3 Takeaways Podcast Transcript
Lynn Thoman
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Ep 40: How the World's Greatest Investors Win in Markets and Life: William Green

INTRO male voice: Welcome to The 3 Takeaways podcast, which features short memorable conversations with the world's best thinkers, business leaders, writers, politicians, scientists, and other newsmakers. Each episode ends with the three key takeaways that person has learned over their lives and their careers. And now your host and board member of schools at Harvard, Princeton and Columbia, Lynn Thoman.

Lynn Thoman: Hi, everyone, it's Lynn Thoman, welcome to another episode. Today, I'm excited to be here with William Green, he's the author of *Richer, Wiser, Happier: How the World's Greatest Investors Win in Markets and Life*. He has spent literally hundreds of hours interviewing the greatest investors in the world, such as Warren Buffett, and he has done interviews from LA to London, Omaha to Mumbai. Today, William is going to share what he's learned from these extraordinary investors about optimizing the chances of success in both investing and in life. I hope this wisdom will enlighten and enrich the lives of all of our listeners. William, thanks so much for our conversation today.

William Green: Thank you. It's lovely to be here with you.

LT: I really enjoyed *Richer, Wiser, Happier.* I was fascinated by all that these extraordinary investors had in common, both in investing and in how they live their lives. Let's start by talking about some of the common investing principles. All of the great investors invest by and live by an inner scorecard, and you describe how they don't care what the rest of the world does or thinks, and how many also insulate themselves from other opinions. Some live in remote locations, most avoid meetings and spend their time reading, and many live, in your words, in cocoons. Can you tell us about this?

WG: It's a great observation on your part. I think there's this small tribe of great investors who detach themselves from the hubbub of everything, and I use the phrase at one point "intentional disconnection," which is in a sense a technological thing, but it's also that they're not being bombarded with technology and constant technological inversions, but it goes much deeper than that. I think they're separating themselves from the crowd in so many ways and creating a kind of counter-cultural way of living, where as more of us become very short-term in everything we do, it's a tremendous advantage, I think, if you can be one of the people who withdraws from the crowd, withdraws from the noise and thinks more deeply.

WG: And there was a fascinating observation by a Canadian investor who I interviewed, a guy called François Rochon, who said to me that that most people have what he calls the tribal gene, where they find comfort within the herd, particularly in extreme moments, like moments of panic, moments of fear, or also moments of extreme exuberance, where the market is running away, everything's going higher, people naturally, I guess it's an evolutionary thing, that people seek comfort within the herd, safety in numbers. And his argument is that there's this small number of people who lack that tribal gene, and that people like [Warren] Buffett, his partner, [Charlie] Munger, Howard Marks, who I has been a guest on your podcast, who's a very dispassionate, very detached, very thoughtful, intellectual guy, they have no trouble stepping back from the crowd.

WG: And I think partly it's temperamental, but I think partly it's to do with their wiring, their emotional makeup. And I interviewed a guy called Chris Davis, who's from this really interesting family, three generations of legendary investors, both his father and his grandfather were legendary investors, and he said to me that it actually helps in many cases to be a great investor if you have low EQ [emotional intelligence], because he said if you're trying to resist what the crowd is doing, it's actually helpful if you're so emotionally obtuse in a sense that you don't actually know what other people are thinking, how they're feeling. And he painted this very interesting picture of his father as just this loner who was sitting quietly with a stack of annual reports and quarterly reports and the telephone and calling people and getting this informational advantage, and he said it was just a kind of lonely life.

WG: I think there is something idiosyncratic about some of the best investors, their wiring, their ability to detach from the crowd, their ability to think for themselves, their ability not to feel those emotions that many of us get swept up in, the exuberance, the fear, the panic. And so they can just be dispassionately calculating odds and thinking for themselves.

LT: Can you give some examples of some of these great investors and how they isolate themselves and cocoon them themselves?

WG: One of my favorite examples, partly because it's fairly obscure, and these people have never really spoken publicly before, is I write a chapter called Nick and Zach's Excellent Adventure, which is about these two very idiosyncratic partners in London who beat the market by something like 800 percentage points over 13 years, which is an astonishing feat, and then closed up their fund, returned all of the money to their shareholders and decided to spend the second half of their lives basically giving the money away in as long-term and helpful way as possible. And they set up their lives in this very unusual way. They were obsessed with Zen and the Art of Motorcycle Maintenance, the Pirsig book, which is all about quality, and the search for quality and living a life of quality, and they thought, well, okay, most people are obsessed with information that has what they call a short shelf life, and so they said, we're going to detach ourselves and just focus on things that have a long shelf life.

WG: And so they would do things, they would physically put their Bloomberg terminal on a short side table without a chair, so that it was physically uncomfortable to stay in front of this machine that was pumping short-term information at them. It was a really interesting symbol and metaphor of what they were doing, that they wanted to keep the candy of short-term information physically uncomfortable for them. But they did this in many ways, they never worked in Mayfair, for example, this hedge fund Mecca within London, they kept themselves physically apart from Wall Street, they refused to take sell-side research that brokers and brokerages were pumping out constantly, because it was all so short-term, and instead they basically stationed themselves in this beautiful airy office on the King's Road in London, above a Chinese herbal store, so it was just a place where they could sit and think and they were thinking about questions like what's the best business model of all.

WG: And then come up with this idea that basically, there's one business model that's better than everything else, which is this idea of scale economies shared, which is an idea that companies like Amazon and Costco embody, where you just keep pumping more and more value at your customer and it becomes this benevolent cycle, where the more you save them and the more convenience you give them, the more devoted they are to you, the more they spend, and then instead of pocketing those profits, you keep using them to share back with your customer, and they then keep shopping more with you, so it just builds loyalty.

WG: And so they were focusing on things like saying, what's the long-term destination for a company like Amazon or a company like Costco, and are they doing the inputs that are going to get them to that destination? And so everyone else was focusing on these short-term things like will this company beat analysts' expectations over the next 12 weeks, what are earnings going to be next year, and they're just thinking, is Amazon going to reach this magnificent destination in 10, 15, 20 years? And so here they are, they've owned Amazon now for maybe 16 years since it was about $30 a share, they've owned Costco for 18 years.

WG: So they've just set themselves up in a way that's extraordinarily counter-cultural, that's just focused on the long-term, and so in a way, it's a mindset that's very different than everyone else's, but they structured their environment to enable themselves to do this, they had very long-term shareholders, they have an office that was physically detached from where everyone else was, they rejected clients if they thought they were short-term, they made them sign a piece of paper saying that it was a minimum of five-year investment. And so I think it's a very powerful example for all of us that goes beyond investing.

WG: In a very short-term era where everything is about instant gratification, if you can set yourself up to focus on the long-term destination and the inputs to get you to a desirable long-term destination, it's such a powerful advantage in life and in markets.

LT: I was fascinated that you describe many of your investors doing something similar, physically isolating themselves, they did it in London, Warren Buffett does it in Idaho...

WG: Yeah, Omaha, yeah.

LT: Yeah, and many of them spend their days reading, doing individual research, like Warren Buffett and Howard Marks, and some of the great investors from India and other places that you interview. Essentially what they do is avoid meetings. None of them listen to CEOs talk about their businesses. They all cocoon themselves and form their own individual opinions and separate themselves from the herd. How are these great investors unlike other people? You talked about some of the ways that they're unlike other people, but for example, how are they unlike CEOs?

WG: This is something that Chris Davis, who I spoke about before, mentioned where he said CEOs tend to be great team players, they were the sort of people who were in charge of the fraternity, or they played hockey or football or something, and he said the best investors, they tended to be loaners. If they played sport, it was squash or tennis or something, it was a one-person game. And I think that part of the takeaway for me is that you just have to be honest with yourself about how you're wired and whether you're somebody who seeks comfort in the herd, or whether you are somebody who naturally is an outsider, is able to think for yourself.

WG: And I would say one of the things that they do that's very distinctive is that they're thinking constantly about probabilities. And so maybe a lot of us are thinking about, well, am I going to be accepted by the tribe? Am I going to be welcome here? Am I going to be admired? And these are guys who are just very calmly and dispassionately thinking about odds. I remember saying to Joel Greenblatt, who's one of the most legendary of the investors I interviewed, that it seems to me all of the great investors are just thinking in terms of probabilities constantly. And he said, yeah, I don't see there's any way that you can be a great investor without doing that.

WG: For example, there was one time where he made an enormous bet, where he put 40% of his assets on a single stock that everyone detested, and it was an extraordinary thing, where he said to me, "It was because I knew that I couldn't lose on it. It wasn't because of how much I could gain; it was because I knew that I couldn't lose because it was a company that the stock was trading at $4 a share, and I could see that they had $6 a share of assets, and then they also had this subsidiary that had all of this optionality where it could have been very valuable, but nobody realized that it had value." And so it was a beautiful example, I think, of the way these people think, where they're thinking in terms of there's limited downside here and massive upside.

WG: And I think that runs through their approach to not just investing but every area of life where they're constantly thinking, how do I avoid catastrophe. How do I avoid disaster? And as Greenblatt said, if you don't lose money, all of the other options are good. And so that ability always to think rationally about the downside and limiting the downside and to put the odds in your favor, it's a strangely rational and sensible way of thinking that I don't think comes naturally to someone like me, who's more of a regular person and doing everything ad hoc and slapdash and thinking, "Yeah, well, I think this is a good idea, but I'm not sure." They're much more rigorous thinkers about odds and probabilities.

LT: I was fascinated by that theme of making mispriced bets with minimal downside and significant upside and how the investors develop systems to do that. I was fascinated particularly by John Templeton's way of finding bargains. Can you tell us about that?

WG: [Sir John]Templeton, I write about at length, because I regard him, really, as probably the greatest international stock picker of the 20th century, and I spent a day with him in the Bahamas 20 or so years ago. And I write a lot about this extraordinary bet that he made during World War II, where he bought 104 stocks at the absolute bottom of the market, that were, they were all under a dollar, and 37 of them were actually in bankruptcy. And in some ways, it was a quintessential move of his, where he was able to look at the most bombed-out areas and buy at what he called the point of maximum pessimism. And many years later, during the Asian contagion, so around, I guess, 1997, he did much the same thing and he found this Korean fund, the Matthews Korea Fund, that was the single worst-performing fund of that period, I think it had gone down 65%, and Korea just seemed to be falling apart. And he would say, "Well, you want to look at the place that's had the worst returns over the last five years, and then you ask yourself is it a permanent condition or is it likely to change?"

WG: So he looked at Korea and he thinks, "Well, they have an amazing work ethic there, they have these big companies, they have a lot of growth, they've had this incredible miraculous transformation of the economy, but they've run into this liquidity crisis that's created temporary disruption." So he put something like $10 million of his own money in that Matthews Korea Fund, which then over the next year or so was the single best-performing fund out of something like 3000 funds in the US. So that kind of deeply rational ability to go against the crowd, I describe it in his case as the willingness to be lonely, just to look at the least loved assets and to ask, "Is this a permanent state, or is there something that's going to change?"

WG: One of the things that was an advantage for him, I would say, is that he was a very devout Christian, and he had this deep faith that the world gets better, so he said even in the worst of times, he never was despairing or depressed, remind yourself that the world tends to operate more like a pendulum, it's not going in one direction, it's swinging back and forth, not to get too complacent during the good times, but also not to become despairing during the bad times. And I would say most of these great investors are very good at exploiting other people's over-reaction, both in the good times and the bad times, so because everyone else is emotionally out of control during these extreme periods, if you're quietly calculating odds, valuing assets and being rational, it gives you this extraordinary ability to take advantage of the mispricings that occur in either these moments where everyone else is bullish and complacent or these periods where everyone else is despairing and panicking.

LT: I was fascinated that they all seem to turn cyclicality to their advantage by behaving counter-cyclically, always. Every single one of these extraordinary investors, they all seem to behave with humility, they all believe that we can't predict or control the future. Can you talk about that perspective of humility and what it means from an investing standpoint?

WG: In some ways, Howard Marks is a perfect embodiment of this. He often says, "I belong to the I don't know school." And it's fascinating that someone as clever as Howard comes from this stance of just saying, "Well, there's so much that I don't know, there's so much that I don't understand, I can't predict the future, but I need to position myself for the future." There's an inherent humility in that, where you're saying, I need to structure everything that I do so that I'm reducing my exposure to disastrous outcomes. Buffett talks about this, he talked after 9/11, he said that Berkshire had these huge losses after the terrorist attacks of 9/11 because they're huge insurers, and he said, "I made this mistake that we were focused on our experience rather than our exposure."

WG: And it's a very interesting idea that you want to think much more about how you're exposed to unseen events that can happen rather than your experience of the past where you think, well, yeah, New York hasn't been attacked before, so that's unlikely to happen, or we haven't had a really disastrous pandemic, usually they're more like SARS or avian flu, and so everyone always reacts and so we know that we shouldn't worry that much. That's judging things based on your experience rather than your exposure.

WG: And so I write about this at length in a chapter called The Resilient Investor, where I talk about just saying to yourself, well, so where am I my fragile both in my portfolio and in my life, because over time, those forms of fragility and frailty tend to get exposed, so in the short term, you can get away with any stupidity if you're lucky, but over time, that fragility becomes exposed. So I think it's helpful to go through both your portfolio and your life and look at these areas of fragility. And so in your portfolio, it may simply be, well, I have too much money with one fund or one investor or in one country, or in one asset class or in one area that's out-performed, and so it's made me think that it's going to continue to out-perform. For someone like Howard, he has this humility to say, let me not over-reach, let me not over-estimate my ability to predict the future. Let me just focus on things that are more knowable.

WG: And I think you can do the same thing in your life, you can say, well, where is my behavior creating fragility. Is it because I'm bad-tempered or unpleasant with my family? Is it because I'm too selfish? Is it because I'm not healthy enough? I over-eat and I don't exercise enough, and so I'm much more vulnerable to viruses or heart disease or whatever, because I'm just not taking care of myself. It's a very simple filter, I think, to say, where am I fragile, and then just to systematically reduce those fragilities while also being aware that you can't fully reduce them ever, you can't eliminate them. So there's an element of luck, but also there are these things that you can control just by sensible decisions. I think that's another thing that the great investors are doing constantly, is distinguishing between what they can control and what they can't.

WG: You can't control whether there's going to be a pandemic, you can't control whether the market's going to crash, but they're very focused on making choices that optimize the likelihood of a good outcome. And a big part of that is focusing very negatively on the things that can go wrong, focusing not so much on what can go right.

LT: All of the investors think so rationally and systematically, as you say, about all of these different factors such as avoiding catastrophe, and even Charlie Munger and Warren Buffet always kept at least $20 billion of cash simply out of humility, that they didn't know what could go wrong or might go wrong, and that they just wanted to make sure that they could weather almost anything. They applied this rationality and system thinking to their personal lives as well. Can you talk a little bit about how this sense of calculating and optimizing the odds of success pervades their whole life, how they manage their time, how they create an environment, who they spend time with, how they guard against biases and blind spots?

WG: In a way, my favorite example of this is the person I profile in the first chapter of the book, who's called Mohnish Pabrai, who's a very brilliant guy who basically decided in about 1994, I'm going to start reverse engineering Buffett and figuring out why the best player of this game wins, and then replicating, or as he calls it, closing, Buffett's habits. He set it up basically so he would be playing this 30-year game to turn a million dollars into a billion dollars by compounding at 26% a year, really without any original ideas at all. He's set his life up in a way that's remarkably similar to Buffett's in some ways, so he's been living in Irvine, California, he's about to move to Texas, but he's basically set himself up in a way where he doesn't meet with his shareholders except for once a year, because he doesn't really enjoy it very much, so he's living very much in a way that's aligned with who he is, which is very similar to Buffett.

WG: He doesn't do any marketing, he doesn't like, as he puts it, all of the mumbo jumbo of that. He doesn't take calls from potential investors who want to talk to him, because he's just not interested in that distraction, and so he's perfectly happy to sacrifice millions of dollars a year in fees not to live in that way of being a constant marketing machine, like Buffett, who keeps a totally empty diary, pretty much. It'll just say in Buffett's diary "Thursday haircut," and that's about it for the week. Mohnish Pabrai has a very empty schedule, he comes into the office at around 10:00 in the morning, his assistant brings him his emails around 11:00 and he scrawls a very quick note on the top of them, in a technique that he's cloned from Charlie Munger, and then he just spends most of the day reading, and then he'll take a guiltless nap in the afternoons, and he doesn't talk to CEOs because he thinks they're just too promotional, so he's just quietly sitting there reading and thinking, looking for a very occasional mispriced bet, and so it may be that that comes up once a year.

WG: He's really set himself up just in a way to think very quietly and to wait patiently for these occasional mispriced bets, there's a counter-cultural way to live, most of us are hyperactively trying to do lots of things, and here's a guy who explained to me, "My mind is just optimized for investing." In a sense, it's the willingness to go very deep and also narrow. Whiles everyone else is scattered, he's thinking about continuously learning, about investing in market, businesses, and then separating himself from the crowd and making a few occasional smart decisions.

WG: This ability to focus on things that have more depth, more longevity, a longer shelf life, as Nick Sleep would put it, it's a totally different way of thinking and approaching the world, and that's had a big impact on me, because I always felt guilty that I was not doing more, and for me actually seeing these people operate the way they do has made me actually want to reduce complexity massively, so that I can just concentrate on a few deep tasks.

WG: Nick Sleep said to me, "The quality is where all of the peace and satisfaction lies," and so in a sense, these people have created an ultimate lifestyle that's much more based on continuous learning and making occasional decisions that are likely to pay off in a disproportionate way, instead of frittering away your energy on lots of small things, which I think is how most of us spend all our lives.

LT: How are the best investors unlike other people in the way they think and live? You just described one way, which is extreme patience and almost inactivity and focus deeper on the important things. In what other ways are they unlike other people in the way they think and live?

WG: One of the best models for me that's been a guy called Tom Gayner, who I've written about, who very consciously thinks through a filter of compounding, not just of money, but in every way. That's something that I see in a lot of these investors, that they'll think about the benefits of things that compound over many years beyond money, and so he's thinking of habits that, as he put it, directionally correct, and that have enormous benefits over time. So they may seem very small in the short term, very minor, but over 10, 20, 30 years, the consistency of doing these small things right adds up.

WG: I write, strangely, about his diet, for example, and he was worried because he was a very sedentary guy, just sitting there calculating odds and looking at companies and the like. He said to me, he'd drifted up north of 200 pounds, and he was worried, and he decided, "I'm going to lose one pound a year over 10 years." Because most middle-aged men add one or two pounds a year, there's a tremendous advantage if you can get this small marginal benefit, this small marginal advantage that compounds over many years.

WG: And I think that's a really interesting way to look at both markets and life, that there's not this secret sauce, there are lots of little things that if you do them a little bit better and you keep improving and then you add them all together, they compound over time. I think that's a very distinctive approach that I've seen quite frequently with the great investors, this kind of rationality about habits that's so powerful, and that to me has been enormously helpful practically, because you're thinking, okay, I don't need to be optimal, I need to find things that are directionally correct, and then just keep plugging away.

WG: So for example, if I meditate a little bit, if say you meditate 12 minutes a day, something like that, 10 minutes, it seems like nothing on the day, but over two, three, four, five years, it does a hell of a lot for your equanimity. Tom Gayner said to me, for example, he said, "When I was young, I had the diet of a campground raccoon." So he said, "I used to eat maybe 200 donuts a year." He said, "Now I eat maybe 20 donuts a year." So he's not trying to be perfect, but in all of these different ways, he's trying to be directionally correct with sustainable habits that compound over time. That to me is a very practical lesson, a practical takeaway that explains how these people put the odds in their favor in many different ways, not just in investing, but in life.

WG: He said, "I never was number one at anything." But he said, "If you're just capable and sensible and you keep plugging away, at a certain point over 30 years, you become number one because everyone else falls by the wayside." And so for many of us, because we're so focused on the short-term, we don't think about the benefits of these habits, where the benefits really only become evident over decades, because they seem so small, the thing you're doing, it seems so minor, but add it to the other things and it becomes an overwhelming advantage over time.

LT: William, this has been fascinating. Before I ask for your three key takeaways, is there anything else you'd like to talk about that you haven't already discussed?

WG: I'd rather get to the takeaways, because I had such trouble limiting them to three, so maybe you'll give me a bonus takeaway. Who knows?

LT: Okay, what are the key takeaways you'd like to leave the audience with today?

WG: The first one really goes back to what we were talking about before, which is just that the future is unknowable, and so you have to have a deep respect for uncertainty and you have to position yourself to be resilient. There's a great investor I talk about called Matthew McLennan, who says you need to survive the dips. And so instead of trying to predict this uncertain future, you want to position yourself so that you'll first survive and second prosper pretty much regardless of what happens.

WG: Part of that is financial, that is, as Howard Marks would say, you want to live within your means if you want to avoid excessive debt, not overreach. Invest for the long term, so you just keep adding to the pot. But part of it is also psychological, which leads us to point number two, the second takeaway, which I think is something that I've seen from all of these great investors, which is the importance of gaining control over your inner landscape, over your mind. You need to develop habits, really, I would say, proactively that are going to promote resilience and equanimity.

WG: And I think you have to think very seriously about where you're going to get your strength during the inevitable periods where there are dips, where the sun isn't rising. The details are very personal how you do it, but I think you have to think very proactively and preemptively about how you're going to get through the inevitable difficult periods.

WG: And the third one is a very simple idea, because I think most of these ideas are extraordinarily simple, but as a Charlie Munger says about investing, it's simple, not easy. The third idea is what I describe in the book as the compounding of good will, and it's something that Tom Gayner practices, it's something that another well-known hedge manager, Guy Spier, who's a close friend of mine, practices, where they're constantly pumping out kindness and good will towards people, they're constantly doing favors for people, helping people. And it's a very interesting approach, because I think so many of us have been taught that you need to be hard edge, that you need to have sharp elbows to get ahead in a tough, rough and tumble, Darwinian corporate world.

WG: And here are these people who've taken a totally different approach, where they've basically, by, I would say, behaving very decently, they've surrounded themselves with extraordinary people.

They've drawn very talented people to themselves who are all looking out for them, they're all trying to help them. Charlie Munger talks about... There's a beautiful phrase that he uses where he talks about having a "seamless web of deserved trust," and I think that's a really powerful idea that by consciously deciding to behave decently, you actually get this peculiar competitive advantage.

WG: I think the ability to draw extraordinary people to you who behave decently and look out for you is such an overwhelming advantage in life, and it also just makes life so much happier, more joyful.

LT: Compounding of goodwill is such a lovely idea. William, thank you so much for our conversation today, and I highly recommend your book *Richer, Wiser, Happier.* It's a great read. Thank you.

WG: Thank you so much, Lynn, it's lovely chatting with you.

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