

# Evenlode Investment View

July 2017 - Summer Reading



Company results for the first half of 2017 are beginning to come out (approximately a third of the Evenlode portfolio has already released updates since the start of the month) and we are busy absorbing these statements and speaking to management teams. We have been encouraged by news from Evenlode holdings thus far, with good free cash flow development a key theme, and I will discuss the results season in more detail in my August investment view.

In the meantime, as summer holidays beckon, I've compiled a selection of the books that I've found useful and interesting over the last year and more. Wider reading is an important part of our research effort at Evenlode and I am often asked for book recommendations. We find books complement industry research, financial analysis, company reports, management meetings and newspapers/magazines/journals by providing a broader perspective and a historical framework.

Last year journalist Lucy Kellaway wrote a wry article on the edifice that has become known as the 'Summer Reading List'. As she put it *various themes emerge. The books must be varied. Mainly recent. A mixture of history, tech and biography is essential. A novel is OK, so long as it is obscure, difficult or literary enough.* With Kellaway's words ringing in my ears I've sharpened my pencil and had a go. Many of the books on my list are not particularly new and whilst there is a lot of tech and biography (and most of them are histories of some kind) there are no novels. I'm also afraid there's a bit of a bias towards North American male authors, but it's this demographic that's written the majority of investment and industrial books over the last few decades. I've limited myself to ten books organised around five loose themes and have chosen them based on their relevance to long-term business-perspective investment, but also - crucially - for their readability and brevity. I've included an appendix that suggests a few other books connected to each theme that nearly made my list, or which I've found very helpful but are too dry for a holiday and/or too thick to take in your hand luggage!

## **Theme 1: Business Biography**

### **Book 1: *The Everything Store: Jeff Bezos and The Age of Amazon***

Amazon has its disruptive finger in the pie of so many industries now. Brad Stone tells the story of the company's not always straightforward progress from its 1994 inception in Seattle. From day one, the intense Jeff Bezos has relentlessly focused on driving prices down for his customers, whilst simultaneously scanning the horizon for his next move into a new, unsuspecting industry.

### **Book 2: *In The Plex: How Google Thinks, Works and Shapes Our Lives***

As with Amazon, to appreciate the modern industrial landscape it helps a great deal to understand where Google has come from and where it might head next. Steven Levy tells the story of Larry Page and Sergey Brin's ascendancy as they utilise their unrivalled machine learning algorithms to 'organise the world's information' whilst 'doing no evil' along the way. With both Amazon and Google's story, it is interesting to observe the tensions that emerge (both internally and externally) as these upstart businesses become huge behemoths subject to competition from the latest wave of upstarts, criticism, regulatory interference, and all the other challenges that industry incumbents face.

### **Book 3: *Shoe Dog: A Memoir By The Creator of Nike***

Phil Knight's book, published last year, is a very readable, honest and funny account of his efforts to build one of the greatest global consumer brands to emerge in the second half of the 20th Century. It starts in 1962 when a consignment of Japanese track shoes arrives at Phil's parents house, and gathers momentum from there.

## **Theme 2: Innovation**

### **Book 4: *Elon Musk: How the Billionaire CEO of SpaceX and Tesla is Shaping our Future***

Musk is sometimes compared to the Marvel comic-book character Tony Stark and his life story, as told by Ashlee Vance, is indeed bordering on the unbelievable. South African born, he co-founded Paypal in the 1990s and has gone on to found both the electric car company Tesla and SpaceX (the company he hopes will ultimately help send humans to Mars). A softly-spoken, foul-mouthed, single-minded eccentric, Musk's story makes for a fascinating read and is an interesting perspective on one of the great 'disrupters' of the last twenty years.

## **Theme 3: Economics**

### **Book 5: *The Great Depression: A Diary***

Written in the 1930s by Benjamin Roth, a young lawyer in small-town America, this book is an inimitable account of what it felt like to live, work and invest through this period. While the economic backdrop of the post 2008/9 financial crisis has been *by no means* as extreme as the 1930s (the US economy, for instance, was cut in half between 1929 and 1932), it is hard to ignore the parallels.

### **Book 6: *Stuffocation: Living More with Less***

James Wallman has written a readable, refreshing take on the dematerialisation of the developed world economy, the shift towards more 'intangible' economic activities (services, experiences, the digital economy etc.) and away from the desire for and the consumption of 'stuff'. It's thought-provoking - even if you don't agree with all of it - and you'll want to declutter your house after reading this book!

## **Theme 4: Investment**

### **Book 7: *When Genius Failed: The Rise and Fall of Long-Term Capital Management***

A gripping account of the hedge fund (whose founders included two nobel prize winners) that brought financial markets to their knees during the Russian debt crisis in 1998. The story demonstrates what can happen when a combination of arrogance, huge quantities of leverage and an 'investing by spreadsheet' mentality collide. There will always be room for self-doubt, prudence and common sense in the world of investment!

### **Book 8: *One Up on Wall Street***

This is a book I find myself dipping into often, a very funny romp through Peter Lynch's business-perspective approach to investment. But a serious, sensible message underpins it and Lynch gives the reader an interesting window into the world of investment from the 1970s through to the early 1990s.

### **Book 9: *Where are the Customer's Yachts?: or A Good Hard Look at Wall Street***

Again, a book I return to often. A satire of Wall Street, and particularly its incessant habit of attempting to predict very short-term fluctuations in share prices and myriad other financial variables. Fred Schwed's book (one of Buffett's favourites) feels as relevant today as I'm sure it did when it was first released seventy five years ago - human nature doesn't change a great deal. Laugh-out-loud funny (or am I just a sad investment geek?)

## **Theme 5: Management and Stewardship**

### **Book 10: *The Outsiders: Eight Unconventional CEOs and Their Radically Rational Blueprint for Success***

William Thorndike's entertaining sketch of eight highly successful business leaders (including the legendary Henry Singleton who I have discussed in past investment views) is a great reminder that sound capital allocation, an owner-oriented alignment and a long-term mindset make for far more appropriate CEO material than a desire for world domination, a slick investor relations presentation and a sharp suit.

So that's my investment-perspective summer reading list. Take your pick, but please do take a novel on your holiday too! Enjoy the rest of your summer and I look forward to giving a detailed update on the Evenlode portfolio and recent results in my August investment view.

**Hugh Yarrow**  
**Fund Manager**  
**20th July 2017**

*Please note, these views represent the personal opinions of Hugh Yarrow as at 20th July 2017 and do not constitute investment advice.*

## **Appendix: Some Other Reading Suggestions:**

### **Theme 1: Industrial/Business Biography**

Other business biographies I've enjoyed in the technology space include *Steve Jobs: The Exclusive Biography*, *The Intel Trinity: How Robert Noyce, Gordon Moore, and Andy Grove Built the World's Most Important Company* (Michael Malone), *Who Says Elephants Can't Dance?: Leading a Great Enterprise through Dramatic Change* (Lou Gerstner's turnaround at IBM in the early 1990s). All of these books are as much a history of the software and personal computer industry as a history of any particular person or company. In the consumer branded goods sector, *Dream Big: How the Brazilian Trio behind 3G Capital - Jorge Paulo Lemann, Marcel Telles and Beto Sicupira - acquired Anheuser-Busch, Burger King and Heinz* is essential reading for anyone who wants to understand the current competitive landscape in the consumer branded goods industry, Kraft's recent bid for Unilever and the current fashion for 'Zero-Based Budgeting'. In the healthcare sector I have come across some very helpful industry histories including Alfred Chandler's *Shaping the Industrial Century: The Remarkable Story of the Evolution of the Modern Chemical and Pharmaceutical Industries* and James Le Fanu's *The Fall and Rise of Modern Medicine*. Perhaps my favourite though is Siddhartha Mukherjee's majestic (and long) *The Emperor of All Maladies: A Biography of Cancer*, which acts as a very helpful backdrop for understanding today's landscape of cancer therapy and where this discipline is now headed. Mukherjee's newer book, *The Gene: An Intimate History*, is more beach appropriate!

### **Theme 2: Innovation**

Whatever you think of Peter Thiel (who was brilliantly sent up as the character Peter Gregory in the HBO sit-com *Silicon Valley*) his book *Zero to One: Notes on Start Ups, or How to Build the Future* is something of a bible for Palo Alto's venture capital and start-up crowd, and therefore worth a read. Along similar lines, Randall Stross's book *The Launch Pad: Inside Y Combinator* tells the story of the start-up accelerator that gave birth to companies such as Dropbox and Airbnb. On the subject of artificial intelligence, *Homo Deus: A Brief History of Tomorrow* (Yuval Noah Harari), *The Singularity Is Near: When Humans Transcend Biology* (Ray Kurzweil), and *Superintelligence: Paths, Dangers, Strategies* (Nick Bostrom) all try to peer into the future of machine learning and the potential impact its development will have on society with interesting, differing conclusions. For a more historical view on innovation, Robert Gordon's book *The Rise and Fall of American*

*Growth: The U.S. Standard of Living since the Civil War* sketches out a remarkable century of innovation for the global economy between the 1870 and 1970, but has a somewhat pessimistic conclusion on society's ability to innovate in the recent past and the coming future. For a more optimistic take on this topic see for instance *Abundance: The Future Is Better Than You Think* (Peter Diamandis), *An Optimist's Tour of the Future* (Mark Stevenson) or *Rational Optimist: How Prosperity Evolves* (Matt Ridley).

### **Theme 3: Investment**

Many investor autobiographies and biographies give a good sense of what it would have 'felt' like to invest through a wide range of different stockmarket and economic environments. Some I have enjoyed include *There's Always Something to Do: The Peter Cundill Investment Approach* (Christopher Riso-Gill), *No Bull: My Life In and Out of Markets* (Michael Steinhart), *Reminiscences of a Stock Operator* (Edwin Lefevre), *The Snowball: Warren Buffett and the Business of Life* and *Poor Charlie's Almanack: The Wit and Wisdom of Charles T. Munger* (Kaufman and Wexler). Other good historical descriptions of financial history include JK Galbraith's classic *The Great Crash 1929* and John Brooks' atmospheric book *The Go-Go Years: The Drama and Crashing Finale of Wall Street's Bullish 60s*. In terms of investment-process books, as with Peter Lynch I often find myself turning back to Philip Fisher and his business perspective approach (*Common Stocks and Uncommon Profits and Other Writings*). I tend to recommend Pat Dorsey's introduction to Economic Moats (*The Little Book That Builds Wealth*) and Joel Greenblatt's *The Little Book That Beats The Market* to new Evenlode joiners/work experience students/interns as an introduction to our quality/value approach. Another book that influenced me very much in terms of his overall analysis of the investment and fund management world was Seth Klarman's book *Margin of Safety* (though I note it is out of print and only seems to be available currently for \$500 on Amazon!).

### **Theme 4: Economics**

As a counterpoint to *The Great Depression: A Diary*, Adam Ferguson's *When Money Dies: The Nightmare of Deficit Spending, Devaluation, and Hyperinflation in Weimar Germany* is equally fascinating. In terms of central banking and modern macro-economics, Mervyn King's *The Alchemy of Money* is very readable (though long) and perhaps somewhat surprisingly for an 'establishment figure', includes a well articulated plan for phasing out the fractional banking system over time. Though somewhat on the dry side, I'd also recommend Václav Smil (an interdisciplinary scientist) as an excellent, informative author who has tackled some of the big trends in science and global economics. I found his books *Making the Modern World: Materials and Dematerialization* (a good accompaniment to *Stuffocation*) and *Energy Transitions: History, Requirements, Prospects* particularly useful.

### **Theme 5: Management and Stewardship**

*The Puritan's Gift* is too long to recommend on this list, but is an interesting history of corporate management in America, from John Winthrop's puritanical Massachusetts Bay Colony to the modern day. The authors argue that - influenced by the puritan ethos of stewardship - strong long-termist management traditions built up in the US from the 17th century onwards and culminated in America's post-war 'great engine' companies. However, the author's argue, this desirable culture has been eroded, particularly since the 1970s as short-termism began to dominate. Whilst I feel there is a little too much 'rose-tinted spectacle' applied to the argument, it is an interesting perspective. Deborah Cadbury's *The Chocolate Wars*, which I discussed in last month's investment view, also serves up some lessons from past captains of industry. Other books I have found interesting on management and good stewardship include *Saving Capitalism From Short-Termism* (Alfred Rappaport), and *Other People's Money* (John Kay). I have also found Hermann Simon's book *Hidden Champions of the Twenty-First Century: The Success Strategies of Unknown World Market Leaders* a very useful guidebook for what sensible long-term strategy should look like. The Evenlode investable universe continues to contain many companies that fit Simon's bill: specialists that dominate their niche thanks to a focus on quality products, and a consistent approach to investing in the future.