggest difference between AI and all other advancements is that "the wheel cannot create another wheel" but AI can build AI. There's a good chance that AI will add exponentially to growth – the rate of productivity growth can accelerate. Again, I am in the Sci-Fi, not Sci-Fact, domain.

AI's Impact on the Job Market

Most technological improvements of the past have attacked blue-collar jobs. The only exception I can think of is Xerox replacing typing pools – rooms of women were replaced by a single copy machine. AI is "collar-blind", as it is coming for both blue- and white-collar jobs. I wanted to say that repetitive, pattern-recognition tasks are going to be swallowed by AI. But ChatGPT showed that AI can generate content, and thus creative jobs are not safe, either. At least it is going to increase productive output. In other words, powered by AI tools, a designer will be able to do the job of two or … pick a number.

Add AI to robots and automation, and warehouses are only going to have humans turning the "on" switch. AI's attack on blue-collar jobs doesn't require much imagination; Amazon and others are fast moving that way. Robots will start stocking shelves at supermarkets at night. Amazon warehouse workers who are complaining that they have to walk ten miles a day will start complaining that Netflix ran out of new movies for them to watch, as bots will be doing all the walking and shipping while they are unemployed, flipping channels.

The composition of skills in the US will change over time – low-skilled labor will have a hard time finding a job. (Plumbers, electricians and other tactile skilled jobs have infinite security.) Today we are importing a lot of low-skilled labor through legal and illegal immigration to the US. A decade from now these people will have a hard time finding work. (That's not a political observation but an economic one.)

Uber and the Threat of Robotaxis

As of now, only one company in our portfolio faces potential disruption by AI – Uber. The threat lies in the hypothetical scenario where millions of robotaxis suddenly appear on the roads. Uber's value stems from its fragmented, two-sided network. If the car supply on the street becomes dominated by a few large conglomerates (like Tesla or rental car companies, for instance), Uber's value proposition diminishes significantly.

However, robotaxis remain more science fiction than fact at this point. The technology isn't quite there yet, functioning only in limited, discrete areas. While Tesla's self-driving software has made significant strides recently, we're far from the point where consumers would feel safe inputting their destination and then losing themselves in TikTok for the journey.

Self-driving technology relies heavily on sensors, which have limitations. For instance, my Tesla's drive assist becomes inoperable in rain or snow, when cameras can't clearly see the road. Moreover, there's a trust factor: Many of us would gladly pay a premium for the assurance of a human driver getting us safely from point A to B, rather than risking an empty, self-driving car. The legal framework for self-driving vehicles is also nonexistent. In the event of an accident, who bears responsibility – this robotaxi or that one?

A standalone Tesla robotaxi service is unlikely to succeed. Tesla will struggle to maintain a deep pool of supply on their own, further reinforcing the value of Uber's established network. Consumers aren't specifically seeking robotaxis; they want reliable transportation that arrives quickly (key word) when summoned.

As robotaxis gradually begin to appear on roads in the coming years, they'll probably become another option on the Uber app (rather than operate independently), alongside the UberX, Comfort, or Luxury selections.

Societal Implications of AI

What will the economy and society look like when AI has taken over the office and bots are running everything else? Let's say we institute some kind of basic income system and now people don't have to work. What is that going to do to our society? Will people lose the meaning in their lives that today is fulfilled by working?

But maybe I am looking too far into the future. In the meantime, it is a given that AI will bring big change.

I tell my kids that it's not what AI will bring to us that will matter, but what we'll bring to AI. Our job is to be open-minded, embrace AI, and not see it as a threat but as a friend. It's going to happen whether we like it and embrace it or not, so we may as well benefit from it.

From an investment perspective, we have a long list of companies from robotics to automation to energy that will benefit from AI. The issue is that today they are fully valued, like the rest of the market.

AUGUST 22, 2024

The Eclectic Value Investor

Click to listen to a narration of this article

> “How do I describe myself as an investor? This question provides an opportunity to delve into what I mean by being an “eclectic value investor with a slight touch of dogmatism.”

Today, I’ll be answering a question from a reader and addressing the question, How do I describe myself as an investor? This question provides an opportunity to delve into what I mean by being an “eclectic value investor with a slight touch of dogmatism.” It’s a comprehensive look at our investment philosophy and approach.

Every investor is unique. How would you describe yourself? Are you a quality investor? A quality investor with a value tilt? A value investor…?

I think of myself as an eclectic value investor with a slight touch of dogmatism.

Let’s start with the eclectic part.

Our portfolio doesn’t look like a traditional value portfolio – it doesn’t fit neatly into a quadrant of any box. Undervalued companies come in different sizes, and not all of them are located in the US. We own companies all over the developed world.

Not all undervalued companies look “in your face” statistically cheap (something you’d expect to see in a “by the book” value portfolio). Some of them are even considered to be growth stocks and thus trade at growth multiples.

But our portfolio is definitely constructed using the values of value investing – each company is valued with the same care as if we were buying the whole business and demanding a margin of safety. In other words, we only buy stocks when we believe they are undervalued.

What is the difference between cheapness and undervaluation?

Statistical cheapness is often easy to see: A company that trades at 7 times last year’s earnings is considered cheap, but it may or may not be undervalued. Though it may appear to be cheap based on rear-view-mirror earnings, it won’t be cheap if its earnings collapse in the future.

Also, undervaluation can come from different sources, and growth is one of them. There is value in growth – I’ve written about that in my essay called “**Growth and Value Demagogues.**” As David Einhorn put it, “The opposite of value is not growth, but anti-value.”

The US stock market is the largest and most liquid market in the world, but it is not the only market. We are not trying to be the Indiana Jones of value investing; I don't want to visit companies in countries where I would need to be accompanied by armed-to-the-teeth bodyguards. However, there are plenty of developed countries with the rule of law where companies follow Western accounting conventions.

The Touch of Dogmatism

Where does the touch of dogmatism come in?

Your investment process should bring out the best in you and play to your strengths. It should fit your personality. It should amplify your strengths and reduce the impacts of your weaknesses.

Investing is a very different endeavor from other professions. Let's contrast it with being an orthopedic surgeon. You are an orthopedic surgeon, and you discover that, for whatever reason, your success rate for surgeries on right knees is much higher than for left knees. There is, however, very little you can do with this knowledge. It is going to be impossible for you to build a practice solely focused on right knees.

However, if you're an investor, you have more flexibility. At IMA, we only need a portfolio of 25–30 stocks. There are thousands of stocks out there in the developed world. After careful observation of my past decisions (something every investor should do), I found that I have the worst IQ and EQ when it comes to retail stocks. They are my "left knees." But this is the beauty of investing – we can build a portfolio that does not include retail stocks. Therefore, being mindful and deliberate and figuring out what your "left knees" are is essential. Focusing on "right knees" is what every investor should do. Well, at least, this is what we do.

Let me give you this example. I have tremendous respect for Seth Klarman of Baupost. However, I look at his holdings, see a lot of single-drug biopharmaceutical companies and scratch my head. Seth has done extremely well with these types of stocks, but I don't understand them. And that is absolutely fine. My IQ is very low in this area. Today I have enough self-confidence in myself to put these stocks into the "too difficult" category.

Here is another very real example.

I was at a conference where two of my good friends (people I deeply admire, who do thorough and brilliant research) presented ideas that looked wonderful. As I was listening to them pitching their stock ideas, I remembered that both companies have very opaque accounting due to the nature of their business. I had looked at both companies before. Simplicity and clarity of financials is a must for me. I passed on both stocks. I'm sure they will both turn out to be good investments for my friends.

Why did I pass on these opportunities?

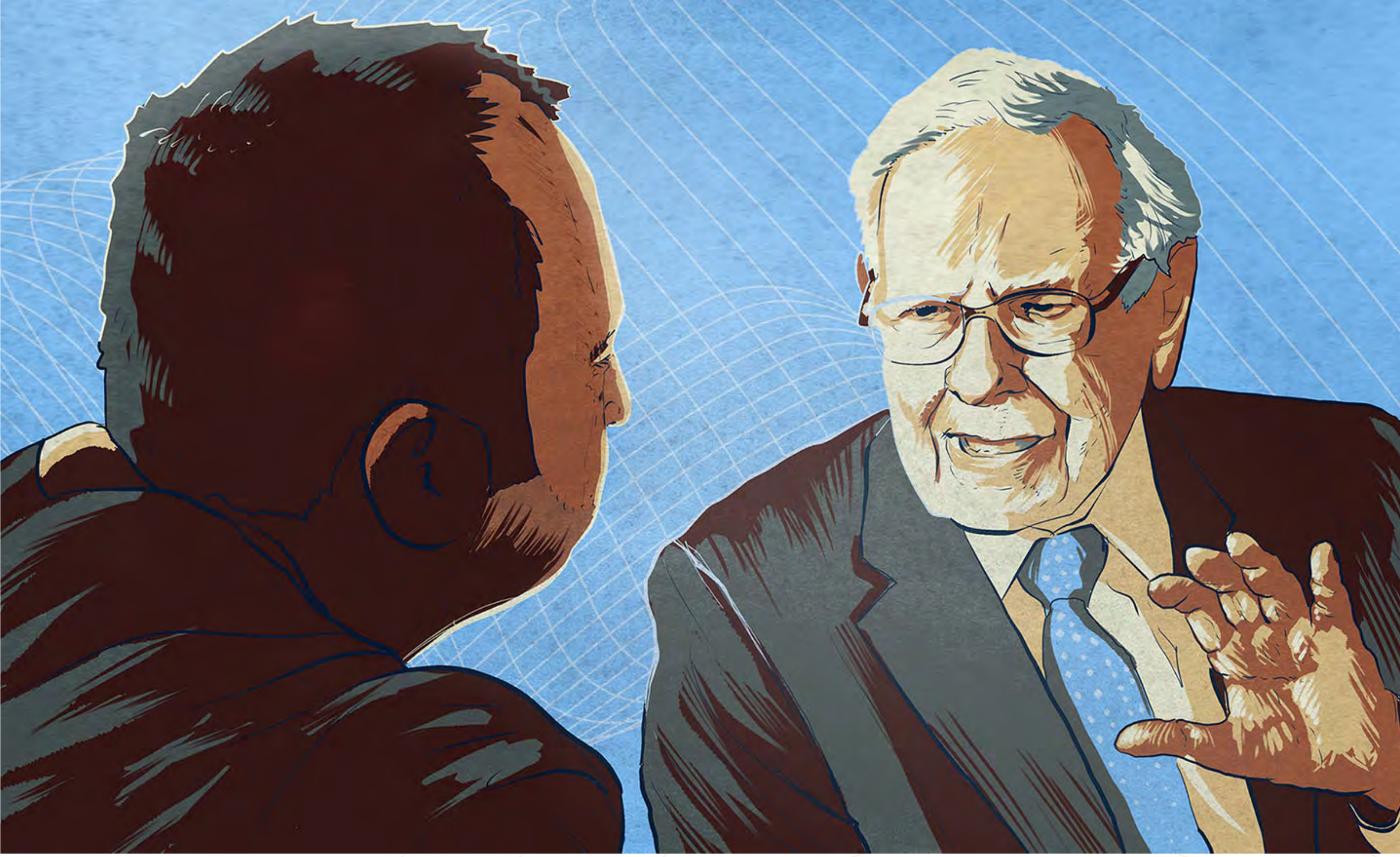
If the Almighty issued a guarantee that these companies would never encounter turbulent times, I'd buy them. But investments don't come with guarantees. My EQ is low when I deal with businesses that have complex, opaque accounting.

It is important to understand that it is not just your EQ at the time of purchase that should be considered but during the whole arc of ownership – in both good and bad times. It is paramount to be dogmatic – to carefully study your EQ and IQ weaknesses and then keep them from affecting your portfolio. As Charlie Munger remarked, "All I want to know is where I'm going to die so I'll never go there."

This brings me to quality. Through painful experiences, I found that my EQ is the highest when we own high-quality businesses. There is nothing wrong with owning low-quality businesses; some investors are very good at doing that. I don't look at my desire to own high-quality businesses run by good management as a badge of honor; it's just the strategy that fits my EQ and IQ. Again, trying to play to my strengths.

The liquidity offered by the stock market is both a feature and a bug. It is a feature because we can enter and exit stocks in seconds at a low transaction cost. However, it is also a bug, because it encourages promiscuity, lack of seriousness, and hasty (half-baked) decisions. Another way to describe being dogmatic is that we are disciplined, process-driven, and know our limitations.

Our job is to be patient and say "no" thousands of times to new opportunities and say "yes" just a few times a year. These words are worth repeating – there are thousands of stocks out there, and we only need 25-30.



AUGUST 29, 2024

Unpacking Buffett's Investment Philosophy: A Personal Perspective

Click to listen to a narration of this article

> How does our investment approach stack up against Warren Buffett's? Answering this question gives me a chance to dissect Buffett's famous investment principles and compare them to our own strategy.

How does our investment approach stack up against Warren Buffett's?

This was a question I received from a reader. Answering this question gives me a chance to dissect Buffett's famous investment principles and compare them to our own strategy. It is a fun little exercise which I really enjoyed, and I hope you do too.

The reader continued:

> *Buffett summarizes his investment philosophy as follows:*
>
> - *Find wonderful businesses*
> - *With highly capable management*
> - *Which trade at fair valuation levels*
>
> *How about you?*

Let's start with "wonderful businesses." Going to Berkshire Hathaway annual meetings every year has probably had an impact on me. It is nirvana to own a truly wonderful business. It makes one's life so much easier, and the return per unit of brain damage is so much higher. I wish we had a whole portfolio of them.

What is a wonderful business?

It is a high-quality business with a long runway of growth. Let me unwrap this a bit more. What is high quality? A company will have a significant competitive advantage, which will be accompanied by, or result in a high return on capital and pricing power, and the business will be so strong a monkey could run it. Now, you combine high return on capital and a long runway for growth, and this means the company can self-finance its growth and thus create a lot of value for shareholders. It also has a great balance sheet with a reasonable amount of debt and is run by great management (I'll come back to this later).

So far, I have described a great business, which may or may not be a good investment (or a good stock). A wonderful business purchased at a high price may turn into a miserable investment (think of Nifty Fifty stocks in the late 70s or Wal-Mart-like, high-quality stocks in the late 1990s).

In reality, very few wonderful businesses fit into the category of good investments, and, as important, stay in that category.

Buffett says he'd like to own a business that can be run by a monkey, because at some point it will be. I always thought of Starbucks as a wonderful business. Just think about its brand and goodwill with consumers. But this business could not be run by a monkey, and so far has proven that it cannot even be run by a good executive unless his last name is Schultz and his first name is Howard. Howard Schultz, its founder, has had to come back twice to "save it."

I would argue that today, very few businesses are high-quality enough that they can be run by mediocre management and not suffer the consequences. The world is more competitive now than ever before.

Coke, when Buffett bought it in the 80s, had a long runway of growth ahead of it. Today, it has not grown revenues in more than a decade. Runways end. A monkey could still probably run this company, but I am not sure anyone can grow this very mature business.

Apple is another example. It took the company a long time to get to this point. It built several super-long runways, first with the iPod and iPhone and then the iPad.

Unless it builds a brand new (iPhone market sized) runway, the company is destined for single-digit revenue growth. In fact, today, Apple is a great example of a great, most likely ex-wonderful business, trading at a valuation that has turned it into a mediocre (at best) stock. It will likely have a decade or two of no, or negative, returns. I wrote about it **here**.

Let's take a look at Berkshire Hathaway's other holdings.

Reinsurance can be a good business, especially if Buffett is the one who invests the float, but it is not wonderful. Allow a monkey to do the underwriting at General RE, and it would not be long for this world.

Burlington Northern (a railroad) has a good moat but not a great return on capital. It has very-high-maintenance capital expenditures, far in excess of its depreciation. Thus, return on capital and accounting profits overstate its true profitability – how much free cash flows it generates.

Another example is Occidental Petroleum – a business Buffett has been buying lately. It extracts oil out of the ground, and its profitability is at the whim of the commodity, which it has little control over. Not a wonderful business.

I am highlighting these examples to make several important points.

First, there are very few truly wonderful businesses.

Second, they don't always stay wonderful. Aside from running out of growth runways, which is virtually a guarantee, competition over time will shrink their moats.

Third, it is very difficult if not impossible to assemble a portfolio of truly wonderful businesses while not paying through the nose for them. In other words, finding wonderful businesses is easy, buying them at the right price is hard.

And finally, if we are lucky, we (including the Oracle himself) own some wonderful businesses, but most of our portfolio is good, above-average businesses.

What we try to do is find a good business with special characteristics.

For instance, we own an oil company that is a low-cost producer – which is important when selling a volatile commodity. It has almost no debt, a necessity for getting through tough times. Most of its oil is in oil sands with a low production decline rate (requiring less maintenance-capital expenditure).

It has incredible management that has both skin and soul in the game, and is also great at allocating capital, creating a lot of value in this highly volatile (cyclical) industry. And most importantly, we bought it very cheap; so even if oil prices decline and remain low, this investment is unlikely to lose money.

Is this a wonderful business? No, it is an oil company with special characteristics that make it a good investment.

There are two additional points I want to stress. Investing is nuanced – quality rarely arrives in primary colors but in a mixture of many more subtle shades. And second, we aim for great companies, accept (special) good ones, and, most importantly, try very hard to avoid bad ones.

The last but very important stop is management.

As I matured as an investor, I became more uncompromising on management and transparency. I arrived at this conclusion through the pain and losses of past decisions.

There is an inherent conflict in the time horizons of management and the business. A tenure of a typical CEO is maybe five years or so – even though a business theoretically has an indefinite time horizon. Realistically, a business should be looking at least five to fifteen years out. Management that truly cares about the business is prioritizing the long-term success of the business, rather than their own tenure. As a result, decisions may appear suboptimal in the short run but will ultimately benefit the business.

Why?

When you make decisions that are going to bear fruit in five years or longer, they usually require investments today – an outflow of capital which punishes your near-year earnings. You, as a CEO, may not be the one collecting the fruits of your investment.

We never compromise on management quality. But we make mistakes, and if we realize we made a mistake on management, we usually sell the stock. If we come to question management's character, we immediately run for the exits. You cannot make a good deal with bad people.

Even good management can make mistakes. Management making a mistake is not a reason to sell. Everyone makes mistakes; it is what makes us human. It is when we lose trust in management's soul in the game that we start putting their decisions under the microscope.

Transparency is also very important, and it is one of the metrics we use to evaluate management. Great management teams are usually transparent. Look at GE under Jack Welch or Jeff Immelt: It was impossible to model this company. Under Welch, GE played accounting tricks with its financial arm – the company was managed to "beat the numbers." Under Immelt, acquisitions made the company impossible to analyze.

When I was younger, I saw complex financials as a mountain I had to climb. However, I learned my lesson in a painful way. When I see complex financials that lack transparency, it means that management doesn't want to communicate with their shareholders and may have something to hide.

Today I have enough self-confidence to walk away and move on to the next stock. In investing you don't get extra points for difficulty.

Management never comes out and says, we are going to cheat and destroy capital. Though sometimes, signs are there right in the open – you just need to pay attention.

We recently looked at a company in the defense industry that seemed very attractive until we saw that the management had made it an officially stated goal to grow revenues from $1.5 billion to $3 billion in five years. Only a small part of that growth was going to be organic (from current business). Most of it was going to come through acquisitions.

This management is basically saying, we are going to pay whatever price we need to have an empire with $3 billion of revenues. If they "succeed" at growing revenues to $3 billion, I can almost guarantee that shareholder capital will be destroyed in the process. It was very easy for us to walk away from this investment.

Regarding the final part of Buffett's investment philosophy, to buy wonderful businesses at "fair" valuations, Buffett, with his multi-hundred-billion-dollar portfolio, is at a significant competitive disadvantage against anyone who manages hundreds of millions in assets, or even a few billion. He is a victim of his own success – the size of Berkshire Hathaway.

The only exception to this is when the economy goes into severe distress, and he becomes the lender (investor) of last resort – his cash and his reputation buy a lot more then. This would have happened during the pandemic, but the Fed stepped in and bailed out the economy.

Thus, in the plain-vanilla environment where Buffett operates, he has to settle for fair valuations, as his opportunity set is tiny. IMA is a bit smaller (I am being generous to IMA), and as a result, we are looking for "unfair" valuations.

SEPTEMBER 3, 2024

Trump's call for a bitcoin strategic reserve is a very bad idea

Click to listen to a narration of this article

> At the end of July, Donald Trump went full Bitcoin. He wants the US to become a "Bitcoin superpower"; he promised to build a Bitcoin strategic reserve.

A few days from now, my son Jonah and I are going to Japan. We will be joining my good friend Ben Beneche. Ben is a very thoughtful value investor who lives in London and has been investing in Japan for decades. Ben and I have been talking about going to Japan and visiting companies for years – we finally pulled the trigger.

We (IMA) have owned companies all over Europe, but never in Japan (SoftBank is the only exception). I am fascinated by everything Japan – its culture, people, customs, craftsmanship, food, bullet trains and, of course, people. This trip is important for understanding and potentially owning Japanese stocks.

Why am I taking Jonah? Many reasons. I hate traveling alone, which is why I always take a family member on any business trip. I love spending time with Jonah. He just graduated from CU Boulder, majoring in finance, and is in the process of looking for a job. When else am I going to have an opportunity to go on a ten-day trip with him?

Also, I believe seeing the world, seeing how other people live and think, is very important education for my kids (and me). We are limited by the myopic circles of our geography. Traveling is one way of expanding it (reading is another one). Also, some of the best memories I have of my father are from traveling with him.

If you live in Japan, and would like to meet, please drop my assistant Barbara a line at **pa@imausa.com**. Maybe we'll be able to do that.

This article was published in ***The Financial Times*** (the *Wall Street Journal* of Europe). I have to provide my usual warning: I don't write about politics. In this article I describe economic policy suggested by a presidential candidate and its consequences.

Trump's call for a bitcoin strategic reserve is a very bad idea

Politics in the US has turned into our biggest sport. Bigger than baseball, football, and basketball combined, politics has also turned us tribal — we want to win at any cost. And most importantly, we get so engrossed in the sport that we don't realize that our future — and the future of our children — is the ball we are playing with.

At the end of July, Donald Trump went full Bitcoin ("**Trump calls for US to be 'crypto capital of the planet' in appeal to Nashville bitcoin conference**"). He wants the US to become a "Bitcoin superpower"; he promised to build a Bitcoin strategic reserve. I understand why Trump is doing this; he is a politician, and that is the cost of getting endorsements from crypto bros.

This policy would be very dangerous for the US. Let me explain why.

Money is more than just green paper with the faces of dead presidents, and more than even secure bits and bytes. There are many ways to define money. One way to look at it is as a claim on a country's productive power and assets, reflecting the value of a nation's economic output. Before humans started to use hard or paper money, we bartered with each other. This required a coincidence of needs — my need for milk had to coincide with your need for bread. Then we switched to commodity money (metal coins, shells), and then somewhere around the 6th century, the Chinese invented paper money. And then, with the advance of computers, money got digitized — over 90 percent of money in today's world is digital.

There is another way to look at money — as a story. It's a story you've been told not through reading but through everyday actions. Your parents went to the grocery store and traded dollar bills for milk, eggs, and donuts. And then the next day they traded the green paper for gasoline. We've all seen it happen countless times, through people's actions. And now, as a society, we believe in the story of currency. This mass belief is incredibly important for society's well-being; if it breaks down, so will society.

Now let's look at what a reserve currency is. There would be no need for a reserve currency if there was only one country on the planet or if we never traded with other countries.

For a currency to become a reserve currency, the country that issues it needs to have a stable political system and a strong and preferably growing economy with low inflation. These factors are necessary for people to trust in parking their "reserves" in the currency, but that's not enough. The country's economy must be big enough to handle being the reserve currency. Let me give you an example: The Swiss franc objectively would be a great reserve currency (and it is to a small degree) — Switzerland has little debt, runs budget surpluses, and has a very stable political system. However, if people chose the Swiss franc as a main reserve currency, it would destroy the Swiss economy. The franc would appreciate in value so much that the watches Switzerland loves to export and even Swiss cheese would become unaffordable for the rest of the world.

There are many countries that have stable economies and political systems, but very few that have the size to maintain a reserve currency. China has the size, but it is an authoritarian regime — the world is less likely to put their reserves in the hands of its Communist Party.

Also, China's currency is not free-floating, and the government has significant control over the flow of currency in and out of the country.

The euro is really the only contender to the US dollar to be the world's principal reserve currency, but the European Union is a combination of countries with different productivity levels and structurally different economies, and it has its own fundamental problems, which showed up in spades during the 2008 financial crisis.

Remember how I said that currency is a story? Well, a reserve currency is a global (super) story. Many people in many other countries, who may or may not have visited the US or done business with it, have bought into this story.

They have bought in, and for the right reason. After World War II, we had the strongest, most diverse economy, replete with natural resources, and two friendly neighbors, to the north and south, and two oceans, on the east and west. We are a democracy, and our capitalist, free-market economy had turned our country into the strongest in the world, with the strongest military, no capital controls, and hey, we were responsible with our finances — our debt was manageable, and though we ran budget deficits, they were not huge.

No longer! Today our $27 trillion economy has $35 trillion in debt. We collect $4.8 trillion in taxes, but we spend $6.3 trillion — we're running a 5.6 percent budget deficit. Already, our finances don't inspire a lot of confidence in the US dollar: As we print more dollars every year to finance our growing budget deficits, the dollar story of an all-mighty reserve currency is losing its luster.

Anyone who is paying attention is already starting to question the trajectory of our finances as well as the state of our political system. We used to have the undisputed reserve currency because we were great on both an absolute and a relative basis. Today we are just the best alternative, not because we are so awesome but because we are a less-dirty shirt in the old laundry basket.

This brings us to Donald Trump's rhetoric about wanting the US to build Bitcoin strategic reserves. Despite its astronomic price appreciation, the market value of Bitcoin is only about the size of Switzerland — an economy of 9 million people. Currently, Bitcoin is owned mostly by crypto bros and investors who wish they had bought it at 50 cents. This rhetoric from a presidential candidate is dangerous, and if he's elected, this governmental policy drastically changes Bitcoin's story, legitimizing it and making it a contender for global reserve currency status. This would be catastrophic for the US.

Bitcoin is not controlled by anyone, including our government. We cannot print more of it to finance student or medical debt forgiveness, help out with first-time buyer down payments, or deliver tax cuts when we are running huge budget deficits. Nor can our politicians print more of it to finance their campaign promises that we as a country cannot afford, just to buy themselves more votes. Yet Bitcoin, just like gold, looks shinier with every empty campaign promise and every trillion dollars we add to our debt.

What will happen if strangers fall in love with another story that is not green and doesn't have pictures of the US presidents?

The demand for the US dollar will decline. Foreigners will stop financing our lavish lifestyle beyond our means. The interest we are paying on our debt will go up. Our budget deficits will rise, not because politicians bought more votes (at least some of the US populace will have gotten a free lunch), but because we are paying higher interest rates for past free lunches. Einstein called compounding the eighth wonder of the world. We'll experience a lot of it, which will eventually turn into hyperinflation.

The US president and presidential candidates (if they love this country more than they love themselves) should be the US dollar's biggest salespeople. And the Bitcoin story should not be promoted — Bitcoin should not even be accepted as a form of donation to candidates for the position of US President. Bitcoin is not going to make America great. What will help this country continue to be great is getting our debt and deficits under our control, and neither candidate is talking about that — they are too busy buying votes.

SEPTEMBER 11, 2024

The Best and Worst Investment Decisions I've Made

Click to listen to a narration of this article

> **"I'm going to share stories about my best and worst investment decisions. But don't worry, this isn't just a brag-and-cringe session about making or losing money.**

Today, I'm going to share stories about my best and worst investment decisions. But don't worry, this isn't just a brag-and-cringe session about making or losing money. These stories are about the valuable lessons learned, and how these adventures in investing helped shape my current approach.

The Best Investment Decision

In investing, you don't get extra points for creativity or difficulty. A million dollars earned while you are smiling buys as many potatoes as a million dollars that cost you your marriage and hair.

However, from a personal, creative satisfaction perspective, our investment in Uber was one of our best. That's not to say that it has been the most successful decision from a financial perspective, at least not yet.

Uber doesn't fit into the traditional value stock category. Until 2023, the third year of our ownership, it never made money. It was a stock everyone hated. **After we bought it**, I had clients reach out to me asking if I had been kidnapped and someone else was making these purchases of Uber.

We bought more shares very opportunistically during and after the pandemic. I wrote a long research report on it, which you can read **here**.

On one hand, Uber's switchboard is a digital business, but the company also has a physical presence in thousands of cities, which incurs costs (the analog side of the business). Additionally, the availability of cheap money caused the ride-share market to go crazy and act rationally irrational, as competitors jostled in a land grab.

My thesis consisted of several insights:

- Unlike traditional-tech, digital-only companies, Uber is a hybrid, both digital and analog. Thus, its cost structure is much higher than that of other companies. This, in part, explains the higher losses.
- It has a strong brand; its name has become a verb.
- The rideshare market is inevitable and will only continue to grow. Uber is not just in competition with taxis, second cars, or seldomly used cars; it is also in competition with the favors we ask of friends and relatives, such as dropping us off at the mechanic or picking us up from the doctor's office.
- Uber has global scale, which its competitors lack, allowing it to spread R&D across more markets.
- As its revenue grows, each incremental dollar comes with a very high margin, which directly drops to the bottom line. Therefore, at some point, its earnings will explode to the upside as fixed costs stop growing, allowing it to scale.

The Uber story is not over; we still own the stock. I don't want to do a celebratory dance. But this idea came with a lot of creative satisfaction. There is another point of pride here. Despite our very tumultuous ownership of this stock, we remained rational (I have written about that **here**). We bought more when it became extremely undervalued, and I would be lying if I said that was psychologically easy – it was not, but we followed our research and process.

The Worst Investment Decision

My worst investments that resulted in losses had several things in common: They were low-quality companies; their financials were complex and not transparent (for instance, one-time items were labeled as "one-time" every quarter); and they had questionable management.

However, they were all considered "cheap"… until they were not. Now, I hope you see why I am dogmatic about quality.

However.

When you are wrong on an investment and you lose money, the most you can lose is 100%. I have learned a lot from those. But they were not my worst investments. Those were the ones where I left 300–400% on the table when I sold too soon. Let me detail two examples.

EA – Electronic Arts

We bought EA in the early 2010s. I wrote about it – you can read my investment case for it **here**. To sum up, games were moving from being sold in stores to being digital downloads, which would lead to higher margins (don't have to pay for packaging and Best Buy to sell them). The market for games was exploding, as every adult and teenager had a gaming device in their hands – a smartphone. The market for video games was going to be much larger. EA was the largest player in that space, with great franchises.

The following two years of ownership were very painful. EA had a few big game flops, and the market did not care about improving fundamentals. The stock kept declining. We continued to buy more. Every time we bought more shares, the stock fell further. Fast-forward a year or two. The stock doubled from our original purchase, but I was mentally exhausted. I did a celebratory dance and sold the stock. The stock then went up another 4x within a few years after we sold it. It went up for the right reasons – its earnings exploded to the upside, in line with my original thesis.

The sale was a mistake, not because the price went up but because I let frustration over the stock-price decline (volatility) get to me. Investing is a mental game. I learned from this adventure that it is important to zoom out and not obsess over individual stocks in the portfolio. This is why we have a portfolio. It was a very costly but educational mistake. Our ownership of Uber was not a walk in the park, either – just look at the stock price over the last few years. But I had learned my lesson from EA and was able to do the analysis, update our model, and zoom out.

In investing, there is a big difference between intellectual and tactile knowledge. I am going to go PG-13 on you for a second and quote the irascible Charlie Munger: "Learning about investing through a model portfolio is like learning about sex through romantic novels." A big part of investing is observing yourself as an investor – your thoughts and emotions as you ride the actual rollercoaster of owning a stock.

I also made an important modification to our process.

We always value every company in the portfolio on earnings (free cash flows) *at least* four years out. Why four years? Three seems too short. There is no magic in this number, other than it being longer than most analyst estimates. We do this for all stocks in the portfolio, and then the total return for each is calculated and annualized. If a company has strong growth potential, it may appear to be expensive based on current earnings; but in reality, it may actually be cheap based on earnings projected four years from now.

On the other side of the spectrum, a company that has no growth or dividends may seem "cheap" based on its current earnings multiple, but this cheapness may quickly dissipate once a total return is calculated using future earnings. Time is on the side of growing businesses and the enemy of the ones that stand still. Therefore, a non-growing or slow-growing business needs a much greater discount (margin of safety) to secure a spot in our portfolio.

I want to stress another point. We sometimes sell a stock and then it goes higher. If we sold it for the right fundamental reasons, this doesn't bother me. There is very little to learn.

Twilio

I'll give you another crazy example. We bought Twilio at $25 in 2017 or so. Our thesis was that they had built the largest digital telecommunications network, which gave them a brief competitive advantage. They were also spending 5x more on R&D than competitors to build applications around this network, which would give them long-term advantages.

The stock price went up to $60 in a few months without anything significantly changing, so we sold a third of our position. Then it went up to $90, and we sold some more. To our disbelief, we sold the rest at around $120, a bit before the pandemic.

During the pandemic, Twilio's price hit $400. I had zero regret about not holding on to the shares. Absolutely none. Twilio's profitability did not match the stock market's opinion of its price. Twilio's stock price was as crazy to me at $250 as it was at $300 or $400. After reviewing our models, we concluded that even $120 was at the extreme end of our optimistic assumptions. Fast-forward to today, where the stock is at $60 or so. We are currently sharpening our pencils, but we have not bought the stock – yet.

Selling EA was a mistake; selling Twilio was not.

SEPTEMBER 19, 2024

The Hidden Risk in “Religion” Stocks

Click to listen to a narration of this article

> **"A basic property of religion is that the believer takes a leap of faith: to believe without expecting proof.**

The beauty and embarrassment of writing is that your past essays can be easily unearthed and brought to the present. I have been writing since 2004 and have penned more than 1,000 essays. Many of them should remain six feet deep in the dust of history, but I'll unearth a few that I believe are worth revisiting and will provide additional comments at the end of each essay.

March 22, 2004

A basic property of religion is that the believer takes a leap of faith: to believe without expecting proof. Often you find this property of religion in other, unexpected places – for example, in the stock market. It takes a while for a company to develop a "religious" following: only a few high-quality, well-respected companies with long track records ever become worshipped by millions of investors. My partner, Michael Conn, calls these "religion stocks." The stock has to make a lot of shareholders happy for a long period of time to form this psychological link.

The stories (which are often true) of relatives or friends buying few hundred shares of the company and becoming millionaires have to fester a while for a stock to become a religion. Little by little, the past success of the company turns into an absolute – and eternal – truth. Investors' belief becomes set: the past success paints a clear picture of the future.

Gradually, investors turn from cautious shareholders into loud cheerleaders. Management is praised as visionary. The stock becomes a one-decision stock: buy. This euphoria is not created overnight. It takes a long time to build it, and a lot of healthy pessimists have to become converted into believers before a stock becomes a "religion."

Once a stock is lifted up to "religion" status, beware: Logic is out the window. Analysts start using T-bills to discount the company's cash flows in order to justify extraordinary valuations. Why, they ask, would you use any other discount rate if there is no risk? When a T-bill doesn't do the trick, suddenly new and "more appropriate" valuation metrics are discovered.

Other investors don't even try to justify the valuation – the stock did well for me in the past, why would it stop working in the future? Faith has taken over the stock. Fundamentals became a casualty of "stock religion." These stocks are widely held. The common perception is that they are not risky.

The general public loves these companies because they can relate to the companies' brands. A dying husband would tell his wife, "Never sell ________________ (fill in the blank with the company name)." Whenever a problem surfaces at a "religion stock," it is brushed away with the comment that "it's not like the company is going to go out of business." True, a "religion stock" company is a solid leader in almost every market segment where it competes and the company's products carry a strong brand name. However, one should always remember to distinguish between good companies and good stocks.

Coca-Cola is a classic example of a "religion stock." There are very few companies that have delivered such consistent performance for so long and have such a strong international brand name as Coca-Cola. It is hard not to admire the company.

But admiration of Coca-Cola achieved an unbelievable level in the late nineties. In the ten years leading up to 1999, Coca-Cola grew earnings at 14.5% a year, very impressive for a 103-year-old company. It had very little debt, great cash flow and a top-tier management. This admiration came at a steep price: Coca-Cola commanded a P/E of 47.5. That P/E was 2.7 times the market P/E. Even after T-bills could no longer justify Coke's valuation, analysts started to price "hidden" assets – Coke's worldwide brand. No money manager ever got fired for owning Coca-Cola.

The company may not have had a lot of business risk. But in 1999, the high valuation was pricing in expectations that were impossible for any mature company to meet. "The future ain't what it used to be" – Yogi Berra never lets us down. Success over a prolonged period of time brings a problem to any company – the law of large numbers.

Enormous domestic and international market share, combined with maturity of the soft drink market, has made it very difficult for Coca-Cola to grow earnings and sales at rates comparable to the pre-1999 years. In the past five years, earnings and sales have grown 2.5% and 1.5% respectively. After Roberto C. Goizueta's death, Coke struggled to find a good replacement – which it acutely needed.

Old age and arthritis eventually catch up with "religion stocks." No company can grow at a fast pace forever. Growth in earnings and sales eventually decelerates. That leads to a gradual deflation of the "religion" premium. For Coke, the descent from its "religious" status resulted in a drop of nearly 20% in the share price – versus an increase of 65% in the broad market over the same time. And at current prices, the stock still is not cheap by any means. It trades at 25 times December 2004 earnings, despite expectations for sales growth in the mid single digits and EPS growth in the low double digits.

It takes a while for the religion premium to be totally deflated because faith is a very strong emotion. A lot of frustration with sub-par performance has to come to the surface.

Disappointment chips away at faith one day at a time. "Religion" stocks are not safe stocks. The leap of faith and perception of safety come at a large cost: the hidden risk of reduction in the "religion premium." The risk is hidden because it never showed itself in the past. "Religion" stocks by definition have had an incredibly consistent track record. Risk was rarely observed.

However, this hidden risk is unique because it is not a question of if it will show up but a question of when. It is very hard to predict how far the premium will inflate before it deflates – but it will deflate eventually. When it does, the damage to the portfolio can be huge.

Religion stocks generally have a disproportionate weight in portfolios because they are never sold – exposing the trying-to-be-cautious investor to even greater risks. Coca-Cola is not alone in this exclusive club. General Electric, Gillette, Berkshire Hathaway are all proud members of the “religion stock” club as well. Past members would include: Polaroid – bankrupt; Eastman Kodak – in a major restructuring; AT&T – struggling to keep its head above water. That stock is down from over $80 in 1999 to $18 today.

Emotions have no place in investing. Faith, love, hate, and disgust should be left for other aspects of our life. More often than not, emotions guide us to do the opposite of what we need to do to be successful. Investors need to be agnostic towards “religion stocks.” The comfort and false sense of certainty that those stocks bring to the portfolio come at a huge cost: prolonged underperformance.

My thoughts today (20+ years later): This is one of the first investment articles I ever wrote. I had just started writing for TheStreet.com. It’s interesting to read this article more than 20 years later. I am surprised my writing was not as bad as I had feared (though in many cases it was worse than I feared when I read my other early articles).

So much has happened since then – I am a different person today than I was back then. I have two more kids; I have written three more books and a thousand articles. The last two decades were my formative years as an investor and adult.

The goal of the article was not to make predictions but to warn readers that the long-term success of certain companies creates a cult-like following and deforms thinking. In fact, my original article – the one I submitted to TheStreet.com – did not mention any companies other than Coke. The editors wanted me to include more names so that the article would show up on more pages of Yahoo! Finance.

With the exception of Berkshire Hathaway, all of these companies have produced mediocre or horrible returns. In the best case, their fundamental returns in their old age were only a fraction of what they were when these companies were younger and the world was their oyster.

To my surprise, Coke’s stock is still trading at a high valuation. Its business has performed like the old-timer it is, with revenue and earnings growing by only 3–4% a year. The days of double-digit revenue and earnings growth were left in the 80s and 90s, though the high valuation remained.

SEPTEMBER 27, 2024

The Infinite Game in Telecom

Click to listen to a narration of this article

> CHTR, just like Comcast, showed only a very slight decline in broadband customers in the quarter. Most of the decline came from the US government removing subsidies for rural customers.

I'm back from a ten-day Japan trip. I went with my son Jonah and my friend Ben. Someone asked me why I went, and my reply was that three Vitaliys went – the investor (we met with ten companies), the writer (I'm working on a long essay about Japan), and a tourist – I'd never been to Japan before.

Actually, I guess four Vitaliy's went to Japan, the fourth one being Vitaliy the father. Jonah is 23. He graduated from CU Boulder and is in the process of figuring out what he's going to do next. I didn't know when we'd have another opportunity to spend ten days together, just the two of us. In all honesty, that was probably the most important part of the trip.

I'm going to take a break from traveling for about a month. Then, at the end of October, I'm going to a small investment conference in Richmond, VA. It's my fourth year attending. Last year when I was there, I combined the visit with speaking to the CFA Society of Virginia (**you can listen to it here**).

My family will be spending Thanksgiving in Mexico (the Riviera Maya area). Then they'll go home, and I'll fly from Mexico to NYC to attend another small private investment conference I've been going to since 2008. I'll be joined by my brother Alex. I love NYC during Christmas. Last year Alex and I spent a full day just walking the streets of Manhattan.

Today I'm going to share an excerpt from my fall letter to IMA clients. I'll discuss Charter Communications (CHTR) and Liberty Broadband, the vehicle through which we own Charter.

Charter has been a tumultuous investment. I rarely buy a stock that goes straight up. Charter has been rewarding in at least one way (so far): I have learned a lot about the broadband industry. You learn very differently when you have skin in the game.

As American philosopher Mike Tyson said, "Everyone has a plan until they get punched in the mouth." I've been punched in the mouth a lot with Charter. If you're new to my Charter journey, you can read my previous essay about **it here**. Also, At the end of the essay, I discuss a very important topic: what creating shareholder value really means.

The Infinite Game in Telecom

CHTR, just like Comcast, showed only a very slight decline in broadband customers in the quarter. Most of the decline came from the US government removing subsidies for rural customers. Overall, the business is doing very well.

I want to remind you that broadband is not a secularly challenged business, but an advantaged business that we believe will resume growth soon.

Cable companies continue to offer a great product on the market, which is actually improving in quality as I type this because they are upgrading their networks to be as fast as fiber. They should be done with their full network upgrade in a year or so.

Also, cable companies have shown that they are very good at attracting wireless customers from wireless carriers. (They have grown their wireless business by 25% in 2024). The more we analyzed this industry. the more bearish we became on AT&T and Verizon.

Though owning cable stocks has not been rewarding (I'm being very gentle to myself), the more research we've done into the industry, the more convinced we've become that once the dust settles, their market share will not decrease but likely increase. Fixed wireless has taken all the share it will take and will start donating share to cable companies as customers get frustrated with intermittency of the service and usage caps.

The industry is moving towards the bundle – one bill for broadband and wireless (and maybe TV service, though that has been marginalized by streamers). It's a lot easier for cable companies to add wireless customers than for wireless companies to add wired broadband customers.

This point is paramount!

It costs very little for a cable company to add a wireless subscriber, as 80-90% of a subscriber's data is traveling on Wi-Fi (i.e., the cable network is already there).

Meanwhile, the cost of building out broadband is pushing into uneconomical territory, for several reasons. First of all, all the low-hanging fruit has already been picked. It costs, let's say, $50-100 thousand dollars to lay a mile of fiber, whether that covers one or a thousand homes. High-density areas already have cable or fiber service. With the latest upgrades the cable industry is doing, both their upload and download speeds are on par with fiber. Second, labor costs have gone up significantly over the last few years.

Verizon just announced buying Frontier Communications for $20 billion. Frontier has 2.2 million fiber subscribers. With this purchase, Verizon is paying $9,000 per fiber subscriber.

Let's examine the economics of this transaction:

Frontier gets about $800 a year of revenues from these broadband customers (on a par with Charter and Comcast). Let's say they achieve a 23% margin (Frontier is barely a profitable business, so I'm using Charter's margins). Thus, each customer will generate $184 of profit for them. So Verizon is paying $9,000 for $184 of profit, and it will take Verizon 49 years to break even on this transaction.

As you can see, these economics make no sense. Verizon and AT&T are horrible at capital allocation, and this deal is a sign of supreme desperation. The market has been slow to see what we see in Charter and Comcast, and this is always our goal – we want the market to agree with us, later.

Our very conservative estimate of Charter's 2028 free cash flow per share is $48-60. In this estimate we are assuming no customer growth in broadband and 2% price increases a year. At 13-15 times free cash flows, we get a price of around $630-900 in 2028. Charter is trading at about $320 as I write this.

We really like Charter's management. We heard an anecdote about Charter CEO Chris Winfrey that warmed our soul. A week after he became CEO, Charter announced a huge, multibillion-dollar upgrade for its broadband network. This news sent the stock down 15%. (I wrote about it; we thought it was a great idea.) Anyway, someone met Chris at a party and told him, "That's the right move, but very gutsy." Chris said, "We build the company for our grandchildren." This is what we want to see from our CEOs. They're willing to sacrifice short-term profitability to improve the business's moat.

Often, the idea of "creating shareholder value" is misunderstood. Paying employees poorly, abusing suppliers, and trying to rip off your customers is not going to create long-term (key term) shareholder value. It may bring short-term profits and boost the stock price, but it shortens the company's growth runway and erodes its moat.

I don't want to get off topic, but I've been thinking a lot about this. We've spent a lot of time studying the aircraft industry; our focus was Airbus, and thus we spent a lot of time looking at Boeing.

Boeing, under previous management, focused on "shareholder value creation." It cut costs, laid off a lot of workers, including many quality control folks. Its "shareholder value creation" didn't stop there; it willingly lied to regulators and took shortcuts in safety. Specifically, Boeing made critical design changes to its 737 MAX aircraft without fully informing regulators or pilots, and pushed for reduced pilot training requirements to save costs. These decisions directly contributed to two fatal crashes in 2018 and 2019, resulting in 346 deaths and the worldwide grounding of the 737 MAX for nearly two years.

Did its management actions maximize shareholder value? Well, it depends on the timeframe. It boosted short-term earnings and drove the stock price higher. It may have made its CEO rich beyond belief.

But.

Over a longer timeframe, these decisions have destroyed shareholder value. People used to say, “If it’s not Boeing, I’m not going.” Today, I become slightly more religious when I board a Boeing plane. The company has incurred over $20 billion in direct costs related to the 737 MAX crisis, including compensation to airlines and families of crash victims, and increased production costs.

This doesn’t account for the incalculable damage to Boeing’s reputation and loss of market share. It gave Airbus an opening to produce more planes and take market share, with Airbus surpassing Boeing in deliveries and orders in recent years, particularly in the crucial narrow-body market.

We want to own companies that aim to maximize long-term shareholder value by treating all their stakeholders fairly. We want our companies to play the infinite game. What does “fairly” mean in this context? I’ll borrow from US Supreme Court Justice Potter Stewart, who famously dodged defining pornography by saying, “I know it when I see it.”

Update: After I wrote the above, Charter proposed to buy Liberty through a merger. We don’t own Charter directly, but rather through Liberty Broadband, which holds a 25% stake in Charter. Liberty was trading at a significant discount (around 30%) to the value of its Charter shares. Liberty agreed, but at a higher price. Our estimate of Liberty’s net asset value is about $88. The shares are trading at $75 as of this writing (up from $60). If the deal goes through we’ll end up owning shares of Charter at a significant discount.

OCTOBER 17, 2024

Challenging Investment Rules and Key Investor Traits

Click to listen to a narration of this article

“What’s a famous investment rule I don’t agree with? Which key characteristics should a good investor have?

Today, we’re diving into two thought-provoking questions:

- What’s a famous investment rule I don’t agree with?
- Which key characteristics should a good investor have?

A Famous Investment Rule I Don’t Agree With: “Buy and Hold”

Buy and hold becomes a religion during bull markets. Then, holding a stock because you bought it is often rewarded through higher and higher valuations. There’s a Pavlovian bull market reinforcement – every time you don’t sell (hold) a stock, it goes higher.

Buying is a decision. So is holding, but it should not be a religion but a decision. The value of any company is the present value of its cash flows. When the present value of cash flows (per share) is less than the price of the stock, the stock should not be “held” but sold.

Buffett is looked upon as the deity of buy and hold.

Look at Coca Cola when it hit $40 in 1999. Its earnings power at the time was about $0.80. It was trading at 50 times earnings. It was significantly overvalued, considering that most of the growth for this company was in the past.

Fast-forward almost a quarter of a century – literally a generation. Today the stock is at $60. It took more than a decade to reclaim its 1999 high. Today, Coke’s earnings power is around $1.50–1.90. Earnings have stagnated for over a decade. If you did not sell the stock in 1999, you collected some dividends, not a lot but some. The stock is still trading at 30–40x earnings. Unless they discover that Coke cures diabetes (not causes it), its earnings will not move much. It’s a mature business with significant health headwinds against it.

“Long-term” and “buy-and-hold” investing are often confused.

People should not own stocks unless they have a long-term time horizon. Long-term investing is an attitude, an analytical approach. When you build a discounted cash flow model, you are looking decades ahead. However, this doesn't mean that you should stop analyzing the company's valuation and fundamentals after you buy the stock, as they may change and affect your expected return. After you put in a lot of analytical work and buy the stock, you should not simply switch off your brain and become a mindless buy-and-hold investor.

This doesn't mean you shouldn't be patient, which I'll discuss next; but holding, not selling, a stock is a decision.

Key Characteristics of a Good Investor

I'm going to sound a bit more preachy than usual, but it's very difficult to answer this question in any other way.

You need three Ps – passion, patience, process.

Passion

Investing is not a 9-to-5 job; it's a 24/7 adventure. Unlike flipping burgers or processing insurance claims, where you can clock in at 9 AM, fall into a stupor, and then reawaken at 5 PM when you clock out.

This should be your test: If you catch yourself treating investing as a 9-to-5 job, then you have little passion for it.

If this is the case, don't do it (this probably applies to any choice of a profession). You don't stand a chance against people for whom investing is a never-ending puzzle to be solved on their life's journey. All of my investment friends are dripping with passion for investing; they are obsessed with it. None of them are in it only for the money.

You won't last long in this profession if you're not passionate about stocks.

Patience

Investing is like real life – the connection between effort and result is nonlinear. It is very loose.

You may be making all of the right rational decisions: You are buying stocks that lie within your EQ/IQ spectrum, and they are significantly undervalued, but the market simply doesn't care. It just keeps sending your stocks down. To make things even more frustrating, while your stocks are declining, speculators who treat the stock market as a craps table at Caesars Palace are killing it, making money hand over fist. It's painful. It is excruciatingly painful if you have the wrong client base.

This is where patience comes in. My father told me this story, which happened right before I was born.

My family lived in Murmansk, a city 125 miles north of the Arctic Circle in northwest Russia. My mom went to give birth to my brothers and me in Saratov, a city in central Russia, about 1200 miles from Murmansk. She wanted to be closer to her parents. My father could not leave work, so he stayed in Murmansk.

A few weeks before I was born, he went to visit his best friend, Alexander. He told him that he was worried about my mom and the birth. His friend told him something that I remember to this day (with a chuckle): "Naum, you did your part; you cannot go back and correct what you did. Now you just have to wait."

Investing is patience punctuated by decisions.

As the French mathematician Blaise Pascal said, "All of humanity's problems stem from man's inability to sit quietly in a room alone."

One more thought here: I try to take the temperature of my emotions and the mental activity of my brain. When I find myself overheating, with the stock market occupying my entire brain, I forcibly disconnect and unplug myself from it. The quality of my thoughts and decisions when my brain is overheating is likely to be low. So, I go for a walk in the park, read a fiction book, go see a movie, or visit an art museum.

Process

Managing someone else's money is an incredible responsibility, which you may not fully appreciate during bull markets. But sideways and bear markets will remind you quickly.

I don't want to over-glorify what we do – we are not curing cancer or saving people from burning buildings. But IMA clients entrust us with their life savings and tell me, "Vitaliy, please don't screw it up."

My decisions may determine whether our clients get to retire, pay for their medical expenses, or help their kids buy houses.

Staying rational when the world around you is melting up with greed or melting down in fear isn't a capacity that one accidentally stumbles upon. You engineer it through a series of small, repeatable decisions – your investment process.

OCTOBER 31, 2024

Choosing an Investment Manager: Beyond Warren and Charlie

Click to listen to a narration of this article

> ## If you were obliged to invest all your investable assets with one person and you couldn't choose Warren or Charlie, whom would you pick?

I love answering questions from readers, because it allows me to sit down in front of a blinking cursor, think, and construct a complete answer. In the process, hopefully, both you and I can learn something. If you want me to answer your questions, please reply to this email. I'll do my best to answer them in future essays.

Today, we're tackling an intriguing question:

If you were obliged to invest all your investable assets with one person and you couldn't choose Warren or Charlie, whom would you pick? (I received this question before Charlie Munger passed away).

This question opens up an interesting discussion about what really matters when choosing someone to manage your money. You'll hear why philosophical alignment might be more important than raw performance numbers, and how our approach to selecting clients at IMA reflects these principles.

This is a question I will have to answer as a politician, by addressing the question I'd like to answer, not the one that was asked. I have many investment friends, and I don't want to offend most of them by choosing just one.

But, if I had to choose one of them to manage my money, their philosophical approach to investing would have to match mine. Mine as a client, that is. If there was someone who had better results than others, but I couldn't relate to their investment philosophy or approach, I wouldn't invest with them.

Philosophical match is incredibly important for the client-money manager relationship. The best performing fund of the decade ending in 2009 was the CGM Focus Fund, which gained 18% annually. That's a truly remarkable result.

What is stunning is that the average investor in that fund lost 11% per year. Yes, *lost*11%! The fund was very volatile, with investors attracted to the latest results buying it when it was high and then, disappointed with the next downward trend, selling it. They bought high and sold low. Their greed bought the fund, while their fear sold it.

Returns achieved by the fund or money manager are important, but what is as important are returns *realized* (captured) by the investors in the fund. This is why philosophical fit is so important; it allows you to ride through ups and downs while keeping the volatility of your blood pressure low.

Let me explain this through the lens of how we select clients at IMA. I think there are broader lessons here.

When someone knocks on our (proverbial) door asking to become a client, we want to make sure we are a good fit for each other. We provide a lot of information about what we do and how we do it to prospects.

I was analyzing Match.com, a company that owns a lot of dating apps. I learned that it takes less than two minutes to set up a profile on Tinder – a casual hook-up app. It takes more than 20 minutes to set up a profile on Hinge – an app people use when they are looking for a life partner.

I don't want to take this analogy too far, but different relationships require different levels of commitment. Selecting a money manager is a decision that will impact your financial well-being for the rest of your life, and it should not be taken lightly.

Our reading materials will probably demand a few hours of a prospect's time. As they should; but after reading them the person will know almost everything they need to know about our investment philosophy and process.

But we are also evaluating each prospective client as well. We want to make sure they are a good fit for IMA. Thus, we screen them for the following criteria:

Do they buy into our philosophy? Again, this is why reading our materials is so important.

Do they have a long-term horizon? We cannot help those who don't have at least a 7- to 10-year investment horizon. People should not be investing in stocks if they don't have long-term horizons.

Are they willing to do the homework? On day one, we take the client's cash and convert it (a good chunk, not all of it) into our portfolio of stocks. At the end of day one, the client receives a PDF with our analysis of each company we bought for them. But reading doesn't stop there. A few times a year, clients receive a letter from me explaining our buy and sell decisions and updating analysis on some existing positions. Our ultimate goal is for the portfolio to stop being "IMA's portfolio" and become their portfolio.

> **Are they kind and respectful?** We screen out unkind, rude people. We rarely run into them, but we have declined advances from people who were rude to IMA folks. Life is too short.

If I were looking to hire a money manager, I would want them to have both skin and soul in the game.

NOVEMBER 21, 2024

Managing a Million: What Would I Do Differently?

Click to listen to a narration of this article

> Warren Buffett has stated multiple times that if he could manage a very small amount of money today, he would be able to return more than 50% per year to shareholders. If you managed a million dollars of only your own money, would you do it differently?

Today, I am tackling an interesting question from a reader: *Warren Buffett has stated multiple times that if he could manage a very small amount of money today, he would be able to return more than 50% per year to shareholders. If you managed a million dollars of only your own money, would you do it differently?*

This question opened up a can of worms. It made me reflect on my early investing mistakes, the evolution of my investment process, and why I manage my own money exactly the same way I manage my clients' portfolios.

We'll also explore how portfolio size impacts strategy, the critical importance of a disciplined process, and why passion in investing matters more than you might think.

This question has a couple of questions embedded in it. Let me give you a couple of answers.

First of all, I have always questioned if Buffett could really pull this off. I guess I will never know.

If I only managed a small amount of my own money, would I manage it differently?

Yes, I would, and I'd probably do a worse job of managing it, too. Early in my career (a few decades ago), I managed my personal accounts differently from clients'. I am embarrassed to say this, but I'd hear about an idea from a friend or on CNBC, spend five minutes on it, and buy it. Something nobody should be doing.

Let me contrast that with how our clients' portfolios are invested. The gravity of what we do, the responsibility, keeps us grounded. We are process driven. Before an idea makes it into our client's portfolio, we read company filings, listen to earnings calls, and talk to management, competitors, and suppliers. I debate the stock with my analyst friends and get their feedback. We then build a model and try to kill the business by stress testing different assumptions. This process can take dozens (sometimes hundreds) of hours of thorough research. And after all this work, we may decide that we don't want to own this business; or we may want to own it at a lower price and put it on our watch list.

I did not do any of this when I just invested my own money. My personal results were atrocious, and that is an understatement. I deserved those results – I did not have the time, and I was not process-driven. I was not ever diversified. I was basically gambling with my retirement. Fortunately, I was young and investing a small amount of hard-earned money.

Today, all of my and my family's wealth is managed by IMA. We are clients of IMA. Our personal portfolios are indistinguishable from those of other IMA clients. I have a rule that I don't own any stocks that my clients don't own. If it's good for IMA clients, it should be good for me. Having skin in the game just seems like the right thing to do.

If we managed only a million dollars, would our portfolio look different?

Today IMA manages just over half a billion dollars. At times, we encounter companies that are not very liquid. We like the business; it is undervalued; but there are so few shares traded, it would take months to accumulate a 3% position. This happens rarely, but it does happen. Would the stock make a large impact on our returns? Hard to say, but probably not. We still have thousands upon thousands of stocks to choose from globally.

Now, let's say IMA turned into a family office with only one client – the Katsenelson family. Would I manage my money differently?

This question is very important.

One of my favorite characters in the **Gershwin *Rhapsody in Blue*** cartoon in Disney's *Fantasia 2000* is the construction worker who is operating a jackhammer while dreaming of being a drummer. He is miserable until he quits construction and follows his passion.

If a portfolio created for a client looked very different from the one a portfolio manager would create if he were unconstrained by the client's wishes, this manager's passion for investing would be neutered, and this would eventually show up in the results.

If clients put enough shackles on their manager, they will turn the drummer into a construction worker.

This may sound like a very hypothetical scenario, but I see it all the time, for many reasons: Portfolio managers bend their portfolios to clients' wishes. They are trying to build the firm and thus trying to appeal to a bigger or different market. Or they try to go after the institutional market. The attraction is great – instead of dealing with hundreds of million-dollar individual accounts, you just need to handle a few three-hundred-million-dollar institutional accounts from foundations or retirement plans.

In this compromise they lose a bit of themselves. They wake up one day and they are operating a jackhammer instead of playing drums – the passion is gone.

I was lucky in that I was able to develop my own strategy inside of IMA. I joined IMA when I was 24 years old, in 1997. Michael Conn, IMA's founder, was my mentor and taught me his approach. But then, to Michael's great credit, he allowed me to cultivate my own strategy, which I described in my books ***Active Value Investing*** and then ***The Little Book of Sideways Markets*** (if you **donate money to these charities**, we'll send you signed copies of both books).

Today, the IMA portfolio is run based on our Active Value Investing Strategy. Clients cannot add to it, only subtract. If clients do not wish to own oil, tobacco, or other stocks that fall within their socially responsible universe, we will not buy those stocks for them. (That's the beauty of individually managed accounts.)

If IMA managed only my family's money, our portfolio would look identical to how it looks today. I would not change a single thing.

DECEMBER 12, 2024

Q&A Series: Money Habits for Kids and the Power of Writing

Click to listen to a narration of this article

> In this Q&A excerpt, we'll explore teaching money habits to young people and how writing has improved my investment approach.

I wanted to share with you some edited excerpts from a Q&A session I held with readers in Omaha during Berkshire Hathaway's shareholder meeting weekend. In this email, we'll explore teaching money habits to young people and how writing has improved my investment approach.

How do you teach good money habits to young people?

What skills should kids learn?

I'm a big believer in scarcity and constraints. My kids get limited allowances, always less than they think they need. For instance, my 18-year-old daughter gets $20 a week – just enough to visit Starbucks twice. This scarcity motivated her to get a job at a coffee shop and work at IMA to supplement her allowance.

With Jonah, I used a different approach in high school. I paid him for his grades, but with an interesting system. He got nothing for C's, lost money for D's and F's, and earned money for B's and A's. If he got okay grades, he got nothing. Great grades meant a good payout. He went from a 1.3 GPA in 11th grade to a 3.9 GPA in 12th grade. Money wasn't the only motivator, but it helped.

The point is, no matter how much you make, you can always spend more. You always have trade-offs. Hannah has to choose between going to the movies or eating out an extra time. That's how I deal with teaching money management.

How has writing helped you become a better investor?

I'm so thankful for this question, especially because my kids are here. I want them to hear this answer twice a day. For anyone who wants to be a thoughtful, mindful human being, writing daily is crucial, even if it's just for five or 15 minutes.

Think about it – throughout the day, we're so busy with life, picking up kids from school, scrolling through TikTok; we don't have time to think, right? But when you sit down to write, it's pure focused thinking. That's all it is.

None of you would be here if I didn't write. I'd be a far less interesting person without writing. It gives me time to ponder all these different topics. Without it, I wouldn't have the mental space to even consider how to answer this question.

Take my latest investment, for example. I've spent countless hours in front of my computer, writing about it, thinking it through, finding logical gaps in my reasoning, then going back and rethinking it all. This process is invaluable, and I believe everyone should give writing a shot.

I'm a morning person, so I write early. But Walter Isaacson writes at night. The key is finding a time that works for you, doing it daily or almost daily, and just start journaling. I'm proud that my son is journaling almost every day now.

Writing has transformed me as an investor. It forces me to organize my thoughts, challenge my assumptions, and dive deeper into my analysis. It's not just about putting words on paper; it's about thinking critically and clearly. When you explain something in writing, you often uncover gaps in your understanding or flaws in your logic. This process of self-discovery and refinement is priceless in investing, where clear thinking and thorough analysis make all the difference.

How do working-class people approach bargaining with employers without unions?

That's a great question. About 90% of our economy functions without unions, and we're doing fine. I think the key to bargaining with your employer is to create more value. This is advice I give my kids: Be more valuable than your cost. It's that simple. If you're producing $100,000 of value but want $150,000, you probably don't have much bargaining power.

Let me give you an example using Amazon, which is often criticized. I had dinner with a young woman, a professional musician. She's never taken an economics class and hates Amazon, thinks Jeff Bezos is worse than Putin – I might be exaggerating, but her anger towards Jeff Bezos was intense.

She both criticized Amazon for harsh working conditions in its warehouses and then criticized Amazon for automation. It's a catch-22.

The key is to have skills. In today's world, just having capable hands isn't enough anymore. You need unique skills to be better than others – or robots. That's the reality we're facing. Factories are starting to look like sci-fi movies with all the automation.

This is why I emphasize good education for my kids. I want them to think about how they can create value for their employer. I don't believe anyone owes us anything. There's a sense of entitlement in the younger generation that I disagree with. Maybe it's my immigrant mentality – when I came to this country, I knew nobody owed me anything. I had to achieve everything on my own.

In this new world of automation, it's crucial to have multifaceted skills. Hannah is considering studying psychology and business. There are many who study one or the other, but fewer who combine them. This gives her an edge in the job market.

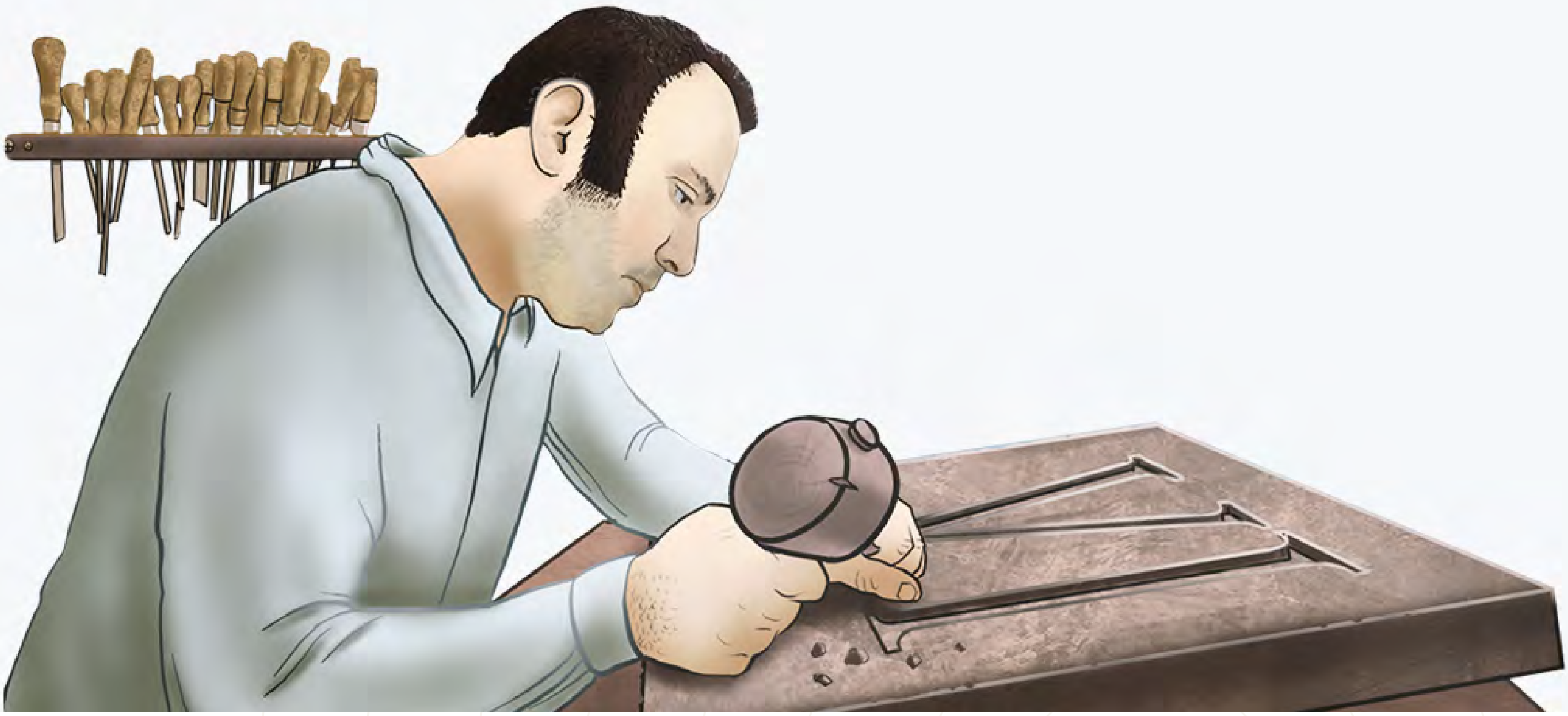
Interestingly, today you don't necessarily have to go to school in the traditional way. You can take Ivy League classes online for free and build your own curriculum. It's not for everyone – I needed the structure of school – but if you're self-disciplined, it's a viable option.

Imagine two people applying for a job at IMA. One created their own curriculum from various online sources, while the other went to an Ivy League school. I'd probably find the self-taught applicant more interesting. It shows original thinking and value investing principles – they saved $400,000 on tuition!

I have a friend who was rejected by Goldman Sachs. He went home, read 150 books, created outlines of what he learned from each, and reapplied the next year. He got the job. That's the kind of creative thinking I encourage.

Many kids today just click "Apply" on every job on LinkedIn and wonder why they don't get hired. There are 250 other kids doing the same thing. It requires creativity to stand out. That's what I encourage my kids to do.

So, to answer the question: Develop valuable skills, create more value than you cost, and always look for ways to improve. That's your bargaining power in a world without unions.



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.

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, guestimate 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.

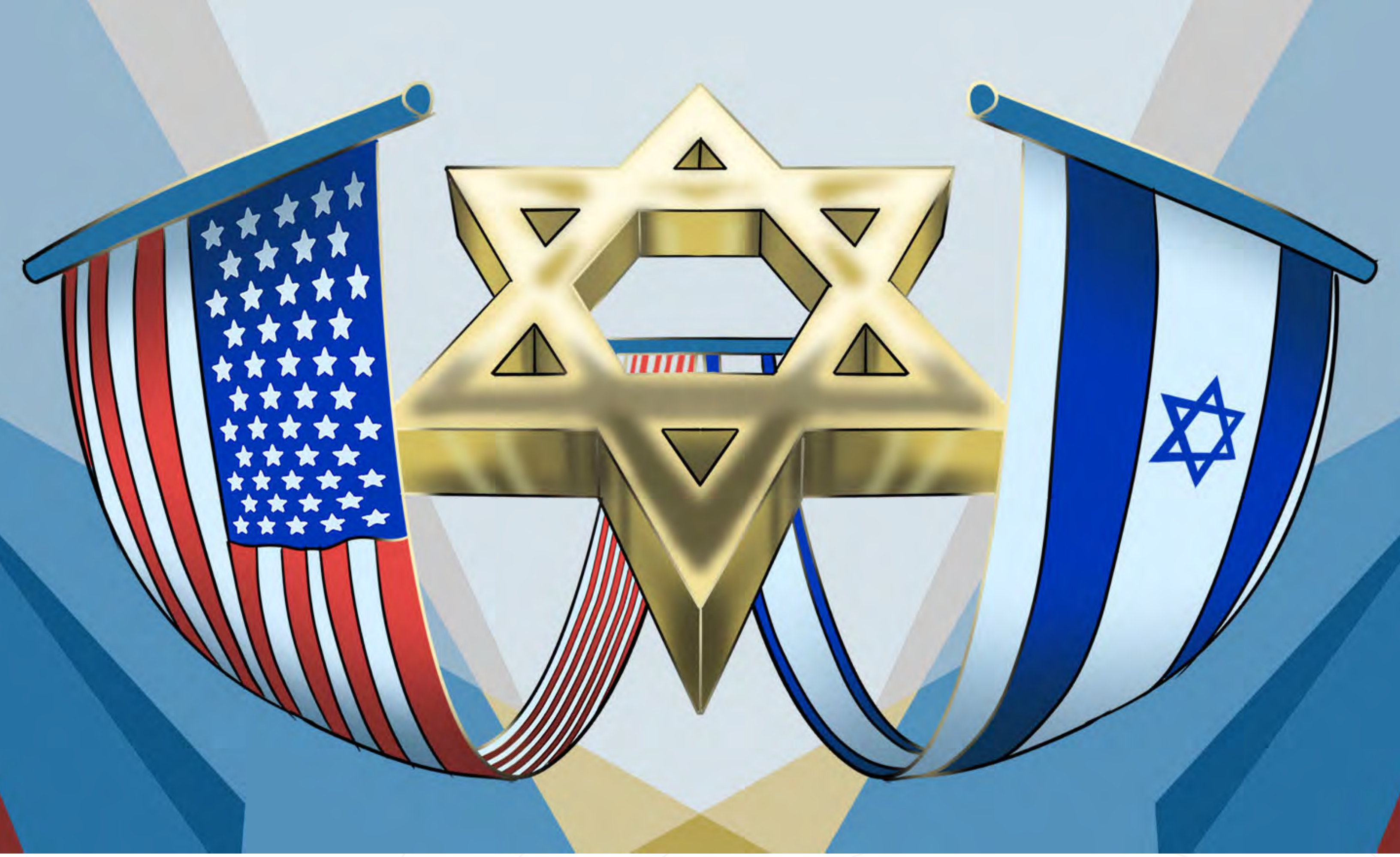
Now, the immediate liquidity that is so alluring in a stock, and that turns investors into pseudo-investors, is gone from our analysis. Suddenly, quality – valuation, cash flows, competitive advantage, return on capital, balance sheet, management – has a much different, more complete meaning. This important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

Life & Philosophy



JANUARY 11, 2024

Antisemitism and Wokeness Threaten the Future of Israel and America

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> “My goal with this essay on antisemitism and wokeness is to bring an important issue to the surface for those who were oblivious to it and to possibly change the minds of those whose minds are still changeable.

In the introduction to the **Almanac** of my 2023 essays, I wrote that it is my moral responsibility to be an agent of positive change. My new, aligned me will not be avoiding important but difficult topics.

If this essay does not make some readers upset with me, I will be surprised. If you are not reading people with whom you disagree, then you are locked in an echo chamber — you cannot blame YouTube or social media for showing only what you want to see. You are your own worst algorithm.

My goal with this essay is to bring an important issue to the surface for those who were oblivious to it (as I was a few months ago) and to possibly change the minds of those whose minds are still changeable.

*Article available in Spanish **here**.*

Part 1: A Small Country with a Big Story

My relationship with Israel has always been complex. I am Jewish and was born in Soviet Russia but have lived in America for two thirds of my life. My family immigrated to the US in 1991 and has never looked back. (I pinch myself all the time because I get to live in this wonderful country.) I am an agnostic. Israel is supposed to be my historical homeland, the land of my ancestors — a very academic concept, since I struggle to relate to ancestors more than a few generations back, most of whom came from Belarus or Ukraine.

After October 7, something changed inside of me. But it was not just the horrific events of October 7 alone. It was a combination of the massacre in Israel, which echoed the cruelty of the Nazis, and the demonstrations that took place in the US and Europe, as well as letters signed by Ivy league students, all condemning Israel before it had a chance to fire a single retaliatory shot at Hamas.

Antisemitism, which I had gladly forgotten since leaving the Soviet Union, was once again on display. Israel went from being a merely theoretical place of safe harbor for Jews who are unwanted, to a very real, tiny island of refuge, as the world continues to repeat its difficult history with the Jewish people.

I have never connected the survival of Israel to the wellbeing of my descendants. However, today I see this so clearly. If this tiny light of democracy, surrounded by a desert of darkness, goes out, it will not only mean the demise of the Jews there but also of those around the world. Unfortunately, history is on my side when I say this.

Four of my good friends from Denver recently took time off from work and went to Israel to help. They told me they were shocked by what they saw when they got there. What really amazed them about Israel is how this country, which was so deeply divided over judicial reforms before October 7, came together and united. This country of eight million Jews turned into one big family, which is single-mindedly focused on winning the war and taking care of each other.

On October 8, tech companies that had opposed the government on the issue of judicial reforms went to the government and said, “We’ll do anything we can to help.” Within a week, the Israeli government had AI software that could help identify Hamas terrorists. Tech companies created free “Airbnbs” where people can post, “I have a spare bedroom in Jerusalem for a displaced family that needs an emergency place to live.”

The Museum of Tolerance Jerusalem, which has been under construction for a long time and had a soft opening a few months ago, has been turned into a logistics center for all incoming aid to Israel. And there is a lot of aid coming from all over the world. Everyone I know (including my friends) who is traveling to Israel is bringing items, from socks to gun holsters, in duffle bags for soldiers.

The population of Israel has increased by 3% since October 7 — not something you usually see happen in a country at war. In part that is due to reservists coming home from all over the world, but volunteers like my friends are also going to Israel, taking time off to help their historical homeland.

My friends have been making sandwiches for the soldiers, cleaning houses for refugees to move into, and working in the fields collecting potatoes that are rotting because a large part of the population has mobilized.

Billboards in Tel Aviv no longer display advertisements but instead show images of hostages taken by Hamas, with a single message: “Bring Them Home!” The country is calm and determined; people want the hostages to come home, and they want to destroy Hamas. Micah Goodman, an Israeli philosopher, said, “Israel is a small country with a big story.... Big enough to give you meaning and small enough for you to have influence on it.”

This is why Israelis are so at peace with the awful reality of going to war. When they wake up every morning, they know they can make a difference for their county. They have a purpose. This war in Gaza is not “eye for an eye” retaliation but the elimination of a terrorist regime which, if given the chance, will repeat the cruel events of October 7 across the whole of Israel and then go after other infidels — the rest of the non-Islamic world.

High (unintended) civilian casualties in Gaza are heartbreaking, but I keep asking myself, what choice does Israel have? Hamas continues to launch rockets into Israel daily and has been doing so for years. Show me a developed country on this planet that would tolerate that. Hamas just massacred 1,200 Israelis — the group's leaders are not shy about repeating that October 7 is just the beginning.

What would the US do to protect its citizens if we were attacked? We have an answer for that — just look at what we did after 9/11. What would France do? We have an answer for that, too. In 2015, ISIL terrorists killed 130 French citizens. France bombed Syria for months. I don't remember any calls for restraint or a proportional response. I don't remember the UN condemning the US or France for unintended civilian casualties. I also don't remember the US or France dropping leaflets or making phone calls warning Afghans or Syrians about the locations of attacks. Israel is always judged by a different (and impossible) standard than any other country.

My friends have talked to IDF soldiers who have told them: "You cannot imagine how careful we are at trying not to shoot civilians, especially kids. I have kids at home. I don't want to be desensitized to the crying of my kids." The humanity that is often lost during war isn't lost in Israel.

The IDF is **liberating** Gazans from Hamas; unfortunately, it is doing it in a densely populated area. It is trying very hard to spare civilian lives, which is incredibly difficult — Hamas fighters are not wearing uniforms. A 16-year-old kid in front of you can be a civilian or a suicide bomber. A 20-year-old Israeli-American soldier from Atlanta was **stabbed to death** in Jerusalem by a 16-year-old Hamas fighter.

This war is taking place on the borders of Israel, but this is not just Israel's war. The war against Hamas is a battle between good and evil. The evil will not stop with Israel. Islamic extremists want to rebuild an Islamic caliphate all over the world. The Middle East, Europe and the US are next. We are the infidels — yes, if you do not accept Muhammad as your prophet and role model, you are an infidel. Our lives and values do not matter to them. We must either bend the knee or die.

Israel will prevail in this war; Israeli Jews have nowhere to go. But I realize that for my historical homeland to survive, the US, which welcomed me with open arms and has been my home for 32 years, needs to prosper as well. I'll discuss that next.

Part 2: Wokeness Is Destroying America — One Student at a Time

[The topic I am about to discuss may have political overtones. You may decide to pigeonhole me as a member of a political tribe. Please don't. I do not belong to a political party. I am registered as an independent and have voted for candidates belonging to three different parties in the last six presidential elections.]

"If liberty means anything at all, it means the right to tell people what they do not want to hear." –George Orwell

I love the United States and want it to be strong and prosperous. I am embarrassed by the fact that it took a catastrophe in Israel to wake me up to the realization that American universities have become epicenters of "wokeness" and green shoots of socialism that are gradually destroying our awesome country.

I know what you may be thinking: Wokeness is the enemy? Really? Next, he'll be picking on Winnie-the-Pooh.

I don't blame you.

I looked up the definition of wokeness: "The quality of being alert to and concerned about social injustice and discrimination." Sounds fair and innocent enough, right? Marvel should create a superhero: Wokeman — "fixing injustice 24/7, always stays woke."

I am not a political science scholar, but I have an inkling how wokeness started. It was an aftershock of the equal rights movements that tried to fix the side effects of our society's ugly past and bring equality to everyone. It came from a good, kind place in people's hearts. However, I am a student of economics and have learned that ideas should not be judged solely on their intent but also on their outcomes. We are often preoccupied with the intent and ignore second order effects, the unintended consequences that often make things a lot worse.

This is exactly what has happened to wokeness.

Sometime, while we got up to the get the popcorn, the wokeness movie went from being a Marvel superhero flick to an Orwellian dystopian *Animal Farm* nightmare: "All animals are equal, but some animals are more equal than others."

Although the idea of elevating minorities may sound great on the surface, the US took a wrong turn and started turning into a country where the majority is often penalized for not being a minority.

Which brings me to the college HQ of wokeness — DEI. I am embarrassed to admit I did not know DEI existed before October 7. If you think these three letters stand for some cool government agency, no, they are way cooler than that. They stand for "diversity, equity and inclusion."

How can anyone be against these three awesome words?

To my great surprise, DEI has turned into antisemitism on college campuses. Billionaire investor Bill Ackman explains DEI's role very well in **this essay**:

"Under DEI, one's degree of oppression is determined based upon where one resides on a so-called intersectional pyramid of oppression where whites, Jews, and Asians are deemed oppressors, and a subset of people of color, LGBTQ people, and/or women are deemed to be oppressed. Under this ideology … one is either an anti-racist or a racist."

Ackman, a Harvard University grad and major donor, goes on to say: "There is no such thing as being 'not racist.' Under DEI's ideology, any policy, program, educational system, economic system, grading system, admission policy … that leads to unequal outcomes among people of different skin colors is deemed racist. As a result, according to DEI, capitalism is racist, Advanced Placement exams are racist, IQ tests are racist, corporations are racist, or in other words, any merit-based program, system, or organization which has or generates outcomes for different races that are at variance with the proportion these different races represent in the population at large is by definition racist under DEI's ideology."

As a result, on some campuses the DEI objective became what Tabia Lee, a former equity director at De Anza College in California, to "**de-center whiteness**," and thus it allowed antisemitism to spread. If you fall under DEI "protection," you become part of a superclass that plays by its own rules. Since Jews are not classified as a minority, they have now been put into the category of oppressors.

Yet, Jews are indeed a minority — there are only **15.7 million** of us in the world! That's right, in the whole world. More than half of our population perished in the Holocaust – an event whose occurrence is now up for dispute not just in Iran but among the TikTok-educated younger generation here at home. (According to an Economist survey, **20% of 18-to-29-year-olds** think the Holocaust is a myth.)

Growing up as a Jew — an underclass in the Soviet Union — I never wanted special treatment for being a minority. I just wanted society to be blind to the line in my passport that said "Jewish." I don't want my kids to be added to the DEI "superclass."

So, if you are attending an American college and are not classified as an oppressed minority under the protection of the woke, you will be treated by a different set of rules. As we have learned from the presidents of Ivy League schools, cries for your genocidal extermination will require "context" and the actual death of Jewish students before college administrators will act — all while you can be expelled from a university for using the wrong pronoun.

A lot of this starts in colleges, but it does not and *will not* stop at colleges. Colleges are the factories of our future. They are the production lines of future workers and thinkers.

People cannot control their gender, the color of their skin, their ethnicity, or their sexual preference — this sort of discrimination was our sin of the past. People should not be punished for these traits; others should not be favored for them (this is the reverse punishment of others) — the current sin of woke.

I am going to say what everyone knows but doesn't want to admit — there are differences between groups of people. Blacks **dominate** the NBA — they account for 73% of all players. Whites are only 17%. (Something similar but less extreme is happening in the **NFL**.) Meanwhile, Asians account for only 0.4% of NBA players — they are clearly underrepresented. Yet we find the idea of creating an "equality" NBA by hiring 5'8" Asians so they can get crushed by 6'10" Black athletes laughable.

However, in the effort to create "equality" in colleges — until the Supreme Court struck down affirmative action in 2023 — we were fine with reverse discrimination against Asian students to limit their admission to elite colleges, which, just like the NBA and NFL, were supposed to be merit-based. But Asians are neither a superclass nor a protected group; therefore, we didn't care.

When we hire people based solely on their identity (not on their merit), we do not elevate them but rather bring them down. On some level they know that they got the job based not on personal strengths but on their superficial identity.

This creates a victim and victimizer mentality. It is anti-evolutionary: People possessed by the victim mentality don't progress or evolve; they see obstacles in their lives as someone else's fault and thus not their responsibility to overcome. As the eminent English rabbi Jonathan Sacks **said**, if you are possessed by a victim mentality "you hand over your life to somebody else."

Life is full of obstacles. History is often unfair, and not just to the DEI superclass. It has not been kind to Jews for centuries. Jews choose to not be victims but to be agents of change. This attitude is deeply ingrained into Jewish culture. Obstacles only make us stronger. If you have the attitude that obstacles are someone's else fault, you'll never try to grow beyond them. As Marcus Aurelius, the Stoic philosopher and Roman emperor, said: "The impediment to action advances action. What stands in the way becomes the way."

America — the country of meritocracy — is turning into a country where your identity determines how you will be treated along the road of life. A person, be it a Supreme Court justice, a college administrator or an employee at the local DMV, should get a job not because of their identity but because of their accomplishments and their character.

As a society, we must accept a hard truth: By acting solely based on our hearts and artificially trying to make things better for this or that group of people, we end up not improving things for them but instead creating different injustices. *Everyone* should be treated equally. Some people should not be more important (protected) than others. And yes, *all* lives matter, and that statement should not require context. Finally, we should stop living in fear of being canceled for saying the above.

I was shocked to learn that DEI is already nesting in large corporations and our government. Imagine if air traffic controllers, people who have the lives of hundreds of others in their hands, were selected based not on their skills but on their DEI status. Well, you don't have to imagine this very hard — it's already **happening**. Think about that the next time you board a plane.

It is not hard to visualize the consequences of someone hired solely based on their identity (not on their skill) colliding planes in the air and killing hundreds. If this woke cancer continues to spread through our economy, it will suck meritocracy out of it and weaken, or even worse, crash the economy. Unlike a plane crash, you won't see it unfold on the news; it will happen slowly, one DEI hire at a time.

I wonder how Martin Luther King Jr's "I Have a Dream" speech **would be received** today on American campuses, especially when he said, "I have a dream that my four little children will one day live in a nation where they will not be judged by the color of their skin but the content of their character."

Orchestras have a perfect model for how to hire performers. During auditions, the jury sits in the audience. Each performer has a number assigned to them. They play behind a curtain; the jury cannot see them.

We should copy that model. When I came to the United States in 1991, I was told that in this country we treat all people according to their merits and values, by what they bring to society. I miss that US.

Part 3: The Socialism of Grades

"The inherent vice of capitalism is the unequal sharing of the blessings. The inherent blessing of socialism is the equal sharing of miseries." –Winston Churchill

Socialism is a terrific idea in theory. Who would not want everyone in society to have a house with a white fence, the job of their dreams, 2.5 kids and a dog? But plain vanilla socialism has failed every single time it has been implemented, and it turned each of those countries into a totalitarian state: Cuba, the Soviet Union, Yugoslavia, Venezuela — the list goes on.

In a socialist state, success is pushed down, and failure is elevated — this is how equality of outcome is created. In the Soviet Union's version of plain vanilla socialism, we were taught to hate the wealthy and empathize with the poor. This empathy was easy for us because everyone (with the exception of the tiny ruling-class bureaucrats) was poor.

Capitalism does not offer the sexy, utopian promise of socialism, but it works in practice. Capitalism has lifted billions out of poverty; but it is now under threat, ironically, from those who have benefited the most from it — academics. Universities have been among the biggest beneficiaries of the wealth created by capitalism.

As I am writing this, I am reminded of Margaret Thatcher's "Socialism is a great idea until you run out of other people's money."

Universities used to be spartan gyms for our minds, places where opposing ideas collided and gave birth to new ones and where our thinking got challenged through healthy debate. This growth came with healthy pain, the type that accompanies and stimulates intellectual growth.

Today, many universities have been turned into day spas, where for **$300,000** a student's mind will be pampered and coddled. Now they are "safe places" from opposing ideas, which are **considered** as microaggressions. This is where free speech goes to die, unless it calls for the genocidal extermination of Jews; then you can speak your mind.

College administrations are afraid to upset their spa customers (sorry, I meant students). They are not focused on challenging their thinking (the point of education) and producing the brightest but are instead fixated on making students feel better about themselves and giving them their money's worth.

I was not surprised to learn that socialism is slowly poisoning our universities, but I was surprised by its new avenue — the socialization of grades. Professors at a local law school are required to grade to a B+. When professors submit their grades, if the average is below a B+, the system will reject it. The university is afraid of making students feel bad about a low, albeit deserved, grade and wants every student to have a high grade-point average upon graduation.

However, what is inflation for one group is deflation for another. This practice punishes hardworking students, as their work may result in a lower grade than they deserve, compared to classmates who are preoccupied with attending "TikTok University" during lectures.

Universities are on a quixotic mission to right a wrong — they are fighting against grade inequality. This is what socializing (equalizing) outcomes looks like. In fact, this seemingly innocent practice of equally high grades has the familiar ring of a Karl Marx slogan that I heard endlessly in the Soviet Union: "From each according to his abilities, to each according to his needs." Law students need a B+, so they get a B+.

With each graduating class, our capitalistic (equal-opportunity) society is being slowly diluted by equal-outcome dogma (socialism).

Grade inflation is happening in virtually **every college** across the country, but colleges should not receive all the blame for this, as unfortunately it starts in high schools, which are suffering through *super* grade inflation — grades have gone up while reading and math skills have fallen (with **minorities experiencing** the largest grade inflation).

Bad (deserved) grades are a necessary part of education. How else would you know that you had not learned something as well as you thought you did? I failed English as a freshman in college. I had been in the US for two years. My English was objectively horrible. I'm glad I didn't receive special (woke) treatment for being "fresh off the boat." I studied a lot harder, retook the class and passed it my senior year. If I had not, my English would not have improved and I would not have written several books or received national awards for writing.

The beauty of the Declaration of Independence is that you are guaranteed the "pursuit of happiness" — you are given an equal chance to pursue it. You are not guaranteed the outcome, just the opportunity. There is enormous value, and yes even happiness and meaning in the ***pursuit*** of happiness. This pursuit will often take you down a harder road, but it will result in the best version of you and bring a sense of pride and accomplishment.

Part 4: How to Save America and Israel

"Waste no more time arguing what a good man should be. Be one." –Marcus Aurelius

October 7 awakened me; it changed my relationship with Israel, and this country of my ancestors became dear to me. But as importantly, it opened my eyes to the decaying of the country that I love, that has been my home for 32 years — the US.

The US is becoming a laughingstock of the world, deservedly so. We are still the strongest democracy in the world. People still want to move here, but we are resting on the laurels of our past glory, which was achieved by elevating meritocracy and excellence. Our successes and our grocery stores full of food have gone to our heads and are turning us into a society focused only on pleasant outcomes, independent of how much work we put in.

We are a society that is losing its pragmatism. We used to be a country of practical, innovative problem solvers, and now we are turning into a country of useful idiots, where a tiny woke minority leads us into self-immolation.

Israel will not exist 50 years from now without a strong US. I have to fight for the US – it's a two-for-the-price-of-one type of deal: A strong United States that supports Israel is mandatory for Israel to survive.

I learned an important lesson from longtime Berkshire Hathaway vice chairman Charlie Munger, who recently passed away. I have been attending the Berkshire Hathaway annual meeting since 2008. At these shareholder meetings, Warren Buffett and Charlie Munger would sit on stage in a giant sports arena and answer questions from shareholders for five hours. Buffett would usually have the first chance to answer the question, and then he would direct it to Munger.

If the question was controversial, Buffett would go into politician mode and give a non-answer answer. Munger would say what he really thought and didn't care if his answer upset someone who disagreed with it. Buffett was shackled by the fear of public opinion, while Munger was free.

Munger said, “I think that one should recognize reality even when one doesn’t like it; indeed, especially when one doesn’t like it.” And thus, he told the truth because it mattered more than someone’s hurt feelings or criticism of him.

Buffett was afraid, Munger was not.

The most important thing is that we should stop being afraid. This is how the loud minority gained their power. The silent majority — that’s most of us — is afraid to speak up and is thus being accused of bigotry or racism. We are afraid of being canceled, and in the process, we stay quiet while the woke minority is killing our country.

Fighting against antisemitism and the woke cancer is one and the same fight, as we are fighting the same enemy.

I cannot tell you how much I did not want to write this essay. But I had to. I could not write anything else until I darkened these pages with my thoughts. I realized I can no longer have tunnel vision. As my son Jonah reminded me, with greater power comes greater responsibility.

Yes, this is the time to fight. Each of us has a different role in this fight, and we all have different strengths. Israelis are fighting Hamas. Some of my friends have gone to Israel and joined that fight, lending a hand wherever it’s needed (farming, cleaning, feeding soldiers).

I have another Jewish friend who was never involved in politics. He told me that after October 7 he realized, “I won’t need money in the concentration camp.” He is now contributing to opposition campaigns to replace antisemitic politicians.

If you are a donor to universities, work to defund those with DEI departments that are promoting racism and inequality. Redirect your money toward universities that promote free speech, the ones whose objective is not to coddle our youth but to challenge their thinking. If you want to change society’s future, change its universities.

We all have special gifts. Use them. Fight for what is right, while we still have something to fight for.

FEBRUARY 20, 2024

Expanding Perspectives Through Travel – From Spain to the UK

Click to listen to a narration of this article

> My brother Alex, my son Jonah, and I went to a conference in Switzerland. We saw this as an opportunity to turn the bookends of the trip into a small European vacation.

My brother Alex, my son Jonah, and I went to a conference in Switzerland. We saw this as an opportunity to turn the bookends of the trip into a small European vacation.

We flew to Malaga, located in the south of Spain, rented a car, and drove to Granada, which was about 60 miles away. We only had two days for Spain. We spent a full day in Granada, which we packed with two walking tours including tours of the city and the Alhambra (which means "red castle" in Arabic) and surrounding gardens.

Spain was governed by Muslims for centuries, and even though they were expelled from Spain six hundred years ago, Muslim influence is still evident in the architecture of southern Spain. In fact, Spanish architecture is very different from that in the rest of Europe.

Malaga was the birthplace of Pablo Picasso. I am not a big fan of Picasso; I simply don't understand him. Malaga has a small museum dedicated to its famous son, with a few of his paintings. A painting he created when he was 14 years old shocked me; it looked nothing like the Picasso that the world knows. This is the Picasso that I could actually like. However, I get the feeling that if he had continued to paint in this realistic style, the world would not know who Picasso was.

After our two days in Spain, we flew to Zurich and spent an evening there, where we had dinner with IMA clients.

The next morning we took a train to Klosters, a small Swiss village located on the other side of Davos, which hosts the World Economic Forum. This is where world leaders and big shot CEOs come to virtue signal their desire to make the world a better and greener place, coming and going on their personal Boeings and Gulfstreams.

The Davos we visited was empty and recovering from an enormous hangover from the previous week's World Economic Forum. A waiter at the restaurant told us that during that week he had worked over 100 hours in six days. The city was completely overrun by the global elite. He told us that a table at a local coffee shop could be rented out for $1,500 per hour – an example of limited supply and insatiable, price-insensitive demand.

We spent the next three nights in Klosters attending the VALUEx Klosters conference organized by my friend Guy Spier. I first attended this conference in 2011, took a few years off, and have not missed a year since 2019. I love participating in this event. It is mostly dominated by European investors, allowing me to meet people whom I wouldn't normally encounter in my daily life. I have made many friends over the years. The conversations we start continue during walks in nature, surrounded by the breathtaking Alps, or at a restaurant or bar late at night.

Side note: I created VALUEx Vail six months after I attended Guy's event in 2011. I made some slight modifications to fit my personality. But similar to Klosters, our conference is a not-for-profit-but-for-learning event. By the way, the next VALUEx Vail will be held on June 19-21. You can apply **here**.

After the conference, we rented a car without a clear destination in mind. I have friends who plan their trips meticulously; they know what they are doing every hour of the day in 15-minute increments, six months ahead. When my father traveled with my stepmother, this is what she did.

I have done this type of trip (though I planned in 2-hour increments), but not when I've traveled with my brother or my kids. I love the spontaneity of our decisions – we wake up in the morning not knowing what we will do or where we will sleep. We would often book a hotel an hour before our arrival. It added some unpredictability to our otherwise predictable life. There is certainly a downside to this; we might end up staying in a gay men's hotel – **this happened to Alex and me in Key West**. Also, the risk manager in me was well aware that we were traveling during the off season in Europe. The chances of not finding a place to sleep or having to pay exorbitant prices were low.

We were in Switzerland, and we knew that wherever we went, it would be beautiful. The awesomeness of Europe is that we literally visited four countries in two days without even trying. An hour after we rented the car in Davos, we found ourselves in Liechtenstein, one of the smallest countries in the world, with a population of 30,000. It's a tiny enclave along the Rhine on the Swiss-Austrian border.

We also spent an afternoon in St. Gallen, Switzerland, which is home to the Abbey library of St. Gall is more like a church of books than a library. Although books can be read, they are there more as decorative art.

We drove for another hour and spent the evening wandering the streets of Konstanz, Germany, which is located on Lake Constance. The Rhine River flows through this stunning lake.

To be honest, we didn't even realize we had crossed into Switzerland, then Liechtenstein, and back into Switzerland before reaching Germany in just a few hours. The only indication that we had entered different countries was messages from AT&T on our phones notifying us of a carrier change.

Lake Constance is a typical Swiss lake; on a sunny day, the blue sky and mountain reflections give it a serene appearance. This lake looks like the others I've seen in Switzerland – Lake Lugano, Lake Geneva, Lake Lucerne, and Lake Zurich. Switzerland is home to some of the most incredible lakes, shaped by the Alps. Driving through this part of the world is like driving through paradise. That's why I keep coming back to Switzerland every year – I can't get enough of its beauty.

We finished our evening in a traditional German brewery with sausage and beer. The next day, we drove around Lake Constance and stopped by one of the most beautiful churches I've ever seen, Basilika Birnau.

I cannot relate to church art; I increase my walking pace when I go through sections of art museums which show 250 ways Jesus was crucified. It just bores me. Until the Impressionists dared to paint nonreligious subjects in the mid-19th century, this is what a lot of art looked like – mostly religious scenes and portraits (a way for the nobility to see themselves from a third-person perspective – though mirrors have existed for centuries, their quality was very poor by today's standards.). Despite all that, I still love visiting European churches. When you are in a church, the art on the wall turns into wallpaper that just adds color and depth to the building, which is a piece of art in itself.

Churches are built to make humans feel small; add organ music and incredible acoustics, and you will feel like an ant in awe of the universe. Some churches do a better job at this than others. Basilika Birnau definitely did this in spades.

We spent the rest of the afternoon in another German town, Lindau, where Nobel laureates have been gathering every year since 1951. It is not as famous as Davos – when the laureates gather, tables at the coffee shops do not fetch astronomical sums –but the visitors have probably contributed more to the world than the crowd in Davos.

Finally, we drove for about two hours to Zurich. Somewhere on our journey, for about twenty minutes, we crossed into Austria. We had dinner at my favorite restaurant in the world, **Zeughauskeller** – an old armory turned into a restaurant. It is anything but a fancy restaurant, serving mostly rustic German-Swiss food. Every time I've been there it has been full. You rarely get a private table, as someone may be seated next to you. Jonah, when he interned for Guy Spier a few years ago in Zurich, would go there for dinner just to strike up conversations with random strangers seated next to him.

The next morning, Jonah flew to Denver while Alex and I continued our journey to London. Alex's daughter, Irene, lives in London and is an accomplished violist who graduated from the Royal College of Music, the best school in Europe and second only to Julliard in NYC. She performs at *Les Misérables* musicals a few times a month.

We had dinner with Irene and her musician friends, which was truly enlightening for me. I don't often socialize with career musicians, who dedicate themselves to their art by practicing six to eight hours a day from childhood. Their perspective on the world was very new to me. I don't believe I've ever had a long conversation with an adult who hadn't taken at least one economics class before. It's interesting to see how education and daily experiences shape one's view of the world. I learned an important lesson from this conversation: Spend more time listening and asking questions, trying to understand others' points of view, rather than volunteering or advocating my opinion.

The following day, Alex and I spent the majority of our time walking the streets and parks of London. We also visited the Science Museum. It was astonishing to see how quickly air travel has advanced over the years. The Wright Flyer of 1903 could fly at a speed of 35 miles per hour for a distance of 825 feet. Fast-forward a decade, and the Royal Aircraft Factory S.E.5 of 1913 could fly at a speed of 119 mph and cover 250 miles – a significant improvement!

TYPE	DATE FIRST FLOWN	TIME IN SERVICE	MAXIMUM SPEED	PERSON PAYLOAD	RANGE	WING SPAN
WRIGHT FLYER The aircraft that made the first successful powered human flight	1903	6 months	35 mph	1	825 feet	40' 4" 12.3 m
SE5A A fighter aircraft used in the second half of First World War later converted for 'sign-writing'	1916	11 years	119 mph	2	250 miles	26' 7.5" 8.1 m
VICKERS VIMY A First World War bomber converted for the first transatlantic flight	1917	12 years	117 mph	2	1900 miles	68' 20.7 m
S6B The racing seaplane which won the 1931 Schneider Trophy Race	1929	3 years	330 mph	1	Max. range not defined	30' 9.1 m
SPITFIRE The best-known fighter aircraft of the Second World War	1936	Approx. 10 years	Mk 1A 362 mph	1	500 miles	36' 10" 11.2 m
DC3 The longest-serving transport and passenger plane, still flown today	1937	To present day	192 mph	21	2125 miles	95' 29 m
GLOSTER E28A The first British jet aircraft to fly	1941	4 years	Mach 0.82	1	Max. range not defined	29' 8.8 m

Once humans break old paradigms of thinking and apply their focus and energy, there is nothing we cannot achieve. I believe electric car batteries will experience something similar (though it won't happen overnight).

Alex spent the evening with Irene, and I went to dinner with three good (value investing) friends. The conversation was more familiar and very different from the previous day's, and four hours flew by in a New York second.

The next day, Alex left for Denver. I had three back-to-back meetings with other London friends, then took a three-hour train ride to Plymouth, in the southwest of England, which was the real destination of my UK trip.

One of our largest positions in the portfolio is Babcock, the second largest defense company in the UK. The company has been going through a significant transformation; it went from being an important UK security company to an even more important one (just look at what is happening in Eastern Europe, China, and the Red Sea) and is now much better managed.

The new management hosted an investor day. I could have watched the presentation from the comfort of my office in Denver, but attending these types of events in person gives you an opportunity to have one-on-one conversations with management and other investors. You'll pick up details that you would not have by just watching it on the screen. One little example: I talked to a Babcock senior executive who had left a similar position at BAE Systems (the largest UK defense contractor and a very respected company in the UK, whose stock we also own). This kind of move is not common. This person saw that he could make a bigger difference at Babcock and liked the team he was joining. I probably would have missed this little data point if I had just read the Babcock annual report.

Also, we were promised a tour of Babcock's shipyard, which is one of the largest in Europe. Global defense companies make up about a quarter of our portfolio, and I felt that the knowledge I would gain from this event would have broad implications for the rest of our portfolio. And it has.

As I look back on this trip, I see that every day brought a very different experience, often in a different country. There were hundreds of conversations with a very diverse set of people, from senior executives at a defense company to aspiring musicians to die-hard value investors, along with my long talks about life with my son and my brother. On these trips time slows down and you can pack a year's worth of experiences into two weeks.

MARCH 28, 2024

Data Driven Hiring

> “I love being the CEO of IMA. I get to set the direction of the company, decide on its long-term and short-term goals, and build the IMA culture and team.

I love being the CEO of IMA. I get to set the direction of the company, decide on its long-term and short-term goals, and build the IMA culture and team. I can pick the projects that interest me and outsource or delegate the ones that don't. However, with power comes responsibility, and one task I hate doing and will not delegate is letting people go. It is the hardest, most unpleasant thing I have to do as CEO.

What makes it worse is that the people I have let go were not bad people. They did not do anything bad. They did not steal or insult clients. It was just that not long after I made the decision to hire them, I had to fire them. *My* decision was wrong. They were not right for the job.

On one level, firing someone is telling them, you don't belong here. You are not good enough for us. That's the wrong way to look at it – and we'll get to that a bit later – but in that moment you are causing the person a sea of pain. It may be short-term pain, but it's still pain. That is the last thing I ever want to do. Of course, there are other costs: financial costs and lost productivity across the firm. But it is the emotional cost – causing someone pain and impacting the ecosystem of the team – that made me reassess our hiring process and create a new one.

I see today, as I look back objectively at our original hiring process, that we were destined for failure. We advertised a job. We filtered out people based on their having a semblance of relevant experience. We conducted a series of individual or group interviews. We checked references. The one we "liked," we hired.

Everything we do at IMA is process-driven. We have very thorough research, operations, client services, and marketing processes. Everything and anything we do more than once we put into a process. IMA is a small firm, and we don't hire new folks very often. The last two full-time people I hired were a director of operations and an analyst. Hiring the director of operations was easy. A friend who runs a good-sized value investing firm learned that I was looking for talent, reached out to me, and bluntly told me that if I didn't hire Lisa, who had worked as COO of his firm for a few decades, I'd be making the biggest hiring mistake in my life. Lisa and I had a twenty-minute conversation on the phone. I hired her on the spot. Hiring Lisa goes 100% in the good luck category.

A year later I looked for a research analyst. This time I had a very thorough process. I wrote a lengthy essay on this hiring process. Here is a small excerpt from it:

> *There was only one factor that really mattered to me this time – passion.*
>
> *Yes, passion!*
>
> *Investing, though it can be an incredibly intellectually stimulating and rewarding endeavor, can also be (and often is) very frustrating. Thoroughly researched and well-thought-out decisions don't always result in the expected outcomes (you can thank Mother Randomness for that). But even when decisions do pan out, the time from gestation to fruition may be years.*
>
> *Passion is the fuel that keeps a diehard, process-driven value investor going through the times when the markets are divorced from reality, when it feels like you are living Einstein's definition of insanity – doing the same thing over and over again and expecting a different outcome.*
>
> *There is a saying in basketball: You cannot teach height. In investing, you cannot teach passion.*
>
> *How do you screen for passion? You put up very high walls, and only the ones who have passion will climb them. I asked for the following from the candidates: List the books you've read over last twelve months (not limited to just investment books); give us a sample of a stock idea analysis; write a few paragraphs about two people (dead or alive) who impacted you the most and tell us why; tell us about three books that have impacted you the most and why; and finally, write us a cover letter to tell us why we'd be making the biggest mistake of our professional lives by not hiring you.*

We received four dozen applications. Most of them just had standard cover letters and resumes. I completely ignored those. A dozen climbed the wall and answered all the questions I asked. I interviewed a handful of them. There was one candidate who was a mile above everyone else – Brendan. He did not have a traditional background, but I was impressed by the thoughtfulness of his analysis and answers. I could tell Brendan was dripping with passion. He was literally reading companies' annual reports for breakfast. I am sure luck played a role with this hire, too, but luck was supplemented by a thorough process.

Back to firing. The last person I fired, I knew that I made a mistake in hiring three days after they started, but it took me 17 days to make sure that I was not making a mistake in firing them. After I let them go, I could sense that the whole IMA team was traumatized – these decisions impact everyone at a small firm. I decided to put the hiring process on ice for a week. Then, when we reviewed our hiring process, we realized that we didn't *have* a process. We had something that looked like a process, but it wasn't. If our investment process had looked like our hiring process, we wouldn't have lasted one more bear market. We needed to build a new process, and I realized we had a lot of learning to do. I asked my friends and clients who run businesses about their hiring processes. I ended up talking to about two dozen people.

A friend recommended the book *Who,* by Geoff Smart and Randy Street. I read it and found it very useful. Another friend recommended I hire a consultant that would help us evaluate each person's fit to IMA and the job by giving candidates personality and aptitude tests. He told me that he didn't do any hiring without these tests and found that they reduced his hiring failure rate tremendously. I asked around about personality tests, and everyone spoke highly of them. I was still skeptical but decided to talk to the consultant. The consultant recommended that every employee at IMA complete the tests, so we all did. We found that the results accurately described everyone at IMA, including a person I knew intimately – yours truly.

Let me slow down for a minute to explain this a bit more.

If you look at the IMA team members, they all share some universal qualities: They are genuinely good, highly ethical people; they are team players (more on that in a bit); and they are fun to work with. I'd be delighted to be with any of them on a 13-hour flight to New Zealand. They all care deeply about IMA. They have soul in the game. These qualities are not incidental, they are part of our culture.

Aside from these universal qualities, our team members are all very different. They have strengths and weaknesses. I like to look at strengths as superpowers and weaknesses as a power source of superpowers. The word *weakness* has an unnecessarily negative connotation. Many weaknesses are just sources of strength – you just have to give up the weakness to get the strength.

My job as CEO is to identify every employee's superpowers, and the power source of those superpowers (that is, their weaknesses), and then make sure they are given tasks where the superpower is used to the fullest. Often, they are paired up with a team member with a skillset to offset their weakness. Peter Drucker summed it up brilliantly in *Managing Oneself:* "It takes far more energy and work to improve from incompetence to mediocrity than it takes to improve from first-rate performance to excellence."

Personality tests reveal qualities a candidate may or may not know about themselves and their fitness for a job. A good fit increases the odds (though it doesn't guarantee) that the person we hire will be good at the job and will receive satisfaction from it, and thus will stay with us longer. The consultant we hired mapped out the personality of a person who would best fit in job we were looking to fill.

Keeping in mind the positive impacts of utilizing personality and aptitude tests, but wanting to go beyond them, I gave the book *Who* to Brendan and told him, "Read it and build a data-driven hiring process."

Every applicant that we even were remotely interested in was sent the personality and aptitude tests. We felt that the aptitude test was important, because one of candidates that I had to let go showed, in addition to other issues, an inability to learn. The ones who passed the tests to our satisfaction (only about 20%) moved on to the next step – a ten-minute, recorded video interview with Brendan.

While we were researching the hiring process I had stumbled onto an **interview** with Nobel Prize laureate and father of behavioral finance Daniel Kahneman. He said: "Interviews should be structured. You have to break up the problem into attributes of the candidate and score each attribute sequentially.... The simplest thing is to list the attributes of the job before you interview. Pick maybe half a dozen traits needed to succeed, whether punctuality, technical skill, even anger management. Then think of questions that can help you determine if candidates have these attributes. List the questions for each trait and score each trait, maybe from one to 10, before moving to the next. Ask the same questions, in the same order, of each candidate."

We followed Kahneman's advice to a tee. Our team came up with 10 questions. Every recorded interview was independently graded by every team member, then we averaged the scores. Giving a grade to each answer made the discussion about each candidate a little more nuanced and less binary.

Candidates who passed this stage were given two additional tests: to write a short summary of one of my articles and to carry out a copyediting/grammar assignment. We were genuinely interested in their ability to perform these tasks well, but we also added another significant wall for a candidate to climb: Candidates who passed that stage were moved to an in-person team interview.

What we learned from our past failed hiring experiences was that the people we interviewed were not the same people who showed up to work. Interviewing for a job is not unlike going on a first date – you want the other person to like you. You don't necessarily lie about your past (though we found that some candidates did), but you omit or embellish certain details. The goal of the in-person team interview was to remove the embellishments and to truly understand who we were hiring.

Brendan – who in addition to being an analyst was now wearing the hat of IMA hiring manager (the beauty of working for a small firm) – conducted the interviews, working from a set list of questions. Unlike the interviews of our two failed hires, which took only 20 minutes, these interviews took at least two hours.

The candidate's resume served as the jumping-off point for the interview. Brendan zoomed in on each past job. He made sure he got the name and the spelling of each direct manager and supervisor the candidate had at each job. One important point that we took from the book *Who* was to make sure to ask about past jobs in this way: "When we talk to your manager, [insert first and last name], how will he rate your performance, or what will he say your strengths and weaknesses are?" The key here is to make a candidate feel that anything they say will be checked with the manager they used to work for. Brendan went thoroughly through every job, asking a half dozen questions, and the team followed up with additional questions as needed.

I have to admit, this job interview felt a bit like the interview I went through with an Israeli border agent when I first arrived in Israel. It was very polite, but the shiny, superficial varnish of a first date was gone. I distinctly remember not enjoying it. I am sure our candidates enjoyed it even less, but it was necessary. By getting down to brass tacks with our candidates, we came to understand a lot better who we were hiring.

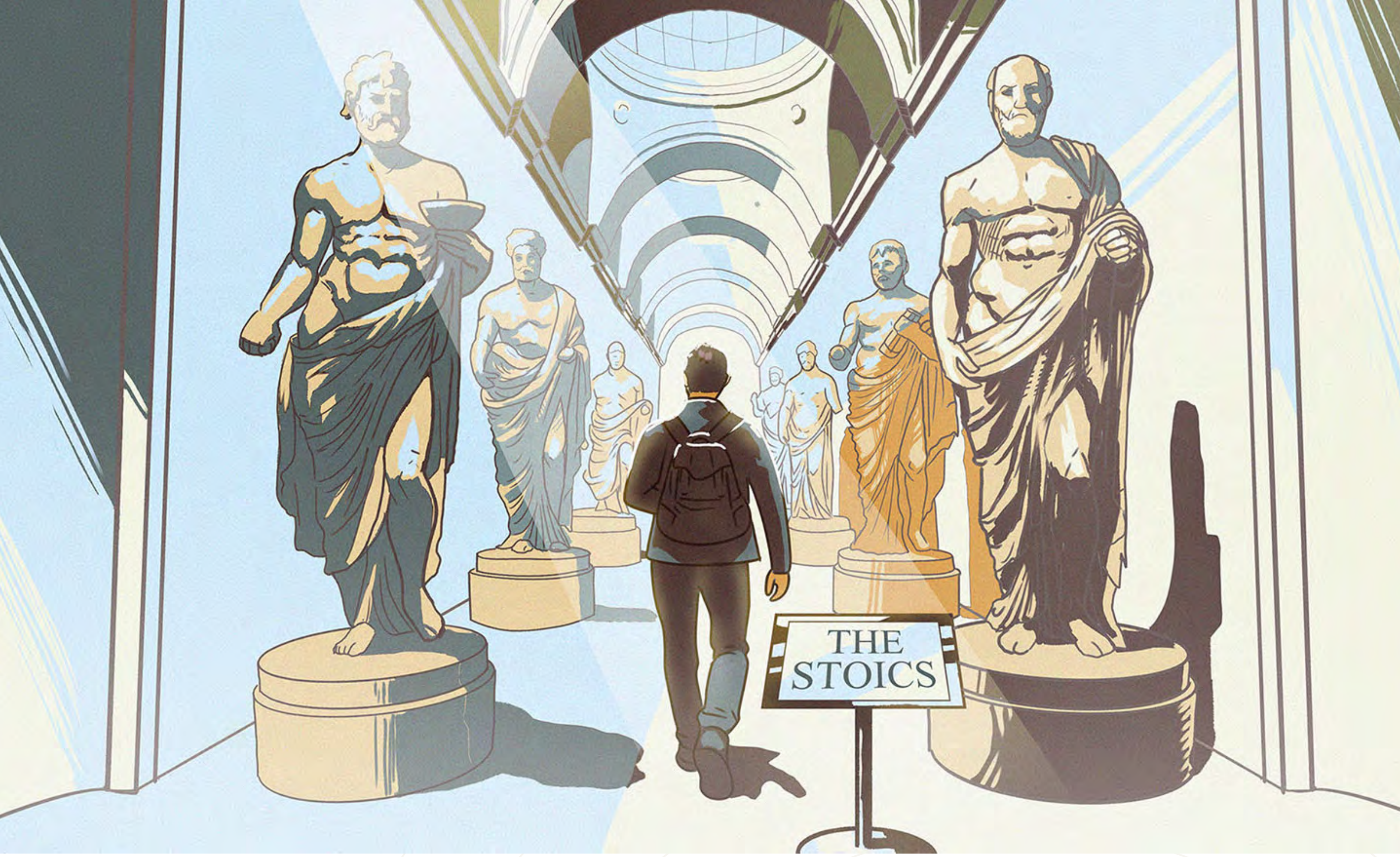
Again, after the interview each team member rated each candidate on predetermined criteria. Once we agreed on the candidate that was the best fit, Brendan asked him or her to provide references; but in addition to standard references, he asked for the phone numbers and emails of past supervisors. We called each reference and asked them a series of questions, but the main question was, would you hire this person again?

One thing I've learned, being a reference for the army of interns IMA has employed over the years, is that when I am excited about the person for whom I am providing the reference, it will show in my voice. I'll volunteer how great that person is, and I'll be their biggest cheerleader. When someone was an okay intern, I'll say positive things, but my voice will be missing that excitement. When we are doing reference checks, we listen carefully to *how* the person is talking about the candidate, not just *what* they are saying about her or him.

I conduct the final interview. I invite the candidate to come to our office. I tell the person to wear comfortable shoes and clothes. I clear my morning, and we go for a walk in the park (which may end up being a three-hour walk). In one case we were hiring a person who in a few years would be doing Lisa's job. It was a very important decision. Our walk turned into a real two-way conversation – it lacked the formality of the Israel border-crossing interrogation we had conducted with the candidate a few days earlier. I wanted to see if I genuinely liked the person we were about to hire. I wanted to know what made him tick as a human being. Walking in the park also brought his guard down, and I could get a better, deeper sense of the person I was about to ask to join our team.

We ended up hiring Cyrus. We could not have hired a better person for the job. Aside from Cyrus being a wonderful human being, this job is a perfect fit for his personality – it fits him like a glove.

When I talk to my friends and clients about their experience in hiring people, most tell me that it's a crapshoot. The process I described above is just a beta version that will improve every time we go through hiring a new person. I also realize that while we may have reduced the element of randomness, we have not eliminated it – after all, we are hiring humans, not robots. I'd like to say that this process completely removed subjectivity from our hiring. It didn't, but we reduced it by not just relying on a candidate's resume and the impression they made during the first date – sorry, I mean interview. Now when we hire, the decisions are based on a lot more data that we diligently gather through tests, assignments, and in-depth structured interviews.



APRIL 30, 2024

Dad, You Are Not Growing! (Embracing Vulnerability)

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> “Dad, you are not growing. You’ve stopped learning new things. You used to have new, creative ideas. Lately you were just improving things that are familiar to you.

I am both sad and excited about going to Buffett’s Omaha this year. I am sad because Charlie Munger, a person I had tremendous admiration for, passed away last year. I’ll miss his wit and wisdom. I am excited because I’ll be there with both of my older kids. In addition to my son Jonah, who is soon to be graduating from CU Boulder, I’ll be joined by my daughter Hannah, who is about to graduate from high school and will be going to the University of Denver in the fall. This is Jonah’s fourth time and Hannah’s first time to attend the Berkshire Hathaway annual meeting.

- If you are going to Omaha, my friends at my favorite bookstore in the world, Hudson Booksellers, located in the Omaha airport, are running a promotion on my books. If you buy ***Soul in the Game***, you’ll get ***The Little Book of Sideways Markets*** for free.

Dad, You Are Not Growing! (Embracing Vulnerability)

“Dad, you are not growing. You’ve stopped learning new things. You used to have new, creative ideas. Lately you were just improving things that are familiar to you. This is just a copout for you from learning and creating new things.”

This is what my 18-year-old daughter, Hannah, told me in response to my idea of taking the Stoic section from *Soul in the Game,* polishing it, adding a few new chapters, and turning it into a small, standalone book.

I got this idea while I was listening to the Stoic chapters in ***Soul in the Game*** as I was preparing for a podcast interview with a heavy focus on Stoicism. I wanted to make sure that examples from the book were fresh in my mind.

I cannot tell you how much I hate what I am about to say, as it is impossible to say it without appearing conceited. But the truth is, the raw emotion I experienced after listening to these chapters again was, “This is really good, and so helpful.”

Although the book was published in June 2022, the manuscript went through its final edit in August 2021. Since then, I have researched a few hundred stocks, written a few hundred thousand words, read dozens of books, and listened to a few thousand hours of podcasts. Time creates distance between you and your written words. Therefore, as I listened to the Stoic chapters in *Soul in the Game,* as weird as it may sound, I found myself returning to those chapters more as a reader than their author. That is why I had this reaction.

I realized I could create a very accessible, small-sized, practical guide to Stoicism. I liked this idea because the almost 30,000 word Stoic section is sandwiched between the parenting and creativity sections of *Soul in the Game.* Also, since the book came out, I have given literally hundreds of interviews about Stoicism and have learned more about it. I've had new ideas.

I have done this before, kind of. My first book, *Active Value Investing,* had 300 pages and 75 charts and tables. John Wiley & Sons asked me to rewrite it for their Little Book series, and this is how *The Little Book of Sideways Markets* came about. It was 1/3 the size and had only five charts and tables. I believe the Little Book is a better version than its predecessor because I had the opportunity to improve it and cut things down. However, here is the paradox: I could not have written the Little Book without first writing the big book.

I probably would not have had the confidence to publish a standalone Stoic book. Anyway, it is this idea that triggered Hannah to give me this little lecture. After she told me this, I did not say anything, just went for a walk in the park to think about it.

As I started to think about what Hannah said, I was overwhelmed with parental pride – I realized that my wife and I had raised a student of life (a person with a growth mindset). I did not think this way when I was her age.

Hannah's comment made me think about my circle of competence. On one side, I want to increase its circumference – learn new things – because it is on the edges where growth happens.

However, that is not the only place where it happens.

We also need to increase the density of what is inside the circle by revisiting what we think we already know. We forget. We also experience new things – and these experiences change us. This is why I believe we need to reread great books. When I reread a book, I am not the same person who read it five years ago. Experiences (life) have made me a different person. Thus, the same words have a different impact, as they are processed by a different version of me; and so I learn new things. Extracting the Stoic section from *Soul in the Game* and turning it into a standalone book would give me another opportunity to reread and study the Stoics.

Part of me wants to go back to the Stoics; another part wants to keep moving forward.

Most importantly, Hannah's comment also made me think about the relationship I have with my kids. They feel comfortable telling me uncomfortable things. I had a similar gentle but frank relationship with my father. He had enough self-confidence to not be afraid of being vulnerable. At times, when we went for long walks (especially when we traveled together), he shared regrets about mistakes he made in his relationships and different choices he wished he had made at certain points in his life. This openness elevated our relationship and made me feel comfortable giving constructive feedback, similar to the feedback Hannah gave me.

I had never actually thought about this until now. I was never intentionally vulnerable with my kids; I was simply being myself, inadvertently copying the relationship my father had with me. Luckily, I had a good example to follow.

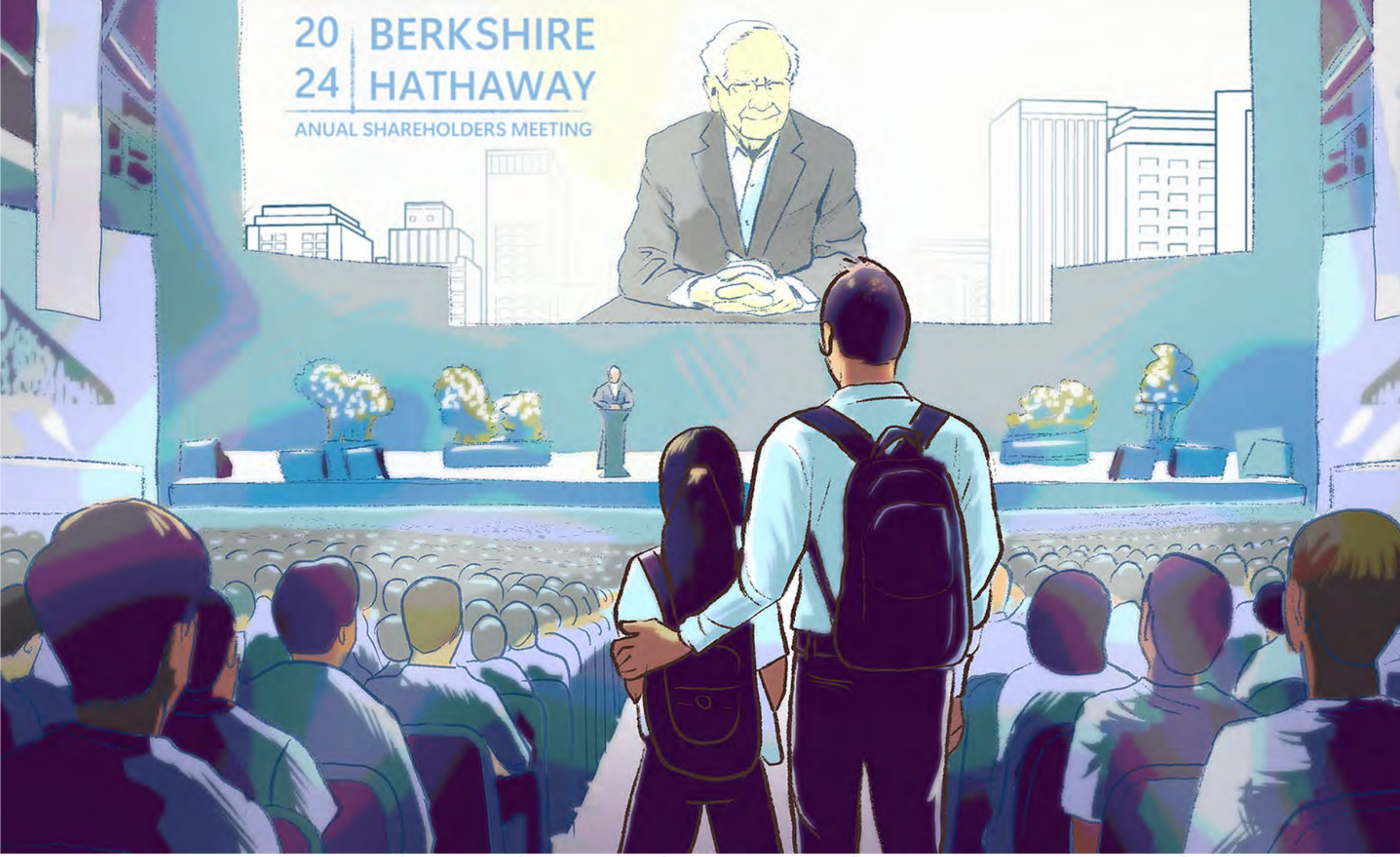
In our society, vulnerability has turned into a word you would typically hear on a Dr. Phil show. By being vulnerable, we are admitting to another human that we are also human. We are not perfect; we have made mistakes, and we have fears and regrets. As I think about it, I see it as an authentic way of removing an artificially erected barrier, unclogging communication with people who are dear to you.

After I came back from the walk, I genuinely thanked Hannah for her feedback. Also, I showed her a few dozen "thinking" essays on new topics I've been working on for a long time but haven't yet published.

I have not made up my mind if I will do the little Stoic book, but if I do, I'll call it *Stoic Operating System*. If you read *Soul in the Game*, I'd love to hear your thoughts about this idea.

If you haven't, I'd love to hear your insights, too, right after you read the book.

Here are the last seven reviews of *Soul in the Game* on **Amazon**:



MAY 16, 2024

Rediscovering the Essence of the Berkshire Hathaway Annual Meeting

Click to listen to a narration of this article

> **When in the past I described my trip to the Berkshire Hathaway annual meeting to others, I often found that I contradicted myself.**

When in the past I described my trip to the Berkshire Hathaway annual meeting to others, I often found that I contradicted myself. I said I was going to see Warren Buffett and Charlie Munger speak, and then I said that their presentation was the least important part of the trip.

The BRK annual meeting is the main attraction that brings forty thousand people to Omaha; but once the novelty of breathing the same air as Buffett wears off, people keep coming back not because of the annual meeting – they can watch Buffett answering questions (Munger passed away in 2023) from the comfort of their couch at home – but because …

For three days in May, Omaha turns into a gathering of like-minded people. What do I mean by like-minded? In the past, I'd say they were value investors. But this year, I saw Omaha through the eyes of my 18-year-old daughter, Hannah, and came to a slightly different conclusion.

It was Hannah's first pilgrimage and my 22-year-old son Jonah's fourth. Jonah just graduated from CU Boulder in finance. Hannah is going to be a freshman at the University of Denver and is deciding between psychology and a business degree. She has expressed very little interest in value investing.

To my surprise, this year in Omaha a number of people came up to me asking for advice unrelated to investing. A friend of mine, who is an accomplished value investor, wanted to talk to Hannah, but she was busy talking to someone else, so he ended up directing his question to me. He had wanted to ask her, "What did your father do to form such a special relationship with you?" He had two young daughters and wanted to make sure he would have such a close relationship with them.

This question stumped me, a little. I am sure this is not the only thing I did, but it's one that came to mind right away: Spending time with my kids one-on-one was very important. We do plenty of things as a family, but the conversation is different when both my wife and I are with our kids. Our attention shifts to our spouse.

My wife doesn't ski, so the kids and I spent a lot of time on ski lifts and ski slopes together. Many times, I've traveled with my kids on business trips. I started doing that because I hate travelling alone, but then I realized how much I enjoyed spending time with them when I travel, and the trips became a great excuse for us to be together.

My wife doesn't like long drives, so my father and I would take the kids on **road trips to Santa Fe**. This doesn't mean you have to travel with your kids to have one-on-one time. When I go for early morning walks, I take my kids with me, too. It comes down to really spending time with them, being present, and being vulnerable as they get older. (**I wrote about that** here).

Along the same lines, I was treated to an interesting, somewhat new perspective on my book. A lovely couple came up to me and told me that ***Soul in the Game*** was a parenting book. They are both doctors and live in North Dakota. The man said, "I was born in Pakistan. In Pakistan, men go to work. Their job is to make money. The wife's job is to take care of the kids. Men spend little time with their kids. This was the example my parents set for me. Your book showed me a blueprint for being a better father."

A young woman who attended one of Q&A sessions in Omaha, picked up my book at the airport, read it on the plane home, and emailed me: "Your book has made me a kinder person. You also made me realize the importance of focusing on what truly matters in life, and changed my perspective towards having kids. Because of you, I now hope to have kids in the future and learn from them to become a better person!"

I cannot tell you how weird it feels to be turning into **Dr. Spock** and dispensing parenting advice. Or life advice in general. But she nailed what kids do to us – they transform us into better people. We have ideals for our kids – we want them to grow up to be good, honest, kind-hearted people. We try to instill these values in them, but at the same time we don't want to be hypocrites; and as a result, we end up changing ourselves towards the ideals we try to infuse in our kids.

Jeffersonian dinners

I get to see my friends who come from all over the US and the world to Omaha. Folks I talk to on a regular basis but see only a few times a year. Hannah and Jonah got to spend time with my friends, too.

Every evening in Omaha we had a dinner, but not a traditional one. Instead, we had Jeffersonian dinners. (This is the only dinner I'd have in a group larger than four.) Matt Stafford, whom I had the pleasure to meet at a conference in Switzerland, **wrote a book** on Jeffersonian dinners and has turned them into a science.

Thomas Jefferson hosted this type of dinner at the White House when he was the president. The rules are simple: There is one conversation per table, and the group or moderator chooses a topic. If people don't know each other, you go around the table and do short introductions first. That's basically it.

I love Jeffersonian meals because they turn dinners or lunches (even breakfasts) from loud, often uncomfortable small talk with someone who is sitting to your left or right into opportunities to have meaningful conversations from which you get to learn.

You'd think a lot of value investors would get together around the Berkshire Hathaway annual meeting – the Woodstock of Capitalism – and talk mostly about money or stocks. Though I had one-on-one stock discussions here or there, most conversations at these dinners were about life.

Here are the topics we pondered at our dinners this year: (1) If you could meet anyone, dead or alive, who would it be and what would you ask him/her? (2) What is the nicest thing someone did for you?

Last year, a friend who was a top executive at one of the largest European cosmetics companies gave us an interesting answer to the following question at one of these Jeffersonian dinners in Omaha: What do you know that others don't? He said, "When you buy face creams and lotions, always choose the cheapest, top-selling, ubiquitous one. Even though it is the cheapest, it brings the highest revenues and profits to these companies, so they pour huge amounts into R&D into it."

You never know what you'll learn at these dinners.

Since I am on the topic of Jeffersonian dinners, a few days after we came back from Omaha, Jonah graduated from CU Boulder.

My wife and I hosted a graduation dinner for him at a restaurant in Denver. I've gone to many graduations in the past. A lot of people who are friends of the parents and the graduate get together, you hear a toast or two, and then the party turns into a lot of small talk.

This dinner was very different.

We reserved a private room at a restaurant that had one big table. We had close family and six of Jonah's close friends – a total of twenty-one of us. Half an hour into the dinner, once the food orders were taken, I told folks that we were going to have a Jeffersonian dinner, briefly explained the rules, and picked the topic of the conversation – Jonah. I asked everyone to tell a favorite story about Jonah.

We learned a lot of interesting things from Jonah's friends, and Jonah's friends got to hear a lot of embarrassing stories from his sisters and his parents. It was a very touching, meaningful, and unforgettable event.

Back to Omaha.

When we came home, Hannah announced to my wife that she is going to Omaha again next year. My wife was surprised and said, "Jonah is into finance. You are not. Why?"

Hannah said, "I got to meet so many interesting people and had so many terrific conversations. None of them were about finance. I learned so much. I had conversations I have never had with my friends."

I've been going to Omaha since 2008, but this year I saw the event from a different perspective, through Hannah's eyes, and I realized the genius of Buffett and Munger.

There are a lot of great investors out there – none of them have an annual event hosted in the middle of nowhere (sorry, Omaha folks), where forty thousand people show up for three days to celebrate… I was going to say "capitalism," but I think it is much more than that (sorry, capitalism). It's about learning, self-improvement, becoming better… people. If you go back and listen to past Q&A sessions from the BRK meeting, a very large number of questions were completely unrelated to finance or investing; they were about life.

So you see, to be a good investor, you have to constantly learn. This creates a learning muscle that cannot help but take you beyond the bounds of finance. As you start learning and reading more widely, you cannot help but try to become a better person (even a better parent).

This is what has happened to me, except the process was supersized by daily writing, which is a steroid for learning that took me ***far*** outside of finance. I guess this is why I (completely!) unintentionally became a person who is dispensing life and parenting advice.

This is what Hannah saw in Omaha, and this is why she wants to keep coming back – she wants to keep learning about life. And of course, as an added bonus, she'll get to spend lots of quality time with her brother and her father.

As value (life) investors say, "Next year in Omaha!"

One more thing: This year I was going to host a small reader get-together. What started out as a modest event for 75 people turned into three Q&A sessions attended by 300 people, with 200 people on the waiting list (we did not have enough space).

We have learned from this year's experience – we are going to book a much larger venue next year. If you are planning to come to Omaha next year and would like to attend our get-together, I suggest you get **on the list early** (and don't forget to separately register your friends and family members who want to attend).

JUNE 4, 2024

30 Years in America – Edition 2024

Click to listen to a narration of this article

> On the 30th Anniversary of my family's arrival in the United States from Soviet Russia, I reflect on my time here. After recounting the hard early days in a new country when I was "fresh off the boat", I offer perspective on how America has changed since I arrived. What I see now is, in some ways, more troubling than what I found all those years...

This week, I am going to share with you two essays that I wrote a few years ago. I want you to see this country through the eyes of an immigrant. If you were born here, you have only seen prosperity, making it more likely for you to take what you have for granted. We tend to not appreciate what we have until we lose it.

30 Years in America

On December 4th, 1991, my family “got off the boat” from Russia – we landed at JFK, our stop on the way to Denver. I was 18. This was a new world to us. My first surprise was Denver’s shocking flatness. I learned about the United States mostly from American movies which, with the exception of Westerns, heavily biased coasts and skyscrapers. Denver was flat, sunny, and unusually warm. Just a few days before we were freezing our bones in Moscow in negative 30 degree weather. It was 65 degrees in Denver. People wore T-shirts in the middle of winter.

That was not the only surprise for us.

In Russia, every time we left the house, we paid close attention to how we dressed. Here nobody cared about their looks. This was liberating. I embraced this newfound freedom with all my heart. To this day I am the worst-dressed person in our 12-story office building, sporting mostly T-shirts and jeans.

We were picked up at the airport by half a dozen strangers, members of my aunt’s synagogue. There were six of us: my father, stepmother, brother Alex, stepbrother Igor, my 84-year-old grandma, and yours truly. We had brought all our life possessions with us – thirty duffle bags. These strangers, who were to our big surprise always smiling (I will address the topic of smiling in a second), picked us up and drove us to our fully furnished apartment. They had furnished an apartment for people they didn't know! That was shocking to me. I had been brainwashed into believing that Americans – capitalist pigs – would sell their brothers to supersize their happy meals. (I'll touch on this topic in a few pages, too). Now, these cold-hearted capitalists had taken their time and money to care for people they had never met. Capitalism was supposed to make people selfish and greedy, but these people were anything but.

Now, on the subject of smiling – Americans do it a lot. Let's be honest; these smiles are manufactured. There is no way you are happy to see every stranger you meet on the street. Russians are stingy on smiles. They don't give you frivolous smiles. When they smile they mean it. My thinking on this topic has changed a lot over the years. The pivotal moment was when I went back to Russia with my brother Alex in 2008. I realized that smiling faces had become a necessary and welcome part of the décor of my daily life. Today I walk in the park daily. I may be listening to an audio book or a podcast, but I try to give every person I meet a big smile. I do this intentionally for a selfish reason – you do this a dozen times in an hour and your facial muscles lighten and relax and your mood improves. Try it. It works.

Language was another surprise. George Bernard Shaw said, "England and America are two countries divided by a common language." Shaw was so right. I had studied (more like memorized) English in school. I had enough vocabulary to maybe buy milk. But that was British English. American English was a completely different animal. Americans garbled entire sentences into a single sound. I honestly could not tell when one word ended and another began. The only person I understood was James, a wonderful man who had recently moved to Denver from Dallas. James was one of those cold-blooded capitalists who volunteered his time to help us acclimate in our first few months in the US. Unlike non-Texan Americans, James spoke with a slow Texan drawl. I could understand every word he said!

I think it took me six months to be able to understand spoken American English. I remember that day – my father was driving me to school and we were listening to classical music on the radio. A commercial came on, and I could understand it! That was a big day for me.

It is going to be very difficult for me to say what I am about to say without sounding like a complete idiot. But I must preface it by explaining that in Soviet Russia everyone (for the most part) was equally poor. My family, despite my father's high salary (he had a PhD, which boosted his pay), lived from paycheck to paycheck. Going to a restaurant was a big event for us. Our understanding of money, especially mine, was very limited – we never had any.

My father's younger sister Anna had moved to the United States in 1979. She got divorced and remarried, to a rabbi, Nathan, who headed a small congregation in Denver. I remember one day Nathan pointed out to me one of his congregants and said, "He is a millionaire." I still remember the thought that ran through my head – there must be something special about that person. After a few weeks of intense observation of this fellow, I came to the conclusion that having millions of dollars in the bank did not make him extra special. He drove a fancier car. He probably had a bigger house. But he dressed worse than me (which is hard to do) and he ate the same hamburgers and ice cream as everyone else.

Over the years I have learned that money and power reveal. They often unmask a person. Sometimes you like what is revealed; many times you don't. In fact, thirty years on, as an occupational hazard (I run an investment firm), I've spent some time around quite a few very wealthy people. I haven't observed any extra dose of happiness in them. Money solves money problems. It doesn't make people love you; your actions do. Money, just like education, is supposed to buy you choices. It should provide security. The first few years in the US, my parents worried how we were going to pay for groceries and rent. We don't have that worry today – and that is liberating. (I wrote an in-depth essay on this subject. You can read it **here**.)

As I was reflecting on the last thirty years, I realized that the US has kept its promise. The poem on the Statute of Liberty reads:

> *"Give me your tired, your poor,*
>
> *Your huddled masses yearning to breathe free,*
>
> *The wretched refuse of your teeming shore.*
>
> *Send these, the homeless, tempest-tossed to me,*
>
> *I lift my lamp beside the golden door!"*

The US has always presented itself as a country of opportunity. A country where you can achieve anything if you work hard. The only job that is off limits to an immigrant is becoming the President of the US. I'd say that is a feature, not a bug, of being an immigrant.

After we arrived, 1991 quickly turned into 1992. I spent a few months that year knocking on the doors of every business establishment within walking distance of our apartment and saying, "I'd like to fill out an application." (My American aunt taught me to say this.) I did not realize it at the time, but the country was in a recession. Getting a job was very difficult. Every member of my family needed to work. I was rejected by both Taco Bell and McDonalds on multiple occasions. I still hold a little grudge against those two specific establishments when I drive by them.

My first job in the US was folding towels at an athletic club. I was fired a few months later for reasons still unknown to me. The manager called me into his office and gave me a long speech (I was a bit confused because he was smiling while he was firing me). Unfortunately, because he was not Texan, I didn't understand much of what he said. I did understand that I was fired.

My next job was bussing tables at the Village Inn restaurant on Friday and Saturday nights. When I say night, I don't mean evening, I really mean night. My shift started at 9pm and ended at 5am. At 2am, once the bar closed, the restaurant was flooded with folks looking for burgers and fries.

Everything I earned at the Village Inn, down to the last penny (including tips), I gave to my parents. This money went for food and rent. It was the least I could do. My stepmother, who was a doctor in Russia, was now cleaning rooms in a hotel. So, despite having a job, I had no money of my own. Once I went on a date with a girl to a Chinese restaurant. She ordered kung pao chicken, I ordered water. It was an embarrassing experience. I had to postpone dating for a while.

Those were difficult years, but I would not trade them for anything. Those years taught me to work harder than anyone else. I don't know if I was driven by hunger for success, fear of failure, or by seeing the contrast of what this country had to offer versus my life in the Soviet Union. Probably all of the above.

Yes, this country has kept its promise. But as I reflect on spending the bulk of my adult life here, I realize I understand this country less today than I did 30 years ago.

If you want to keep feeling uplifted about the US, stop reading here. Seriously, my essays are usually a happy place, and the happy place is about to end.

Over the last decade something has changed. This change probably started at the turn of the century, but over the last ten years it became very noticeable. The country turned tribal.

Tribalism is benign when it comes to certain parts of our lives, like sports. You love your local high school or college or pro football team and (peacefully) hate other teams. We accept a certain amount of irrationality in belonging to a football tribe. I live in Colorado and thus supposedly belong to the Broncos and CU Buffs tribes. Even if you are a Green Bay Packers or Nebraska Cornhuskers fan, you don't hate me for that (or if you do, it's just for a few hours a year).

But tribalism is dangerous in other parts of our lives. We outsource our thinking to the mother ship of the tribe. Other tribes become our nemesis, and most importantly we lose nuance. Early in our lives our parents presented the world to us in binary terms. Honesty is good, lying is bad. They were trying to instill values that were black and white (right or wrong). But the world around is anything but. It is full of nuances. When I discuss politics or economics with my kids, they instinctively want to look at everything in binary terms. I try very hard to explain to them the complexities of the issues. These complexities are completely lost in tribal thinking. (I wrote about the dangers of tribalism in investing **here**).

Tribalism in the US has become so strong that it has started to impact our freedom of speech. No, the government is not going to send you to the gulag for your political thoughts. We do it to ourselves by cancelling each other.

Let me give you this very recent example. Chris Cuomo was fired by CNN for helping his brother Andrew Cuomo deal with sexual harassment allegations. I was going to tweet something along the lines that CNN is a private enterprise and can do what it wants. But I don't think any less of Chris Cuomo for choosing his brother over his job. This is the value I instill in my kids – I tell my son and two daughters that the three of them are the most important people to each other in the world (even more important than their future spouses). They have to take care of each other for the rest of their lives. If one of my brothers got in trouble, I'd do anything I could to help him, even if it meant losing my job. I think there is a Taco Bell or McDonalds out there, still waiting to fix the mistake it made in passing on me 30 years ago.

I was going to tweet this about Chris Cuomo, but then I caught myself self-censoring. The thought that kept me from tweeting was, "People have been cancelled for less." So much for free speech, for feeling you can voice an opinion you know people will disagree with. On the surface my self-censored opinion is irrelevant. But this is not about me. How many of us now find ourselves afraid of being cancelled, or just don't want to get into mindless, vitriolic debates with tribal drones (people who just repeat the talking points of their tribes). The more we self-censor, the less free we become.

As nuance is lost, we lose pragmatism and resilience, and we follow the paths of all empires – they get too rich, overextended, think they are better than others, and then fail. (I wrote about our fiscal situation **in this essay**, so I won't repeat myself on that topic).

I see much the same thing happening on the corporate level. As great companies triumph, they lose a healthy sense of paranoia and perspective, their culture stiffens, and they start thinking that success is a God-given right. Hubris creates an opening for the competition to slide in. At first the competitors are content with breadcrumbs, but eventually they eat your lunch and dinner. IBM, GE, Xerox, Kodak, Polaroid – they used to be the hallmarks of this country and now they are the sorry old shadows of themselves.

It pains me to see the younger generation romanticizing about socialism. When you tell them that every country that tried it failed, they answer that they'll do it better. I have unique insights into this topic, both as a person who lived under Soviet socialism and as an investor. Socialism fails not because of the quality of people involved – nobody thinks that Russia or Venezuela would have succeeded if only they had better bureaucrats. Even if we had lent them out our most distinguished DMV or postal service workers, that would not have saved them. Socialism simply runs counter to our genetic programming. The alignment of incentives is paramount to the success of any enterprise. The incentives of government bureaucrats are aligned not with the success of the country but with their keeping their jobs.

You want a corporate example? Compare the innovation of SpaceX, a company run by an ambitious founder, to the space program run by the US government in league with our traditional defense contractors. Capitalism is far from perfect, but it is the best system we've got. (Full disclosure: We do have a position in defense contractors. The specter of Chinese dominance motivated us to buy them, and I wrote about that **here**.)

Yes, I know that this not what you were expecting to read from me. I am as surprised as you. But I felt it was my civic duty to share these thoughts.

I am still optimistic about the US. The wise words of Winston Churchill come to mind here: "You can always count on the Americans to do the right thing after they have tried everything else." I still would not want my kids or my (future) grandkids to live anywhere else. But we should not take our success for granted and, just like immigrants fresh off the boat, we should be a bit hungry and appreciate that what we have here is very special. We should be very careful about our freedoms.

I was going to end this with a traditional "God bless America." Sure. But I think relying on divine intervention is not enough; we should all make small decisions every day to improve the country. My writing this, even if it means losing half of my readers, is my first step.

OCTOBER 23, 2024

Q&A Series: On Parenting and Personal Growth

Click to listen to a narration of this article

> “I wanted to share excerpts from a Q&A session I held with readers in Omaha. This excerpt focuses on parenting and personal growth.

I wanted to share with you some edited excerpts from a Q&A session I held with readers in Omaha during Berkshire Hathaway’s shareholder meeting weekend. This first email focuses on parenting and personal growth. My kids, Jonah (23) and Hannah (18), were in the audience and unexpectedly answered a few questions too.

How do you know you succeeded as a parent?

That’s an interesting question. You know, it’s funny; a couple I met in Omaha last year told me they had my book in their book club. This year they said, “Vitaliy, you wrote a book about parenting.” I was surprised, because I never thought that I was writing a parenting book. I guess I was just writing about life, and parenting is a big part of that.

Judging parental success is complicated. First, I look at my kids and how they’ve turned out. Two of them are right here, and I have this incredible parental pride. It’s not just because of me, though – it’s my wife and myself together.

But I’ve also realized how much luck plays a role. I have friends who I often call for parenting advice, and they’ve had a lot of issues with their kids that I never experienced. So there’s a lot of luck involved, and I don’t know how much credit I can take. I honestly have wonderful kids – and I’m not just saying that because they’re sitting here.

Another way I judge it is by looking at our relationship. I have a very special bond with my kids, and that’s important to me. I also observe how they face life, how they interact with the world. That shows me if I’ve been successful or not.

My father always told me that his job as a parent was to raise kids who could face life, stand on their own feet, and be good human beings. That’s what I’ve tried to do. If my kids can deal with adversity well and navigate life successfully, then I think I’ve succeeded.

So, I guess it’s a multi-layered answer. It’s about how they’ve turned out, our relationship, how they face challenges, and whether they’ve become good, independent people. But there’s also an element of luck that we can’t ignore.

What is it like living with an "outsider"? (My kids weigh in.)

Jonah: That's a good question. It's a fancy way to ask, is he weird? I think the way he thinks is founded in being a contrarian and seeing things differently.

I have so many examples, but here's one from when I was a kid. We went to Chipotle, and I got a cup of water. My parents never let me have sodas or lemonade. When they weren't looking, I filled my water cup with lemonade. My dad caught me and made me go up to the cashier and pay for the drink with my allowance – 100% of my net worth at the time. The cashier didn't want to accept it, so he made me put it in the tip jar. He said it wasn't about whether they accepted it, but about understanding the value of honesty. A lot of these lessons stem from my grandpa.

But also, our conversations aren't normal. On vacation or at a restaurant, we break down how the business makes money, what they're doing well or not, and estimate their yearly revenue. I don't think most people do that, though maybe in this room (at the Berkshire shareholder meeting) a lot of people do.

My dad is interesting because when he cares about something, he puts 100% into it. But if he doesn't care… For example, in high school, I came home to find him throwing all his clothes in the trash. He said, "I only need two pairs of pants, three pairs of shorts, and a few T-shirts. I don't need all this other crap."

Hannah: Our dad does ValueX Vail every year in Vail. He makes about 50 or 60 shirts, plus extras. Every year he gets about 10 shirts for himself. He wears them every day.

How do your kids feel about you writing about them?

Jonah: I think we have undeserved fame. But there's an interesting accountability loop that comes with it. When you know that what you're doing might be written about publicly, you think about how you structure your life more thoughtfully. It's cool, because often when you meet new people, the first interaction is just filling them in on your life. For us, it's a weird privilege and an amazing opportunity, but it definitely gets strange sometimes.

Vitaliy: Jonah just said something that really resonated with me. Let me give you an example. I write about our special trip to San Francisco, right? Or even better, when Hannah and I go into a bookstore. I write about these things, but it's not like we go to bookstores every day. What happens is, when I write about these moments, I create an accountability for myself. I'm writing about the highlights of my life, right?

But now I'm trying to live up to that all the time. It actually makes me a better person because I'm striving to be the person you read about on those pages. I promise you, I'm not that person all the time, but I try to elevate myself to be that person more often. So it's actually rewarding for me as well, and I guess it has a similar impact on my kids.

It's like we're creating this ideal version of ourselves in writing, and then we're all working to live up to it more consistently in real life. It's a unique dynamic that pushes us to be our best selves, not just for the stories, but in our day-to-day lives.

NOVEMBER 14, 2024

A Balanced Life: My Approach

Click to listen to a narration of this article

“How do you balance your life between being an investor, running a firm, writing and other important aspects of your life such as your family?

Today, I am going to answer a question asked by a reader:

How do you balance your life between being an investor, running a firm, writing and other important aspects of your life such as your family?

Hopefully, my answer helps anyone pursuing a demanding career.

This question gives me a chance to reflect on how I prioritize different areas of my life, from family and investing to personal health and friendships. We’ll explore the concept of intentional living, the management of constrained resources, and why a truly “balanced” life might not be what we think it is.

If a balanced life means all aspects of it, everything – family, work, health, relationships, personal development – are in equilibrium. Then, every part of it is just as important as every other, and thus deserving the same attention (allocation of time) and energy at any point in time. This is not how life really works. Not all aspects of life are equally important at every point in time; some require greater attention and energy, which always (!) comes at the expense of others.

Life, just like an economy, involves the management of constrained resources. In the economy it’s labor, capital, and technology; in life it’s our attention (the currency of time) and energy.

If we treat everything as important, nothing is important. We all prioritize some things over others; it’s just a question of whether we do it mindfully (intentionally) or mindlessly (on autopilot). My goal is to lead an intentional life where I mindfully allocate my time and energy towards tasks that are important to me at this point in time.

My life is not particularly exciting or important, and there are a lot of things I can still do better. In the following exploration, my goal is to bring to the surface little nuances that may help you, the reader.

Here are the areas in my life that require energy and attention. I’ll list them in order of today’s importance: myself, my family, investing (being CIO of IMA), writing, friends, and running the business (being CEO of IMA).

Myself

Airline safety instructions advise passengers in the event of an emergency to put on their own oxygen masks before assisting others, including children or those in need. If I am not in a good mental and physical state, nothing else will matter – I will fail at everything else. I want to make sure I get enough sleep, exercise regularly, eat well, and am in a healthy state of mind (meditation, Stoic philosophy, and walks in the park help).

Physical health

I have very strong willpower when it comes to giving up bad habits (I quit smoking decades ago, and **stopped eating sugary desserts** when I am here in Denver), but I have little willpower when it comes to doing things I don't enjoy.

My love for working out rivals the love I have for trips to the dentist. But I know I need to work out– as we get older, our muscles weaken, and we lose flexibility. I tried going to health clubs for decades, but I never stuck to it for more than a month. I have tried to reframe it, to talk myself into falling in love with working out. Let me put it this way: It's a work in progress.

In the meantime, for the last five years, I have had a twice-a-week standing appointment with a trainer. The trainer is there to train, but more importantly, to push and keep pushing me to do something I know I need to do but don't like doing.

Eating well

I try not to eat highly processed food, eat a lot of vegetables, and have small portions. A colleague at IMA goes to Whole Foods every Monday morning to get fresh fruits, vegetables, and high-quality protein for the entire office for the week. IMA may not be Google, but we do provide healthy food for our employees. The only rule is no processed, high-sugar foods or carbs in the IMA HQ kitchen. I eat (self-made) healthy salads nearly five times a week.

Enough sleep

I want to get at least seven hours of sleep, so I'm in bed by 9 or no later than 10. (I wrote about the importance of sleep **here**.) My Oura ring – a digital device I wear instead of a wedding ring – keeps me accountable.

Mental health

I meditate on a semi-regular basis. I take a walk in the park every day if the weather allows. I walk for about an hour while listening to an audiobook, podcast, or earnings call; or I just talk with a friend or family member who joins me. I take these walks less for physical exercise than for mental relaxation. Also, I have an opportunity to sit on a bench, gaze at nature, and meditate.

We Americans are always rushing from place to place. When I travel to Europe, I always envy Europeans for their ability to slow down their lives, to go to a coffee shop, sit there for hours, reading a book or having a long lunch. This may be the false perception of a tourist, but, be that as it may, I want this in my life.

Wednesday is my European day. The day is blocked off from business appointments. That's nonnegotiable. I have a standing lunch with a friend. It can last an hour or three hours; it all depends on where the conversation takes us. I may decide to see a movie or spend the whole day in a coffee shop. Wednesday is mine; IMA and my family have no claim on it.

Family

It's essential for me to spend enough meaningful time with my family.

As cold as it sounds, I look at that area through the lens of regret minimization. When you are at the end of your life looking back at it, what will you wish you had done? I am very focused on keeping this area a high priority.

I drive my kids to school almost every day. It is incredible how important framing what we do is in our lives. I used to look at this as a chore, but now I see it as a privilege – they'll grow up and I'll miss it. My son Jonah is 22, and I feel nostalgic for the days when I was driving him to school. Thus, when I am in the car with my daughters, I am fully present, and my attention is focused on them (I am not daydreaming about a company in our portfolio).

On Friday nights we have a nonnegotiable family dinner, and Saturday is mostly reserved for family. I cannot take credit for this; that goes to my wife and six thousand years of Jewish tradition. Growing up in a secular Jewish family, I was never exposed to the Friday night dinner (Shabbos) tradition until I got married. My wife is the religious one for all of us in our family.

I have to admit, it took me a while to appreciate staying home on Friday nights. Before I got married, I would always go out to see a movie on Fridays. Staying home is not always convenient. Fast-forward a few decades, and today I really appreciate the tradition – we need a certain amount of melody in our life, rhythms we can identify and expect. They create continuity, stability and a calming predictability in our life.

Also, we may or may not have dinner together on other days of the week, as the kids may have activities; but on Friday nights we all come home for dinner. We may also be joined by friends and relatives.

I liked this idea so much that I adapted it at IMA. Every Friday at around 3pm, we have "Sangria Friday," where our office gathers for a glass of sangria (or whatever drink colleagues prefer). We all come together to reflect on the week that has passed.

As a side note, I could never relate to people who say "TGIF" ("Thank God it's Friday"), especially those who start fantasizing about Friday on Monday. If this is you, ask yourself, do I really want to spend more than half my waking life wishing I was doing something else?

Investing

I have two primary responsibilities at IMA: I am its CEO and its CIO. The CIO role is the one I refer to when I say "investing." This is where I spend the bulk of my time; this is why IMA clients hire me.

I love investing. I still cannot believe that I get paid for this. I am not saving babies from burning buildings, but IMA has a significant impact on the lives of our clients, and thus it preoccupies a lot of my mental real estate. I derive a lot of meaning and creative satisfaction from it.

Mornings are my most productive time, so I allocate them to research – my most important activity. I don't take any calls until 2 pm unless they are research related.

I discussed this area of my life in this essay: "**How do I get any research done since I travel a lot?**"

Writing

Writing is something I do every morning – it is an important part of my identity. Some people workout at 5am every day; well, I write. I aim to eliminate as much friction as possible when transitioning from my bed to my writing chair. My laptop and my headphones (I write while listening to music) are waiting for me. I make coffee, and while waiting for my coffee I stretch and do pushups (this gets my blood going).

Writing, and especially writing every day, is the most important thing that has happened to me as an individual and ranks on par with having kids.

It is my time. I focus on investing, different parts of my life, or whatever subject I'd like to explore further. I push into frontiers I have not explored before. Two hours a day of focused thinking – that's 700 hours a year, which is a lot of thinking. It has tremendously helped my IQ (it needed a lot of help).

There are also many great side effects from writing (which I discuss in **this video**). You develop a writer's brain and constantly look for new ideas to explore. It's a great stimulant for learning (just like investing). To write new things, I need raw material (books, articles, podcasts) to process – it has made me a lifelong learner.

When I sit down to write, I write for an audience of one – myself. But I also get a lot of satisfaction from sharing work that has a positive impact on the lives of others.

My advice to my kids: Write daily. My son Jonah, who is 22, has been writing a daily journal for several months now.

Friends

Family is very important, but I must tell you, life somehow feels hollow without good friends. Friends are people with whom you can share your successes – knowing they will be happy for you, not consumed by jealousy, and still feel comfortable being vulnerable to share your failures. As Seneca said, “No good thing is pleasant to possess, without friends to share it.”

I have a good number of friends – people I really like and admire, who can call me anytime if they need help, and I can do the same. But I only have time for a handful of deep, close friendships because this type of relationship requires an investment of time. I wish I had more of these deep friendships, but this is something I have to give up for other parts of my life.

Running IMA

Finally, running IMA. It may be surprising that it appears last on the list. That is a deliberate choice that involves a lot of thought, systems, and constraints to make it work. It also requires a longer explanation, and fortunately I have spilled a lot of ink in the past on this topic, in **this essay**.

I would like to repeat this point again: Life is the management of constraints, and thus emphasis on one portion of our life must come at the expense of other parts.

This aforementioned list is going to be different for everyone. It was different for me ten and twenty years ago. Areas of prioritization shift over time as well.

This also means I have to say “no” a lot to requests for meetings. That doesn’t come naturally to me. I never want to come off as a pompous jerk. College students reach out to me for informational interviews, readers want to grab a coffee. There is absolutely nothing wrong with any of these requests, but these meetings always come at the expense of something else (time with my family, research, writing).

Thus, as much as I hate doing it, I have to decline most of these requests. The way I look at it, unlike most people, I write a lot. There is little I have to share that is not in my essays or my books. Advice I have to share with young adults is neatly packed away in my essays, and **they can find it there**. I meet my readers at get togethers when I travel. (If you want to be notified of those gatherings, please fill out **this form**).

No matter how much a certain aspect of our lives consumes us, we want to be mindful about not creating a significant debt or deficit for an extended period of time in other areas of our life, as the cost of rebuilding them may be too high for us to bear.

I am writing this from painful, personal experience.

Here is one of many examples: In 2018 I bought a Tesla Model 3. I was so fascinated by the electric car that I dove into a three-month blackhole research of Tesla and the EV industry. This was in addition to all my other responsibilities and came at the expense of my sleep, and thus my health. After three months, my pale face and meek, low-energy behavior triggered my stepmom to express concern and wake me up to the fact that this research was ruining my health. I literally could have fallen asleep driving home from work, or even worse, driving my kids home from school.

As people start to accumulate wealth, they often begin to complicate their lives with multiple homes, exotic investments, and complex tax shelters.

Leonardo Da Vinci said, “Simplicity is the ultimate sophistication.”

I follow Da Vinci’s advice and on my journey of sophistication, I intentionally keep my life simple. Instead of having a second home, we use Airbnb; thus we have second homes everywhere in the world, and leaky roofs and mowing the grass are someone else’s problems.

All of my family’s assets are managed by IMA in the same way as those of IMA’s clients are – no exotic investments or tax shelters. Aside from that being the right thing to do, it also makes my life much easier. There is a tremendous value in simplicity – it frees up time and mental energy.

I also avoid time sinks – other than skiing, which is an opportunity to spend time with family and friends, I don’t have time-consuming hobbies like golf or other sports. There is absolutely nothing wrong with them (I have friends who get a lot of pleasure and meaning from them). I am lucky that they are not my thing, otherwise something else in my life would have to give.

This basically sums up how I lead a mindfully prioritized, though not necessarily balanced life. If we don’t mindfully create, prioritize, and manage the constraints imposed on us by life, it will do it for us. We just may not like the result.

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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. If the articles in this almanac have helped your thinking too, go ahead and subscribe to my newsletter here. You'll receive both articles fresh off the press as well as older pieces that are still relevant today.

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

Music

January 2, 2024

Music Throughout My Life 2024

Both of my older kids will be off the first week of January. Jonah is a senior at CU Boulder, and Hannah is a senior in high school. Grasping for an opportunity to spend time with them, I offered to take them on a short, three-day trip to a place of their choosing. The planets aligned with San Diego. I've been to San Diego several times, but I have never really spent much time in the city.

We may be able to do a reader get-together in San Diego on January 6th or 7th. If you are interested in attending, please fill out this form.

In late January, I am going to attend my friend Guy Spier's conference, **VALUEx Klosters**. I will be joined on the trip by my brother Alex and my son Jonah. You may recall Jonah telling me, "Dad, I took an accounting class. I didn't hate it. I also took a finance class, and surprisingly, I liked it." So today, Jonah is majoring in finance. He even interned for Guy in 2022.

We are going to spend a few days in Malaga (Southern Spain), then host an IMA client dinner in Zurich, attend the conference, and travel to Milan. Jonah and Alex will fly back to Denver, while I go on to the UK.

The trip to the UK was not my initial choice. I was invited to present at an internal conference for one of our companies in Palm Beach in early February. I initially agreed. However, Babcock International (one of our largest holdings) then announced that was having an investor day at Devonport, Plymouth, in the south of England. If Babcock's investor day was in London, I would have skipped it and watched it online instead. However, management has promised to take investors to visit the company's **Royal Dockyard** facility.

I had a difficult choice to make between sunny Palm Beach and cold Devonport. Despite my preference for Florida sun, we have significant investments in US and European defense companies (over a quarter of our portfolio), and I have always wanted to see a naval shipyard. So I opted for the UK. As a bonus, I'll get to spend a few days with my friends in London.

Music Throughout My Life 2024

At the beginning of each year, I sit down and reflect on the year that closed, looking for lessons to be learned and opportunities for improvement. I plan out what I personally want to achieve and set goals for IMA.

One thing I do for no practical reason but for pure enjoyment is try to figure out which composer and which music had the most impact on me in the year that just passed.

This year I was the most impacted by… actually, I have a better idea – I'll go through the music that was important to me one year at a time in chronological order.

I must warn you, we are about to embark on a lengthy journey. I suggest you digest this very long list slowly. I'll specifically link each piece to only one of my favorite performances (that is a lot of fun, and pressure on yours truly).

I wrote the above in January 2021. I did not realize it at the time, but this started a new tradition. From now on, every January I'll be adding to and updating this list.

I don't remember the exact year, but it was circa 1982. I remember walking home with my father on a sunny Sunday afternoon. I was maybe nine years old. There was the sound of classical music coming from the fourth-floor window of our apartment building. Our neighbor was listening to music very loud. My father said with admiration, "She is listening to Liszt." This was the first time I had heard of Franz Liszt. I remember my father explaining to me the "z" in his name and that it was spelled differently from *list,* which in Russian means "leaf."

I do not remember the music, but I do remember a certain respect in my father's voice for the neighbor and her preference. As a child, you want to rise to the level of your parents. This little Sunday afternoon encounter started my incredible journey with classical music. I would like to believe that Franz Liszt's "**Liebestraum**" was the piece that our neighbor played on that fateful Sunday.

The early 1980s also belong to **Rachmaninoff's** *Piano Concerto No. 2* and **Tchaikovsky's** *Piano Concerto No. 1*. I feel like this music came to me with my mother's milk. This is what my parents listened to, and these pieces were probably my introduction to classical music. 1988 was the year of "**Barcelona**," a single released by Queen's Freddie Mercury and Spanish soprano Montserrat Caballe.

1989 was the year of Fritz Kreisler. My "American" aunt – my father's younger sister who immigrated to the US in 1979 – visited Russia for the first time since she'd left and brought me a Walkman and one tape – **Kreisler's "Liebesfreud**."

1991 was the year of *Carmen Suite*.

In the summer of 1991, I was 18 years old. My family was preparing to emigrate to the United States. I was sent to a summer camp on the Black Sea. A few weeks later, I was expelled from the camp. I only vaguely remember the reason, but I am pretty sure it had to do with my refusal to stay within the camp's borders, as well as probably drinking and breaking other rules.

When given a choice by camp administrators as to where I should be sent, I chose Saratov. My Aunt Natasha, my mother's sister and the closest person I had to a mother (my mom passed away when I was 11), lived in Saratov, a 400-year-old Russian city on the Volga River. My mother's side of the family had been evacuated to Saratov during World War II from Vitebsk, Belarus.

Though my father and mother lived in Murmansk, my mom was from Saratov and she wanted to be close to her parents when she gave birth to her children. So in the last few months of each pregnancy, she'd move to Saratov. A few months after our births, my brothers and I were taken home to Murmansk.

My grandparents did not own a crib, so it made no sense to buy one, as we were going to go back to Murmansk in a few months. Though my brothers and I were born six and ten years apart, each of us had spent the first few months of our lives in the same giant black suitcase.

When my own kids were born, I told my wife about this, hinting that we didn't need to spend our full paycheck on a crib. After all, my brothers and I had turned out okay, in spite of the suitcase. She questioned my judgment of my "okayness."

But I digress. Here I am, heading straight for Aunt Natasha, who unfortunately did not have a phone. When I suddenly appeared at her door, almost giving her a heart attack, she told me she was leaving on a four-week business trip in two hours.

I was supposed to spend my time in Saratov with her husband, Uncle Isaak. He and I were left to our own devices. Uncle Isaak was a programmer for a government factory that made something for the military. We had a strange but good relationship. He was an introvert's introvert. We could go days without exchanging more than a few necessary sentences. He would leave early in the morning to go to work and come back late in the evening.

I was in a city where I had no friends, but I was not alone; I was surrounded by books and music. Uncle Isaak was a collector of books. For decades, every day after work, he would stop by a bookstore and pick up a book or two. Their small apartment was transformed into a giant library; books were stacked everywhere. My aunt Natasha must have loved him dearly; I never heard her complain. They did not have any children, but books made Uncle Isaak happy.

Uncle Isaak made oatmeal (his signature dish) for me before he left for work. My aunt had a country house (dacha) where they grew zucchinis. For the four weeks my aunt was away on business, I ate zucchinis for lunch and dinner. They were only thing I had any idea how to cook. Today my cooking repertoire has extended to eggs.

I spent those warm summer days on the balcony reading books. Every few hours, I would take a break from reading and conduct along with my aunt and uncle's classical music records. The one that I fell in love with was *Carmen Suite*. Arranged for ballet by Soviet composer Rodion Shchedrin, *Carmen Suite* is based on George Bizet's opera *Carmen,* one of the most popular operas ever written.

From my perspective today, I must admit that I love the suite much more than the opera. The opera has half a dozen incredible melodies and arias, but it is filled with songs and dances that seem to me to be fillers that subtract, not add to the opera. The suite removes those fillers and just keeps the beautiful essence.

No, I did not have a score in front of me; nor could I read music. Now that I think about it, for me, then, conducting was a very mindful form of absorbing and internalizing music. I would close my eyes and imagine the orchestra arrayed before me. I listened intensely to the music and, as I got to know the piece, would assign each part of the melody to the appropriate instruments. Conducting, if you can call what I was doing conducting, gave me immense pleasure. I have told my kids that in my next life I want to be a conductor.

This was one the happiest summers of my life. It is amazing how little we need to be happy.

1992 belonged to **Rachmaninoff's** *Rhapsody on a Theme by Paganini*. Nicolo Paganini wrote 24 capriccios – short, technically challenging pieces composed for violin that tend to have less appeal for listeners than for performers. Rachmaninoff, in turn, created a musical masterpiece for piano and orchestra (think of this as Rachmaninoff's 5th concerto) based on Paganini's work – a piece that appeals to both listeners and performers.

I remember listening to it when I went on my first date in America. I'd been in the US only a few months; I didn't speak English and my date didn't speak Russian. It was an odd experience, but we listened to this piece together.

1993 was **Rossini's** *Stabat Mater*. By this time we had already immigrated to the US, and my "American" aunt's first present to our family when we arrived was a CD player and a Stabat Mater CD featuring Luciano Pavarotti.

1994 was the year of the Three Tenors – Luciano Pavarotti, Placido Domingo, and Jose Carreras. I first heard them perform at the opening of the **FIFA World Cup in 1990 in Rome**, but I was not ready for their music. However, their **1994 World Cup performance** in Los Angeles stuck with me. Their comradery, mutual admiration, and respect for each other comes through in spades in this **clip**.

1995 belongs to **Max Bruch's** *Violin Concerto No. 1*. Best Buy used to have a CD rack of $1.99 CDs where it sold recordings by Eastern European orchestras. My CD collection, which has since been donated to Goodwill thanks to Spotify, was dominated by those CDs.

This was also the year that Queen released their 15th and final album, *Made In Heaven,* recorded months before Freddie Mercury's death in 1991. The day Freddie died in November 1991 was one of the saddest days of my life; but this album, to me, was made in heaven.

1996 was the year for **Rachmaninoff** *Concerto No. 3* – it was the year when the movie *Shine* with came out, which featured this concerto. This concerto still holds a special place in my heart. I've listened to every performance I could find. Ironically, Rachmaninoff himself playing this concerto is my least favorite; it is too fast.

1997 belonged to two operas, **Puccini's** *Madam Butterfly* and . This was the year I fell in love with opera as a classical music genre. (I wrote about how I got into opera **here**.)

1998 was the year of *Warsaw Concerto,* **by Richard Addinsell**. He composed it for the British movie *Moonlight Serenade.* The director wanted to use Rachmaninoff's 2nd piano concerto but could not due to copyright restriction. The director commissioned Addinsell to write a concerto in Rachmaninoff's style, which is why this piece sounds so much like Rachmaninoff's 2nd and 3rd concertos.

In **1999** I was smitten by **Edward Grieg's** *Piano Concerto No. 1*. This was Rachmaninoff's favorite concerto. He adapted many parts of it in his own concertos.

2000 was the year of Chopin's **first** and **second** piano concertos. I was in the piano concertos phase of my life. (I go repeatedly through phases from piano to violin concertos to symphonies and then to operas.)

In **2001** it was time for **Eugene D'Albert's** *Piano Concerto No. 1* – D'Albert, born in Scotland, is arguably the most underrated composer of the 20th century.

In **2002** I was obsessed with Saint-Saens piano concertos, all of them. I had a two-CD set with **Pascal Roget performing them**. I listened to them nonstop. Now they all blend into one long piano concerto, and that is the way I like to listen to them – nonstop.

The first decade of the century somehow is a blur, except that 2005 was definitely the year of Oscar Peterson. He made jazz accessible to people like me. "**You Look Good to Me**" and "**Hymn to Freedom**" are the pieces that stand out from that year. But there is one more that is extra special to me: "**Just a Gigolo**." I drove Jonah to daycare – he was 4 – and that was "our" music that we listened to in the car. It was a decade mostly occupied by operas.

Pietro Mascagni composed 15 operas, but today he's known only for one: *Cavaleria Rusticana.* The overture to this opera was in *Raging Bull,* the Martin Scorsese movie starring Robert DeNiro. To this day **my favorite performance** is in a movie by Italian director Franco Zeffirelli, with Placido Domingo and Elena Obraztsova.

Pagliacci, by Ruggero Leoncavallo, is one of the most-performed operas today. Though Leoncavallo also wrote other music, during his lifetime and today he is known only for *Pagliacci*. Again, my **favorite performance** is in Franco Zeffirelli's movie with Placido Domingo.

Somewhere in that decade, I think it was 2006, I watched *Callas Forever,* a film about Maria Callas directed, you probably guessed it, by Franco Zeffirelli. Maria Callas was Greek-born, one of the most gifted sopranos of the 20th century. Zeffirelli and Callas were friends. This movie is a fictionalized story about Callas that is loosely based on Zeffirelli's interactions with the diva. It features music from Bizet's *Carmen.* My favorite aria in *Carmen* is "**La Fleur**" ("The Flower"). This was the first time I encountered the out-of-this-world "**Casta Diva**" aria from Bellini's *Norma*. And then there was Puccini's *Tosca.* My favorite aria from *Tosca* to this day is "**Te Deum**" – one of the darkest, most dramatic arias.

A little factoid. Callas, while married, had an affair with Aristotle Onassis, the Greek shipping magnate, who was also married. Later they both got divorced but never married one another. Later, Onassis married Jacqueline Kennedy (JFK's widow).

2011 was the year of **Tchaikovsky's** *Symphony No. 4* – I visited Australia and heard this symphony for the first time.

2012 was Tchaikovsky's again, as I was overwhelmed by his *Symphony No. 6,* his last.

In **2013** it was **Tchaikovsky's** *Evgeniy Onegin*. I went to see it with my then-12-year-old son Jonah at a movie theater, in a performance by Anna Netrebko and the Metropolitan Opera.

In **2014** it was Sibelius's turn, specifically his *Symphony No. 5.* I vividly remember when I first heard it: I was boarding a plane from Denver to Miami, and Spotify randomly started playing the finale of that symphony. I kept replaying that finale throughout the flight to Miami.

2015 was the year of Bach. Bach is the composer that you "arrive" to later in life (at least that was the case for me); his music lacks the drama that young souls seek. **Bach's** *Piano Concerto in D minor* is the concerto I turn to when I need to summon my writing muse.

My then-nine-year-old daughter, Hannah, and I sampled every performance of Bach's *Prelude in B Minor*. Early in the morning, before school, Hannah and I would go play tennis and listen to this prelude. Hannah called it "our song."

In **2016** there were two Franzs, Liszt and Schubert. They were complete opposites – shy, introverted Schubert and bigger-than-life showman Liszt. Schubert was incredibly underappreciated during his lifetime and died in poverty. Liszt was bigger than Elvis and Frank Sinatra combined in his day. **Schubert's** *Symphony No. 8* is the piece that I could not stop playing. **Liszt's** *Sonata in B Minor* is a symphony for one instrument – piano. And then there was a piece that unites both Franzs, Liszt's transcription of **Schubert's** *Wanderer Fantasy*.

2017 was the year for Tchaikovsky piano concertos – *Concerto No. 2* (especially part 2) and *Concerto Fantasia*.

2018 belongs to **Edward Grieg**, *Piano Concerto No. 2*, the concerto Grieg only sketched out but did not complete. And to **Joseph Haydn's** *Piano Concerto No. 11 in D minor* (part 3).

2019 went to another piano concerto, **Dmitry Shostakovich's** *Piano Concerto No. 2* (2nd movement).

In **2020** I turned to Antonin Dvorak. His *Cello Concerto in B minor* became my favorite cello concerto. Dvorak, a Czech composer, wrote this concerto in New York City in 1894. I'd argue it is more American than Dvorak's *New World Symphony* (which is supposed to be his "American" symphony). If you listen to it carefully, you'll hear Western melodies, with wagons moving over the prairie. The performance by Jacqueline Du Pre is near and dear to my heart.

Then in December 2020 I stumbled onto **Dvorak's** *Serenade for Strings*, which he composed in less than two weeks in May 1873. I listened to it nonstop for a month.

I cannot talk about *Serenade for Strings* and not mention another piece that also became a dear favorite of mine in 2020: **Tchaikovsky's** *Serenade for Strings*.

Fleshing out this list for you has spilled into an incredibly rewarding, nostalgic, and therapeutic experience for me. It has also made me realize yet again how important music has been to me throughout my life. It is the texture underlying and accompanying many experiences. Now I am wondering what music will define 2021 for me. All I can tell you is that it has started out with **Tchaikovsky's** *Piano Concerto No. 3*.

January 2022: I must correct an important omission I made in January 2021: For 2020 I forgot to mention another piece of music by Tchaikovsky, his *Souvenir de Florence*. This piece singlehandedly motivated me in August 2020 to embark on one of my most important creative journeys of the last decade, my book *Soul in the Game: The Art of a Meaningful Life* (**read more about it here**).

In **2021** I was smitten by Francis Poulenc (1899–1863), French composer and pianist. I accidently stumbled onto his beautiful *Piano Concerto in C sharp for Piano and Orchestra*. Interestingly, this concerto was commissioned by the Boston Symphony Orchestra to restore the relationship between the US and France after World War II. Poulenc composed it in 1949, and it was premiered in Boston on January 6, 1950. Critics did not fall in love with this concerto, nor were they fans of Poulenc. One of them wrote, "Certainly it isn't a concerto at all but a little picture of manners, done up by a minor master." Before you take their word for it, listen to the second movement of this concerto and you'll see why they are wrong and why I could not get enough of it.

Once I discovered Poulenc's piano, I moved on to his *Concerto for Two Pianos*. This is one of the jazziest concertos you'll ever listen to. The jazziness is often interrupted by romantic tenderness.

At the end of the of 2021 I was consumed by musicals. It all started with taking my family to see Steven Spielberg's remake of *West Side Story.* I was going to write about this musical, but that short journey spilled into a month-long trip down memory lane, from *Phantom of the Opera* to *Aida* (and half a dozen other musicals in between).

In **2022** my heart was stolen by two andantes, **"Andante"** from Robert Schumann's *Quartet for piano, violin, viola, and cello No. 47*, and **"Andante"** from Bach's *Organ Sonata No. 4.*

In **2023** I fell in love all over again with Rachmaninoff's *Symphony No. 2*, especially "Adagio," part 3 of the symphony.

JANUARY 16, 2024

Oberon – Carl Maria von Weber

Today, I'd like to share with you the overture from the opera "Oberon" by German composer Carl Maria von Weber (1786-1926). Weber lived a short life; he died at 40. In fact, he composed "Oberon" shortly before his death.

To listen to the music referred to in this article, please follow this link.

JANUARY 17, 2024

Lyrical Pieces by Edvard Grieg

In the next few musical notes, I will share lyrical pieces by Norwegian composer Edvard Grieg (1843-1907). Born in Bergen, Norway, Grieg lived during the time when Norway was under the rule of the United Kingdom of Sweden and Norway. These two kingdoms were governed by one monarch but were peacefully separated in 1905. Grieg wrote 66 short pieces, etudes, he called them – lyrical pieces. They were published in ten volumes (books). You can listen to all of them here:

Over the next few notes we are going to explore several of them, starting today with Opus 47 No. 3, "Melodie." I am going to share a variety of performances. Notice how they all sound different.

To listen to the music referred to in this article, please follow this link.

JANUARY 18, 2024

Lyrical Pieces by Edvard Grieg – “Arietta” (part 2)

Today we are going to continue our exploration of Edvard Grieg's lyrical pieces with Opus 12, No. 1, "Arietta."

To listen to the music referred to in this article, please follow this link.

JANUARY 25, 2024

Lyrical Pieces by Edvard Grieg – “Notturno” (part 3)

Today we will continue exploring Edvard Grieg’s lyrical pieces with Opus 54, No. 4, “Notturno.”

To listen to the music referred to in this article, please follow this link.

FEBRUARY 20, 2024

Rachmaninoff and Tchaikovsky

Rachmaninoff and Tchaikovsky are *my* composers. What I mean by "my" is that I connect to their music differently on an emotional level than to the music of any other composers. I don't like comparing composers – art is very subjective and deeply personal; it is shaped by our experiences. I don't know if it is their being Russian and my being born in Russia and spending the first 18 years of my life there, or is it simply that their music aligns better with my emotional frequencies?

When I learned that the Boulder Symphony was performing Rachmaninoff's *Piano Concerto No. 3* (colloquially called "Rach 3") and Tchaikovsky's *Symphony No. 5,* I felt that we had to go. I have listened to both pieces thousands of times. I was so obsessed with Rach 3 that I listened to it nonstop for months.

Classical music rarely sells out venues in Colorado. Unless a big star soloist is featured, I usually buy tickets last-minute. This strategy had never failed me… until it did. Boulder is an hour away from our house; so just in case, I went online a few hours before the performance to buy tickets. I was surprised to find that many people in Boulder apparently connect with Tchaikovsky and Rachmaninoff as strongly as I do (or perhaps Boulder was invaded by Russians) – the concert was sold out. But I was really excited about this concert – I had been telling my wife and daughters, Hannah (18) and Mia Sarah (10), about it for days.

I called my friend Devin Patrick Hughes, the music director and conductor of the Boulder Symphony and asked if he had better luck than me getting tickets. Devin said, "Vitaliy, it is completely sold out. But come, and we will figure something out." I said, "This is going to be interesting!"and we both laughed. (By the way, Devin interviewed me on his podcast – you can watch it here:

I told my wife and kids to prepare to stand for two hours.

When we arrived, we were greeted by Devin's assistant, who, to our surprise, walked us past the general seating area onto the stage! There were four folding chairs waiting for us right behind the cellos and basses. The audience could not see us, as we were separated by a black curtain, but we felt like we were part of the orchestra. These were the best seats I had ever had in my life!

But my excitement was not for myself but for my kids – I was happy for them to experience my favorite pieces while sitting on stage with the orchestra. It is hard to describe the joy I experienced seeing their faces light up with emotion as they experienced the music of *my* composers.

It is this kind of experiences that little by little has got my kids hooked on classical music. While I was traveling in Europe recently, Hannah called to tell me that she had been driving Mia Sarah to school and playing classical music in the car. In her words, "Dad, I was going you on Mia Sarah." Hannah is eight years older than Mia Sarah, and at this age they are almost a generation apart. If Hannah is passing her love for music to Mia Sarah, she will likely do the same thing with her own children. My work is done!

Today I am going to share with you the music of my composers that we heard at the concert:

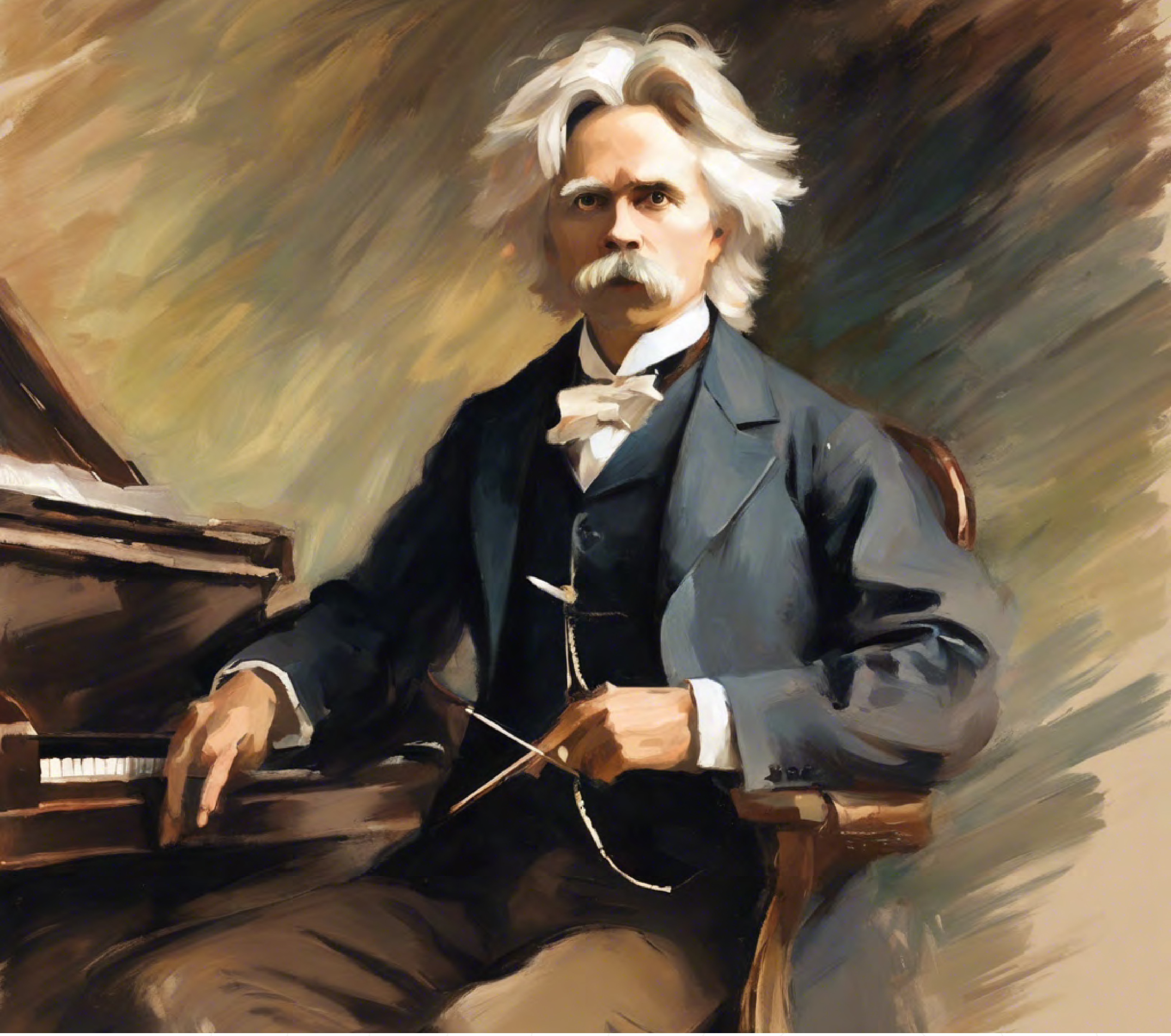
To listen to the music referred to in this article, please follow this link.

FEBRUARY 28, 2024

Lyrical Pieces by Edvard Grieg – “Ballade” (part 4)

Today we are going to continue our exploration of Edvard Grieg’s lyrical pieces with Opus 65, No. 5, “Ballade.”

To listen to the music referred to in this article, please follow this link.



March 6, 2024

Lyrical Pieces by Edvard Grieg – “At Your Feet” (part 5)

Today, let’s continue exploring Edvard Grieg’s lyrical pieces, with Opus 68, No. 3 – “At Your Feet.”

To listen to the music referred to in this article, please follow this link.

August 7, 2024

Hymne à L'Amour

Today we are going to take a rare detour from classical music into more popular music and explore "Hymne à L'Amour" ("Hymn to Love"), but I promise there is something for classical music and opera lovers. This detour was triggered by Celine Dion performing it at the opening of the Olympics in Paris. Russian culture was significantly influenced by French and Italian music, and I remember hearing this song when I was a child and falling in love with it.

The song has a tragic history.

Edith Piaf wrote it (lyrics) for her lover, French boxer Marcel Cerdan, in 1949. Their illicit love affair made huge headlines – Marcel was married and had three kids. Piaf first performed the song in New York City in September 1949. Cerdan died in a plane crash a month later; he was on his way to see Edith Piaf in NY.

My favorite performance is by Mireille Mathieu. I have to admit I had a small crush on Mireille as a child:

To listen to the music referred to in this article, please follow this link.

August 14, 2024

Pictures of Childhood

Today I wanted to share with you two wonderful short pieces from *Children's Album No. 1, "Pictures of Childhood,"* by Aram Khachaturian (1903–1978), a Soviet Armenian composer who was born in Tbilisi, Georgia.

"Andantino, Ivan Sings"

This is a very rare video, in which the composer plays his own music

To listen to the music referred to in this article, please follow this link.

August 22, 2024

Ballet Spartacus

Today we are going to continue exploration of music by Aram Khachaturian's "Adagio" from the ballet *Spartacus*. This is a deeply personal piece of music; it unearths emotions in me like only the music of Tchaikovsky and Rachmaninov can.

To listen to the music referred to in this article, please follow this link.

August 28, 2024

Masquerade Suite

Today we are going to continue our exploration of music by Aram Khachaturian with a waltz from the *Masquerade* suite.

To listen to the music referred to in this article, please follow this link.

August 30, 2024

Clara Schumann

Over the next few music notes, you and I are going on a journey through the music of Clara Schumann (1819-1896).

Clara was born into a family of musicians; her mother was a singer and her father was a piano teacher. She was a brilliant pianist in her own right. At age 16, she performed her own piano concerto, which she had begun composing at age 14.

Her father, a very popular piano teacher, had a student, Robert Schumann, who was nine years older than Clara. Clara and Robert fell in love and wanted to get married. However, her father, though very fond of Robert, had different plans for Clara and opposed the marriage, thinking it would derail Clara's music career. This turned into a very acrimonious and messy scandal, involving Clara suing her father for the right to marry Robert.

Clara and Robert got married and had eight children. Theirs was a marriage of love and professional collaboration. Robert, who wanted to be a pianist but whose professional career was derailed due to a hand injury, became a composer just like Clara.

Ten years into their marriage, Robert's health started to rapidly deteriorate. He began experiencing manic episodes and fell into depression. In 1854, about 14 years after they got married, he tried to commit suicide by jumping into a river. He committed himself to a psychiatric asylum shortly after, where he died two years later.

Clara had a very successful career as a piano soloist, performing for most of her life. Though her husband Robert is more famous today as a composer and was more prolific, Clara composed some wonderful music. We'll explore the music of both Schumanns over the next few music notes.

I cannot talk about the Schumanns without mentioning their relationship with Johannes Brahms. They met relatively unknown Brahms when he was only 20 years old, and the couple was smitten by his talent. Robert, excited by Johannes's potential, wrote about him in the newspaper, calling him "the next Beethoven."

Robert had good intentions when he did this, but it backfired. Brahms was stunned by the comparison and there ensued a 21-year symphonic composing block – it took him about 21 years to complete his first symphony (to be fair he did compose other music during these 21 years). He tried to compose something worthy of Beethoven. Brahms's first symphony was a great success, and it took him just about a decade to compose his other three symphonies. Both Schumanns became Brahm's mentors and friends.

There is a lot of evidence that Brahms was in love with Clara, and they remained friends throughout their lives. The music world, which lacks drama and romance, has engaged in a lot of speculation that after Robert's death this relationship was not platonic, but there is no evidence to support this claim.

We are going to start our exploration of Schumann's music with Clara's *Piano Concerto in A minor, Op. 7.*

To listen to the music referred to in this article, please follow this link.

September 3, 2024

Vivaldi's Concerto for Strings in G Minor

Today I am going to share with you "Vivaldi Variation", an excerpt from Italian composer Antonio Vivaldi's *Concerto for Strings in G Minor* arranged for piano by Florian Christl, a contemporary German composer.

Let's start with the excerpt from the actual Vivaldi concerto.

To listen to the music referred to in this article, please follow this link.

September 4, 2024

Clara's Scherzo No.2 in C Minor

Today we are going to continue our exploration into the music of Clara and Robert Schumann by listening to Clara's *Scherzo No.2 in C Minor*. A scherzo is a lively, playful piece of music.

To listen to the music referred to in this article, please follow this link.

September 6, 2024

Clara's Three Romances for violin and piano, Op. 22

Today we are going to continue our exploration into music of Clara and Robert Schumann by listening to Clara's *Three Romances for violin and piano, Op. 22:*

To listen to the music referred to in this article, please follow this link.

September 11, 2024

Siciliano

Today I am going to share with you a short piece, Johann Sebastian Bach's "Siciliano" from *Matthäus-Passion.* "Siciliano" has nothing to do with Sicily; it is a musical genre often included as a movement within larger pieces. (It was popular in the Baroque era.)

To listen to the music referred to in this article, please follow this link.

September 16, 2024

Edvard Grieg's Piano Concerto in B Minor

Today I am going to share with you an excerpt from Edvard Grieg's *Piano Concerto in B Minor.*

Edvard Grieg only completed (key word) one concerto during his life, the *Concerto in A Minor,* which is one of the most popular and most-performed concertos today. Sergei Rachmaninoff remarked that Grieg's A minor concerto was the best concerto ever written. It was initially considered an unimportant work but gained popularity in the 20th century, popularized by pianist Arthur Rubinstein. I'll share a few performances of the *A Minor* below.

Grieg also started work on another concerto, in B minor, but he never completed it and left only sketches and fragments behind. Norwegian composer Helge Evju assembled these fragments into a wonderful piece. I love this relatively unknown concerto.

To listen to the music referred to in this article, please follow this link.

September 19, 2024

Schumann Piano Concerto

Today we are going to continue our exploration into Clara and Robert Schumann's music by diving into music by Robert. I first heard Robert's piano concerto around the same time as **Edvard Grieg's piano concerto**, probably on the same CD.

Grieg was directly influenced by Robert's concerto; he had heard Clara perform it. Also, Grieg's teacher was a friend of Robert. Both concertos have this ongoing conversation between the piano and orchestra, a common theme in romantic piano concertos.

To listen to the music referred to in this article, please follow this link.

September 24, 2024

Victor Herbert's First Cello Concerto

Today we are going to explore a relatively unknown American composer, Victor Herbert (1859–1924). When I say American, he is American as I am American – he was born in Dublin.

His father passed away when he was two. His mother remarried and moved to Germany. Victor was a very talented cellist and became a successful cello soloist in Germany.

In 1886, his future wife, talented, well-known soprano Teresa Forster, was invited to perform by the Metropolitan Opera. She agreed on the condition that they would hire her future husband, Victor. The couple thereupon married and embarked for NYC.

Though Victor Herbert is relatively unknown today, he was very famous during his lifetime. In 1927, three years after his death, a **monument** was erected to him in Central Park. His contribution to American musicals is immeasurable, as he wrote music for 40 operettas (a hybrid between an opera and a play, where performers both talk and sing). He also wrote the first symphonic full score for a silent movie.

In addition to writing music for theater and silent movies, Herbert wrote two cello concertos. I want to share one of them with you today.

To listen to the music referred to in this article, please follow this link.

September 26, 2024

Robert Schumann's Piano Quartet in E-flat Major

Today in our exploration of music by Clara and Robert Schumann, I am going to share with you an excerpt from my favorite piece by Robert, his *Piano Quartet in E-flat Major.*

I find that I especially love adagios, and that is certainly the case here. "Adagio" is a direction in music to perform slowly and gracefully. I love slow and graceful music!

There are few pieces of music that make me believe in a superior being, something bigger than us (at least for a short period of time), and this is one of them.

To listen to the music referred to in this article, please follow this link.

September 27, 2024

Schumann Carnaval 'Chopin'

Today in our exploration of music by Clara and Robert Schumann, I am going to share with you “Chopin” from Robert’s *Carnaval*.

Imagine a party where each character is wearing a mask, and a musical piece is attempting to describe each character. My favorite is the one describing Frédéric Chopin.

To listen to the music referred to in this article, please follow this link.

October 23, 2024

Cello Concertos of Victor Herbert

Today we are going to continue exploring the cello concertos of Victor Herbert. **Last week** I introduced his first cello concerto, but I have to confess it is his second cello concerto I really wanted you to listen to.

I love the adagio (part 2) of this three-part concerto, which starts at minute 9:10. It has a Dvořák feel to it, but not for the reason you may think. This terrific concerto was the inspiration for Antonín Dvořák's cello concerto.

Yo Yo Ma performing both Dvorak's cello concerto and Herbert's *Cello Concerto No. 2*

To listen to the music referred to in this article, please follow this link.

October 30, 2024

Serenade for String Orchestra – Victor Herbert

Today I want to share with you *Serenade for String Orchestra,* by Victor Herbert. Critics critiqued (this is what they do) this piece as being not very emotional. I disagree, but I'll let you decide.

To listen to the music referred to in this article, please follow this link.

November 5, 2024

“Chiarina” from Robert’s Carnaval

Today in our **exploration of music by Clara and Robert Schumann**, I am going to share with you "Chiarina" from Robert's *Carnaval*.

Imagine a party where each character is wearing a mask, and a piece of music is attempting to describe each character. This one is describing Robert's future wife, Clara ("Chiarina" was Clara's nickname).

You can listen to the full piece here:

To listen to the music referred to in this article, please follow this link.

November 13, 2024

Robert's Symphony No. 3, "Rhenish"

Today in our **exploration of music by Clara and Robert Schumann,** we are going to explore Robert's *Symphony No. 3,* "Rhenish." He composed it between November 2th and December 9th of 1850, in a bit more than a month.

This symphony is inspired by the Rhineland, as Schumann had recently moved there with his family. The symphony was written in a happy period of Robert's life; it is very uplifting and full of optimism. As I listen to this symphony, it makes me both happy and sad. Happy because the music is very uplifting, sad because I realize these were the last happy years for Robert, as just a few years later, overcome by depression, he would try to commit suicide.

To listen to the music referred to in this article, please follow this link.

My Favorite Classical

Take a music break.

Did you know that I also write about classical music and share my favorite pieces in a separate newsletter?

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

Born in Russia, Made in America

AUGUST 30, 2024

Red October

> I spent my youth in Murmansk, a city in the northwest part of Russia, located right above the Arctic Circle. Fans of Tom Clancy's The Hunt for Red October may remember Murmansk as the home base for the submarine Red October.

I spent my youth in Murmansk, a city in the northwest part of Russia, located right above the Arctic Circle.

Murmansk owes its existence to its port. Thanks to the warming of the Gulf Stream, the port doesn't freeze during the long winters, providing unique access to Russia from the north. During the Cold War, Murmansk's coordinates must have been on the speed dial of the US military, as it is the headquarters of the Russian Northern Navy Fleet. Fans of Tom Clancy's *The Hunt for Red October* may remember Murmansk as the home base for the submarine Red October.

The winters are cold and dark; Murmansk makes Seattle look like a sunshine city. For six weeks every winter we lived without daylight. On those days during the winter when the sun would grace us with its presence, I still wouldn't see it. In the morning I'd be walking to school in complete darkness. The sun would come out for 30 minutes around noon while I was in class. I'd walk home in complete darkness.

The city was so desperate for sun in the winter that it even created a day celebrating the sun, called Hello Sun. All this sounds awful, I know. Especially for my kids, who have spent their whole lives in Denver, with its 300 days of sunshine a year. But I was born into that life. I embraced it and never really thought twice about it.

Though I never felt it, I can see now how my parents' life was very difficult. Murmansk is located so far north that the ground is permafrost – there is no vegetation to speak of. Most food had to be brought from other parts of the country. Murmansk had an abundance of fish (after all, it was a fishing port) and bread; that's about it.

When I was a teenager, a few years before we left for the US, Russian bureaucrats figured out that if you grind fish, you can feed it to chickens. Suddenly we had an abundance of chickens. Unfortunately, the chickens that were fed fish tasted like fish. When I moved to the US, I could not eat chicken for ten years.

There was no fruit in stores during winter. In September, my parents would pickle cabbage in giant jars that we kept on our windowsills so it wouldn't spoil. Pickled cabbage was one of our few sources of vitamins in winter. We'd also drink what was called "fish fat" (fish oil), an extract from cod liver that was our source of vitamins A and D.

Today when people look at me, at 5'10" (on a good hair day), standing next to my 19-year-old son Jonah, who is 6'3, they ask me why he's so tall. I explain that I grew up in a place that had no sun or vegetation; and thus my diet, in addition to lacking vital vitamin D, lacked all other vitamins, too. Then I add that if I had grown up in Denver I would have been 6'5" and blond.

My mother always worried about what we were going to eat. Store shelves went through different phases of emptiness. Every month we were given vouchers that allowed us to buy a few pounds of meat per family member – if the store had meat. Even when they had meat it was for a short time and we had to stand in long lines to get it. My parents never complained. It was our life and the life of everyone around us. I did not know any other way.

But my parents had known a different, gentler life. My father grew up in Moscow. Being Jewish in the 1950s was difficult in Russia. There was hidden (not in-your-face) anti-Semitism. My father aced math in high school, even tutored other kids in the subject. Yet when he applied to university, he somehow "failed" the math test.

I don't know whether, if he had applied to other universities, they would have accepted him, but the rebel in him decided to go study in a godforsaken place at a school that would accept him without even an entrance exam – Murmansk Marine Academy. They accepted anyone who was able to fog a mirror.

Late in the 1950s my father met my mother while visiting his relatives in Saratov, a beautiful 400-year-old Russian city on the Volga River. My mom was my father's distant relative (not blood-related). They fell in love, and she moved to Murmansk.

My mom must have loved my dad very much to move from the comfort of an intellectual life in Saratov (she played piano and violin and went to the symphony on a regular basis with her parents) to the hellhole that Murmansk was at the time.

It was better in the 1960s than it had been in the 1950s, but it was still a fishermen's town, where the only music you'd hear was the drunken sailors belting out bawdy seaman's chants as they stumbled through the streets.

My parents could have left Murmansk for Moscow or Saratov. But all their friends were in Murmansk and my father had a great job there that he loved. He was a gifted and much-loved professor. My father had taught most of the high brass who occupied positions of power throughout Murmansk, and thus if we needed something my father knew someone who knew someone. That was Soviet Russia: Every single company or organization was owned by the government, and to get anything you had to know someone.

That included simple things like my brother wanting to transfer to a different school, or my parents wanting a larger apartment for their growing family to live in. As I write this, I realize how weird this sounds. Welcome to socialism.

This "power" my father had was born completely out of love and respect. My father liked walking home from the Academy, which was two miles (this is where I got my love for walking). This 30-minute walk always turned into a two-hour walk and talk journey, as my father would always meet people he knew and stop and have a ten-minute conversation with each. I think he enjoyed being loved and respected by others. He is a warm, honest, well-rounded, nonjudgmental human being, and a great listener. People love that. I remember the admiration with which people looked at my father.

If we moved from Murmansk, he would have had to give that all up. My mom could never ask him to do that. I only understand now, almost 40 years later, how much my mom loved my dad – she shielded him completely from the difficulties of the outside world. She just let him be him – he taught and painted. Worrying about what we were going to eat was my mother's burden. Though this was a difficult life, we never starved. In fact, I didn't know anyone who went hungry.

My mom gave up a career for our family. She had a graduate degree in physics from the university in Saratov, but in Murmansk she took just a part-time job working at an institute that studied the northern lights. Her work and her own interests were always secondary to taking care of the family. She put my father, my brothers, and me at the center of her life. In her late 40s, she found a sliver of daylight in her day and joined a choir. That is the only thing I remember my mother doing for herself.

These two watercolors by my father show the view from our apartment windows in Murmansk during winter. He painted them in the late 1970s and early 1980s. Both paintings are now hanging in the IMA HQ. They depict what Murmansk looked like in wintertime, with snow piled on the ground until late April.

Additional thoughts:

As I reread the above, it sounds like my family had served a long prison sentence in Murmansk. Not at all. My parents taught me to find beauty in that life. Long winters were an excuse to play in the snow, tobogganing down the small hills Murmansk was full of. I am still nostalgic for walking during the dark polar nights on streets lit up by streetlights, feeling the freshness of cold air biting my cheeks, and hearing and feeling the crisp snow breaking under my feet.

On Sundays, my parents would take us skiing (what Americans call cross-country skiing). We would walk about a mile with our skis to the “sopki” (hills) and ski a few miles. I was lazy (still am), did not like carrying skis and poles for 30 minutes both ways, and never liked running (which is what cross-country skiing is, running on skis), but I loved spending time with my parents and my brothers.

Also, as a long-awaited reward for my “hard labor,” my father would always bring a thermos full of hot, sweet tea. It’s amazing how little I needed to be happy. Most importantly, I had unconditional, abundant parental love.

SEPTEMBER 6, 2024

Life takes a terrible turn

> My mother and my father were born a year a part. Both of their birthdays are in May. I remember May 1983 vividly. A few days before my father's 50th birthday, I was playing outside, holding a bottle that had a broken bottom. My friend hit the bottle, which flew right into my face, breaking…

My mother and my father were born a year a part. Both of their birthdays are in May. I remember May 1983 vividly. A few days before my father's 50th birthday, I was playing outside, holding a bottle that had a broken bottom. My friend hit the bottle, which flew right into my face, breaking the skin right under my right eye. I ran home with blood running down my face.

I remember Mom's calm face when she saw her youngest child with a cut right next to his eye and covered in blood. I remember her calling the ambulance and calming me down. Miraculously, I did not lose my eye – the bottle had stopped just nanometers from the eyeball. I spent my father's 50th birthday in the hospital. I still have a scar under my left eye that you can see in cold weather.

A year later my family was not so lucky. On May 6, 1984 – a day after her birthday – Mom was hospitalized with an enormous headache. She was diagnosed with brain cancer. Knowing my mom, she had probably had the headache for weeks but hid it, not wanting to ruin her or my father's birthday celebrations.

A day after Mom was hospitalized my father took me to see her. That was the last time I saw the mother I had known.

Even at that time, as she was suffering enormously, I don't remember seeing any fear or self-pity in my mother. She could not bring herself to think about herself and, on that last day with her, I remember her quizzing my father about my brother Leo and giving instructions about what my brother Alex needed to do in school.

My father fought for her using everything he had. All his energy went towards saving her. He found and brought a neurosurgeon from Saint Petersburg, who promised the moon – full recovery.

When people of science see a loved one facing death, they'll cling to anything, even the empty promises of pseudoscience. I vaguely remember my father reading that water sent through a contraption that contained electricity and salt helped some people with cancer (or something along those lines). My father constructed that contraption and made that water for my mother.

Neither the surgery nor the contraption helped.

Murmansk's population leaves Murmansk in the summer months and goes south (not much different from New Yorkers moving to Florida in the winter, except that half of Murmansk emptied in the *summer)*. We needed as much warm weather and sunlight as we could get to warm our bones and store up heat for the coming winter. (That is how my mother jokingly explained it to me.) In those two or three summer months my family usually travelled to Moscow and Saratov to visit both sets of my grandparents, or visit other parts of the country.

Summer 1984 was different.

My brother Alex was 17 (he is six years older than me) and was sent to a resort in Tajikistan. My oldest brother, Leo, was 21 and a cadet at the Murmansk Marine Academy, so he stayed in Murmansk. My father stayed, of course, with my mom in Murmansk. In late May, my father gave me 15 rubles and a sack of sandwiches and put me on the train to Saint Petersburg.

It was a two-day journey. My father's friend met me at the Saint Petersburg station and drove me to a pioneer camp in Pushkino, a small town south of Saint Petersburg. Fifteen rubles was a lot of money for a 10-year-old kid (though I'd turn 11 in a few weeks). As weird as it may sound, the very first thing I bought with this money, at one of the train stops, was the darkly satirical anti-war novel, *The Good Soldier Švejk*. There was definitely something seriously wrong with me. I should have bought a toy instead.

I never thought I'd be one of those people who say, "When I was your age I…" and describe how hard their life was. But the thought of putting one of my kids on a train without a cell phone and location-tracking software on their iPhone, sharing a train car with complete strangers for two days, is unfathomable to me. They could do this and be absolutely fine with it. I would not be fine.

A month later, my father's friend picked me up from the camp and put me on the train to Moscow. In Moscow I was greeted by my brother Alex. I spent the rest of the summer with grandparents in Moscow and Saratov.

When we arrived in Murmansk in late August, I did not recognize my mom. In fact, the mother I knew was gone. My mother was a beautiful, vibrant, smiling woman with brown hair. Now there was a woman in our house with a short buzz cut and grey hair, who looked nothing like my mom. I did not understand how all her hair could turn gray in two months – only years later did I learn that she had colored her hair brown.

The surgery did not go well. The cancer kept growing. Mom did not recognize anyone but my dad. She called him Papa. She spent most of her time in bed and could barely speak. She spent a few more weeks in our apartment but had to be hospitalized as she got worse.

Looking back at my 11-year-old self, I am shocked by how clueless I was. My mother was dying, and I was going about my life as though nothing had happened. In fact, I remember enjoying my newfound freedom – my mother was not there to mother me, and my father was busy taking care of her.

That guilt for leading a normal life while my mother was in the hospital hooked up to an IV still haunts me to this day. But psychologists would opine that this was a self-preservation mechanism that allowed an 11-year-old to cope with his mother's dying. It was too devastating for me to process, so I blocked it.

In early October, Mom's sister Natasha came from Saratov to stay with us.

The evening my Mom passed away I remember as vividly as if it was yesterday. I was home with Aunt Natasha. The hospital called and asked to speak with my aunt. She took the call in another room. Then she came out, hugged me, and told me that her sister, my mom, had passed away.

I still don't know why, but we went to the hospital. We were sitting in the lobby and my aunt was talking to administrators. I was sitting by myself. Someone asked me a question, and for the first and the only time in my life I found that I could not verbalize the words in my head. I remember just giving the questioner a puzzled look.

Thirty something years later I realized that I never said goodbye to my mom. Not really. My mom, the woman I knew, died a day after her 50th birthday when she was hospitalized. I did not say goodbye to her; I did not know she was dying. A woman with a buzz cut and grey hair that did not even look like my mother is the woman that died.

(1974 in Saratov. I am in the stroller. My oldest brother Leo is on the left. Older brother Alex – whose paintings you see often in my emails – is on the right. My Mom is pushing the stroller).

(Summer 1983: Probably the last picture I have with my mom in it. We are at Pioneer summer camp on the Black Sea, where both of my parents taught art. The boy is yours truly.)

Additional thoughts:

Though the above section was excerpted from ***Soul in the Game***, I did not initially write it for the book.

Let me tell you how it came about.

In late 2019, I started to have some light anxiety – it was a new feeling for me. Everything in my life was going right, but the better things were getting, the more anxious I felt. I am not sure anxiety is the right way to describe that feeling; I felt internal discomfort.

I went to see a psychologist. After a few sessions, she told me that I have a deeply embedded fear of losing what I have. I am still not sure if she was right or not. If she was right, I don't know if it was a fear of personal or of financial loss. My family was doing great. IMA was becoming an overnight success after eight years of my leadership. Maybe I had more to lose. Or maybe, I was saddened by my father's health. He had had a stroke a few years earlier and his health was getting progressively worse.

The psychologist said that it was possible that as a child I never got over my mom's death. She advised me to write about the years when I lost my mom. Reliving them would bring the needed closure, as I never really said goodbye to Mom, and that childhood fear of loss was buried deep inside of me.

I took a break from writing my usual articles, and every morning for a month I worked on this section. It was a deeply emotional experience. I wrote for myself; I was not going to publish it. It felt too personal.

It is hard to explain the complexity and contradictory nature of the emotions I experienced during those writing sessions – pain collided with joy, sadness, happiness, warmth, chilling coldness – I experienced all of it. The psychologist was right; writing about it was liberating, and a month later I was my normal self.

Fast-forward a year, and as I was writing *Soul in the Game*, inadvertently (I am not in charge of the writing, my subconscious is; I just type) the book got more personal with every page, and so did my comfort level in sharing something I had never shared with anyone before.

SEPTEMBER 6, 2024

My Father

> “For months after my mom’s death, I was terrified of losing my father. I had nightmares about it. That fear of losing my dad was seared into my brain.

Stoic philosophers have a practice called negative visualization. You imagine you are going to lose something or somebody. There are two reasons to do this. First, it may make a loss less painful; and second, you’ll appreciate that thing or person. This is great advice for anyone.

The Roman Stoic philosopher Seneca wrote, “We should love all of our dear ones … but always with the thought that we have no promise that we may keep them forever – nay, no promise even that we may keep them for long.”

For months after my mom’s death, I was terrified of losing my father. I had nightmares about it. That fear of losing my dad was seared into my brain. Without knowing it, unintentionally and unwantedly, I was doing negative visualization.

I hate finding a silver lining in my mom’s death, but there was one. Losing my mother brought me closer to my father, not just in the months that followed her death but for decades, right up to the present. I lived with him until I got married in my late 20s. In my 30s and 40s I made sure to see him at least a few times a week. We’d go for morning walks. I stopped in for breakfast several times a week. A few times a year we’d go on trips, at first just the two of us (including to South Africa and Europe) and later with my kids. Our relationship is much deeper than just father and son; we are friends.

Imagining losing my father (negative visualization), right after I lost my mother, made me appreciate my father so much. My dad and I also got closer after Mom’s death because he had to come out of the academic bubble that Mom had allowed him to live in, instead of sharing parenting responsibility with her. I was his sole responsibility now. My brothers, who were both cadets at the Marine Academy, required a lot less care than me.

My father rose to the occasion of being a single parent. I was a light-hearted kid, but I was also lazy and lacked the ambition to study. My teachers decided I was not a good student, and I didn’t want to prove them wrong. My father had difficult material to work with, and he did the best he could. He also believed in me and always showed it, and eventually that belief paid off. (I am not congratulating myself here for lifetime achievements, but I have exceeded the very low bar I set for myself when I was a kid.)

When I face a difficult situation or when I evaluate my behaviour, I ask myself, what would my father do? My father is and always will be my role model. He is a role model not just of his intelligence, kindness, calmness, patience, and constant curiosity to learn, but for his bravery as well.

Our apartment in Russia was on the fifth floor. A family with eight children lived directly below us. My father jokingly called them the "garlics." All their kids, like garlic cloves, looked the same; we could never tell them apart.

One day when I was 13, I came home from school for lunch. On my way back to school, as I was coming down the stairs, I smelled smoke coming from the garlics' door. I rang the bell; I knocked; no one answered. I ran back upstairs and got a hammer, went back down, and started hitting the door, trying to open it. My father came down a minute after me, realized the situation, and quietly and decisively moved me aside. He told me to go to our apartment and call the fire department. He rammed the door open and walked into an apartment engulfed in fire. He went into every room and finally brought out two kids (five and seven years old). They were scared to come out from hiding under a blanket in their bedroom. If he had waited for the fire department, the kids could have burned to death or suffocated from the smoke.

At a school ceremony staged by the fire department, I was given a watch with the inscription, "For saving kids in a fire." I had done absolutely nothing other than be at the right place at the right time and call the fire department. My father, on the other hand, had risked his life.

That was 30-plus years ago. You won't see my father's medal anywhere in his house. (I don't think I've seen it in 30 years.) He never told this story to any of his friends. He is a person who is so comfortable with himself that he doesn't seek external approval and is thus naturally modest.

A few years later after Mom's death, my father married my stepmother, Feyga, whose son Igor is as close to me as my brothers are.

NOT MILITARY MATERIAL

Murmansk revolves around its port, and its academic institutions are geared toward producing a workforce for the fishing and merchant marine industries. It was always assumed that I'd attend either the Marine College or the Marine Academy. Both were semi-military schools where the students (cadets) had to reside in dormitories, wear navy uniforms, follow strict military-like rules, and take orders from navy officers (and ask no questions).

Russia had a draft army. It was not concerned about recruitment and thus treated its soldiers very poorly (an understatement). The pay was only high enough for soldiers to afford the postage to write home asking for money. Russian youth looked at serving in the Russian army as akin to a two-year prison sentence (at least when I was there; I have been told that has changed). Army avoidance in the late 1980s was not about fear of death, as the war in Afghanistan was over, but stemmed from the dread of losing years of one's youth and the dismay of humiliation, as the older soldiers commonly abused the younger ones. A very sane friend of mine entered a psychiatric institution and faked mental disease just to avoid serving in the army.

My father and both of my older brothers graduated from the Murmansk Marine Academy. My father taught at the academy for 27 years. Neither my brothers nor I had any dreams about being seamen. Quite to the contrary, Leo could have been a philosopher (now he is an engineer). Alex wanted to be anything but an electrical engineer (he is now a successful real estate broker in Denver and has gone back to his art roots and become a terrific artist too). Our choices were limited: Either attend one of these two semi-military schools or join the Red Army.

By the time I finished eighth grade (the equivalent of tenth grade in the US), the law had changed: Cadets from the Marine Academy lost their draft exemption, but college cadets were spared. I enrolled in the Marine College and dreaded every moment I spent there. I lived in an army-like barracks, and wore a navy uniform. I hated taking orders from commanding officers and had no interest in the subjects I studied, but the alternative was even worse. This is what you do when you have few choices; you take the least poisonous alternative.

MY AUNT IN SIBERIA

My father has two younger sisters. One lived all her life in Moscow, while the other moved with her family from Moscow to Siberia in 1979. For a long time, I wondered why my aunt and my cousins in Siberia never visited or called us. It seemed so uncharacteristic of our family, who were always very close. In the summer of 1988, my father finally told me that my aunt had not really moved to Siberia; she had emigrated to the United States of America. My immediate reaction was resentment. The first words out of my mouth were "traitor" and "spy."

It sounds a bit silly now, but you have to understand that I was a child of the Cold War. A couple of times a month my class walked to the movie theatre (this was before VCRs) and watched propaganda documentaries about decaying capitalistic America, infested with the homeless, where black people were lynched, the poor were exploited by the rich, and people were poisoned by hamburgers (later, of course, I learned that the part about hamburgers was not a complete lie).

Russian movies showed Americans as evildoers, usually spies whose single goal in life was to destroy Mother Russia – the whole country was brainwashed. When I was nine years old, I attended a Pioneer camp and went on a field trip. A foreign tourist, mesmerized by my smile and internal beauty (okay, that is just a wild guess), gave me bubble gum. My camp teacher, in horror, took it away, yelling that I was lucky to be alive, as it was probably poisoned.

My father was not at all surprised to hear the words “traitor” and “spy” come out of my mouth. He calmly explained that despite being well educated, his sister’s family had lived in poverty because they had faced the invisible anti-Semitic wall that is so often encountered by Jewish people in Russia.

He also explained that he hid the truth about my aunt’s whereabouts from us because the consequences of the truth leaking out to local authorities would have been dire. My mother and he could have lost their jobs, and my brothers and I would never be permitted to leave the borders of the country, which for (future) seamen would have been devastating. In fact, his sister who stayed behind was demoted due to my aunt’s departure for the United States; she was deemed guilty of betrayal by association.

Additional thoughts:

My father unfortunately never got to read *Soul in the Game*. In the summer of 2017, he had a series of strokes which chipped away at his health, first rapidly and then very slowly. By the time I started working on the book, he was physically alive but mentally almost gone.

He passed away on August 10, 2023. Shortly after his death, I wrote an essay, “**My Father – A Life Worth Living**,” examining his life. It was the most difficult essay I have ever written. It was hard for many reasons. I was overrun by emotions – I had just lost a parent, my mentor, my best friend. I wanted to write something worthy of him; I wanted his life to be an example for others, including my kids.

In the process of trying to influence others by his example, I myself changed. Something snapped inside of me.

Losing a parent changes you – it brings your own mortality to the forefront. But it was more than that. While examining his life I inadvertently charted the life I wanted to lead. The inescapable feeling of pride and admiration I experienced made me want to be more like him.

One of my favorite expressions is from Confucius: “We all have two lives; the second one begins when we realize that we only have one.” Writing that essay was the beginning of my second life.

One more thing: *Soul in the Game: The Art of a Meaningful Life* is available in **paper, digital, and audible formats**. If you would like to receive a signed copy, **donate to the following charities**.

SEPTEMBER 20, 2024

Second-class citizen

> “I was often made aware that there was something wrong with my being Jewish. Even as a little child, I often encountered a second-class-citizen attitude toward me.

Though my parents always tried to shield us from anti-Semitism, I was often made aware that there was something wrong with my being Jewish. Even as a little child, I often encountered a second-class-citizen attitude toward me.

“Nationality” was a mandatory line in Soviet passports and was a required disclosure on every application. When I was seven, my parents, hoping that I had a hidden music talent (I didn’t), signed me up for singing lessons. While filling out a standard application, the teacher asked me the usual questions: parents’ names, address, phone – and nationality. I vividly remember being filled with shame and staring at the ground as I said, “Jewish.”

Russia was not South Africa under apartheid; there was no formal discrimination against Jews or segregation. Though Stalin was going to send all Jews to the Far East, his timely death interrupted that endeavor. I’d be lying if I said that we constantly felt anti-Semitism in Russia; we did not. It sporadically touched parts of our lives, and some people were impacted more than others. Other than the anti-Semitism my father encountered in the 1950s when he applied to universities in Moscow, we were impacted even less by discrimination than most Jews were. Murmansk was a city of immigrants, a melting pot that somewhat came to life in the 1960s and 1970s.

But I always thought of being Jewish as a nationality. Until my late teens, I never related being Jewish with a religious identity. My parents and grandparents were not religious. The premise behind all organized religions was “debunked” by teachers in Soviet Russia from the first grade forward. I don’t think the “God doesn’t exist; it’s all a mass delusion” lecture was in the curriculum, but the message was consistently the same from all our teachers. My father said my teachers were just a product of their environment, and he was probably right.

Come to think of it, I did not know a single religious person of any religion. My parents had a lot of Jewish friends who for the most part were either teachers, scientists or doctors; and none of them were religious.

COMING TO AMERICA

After the glasnost ("transparency," "openness") reform of 1985, the decades of brainwashing were slowly supplanted by the truth. In the late 1980s few people could afford VCRs, but little VCR movie theaters were popping up in basements of apartment buildings everywhere, consisting of several TV sets hooked up to a VCR. Unlike state-owned theaters, they were not censored and had the freedom to choose their repertoire.

Picture and sound quality were terrible, as VHS tapes were copied dozens of times before they made it into a VCR. Movies were dubbed by one monotone voice that translated all characters. But none of that mattered; we were hungry for variety, and American cinema was it. After watching hundreds of these flicks, it became painfully obvious that America and capitalism were not so rotten after all. And despite what my camp teacher told me, Americans did not really have any intention of poisoning little kids.

But we were shocked to discover that Americans ate dogs. Okay, this needs an explanation.

As the relationship between Russia and the Western world started to thaw, Americans and Europeans started to send food to help Russians. I remember one day we got a box full of canned and packaged food. All this food looked new and exciting to us. It was so different from the food we were used to that it might as well have come from Mars.

There was a can that said, "Hot Dogs." My English was good enough to know the words *hot* and *dogs*. What you need to understand is that the term *hot dog* doesn't (or at least didn't) exist in Russian. There were sausages and there were links (thin sausages). We were shocked that Americans would kill dogs and then eat them hot.

In 1990, my "Siberian" aunt invited us to join her in the US. Just a few years earlier the possibility would have sounded absurd to us but, despite America's cruel eating habits, we decided to emigrate.

My father saw no future for us in Russia. So, on December 4, 1991, we found ourselves in New York City. We stayed there overnight and a day later we were in Denver. A new and in many ways harder (at least at first) life started, but we never regretted leaving Russia.

Our coming-to-America experience lacks the color and drama you might expect. Pan Am had oversold its coach class, so we got a free upgrade and flew first class from Moscow to New York. In 1991, the road for new immigrants from Russia had already been paved by the hundreds of thousands that came before us a few years earlier. At the airport we were greeted by my aunt and half a dozen friendly strangers (people from her synagogue), who brought us to a fully furnished apartment that my aunt and these strangers had prepared. The selflessness of these supposedly self-obsessed capitalists was shocking to all of us. With the help of my aunt, these strangers, and Jewish Family

Service (a terrific organization that helped a lot of Russian immigrants), we were able to get on our feet relatively quickly.

Another shock to us was that Denver looked nothing like New York or Los Angeles. It didn't have many skyscrapers; nor did it have palm trees. My image of America had been wrongly colored by Hollywood movies, which were usually set on the coasts, not in flyover country. We were also shocked at how underdressed Americans were (at least in Denver). Russians, just like Europeans, paid attention to how they dressed. Americans (unless they lived in NYC), not so much.

I had studied British English in school, though *studied* is an overstatement. This was raw memorization, with zero practical speaking experience. I soon discovered that my Queen's English was worthless. It was good enough to buy a pack of cigarettes, but beyond that I could barely understand anything. Americans spoke in full, run-together sentences, not in discrete words.

The lack of language did not stop me from looking for a job. My aunt taught me to say, "I'd like to fill out a job application." Armed with this important sentence, a winning smile, and a lack of fear, I knocked on the door of every business in a two-mile radius. (I later discovered that a few of them were strip clubs.) After a few months of knocking, I got a job at a health club folding towels and cleaning locker rooms.

TV was a great educational tool. In fact, the show *Married with Children* is responsible for a good portion of my day-to-day vocabulary, and for a while Al Bundy was my role model (not for too long, though).

My new American life was exciting – new friends, new country; everything was new.

My father and stepmother initially had a very different experience. The first few years must have been excruciating for them – they had a family to feed. My father could not teach, so he turned to painting. My stepmother was a doctor in Russia; she got a job doing housekeeping at a hotel. As you can imagine, it was a difficult and painful transition for her. My father, wonderful human being that he is, would come to the hotel late in the day, let her rest, and do the beds for her. To this day, when we stay at a hotel, my father makes sure we leave a big tip.

After a few years in the US, my father started to make a living selling his art, and my stepmother quit working and became his "business manager." She spoke English for both of them.

Additional thoughts:

The war in Ukraine and the October 7, 2023 massacre in Israel made me think about Russia, and about my being Jewish.

I used to look at the Soviet Union as a collection of fifteen republics, states if you like. Today I realize that it was a Russian empire. Russia was the preeminent republic (state) and all the others were just its vassals.

One feature of empires is that their core residents wear a mask of superiority over their vassals. There was also an unspoken caste system in the Soviet Union: The Slavs – Russians, Belarusians, and Ukrainians – were the super caste, and everyone else was not as good.

The farther away from Russia they were, the darker and more different their facial features were, the more pronounced their Russian accent was, the lower caste they were. Georgians, Armenians, and Tajiks were the lowest of the low. The part that still confuses me about this system is that Jews, who looked not that much different from Russians and did not have an accent, were still an underclass. Hatred of Jews – antisemitism – was a special category in this system.

The antisemitism could have made me weaker, but I think it has made me stronger. Jews were persecuted for centuries, but somehow they found the strength not to adopt a victim mentality but to have adversity make them stronger. Not being a victim but being a fighter and seeing antisemitism as just another mountain to climb (an obstacle to overcome), made them stronger. This is what antisemitism did for me.

Don't get me wrong; I think I am speaking for all Jews when I say this: We'd trade this character-building mountain to climb (the hatred towards us for holding different religious beliefs, for having longer noses, and for being of a "different race") for the boredom of a normal life.

There is a Kosher hotdog brand, "Hebrew National," which has a brilliant slogan: "We answer to a higher authority." It implies that because the company is kosher and follows additional Jewish laws when making this hotdog – rules imposed by God – the product is of a higher quality. The irony is that Hasidic (superreligious) Jews, for whom this brand is theoretically created, don't eat it as they don't believe it is kosher enough.

Recently I realized that this slogan had been an important subconscious motivator for me throughout my life. Not for religious reasons – as I have mentioned, I am agnostic. The "higher authority" here is the super-high standard set by my parents and grandparents – my ancestors.

I tried to rise up to be as good as them, to be worthy of them and their memory. As I look at my parents and grandparents I see they were people worthy of admiration – not just for their professional and intellectual achievements (though they had plenty), but for their character, the way they elevated their family, the attention they gave to their kids and the personal sacrifices they made for them, their prioritization of education, their constant curiosity about life and the world around them and their valuing of culture (books, music, science).

When I became a father, in addition to the backward-looking "answering to a higher authority," a forward-looking dimension was added. I realized I wanted to be worthy of my descendants, too. I want to be the example, the role model they follow. This elevated my "higher authority" accountability even further.

SEPTEMBER 27, 2024

Becoming an investor

> “Hallway conversations with Joe and Bill at PVG Asset Management sparked my love affair with investing. I knew I wanted to be an analyst.

When we first arrived, I was not a resident of Colorado and could not afford to pay out-of-state college tuition fees; so I found myself going to high school to learn English. This was quite a shock, considering that I had left Russia three months before my college graduation. I was the oldest kid in high school, but I didn't mind.

After I graduated, my American life followed the normal trajectory of that of an average, fresh-out-of-high-school kid. While enjoying the benefits of being single and living with my father and stepmother, I worked full-time and went to university.

After dating a half-dozen majors (and just two girlfriends) in my first few years of university, I was very fortunate to discover what I wanted to do (more accurately, what I love to do) – investing. That discovery, like most things in life, was serendipitous.

I got a job with a small investment firm in Golden, Colorado: PVG Asset Management. It was run by two wonderful human beings, Joe Pecoraro and Bill Rahmig. In the early 1990s PCs were fickle and PVG needed someone to constantly fix them. I never got formal training, but I tinkered with my own computer and became good at fixing software issues.

I knew little about fixing hardware. One day Joe asked me to replace a video card on the company's server. This was in the middle of the day. I'd have to ask everyone to stop working so I could shut down the server. I don't remember if it was out of laziness on my part or I really did not want to ask everyone to stop what they were doing. I made the brave (and very stupid) decision to install the video card on the running, fully powered server. I did not get electrocuted. I did however fry the server, including the hard drives and the data stored on them.

What came next was a shock to me. I expected to be fired or at least yelled at. Nothing of the sort. Joe made some jokes. Bill saw how upset I was and tried to make me feel better. They understood that it was an innocent (though idiotic) mistake.

Both Bill and Joe focused on solving the problem I had created. A new server was bought. An IT firm was called in. Data was restored from backup. A day later the firm was back in business. That was it. This incident, which cost a company half a year of my annual salary, was never brought up again. Thinking about it today, I realize that Joe and Bill set a standard for how I should behave as the CEO of IMA, when I find myself in similar situations: with respect, grace, calmness, and a little bit of humor.

Joe fell in love with my father's art (and he is still the largest collector of my father's paintings). Almost three decades later, we are still friends. In December 2017, out of nowhere, I received an incredibly kind email from Bill, congratulating me on "what I had turned into." Sadly, Bill passed away a month later from a freak case of pneumonia.

Back to the '90s. Hallway conversations with Joe and Bill sparked my love affair with investing. I stopped dating other majors and committed to a monogamous relationship with investing. A few years later, when I was done with school, I knew I wanted to be an analyst. Sadly, PVG did not need any. I started looking for another job.

I needed every advantage I could get. So, in addition to applying for jobs posted in newspapers, I pulled out the yellow pages and faxed my resume to every single investment firm in Colorado (this was before email).

As luck would have it, IMA – a money management firm tucked away in a leafy Denver suburb – received my fax even before the company posted a job for an analyst in the newspaper. I still remember that afternoon. I had just come home from school. My stepmother told me that "a very pleasant gentleman" had called me about a job opening. I called him back. His name was Mike Conn, founder and then-CEO of IMA. As I talked to Mike, I learned that IMA's office was only three blocks away. I offered to be there in ten minutes. Mike agreed.

What took place was not a traditional job interview but more a casual conversation. I instantly liked Mike. He had grown up on a farm near a town of 300 people in Iowa. He was the first in his family to go to college. But he did not just go to college, he graduated from Harvard.

He turned out to be full of interesting stories about history, books, movies, and his own adventures, which include race car driving and being a vent man (a crew member responsible for fueling a race car during pit stops) in the Indy 500 race. I have yet to meet a person who is better at talking to anyone about anything and not wanting anything from that other person, except a good conversation.

It helped that Mike knew Joe and Bill. He called them. They must not have mentioned the server incident. A week later I was hired.

Years later, Mike told me that I was the only person he interviewed. I am forever grateful to Mike for taking a chance on me in 1997. I had little investment experience. I had a heavy Russian accent (I had been "off the boat" for only six years), but Mike saw in me a burning love for investing and a desire to learn. Mike is my mentor, friend, and chess sparring partner (though he's been telling me that I have a Russian genetic advantage over him).

I've been with IMA ever since. IMA is the longest relationship I've ever had; it even predates my marriage. I started as an analyst, then gradually progressed to managing portfolios, and in 2014 I became CEO.

Additional thoughts:

There is luck and then there is created luck. If I had done what everyone else was doing – responding to ads in newspapers (this was before consumer internet) – I'd have been competing against more competent, more experienced, better-speaking candidates. Relentlessly faxing my resume to every investment firm in Colorado helped me create my own luck.

Getting a job at IMA was an incredibly lucky break. If I'm objective, I didn't deserve to get this job. Mike has a kind heart and had a soft spot for a budding immigrant. I was extremely lucky that I didn't have competition. I literally applied for the job before it was advertised.

I don't think I would have achieved what I have if I had worked anywhere else, especially if it was a large investment firm. I am not talking about wealth; I would probably have become wealthier much sooner as a portfolio manager at a large investment firm. (Later in my career, I had plenty of those offers, which I declined.)

I had the freedom and flexibility to discover myself as an investor and to create my own strategy, which is in large part based on the foundation Mike taught me, which spilled into my first book, ***Active Value Investing***.

Mike allowed and encouraged me to write. It may seem like a little thing; it was not. Robert Greene in *48 Laws of Power* talks about how outshining your master (boss) is usually not good for your career. Mike was not threatened by the spotlight that was turned on me. He always welcomed it and had a parental-like pride for it.

Today Mike is IMA's Chairman Emeritus, we are still dear friends, and I still have the pleasure of seeing him on a regular basis.

Here's a short video of Mike speaking to the IMA client dinner in 2023.

And one more thing.

After college, Jonah was looking for a job. He applied for jobs advertised on LinkedIn, jobs that literally had hundreds of applicants. I advised him to play a game he could win. It's hard to get a job when hundreds of candidates have more experience than you. It's much easier to get a job that hasn't been advertised yet. I told him he could still play the LinkedIn game, but he could also create a list of companies he wanted to work for and contact them directly. Who knows, maybe they were days away from posting a job on LinkedIn.

(My father and I at ***my*** graduation from CU Denver in 1997, around the time I got hired by IMA)

If you would like to receive a signed of *Soul in the Game: The Art of a Meaningful Life*, **donate to the following charities**.

SEPTEMBER 27, 2024

Made in America

> “In 2004, I started writing for TheStreet.com. At the time, TheStreet was an interesting experiment.

A few years after I joined IMA, I started teaching a graduate investment class at the University of Colorado in Denver. Though I enjoyed teaching, I “retired” after seven years, for two reasons: First, I absolutely hated giving out grades, especially bad grades. I suffer from “I want people to like me” syndrome. When I gave out a bad grade, I felt worse than the student receiving it. And second, I simply got bored. Teaching the same class over and over again loses its challenge after a few years.

Also, in 2004, I started writing for TheStreet.com. At the time, TheStreet was an interesting experiment. Unlike typical financial websites, where all content is written by career journalists, the bulk of TheStreet’s stuff was created by professional money managers opining on the markets, the economy, and stocks. TheStreet provided an audience and a safety net – editors.

I was new to writing but discovered that I really liked it. I wrote almost daily. Unlike teaching in a classroom, writing never bored me. Still doesn’t – I don’t let it bore me. If a subject stops pushing the boundaries of my knowledge or curiosity, I move on to the next one.

Though writing is something you can get better at with time, when I look objectively at that period, I see that my own opinion of my writing was improving much faster than the writing itself. Less than a year after I began writing, I had the audacity to submit an article to the *Financial Times,* one of the most respected publications in the Western Hemisphere. To my surprise they published it; and shockingly, they went on publishing my articles regularly.

One of the pieces I wrote for the *Financial Times* had a kernel of an idea that I thought would be interesting to explore more deeply. In late 2005 I approached John Wiley & Sons with a proposal to turn that idea into a book. Eighteen months later, ***Active Value Investing*** was born. I am so glad that I had that youthful arrogance then – I was punching far above my weight but didn’t have the self-awareness to know it. There is no way I’d be able to do that today.

Writing my first book cracked a small opening in the doors of other publishers, and I waltzed right through them. My articles started to appear in big publications – *Christian Science Monitor, Barron’s, Fortune* – and then I became a columnist for *Institutional Investor* magazine and won several prestigious (in very small circles) writing awards.

Somewhere in between writing for TheStreet.com and the *Financial Times,* I started emailing my articles to a few dozen friends and relatives. Let me be completely honest:

I was spamming them. They had not asked me to send them articles, but they were too kind to say so. Some, probably out of pity, even encouraged me.

Writing is an externalization of your internal conversation, and even as I type this I can hear myself talk. It is a conversation with someone, and for that someone I visualize my email readers, my friends and relatives. The fact that my initial email readers sometimes replied and commented on my articles made this visualization much easier. Even when I was writing a column for *Institutional Investor,* I was mentally writing to my email subscribers, not magazine readers. This way I was not writing to strangers but to friends and family, and thus I was less guarded, more honest, and could just be my casual, sarcastic self.

A few years after I started writing I found myself entering into the "There must be more to life than this" chapter of my life (to quote the immortal Freddie Mercury). It dawned on me there was more to life than just investing. But this was a glacial process, which started with my father's art. I love my father, and he is a phenomenal artist, so I started to include his paintings in my emails.

Then, a year or two later, I started to include classical music. One day I was working on an article and listening to music. I don't remember what piece it was, but I do remember that it moved me. I dashed off a few paragraphs about it, added a few links to YouTube, and appended it to my investment article email. Some people were indifferent to it and said nothing, but as I continued to do this, many people started to thank me for including classical music, as it rekindled their love for it.

The reaction to my father's art was very interesting. A year or two after I started including his paintings with my articles, there came a day when I forgot to insert a painting in the email.

To my surprise I got polite but still quite strident emails that said things along the lines of "Vitaliy, your articles are fine, but please don't send them without your father's paintings." In other words, my emails had turned into something akin to *Playboy* magazine – my readers were actually perusing them for the pictures, not the articles. (I learned from this experience. I do not want to get similar emails from readers of this book, so I included my father's art in it.)

My personal life morphed into my writing in a gradual way, too. Since I was still "just writing to friends and family," I started to share stories about my kids growing up, our trips together, my self-improvement journey, and nostalgic recollections of growing up in Russia. Over time, writing about life became as important (and at times more important) to me as writing about investing.

As I have mentioned in the Introduction, many readers told me that though they came for investment articles they stayed for my life articles, my father's paintings, and classical music. These responses kept me coming back to write about life. Readers wrote that my life (non-investment) articles made a difference in their lives. A few told me to stick to investing and shut up about my personal adventures. I tell them, in that case they can just pick and choose articles on Investor.fm .

I know that I've been the biggest beneficiary in this relationship. Writing about classical music has inspired me to learn more about it. As I write about my family and my life, I appreciate them more.

When I write about deeper subjects, the trip to the subconscious always leaves me recharged and newly curious. This writing journey has changed me. It has turned me from a one-dimensional value investor into a student of life; it has made me a better person. (I'll explore in greater detail what being a student of life means to me as we go along in the book.)

MADE IN AMERICA

I got married in my late 20s, and my wife Rachel and I have three wonderful kids – Jonah, Hannah, and Mia Sarah.

(My family in 2016. Jonah, Rachel, Mia Sarah, Hannah, and Vitaliy)

At times I wonder how my life would have turned out if we hadn't immigrated to the United States. Was I disadvantaged coming to this country when I was 18, hardly speaking a word of English? I have thought a lot about that. I think I had a disadvantage for maybe the first few years, especially when I applied for that first job at Taco Bell and couldn't understand a thing the hiring manager asked me (I did not get that job).

Once I learned English and acclimated to the culture, I had an unfair competitive advantage: I had a drive to succeed. A lot of immigrants have it, because they see the contrast between where they came from and what America has to offer. I am not sure if my kids will have this drive, and that is okay.

But I also had another competitive advantage – incredible parents. My most important job today is to be for my kids as good a parent as my parents were to me.

It took me a while to get used to Americans smiling all the time and not telling you what they really think. Russians are very direct. They do not do small talk, and they tell you what they think to your face. It took me years (and being fired a few times) to realize that a person smiling at me may not necessarily mean they are happy with me or my job performance.

I began to wonder whether I preferred Russian directness or American politeness. Then my brother Alex and I visited Russia for a week in 2008, and I felt like a fish out of water. People looked at my constantly smiling face with suspicion, obviously questioning my mental state. I, in turn, got tired of their directness very quickly.

I guess I was born in Russia but made for America.

Additional thoughts:

One of the most important lessons I have learned from my parents and from looking back at my life in the US is: Don't be a victim and don't have a victim attitude (mentality). This may sound like a little thing, but it's not – it's everything.

Happiness in life ensues from having and solving good problems, because they are a very important source of meaning.

When I was in high school, I worked at the Village Inn restaurant as a busboy on Fridays and Saturdays. My shift started at 8pm and ran through 4am. This was the only job I could get with my English. At midnight, as bars started to close down, the restaurant filled up with the post-bar crowd, craving pancakes. I remember feeling the pride of giving my paycheck and all my tips to my parents to help them pay for rent. I had no spending money. None.

Then fast-forward a few years. I was working almost fulltime and going to college, which is why it took me an extra year to finish my bachelor's degree.

Today I look at my travails as a poor immigrant with pride, and I would not trade them for anything.

When we hit an obstacle in life, which is just a matter of time, we have three choices: first, stop; second, keep going with a frown, hating every moment of it; and third, keep going with a smile on our face, fully embracing it.

Facing an obstacle with a frown or a smile is a choice! Stoic philosophers call it reframing. The "bad" weather is only "bad" if I label it that way. Stoics would also tell us that most things that happen to us in our lives are neutral; we just choose to label them as positive or negative.

I rarely stopped at obstacles, probably because the immigrant engine, once it was started by our moving to the US, kept on running, propelling me forward. But there were plenty of times when I kept going forward with plenty of negative emotions; I felt like it was something I had to do, a life that was imposed upon me rather than one I had chosen and thus wanted. I didn't know at the time that I was exhibiting a typical victim mentality.

If we are going to go through challenges anyway, we have an active choice to make: be miserable, resenting what we are doing while we're doing it, or embracing our fate. If we choose the latter, we'll have a better, happier life, and we'll go further with a smile on our face rather than a frown.

And one more thing: After ***Soul in the Game*** came out, I wrote six new chapters that are not in the book. If you'd like to read them, **follow these instructions**.

Soul in the Game is available in paper, digital, and audible formats. If you would like to receive a signed copy, **donate to the following charities**.

Soul in the Game - The Art of a Meanigful 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.

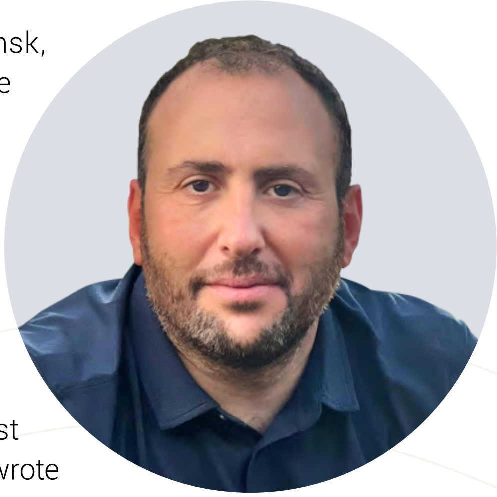
But as much as I am humbled by and thankful for their praise, when I was writing the book I was visualizing my regular reader – you. I wanted this book to touch you, to brighten your day, to improve your life, even if just a little. So I am particularly thrilled about the fact that this book has earned 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.

BUY SOUL IN THE GAME

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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