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Blog Post: Pender's Summer Holiday Reading List – June 2018

David Barr

One of the things I love about the summer is that you get away from the office and have the chance to reflect. I can think about our investment process and I have the opportunity to make changes and input new learnings, all of which will help to improve the investment process over the long term.

This summer I am going to focus on management teams and cultures. I am recommending three books, two of which were recommended by participants at [MOI's Zurich Project](#).

[The Culture Code: the Secrets of Highly Successful Groups](#), Daniel Coyle

We invest a lot in technology companies, where the people are the main asset. So having an understanding of cultures leads to a better understanding of businesses and in turn to where there might be sources for competitive advantage over the long term.

[Spy the Lie: Former CIA Officers Teach You How to Detect Deception](#), Philip Houston and Michael Floyd

The second book also deals with management teams and was written by a couple of ex-CIA agents. This book should give us some insight into who is potentially trying to mislead us.

[Investing Between the Lines: How to Make the Smarter Decisions By Decoding CEO Communications](#), L.J. Rittenhouse

The third book is more about reading through the written materials generated by companies. It should give us more tools to parse CEO and management communications to find out what's hidden in the words they are saying.

Felix Narhi

[How Do You Know?: A Guide to Clear Thinking About Wall Street, Investing & Life](#), Christopher W. Mayer

I recently read *How do You Know?* by Chris Mayer, author of [100 Baggers: Stocks that Return 100-to-1 and How to Find Them](#). Unlike his previous books, this one is not about investing per se, but about clear thinking and how one can embrace intellectual honesty. It's certainly not a breezy read while sitting on a beach somewhere. The book can be disorienting at times, and I am sure many people will find it less than satisfying, in part because they may have to destroy some of their best loved ideas (and who enjoys that?).

Nevertheless, I think some readers will find parts worthwhile if they are willing to be radically open minded. There are a number of interesting ideas. Mayer summarizes his four main propositions:

1. Our world changes continuously; nothing stays the same;
2. No two things exist exactly alike;
3. Observer and observed create what the observer sees;
4. We can never know all the details; we always leave things out.

Much of what we believe to be true should, in fact, be questioned. So how do you know? Taken at the extreme, the honest answer is we don't really know. And we can't.

Geoff Castle

[Principles](#), Ray Dalio

Ray Dalio's *Principles* is a highly readable work, focused more on the human reality of being an investor and organizing an investing firm than on particular strategies to deploy capital. Dalio, the highly successful founder of Bridgewater Associates, does recount some of his personal history and gives an overview of the development of Bridgewater as the manager of one of the world's largest hedge funds. However, *Principles* is primarily aimed at sharing the personal operating rules that Dalio credits with his success. From truly embracing reality, however uncomfortable, to embracing radical open-mindedness, Dalio challenges investing professionals to transform their own innermost emotions and self-talk towards a more productive state of mind. How to deal with areas of personal weakness? Don't deny them. Equate pain with opportunities for learning. These are the lessons, along with many others, that Dalio intends to pass on as his legacy. There's plenty here to ponder under the shade of a beach umbrella and I give it my highest recommendation.

Maria Pacella

[BAD BLOOD: Secrets and Lies in a Silicon Valley Startup](#), John Carreyrou

Written by the Wall Street Journal reporter who initially exposed the fraud, *Bad Blood* is about the rise and fall of Theranos, once a Silicon Valley biomedical start-up darling. Founded by Elizabeth Holmes with the dream to create a simple device that could perform a number of blood tests with a simple drop or two of blood, Theranos raised \$1.4 billion in capital, only to unravel with Holmes facing criminal charges of fraud by federal prosecutors and finally stepping down as CEO on June 15, 2018. This stunning story of lies and deception is truly a black mark on the industry as a whole. *Bad Blood* is not simply a book about Silicon Valley hubris, but rather a reminder to all investors of some enduring investment principals: invest in what you understand, never be afraid to ask tough and probing questions and, there are no exceptions to sound governance and oversight.

[Kitchen Confidential: Adventures in the Culinary Underbelly](#), Anthony Bourdain

Paying homage to the late, great Anthony Bourdain, I reread *Kitchen Confidential*. With his trademark witty and often acerbic style, he shows us the raw, behind-the-scenes view of the New York restaurant world, as well as the true grit required to become a great chef. In the process, he imparts valuable lessons like never order fish on Mondays! Through his TV shows, *No Reservations* and *Parts Unknown*, he takes us off-the-beaten-path to where very few Michelin Star chefs would go and connects food with "terroir". Anthony Bourdain will forever be remembered for his profound and sincere love of food and blustery opinions on the specifics of course!

Sharon Wang

[Bull: A History of the Boom and Bust, 1982-2004](#), Maggie Mahar

As we are currently going through the second longest bull market in history, it is a perfect time to refresh our memories on the record-long 1990's rally that died when the tech bubble burst in 2000. *Bull: A History of the Boom and Bust, 1982-2004* is a well written post mortem that captures the full details of the financial markets at that time and digs into why people did what they did. For many of the investment professionals who were not part of the nineties and the dot com era, this book provides insights into market cycles and crowd psychology. History does not repeat, it rhymes. I think we'd all agree with Ms. Mahar that "a knowledge of history is an investor's best defense against error". That being said, she also rightfully points out that "History is ambiguous, and every financial mania is unique, the product of the peculiar folly of its time". What will be unique this time? We'll see.

Amar Pandya

[Enlightenment Now: The Case for Reason, Science, Humanism and Progress](#), Steven Pinker

In the current era, with entrenched partisanship, hateful rhetoric and the constant gloom of daily headlines, it can be challenging at times to remain optimistic about humanity. Steven Pinker provides a hopeful and optimistic view about our species in *Enlightenment Now* and makes a convincing case that despite what public perception holds, the world continues to progress, and humanity continues to improve. After listening to Pinker discuss topics covered by the book on The Joe Rogan Podcast earlier in the year and then Bill Gates recommending it as his “new favourite book of all time,” I knew I had to pick up a copy for myself. Through a thoughtful and balanced use of empirically backed facts and figures, Pinker makes an eloquent case for human progress. Compiling a variety of measures of human well-being including education, health, prosperity, safety, peace and happiness, Pinker concludes that on almost every measure, across the globe, things are getting better and continue to get better for most people. *Enlightenment Now* makes the case for reason, science and humanism and argues that it is these values which have driven our progress and they must be defended.

Kenndal McArdle

[The Rational Optimist: How Prosperity Evolves](#), Matt Ridley

As the name suggests, *The Rational Optimist* seeks to make the case for a more prosperous future. This book originally got on my ‘to read’ list when it was recommended by Mark Zuckerberg in 2015. It is easy to live in a state of fear regarding our future, since our brains naturally seek out threats to our own well-being. Threats today are ever present, as evidenced by global warming, political beautification, anemic world GDP growth and technological innovation that may replace our livelihoods. It is no wonder that pessimism is so persuasive in the public discourse. However, the more rational approach may be to use history as a guide. Matt Ridley is said to make a strong case for not just how our world will improve but why. And his ideas on cultural evolution through specialization and open exchange have been praised by many, including Bill Gates.

Parul Garg

[Margin of Safety: Risk-Averse Value Investing Strategies for the Thoughtful Investor](#), Seth A. Klarman

Given the current tight high yield spreads and optimism in the market, our CIO, Felix Narhi, recommended I read *Margin of Safety*, written by a highly credible figure in value investing, Seth Klarman. The book provides a great lens into three areas. First, how speculators mistake themselves for investors and how the rush for hot, new investment products can create future distress for the product (at the time the book was published this was junk bonds, today it’s BitCoin). Secondly, Klarman discusses margin of safety. How valuing a business is an art not a science. There are so many drivers which contribute to valuation and it is very difficult to accurately value a business. And in the last section, Klarman highlights the importance of being contrarian. The book focuses on opportunities arising from out of favour parts of the market, under the radar stocks, bankruptcies and spin offs. Initially I thought it would be too out of date. Would it still have relevance for today’s markets? Well, it does. This book is a good reminder that avoidance of loss is more important than returns when making any investment decision and provides some basic insights on the investing pot holes that many investors overlook.



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