



HONEYBEE CAPITAL

**HONEYBEE PUBLICATION #9 – “ENOUGH” ISSUE (ABRIDGED VERSION)
JUNE 2010**

MAIN TOPIC FOR THIS PUBLICATION: ENOUGH!

Much has been written lately on the topic of ‘enough’ – whether you call it prosperity, or abundance, or sufficiency, or satisfaction, or sustainability, the idea that maximization does not equal optimization is everywhere. We include here several variations on this theme, roughly ordered from the most philosophical to the most investment-oriented:

QUOTES OF THE MONTH:

*You can't always get what you want
You can't always get what you want
You can't always get what you want
But if you try sometimes well you just might find
You get what you need
Oh baby, yeah, yeah!*
- The Rolling Stones

I arise in the morning torn between a desire to improve the world and a desire to enjoy the world. This makes it hard to plan the day.
- E.B. White

You need high-level service when you're selling empty boxes.
- Kip Tindell, CEO of The Container Store, on why they have an employee-centric culture

All truth passes through three stages. First, it is ridiculed. Second, it is violently opposed. Third, it is accepted as being self-evident.
- Arthur Schopenhauer

Rope is cheaper than rocket fuel – I'd rather have to hold someone back than light a fire under them.
– Doug Rauch, now HBS, former President, Trader Joe's

We need an accountancy of wealth, not of money – a healthy patient looks like zero on paper, a happy family does too.

– Kash Rangan, Harvard Business School

Marketing is not a fiduciary duty.

- John Bogle, founder of Vanguard

Human beings are not a resource; they are a source.

– Raj Sisodia, Bentley University

You generally sell your soul on the installment plan, not in one great Faustian bargain.

- Howard Stevenson, Harvard Business School

If you want to build a ship... teach them to long for the endless immensity of the sea.

- Antoine de St. Exupery

WHAT'S HAPPENING ON CAMPUS?

This is an easy enough thing to monitor, and worthwhile – it is not very fast-moving, so trends are easy to spot, and doing so gives a clear window on shifting personal and professional dynamics.

- 1.** There's a HUGE emphasis on social entrepreneurship, overtly blending business interests with social values. The social enterprise club is the biggest at Harvard b-school, and turned people away from their 2010 conference, as it was already overflowing the giant Aldrich auditorium.
- 2.** The new "business school oath" is being widely adopted at many schools, with students promising things like *"I will not advance my personal interests at the expense of my enterprise or society...I will protect the human rights and dignity of all people affected by my enterprise... I will protect the right of future generations to advance their standard of living and enjoy a healthy planet."* (Note that many places, like Columbia and Thunderbird, have much more longstanding traditions here: it's not news for them).
- 3.** New models are emerging from the above – classroom models (new exercises use multi-variant endpoints to 'win' – you don't win just by maximizing profits anymore), and real-world models (new entities that are hybrids of for-profit and not-for-profit entities).

4. Business schools are still struggling with how to incorporate ethics into the curriculum – there’s general agreement to weave this into all courses rather than keeping it separate (‘who’s going to take an elective on ethics, when you could take one that will help you get a job?’). In this regard, the students seem to be ahead of the deans – it’s already interwoven for them.
5. Many professors think there needs to be more focus on personal development, as opposed to tactical skills and knowledge acquisition (true for both grad and undergrad). “SQ” – spiritual intelligence – is becoming a new term, following in the “EQ” – emotional intelligence – lineage.
6. There is not one global form of capitalism, yet many schools teach as if there is – “just because a case is set in China, doesn’t mean it’s global”.

A recent Economist article on changes in B-school curricula is here:

<http://www.economist.com/node/16208000>

Full text of the business school oath is here:

<http://mbaoath.org/>

A recent column by David Brooks on different forms of capitalism is here:

<http://www.nytimes.com/2010/06/15/opinion/15brooks.html?ref=davidbrooks>

NEW(ISH) FRAMEWORKS FOR BUSINESS AND INVESTMENT:

I’ve attended several gatherings with different sorts of businesspeople recently – I’m a little hesitant to call them “new” ideas or movements because they’re not really that new, and the concepts in fact are often “back to the future” in nature. Here are notes from two of those gatherings – the first set from a Slow Money meeting in Vermont, and the second from a Conscious Capitalism conference at Bentley University. Even if you don’t think these groups have direct appeal or relevance for you, there is value in seeking out any views that are not status quo, those that do not start with the same premises as your “home” community. This is what attracted me to the investment business in the first place – it was so different, so intriguing, so unlike anything I’d encountered growing up. So, I hope this quick summary is useful, whether directly or indirectly.

To allow for easy communication of a long list of provocative ideas, these notes are in simple bullet point format, without lots of context or explanation. Please let me know if you’d like to discuss any of these ideas in more depth.

NOTES FROM SLOW MONEY CONFERENCE:

What's Slow Money? Well, you know Slow Food, right? This is sort of its investment equivalent. Its principles embrace more direct, more local, less impatient investment, connected (literally) with the earth and its nurturing, productive capacity. See more about Slow Money at: www.slowmoneyalliance.org

My main takeaways:

1. **Investment ecosystem:** the biggest idea I took from this conference is not that we all need to start making low-interest loans to our local dairy farms (though some of us could, or maybe should) – rather, I left with more of a vision of **an investment ecosystem**. There is room for “fast money”, and it does serve a purpose, in certain markets and at certain times. But there is also room for longer duration, more personal investments – where you know the CEO because she is also your neighbor, and you know the product because it's on your own dinner table. This does not have to be an either-or decision (harkening back to another Honeybee theme).
2. **Slow money does not mean NO money!** I heard some of the most exciting, entrepreneurial, high-profit-potential sales pitches ever during this conference – it reminded me of the IPO market in the late 90's. Great operators, devoted leaders, markets poised for tremendous growth, no traditional investors in the audience.... Again, there is a place (an important one) for nonprofit community garden development, but there are also opportunities for great long-term financial returns in this arena.

Quotes and Highlights:

- “You’ve heard of peak oil? Well I think we should worry more about ‘peak soil’. Half of the US heartland soil that was around during Louis and Clark’s day is now in the Gulf of Mexico.” – Will Rapp, Gardener’s Supply
- “I still get questions about whether organics are proven – it’s the chemicals and processed foods that are unproven, we’ve eaten organic for thousands of years.” Gary Hirschberg, Stonyfield Yogurt CEO (why did Danone take an ownership interest in Stonyfield, while leaving them with local control? Because GM is 1000 bp less at Stonyfield vs. Danone, but NM is higher!).
- “Diversification does not automatically lower risk in the way people think it does. And US equities should not be the default investment. If you have a family business and it’s strong and you’re emotionally committed to it, there’s no requirement to diversify – you don’t have to be my client.” – Robert Brooke Zevin
- “We’ve been substituting oil for intelligence for some time” – Chuck Lacy, Co-Founder of Rotokawa Cattle

NOTES FROM BENTLEY CONSCIOUS CAPITALISM CONFERENCE:

What's Conscious Capitalism? *"This is a Capitalism that recognizes the power of purpose and the principle of interdependence. It is a Capitalism the sees leaders as stewards and facilitators. And it is a Capitalism that embraces the cocreative, generative nature of business, and is directed towards fulfilling the potential of business and the marketplace to be a powerful force for positive change."* See more at: http://cccsummit.com/?page_id=41

My main takeaway:

- **"Sustainable growth is an oxymoron. Everyone can't have more."** – John Serman, MIT/Sloan. *My notes: this is true, unless you start defining 'more' differently. This is the reason for our theme this month, as there are many areas where "more" does not equal "better".*

Quotes and highlights:

- "To my utter shock, it's been nothing but wonderful". Gary Hirschberg of Stonyfield Yogurt, on their relationship with Wal-Mart. Totally clear-cut targets, totally above-board negotiations, great help in thinking of packaging innovations.
- There's a big transition from the "earn then give" model (think Carnegie, Buffet, Gates) to a more integrated approach, with giving spread more evenly across a lifetime and business and social goals more intertwined – need to think through the implications of this, for business, for philanthropy, for management, etc.
- THIS IS NOT NEW – many examples here are actually returning to the old – Stonyfield is working to get dairy cows back on a grass-and-plant diet instead of corn, for example, which yields better milk (and less methane!).
- "We have had a long period of entrepreneurial rewards without entrepreneurial risks." (echoed by comments at the CFA conference, see below).
- "What do you do with part II of your life if part I was walking on the moon?" Richard Leider, author, speaking of the challenge of career transitions – for everyone, but especially astronauts.



WISDOM FROM THE “OLD GUARD” (more traditional investors): **NOTES FROM CFA CONFERENCE**

I have to admit, I have never actually attended the annual CFA conference before – but this one was in Boston, and had a great lineup of speakers (which is probably always the case, but it’s the first time I noticed). Some of the conference proceedings have already been reported on widely, so here are just my top few notes from the top few sessions I attended:

COMMON THEMES:

- Debt debt debt – from Greece to personal to the bond markets generally, almost universal and extreme negative views here – extreme enough that you’d want to be contrarian and positive, except that the facts are so undeniably awful.
- Far more bullish views on physical assets (land, commodities), emerging markets (both equities and debt), also corporate debt (as opposed to treasuries/munis).
- Many interesting reflections on the investment business (and I do mean ‘business’, as opposed to ‘profession’ – see below) from longtime investors.

JEREMY GRANTHAM, GMO

“It is very hard to be fired as an insurance analyst, but very easy to be fired for betting on emerging markets over the S&P.”

- CAREER RISK CREATES INEFFICIENCY – ... you are fired if you are not optimistic in a consensus way.” (They made a big contrarian call against the US markets in recent years – lost 60% of their clients, though they were right.)
- It is hard to “walk the walk” – if you want to work with counterparties who do not have conflicts of interest, yet they charge you 25bp more, is it in your clients’ interest to use them or not? Tension between short term and long term costs (my note - this is a huge theme in all sorts of sustainability issues, broadly defined – the mis-matching of time horizons).
- He expects a bubble in emerging markets next, and commodities.
- “I bought some gold on Friday, so you know it’s going down now.”

SETH KLARMAN, BAUPOST (in conversation with JASON ZWEIG)

Klarman rarely speaks publicly and his out-of-print book, Margin of Safety, has reached cult status due to Baupost’s stellar results. As of this morning, it is available for about \$1700 on Ebay or Amazon.

“It’s awful to have a Depression, but great to have a Depression mentality. In some sense we have developed a ‘really bad couple of weeks’ mentality - this is not enough.”

- Use of Graham and Dodd – he sees G&D as a way to THINK about investments, not as a specific roadmap. The question is, where do bargains come from? How do you find them?
- Two main lessons he has taken from his partners – they try to focus on these in their hiring process:
 1. Creativity, “pulling on the thread” – one neat idea should lead you to 10 or 20 opportunities.
 2. Treat people well.
- Changes in the business – it’s more crowded, and there is pressure to be fully invested all the time, which has led to a strong ‘relative value’ mindset. People forget that securities are not ticks on a screen, they are real pieces of real businesses.
- To help counteract the above and to fund “really compelling bargains, not slight ones”, they are organized thematically, not by industry. They have a spinoff team, a distressed debt team – not a tech team, an energy team.
- Importance of TEMPERAMENT – arrogance plus humility – worrying about all that can go wrong should give you MORE courage when needed, because you are already prepared for the bad scenarios.
- Importance of ENTRY POINT – “price is the value determinant, there are no ‘value companies’.” Entry point is the biggest determinant of ultimate returns – seems obvious, but we don’t always match our actions to this fact. You should never have a market order, your returns are limit-price driven!
- Importance of CURRENCY - “I’m more worried about the world broadly than I have ever been in my career.... Always thought we could be clever and find enough opportunities, but now I am wondering whether our dollars will be worth anything.”
- Be careful who you bash – 1) “we should be celebrating that Goldman hedged and did not fail like their peers”. 2) Often short sellers are the ‘market’s policemen’, balancing the relentless and sometimes unfounded optimism that’s out there otherwise– “thoughtful short sellers are more patriotic than the people on CNBC, who just want a rally every day”.

JOHN (JACK) BOGLE

One thing I admire about Jack Bogle is that he always introduces himself by talking about how he was fired from Wellington before starting Vanguard in 1974 – a great reminder that a career (and a life) can have many chapters. He also wrote a book a few years ago called Enough (see book section for more).

“There’s a time for innovation, and a time for shredded wheat – we put the ‘no’ back into ‘inNOvation’.”

Big changes in the investment world during his career–

- Ownership - 92% individuals 60 years ago – now institutions are 70%
- Principles – from long term investing to short term speculation – “from investing in businesses to trading in stocks”
- From stock picking to fund picking to asset allocation – layers and layers of strategy, all with fees attached
- “Stewardship used to take precedence over salesmanship. Marketing is not a fiduciary duty. More assets under management is not winning.”

.....

BERNANKE SPEECH ON HAPPINESS:

Does all this talk about ‘enoughness’ and ‘business vs. profession’ sound like a bunch of fluff to you? I can hear you now -- fulfillment, schmul-fulfillment! Well, Ben Bernanke cares, and you should too! Here is a link to his Commencement speech at the University of South Carolina – did he talk about monetary policy? No! The risk of unsustainable US debt levels? No! How much he hates the name ‘Helicopter Ben’? No! He talked about happiness, and more importantly, about sustained happiness, or satisfaction. Read his thoughts on the value of relative prosperity, of friends and family, of having work that puts you “in the zone”, of feeling some sense of control over our own lives. I do not think Ben Bernanke is a flaky touchy-feely hippie, yet Ben Bernanke wants you to write in a gratitude journal. Think about it!

<http://www.federalreserve.gov/newsevents/speech/bernanke20100508a.htm>

INTERESTING REPORT OF THE MONTH:
“ENOUGH ABOUT ME - LET’S TALK ABOUT YOU.
WHAT DO YOU THINK OF ME?”

It’s true, there was not much good about those junior high hallway conversations (“but do you *like* like her?”) --- and to drag them into the realm of foreign policy might be a bad idea. However, both in the halls of Wilson Central and in the halls of the West Wing, it is indeed helpful to know how others view you (this is the reason for those pesky 360-degree surveys that you get from HR every year). So....

Check out the new Pew survey (link below) on attitudes of all sorts -- towards the US, China, extremism, environmental issues, and other topics. Our conclusion: be careful what you ask, and how you ask it - and even more careful with what you interpret from the answers! He might like you, but that doesn't mean he *like* likes you.

<http://pewglobal.org/files/pdf/Pew-Global-Attitudes-Spring-2010-Report.pdf>

SUMMER ROOFTOP PLAYLIST:

There is nothing trendy or hip or new about this list, and that is the point – I dare you to listen to these without smiling. And yes, there is a large representation of Boston sports-related songs. You gotta problem with that?

- Dirty Water, The Standells version
- It's Your Thing, The Isley Brothers
- MMMBop, Hanson
- Freedom 90, George Michael
- You Should Be Dancing, The Bee Gees
- Start Me Up, The Rolling Stones
- I'm a Believer, The Monkees
- Sweet Caroline, Neil Diamond
- When Love Comes to Town, U2
- Rosalita, Bruce Springsteen
- Little Less Conversation, Elvis version
- Dirty Water, The Dropkick Murphys version

FINALE! RUMI POEM:

Just to end on a slightly less frivolous note...

Two Kinds of Intelligence

There are two kinds of intelligence: one acquired, as a child in school memorizes facts and concepts from books and from what the teacher says, collecting information from the traditional sciences as well as from the new sciences.

With such intelligence you rise in the world.
You get ranked ahead or behind others
in regard to your competence in retaining

information. You stroll with this intelligence
in and out of fields of knowledge, getting always more
marks on your preserving tablets.

There is another kind of tablet, one
already completed and preserved inside you.
A spring overflowing its springbox. A freshness
in the center of the chest. This other intelligence
does not turn yellow or stagnate. It's fluid,
and it doesn't move from outside to inside
through conduits of plumbing-learning.

This second knowing is a fountainhead
from within you, moving out.