Greenlea Lane Founder Josh Tarasoff

Interviewed by MIT Investment Management Company's Joel Cohen

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Joel Cohen, Global Investor, MIT Investment Management Company: Welcome to my interview with Josh Tarasoff, founder of Greenlea Lane Capital based in Connecticut. I wanted to do this interview because I think Josh exemplifies an alternative approach to building a great stockpicking firm. This approach does not rely on large launch AUM, a long or traditional background in investing, or any of the bells and whistles that many people think investment firms require.

Josh launched with $2.3 million in assets under management, no employees, and no office, in 2006, and has done no proactive marketing. He remains the only investment professional today, and still has no formal office. Yet his partnership has been a great success, growing to over $450 million in AUM, primarily by compounding at 17.3% net of all fees and expenses since 2006. My goal in this interview is to tease out some insights about Josh's approach to building Greenlea Lane that emerging manager stockpickers – and others – may learn from.

Welcome, Josh! To start, can you give us some brief background on yourself before you started Greenlea Lane? How did you know when you were ready to start out on your own?

Josh Tarasoff, Founder and Portfolio Manager, Greenlea Lane Capital: Thanks, Joel. I worked at an investment bank as my first job out of college. Then I had an unsuccessful entrepreneurial journey in the non-profit world, but during that time I discovered value investing and was enthralled. Reading Buffett was a moment of clarity, and I knew value investing was what I wanted to do. Columbia Business School was my next stop. I loved the value investing program there and spent a lot of time doing my own extracurricular research on companies and investing my personal account. I bootstrapped Greenlea Lane immediately after graduating, moving into a cheap place with friends, working out of my bedroom, and investing my capital plus a small sum raised from friends and family.

There were a few conscious reasons for starting in spite of having no experience or resources. First, I thought that there would be a great advantage in avoiding what I perceived as common bureaucratic dysfunction in larger investment organizations and their unhealthy concern with marketing and asset gathering. Second, I intuitively sensed that tailoring an investment approach to my unique interests, abilities, and personality would be beneficial. And finally, I was just plain excited to start my own enterprise and thought it was better to set out earlier in life.

But to be honest, all this reasoning was only part of the story. There was a period of deliberation and considering of options, yes, but I didn't make the decision to start Greenlea Lane from some sort of optimization exercise or a belief that I was "ready." What actually happened was that the decision made itself. There was a moment (I remember it vividly; I was waiting in a restaurant for my girlfriend to meet me for dinner) when I just knew I was going to do it. It wasn't the kind of knowing that you can doubt or analyze.

This phenomenon of the decision making itself might seem like a detail, but over time I've realized it pointed to something crucial. The alignment I had with the adventure was complete, and although I didn't fully recognize it at the time, I've come to believe that that kind of pure alignment is by far the single greatest advantage you can have in building your own investment firm.

Joel: What would you say is Greenlea Lane's north star?

Josh: I want to be the best investor I can be, and I want my partners to benefit from what results. Being the best investor I can be involves channeling my love for the art in a way that is perfectly natural and unique to myself. I want Greenlea Lane to be uncompromising self expression, because that is how it can serve others in the best possible way. My partners want that too: I feel a personal connection with everyone invested in Greenlea Lane, and I know they all want me to keep being myself, rather than live up to some formula or standard of how things "should" be done. Greenlea Lane's reason for being is to play a role for its partners that nothing else can--not because it is "the best" or anything of the sort, but because it is completely itself and the right match.

Joel: What were the most important things you got right in building Greenlea Lane and getting it off the ground?

Josh: I think what I got most right was not changing my mindset just because I started managing other people's capital. During business school, I was already investing my own money in my spare time, and it was just part of my life. Then when I brought in limited partners, nothing really changed. That approach is powerful. As soon as you start down the slippery slope of doing things based on convention, you are diluting your independence and uniqueness, which is to say your reason for existing. Even the smallest things can start to bend you toward conformity. For example, renting an office or hiring an analyst can create an expense base that puts time pressure on raising capital, which affects your priorities, and so forth. I think there's great merit in radical simplicity as an approach to being an investor in public markets.

Joel: What would you say are some mistakes you made along the way?

Josh: One mistake that comes to mind is spending time with investors who were not the right fit. Being involved with poor matches drains a ton of energy and time. I'm lucky that none of these situations got me really off track, though I did have to return someone's capital—at the time, 10% of my tiny fund.

I suppose the question is *how* do you avoid getting involved in the wrong relationships. I don't have a silver bullet, but it's helpful to be unabashedly upfront about your idiosyncrasies, as well as about what you're looking for in partners. In my case, I was proactive in talking about an extreme long-term horizon, potential volatility, and the possibility of being down 50% next week. For a few years, I wrote about these topics in my letters ad nauseam. Having no office, no employees, and a long lockup automatically screened out a lot of potential investors, saving both sides a lot of effort. (It might be worth noting that at some point the lockup as screening device began to seem unnecessary. I eliminated it and am actually happier without it.)

Joel: It seems you were able to set Greenlea Lane up with a very low cost structure in order to be sustainable on low AUM. Can you share some details on your early bare bones budgets? What are some of the ways you saved money on operating and set-up expenses? What did you find you could do without?

Josh: I think the most useful thing I can say is that I just didn't think I needed anything new when I hung out my shingle. Yes, there were the legal startup costs and accounting and so forth. But I had no impulse to suddenly "professionalize" with the standard accoutrements. So there wasn't much of a budget, and I still think that was a good approach—at least for me and the kind of investing I was trying to do.

Something I'd note is that information and research services can be unhealthy for independent thinking. They try to influence you, win your attention, ingrain themselves in your process. That's just their nature because they are incentivized to be as important to you as possible. Because independent thinking is the name of the game in public market investing, I would urge caution to anyone thinking about adopting these services early in their journey. After you've developed your process and matured bit as an investor, I think it's easier to leverage more resources as a net benefit. Today, I use and love several services, but I'm glad I waited years before doing so.

Joel: How did you approach finding limited partners?

Josh: I never made marketing a priority. Marketing seemed to involve trying to appeal to people and concerning myself with what they think about me. It all seemed at odds with maintaining independence and creative freedom. Prospective investors can't help but tell you explicitly or implicitly what they need and what they prefer, and it's just so hard not to be influenced by that. One of many examples from my experience: in the early days it was common for prospective investors to want a small fund like mine to invest in small-cap stocks—why not take advantage of the flexibility afforded by our size? That reasoning made sense as far as it goes, but I simply wanted to own the best investments I could find. I know that owning large caps was a turnoff to many prospective investors, but I just wanted to do the right thing for my existing investors.

I was pretty extreme about not marketing and don't necessarily recommend that approach to others. There is probably a more moderate, more practical approach that might be better on average. So much of Greenlea Lane reaching scale was pure luck: meeting wonderful people, mostly avoiding unproductive relationships, having an amazing support network of family and friends. Everyone needs to find their own way.

Joel: What were some of the highs and lows from the journey?

Josh: The experiential highs are often the lightbulb moments, those breakthroughs of insight that you just know are moving you forward toward something great. My favorite of these moments (perhaps not shockingly) are those that lead to actionable investment opportunities! I still vividly recall what it was like for the conviction in our best investments to fall into place.

The reflective highs are the joys of being in the arena, in doing a good job, in seeing your efforts benefit your partners. It's that simple.

In terms of lows, it's honestly hard to generalize about them. I'm sure I have the full range of frustrations and so forth, but it tends not to bother me very much. I think it's in part my wiring and in part my meditation practice. Being too aversive or too reactive can lead to negative spiraling. Equanimity is worth deliberate cultivation.

Joel: Having run as a "one-person shop" since Greenlea Lane's founding, what insights can you share from this experience? What did you value in it?

Josh: It's an interesting question. I actually spent some time thinking about this and came up with a few different rational answers. But the truth is, I operated on my own because it felt automatic and natural to me – so much so that I can't imagine having done anything else!

Joel: That's actually a very interesting answer, because there really is no one right way to do this. So much of the game is figuring out what works for your own unique personality and set of circumstances, and being willing to run with it even when it seems unconventional. That seems like a good place to end. Thanks for your time, Josh.

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