

A photograph of a dense forest with vibrant green leaves, serving as a background for the text.

We seek to build wealth for long-term investors.

## **The Growth Factor: Investment Philosophy Events and Resources**

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### **Investment Philosophy Events and Resources 2017 and 2018**

In 2017, I found a number of events and resources that can help anyone define their own investment philosophy and process. Reading, learning and hanging out with great investors can help one improve as an investor looking to create wealth over the long-term.

#### **January**

The [20th Annual Needham Growth Conference](#)<sup>1</sup> is January 17-18 in New York City. The conference features over 320 companies, including 90 private companies that are among the leading candidates to go public in the next few years. The Conference gives the Needham Funds team the opportunity to see how companies across various industries are viewing 2018. Growth Factor 27 - Preview of the 20th Needham Growth Conference will be published next week.

The [Columbia Student Investment Management Association \(CSIMA\)](#) will hold its annual investment conference on January 26, 2018 from 8:00am to 5:30pm, hosted by Columbia's Heilbrunn Center for Graham & Dodd Investing in New York City. The 2018 conference speakers include Seth Klarman of Baupost Group and Joel Greenblatt of Gotham Asset Management.

Warren Buffett graduated from Columbia Business School in 1951 and his mentor was Professor Benjamin Graham. Columbia remains a bastion of value investing. The CSIMA 2017 conference featured Mohnish Pabrai as the keynote speaker. Pabrai has adopted Buffett's principles and built a successful long-term record. He sold his IT services company in 2000 and has successfully invested over the last 17 years. He wrote [The Dhandho Investor](#) in 2007 and he's an articulate advocate for value investing and compounding. [On November 30, 2017, he spoke](#) to Boston College's Carroll School of Management. The interview is over 2 hours, but well worth it.

#### **February and March**

In preparation for the Berkshire Hathaway annual meeting in May, I recommend reading its shareholder letters. The letters, starting in 1977, are on the [Berkshire website](#).

There are also a number of books that tell the story of Warren Buffett and Charlie Munger. I like the *The Warren Buffett Way* by Robert Hagstrom, *The Essays of Warren Buffett* by Warren Buffett and Lawrence Cunningham, *The Snowball* by Alice Schroeder, *Tap Dancing to Work* by long-time Buffett friend and journalist Carol Loomis, *Buffett Beyond Value* by Prem Jain and Warren Buffett, and *The Making of an American Capitalist* by Roger Lowenstein. I recommend three books on Charlie Munger: *Damn Right* by Janet Lowe, *Charlie Munger* by Tren Griffin, and *Poor Charlie's Almanack*, which includes Charlie's speeches and was compiled by Peter Kaufman. It's a fun journey to understand these two great investors.

#### **April**

[Jim Grant's Spring Conference](#) will be held on April 10, 2018 at The Plaza Hotel in New York. While I didn't attend in 2017, I look forward to 2018. I've gotten a great deal out of past conferences. Previous years' presenters have included John Paulson, Clifford Asness, Frank Byrd, John Bogle, Jim Chanos, Stanley Druckenmiller, David Einhorn, Steven Eisman, Bruce Greenwald, Jeff Gundlach and Michael Price. All of the presenters bring a unique perspective to investing. The conference can be attended in person or watched via webcast. John Paulson credits *Grant's Interest Rate Observer* from 2007 with identifying the opportunity for the [Greatest Trade Ever](#). [Grant's Interest Rate Observer](#) is a valuable bimonthly publication and the issue after the conference gives a great summary.

## May

The Berkshire Hathaway Annual Meeting is Saturday, May 5, 2018 in Omaha, NE. To attend, one needs to have shareholder credentials, which come from being a shareholder of Berkshire Hathaway Inc. Class A (BRK.A) or the more accessible Class B (BRK.B) by early March. See the [Berkshire Hathaway website](#) for details. The meeting will also be [webcast](#) starting at 9:00 Central Time.

Attending the Omaha meeting in person was a highlight of 2017. On Saturday morning, the day of the meeting, I was up at 4:30am to get in line for a seat in the CenturyLink Center. I stood in line with a dentist from Hawaii and his two home-schooled high schoolers. These young people knew all about Berkshire, compounding and long-term investing. From the meeting, I was struck by Warren Buffett and Charlie Munger's steady optimism about the past, and future, of investing in real businesses. They view investing in equities as no different than owning a private business in their home town of Omaha, far from Wall Street. They talk like business people and company owners, rather than stock traders. I recommend attending the meeting to anyone interested in understanding the best investors of the 20th and 21st century.

As a bonus, there are many other events, dinners and meet-ups with like-minded investors. One can search online to find some of these events. A major bonus is the Markel Corporation (MKL) brunch held the Sunday after Berkshire's meeting. Markel is a specialty insurance company that also owns companies in other industries through Markel Ventures and invests successfully in domestic public equities. Markel is a holding of both the Needham Growth Fund and the Needham Aggressive Growth Fund. Markel will post information about the brunch on its [investor relations website](#) as the May 6, 2018 date approaches. One does not need to be a Markel shareholder to attend, but they ask for RSVPs in order to plan for the number of attendees. Reading the [Markel shareholder letters](#), from 1986 to present, is a great way to understand the company.

## Summer Vacation Reading

On summer vacation 2017, I read Michael Lewis', [The Undoing Project](#), which tells the story of the collaboration between Daniel Kahneman and the late Amos Tversky in their work on cognitive biases and prospect theory. One of their conclusions is that people place too much confidence in their own judgment. After Tversky's death in 1996, Kahneman won the Nobel Prize in Economic Sciences in 2002. Kahneman wrote [Thinking Fast and Slow](#). He identifies two systems of thought. System 1 is intuitive and fast. System 2 is logical, deliberative and thoughtful. Both systems are subject to biases that can be recognized leading to better decision making.

Later in the year, I read Dr. Calvin Newport's [Deep Work](#). Newport is an associate Professor of Computer Science at Georgetown. He specializes in the theory of distributed algorithms. By the age of 35, he has written 5 books. *Deep Work* draws a distinction between the time spent on mentally challenging tasks and the mundane. He shows the importance of focus and dedicated time to accomplish big things, like writing a book. Without focus and deliberate choices regarding the use of one's time, a day, a year, or even longer can pass without achieving one's potential. Newport makes the case to zealously guard one's time by limiting the mundane projects and communications (email, browsing, chit chat, TV watching) and focus on the thinking required to accomplish major objectives.

## October

In the fall, we go back to Columbia, where CSIMA hosts its annual Graham & Dodd Breakfast in October at The Pierre Hotel. Again, it is open to the investing public. [Bruce Greenwald](#), Director of Columbia's Heilbrunn Center, was the speaker at the 2017 breakfast and Prem Watsa, CEO of Fairfax Financial Holdings (FFH:TSE) spoke in 2016. The 2018 speaker has yet to be announced. Greenwald believes investors need to be specialists. The days of generalists are over. He believes that consensus investors attempt to value a company on discounted cash flows, which are generally garbage in, garbage out. He favors looking at the balance sheet as the most reliable piece of financial information. Secondly, he looks to establish the profit-generating capacity of a business adjusted for accounting distortions and one-time events. Greenwald's third element is the strategic positioning of a company. Are there barriers to entry, economies of scale or customer captivity? As an aside, he believes manufacturing employment is declining, not due to

world trade, but due to 5-7% annual productivity growth compared with 2-3% demand growth. He's an optimist on technology in manufacturing and skilled manufacturing jobs, but that overall, [manufacturing employment will come down](#). I look forward to the update to his book, [Value Investing](#).

## November

In November 2017, I had a chance to meet Dr. John Minahan, formerly of MIT's Sloan School and NEPC Investment Consulting. John has done path-breaking work on investment philosophy. His paper, "[Rethinking Investment Philosophy](#)" asks active managers the fundamental question, "How do you outperform a passive alternative?" An investment philosophy needs to address how the securities' pricing mechanism works and what skills are necessary to identify and exploit opportunities before prices move. My investment philosophy: the market inefficiently evaluates the prospects of some companies beyond a 1-2 year time frame. There is opportunity to generate alpha over a multi-year period by investing in a concentrated portfolio of small cap equities and letting them grow through the market cap ranges.

## December

Winter 2017 brought discovery of some new podcasts for my commute. Shane Parrish of the [Farnam Street Blog](#) does [The Knowledge Project](#) podcast. Shane's mission is to "...help you develop an understanding of how the world really works, make better decisions and live a better life." Regarding the name - Warren Buffett's house is on Farnam Street in Omaha and the Berkshire Hathaway offices are just two miles away, also on Farnam Street.

I enjoyed Shane's interviews with Michael Mauboussin: [Intuition, Experts, Technology, and Making Better Decisions](#), with Adam Grant of Wharton on Givers, Takers and the Resilient Mind and with Gary Taubes, Is Sugar Slowly Killing Us? [Mauboussin](#) is a great writer on investing. [Patrick O'Shaugnessy's Invest Like the Best also has an interesting interview with Mauboussin, Man + Machine, Moats, and the Power of the Outside View](#). Grant has written three books, was tenured at Wharton at age 30 and is [regularly the highest rated teacher](#) at Wharton. Taubes has written what I believe to be one of the most important contemporary books, [The Case Against Sugar](#), which outlines what could be the salvation to our national health crisis, health care costs, and even the federal budget and deficit. In a nutshell, "Get rid of the sugar."

While on the subject of sugar, have I mentioned CrossFit? You know the joke, "How do you know someone does CrossFit? They tell you." I tried it in 2017 and I love it. Greg Glassman, co-founder, is an iconoclast out to solve the world's health crisis. He has a vision that CrossFit is an elegant yet simple solution that may significantly reduce the world's biggest problem, which is chronic disease. Chronic diseases include cancer, diabetes, Alzheimer's, heart disease, liver disease, and kidney disease. Paraphrasing Glassman, "The solution is so elegant, that it may be optimal. The solution combines strength and cardio exercise with food intake - avoid sugar and limit carbs and processed foods." He has also taken on big soda and the sugar industry. With all due respect to Warren Buffett and Charlie Munger, they are on the wrong side of this issue. They have been long-term successful owners of Coca-Cola Company (KO) and believe that Coke is a substitute for water. To add insult, Berkshire Hathaway owns 21% of DaVita Corp (DVA), which provides dialysis treatments to those with kidney disease. With between two and four million people doing CrossFit, it is a movement.

Consistent with what I look for in management of my companies, Glassman believes, "Money is what happens when you do something right. Businesses grow on dreams." He sees business success from pursuit of excellence in providing value to customers. Glassman has done a number of podcasts including [The Future of Fitness](#) on Lewis Howes' School of Greatness. [CrossFit has its own podcast series and Ep. 17.01 with Glassman is great](#). He also gave a [series of lectures](#) at the National War College talking about CrossFit as a superior method for military fitness training. CrossFit is hard work, but the results are amazing. Call if you'd like to discuss!

Here's to a great 2018!

<sup>1</sup>The Needham Growth Conference is hosted by Needham & Company, LLC; an affiliate of Needham Asset Management, LLC, which is the parent company of Needham Investment Management, LLC.

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