

## Self driving

As a business school student before launching Greenlea Lane, I thought that long-term investing was a *decision*—an approach you can choose to adopt, and that's that. But after beginning to invest in the real world, I soon realized that nothing could be further from the truth: a long-term approach requires constant recommitment in the face of pressures stemming from both human nature and external influences. It's a *discipline*, I thought for a while—but soon became dissatisfied with that formulation as well. Discipline is effortful, and that didn't seem right. True long termism should be automatic—not something you *do* but something you *are*. And so, I came to think of true long termism as *a way of being*.

At the same time, I was noticing that investors are typically under intense time pressure to find new ideas. The math is simple: a portfolio with two dozen stocks and an average holding period of 2 years requires *one new, market-beating idea each month, without end*. And this example involves a relatively concentrated and low-turnover portfolio by the standards of the industry: most investors need to keep up an even faster pace. The necessity to be continuously on the verge of some great new idea sows an endemic hurriedness that can be seen on people's faces and heard in their voices. This struck me as unhealthy for decision making (and perhaps even unhealthy, period).

So I found myself wanting to pursue long termism as a way of being, and I found myself wanting to escape time pressure. The solution that arose is what I now call a *self-driving portfolio*: instead of having a finite time frame for my investments, I decided to have an infinite time frame. I approach each investment with a permanent attitude, hoping and expecting the company to shoulder the work of compounding itself, ideally allowing Greenlea Lane to own it forever. Of course, I know it will not always work out that way, but what is important is the approach going in. I call this approach *self-driving* because—though it might not be achievable in practice—the *ideal* is for the portfolio to take over all the work.

My experience has been that self driving confers several benefits. First, aspiring to an infinite horizon is a powerful lever for internalizing long termism as a way of being. By *internalizing*, I mean making an idea so much a part of yourself that applying it is no longer a conscious effort but instead happens automatically. Effort eventually should eat itself.

Second, a self-driving portfolio creates a virtuous cycle, in which less time pressure improves the quality of decisions, which strengthens the portfolio, which further reduces time pressure. The opposite is something to be avoided at all costs: a vicious cycle in which hurried decisions weaken the portfolio, which in turn increases time pressure.

Third, a self-driving portfolio allows me to be at my best during turbulent periods. With the portfolio more or less taking care of itself, I am relaxed and ideally able to make smart moves when exceptional opportunities arise. In this way, a self-driving portfolio can be antifragile. By contrast, if a stressful environment is the baseline, then it is more likely that added stress will produce poor decision making. Investing under time pressure lends itself to fragility.

Finally, self-driving investing is probably sustainable over a longer horizon than more time-sensitive approaches. How long can a person or an organization flourish in a daily pressure cooker? My hope is that self driving helps afford Greenlea Lane exceptional duration. Duration—the force multiplier of all that compounds—is underrated.

## Positive feedback loops

Sustainable long-term growth requires *positive feedback loops*. A positive feedback loop is when an increase in the quantity of something causes a further increase in the quantity of that thing. Perhaps the best-known positive feedback loop is a network effect: because the utility of the network increases directly as a function of the number of users, growth in the number of users causes further user growth. Another commonly cited positive feedback loop is scale economies shared: because the customer value proposition improves as sales volumes increase, growth in sales volumes causes further sales volume growth.

My point is not merely that positive feedback loops are good; it is that they are *necessary* for reliable and durable long-term growth. Growth that is not self-reinforcing is inherently tenuous. A company that grows without positive feedback loops becomes increasingly strained under the weight of complexity. The self-reinforcement provided by positive feedback loops is what makes growth sustainable.

When I first realized this with clarity, I began to look for feedback loops everywhere, and I found them. For example, restaurants are not typically associated with the common mental models for feedback loops, such as network effects or scale economies shared. Nonetheless, restaurant businesses can have positive feedback loops that fuel sustainable growth. One of my favorite restaurant businesses enjoys three (interrelated) positive feedback loops:

- Employee based: The company's growth and profitability enable it to attract the best employees and offer them above-average pay, extensive training, and career advancement opportunities; talented, happy, motivated employees improve the customer experience, which fuels the company's growth and profitability.
- Real-estate based: The company's success and reputation make it a tenant of choice, which helps secure desirable restaurant locations, which enhances the customer experience and the brand's stature, which drives the company's success and reputation.
- Goodwill based: Consumer goodwill manifests as visits and word-of-mouth marketing, which contribute to the two aforementioned feedback loops, all of which create more consumer goodwill.

Homing in on the important feedback loops can unlock valuable insights. For example, why is home delivery of large parcel items, such as furniture and appliances, so often a poor customer experience? After all, delivery is a key determinant of customer satisfaction, the most intimate touchpoint in retail, and an opportunity to generate incremental revenue from assembly or other services. The answer becomes clear if one focuses on the feedback loop (or absence of one). Last-mile delivery has long been performed by local third parties, which lack the incentive to maximize customer lifetime value. Consequently, some years ago I became interested in the fact that certain online retailers were bringing last-mile delivery in house, thus closing the feedback loops necessary to motivate and enable high quality service (while also building scale advantages based on route density).

An important benefit of understanding feedback loops is that one is guided toward dynamics instead of events. Observers tend to focus on discrete happenings, like earnings reports or executive changes or product announcements. But events can only be understood when properly contextualized within their overall dynamics. Failing to do so leads to

misinterpretations. One example is that a decrease in the pricing of a product or service is often mistaken for increasing competitive intensity, when it is actually a natural part of scale economies shared. Another example is that relatively high and/or increasing expense items are sometimes mistaken for deteriorating economics, when actually they are part of healthy feedback loops with suppliers, employees, or customers.

## Quality

I remember saying to a friend a long time ago, “Some companies have a soul, and others are just going through the motions.” In retrospect, this was an early intuition about *quality*. Quality is something I have come to prize and insist upon in Greenlea Lane investments. One way to define it is to say that quality is the deep realization that everyone is merely a tiny part of a vast, interconnected system. To flourish within that system, you must add value to the system. In a corporate context, I have found that quality manifests as a *mission-driven* culture.

A mission is an objective pursued for its own sake, which confers a sense of meaning and mastery for those who take part. When the animating force is love for a mission, value flows naturally. What mucks up the works is self-centeredness—a conscious or unconscious preoccupation with one’s own private world. Self-centeredness disrupts the flow of a system because a self-centered participant loses sight of how it fits into the whole and how to play its proper role. Quality companies think holistically and in time horizons long enough that any distinction between mission and value creation dissolves.

Quality is underappreciated. It cannot be modeled in Excel, it’s not on the balance sheet, nor does it make for an exciting investment pitch. Quality is not easy to pin down, because it often represents new ways of doing things that stretch or break old mental models. Investment ideas based on quality can be difficult for investment organizations to implement because deep appreciation of and conviction in quality is difficult to convey from one person to another. It seems common for quality to be dismissed in favor of so-called “structural” advantages—things like a brand or a switching cost. These are important, too, but the more I have seen, the more I’m convinced that the difference between great and merely good is *qualitative*.

I think of the highest quality companies as being in a class of their own: the 99th percentile is not 10% better than the 90th percentile but 10x better. Linear thinking and analysis—though they play an important role in building a full understanding—are insufficient for revealing superlative quality. A superlative company is best understood on its own terms, not by way of comparison or analogy. Because the best companies are so good, are so rare, and defy standardized methods of analysis, I suspect they remain undervalued for a long time—which brings me to a final point.

I have noticed that superlative companies positively surprise. They positively surprise outside observers, and they positively surprise themselves. These surprises come in many forms: invention, excellence, antifragility, longevity, and so forth. It is natural to assume that unplanned success should be chalked up to luck, but in the case of the best companies, I don’t think so. I believe that positive surprise is built into superlative quality—and *may even be its defining characteristic*. The best companies are improvising at the cutting edge of their systems, *wayfinding* in pursuit of something better. There is probably more to say about positive surprise and wayfinding—perhaps a topic for a future essay.

## Endgame

My investment theses are underpinned by what I call an *endgame*: a long-term state of affairs in which I have high conviction. The basis for this conviction is what I think of as *overwhelming logic*: forces that make too much sense not to prevail in the fullness of time.

An example: Years ago, I came to believe that because online retailing provides a superior customer experience at a lower cost structure than offline retailing, a majority of shopping should eventually move online. At the same time, because there are more advantages to scale and fewer reasons for market share fragmentation online than offline, the winners in online retail would eventually have significantly more sales than their offline counterparts in their heyday. Finally, because online retailers enjoy superior economic models, they should be worth greater multiples of sales than offline retailers. One online retailer stood out as having vastly stronger feedback loops than its competitors and as being exceptionally high quality. Greenlea Lane was able to invest because the valuation was such that the returns would be outstanding if the endgame were to play out as expected and decent even if it were not to.

Technological change is fertile ground for overwhelming logic, but it can also be found in a variety of other situations. For the restaurant business mentioned before, the overwhelming logic is based on the universal appeal of premiumization, combined with the absence of strong premium brands in that particular arena. I believe that alternative asset managers have outstanding potential, based on the overwhelming logic of being the most efficient mechanisms to match those who have capital in need of returns with those who need capital to accomplish business objectives. One of the companies I admire most is pioneering a product category that solves age-old problems simultaneously for *all* the involved parties—the world is unequivocally better off. How could this new category fail to find widespread adoption? I find the assurance afforded by an endgame to be an indispensable ballast in the face of challenges or setbacks.

Another reason I like endgames is that they tend to be undervalued. They are so far into the future—typically 10 years or more—that most market participants simply do not care. Even if they intellectually grasp the overwhelming logic, it simply might not matter to them. One kind of investment situation I'm fond of is when a company's best decade won't even begin for 5 years or more: the endgame is clear, but there is an immediate murkiness as the pieces fall into place. Instead of focusing on the far future, investors commonly try to construct a narrative or a series of events that will occur over the next few months, quarters, or years—what I call a *path*. People obsess over the path because they crave the comfort of a play-by-play understanding of how their investment will progress.

In reality, though, the path is rarely predictable with any degree of precision—not even by companies themselves, let alone by outside observers. Near-term events are subject to any number of influences: executional variability, the whims of the economy, even the weather! A few quarters or years is barely enough time for larger forces to begin working. By contrast, endgames can be predictable because they are so far into the future that feedback loops, quality, and overwhelming logic will have had plenty of time to play out. For me, long-term investing means letting go of the path's false comfort and embracing deeper currents.

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