

Blog Post: Pender's Summer Holiday Reading List – June 2019

David Barr

[Thinking in Systems: A Primer](#), Donella Meadows and Diana Wright (Editor)

I picked up “Thinking in Systems” after it was shared by Rishi Gosalia, a data scientist at Google who I met at the MOI Zurich Project in 2018. I am often curious to read books recommended by interesting people who are also value investors because it pushes me to think about the world in a different way.

“Thinking in Systems” was written by one of the leading environmentalists of the early '70s, Donella Meadows. It was the follow-on to her first book, “Limits to Growth”, for which she published a 30th anniversary edition shortly before her death in 2001, along with a draft of “Thinking in Systems”.

The book describes how the impact of some of the challenges facing the world, such as poverty and the environment, can have magnifying effects with positive feedback loops. I saw a lot of analogies between Meadows' ideas and what is going on in terms of moment-based trading and ETF trading in the markets today.

At Pender, we're always trying to think outside the box, and reading books like this is one way to do that. It helps to try to get a better understanding and develop mental model of how markets are evolving and how we can potentially take advantage of that to generate returns for our unit holders.

Felix Narhi

[Everything is Obvious: How Common Sense Fails Us](#), Duncan J. Watts

This engaging book about sociology shows you how common sense is not as reliable as you think it is. Instead, this book explores how you can improve the way you or your company make decisions with more scientific and statistically grounded methods.

This book helped me clear up some muddled thinking. I don't mind reading books that make me uncomfortable, because it is often the best antidote to confirmation bias. This is an increasingly common problem in a world where the personalization of Google searches can amplify your existing biases multifold. It is much more pleasant to read something you already agree with, but this can lead to blind spots and further harden world views that are at odds with reality. If you want to be a more rational thinker, you need to see the world as it actually is, rather than how you wish it to be.

The book has many fascinating lessons about human behaviour – both at an individual and collective level. One of the most applicable lessons to investing, in my view, is that *“we learn less from history than we think we do, and that this misperception in turn skews our perception of the future.”* Many investors lean heavily on history for their decision making. However, it is important to appreciate that history is a very fickle teacher. And it is only run once. History frequently provides a compelling narrative *after the fact* which appeals to simple common sense. There are times when history can be a useful guide, but more often it can be misleading. From a scientific view, *history usually teaches us nothing*. The difference between when history might be useful or not is also obvious, but only once you know the answer.

[Loonshots: How to Nurture the Crazy Ideas That Win Wars, Cure Diseases, and Transform Industries](#), Safi Bahcall

Forward looking business leaders ask, “How do you deliver performance today while also developing the products you’ll need in the future?” The reality is that the strategies and skills required to support existing franchises are profoundly different from those needed to develop new ones. Bahcall’s book “Loonshots” explores the organizational structure needed to nurture such radically original projects. These projects are initially discomfiting and imperfect, and thus often *die on the vine* due to neglect and/ or organizational resistance. However, the successful ones become the seeds which grow into valuable franchises and are the source for much of the value creation and scientific advancement in the world. Arguably, nurturing such projects is even more important in today’s rapidly changing world. In particular, the author emphasizes the need to separate creative “artists” and execution-oriented “soldiers”, allowing the members of each tribe to do what they do best. Ultimately, success depends on a balancing act between the two groups.

There are many interesting stories in the book, including how radar was initially ridiculed and neglected by the US military but ended up being instrumental for the Allied victory in World War II; how Charles Lindbergh was the unlikely contributor to the rise of Pan Am airlines; why Facebook succeeded while Friendster didn’t and, notably, deep insight into drug development, amongst others. It is a fascinating read. It also reinforces our belief in being open to investment ideas in organizations where such “loonshots” can flourish and which provide upside optionality for the future.

Geoff Castle

[Do You Sincerely Want to be Rich?](#), Charles Raw, Bruce Page and Godfrey Hodgson

Recently, I re-read a book I first read fifteen years ago at the behest of then-AIC Bond Fund manager, Randy LeClair, which has the engaging title, “Do You Sincerely Want to be Rich?” Written by a team of reporters from *The Sunday Times*, the book chronicles the rise and fall of one of the first great charlatans of the investment fund business, Bernard Cornfeld, and his highly “innovative” mutual fund organization, Investors Overseas Services (IOS). Anyone who has been in the money management industry will smile at the sheer audacity of Cornfeld’s operation which, for a while, profited from extreme investor naivety and the lack of transparency of capital markets of the 1960’s. The authors cover the rise of Cornfeld from Brooklyn student communist, to psychology-focused sales guru, to his ultimate role of deeply conflicted salesman/promoter/investor. There are no more nine percent sales commissions and regulators have now more or less prohibited the co-mingling of fund promotion and corporate activities, but many of the scandals and outrageous behaviour that led to the demise of IOS will be recognizable to contemporary readers, as are the character archetypes. Thanks to the internet, copies of either the original 1971 edition or its 2005 refresh are readily available.

Maria Pacella

[The Rainforest: The Secret to Building the Next Silicon Valley](#), By Victor Hwang and Greg Horowitz

I recently had the pleasure of meeting and hearing a talk by one of the author’s, Greg Horowitz. Horowitz and his business partner, Hwang, co-authored a book that uses the model of a rainforest to describe how innovation ecosystems, like Silicon Valley, are designed, built and thrive. These innovation systems are not like plantations, which are controlled, accurate and precise, but more like rainforests, which can be non-linear, non-predetermined and sometimes chaotic. Rainforests provide the atmosphere that allow raw elements to come together to create new species that are greater than the sum of their parts. A

successful rainforest is based on having the right ingredients, which in large part comes down to human factors: “diversity of talents, trust across social barriers, motivations that rise beyond short-term rationality and social norms that promote rapid, “promiscuous” collaboration and experimentation among individuals”. The good news – we can build a rainforest anywhere with the right ingredients!

[Billion Dollar Whale: The Man Who Fooled Wall Street, Hollywood, and the World](#), By Tom Wright and Bradley Hope

On the back of last year’s Theranos scandal comes another, but on a global scale. The book is about the unprecedented fraud and hubris at one of Malaysia’s sovereign wealth funds, 1Malaysian Development Berhad (1MDB). Through a series of connections one individual, Jho Low, manages to become the mastermind behind the fund, using it to leverage even more dollars fraudulently and entangling others in the process, including Leonardo DiCaprio, Goldman Sachs and Deutsche Bank, to name just a few. There are sure to be many movies made about this one and, ironically, they funded *The Wolf of Wall Street*. Sadly, in this case, Malaysian citizens are left holding the bag. A big shout out to investigative journalists around the world who are the ones to call out bad actors and hold them to account.

Sharon Wang

[Poor Charlie’s Almanack: The Wit and Wisdom of Charles T. Munger](#), Charles T. Munger

Amongst the many things I learned during my trip to Omaha in May, Charlie’s quick wit was the most impressive. I decided to read “Poor Charlie’s Almanack”, hoping for another dose of Charlie’s wisdom. I definitely got what I wished for. Through a collection of speeches and talks by Charlie, the book demonstrates how a legendary investor structured his way of thinking. It goes beyond investing, providing more of a mental framework for life, learning and decision making. It resonated closely with much of what we do here at Pender. For example, Charlie suggests that success in life is not so much about having great strokes of genius but rather, it is about avoiding folly; patience and preparation are key to success; knowing your Circle of Competence, and so on. The book is long but very entertaining if you like Charlie’s blunt sense of humor. Please read it for yourself. As Charlie famously puts it, “I have nothing to add”.

Amar Pandya

[Big Mistakes: The Best Investors and Their Worst Investments](#), Michael Batnick

Investing is a humbling pursuit for every investor, regardless of knowledge, intelligence and fortitude. Every investor has made at least a few significant, costly and embarrassing investment mistakes at some point in their careers. The majority of books on investing focus on the insights and strategies of investors who have long, successful track records. While there is considerable value in these observations, which provide teachings and strategies that can be implemented to improve investment outcomes, we find there is greater value in learning from the mistakes of successful investors. This is especially true when you can benefit from the wisdom without having to deal with the actual consequences. Big Mistakes explores the investing mistakes made by many of the most successful investors in history. It identifies the errors made, the lessons learned and the strategies that can be implemented to avoid losses and maximize the probability of success.

Kenndal McArdle

[Mindset: The New Psychology of Success; Carol S. Dweck](#), Carol S. Dweck

I first came across Carol S. Dweck in her 2014 TED talk, “The power of believing you can improve”. Since then her work has been evangelized by multiple corporate executives, none bigger than Satya Nadella, CEO of Microsoft, who is leading the charge on arguably the greatest turnaround of the decade. Nadella’s conversation with former Zillow CEO Spencer Rascoff in his podcast [Office Hours](#) solidified my interest in picking up the book and diving deeper into Ms. Dweck’s work. Another reason for my desire to finally read the book after years of peripheral knowledge is that my eldest is starting school in the fall and I am hopeful this book will provide practical parenting advice in how to foster a growth mindset from an early age.

Rolf Dekleer

[Genius: The Life and Science of Richard Feynman](#), James Gleick

I just finished this amazing biography on one of the most interesting and eccentric characters of 20th century physics. I have a close association with D-Wave which is leading the charge in developing commercial quantum computing systems and software and, as such, I have a deep interest in quantum physics. Richard Feynman was a genius. “A giant of twentieth century physics” who is best known for his work in quantum mechanics. He was the first person to postulate on the possibility of a quantum computer, asking “What kind of computer are we going to use to simulate physics?...Can you do it with a new kind of computer - a quantum computer?” Feynman was well known for his unconventional way of solving problems, often reaching conclusions ahead of peers who took a more logical, linear approach to a problem. He was clearly a complex and colourful man. While this book documents Feynman’s life and work, especially his scientific accomplishments, it is engaging and accessible for a non-scientist like myself, and I certainly learned a thing or two.

Tracy Tidy

[Zero to One: Notes on Startups, or How to Build the Future](#), Peter Thiel with Blake Masters

Founder-led companies are one of the key predictive attributes that we are always looking for at Pender. Peter Thiel is the co-founder of PayPal, Palantir Technologies and Founders Fund. In his book, “Zero to One”, he talks about the various attributes that are needed to build a successful start up company. The premise of his book is based on building companies that create new things; he believes that going from nothing to something is the biggest leap. He separates progress into horizontal progress or globalization, where adding more of something familiar just takes us from 1 to N as opposed to vertical or technological progress where creating new things takes us from 0 to 1. The book is full of insights that initially appear counterintuitive but provide a thought-provoking and optimistic view of innovation. The author draws on his various experiences as a founder to conclude with seven key indicators which he believes are necessary for successful start-ups.

[Gridiron Genius: A Master Class in Winning Championships and Building Dynasties in the NFL](#), Michael Lombardi.

At our recent 10-year Investment Conference, we were very fortunate to have Michael Lombardi as our keynote speaker. He spoke about culture and leadership and the importance of culture to the success of the top football franchises. He explains that the most important job of any leader is to maintain that culture by demonstrating it every single day. He takes this one step farther and draws parallels between

football and business. In his book, “Gridiron Genius”, he draws on his many experiences working with legendary football coaches and takes a deep dive into what makes leaders successful. This focus on leadership and culture really resonates with some of the key issues we are looking at when analyzing people-based companies at Pender.

Tony Rautava

[Dealmaking: The New Strategy of Negotiauctions](#), Guhan Subramanian

Subramanian writes about negotiation and auction theory and how business transactions include elements of both negotiations and auctions, hence the term “negotiauction”. The question he explores is how any party to a transaction can navigate, to their benefit, the middle ground between negotiations and auctions. Subramanian does not provide a universal answer but highlights several case studies on how dealmakers act as process-setters. He breaks down the mechanics of process-setting into three moves: setup moves, rearranging moves and shutdown moves. He shows how these moves are used to manage the interconnectedness of across-the-table negotiation dynamics and the same-side-of-the-table auction dynamics. Process-setting is commonplace in personal and corporate transactions and this book provides an analysis showing how negotiating the deal process can be as important as negotiating the deal.

Parul Garg

[Shaky Ground: The Strange Saga of the U.S. Mortgage Giants](#), By Bethany McLean

The book is about two controversial entities: Fannie Mae and Freddie Mae, which have been unsolved mysteries since 2008. I am currently reading this book as part of my research, given we are, at the time of writing, invested in the preferred shares of Fannie Mae.

McLean provides high level context on how these two entities are caught up in the battleground between Wall Street and politics. It is a complex saga with no imminent solution. Today, although Fannie and Freddie are profitable again, they are still in conservatorship (neither fully nationalised nor private).

One can use “Shaky Ground” as a good short reference book for needing to understand how Fannie and Freddie emerged from the 2008 US mortgage market crisis.

Victoria Zhang

[Crossing the Chasm](#), Geoffrey A. Moore

Customers have a different pace for adopting disruptive technology over the lifespan of a new product. In Geoffrey A. Moore’s book “Crossing the Chasm”, the author discussed marketing strategies primarily for technology companies with disruptive products, but the idea applies to other industries as well. Moore classified customers into five categories of the Technology Adoption Life Cycle: Innovators, Early Adopters, Early Majority, Late Majority and Laggards. He believes that in the flow from one group to another, the biggest gap, the “chasm”, exists between Early Adopters and Early Majority, and this should be the marketing focus of any companies. The book describes the process that a business needs to go through to find its niche market, dominate that market and then use that as the reference point to achieve penetration to mass market. The author is a big advocator of a market-driven approach which utilizes the power of “word-of-mouth” and takes advantage of networks effects to gain market share. His insights are instrumental for entrepreneurs to form marketing strategies which also need to be adjusted constantly to sell to the next group down the line. Overall, Moore is a great storyteller—he highlights potential perils

and hidden challenges along the road, and supports his points using examples that are simple and to the point.

Lukasz Darowski

[The Speed of Trust: The One Thing that Changes Everything](#), Stephen M.R. Covey

In his book, Covey contends that trust and the speed at which it is established with stakeholders is the foundation for any successful organization. In my role as a trader, trust is crucially important; in fact, I would not be able to do my job without it.



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