Tobias Carlisle - A Modern Walter Schloss
The Business Brew

Tobias Carlisle is a well known author. He's written extensively about value investing. In our view, Deep Value is one of the best investment books ever written.

He is also the founder and managing director of Acquirers Funds, LLC. See acquirersfunds.com

We hope this interview answers some of the tougher questions people have for him regarding “value’s” underperformance. And, more importantly, we hope to introduce a really unique individual to the investing community.

We are grateful for his appearance on the pod.

[intro]

Bill: Welcome to The Business Brew. I'm your host, Bill Brewster, with my esteemed guest, Tobias Carlisle, this week, aka @*Greenbackd*. As a reminder, none of this is investment advice. This is the opinions of the two of us. Get your own advisor. We are not your fiduciary. But thanks for joining us along this road. Toby, how you doing?

Tobias: Hey, Bill. Good. Happy to be here. Happy to be chatting to you.

Bill: Yeah, we never do this. We're never on a podcast together. It's real weird, right?

Tobias: It's a new opportunity.

Bill: Yeah. Well, a little different format this time. Now I get to interview you. You interviewed me a while ago. Now, I get to hear all of the thoughts of the man that is known as @*Greenbackd*.

Tobias: Is it an interview, or, is it a conversation? We're having a podcast, a conversation?

Bill: Yeah, I guess, I like to--

Tobias: We're going for the Rogan back and forth where we're both just ill informed and just like, say whatever the fuck we want.

Bill: It could definitely become that, for sure. I guess that I like to think of them as interviews now that I control the conversation a little bit. I'm not on your platform for a change.

Tobias: Scary, man.

Bill: It is a little scary.

Tobias: [crosstalk] --sound like an asshole.

Bill: No. We'll keep you like you are. You may do a good job sounding like that on your own.

Tobias: Yeah, I can do that all by myself.

Bill: Man, a lot of people that I have talked to over the past week don't know how you became the face of value. I have listened to you on the Matt Cochrane podcast, that 7investing one, I think you did a pretty good job. Why don't you take people through how you got to where you're at?

Tobias: Yeah, I don't know exactly how I became the guy. I think value has worked so badly for so long that I've become the last man standing who's even prepared to call himself a value guy, because I say that to people, now they're like, “Oh, I'm not a value investor.” I'm not. I want to make that very clear from the outset. I'm just an investor. All intelligent investing is value invest. They get through that whole thing with it, like, “Don't tag me with value, because I don't want that anywhere near me.”

Bill: Then, I can't raise funds.

Tobias: Then, I can't raise any money. Yeah. Have a look at my track record. I've just been unapologetically value. To be honest, I don't think that I'm doing anything that is that different from almost everybody else. The only thing that I really do, I think, is that I have been more prepared to buy garbage businesses, but that hasn't worked out that well either. Historically, that hasn't been such a bad thing to do. But it's been a bad trade for probably five-- it really stopped working in 2018. It was working fine. It was cruising until end of 2017. There were bad years and good years. 2013 was a spectacular year. 2015 was a disaster. 2016 was a pretty good year. 2017 was okay, and then 2018 was just garbage, just going backwards when the market was going up. Then again, last year, and again this year, so it's been three--

For my style, which is I care less about really the quality of the business. I just want the balance sheet to be healthy, to have a business that has been functioning. It doesn't have to be a great business. It doesn't have to be growing and compounding. It just has to be not going backwards really, but even then, I don't mind. If it's cheap enough, it doesn't really bother me, but that's been a bad trade for three years. By virtue of the fact that clearly I wanted to own some of that headspace because I wrote a book called *Deep Value*, so I was trying to get that. I wanted to be that guy, then I probably top ticked *Deep Value*, that came out 2014. It's all sort of bumped sideways. I honestly don't know why, I think that probably just overvaluation in value, and that spread being very tight, which Jake Taylor, our cohost on the other one, he pointed that out in 2015. In real-time, he was like, “This is the worst opportunity set for value in 25 years.” I've said this a number of times, but I should have learned that lesson then when he said that which was value, I think, is quite cyclical.

I'll say this to guys, and I'll say, “No, no, no. Value is evergreen. Value is always going to work.” The idea, that you're buying something for less than it's worth that's evergreen, there's no question about that. Within that spectrum of values that you can find value with undervalued assets, you can find value with compounding businesses. But not all of those types of value work all the time at every stage in the cycle. The undervalued asset stuff, it probably does work better out of a rebound. The compound stuff tends to work better at the end of the cycle, just because the multiples tend to stretch a little bit at that point. I found myself in the deeper value end of that, which hasn't participated as much over the last three years. I don't really want to change because I do think that it's cyclical and I think it comes back, I think that you get better returns being deep evaluation. If you believe in the idea that you're buying, the less you pay for something, the better you're going to do, as a statement of logic, that's got to be true. “Hey, define the value.” That's open for debate. As a statement of logic, that's true.

If something's worth 30, and you pay 10 for it, you're going to do better than the guy who paid 24. Deep value is hunting around, and that's really beaten-up things, and trying to find the things that are worth 30 and trading at 10. I think that idea is always going to work, but there are going to be periods in the market where it doesn't. Clearly it doesn't. It's a little bit more cyclical than I realize. At the moment, I think the deep value bet is a pretty good one here. But as the cycle matures, this next cycle that we go through, I don't think that this one's necessarily over yet, either. I still think we-- you and I can have a pretty solid argument about what innings we're in here.

Bill: [laughs]

Tobias: I think we're closer to the tail end of one than we are at the beginning of another. We can get into that, I suppose.

Bill: You mentioned that you're willing to buy lower-quality businesses, but when I look at what you're holding, I would say that the growth aspect is questionable, but the actual business quality is quite a bit better than maybe I would perceive in a deep value strategy.

Tobias: Yeah, I do say that a little bit. I should be careful how I frame up what I talk about when I talk about what I'm trying to do. One of the great traps-- what has historically been a great trap is paying up for growth. I try to get as much-- I want balance straight. I want a bulletproof balance sheet, an impregnable balance sheet, like net cash on the balance sheet ideally. Then, a business that is throwing off cash at least, not necessarily growing. You can look at lots of businesses out there. eBay is a good example. You have a look at eBay, eBay is a very, very solid business that throws off an enormous amount of cash. If you look at how much they're paying out, they're clearly liquidating. They earned like $4 billion in free cash flow this year, they've paid out like 7. They've got a very small capital, basically. You do that Greenblatt return on capital type measure, it's massive, because they've got hardly anything in **[unintelligible [00:08:12]**, hardly anything in network capital. They've paid out 90% of their working capital, of that excess capital this year. They can't do that for very long because I think they had-- I can't remember the number exactly.

If they do it for one more year, they're basically going to have negative capital in that business. They're not going to do this one more time. That's the last time you're going to get-- it's flow element. But the business isn't going to shrink down much, I don't think from this. It's not like they need the capital. Yes, it's in there to grow the business. eBay is a pretty classic example, where it's old tech that the website’s pretty janky, nobody really goes there anymore. You can get other markets that you can go into, although it's still heaps and heaps of money, it's still growing. Not super-fast. That's the business that I like.

Another one is Value Line. I don't own Value Line and anything, I should be careful about saying this, but I don't hold it. I do hold eBay, I don’t hold Value Line. Value Line is one that I would buy if I had the opportunity. Value Line, similarly, basically doesn't grow, it takes no assets to run that business. If you have a look at, even though the top line itself doesn't grow, the underlying value of the business has grown pretty dramatically over the last four or five years. But to look at it, you wouldn't know that. It doesn't look like it's done anything particularly special. That's the kind of stuff that I'm looking at where it's like, I love the word crypto for secret, but it's crypto growth, it's like the top line is doing nothing. The bottom line and on a per-share basis, the value is exploding. People just don't realize because they're looking at the top line trying to find the growth there.

I remember when I wrote *Concentrated Investing*, we interviewed Glenn Greenberg, he was Brave Warrior and now he's Chieftain. The reason that they separated was because he wanted to buy higher growth businesses, and his business partners wanted to buy more of my style deeper value stuff. Now, he's been, I think, shown to be-- he's at the better performance since that time. They have struggled a little bit. As I was reading at the time, I was like it shouldn't make any difference to where you get your growth. I don't care whether it's top line or bottom line, but evidently it has made a difference over the last four or five years. I think some of that bottom-line growth has been ignored for only the top-line growth. I don't know why the market does these things.

Sometimes, you’ve got to move to where the market’s not. When the market is ignoring the bottom-line growth, that's where you want to focus, that's where you're going to get the bit of value. The market did this in 2015. Clearly, it wasn't valuing those FAANG stocks properly in 2015. It wasn't. When you looked at them, Microsoft-- Microsoft's the company. When you looked in the Morningstar style box, the P/Es across small, large growth, and value are all identical. That's clearly not right. You should be paying more for growth.

Bill: Yeah. Assuming it's economic, right?

Tobias: Assuming it's economic. As a general rule across those style boxes, you probably should be paying more, for the cohort you should be paying more for growth. Nobody was paying up for growth in that instance, that was a good opportunity to go and buy cheap growth. I don't know what the solution is. What Buffett I think is trying to do is to appropriately value the growth, which is tough to do. I think it's a trap for a lot of people to fall into. There are clearly guys out there who can do it. I think it's achievable. I'm going to try and do that a little bit more on the future. My style will change a little bit as we go through this, but I still think the opportunity right now is in deep value, I still think it's right where we are, right where I am anyway.

Bill: The idea of valuing growth right now and figuring out who's good at it, I find to be very difficult because--

Tobias: Which investors?

Bill: Yeah, that's right, because there are some people that are right for the right reasons. Then there's others that are just tagging along for the ride. Everybody that writes a letter is smart. If you're in the game and you're able to even have any assets under management, it means that somebody trusted you, if it's outside money. The probability that you're worth reading and have-- everybody is some measure of intelligent, and separating who's lucky from who's good right now, I find to be quite difficult. We know a lot of these guys.

Tobias: You can talk to people, and you can figure out-- what's your process. If your process is, the top line is just exploding, then I think you're probably going to run into a wall at some stage. If your process is adding this many subs, even taking a conservative approach at some stage, it gets over to fixed costs pretty substantially and then-- the subs are growing at this rate, you can forecast that rather than just like a naive DCF way just growing the top line, you're actually like working out what the drivers of the return are forecasting that out. Those guys are going to keep them doing really well, whatever they are. They might walk into an air pocket here and not understand why they're in an air pocket, given that they're doing all the same things. That's going to happen to a few people because that's what happened to deep value. You could be naively buying low multiple businesses and doing quite well, but you had to transition through this period, you needed to be working out what the drivers of that value were and how you're going to catalyze that value. I think value probably got appropriately punished for a lot of people between 2015 and 2018. It's been unfairly punished since about 2018, but we'll see. I think the deeper value will have a pretty good turn here at some point just because it's so compressed. I think I’m seeing some of it now in small and micro, it’s just exploiting. You don't need to be a value guy, it's small and micro at the moment. It's just exploiting, you just need to be in small and micro.

Bill: First of all, I fanboyed out over you when we met at that Berkshire meeting. The reason that I wanted to go meet you was the book, *Deep Value*. When I read that I was like, “Oh, man, this is the best book ever.” I still believe that. I think everyone should read that book. Do you think that writing that book at that time, maybe precluded you from seeing what the opportunity in growth was?

Tobias: Yes, 100%. It was right at the top of the cycle for that. I think that probably it flattered some of the results. If you do a backtest right now, you see the growth stuff is massively outperformed value. I'm not even talking about growthy value, I'm just taking pure growth is massively up and I think that it's now outperformed over the last 30 years. If you just to do a naive backtest on that, you'd say, “Well, shit, why would you ever be a value investor?” Growth is clearly the place to be, but really a lot of that return, the bulk of that return, it can be 60%, it's outperforming but 60%, which sounds like an astronomically large amount compounded over 30 years. It feels like there's no way that value can ever catch up. I've done backtests-- the backtested around 2014 with the other way around.

Bill: Huh. [crosstalk] Yeah, because that’s what I've been worried-- I said worried, it is what I've been a little bit worried for you like as a friend. When value gets this far behind, how does it catch up? The answer is the alligator jaws can close.

Tobias: That’s it.

Bill: You're making a pretty contrarian and pretty concentrated bet. As someone that roots for you, it's a little bit scary to be perfectly candid.

Tobias: I agree. This is almost a macro bet. It's almost a macro bet on value, rather than typical value. The process inside it is internally bottoms-up valuation of individual equities still arrive at a valuation, but I could clearly be doing different types of valuation on these things, I could be thinking about the growth more. I honestly do think that over the very long run, deep value will be the better-returning strategy. I think that from this point over the near term, over the next five years, or 10 years, it's the better-returning strategy. Having said that, I would also like to add more discretionary private equity style investment approaches. For one thing, it's more fun. I have a conversation every week with one smart value investor on my other podcast, and then you and Jake and I talk. I have lots of incoming through Twitter. There's so many phenomenal ideas out there that I just can't justify it through my existing vehicle because they just don't meet those criteria, but I can see that these things, with conservative assumptions on growth and various other things, like they are going to be just absolute blockbuster investments, they've got the right kind of managers, the right kind of business. The business is built in the right way to grow very rapidly or to make some sort of step change. I think Twitter's a classic example of that. Twitter is going to have this big step change sometime this year, or next year-- [crosstalk]

Bill: It's hard to think it's not. Obviously, people are going to say, “Well, it's super mismanaged.” That is the bear case against it, but if you believe in eyeballs driving mindshare and smart minds driving economics, it's pretty hard to see-- The only reason I am anything, which is admittedly a very small net in the world but is because of Twitter, it's all built on there and it's all free. That makes no sense.

Tobias: Here's the thing about Twitter. It's been run by a part-time CEO and everybody knows the initial story about Zuckerberg saying, “It's like the clown car that fell into a goldmine.” Facebook was super-hot for a while because it was exclusive. You needed to go to it. Maybe an IV to get into it, and then they open it up, that was really clever.

Bill: Yeah, that was really smart.

Tobias: The cohort that was using it got a little bit older and the kids didn't want to be on that same platform as the old, so they had their own platform, which was Instagram. Now, Instagram’s growing up. Instagram is probably the leading platform at the moment, but the kids don't want to be on Instagram because that's where older brothers and sisters and parents, so they've migrated to TikTok. Same thing is going to happen to TikTok. Twitter has never participated in anything like that. Twitter's never been cool. Twitter can't become uncool. Twitter’s super hard to use the first time you go on. You send a tweet, it just goes out into the ether. Nobody responds to it, you're just like, “What is this?”

Bill: [laughs]

Tobias: It takes a while to even figure out what it is that you're doing there, which makes it hard to get into. Once you're in there, and you realize that the power of it is, it's like the best news service you've ever seen. It's crazy how early something-- someone will get a police scanner, and retweet the police.

There's someone who's got a Twitter account that transcribes a police scanner. Then, there's somebody who follows that Twitter account, so something big will happen, and they'll retweet it. You see it seconds after it goes out on a police scanner. Four hours later, it comes up on CNN. The lag is just so huge, it's hilarious how much it's moved on. It's the best news source for just unfiltered news, or it was, I don't know if we have to see how this all goes.

Then, you've also got the best opinion and analysis. If I want to know what some smart value investor thinks about some of the news that just happened, they're literally just right there to ask or they're already talking about it. It's phenomenal from that perspective. Then, it's also a good marketing tool. For me, it's a great marketing tool for getting people to come into my business. I can see the power of the product. The business behind it has just been so shithouse for so long. [crosstalk]

Bill: [laughter]

Tobias: How can they ever just-- [crosstalk]

Bill: It really is.

Tobias: They're just stepping on their dicks all the time. It's amazing.

Bill: It makes no sense.

Tobias: As a non-tech, non-marketing guy, I could figure some of this stuff out. They haven't done it because they got a part-time CEO, and they just don't seem to be focused on the right stuff. But then, Elliott shows up, got to be the toughest hedge fund out there. Elliott, who takes control of South American nations-- [crosstalk]

Bill: Yeah, Argentinean ships, that was a serious move.

Tobias: That’s like high seas piracy if you get that one wrong, you’ve got to be careful there. It's a jail time if you get that wrong. It's a nation-state, you don't mess around with sovereigns you got to be careful of, but they did that.

Bill: What do you think they were thinking when they did that? That takes such balls to be like-- even if somebody in the firm pitches, well, we could take this ship that they love. I know who the guy is, but what's-- [crosstalk]

Tobias: You're first in the boat.

Bill: Yes, we're doing that, and who are we going to hire to do it? What a monster.

Tobias: It's like supervillain-type stuff.

Bill: Yeah.

Tobias: It's crazy. It's the boldest move. I've never heard of anything like it. There was a book around in the early 2000s about these activist investors taking control of a South American country's debt. They're taking over the country through the debt just as a gag. This is about as close as you could get to that without having to though. There was literally anybody who's read that book, like the term Banana Republic came from, I think the fish that ate the whale or something like that. The term, Banana Republic, came from the banana companies used to topple these democratically elected presidents, topple these democratic governments, so they could sell their bananas, and Vanderbilt did exactly the same thing, to get his Panama Canal built. They used to send guys down who would overthrow the government. That was their job.

[laughter]

Tobias: They had a great name, too. It's just escaping me right now. There's a biography of Vanderbilt that I read because he wanted to build-- to get from New York, steamships come in about 1815, 1825, something like that, the beginning of the Industrial Revolution in the States, to get from New York to San Francisco, you had to sail around the bottom of-- is it Cape of Good Hope? Cape Horn? Whatever the bottom of the South American continent, that's how you got there. It was a super, super long trip. The clue, you could get through the canal, the Panamanian Canal, but there was a **[unintelligible [00:24:20]** to be over land. It was treacherous, you could die going that way too. You couldn't get through the middle of America because you just be killed by the Indians in the middle of America. There was just no way to get there. It was clearly very important for them to get this done, so they dig the hole through the middle, but they weren't going to let some government stand in their way. They just sent some of their men down to overthrow the government.

Bill: I don't think I'd be very good at that game. This guy is too big of a pacifist.

Tobias: That's way too hardcore because [crosstalk] easier ways.

Bill: Yeah. I have been fortunate to be in a room when somebody that's knowledgeable was talking about, who is the scariest activist that you've ever met? This person has interviewed a lot of them, and they've said by far, Paul Singer. It's not even close. She's talking about the beasts of the game.

Tobias: Icahn.

Bill: Yeah.

Tobias: Got to be singular.

Bill: You look at how they go about their business, I wouldn't want to be on the other side of it.

Tobias: This is something I think about a lot. The problem for investors, like basically the only problem for investors is this-- It's a principal-agent problem, which they teach you very early on in law school or in business school. The idea is how do you get the agent who's the CEO of the company, or the management of the company, the board of the company to behave in the best interest of the principal, who's the shareholders. Now, if you solve that problem, you get a step change in value, which is why activism is such a powerful approach. You marry activism to deep value, all of a sudden, you're getting these blockbuster returns pretty consistently, regardless of which direction the market goes in.

I've been a fan of that style for a very long time. Until, basically, more recently, I've been thinking more about what Buffett does. I know it's boring for people to keep going on back to Buffett all the time, because he's so high profile, and he's been out there. For me, personally, the more time I spend investing, the better I understand investment process and investing. The better I realize that Buffett is-- how smart he is, how strategic he is, how perfectly well built he is for the thing that he does. His reputation is he's like a cuddly grandpa.

Bill: That's his reputation among people that have no idea.

Tobias: But he's cultivated that a little bit, too because he knows-- [crosstalk]

Bill: Yeah, for sure. That’s his marketing.

Tobias: -advantage. I've been talking to you guys about this a little bit. This is the book that I'm currently writing right now. I went and looked at-- so I've tried to read Sun Tzu's *Art of War* half a dozen times, and it's impenetrable. I've read, I don't know how many translations there are. There are at least seven translations and I've read four of them now. Each one, there's a lot of similarities. There's also a lot of differences because he's writing in ancient Chinese, which then has to be interpreted by-- there are translations that are 100 years old where they're translating into an English that doesn't really make a lot of sense now, even 100-year-old, whatever, they are a couple of 100 years old.

I've got the Thomas Cleary edition, which came out in 1988. There's another free edition online, the MIT edition, which is an older translation. They're very, very hard to understand, and it looks like when you're reading through a lot of, is it allegorical because it's a translation? Do you miss some of the allegory in the translation? Or is he never trying to be allegorical at all? He was literally just saying, this is what you should do. When you find yourself fighting on marshy land, get your back up against the trees. Well, that's awesome, man. That's really helpful. I can think of 10 applications for that in my day-to-day life.

Bill: [laughs] Dude, when I read that book like crazy, people are going to be like, “Why'd you cut them off?” The reasons because it's a conversation. Stop telling me. I was reading the *Art of War*, sorry, if the other side's listen to this podcast, but also thanks for listening. I was in a lawsuit over a house. We were going to buy a home, and my wife was eight months pregnant at the time, three weeks before this house is going to get closed on, an oak falls on the house. An oak, 100-year-old big ass tree. I'm not talking about a shrub, falls on the house crushes this laundry room that they had, and hit the rest of the house. This crazy woman says to me, “Yeah, we're going to get it fixed in three weeks.” I was like, “I don't give a shit what you fix. This is material damage. I'm out. I am not buying this house.” I got a baby on the road. I'm not trying to live in a construction site. There's just no way.

They tried to force me to close on the house and they wouldn't give me the escrow money back, and I was like, “Oh, we're going to court for sure.” I'm not litigious, but I went to law school, my wife was an attorney. I mean, if you're not going to fight then, when are you ever going to fight? I remember I was trying to get her a little bit riled up with some of my stuff. I was reading Sun Tzu and--

Tobias: [crosstalk] -trying to get her angry?

Bill: Yeah, man.

Tobias: [laughs]

Bill: I do think it worked. Ultimately, the guy called me and he's like, “I'm thinking that I'll give you 20% of your money back and we keep 80%.” I was like, “I'm thinking that's not what’s going to happen.”

Tobias: 20% discount on the house is what I'm thinking.

Bill: Yeah, well, I ended up going to a judge. I sat in front of the judge. I was like, “Just take a look at these pictures and tell me,” because it was a pre-settlement, or a pre-trial settlement conference. I was like, “Look, man, I'll settle this, I get what it's going to cost me to go through this. But if he thinks for a second that he's the one that's getting 80%, there's no way that that's the percentage. I'll fight this before that.” Anyway, long story short, the judge talked them into some reason, but Sun Tzu is what got me through that.

Tobias: It's funny, I've read it through my life. I probably had a go at it every five years or so, it's just never really stuck. For some reason, the last time I read it, which is probably three or four months ago now, it just all of a sudden, I just understood what he was talking about. It all started making sense. I started being able to put it into context with what Buffett does, and I started being able to put it into context with what UFC fighters do. It's so strange. All of a sudden, it just made sense to me. I don't know why it clicked all of a sudden.

Bill: How does UFC and Buffett come together?

Tobias: Israel Adesanya, he's a Kiwi-Nigerian middleweight fighter. I have cut to middleweight, that's 195 pounds, so I'm interested in this. He calls himself Stylebender, because he doesn't practice one style, but basically, he's a kickboxer who's an expert striker. He's just this terrifying prospect because he looks really tall and skinny, but he's just so precise. He's undefeated in UFC. He had this last fight against Paulo Costa, who's Brazilian, who's really well-built stocky kind of guy, who's also a Brazilian black belt and Brazilian jujitsu. The challenge in UFC is always, the interesting challenge is always what happens when you get a striker against the grappler. Does the grappler get the striker on the ground and just ground and pound him or just submit him, choke him out, or get him to tap? Or does the striker keep the grappler a distance and keep on just building the grappler until he gives up.

Paulo Costa is both a grappler, he's is incredibly strong. What he likes to do is get guys into the corner and just whale on their body. They're not knocked down. What they do is they drop down the ground and just cover up and stop fighting because he hits him so hard on the body. Everybody was what happens when you get Adesanya, who is very precise, and tactical in the ring against this guy who's just going to charge him and whale on him? Adesanya is taunting him in the build-up, they always do this to get people to watch. They taunt each other and go at each other. This seems to be a little bit more real than normal, because they've been going on for quite a while and trash-talking each other. Paulo Costa comes to the faceoff. They have a weigh-in and they have a faceoff. All of this is just for the cameras, but it's good stuff.

Paulo Costa brings a white belt in jujitsu and he throws it at Adesanya, as if to say, “You're a white belt and I'm going to either take you to the ground, that's where the fight is going to go.” Adesanya throws it back at him and Paulo Costa overreacts and throws his arms up in the air. Adesanya throws the *Karate Kid*, like that stork pose, whatever it is, puts his hands up in the air and lifts one leg-- it's just hilarious stuff. They get into the ring.

Everybody's like Paulo Costa is going to charge this guy because Adesanya has been provoking him the whole time, making him as angry as he possibly can. He gets in the ring and at no stage does Paulo Costa ever get into the fight. He doesn't ever start throwing punches, doesn't get him up against the fence, doesn't whale on his body, doesn't do any of this stuff. Adesanya just picks into pieces, just keeps on hitting him. It doesn't really ever connect really, really well. He gets this glancing blow, Paulo Costa goes down, and basically covers up and gives in halfway through the second round, I think.

Then they interview Adesanya afterwards, so basically what he's done, he knows that Paulo Costa is all riled up and desperately wants to charge, and what he does is he keeps on moving and giving him these different looks, these different shapes. When Paulo Costa gets ready to run, Adesanya just suddenly change shape, so he can't then move because if he moves, he's going to eat a big heavy punch from Adesanya. What Adesanya has done is just stuck into the ground, so he can't ever move, can't ever get into the fight.

What the *Art of War* has done, he's got into his head to make him really, really angry and make him want to charge, but not giving him any opportunity to do that and made him think that's what he wants him to do because he wants Paulo Costa thinking, “I really want to charge,” and Adesanya also wants him thinking, “That's what Adesanya wants me to do.” You can watch the fight. He doesn't do anything. He's stuck to the ground because Adesanya changes his stance, gives him different looks all the time because he's trying to tell Paulo Costa, “The moment that you charge, I'm going to hit you short or kick you” or something. He just doesn't get into the fight. That's Sun Tzu, I think using deception, making your enemy angry. He's planned this from really early on.

One of the things that I love about fighting, you can watch that *Rumble in the Jungle* documentary with Ali and Foreman. Ali spends the whole thing saying-- Foreman up to that point was a super, super heavy puncher. Ali was more of a dancer and they didn't know if he could take this punishment that Foreman would dish out and he was a little bit towards the end of his career. Foreman was a little bit younger. Every time they ask Ali, “How are you going to deal with this heavy punching?” He's like, “I'm going to dance. I'm going to dance. I'm just going to stay off his reach.”

Bill: [laughs]

Tobias: Foreman spends the whole preparation practicing smaller, faster boxes. Ali teases him by saying, he's like a zombie, just marches forward. Foreman's trying to cut off the ring and trying to get more nimble. Then, they get into the ring and Ali just stops, puts the gloves up and that's the rope-a-dope, where he famously just leans back on the ropes, and Foreman just punches himself out. Doesn't ever hit Ali with anything that hurts him, just punches him on the arms because Ali will cover up, and then Ali senses late in the fight that Foreman's getting tired because he's punched so much. Now, Ali comes alive and just destroys him in this flurry of punches. You think about, when would you ever use this stuff? Of course, you're going to use it when you fight somebody in the ring. It's easy to see the application there, but there's this other element to Sun Tzu-- that's the obvious application of Sun Tzu, in a fight.

There's this other application of which I think is actually much more interesting, which is much more subtle. It's buried inside Sun Tzu, and I think you've got to go to John Boyd. He's the fighter pilot who was the Maverick, who *Top Gun* is based on. When you read the book of John Boyd, it's hilarious how many lines out of what John Boyd says, all the stuff that he did that turn up in *Top Gun*. It's clearly based on him from the fact that the guy's called Maverick, to the famous pancake move where the-- not Viper, but whoever, second-in-command, you know whom I am talking about, is it Viper?

Bill: I don't know why I can't think of Val Kilmer's charac-- Iceman, and you've got-- People are going to shit right now that we can think of *Top Gun*. I used to watch *Top Gun* every single night of my junior year of high school. I would watch it every single night. I think it might have been on VHS. I'm dating myself, but it was so dope.

Tobias: I've watched it, just about quote it to you verbatim start to finish.

Bill: Except we can't tell what characters they are, so everybody thinks we're full of shit.

Tobias: I just can't-- [crosstalk] There's this scene in it where he's got the enemy plan-- I can't remember whether it's the MiG or if it's a training drill, who's behind him, and he does this pancake move. You just put the plane vertical and it stops--

Bill: Yeah, he hits the brakes and they fly right by.

Tobias: Exactly-- [crosstalk]

Bill: Yeah, I think that is Viper, yeah.

Tobias: That's a famous John Boyd.

Bill: Huh.

Tobias: Boyd came up with it. Boyd was in Korea, didn't ever face combat. He only went on his training drills, and then he was going to deploy to Vietnam. But he got called back to the Pentagon because they needed some advice on some of the fighters that they were building. He had developed this-- the book is great. The book is worth reading for anybody who's thinking about that, but he was saying the problem is that you don't necessarily need outright speed. What you need is maneuverability because you need to be able to get inside the turning circle with the other plane so you can get guns on them and shoot them first, hose them as he calls them. It's hosing because the bullets, as he's turning, the bullets come out with a lag, like a hose does.

Bill: That is badass term.

Tobias: Boyd apparently was watching-- I think he was watching *Top Gun* in a theater, and he just got right into the battle and he stood up and he's saying, “Hose him, hose him. Hose that motherfucker,” something like that.

Tobias: [laughs]

Bill: They called Boyd back, everybody knows this much about Boyd. He developed this OODA loop, observe-orient-decide-act. Initially, it comes from fighter pilots where you've got to get inside their turning circle. Then, he takes that concept and expands it into-- you have to get inside the decision-making process of the enemy. The faster you can make decisions, the faster you can observe, orient, decide, act. If you can get inside their turning circle, inside their OODA loop, you do it faster than they do, so you're reacting faster what they do, you'll defeat them. Then he develops this theory, and he keeps on expanding the theory.

There are various presentations of his online and you can see the PDF, and you can see him delivering it on YouTube. It's mind-blowing stuff. When you see how he breaks down the problem, he moves from very specific inside the fighter jet to expanding out into the tactics and the strategy of it, to then expanding all the way out to grand strategy, which is how nation-states orient themselves against other nation-states to make sure they don't go to war. Then, he goes back down again through that abstraction all the way back down to tactics. When I understood what he was doing, I was just blown away by this thought process. It says in the biography of him, and you can see it in the presentations too, he clearly likes Sun Tzu. It's hard to see what the connection is without understanding, but when you go through it, like he latches on to something that Sun Tzu says and magnifies it. It's easy to miss it when you read through it because Sun Tzu, it's hard to read, it's a little bit bleak when he talks about but the key, he says so, your objective as a nation-state, or as an army, or as a unit, or as a business, or as a human, basically you want to survive, you want to thrive, you want to exercise, influence on your world. You want to cope with an ever-changing world is the way that he describes it and continue to be a part of it, so how do you go about achieving that?

You need these concepts that he calls, like harmony-- I'm just blanking on a little bit, variety, harmony. I'll remember them in a moment. The point is he elevates this idea of harmony, which is something that Sun Tzu does well, but I just completely missed it as I read through it because it's really easy. The first thing Sun Tzu says is he's looking at-- you've got to go and work out what the conditions are that pertain in the field. Then, he's like by these seven considerations, I can determine who's going to win the battle. The first consideration is, which of the sovereigns exercises the moral or has the way? What he's saying is, the kings or monarchs, sovereigns, or leaders of the business or generals in the army or whatever, it doesn't matter, which of them have the support of the people who are underneath them? I know this is a very long bow, but that's basically solving--

Bill: No, man, this makes sense. I'm starting to understand where you going with it, keep going.

Tobias: This is the principal-agent problem. He's figuring out how to solve the principal-agent problem. Then, he goes-- [crosstalk]

Bill: I was thinking about reeling you in, but now I see what you are doing.

Tobias: [unintelligible [00:44:00] --get this.

Bill: I was like, "What is he doing?" But now I get it.

Tobias: This is the idea. As I read through this stuff, I'm like, "Holy shit, this is exactly what Buffett does." Buffett has made himself invincible. Buffett has made himself a sovereign by applying these rules. I don't know if Buffett read Sun Tzu, and said, "Yes, of course, that's what you should do." Or if Buffett read Sun Tzu, and was like, "Holy cow, this is really ground-breaking stuff." Or, if Buffett has just tapped into these ancient rules of the way that you should conduct yourself in the world in order to make yourself in-- you can't actually be invincible, but you can do things that make you more invincible, and you can do things that make you more fragile and more vulnerable. You want to avoid the things that make you fragile and risk ruin, and you want to do the things that walk you towards being invincible.

Anything can happen. You can get sick, you can die, all this. There are lots of other bad things that can be visited upon you, but I do think that if you did this like Buffett has done, that's how you get a 50-year-track record of outperformance or survival. First of all, you have to survive. Buffett's gone backwards for or he's underperformed the market for 14 or 15 years now, something like that, but he's still running one of the biggest companies around, he's still the biggest shareholder in it. It's still a really, really great business. He is not going anywhere. He's got all of this firepower there. He still has **[unintelligible [00:45:40]** deploy into Apple, like put a third of his cash into Apple, and have that then go up three times, and become one of the biggest parts of the business in 18 months. That's the thing that blows me away about Buffett that he's still practicing that.

When people hear me say Sun Tzu, I'm sure the initial reaction is like, oh, this is more of that activist bullshit. This is more of that attempting to be trying to do some super macho, aggressive bullshit, but it's not at all. If anything, it's a much more humane approach to the world, a much more sensible approach to the world. Now that I think in these terms o--, as I'm writing this book and thinking about this stuff all the time. Now I see it in other people, and I'm all of a sudden, I'm like, "Yeah, lot of people have figured this out. I don't think that I figured it out first." Hopefully, I'm just going to put it into context for everybody else to say these rules-- Sun Tzu wrote *The Art of War* in 430 BC, these rules have been around for at least 2500 years. Buffett's just an example of someone who's practicing it right now to this day to massive success. Why wouldn't you want to know what these rules are, and how they can be applied in business and industry and investment to make yourself invincible? I want to know what they are. Part of the writing process for me is figuring out what they are. Then, once I finished figuring it out, like I'll tell everybody else, that's kind of the book.

Bill: I've got to ask you, it seems from the outside looking in, one thing I don't care what people say about you, you believe in what you're doing, and you are all in on value. That seems to me to be inconsistent with this Sun Tzu, like set yourself up for all outcomes because you're making a big contrarian bet right now.

Tobias: Is it contrarian though?

Bill: To be deep value, you are in loud, yeah, man. It's one of the things that I have mad respect for you about because you get pummeled publicly a lot, and you're out there. I know you, so I can tell people from me knowing you, you're not doing it because you tied to it. You're doing it because you believe it. That I don't think is easy. I don't think a lot of people have that in them to take on. The other thing real quick before you answer. I was listening to Gundlach. He said that they tested the strategy that they thought if you had perfect information five years forward, could you win the game? Their answer to themselves was, I don't know if the answer is yes, because you probably go out of business because your clients would leave, and you have an ETF that your mark to market on every day. That's got to be tough.

Tobias: Yeah. That's two parts. That perfect information-- was it Gundlach? I don't know who that was. [crosstalk]

Bill: Gundlach had said it to Real Vision, that's where I saw it.

Tobias: I saw it today. Maybe you were talking about it today, I haven't actually seen it yet, but I know two examples that are similar to it. Wes Gray did a backtest, where he said, "Would God be fired as a value manager?"

Bill: Huh?

Tobias: He finds God gets a 90% drawdown and gets fired halfway through, and God has perfect information.

Bill: That sucks. Poor God.

[laughter]

Bill: But then, again, he knew he'd get fired before he started it.

Tobias: You got God running your portfolio with perfect information. You're like, “Listen, God, you've underperformed for two years, you’re out. We're going to get someone who knows what they're doing.”

Bill: Yeah, “Sorry, the Momo Bros [crosstalk] you, God. I got to go.”

Tobias: Then there's also Cliff Asness has done that **[unintelligible [00:49:28]** test where he looked, or his colleagues have done the test where they give the model the forward earnings from a year. If you know where the earnings are going to be in a year, you get this astronomical Sharpe and Sortino ratio, you just crush it. Except you have these two years, in ‘99 and 2000 where you go backwards, the correlation is reversed. It's happened again in 2019 and 2020, so clearly that can happen. For me, this process has been very good. Like I said to Jake, it's something, it’s wandering in the desert and having you soul purified by just having tear-- trying to do the right thing, and then having a shitty outcome. Do the right thing, have a shitty outcome. Keep on doing the right thing, and then all of a sudden, you're like, “Well, maybe I'm doing the wrong thing, maybe I need to reconsider this whole process.”

I went back, and I just rebuilt the whole thing from the bottom up. Part of this Sun Tzu and Boyd process, is trying to work out, “What am I doing wrong?” Rebuilding the process. Then, I've taken-- there's a very theoretical part to it, but then the theoretical part-- when people read the book-- I don't know so much about the book, because the book is written in a very abstract level. I don't mention value in it at all. I don't mention Buffett in it at all. I only talk about invincibility, risk of ruin, Sun Tzu, John Boyd, and I use Napoleon as the avatar, because I think he is-- I will talk about that in a little bit. The point is that it's not a value book. It's something else, I don't know how to characterize it exactly.

Basically, you've got to take those lessons and then apply them practically to the existing portfolio and look in that portfolio and see does this satisfy all of these new criteria that I am imposing on myself that I think have been very useful for people in the world?” I think, probably you can hear it in the way I talk about some of these positions in a little bit of a different way. I don't talk so much about the multiple anymore. I talk about the yield and what you're paying for the growth is. There's no difference in the way that the portfolio is constructed. It's just a difference in the way that I'm analyzing the opportunity now. I say this quite a lot, and I really do think this is true right now. I don't know how long this has been true, but it's certainly true right now. The companies in the portfolios don't need the market to treat them any differently. They don't need any multiple expansion to outperform. They get better yields and better growth, higher reinvestment rates. They're going to do just fine from this point on, regardless of how the market treats them.

All of that process has done for me is just clarified what we're doing as investors. What are we trying to do as investors? I don't really care how the market treats the companies after I buy them, because that's not why I'm buying them. I'm buying them because I think that I can get a particular yield and a rate of growth at the least, that the market treatment of them is irrelevant. That's the point that I want to get to. I think that's what makes you invincible as an investor. When you put something on and you say to yourself, “I literally don't care if that shut the stock market for 5 or 10 years, I'm going to be okay.”

Bill: Yeah. I'm close to that, but I’ve got to be honest that I look too often.

Tobias: Oh, everybody does so. [crosstalk]

Bill: I do find myself-- Yeah, but I look at my portfolio and I'm pretty proud of-- I really do think if I had to own this thing for 10 years, I'd be fine. I have two questions. One, within your strategy, are you going to be able to stick with those companies or are you going to be mandated to roll out? Two, what do the shorts do to the resilience of your portfolio?

Tobias: The good thing and the bad thing about running an explicitly deep value portfolio like the ETFs is that they are always rebalancing into the cheapest opportunities. When you're in a market like this, where the multiple is being into the value stocks multiple hasn't been going up, it's either flat or down, that means that regularly rebalancing is something that's cheaper without having any performance of the things that you've already held, or even going backwards in that thing. It's not clear to me that buying something and staying in it for a really long period of time is any better than trying to stay clustered in the things that are very cheap. It's just that-- I can put these positions on and then forget them, and then sell them in three to five years' time and someone will be able to look back and say, "Holy shit, that was a lot of compound return that you got in that thing before you sold it." Or, I can just rebalance more regularly into the cheap stuff to keep the portfolio perpetually cheap.

You never get much credit then for having big winners because you're never going to have big winners because you're rebalancing them more regularly. But you're keeping that portfolio evergreen, super cheap, so it's always primed for outperformance. I do think that that's an entirely valid way of building a portfolio and managing a portfolio, but I would like to have a discretionary vehicle where I'm not compelled to sell out of them so quickly. The only thing I think that that would achieve, I don't think it would get better returns, I think the returns will be slightly lower. But I do think you get more credit for holding-- for identifying things that are undervalued and holding them for longer periods of time. It easier for someone to observe that you are picking the right stocks, and they're getting better returns because it's staying in there for longer and you can see the performance. But that's not the reason for doing. The reason for doing is just that I want a different vehicle where I can be more discretionary about, just for fun.

Bill: If I can recycle your answer to you, what you just said is, "I think what I'm currently doing has the highest expected return, but I want to do something else because it's more mentally exciting?"

Tobias: It's not only the mental excitement part of it, that is part of it. That's 100% part of it, because there are opportunities to get the don't fit into a deep value framework. I cannot understand them as a value investor. Even though that's a dirty term these days, I still think of any-- I know all intelligent investing is value investing, or whatever the expression is. The idea is that, however we're doing this stuff-- if you're a real investor, what you're doing is you're trying to figure out where this thing is going to be in the future and you're trying to buy it at a discount now to that future price, or that future valuation that delivers to you a sufficient return to justify putting your money over that period of time. It doesn't matter how you're doing it. If you're a growth investor, it just means you're paying a higher price expecting a much higher price. If you're deep value investor, you're paying a very low price expecting a probably more average--

Bill: Modest price, or whatever, yeah.

Tobias: But either way, you're still trying to maximize return, you're just making a decision which gives you the highest return over that period of time. All of the discretionary thing would just be to open up the palette a little bit more to look at different opportunities. Having said that, I do think that there are some businesses out there that-- how do you go about constructing an invincible portfolio? The process, I don't think, is necessarily-- you don't look at the existing value opportunity set and try and buy those things. The process is different. The process is what are the 200 or 300 invincible companies in the world? An invincible company to me is something that-- everybody knows exactly what they are. They just Buffett-type stocks. Just absolutely bulletproof balance sheet, run by a management team who are investors who understand what-- like, we're going to reinvest in the business when that gives us higher returns, when the market trades down to the point that they're telling us to liquidate the business, we're going to buy back stock. We're just going to take our cues from-- we're going to always maximize our IRR however we're investing the money. We're going to run it on behalf of the shareholders because we are big shareholders. That's the kind of management that you want.

The business is bulletproof. The business is not one that can be unseated. It just occupies a special position in the world, not by virtue of a patent that it holds. Just by virtue of-- Twitter is one of those businesses. I don't think you could unseat Twitter. I think you can unseat Facebook and Instagram. I don't think you can unseat Twitter. Maybe not Instagram, I don't know. I think TikTok is going to make some inroads into Instagram. I think Twitter's much harder, because Twitter's much harder to use. Once you get in there-- people are trying with Parler and--

Bill: Yeah, that's not going to go anywhere. I mean for certain speech or whatever, but not for real.

Tobias: The risk for Twitter though, they can destroy themselves. That's one of the lessons that I'm trying to include in this book. The invincible can lose-- One of the things that John Boyd talks about is creating a vision for your country or your business that is so noble, that anybody who is undecided is attracted to your course. They just want to be with you, and they want to see you succeed. To create that, you have to behave in this moral, just, fair manner. You have to do all of the things that we would agree collectively are good for society, good for your stakeholders. If you do those things, you have so much support from everybody that it's just hard to go away. It's hard for you to slip through the cracks. If you don't do those things, you create enemies who are out there trying to kill you all the time. That's sort of what Twitter has done for itself a little bit here.

People are dissatisfied that they're being suppressed on that platform, so they're going to other. They're looking for gab.ai and Parler too. There are going to be others like Signal and various other things that are trying to-- I don't know if any of them would be successful. I hope that Twitter figures out that it should be more of an impartial voice or it runs the risk of being blindsided. Because this is one of the things that that Boyd talks about. He says, the way that guerrillas, insurgents overthrow-- if you're invincible, you're not defeated by a frontal attack. The walls are too high, the army's too strong. You can't be defeated in that way. The only way you can be defeated is if you make the people who is ruling over, governing so unhappy that they're desperately looking for another solution, and they can find these guerrilla, insurgent types who will come in, and they will start supporting the guerrillas, and they'll overthrow. They'll help them overthrow you. So, you have to be very careful about that kind of stuff now.

I don't know what the solution is for Twitter. It may be that they think they're making themselves more invincible by doing this stuff, like they're suppressing some voices that people shouldn't hear. I don't know the answer, but I don't think that it's been a winning strategy where it's been applied in different contexts. It's one of the things that I'm nervous about for Twitter, but other than that, I think it's one of those invincible businesses, potentially.

When you think about it in those terms, the only way that you then can approach these businesses, it's not a value first proposition, it's an invincibility first proposition, but then you can also kill yourself by just overpaying for these things. Not so much kill yourself, but if you overpay, the market price goes against you so much. You pay 10 times more than they're worth, it just takes too long for you to catch back up to what you've overpaid.

Bill: Yeah.

Tobias: You still need to pay enough to get a reasonable return out of these things. The strategy then for this kind of investment style is just to be extremely patient, and to wait for your opportunities in these 200 or 300 businesses that have these qualities globally. When they get to a point where you're going to get a sufficiently high return, whatever that is, whatever your hurdle is 10% or 15%, something like that. If you can get that return out of them through the yield and through the embedded growth, that's when you take your position. So, you wait for events that aren't company-specific events, you wait for a March ‘20 opportunity to invest in them, and you won't get all of them, because they won't all come back far enough. You get a handful, and then you just wait for your next opportunity, and you use other strategies, like underwriting some puts to get into them because I think you can capture some of the vol. There's lots of other things you can do to generate returns while you're trying to take that position. Then, I think when you get into them, you never sell. That should be your approach.

Bill: Yeah. I don't know how I feel about the never sell thing. I think there's a lot of merit in it-- where something that I own, that's run a ton is this Colony, and McMurtrie talked about it on the last podcast. That is a business that I think has some options to it that are very, very hard to price and underwrite. But it's got some real momentum going on, and the guy that came in there-- if I'm sitting in the allocator seat, I can see why he's the guy that I want to bet on. I think he's good at wining and dining people, I think allocators have to justify their existence. I think where the yield is in the world, like alternative assets, are going to continue to be in high demand. I think digital infrastructure is an easy thing to tell your boss that you're allocating to. It's hard for me to get off that train, even if I think the stock is maybe even a little bit ahead of itself.

Then, you got some of these other businesses, like TransDigm is one that I'm struggling with. I do understand why people think it's worth what it is. I can even see why it's worth more or whatever. But fundamentally, it's just harder for me. I think where I’m more comfortable with the never sell thing is if you're in a business that has a lot of potential embedded options in it, and you bought it at a good price, and the management and the employees are competent and really attacking a lot of different lines, that's where I think this never sell thing makes a lot of sense. Or, conversely, if it's Coke or Geico where you're convinced that it will end up catching up with the stock. In some of these businesses that I think are slightly by nature a little bit more defined in their TAM, for lack of a better term, that I think I'm more comfortable trimming in.

Tobias: Here's the thing about never sell, it doesn't apply to most businesses. I would only ever consider it for these 200 or 300 of the best business in the world because it's so hard to get into. You're just not going to get very many opportunities to buy these things. they're always going to trade at a big premium. When you get your opportunity to buy into them, you’ve got to jump on that opportunity as hard as you can. Then, you’ve got to say, “That was really lucky that I got that opportunity. I'm never selling this thing,” because it's such a great business and it's going to keep on going for 25, 30 years, like we all know the base rates on these things are very, very low. That's what I'm saying it's like 200 or 300 in the world, or whatever 40,000 publicly traded companies, like they're vanishingly small. Then you’ve got to watch them, and the reasons that you sell these things are not valuation, because they're just so hard to get into.

You know that over a long period of time, your return is going to match the return on invest [crosstalk] capital.

Bill: Yeah, the business.

Tobias: It's not so much what you pay, it's what you get when you buy it. The things that you're watching for, is the management team losing its mind? The guy who was the one who understood, making this thing invincible and making it a solid returner for the shareholders, is he gone or she gone? Then that's a problem. Is the business losing its invincibility? Are there just better businesses popping? Because that happens, too. They can't all stay at the very peak all the time. That's the process, I think. You're looking more at a diminution in the quality of the opportunity rather than the valuation. But I agree with you, for 99% of businesses that are out there, when you get your price, so.

Bill: Yeah. It's hard to watch what most businesses go-- I mean, even Microsoft, even Coke, these really, really great businesses, it's super easy to look back where the valuations are today and say, “Well, hey, they even outperformed, the NIFTY 50 outperformed.” I get it. There's a different question between theoretically looking back, what did this business do? As an investor, could I have dealt with this underperformance and had the confidence that it would come back, given the fact that the reason that it underperformed was that most people threw in the towel? Or, if not most, many. The narrative definitely changed, and that multiple fade is really hard to tell yourself year after year after year, like, “Oh, yeah, the business is getting better.” Okay.

Tobias: That’s not to say you never trim them. I think it's appropriate to trim sometimes. I just don't think you want to be out. [crosstalk]

Bill: Actually, that's where I've settled. That's where I've settled, too.

Tobias: You just may never get your opportunity to buy back in because you're almost reversing the process from deep value. Deep value is just you take your opportunities where you find them. When something gets cheap, you buy it. You don't buy too much of it for your portfolio, because you know that there are risks attached to it. It's cyclical, whatever, management's not that great. There's some sort of catalyst, some sort of process. You're trying to catch that part where the market recognizes, “Oh, we probably sold this one down too far,” and then they pop back pretty quickly. For these things, they're so hard to buy. Coke is a good example. Everybody criticizes Buffett for not selling Coke, but what are the chances that you ever get the opportunity to buy back in? I don't think that's really ever got cheap. It hasn't worked, but it's not got cheap. Meanwhile, he's been clipping out gigantic dividends every year, that he has been redeploying. He can't be too unhappy with the investment, even though, yeah, he probably could have sold it back in 2000 or something like that.

I think that when you are his size, it becomes incredibly difficult to maneuver. He gets that capital out, he pays tax on it, then he's got to redeploy it. The one thing he's got too much of at the moment is capital. He doesn't need more of it to redeploy. What would he have done with it? Would he have been able to get those dividends out of it? I don't think so. If the tenure was at 6%, that's a different prospect. If you're going to place the stick your money when you pull it out but at the moment you don’t, might as well leave it in a productive asset.

Bill: Sort of why I own cigarettes. It's a little bit different. If I could wave a magic wand in the world and cigarettes disappear, fine, I'm down for that. But from my personal life, I don't have Buffett's float. I need a cash-flowing asset to give me cash flow. I'm getting almost 8% to 10% on a look-through basis selling cigarettes, that is a--

Tobias: The yield on [crosstalk] right?

Bill: I know. I don't love that they exist, but I'm also not issuing new fresh money to them. They don't need my capital. To me, I look at that as that's my front-end cash flow to invest in the compounders down the future. Yeah, the terminal value probably leaves a little bit to be desired, but if you're talking about further than 10 years out, I'm hoping that I can do something with that 10% yield in the meantime, that’s the bet.

Tobias: As the deep value investor, I'd buy them. As an invincible investor, I wouldn't, because it fails the harmony test.

Bill: Yeah, I might be bringing karma into my life that's bad. I'm trying to reciprocate other ways.

Tobias: It's not so much karma. I've been thinking about that a little bit, too. What is the mechanism? Ancient Greeks had this idea of hamartia, which was your moral flaw that came back-- and you just kept-- and often it was hubris, so that’s ego. The thing that propels you to success is also the instrument of your own destruction. It's this idea that the gods are just in punishing you for doing whatever it is that you've done to get yourself there.

Bill: Oh-- [crosstalk]

Tobias: The classic example, Oedipus. Oedipus' mom and dad get the message that he's going to kill his father and have sex with his mother, said like, "Oh, my God," pin him out on a rock by his ankle so he can die, and he's discovered by this shepherd. He takes him back to a different town and raises him. Then, Oedipus goes to visit the Oracle Adelphi, and the Oracle Adelphi says to him, "You're going to kill your mother, and kill your father, and share your mother." He's like, "Oh, my God, I don't want that to happen." He escapes from who he thinks is his mother and father, and he's on the road, I think it's to Thebes, where he runs into this very arrogant man in a chariot who won't move aside. He gets into an argument with him, and he ultimately kills that man. Of course, that's his father. Then, he rushes into town to find his mother, shags his mother. He fulfills the prophecy-- [crosstalk]

Bill: Cold world.

Tobias: In trying to escape the prophecy, he fulfilled the prophecy. This is something that-- I think that cosmic justice is another name for it, poetic justice, karma.

Bill: You're going to make me sell these things. I need to call up **[unintelligible [01:12:35]** right now.

Tobias: But it doesn't work like that. I'm not saying you get punished for investing in it at all. What I'm saying is that if your business creates disharmony, it invites attack. The way that the cigarette companies have been attacked in the past successfully, is through lawsuits from people who've been hurt, and by the government, and so there are two avenues for attack that have been successful in the past that somebody might just pick up that cudgel once more and beat them over the head and say, "They're paying 10% dividends, they can clearly afford to pay a whole lot of money." Not retribution, like reparations or whatever. I'm not criticizing you at all, this is a brand-new process for me, I'm still trying to work my way through it. But that's what I'm thinking about these things like, are you putting out good stuff into the world or are you inviting attack? Because if you're inviting attack, I just think you're going to get attacked eventually.

Bill: Yeah, that's fair. I think that the counter in that particular example is they've been attacked for a long time to make it, and governments need them to survive if they want that tax money. It's somewhat of a mitigant.

Tobias: It's the filthy lucre.

Bill: I got to go back because I can't let you off the hook with the shorts. What's your process with the shorting because I know you have a momentum overlay on it?

Tobias: Well, the function of the shorts, first of all, so I think it's my bias as a deep value guy. I just think that the market is stupidly expensive. The opportunities are so few at the moment. There's stuff around for deep value bias, but there's a lot of things that I look at. CNN Fear and Greed, I don't know where that is today, but we're at the highest ratings we've ever seen on that thing. We're higher than we were in 2000. That's bananas. The world was pretty **[unintelligible [01:14:36]** in 2000. I think there's just this pervasive belief, and 100% reinforced in March, that we're never going to have a real stock market crash again because the Fed is omnipotent, and the federal government can bail us out. Not that I really know exactly what happened in the 20s, but it does feel a little bit to me like they've eliminated all risk from the market. Nobody thinks about the downside anymore. You're just guaranteed that the market goes up a lot every year, and you're going to make even more money than the market because you're in the smart stuff that goes up a lot. You buy the tech stocks that go up. The compounders, Tesla. You don't ever think about the downside, and you get rewarded for it because you're aggressive, and you're smart.

I think that that's a trap, because when the market has historically been in this place, the forward returns haven't been great and the outcomes have been bad, lots of volatility, and so on. I think that's probably coming at some stage, I don't know when. When that happens, I want a life raft, and my life raft is the shorts. The shorts have delivered a little bit of performance, which I've been pretty happy with, except for this quarter, this has been a painful quarter for the shorts. Because what the shorts do, I had this sort of momentum, I'm just looking for stuff that's not gone up. The problem with shorting, you can find something that's got a garbage balance sheet, that's losing money all the time, that insiders are selling all the time, they're just raising debt. The only way that they're surviving is by selling equity because the market falls in love with the story.

Tesla, I think, is a pretty good example of that. Anybody who's a fundamental analyst really looks at Tesla and just can't figure it out. For one thing, the financial statements change so often, that you can't even get a quarter to quarter, year on year look at what the business is doing and they're impenetrable. They just don't make any sense. I'm not saying that I'm the world's greatest forensic accountant, but I read the financial systems and I don't get it. I talked to other guys who are pretty good financial forensic accountants, they don't get it. I'm trying to get someone to explain it to me. The only argument here on the other side is from dudes who are like, if you could only talk to a bull, you'd just understand that the story in this thing, like everybody's a bull. Everybody's a bull, everybody tells me the same story.

Bill: I'm not. I'm just smart enough to stay on the sidelines.

Tobias: I'm not shorting it either. I'm just giving it as an example of one that I'll talk about. But this quarter, what happened is, there has been a pretty big rebound in very deep value and there has been this commensurate move in momentum where the high momentum stocks have come back, and the low momentum stocks have gone, or the bad momentum stocks have gone up. I've just been caught a little bit because I use that momentum to be-- I'm trying to find stuff that's down, a lot of it has rebounded. They said, "Don't short in the hole." Sometimes what this strategy will do is short in the hole, which is what it's done this quarter.

Bill: What's that mean for the uneducated of us?

Tobias: When it's short, when it's down a lot, you get the rebound in the face. This is the worst quarter for the shorts. That's going to happen every now and again. I still don't want to change it because when I look at the full backtest of data that I have, it's been a good strategy, and it saves your life in so many different scenarios that it's worth keeping in there. It does introduce some risk in the sense that there's some embedded leverage in the shorts, we mitigate that a little bit by not always being 130% long, unless the opportunity set is just so mind-bogglingly good. I think there's a lot of risk in the market at the moment, so get low, about as low and exposures we can take to the market where 100% long, 30% short, for net 70.

When the shorts bounce in that market, we only net 70, the returns are flat rather than being up a lot. We're sort of flattish top a little bit, which is okay. Because I still think that when I step back and look at the opportunity set at the moment, the global opportunity set, it's very, very appetizing and I get the feeling we're just going to walk into some-- there's something else that's going to happen, and everybody's going to say, “Well, it was specific to that thing that--” the market falls off because of COVID. Well, the market was already pretty toppy and bulled up. All the signals were there before March. It's just that it happened in March, and then we could point to the reason why. I think that what's going to happen in the future is the same sort of thing. There'll be a specific reason why it falls over, but that's not the reason. The reason that it's expensive and everybody's bulled up. There's nobody on the other side of the boat.

Bill: Yeah, I mean, when you think about the amount of SPACs and the IPO filings and the S1s, and the retail participation, when you read the books of how things sort of get towards the higher end of high, to say that there are no signs of it right now is being delusional, right?

Tobias: Let's talk about why we're only in the third inning.

Bill: Okay, let's do it. For the Non-Value: After Hours, folks, Toby and I do a podcast, and I joke about us being in the third inning all the time. Well, I have said the second. I said we moved to the third recently. The melt-up.

Tobias: Yeah, hit me.

Bill: The reason that we're going to melt up is there's nothing else to do, man. I don't know-- if you’re investing assets right now, I just don't know where you put your money. I hate to be like a TINA guy. I can totally see the risk out there, but I guess you could go super long-duration bonds. I view a lot of these software stories, specifically FAANG. Let's talk about the cash flowing growing software companies, or digital companies.

Tobias: I might be increasingly coming around to Netflix, by the way. I'm increasingly persuaded that there's something to it.

Bill: There is something to it.

Tobias: I've always said it's like FAMG, it's an insult to have Netflix in there, but I'm like, “They've got people paying for a growing--” and you just own a subscription, you're not going to cancel that subscription. They got this money coming in, they're just going to stick it out there and get some good stuff and some bad stuff. They'll figure it out. They're probably going to win. They probably won't.

Bill: Well, the thing about the good stuff and the bad stuff is like the bundle has always had good stuff and bad stuff. That's not a unique problem to Netflix.

Tobias: Yeah, that's fair.

Bill: It's just a unique problem to people's perception because HBO is the old premium service that you would add on. Now, Netflix is. I think the expectation of it is changing.

Tobias: Before we go into the melt-up, let me just throw this at you. In a world where everybody gets into their own niches increasingly, why the fuck would you want the whole smorgasbord of shit that all the normals are listening to?

Bill: I think that the thing about Netflix, that is who you're asking about, correct?

Tobias: Yeah, Netflix.

Bill: I think that they're going to be able to make their own bundle from their own content. The reason that I'm not comfortable buying into HBO Max or some of these other direct-to-consumer stories is, I think the pace at which Netflix introduces new content attacks the mindshare of people's back catalog much more than a lot of people appreciate.

Tobias: What do you mean by the mindshare of the back catalog?

Bill: Yeah. If you're in Viacom, you're relying on their back catalog to drive some subscriptions, or even Discovery or whatever. For a long time in Discovery, Zaslav said, "We make unique content, and no one can replicate it." The thing is, that's BS in Discovery, but for purposes of this, that's what he says. Netflix is starting to come after that. Maybe Discovery is not the best example because you don't like that content. But I think that there's a lot of back catalog. Now, *NCIS*, something like that could have value because it does have retention.

Tobias: Here's the weird thing. I see a world where everybody just-- I don't want to watch network television. Every time I accidentally turn on network television to watch-- also something was on network television that I only watched it recently. I forget now. Whatever it was, something like Thanksgiving Day football games. It's been so long since I've tuned in. I was watching it and I was like, "These ads are just so garbage." My kids are sitting here watching these ads. I'm sitting here watching these ads. I'm offended by these ads. Is this what people are watching? Then they're advertising the shows? These shows are just garbage? Who is lining up to watch this stuff? The aim for the television channels used to be least objectionable programing. You locked into a handful of program channels that you can go to, so you just got to put on the least worst thing at any point in time and you get all the eyeballs.

Now, it's a different world where there's so many options, and I can go and watch them on demand. You can really have to have something that I want to go and watch because otherwise I'm not going to sit there with the Discovery gold mining in the Amazon, and just let that play all day long so I got nothing else to do, because I got other things that I could go and do.

Bill: All right. I'm going to say something that's going to really offend a lot of financial folks, especially value investors. If I'm Reed, and I'm in that situation, I'm the CEO, and the capital markets will allow me to spend absurd amounts of money and discount it because of per eyeball spend, and it's not even the equity market that's allowing me to do it, it's the debt markets that's willing to fund it and I'm almost cashflow positive, why would I not just damn the torpedoes, we're going to just go nuts? Financial analysts are caught up on a free cash flow measure, they're like, “This guy's not even playing that game. He's going out to kill everybody.” You guys are talking about free cash flow? It's not.

Tobias: That’s fair.

Bill: I think that's what people are missing. If it doesn't work, the stock’s probably overvalued. But if it does work, and I'm starting to think it's got a higher and higher probability of working, you get to one of those almost-- I can make the argument that they're an inevitable. I know that Roku bulls will roll over and laugh at that, that's the bull case. It's not a zero probability. I don't know how to assign the probabilities, but I'm increasingly thinking that it's more inevitable than I ever have.

Tobias: Yeah, wish it was a little bit better at that game where you can work out what is going to happen in the short to medium term. I mean this genuinely, like to figure out the strategy that Reed Hastings is chasing there, and to figure out what that eventual valuation is worth because I think he could get that insight in a handful of places, but I just think it's also such a massive trap where you just totally delude yourself on something. Totally just rip your face off being way, way wrong. So, that's why I'm always nervous about going too far beyond what you can already see in the cash flow statements. I sometimes think-- although Buffett doesn't always do this, but I do think that he's done a lot of that, where there are some situations where, yeah, it's a big upside, but it's really hard to figure your way through it. I'm not saying that that’s Netflix. Netflix is not the best example because I think--

Bill: No, I understand what you're saying.

Tobias: Netflix is a closer term. You can see what they're doing. That's visible in the financial statements, but there are a lot of things out there. Some of the more popular SaaS names and so on. We’ve really got to see the end state and understand the end state, and it's possible there are people out there who have figured that out. For a lot of these things, I'm like--

Bill: I don't buy it, dude. How long did it take me to get to Netflix? I probably should have seen it. I think realistically when I could have figured it out, is probably 2018-ish.

Tobias: Yeah.

Bill: Then, I think the other thing that value investors maybe would benefit from thinking about is like, how is this thing going to trade in the future? In a realistic world, it's not going to trade at a 10% free cash flow multiple. You're talking about a subscription business with global scale, it's at least at 20 to 25 times free cash flow multiple.

Tobias: If you're valuing these things rather than just looking at the multiple, I know how funny that sounds me saying that. If you're digging into it and saying-- I'm also looking at some of these things I was pulling up yesterday, I look at eBay and some of these old-- the return on invested capital in these things is just comical. It's like 1000%, 1600%. There's just nothing in their business. I think it might have been-- I forget now exactly what it was, but just the return on capital was just stupid, and they're going to pay out a lot more capital too. Basically, they didn't need any capital in their business. The business is just basically run on-- I've got no idea how it's powered, but it doesn't need money. Money's not the thing that makes this thing go around.

Bill: Well, it's all through the income statement. Once the cash flow drops out, they don't really need the traditional working capital and PP&E, the normal business would.

Tobias: Yeah.

Bill: It's just like-- [crosstalk]

Tobias: [crosstalk] Look at Apple, they're like, "We've got so much cash here, we can go and drop a billion dollars on a headquarters, and it's a rounding error."

Bill: Dude, it's nuts is what they've been able to do with semiconductors. I'm like, just starting to study the semi space, but I already understand that what they did is pretty crazy.

Tobias: What have they done?

Bill: I'm going to get over my skis technically.

Tobias: That's why I asked you-- [crosstalk] [laughs]

Bill: No, I'm not even going to get into opining on the semi space. What I do know is that they've done a lot of stuff in-house that even semiconductor companies probably couldn't have done. That's probably where a lot of the R&D went.

Anyway, I think the thing that's tough with Netflix is, but the art of it all is parsing what is just Reed damning the torpedoes versus what does this actually need to sustain itself and maybe grow at 4% or 5%. It's a very imprecise science, I think. Then, once you start to apply that same level of thinking, unlike these software companies that are $100 million-- maybe they're a billion-dollar revenues, but they're not. They're $600 million, and they're trading for $36 billion. I get it, and I would have said this a year ago, and I'm bound to be wrong again. Once you've gotten to that point, in my mind, why would the valuations not go higher? You're already assigning a whole lot of certainty to the future, so I think that we're not-- saying that we're disconnected from fundamentals there, I don't think is an accurate statement, but I just think that it's all dreams anyway, so why can't they get loftier?

Tobias: But here's the thing, just to go back to which inning we're in, why do you give a fuck?

Bill: I don't. Half of it's to troll Jake.

[laughter]

Tobias: And me.

Bill: The reason I say inning three is to convey the point that no matter however crazy you think it can get, it can get 3X crazy. There's no difference.

Tobias: John Bowman, who passed away recently. Somebody tweeted this out and I retweeted it when it came out too because it was a great line, where John said, I think he was talking about Tesla, could have been Netflix, I forget which one exactly. He said, “If you short this thing on valuation, the problem that you have is that the further away from valuation this thing gets, the better you think the short option opportunity is, and the more underwater you are on this position.” There's something interesting in, that's a big risk for shorts. I sometimes think if you spend a lot of time in the markets, you start thinking like a market’s person, and I don't think that's a very helpful way to think.

Bill: Yeah, I think that’s fair.

Tobias: I think you want to think like a business guy in the markets. You don't want to be so sophisticated that you know the impact of something on the multiple, any of that kind of stuff. You want to ignore that stuff. All you want to think about is what yield can I get out of this, and what is the underlying growth going to be worth to me buying at this price? When you approach it like that, I think it simplifies a lot of things. You can look at something like-- what's the thing you got the bet on?

Bill: Oh, Zoom.

Tobias: Zoom, you can look at something like-- Sorry, I just completely--

Bill: It's okay. It might as well be any of them.

Tobias: I login to it five times a day, so I should be able to remember it. Zoom, and I don't know the numbers well enough to know. The growth part you can see is very, very good. What you're paying for that growth part has to be so successful as not looking at where the share price is going to go. If it stays elevated relative to the business, and yeah, it's going to be a great performance for that stock over the short to medium term. If you're a business guy and you're looking at it and you’re thinking, “What flows am I getting out of this thing as I buy it?” You'd look at that and you’d say, “Gee, a lot has to go right for me to get my money back here.”

Bill: Yeah, 100%.

Tobias: I want to be in situations where-- like Twitter. It's been run by a bunch of clowns who fell into a gold mine, been run by bozos for so long and it's still here. People love it. People are addicted to it. I'm one of them.

Bill: Yeah, no doubt. I don't hold any of these things. I fully agree with you. I bet Zoom blind. I had no idea what the market cap was. I had my mom's friends calling me being like, “Should I buy Zoom today?” because people are sitting at home.

Tobias: How much [crosstalk] should I bet?

Bill: Yeah. It's an indirect way to go short that trend. I work hard at this shit. My wife's friend is outperforming me because she bought some stay-at-home education company because people were staying at home. First order thought has been so rewarded--

Tobias: That's it.

Bill: --that I fundamentally do not believe where the valuations are. Now, there are some thoughtful bulls out there that will say like, “You have a closed mind to a real opportunity.” To those people, I say congratulations for knowing what's actually going on. I have no interest in that game.

Tobias: There are other people [crosstalk] just been talking to you.

Bill: Yeah, well, pretty much. But you know what I mean, I have no interest in playing that game. It seems fraught with risk, and to your point on skew, if you're looking for high upside on the right tail, low downside on the left, at this point, we're still going to make the argument about SaaS with these valuations?

Tobias: Yeah.

Bill: Fine, I was wrong last year. Fine. You're 4X up on some of these names. You still think it's good risk-reward to take? It's the betting analogy that Mauboussin cited. Yeah, fine. It's a great fucking horse. First of all, it's tiny, it's a foal. If you know anything about horse racing, a lot of them die because they get injured. It's the same as capitalism. You're paying a ton of money. It's a bad bet.

Tobias: Yeah. Really the time to get that bet on was 2015. All of those FAANG names were trading too cheaply in 2015.

Bill: FAANG, I'm a little different on, man. FAANG, I can understand.

Tobias: I'm with you on the FAANG names. They're not egregiously overvalued. Well, last time I looked at them, which is a little bit, and they've all run a little bit since then. Google, I thought was in the vicinity of a 12% to 15% return from here. Microsoft was like 6% to 8%. I think that's still expensive, but I don't think that that might be justified [crosstalk] but they might be fair price.

Bill: I don’t know, dude. A 12% yield off of an asset as good as Google? That's pretty good value.

Tobias: That's not yield.

Bill: Returns.

Tobias: Yeah, what I'm saying is, that's partly yield out of-- I'm talking shareholder yield with, I'm including the buybacks in that. The way that I think about valuation is I look at-- I like the Greenblatt idea of looking at what capitalism-- what do they really need in this business? That's the fixed assets, the net PP&E and networking capital, that's the money that you would need if you were to buy this business for the assets, that's what you have to pay for. No one's ever going to sell it for the assets, but that's what you. Then that's what it's producing. Then, you look at what it throws off. Then, I go and look at the financing cash flows, and look at which way they're going. Is their money going in or out of this thing? Then, you try and track down where the money goes. That's the hardest thing, I think, to figure out. The money is coming in here, and then going back out here, and they're earning this much on the assets, but there's always the shortfall, and I can't figure out where it goes. There's a shortfall between where it gets paid out as yield, and what they've earned on the assets and reinvested, but it doesn't show up in the reinvestment.

The trouble that I have with most of the companies that I look at, there's this like little shortfall in there all the time. I can't figure out where it's going. Maybe it's going to unproductive assets and it's just not showing up in that analysis. Maybe that's what I'm doing. I'm totally talking off the cuff here. It's not something I've thought about. I'm literally thinking about this now while I do. It's one of the weirdest things I find when I'm running through these little valuations that I do. Just like back of the envelope, just to see what this thing is roughly doing because I'm interested like, what's Google doing? What's Microsoft? Where are they trading? Where's the yield? They’re stellar businesses. They're gigantic. They throw off so much money, there's so little money invested in them. They're growing at just astronomical rates, even now. Microsoft's return on equity, something like 40%, it's just absurd. Return on invested capital stock is just incalculable.

Bill: The last time I looked at AWS, they were growing at 30 plus percent and doing unlevered returns on equity of like-- returns on capital, like 28%, 29%. It's basically a real estate business. It's got capital in it. That's crazy. At size.

Tobias: That's absolutely absurd.

Bill: That's the next iteration of infrastructure. I get why that has a huge multiple to it. I do get that, but that is a way different discussion than some of these small SaaS companies that are still emergent, and maybe you're going to have to attack each other and stuff like that. Doesn't make sense to me.

Tobias: Do you think that you almost have to throw away those old rules? We quote them on the other podcast a little bit where we talk about these are the rules of thumb for a company-- like how long can a company with revenues of $50 billion sustain a 25% growth rate? What's the chance they’d do it out for a decade, and you get to the number and it's vanishingly small. It's like 1.7% or something like that. It has happened. I'm not even talking about grossing these up for inflation. Have we just entered into this new world now where these gigantic companies because it costs them nothing to grow and the thing is like, they deliver this exact same product to seven billion people on the face of planet earth?

Bill: Yeah, but, dude, here's the thing. I know that everybody says that it doesn't cost them anything to grow. The problem is a lot of these companies that everybody's saying are so great have SG&A lines greater than their gross profit. I understand that there's this argument to be made, like your land and expand and let's get in, and it's recurring revenue. To me, that feels like the person that has to continue to invest in machinery in order to keep their business going.

Tobias: That's a good point.

Bill: Now, I do think that the way that the income statement works, you’ve got the spend on SG&A before you’re realizing the benefits, and with SaaS, you're not selling like a lump sum, so you’ve got to build into the cohort analysis. I get that. But, man, they're spending a lot on SG&A. if your sales team leaves, like-- Look, Salesforce just had to buy Slack.

Tobias: Yeah, that was a wild one.

Bill: One of the reasons that's being cited is, when you're playing an enterprise game, you need distribution. That is saying Slack didn’t win because their sales force doesn't have the muscle that Salesforce has. If that's what you're going to start to bat up against, then all these enterprise SaaS companies seem, I don't know, to have a downside skew to me.

Tobias: Are you saying Slack didn’t have the enterprise?

Bill: That's what I've read. I don't really know. I'm just telling you what my fear in that industry is, is you're always going to have to-- SG&A becomes your machinery.

Tobias: No, yeah.

Bill: Slack, I think they lack in distribution.

Tobias: Which actually makes more sense.

Bill: Yeah. Salesforce thinks they can buy Slack and plug it into their offering and maybe compete against Microsoft as a bundle.

Tobias: How many people do you know who use Teams?

Bill: I don't know. I've heard very mixed things about Teams.

Tobias: It's the weirdest thing. I had to log into it to use to do some podcast somewhere. It was a nightmare to log into. It was a nightmare to get connected to these guys. Slack is just so easy to use. I can't believe there's anybody out there using Teams. That's going to get a whole lot of hype now. [crosstalk]

Bill: The reason is because it's everywhere. They almost don't even have to be good products. One thing that Saurabh Madan said to me. Shoutout to Saurabh Madan, I'm not trying to drop his name or anything.

Tobias: I'll drop it. Hey, Saurabh, how you doing?

Bill: Yeah, he's a good dude.

Tobias: I've never met Saurabh face to face, but Saurabh got me my Google interview. Got my Google Talk.

Bill: Dude. He's a great guy. My buddy, Rishi, out there is a great guy, too.

Tobias: I met Rishi.

Bill: They’ve got good people.

Tobias: Saurabh doesn't work there anymore. The only two people I've ever met from Google-- That's not true. I've met quite a few people there, who I've interacted with a lot of Rishi and Saurabh. They're the only people I've encountered outside of that world. That's funny, isn't it?

Bill: Yeah.

Tobias: That's everybody who works at Google, it's like two guys.

Bill: [chuckles] I think there's more. No, I met their value invest, like a group out there. It was really nice. I think I'm allowed to say that. If I'm not, I'm sorry, folks. Anyway--

Tobias: I don't think it's a state secret.

Bill: No, I don't think so either. I did have pictures on Twitter.

Tobias: You mean you’re not allowed to have those?

Bill: No, I was. What the hell were we talking about?

Tobias: Who knows?

Bill: [laughs]

Tobias: We were in the third inning of the melt-up.

Bill: We're going to have to cut that.

Tobias: [crosstalk] --their problem.

Bill: It's an interesting time right now. I do think that in general, my perception of value was too naive when I came into this game.

Tobias: Mine too. I think everybody's that way.

Bill: Yeah, I have been able to expand my mind. I'm actually, honestly, really thankful to FinTwit for it. As much silliness goes on there, there is some accounts that have really made me smarter, and I hope I reciprocate in some way.

Tobias: It is amazing the stuff that people share on there, honestly. I'm just astonished at some of the ideas that I have seen there go through, it's just absolute blockbusters. Then I find that it odd that there are people who complain about. I'm just like, “Are you not paying attention to what's happening on this thing?” The return for time spent on is astronomical. If you’re just only complaining about stuff, I honestly don't get it. Get off, go and do something else. I don’t get it.

Bill: The thing is, man, something that I think is interesting about it is you're forced to confront. My perception of a Momo Bro is really just a different way of looking at the world. There's something about our two ways of viewing the world that clash. What I've been able to do is open my mind to why they see it that way instead of just being they're wrong. That has enabled me to adopt some of what they are correct on. I think that's made me a decent amount of money.

Tobias: Yeah, that's a good way of thinking about it. There are some guys out there who are doing real value-- like Elliott Turner, who I just talked to about, Twitter and PayPal. I love the way he thinks about businesses. I love the way he thinks about investment. That, to me, is the pinnacle of investment. If you're thinking on those levels, where you understand the business so well, that you can see what's coming through the financial statements, not needing to see it in the financial statements first. That's what gets you to that Buffett level where you're seeing through the matrix, you're seeing the numbers falling from the sky.

Bill: Yeah. I think it happens when you can really understand a business and what the strategy is in the business and who they're competing with. I haven’t opened up Charter in couple months. I really don't need to. I think I know what's going to happen next quarter.

Tobias: You've worked up a few things that matter. The two or three factors.

Bill: Yeah, but it's not me, it's like who I interact with because I get to talk to Alex and Francisco all the time. It's like where we spend our time.

Tobias: It's still the same thing. The reason it's the same thing is, it's not your idea until you internalize it. It doesn't matter where it comes from. Once you understand it, it's irrelevant where it came from.

Bill: Yeah, that’s fair.

Tobias: If you act on it without understanding it, then you're an idiot. I think about that all the time. Where do any ideas come from? You've clearly got it from someone else at some point.

Bill: Yeah.

Tobias: So, you've internalized that, now it's yours.

Bill: Yeah, that's fair.

Tobias: That's probably not intellectual property advice.

Bill: No, it's true.

Tobias: In terms of having ideas.

Bill: Well, you know what I have is, is I have the conviction to hold through a bad period. I know what I'm looking for to bail. I'm no longer looking to the market to see if I'm correct. It's like, “Okay, I know when I'll be wrong, and I don't really care what everybody else says.” That's when it's yours.

Tobias: You're an industrialist, mate.

Bill: No, man, just trying to survive.

Tobias: The real thing. That's it. I think that's right. That's the thing that separates you from being like a stock market operator guy and being an industrialist investor. I don't want to be a stock market operator guy. I want to be the industrialist side. I want to spend all my time thinking about the qualitative elements. There is something to understand the mechanics of that. Even though it's not necessarily quantifiable, there is some sort of logic to it that it should then lead you to the point where you can make better investment decisions understanding that stuff.

Bill: Yeah, no doubt. It's helped me-- I don't know that I would know how to size things if I didn't understand quality. I don’t know, I wouldn’t understand-- everybody's got to hear about it, but it's true, Qurate is my last good idea. I wouldn't understand why the debt is structured the way it is unless I understood the consumer and I understood how often she purchases. You’ve just got to understand the business to understand the cap structure because--

Tobias: That’s one of those great opportunities where you can understand-- the business is understandable, but also the incentives, like the Malone Liberty structure that sits behind it. You know those guys. You know that they know what they're doing. It doesn't necessarily mean that will work out perfectly, but you know that they're going to structure it in the right way to maximize your return as a shareholder. It's not going to leak away somewhere else.

Bill: Yeah. Something else that I think that I've learned from just absorbing things. When I came into this, Buffett was no debt. Well, you can pray to that church, or you can say to yourself, “Why does John Malone have this much debt on this entity?” and try to solve that question. Or like, “Why can TransDigm carry this debt?” “Why can Charter?” All of a sudden, the way that screens show up starts to change. I like that. That's probably why I see a little bit more value in levered situations because I take a debt-first approach to that stuff, and I don't think the equity market does too often.

Tobias: No, 100% I agree with that. Yeah. I just don't trust myself enough to understand the-- not like the metagame in debt. I understand. I can read the doc and I can understand the levels of debt and all that sort of stuff. It's the incentives of the players behind who can trigger. I've just never been in that world. I don't know how anybody thinks when they're working out where they're going to collapse on your debt and collect. That's the part that just makes me nervous because I know a lot of business guys who-- it's not unethical, but they're aggressive. They'll loan money on a convertible basis with the idea that, “If the team running, it stumbles, I'll get control of it.” That's what their objective is. it makes me nervous. Sometimes, you're on the other side of the table from that guy. Now, Malone, probably not ever going to be on the wrong side of that table. Just backing that--[crosstalk]

Bill: Yeah. Well, who do I partner with? 3G, who's not going to be on the wrong side of that table. Malone, who's not going to be on the wrong side of that table. I don't think you can do it with an average management team. I think that's suicide.

Tobias: Well, that makes sense. That's how you think about it. Yeah, that works. That's a smart way of doing it.

Bill: Because with 3G and AB InBev, first of all, that business can handle debt, and that probably wasn't the best pick I could have figured out. A lot of my thesis was like, you can't-- when you're dealing with 3G, you can't actually just pull some credit from AB InBev and expect it not to impact your Kraft Heinz relationship and your QSR relationship. You're really as a banker, you're pitching the entirety of 3G, and you're going to support the business that needs support, if you care about your bonus. It's a different debt level game. Those guys aren't playing by the exact same rules.

Tobias: Yeah. That's what I'm talking about, understanding that metagame. That's good. That helps me. [crosstalk]

Bill: That's how I see, that's how I see Netflix too. They're just playing by different rules. I think the understanding like the players and how they think, helps the valuation stuff in that game.

Tobias: 100%. [crosstalk]

Bill: I think if you don't understand it, it's a super easy pass on a lot of those things, and there's opportunity there.

Tobias: Yeah, that's interesting. I do think there's a lot more to understanding. When I think about what Buffett does, I don't think Buffett's necessarily-- Buffett's not playing a valuation game. He's playing this metagame all the time. We can see the things that he selects out of the cheap bucket. You don't really have the other dimension where you're seeing why he's smart. You can figure it out, I'm not saying you don't have it. He's clearly been playing that game for a lot longer, where he's got this industrialist's approach to the world where he's going to build out this sort of impenetrable moat around himself in all these different directions. He looks for the same qualities in the stuff that he's going to buy, and he's just not going to execute. His game is a different, it's not a valuation game. It's this metapower game, if you like. That's how he gets the great deals from-- when Goldman Sachs, he gets their gigantic 9% pref from Goldman, that's just amazing to think about because they needed his reputation as much as he wanted to give-- because they needed the money.

Bill: Yeah, I do know. My perception of a guy like Gavin Baker, he's playing that game in that cool industry. I wish I had that skill set. I don't have that skill set, though. I'd like to build it up over time.

Tobias: [crosstalk] You've got it in one pot, you've got it in debt.

Bill: Yeah, that's right. So, that's where I play sometimes.

Tobias: [crosstalk] You just apply the same rules. You just figure it out and build that slowly into different adjacent areas until you've covered a lot. That's the only thing you can do.

Bill: Yeah. Also, I've got to mention, I'm super fortunate to be able to talk to SkeleCap and stuff when I need help. That's where the community of Twitter has come in, to be like, "Dude, I know that you're on in it." When I was looking at Qurate, I had a sense of the debt package. I had a sense of how to analyze it. But I needed a debt expert to be like, "No, dude, you're not missing anything." I've built up a relationship with him over time. It was really nice to be able to rely on that guy.

Tobias: Yeah, that's cool. It's one of the powerful things about it. Dude, you've done well to network into figure out who all these guys are. That's part of the game, right?

Bill: Yeah. Well, I try to reciprocate. Yeah, it's been fun. It's a bunch of cool guys. The good guys on Twitter, they're really smart and they're really fun. It's nice. It's amazing that it exists.

Tobias: Yeah. You couldn't recreate it geographically. If you think about what it would have taken even 15 or 20 years ago, you basically you had to go to New York, you had to be on Wall Street, you had to figure out and work your way into it like that. Just think how hard that is to do. For one thing, you got to be geographically there. That's hard. Figuring out who they are and breaking into that circle, that's hard, that's impossible. Now, Twitter facilitates that. You can be anybody, you can be some 22-year-old kid who's figured out something super smart, you know how to do it. There are guys out there who definitely do, have internalized all that Buffett stuff, taken it to a different level.

All of a sudden, if you share those ideas and people like them, you can connect with those people and they'll reciprocate, and your learning is just astronomically more rapid than it could be in any other place. Now, you've got these connections on a merit basis, where maybe you go work in the hedge fund, maybe they seed you. It's a phenomenal tool. It's amazing.

Bill: Yeah. There's no barrier to entry. The barrier to entry is, “Are you going to be thoughtful and add something to this discussion or, are you going to be a dick?”

Tobias: It's crazy-- [crosstalk]

Bill: Yes.

Tobias: Why would you squander that?

Bill: I have no idea. Look at what it's done for me. I had a really important moment in my personal life, and 7000 people that were there to not only solve it, but also apply pressure on Robinhood to get changed. That's incredible. That only existed because I've approached Twitter with a give-first mentality for a while. Then, I'm able to sit here and bullshit with you because of it. It's been great. It's amazing to me that they don't capture any of this value.

[laughter]

Bill: Thank you, Jack.

Tobias: They’ll figure it out. I think they will figure it out how to do it. Dude, we met at Berkshire.

Bill: Yeah, I know.

Tobias: We met the old-fashioned way. This is the crazy thing, but without all these tools, we wouldn't continue on-- [crosstalk]

Bill: We wouldn’t have been in touch though, probably. Then you probably wouldn't have invited me on Value: After Hours to do your podcast. I wouldn't have been on the top of your head, and then nobody would be listening to this. I'd be just like talking to the middle of nowhere.

Tobias: We connected through Twitter, was it the other way we-- [crosstalk]

Bill: No. We met at Berkshire.

Tobias: I remember that.

Bill: Yeah.

Tobias: How did we stay in touch?

Bill: I think it was Twitter.

Tobias: Was it Twitter? Yeah.

Bill: I think so. Yeah.

Tobias: That's powerful, dude. That's crazy.

Bill: I know. That was a fun night that we met. I crushed wine on that rooftop.

Tobias: Yeah, that was fun. I don’t remember much-- [crosstalk]

Bill: Yeah, we met up with your Australian friends. [laughs]

Tobias: Oh, my God. Yeah. Those boys get off the leash, wouldn’t they?

Bill: I know, man. I think it was like 11:00, and you were like, “You want to go meet some Australian friends of mine?” And I knew what I was getting into. And I said, “Yes.”

Tobias: Oh, that’s danger-- [crosstalk] There are a few photos of me from that night. In all the photos, I'm like surprisingly sober relative to what's going on around me. I know I wasn't at the time, but it's astonishing. It was wild, but it's nowhere near the wildest thing I've ever been. I’m reasonably well behaved.

Bill: Oh, yeah. That's what so fun about that weekend.

Tobias: [crosstalk] -networking is amazing.

Bill: It really is, man.

Tobias: You got to hang around for the night when Jake and his business partner go to dinner at Gorat’s and the time to go in there with Buffett and Munger. Then you got to make sure you don't order the Buffett steak because it's garbage.

Bill: [laughs]

Tobias: Sorry, Warren, you're good at lot of stuff, but you order the wrong steak.

Bill: Yeah. Doesn't he like it well done or something?

Tobias: I don’t know. The only way to have them is like, the outside charred to hell and a big crust on it, and the inside still a little bit pink. That's the only way. If you're not eating your steak that way, you're doing it wrong, I'm sorry. I come from a beef cattle. I grew up in this little country town in the middle of nowhere. It's like a beef cattle area, biggest southie yards in the southern hemisphere. It was sort of bullshi. I was a steward at the local show. You have these exhibition shows where people show off their gigantic cows and stuff like that. It's very foreign to me now. Basically, I would be the one leading the cow around like the oval so they could show it to the judges and all the crowd, they're clapping like-- then they pin some pig blue award on the winning cow. It sounds very strange as I'm explaining it-- [laughs]

Bill: How do you end up writing investing books? Well, you went to be an attorney. Why'd you go be an attorney?

Tobias: In my town, if you're a professional, if you're smart, you could be a doctor, you could be an accountant, or you could be a lawyer. I think that was the three jobs that people were doing. I don't like blood, and this was like, I was knocking the horns off. I was working-- They call it a jackaroo, as you basically you go and work out on a property that's like a working cattle property and you get paid for it. One of the things that they do is they bring in a bush mob who always **[unintelligible [02:00:03]** hair, these big horns on their head and you got to knock the horns off, brand them, castrate them, ring bang them, which is basically take a ring of-- [crosstalk]

Bill: [laughs] No wonder you don’t mind taking the pain of being a value investor. [laughs]

Tobias: Right. There's just so much blood in that. At the start of the day, I was shocked when you knocked the horns off the cows, like spraying blood out top off of its head. Dude, it was shocking. [crosstalk]

Bill: Oh God. This is a family podcast.

Tobias: By the end of the day, you don't even notice that it's going on. I did it year after year, and it sickened me. I still love steak, I'm still going to eat steak. It did sicken me a little bit, the gore of it. So, I didn't want to be a doctor, basically. I thought that accounting was really boring, which is weird, because it's basically what I do now. I was like, “Lawyer looks fun, you get to go to court.” In the little country town where I came from had this famous courthouse, where it's-- I like this story. Australians have bushrangers. A bushranger, I think in the late 1800s, early 1900s, they were basically these outlaws who would roam the highways. They're basically highwaymen. They'd just stop stagecoaches and rob stagecoaches. They got this, Australians, like underdogs and criminals and those kind of stories. These guys were folk heroes of the day, so there are all these songs about these guys, like the Wild Colonial Boy, and Ned Kelly. They always make movies about Ned Kelly because Ned Kelly wore armor when he robbed. They'd shoot him, and he's in armor, he was like-- [crosstalk] [laughs] Basically, they figured out, “You’ve just got to shoot him in the leg.” Someone shot him in the leg, and he fell out and they hung him at this place. Basically, the little town-- [crosstalk]

Bill: This is the weirdest investing story I've ever heard. I know it's not investing but on an investment podcast. [laughs]

Tobias: Anybody who's hanging on to this point, it’s just all the weird stories now.

Bill: [laughs]

Tobias: In this little country town where I grew up, they had this courthouse, and I've got a painting of this courthouse that I keep now done by a local artist, John Morris, and he paints in watercolors. There was this guy, his name was Captain Lightning, everybody got a cool nickname. That was part of being a bushranger, the Wild Colonial Boy, or this guy, Captain Lightning. What happened was, he was a ringer-- he was working on a big cattle property in 18-- I need to go and look it up. I think in the 1800s. All the properties out there are huge. Basically, what this guy was doing was he got a whole lot cattle, he just picked them up one by one. He took them into a holding pen, because it took him a long time, like weeks to do this, to round all these cattle up.

Then, he drove them from Roma, which is just on the edge of one of the driest deserts in the world. He drove it through this dry desert, some astronomical distance, like 2000 miles, something like that. There's no water. It's heroic to have got this thing to Adelaide, where he's then sold all of these cattle. Then, he hits Sydney as a wealthy gentleman, because he's now got all this money. They get these aboriginal trackers from Roma and they track them across the Nullarbor Plain. They figure out where they drove these cattle, so driving is when you get that big herd and guys on horses keeping them all together over a really long distance. These aboriginal trackers track them to Adelaide. That's an astronomical feat in and of itself and they find some guy who they'd sold this big white bull, they changed all the branding. They didn't look like they've been stolen, but they sold this very distinctive white bull. They figured out that it was him who sold it, and then they tracked this guy who changed his identity to become this wealthy gentleman. They tracked him to Sydney, and they arrested him. They brought him back to Roma for trial, where if you're convicted of cattle rustling, they hang you.

Bill: Wow.

Tobias: They tie up the white bull. They bring the white bull back from Adelaide. They tie it up outside the courthouse. The inside they give this guy the trial. This was reported in the paper. They don't actually report this exchange, this little exchange is folklore from my little country town, but the rest of this is recorded in the paper as it happened. They asked the jury, "Guilty or innocent?" They say, "He's innocent, but not guilty, but he has to give the cattle back." The judge says, "Well, that's an unsafe decision. That's not a real decision. You have to go back and reconsider your decision. You have to give us-- what you said there is, he's fulfilled the elements of the crime, but he's not guilty. If you find that he has fulfilled the elements of the crime, he's guilty. Go back and reconsider your facts." They go back and they reconsider. They come back out and they say, "Your Honor, he's not guilty, and he can keep the cattle."

Bill: Wow.

Tobias: They just say, "It's an unsafe trial," he gets off. It was locals, didn't want to see a local guy get hanged basically. They decided that the courthouse was basically just a lunatic asylum. They banned them from holding any cases there for a really, really long period of time. Finally, they reintroduced it late, inside the last 100 years, they reintroduced this hearing court cases. It sort of sounds like that'd be fun, going to court, they're all these cool stories, the lawyers are actually kind of man about town, doing stuff. It just looked fun, I was like, “I'll try law.” Once you get into law school, I got a little bit smarter about some guys that had dads who were lawyers who were in the city and now they don't go back to a little country town to be a local solicitor doing property conveyance, because it will bore you silly. Like go and do mergers and acquisitions in the city. I was like, “What's that?” They explained it to me, I was like, “Oh, that does sound like fun.” Then I worked into a big firm, and then the big firm transferred me to the States.

All through that period, I was reading Buffett, and I was trying to get to that level. That's the trajectory.

Bill: When did you start writing *Concentrated Investing*?

Tobias: That was 2016. When did I start? 2015, something-- [crosstalk]

Bill: You did *Quantitative Value* first, and that was what 2012-ish?

Tobias: That was with Wes. I think it came out right at the end of 2012.

Bill: That makes sense. Then, when how long did it take you to do *Deep Value*?

Tobias: I turned *Deep Value* almost immediately. There was a little delay in it coming up. I think it came out August 2014. It had been December 2012. It wasn't much, it was 20 months or something in between-- whatever it was, 18 or 19 months between them. *Deep Value* just came out in one go.

Bill: What?

Tobias: Yes, buddy. I'm doing something, amigo. Sorry.

Bill: It's all good.

Tobias: What we were talking about?

Bill: *Deep Value*. You sat down and you wrote *Deep Value* in one go? Not one go, but quickly?

Tobias: It was ridiculously fast. It was three months or something like that.

Bill: That's crazy.

Tobias: I had the idea for so long. I wanted to write the book for so long. If you give it that long, it's sort of rights yourself in your mind. It's the same thing with this one I'm writing now. I've been trying to do it. I think I've been trying to do something for about a decade. I've partnered with two guys to help write it and they've both fallen through. I just wanted to get the idea down, but I didn't have the time to do it. Now, I’ve finally got enough time that I can start writing again for this thing. I feel the same way when I was writing *Deep Value*. There's this single strong insight in it that I find fucking game-changing for me.

I want to apply these things in my life, so I'm 100% sure it's going to resonate. That sounds very **[unintelligible [02:08:46]**, but I feel it's going to resonate with people who-- maybe not a lot of people because I think you need to spend a little bit of time in value, and you really need to have been converted to that more Buffett's style of value, or the game that they're playing. But I think within that small community, it should resonate with those guys. I feel good about it.

Bill: I don't know, man. I think people are going to be interested in reading a book like that from you. As long as it's good, I think you're going to have-- there's a lot of interest in people that are morphing to quality. I think that's an interesting transition. Not that you're abandoning value or anything like that. But the stuff that you were talking about integrating is not the stuff that you've talked about in the past. It's different.

Tobias: Yeah, it's true. It's definitely a different way of thinking. I don't dispute that at all, but--

Bill: It's not inconsistent. That's not what I mean to imply.

Tobias: No, I don't think it is either. I just don't think that's quality, so much like it's a quality-- it's not even quality. Quality is-- Of course, it's going to be undervalued and of course, it's going to be quality. Those two things they're just givens to do this, but it's more than that. There are three factors. There are only three factors. Now, is the business impregnable? Is the business inevitable? Is it one of those businesses that is just that strong? Is the management team one who understands investing? Is it a management team like the HEICO guys? Is it a Buffett? Is it a Malone? I don't mean someone who is quite good. I mean, someone who is an absolute stud in that area who you just know he's going to do a good job. That calls a lot of people, because I think half the firms out there are just actively fucking over their shareholders. There's a lot of them.

The compensation scheme is just too big. They're selling shares in the market every day. They don't care about the business. They don't care about the people who are in business with them. I don't want to be in business with someone like that. If you start thinking about how do you ruin yourself in this business? How do you make yourself invincible? How do you make yourself fragile? How do you make yourself stronger? That's the only two things that I'm thinking about. Does buying this thing make the thing that you're running, the enterprise-- yourself, whatever that vehicle is that you're buying it in, does it make it stronger? It does it move it towards invincibility? Does it introduce harmony and variety and all these other qualities that you need?

It's not a departure from value at all. It is part of value, but it requires all these other components too. Otherwise, you just don't do them. The reason that you want them is that you want-- I use Berkshire as like-- I sound like I'm obsessed, and I guess I am a little bit obsessed. I use Berkshire as the example, that's the exemplar. That's the pinnacle of what you can get to. So, everything else you're like handicapping on some-- You're never going to get as good a capital allocator as Buffett.

Bill: Amazon, people would argue, but we'll see. I don't disagree with you. I think from an investor's standpoint, Berkshire is a pretty good shrine.

Tobias: That's fair point. I do think Bezos is in that category of people who I have just described, and I would say Amazon is in that category of business level quality.

Bill: They're industrialists. Bezos, what he's building requires industry. It's a different skill, and to be able to pull that off in a capital-light manner in a different way that Buffett did, that's pretty freakin' impressive.

Tobias: That's what I'm looking for. The name of the book is *Invincible Industrialist*, that's what I'm thinking. That may change, may not have either of those two things by that it comes up. That's what I'm feeling at the moment. I think that's what Buffett is. He's this invincible industrialist. I don't mean literally invincible. I'd probably get COVID and die tomorrow, I'm not talking about that necessarily.

Bill: No. You're saying his business has been set up that it can weather any storm.

Tobias: Yes. But also, part of that is like you have to be-- one of the parties you're dealing with is the government. You have to have good regulatory relations too. There is something amazing about Uber too. Uber does run this risk that-- they're actively ignoring regulations in many places.

Bill: Yeah, Uber's got, I think-- I don't know, that's got some risk attached to it in many different ways.

Tobias: I 100% agree. If you think about that business though, that is a phenomenal business that can't be replicated.

Bill: For sure.

Tobias: There's some harmony issues there. There's harmony issues with the drivers, harmony issues with regulators in California and other places. They don't run the business necessarily. If there was one industrialist in that who owned like 40% of it, I don't think they'd be issuing stock the way they do.

Bill: I don't know enough to really know if this is true, but I've also heard their culture is super cutthroat. That said, so is Amazon's, and it works for them. It's a matter--

Tobias: Is Amazon cutthroat?

Bill: Oh, yeah, man. Oh, yeah. I've heard stories of Bezos just skewering people in front of an auditorium of other people.

Tobias: Okay.

Bill: There's a lot of accountability there. I don't know if it's healthy, but you know what? It works so, what are you going to say?

Tobias: Buffett doesn't do it.

Bill: Yeah, he might outsource that.

Tobias: I keep on thinking, you can simplify your life just by deciding there are things that you want, there are just categories of things that you won't do, as an investment I'm talking about, and probably in your life as well. I don't even know if I have the discipline to do it, but I just think that you can exercise this monk-like discipline, which is what I think Buffett does. He's got this monk-like discipline, where he just does not-- he won't take on anything that has any of that risk attached to it. I think if you can get to that level where you're batting like that, then I think you can create a portfolio over time that has those qualities in it. I think it's incredibly difficult to do it.

I always used to say, the guys to work for, Troy Harry, shoutout to Troy. I know he doesn't listen to this stuff.

Bill: He might.

Tobias: Yeah, now he might. The thing that he did, he had a simpler investment strategy on what Buffett was doing, because he's looking more undervalued assets, where there can be a catalyst, and he can introduce the catalyst. He's still got the same-- when I look at the guys who I know who've been very successful investing their own money in the market, who've really compounded at an astronomical rate to make themselves individually wealthy as a result of doing that, they do all seem to have this-- there are lots of guys who **[unintelligible [02:16:15]** options too. I should be careful about this.

Bill: Yeah, but you're talking about the investors, so you really--[crosstalk]

Tobias: The ones who I respect-- that's exactly right. They do have this monk-like ability to just ignore almost everything except for something that fits their profile perfectly. That's how you become great. Everybody is seeing those pitches and recognize them for what they are. But the guys who are great only hit those things.

Bill: Adam Robinson said this in a different way on a Tim Ferriss podcast. He said that, in his opinion, the guys that are really great, they have one specific nail that they're looking for. They don't necessarily carry a hammer and try to hit every nail. They are looking for “the nail.”

Tobias: That's what I would like to do in a discretionary vehicle. That's what I'm trying to get to that point. I think it's an incredibly difficult thing to do.

Bill: It's really hard to watch stuff happen around.

Tobias: Yeah, 100%.

Bill: To just be like, “Okay, I'm not doing anything,” that is a real skill.

Tobias: This is the thing that I like about value. Value investors have a code. You have these rules of conduct in the way that you manage your portfolio. As you get closer to Buffett, you have these rules of conduct about the way you engage with the world as well. Buffett, who has done incredibly well to create this harmony in the world, he's elevated what he does, he's not a rapacious capitalist industrialist the way-- the lead industrialist of every other generation has been, because he recognizes that that invites like, do you want an Ida Tarbell-- John D. Rockefeller got taken down in his famous book by Ida Tarbell, it ruined his reputation, introduced all the anti-trust legislation. She basically took him down, because he was the great robber baron of his day. It's been true. All of these guys, over the years had to face some kind of attack. Buffett's just understood those lessons and said just bring harmony, don't invite those attacks. When you read his letters, he's just telling everybody what he does without telling them about that third dimension that you can't understand anyway. He's just telling them about the value part.

Even early on, when he liquidates the first business, and he's like, "Holy shit, you don't want to do that. Don't liquidate." Then he writes about the liquidate-- sort of slow liquidation of Berkshire, like the spinning mills, that part of the business. He's like, it wouldn't have satisfied Karl Marx or Adam Smith. He's already thinking, you got this risk from-- revolution is a risk. It happens all the time around the world. He's thinking in those terms. He's like nuclear weapons are risk. All he does, his radar is all risk and look for that singular pitch.

Bill: Yeah, I think that's right. I think that's why Munger has said that they're willing to pay a much higher price than most people are for a quality business. The way that I reconcile that with inaction, is their definition of what that business is and what is bankable and underwritable is so much lower than everybody else's that like-- Yes.

Tobias: Even having said that, Buffett doesn't swing until it gets quantitatively cheap. Apple sat there for a long time, then it kind of swooned and he just bombed it. You think about the monk-like discipline that takes to just sit there for a decade basically doing nothing, waiting for that pitch.

Bill: Dude, look at the cash he's sitting on right now. He's got to be going a little bit nuts inside, but he's not, because he's Zen.

Tobias: The final part of my book is this part on stoicism because it's incredibly helpful. The stoics and the Zen guys are very similar. They've got very similar approaches to the world. The only difference is I think that stoicism is a little bit more practical because it doesn't require this-- Zen requires some meditation. The stoics just think about it as you're going to sleep. They're much more day-to-day practical and their objective is be unperturbed by what's going on around. That's the mindset that you need to become invincible in the stock market. You need to start thinking. You just FOMO. It's not that you're above it. You don't recognize it because you don't feel it. You're trying to hit your nail, as you say. You're just looking for that nail and you can't hear anything else going on around. You're just sitting there waiting patiently for your nail.

Bill: Yeah, I've gotten closer to it. I've got a long way to go.

Tobias: We all do. I want to write the book in some ways to hold myself publicly accountable. I want it to be out there. Then, I want people to say, "Well, what is his version of this?" Then to go and look at what the thing holds and say, “Well, that doesn't meet the criteria.” That would be awful if that was to happen. I want to build in as much as many of these psychological behavioral ties so I can't get back on it. Anytime I do anything, it would just be embarrassing for it to not meet these criteria if somebody could just point out the fact that you missed.

Bill: What does your current structure do to preclude you from making that? Does it preclude you? Does it make the transition harder? You know what I mean?

Tobias: I don't think that you can do one thing to-- just to move away from what I've just said. I do think that the long-term returns that more deep value quantitative style are going to be the better ones over the very long term because I don't think there's so much doing the second thing as a purely return. It's a risk-return thing in the sense that what are you aiming for is no risk. Then, any return that you can generate above that, that's alpha, that's free return the way that I think about it. Risk-free return, if that makes sense. Not that that's--

Bill: I understand what you're saying.

Tobias: None of this is investment advice, but I'm just saying that's the object. Mentally, that’s what you're trying to create. [crosstalk]

Bill: Yes, you're trying to wait for a situation that the downside is so low that your perception is that it's riskless, and then you're trying to bet it. So, any return over accepting that risk--

Tobias: That's it.

Bill: --is risk free to you. Whether or not it is in reality, is a different story.

Tobias: Right. I still think that that that extreme level of choosiness will generate-- That will be a portfolio that will just grow and compound over a very long period of time. But I do think that you can take a little bit more risk at a deep value kind of level and generate returns that justify the additional risk that you're taking there. I do think that you're going to get higher returns. I think they're going to be more cyclical because I would have said that-- I think that the invincible one will be less cyclical because you're always trying to price the growth appropriately. I think that the value one sometimes misprices growth. For the most part, it does a pretty good job of just not making mistakes. It's not going to blow itself up. It's not going to buy the wrong thing. It should generate reasonable returns for the risk that it takes. It's just that the other thing is trying to generate returns for no risk.

Bill: Yeah, that makes sense. Your ETF can just run itself, it doesn't require active, so you can focus on both.

Tobias: There's a lot of bullshit in the back. There's a lot of compliance and work. There's a little bit more than that. But it doesn't require anything-- There's lots of free time to do other stuff.

Bill: Yeah. How'd you think of the podcast--? I guess there were podcasts, but how did you think of Value: After Hours?

Tobias: What did I see for that? I don't know. I was going through this period of time where I was really enjoying-- I was watching Rogan on YouTube. I was watching all these podcasts guys that I could find on YouTube. I was like, “This is amazing.” If you go and watch his early ones, he's just sitting in his kitchen. Isn't it crazy how he's basically got a talk show? That's the best talk show I've ever heard. There's none of this fake bullshit in it. He gets some good talk for a long enough time that he actually starts saying what he really thinks. First few times that I watched it, I was like, “Holy shit, this is what this guy actually thinks.”

[laughter]

Tobias: “This is crazy. Why would you tell anybody what you think?” The problem that I have with the other podcasts is that no matter how casual you make it, everybody's selling something. I'm not going to hang anybody for that because I'm the biggest sales guy out there. That's only because I've done this enough times and failed enough times, I'm just not going to let this business-- I just will not let anything fail at all ever. Whatever it requires to get it across the line, I'm going to do that. You’ve just got to keep your word-- I love that. Who's the guy who built CNN? Ted Turner. He's got this great line where he's like, “Early to bed, early to rise. Work like hell, advertise.”

Bill: There you go.

Tobias: I was like, “That's my man.” That’s me.

Bill: You're a good marketer, man. You got that game figured out, but you hustle.

Tobias: Well, here's the thing. I am like everybody else. I understand what everybody else wants in this market. I have hunted for it myself and I found it, and I want to tell people about it. I couldn't sell something that I didn't believe in. I found it first for myself. I was like, “You know what? I'll just tell everybody about this thing because it's amazing. I think it's a good insight.” It's also the way I feel about this other book. I do think that people will read this and think-- I don't think that any of its new at all. It's definitely not new. I do think it's like a new synthesis, or it's a new like-- it just highlights things that you knew forever. But you're just like, “That's exactly right. I couldn't articulate that, but I have sensed that and known that.” I have those conversations on the podcast all the time.

Elliot Turner has some great ones, where he says something and I'd never thought about it before when he said it, I was like, “That's 100% true.” That's a truth but I didn't know that I needed to hear. One of them, he said about eBay owning PayPal. He said it should have been the other way around. If PayPal owned eBay, that would make so much more sense. I was like, “That's exactly right.” PayPal withered within eBay, which is a weird-- If eBay was something that PayPal had offered, that makes a lot of sense.

Bill: Yeah. Hmm, I haven’t thought of it that way, but that does make a lot of sense. Yeah, Elliott's a smart dude. I like talking to him.

Tobias: I got some good insights. I think have had this one with this *Invincible Industrialist* thing, I just want to tell that story, because I'm interested-- part of it is like, I want to hear from other people. I get that same feeling when I'm talking to Elliot. Elliott understands a lot of these things. I'm just talking about Elliott a lot because I just interviewed him this morning, it's top of my mind. When I think about conversations that I have with other guys who are operating at a really high level, I feel they're saying exactly what I would think that they would say, having read Sun Tzu and not read any investment stuff, do you know what I mean? It's uncanny the connection between the two thought processes.

Bill: Yeah, I think in order to be good at that game, if you're going to play the quality game, I think you have to get to the point where you can think strategically about assets and what would be in better pieces and stuff like that. Otherwise, it's really hard to--

Tobias: Do you call that a quality game? I think the quality is like part of-- it's of it is value, part of it is quality, but it's the strategic part of it is the part that I am interested in. It’s that metagame part of it that I'm interested in.

Bill: I guess that I don't know how to define quality without that because I think if you're going to take a qualitative view on something, that's a component of it.

Tobias: [crosstalk] Yeah. I think we're both saying the same.

Bill: Yeah, I think so too. Maybe I'm just using a different term.

Tobias: When I think quality, I'm thinking more like the factor.

Bill: Yeah.

Tobias: Not that I think they want to think about value, but the quality factor would just be cash on the balance sheet, rather than debt. The way that an old value investor would have gone through and calculated the quick ratio, they just go through and look for those things. Is this a healthy balance sheet with it? Is this a good business?

Bill: Guys like me, and Francisco and Alex. What we talk about all day is, a lot of it's about media strategic assets, and where should things be and why are certain things here? How would you attack it? Those are the conversations that we have more often.

Tobias: That's a third thing that sits by itself. That is the most difficult part of the game to understand. And then, it's the most rewarding part if you can understand it. That’s where Buffett-- [crosstalk]

Bill: I don't know how you can do a valuation without it. Like a really good one.

Tobias: I couldn't agree more. I feel that way about quality and value. When someone says something is undervalued in whatever measure, it's almost irrelevant. Unless the quality is undervalued, it's not worth having a go at it at all. It's what I think about it. Then I do think that what the quantitative stuff misses is exactly that strategic plan, which I think is the hardest game to play. I don't think it'll ever be played by a computer. So, I think it's a game that it's worth learning. I think it's a game that you get better at as you get older. You just get more experienced, I mean, rather than older.

Bill: Yeah, I think you've got to turn over a lot of rocks. I should probably be better about reading old case studies and stuff like that. But it's a fascinating way to live life more than anything. If you really get interested in that stuff, it changes your entire lens on the world.

Tobias: Yeah. Literally, that's what I think of real as most of the last few years, it's just that there is this big metagame being played all the time in government and business, and the big industrialists out there. You have to understand how that game is played so you don't get squashed by one of the giants as they're walking around. You've got to get better at working out at the-- being on their side, being pushed ahead by them as well rather than just being in a direction that the world's not going. That's a very, very difficult game to play.

Bill: No doubt. That's why when I--

Tobias: But [crosstalk] if you can figure it out.

Bill: Yeah. Well, and that's why I'm not that comfortable playing it without somebody's big track record behind it. If you look at my portfolio now, literally the top four of the top five positions are Malone, Malone, Buffett, and Nick Howley at TransDigm.

Tobias: I think that's how you do it. That's literally how it's played.

Bill: Well, how else would I do it? I need the guys that know how to play it.

Tobias: There's no other way to do it.

Bill: That's right.

Tobias: That's the only way to do it.

Bill: Yeah. I think so.

Tobias: Literally the only way to do it. You need guys in there who are running it, who are those kind of guys. That's what I missed for a little while was when I was thinking about the quality of the management, they're like, "It's just the quality of management." It's not this sliding scale of guys who get it. It's just like that they're either those guys or they are not.

Bill: Yeah, that's right.

Tobias: If they are those guys or someone who is like them, I don't mean to say that there aren't other people out there who-- They're clearly are, lots of guys out there. If they are--

Bill: [unintelligible [02:33:30] and Iger.

Tobias: Right. They're either industrialists or they are not. If they are not, then you don't want to be there. If they are, then proceed on to the other, things that you're going to do-- like the valuation questions and the quality questions.

Bill: Yeah. Man, there was this guy that Real Vision interviewed from Europe, and I love how he-- he only will buy into family-owned companies.

Tobias: Oh, dude, it's Tony Deden.

Bill: I love his outlook at the world. That's really smart. Edelweiss-- [crosstalk]

Tobias: He's the other guy who I think does it. Edelweiss, that's exactly right. Yeah. He's another guy who **[unintelligible [02:34:11]** but I 100% agree.

Bill: Yeah, he's among the investors that I respect the most. That guy is the guy that I want to be.

Tobias: He's thinking in his terms, yeah. That's it. 100% agree.

Bill: Yeah. No doubt.

Tobias: I think to be fair, though-- he's definitely trying to run that thing like it's invincible. He's definitely doing that 100%. He's holding some gold and some other things-- [crosstalk]

Bill: Yeah, I don't care if I would do it the same way, but I respect who that man is-- [crosstalk]

Tobias: Yes, I agree 100%.

Bill: That's what I'm trying to become.

Tobias: Yeah. [crosstalk] Couldn’t agree more.

Bill: All right. Man, on that one, I'm going to have to wrap this up because it's been a while. I actually have to go get dinner.

Tobias: That was awesome, dude. That was fun.

Bill: I enjoyed it. I hope other people do too. I'll talk to you soon. I had a great time.

Tobias: All right-- [crosstalk] Yeah, me, too. Peace.

Bill: All right, see you.

[outro]