



# HONEYBEE CAPITAL

**HONEYBEE PUBLICATION #11**  
**RISKY BUSINESS (ABRIDGED VERSION)**  
**September 2010**

**MAIN TOPIC FOR THIS PUBLICATION:**  
**RISK, IT'S MORE THAN A GEEKY BOARD GAME**

- **Risky stories from around the globe:**
  - **Russia, China: bedrock risk, rearview mirror risk**
  - **Africa: displacement risk, timeframe risk**
  - **Cambridge: open-ness risk, closed-ness risk**

**QUOTES OF THE MONTH:**

*God have mercy on the man  
Who doubts what he's sure of*  
– Bruce Springsteen, *Brilliant Disguise*

*We took risks. We knew we took them. Things have come out against us.  
We have no cause for complaint.*  
– Robert Scott

*What is the use of running when we are not on the right road?*  
– German Proverb

*There's no risk of accident for someone who's dead.*  
– Albert Einstein

*Be wary of the man who urges an action in which he himself incurs no risk.*  
– Lucius Annaeus Seneca

*With love, you should go ahead and take the risk of being hurt... because  
love is an amazing feeling.*  
– Britney Spears

*Man is fond of counting his troubles, but he does not count his joys. If he counted them up as he ought to, he would see that every lot has enough happiness provided for it.*

– Fedor Dostoyevsky

*Joel, you wanna know something? Every now and then say, "What the hay\*." "What the hay" gives you freedom. Freedom brings opportunity. Opportunity makes your future.*

– Miles to Joel, in *Risky Business* (\*exact wording altered, just a bit)

## **TALES OF RISK**

*Sometimes a personal experience brings all that theory to light in a clearer and simpler way. Here are a few narratives from recent travels that helped me to make certain notions of risk more tangible, and more useful.*

### **FROM RUSSIA (AND CHINA), WITH LOVE: PERSONAL BEDROCK RISK. REARVIEW MIRROR RISK.**

Earlier this year, we spent a few days in Russia visiting mostly with entrepreneurs. Two small elements of the trip stand out: first, a curious discussion about corruption. Of course this is a topic at the top of many investors' minds, but as we were questioning a consumer company about how "expediting" permits works in Moscow, it sounded eerily familiar to me: in fact it was almost the exact same discussion I'd had with some local roofing contractors about getting approvals from our neighborhood's architectural commission. Po-TAY-to, po-TAH-to!

Second, it took a few days to realize that almost all of the entrepreneurs were under 40 – this could be said for entrepreneurs in many regions, but in this case there was an added dimension: these folks had all come of age professionally in the post-Cold War era, though their childhoods were spent firmly under the "old Soviet" system. The difference between a 40 year old and a 60 year old in Russia is way more than 20 years!

These experiences reminded me in turn of my first business trip to China, where the official biographies of management all ended with a short statement regarding their whereabouts during the Cultural Revolution. Within just a couple of years these paragraphs seemed to disappear, but the experience did not. On a more personal level, when I talk with my

grandparents, it is clear how firmly their adult lives have been shaped by their coming of age during the Great Depression and then World War II. They do not speculate (or invest) in the stock market; they read all the fine print, always; they think that to leave a good-paying job is very close to insanity (though they still love me).

The above make it sound like I am making sweeping statements about Russian and Chinese management teams, and my grandparents – which is true, but it is in service of a more universal point. The question is, **what is your personal bedrock of experience**, and how has it shaped you? For most of my career, I worked in equities for what amounted to a very very long bull market, where there were plenty of personal and professional growth opportunities. I cannot tell you how much of my fundamental optimism and faith in fairness of “the system” are due to these circumstances, but I know that it’s significant. At times these predispositions have profited me, but at some point they will cost me. A lot.

This notion ties to another risk, the **risk of being backwards looking**. I have to admit, I was jogging around Red Square and couldn’t stop laughing... there’s a Gucci right there! And there’s a Lamborghini dealership within sight of Tiananmen Square. This is a fine line, balancing the wisdom gained from history without being swamped by the baggage of it. Think of an easier, smaller-scale example, like company management: Chuck Prince and Vikram Pandit are both very talented people, but Prince was put in charge of Citigroup (at least partly) because the board wished they’d had more compliance and oversight in the prior period, and that was one of his strengths. Then Pandit was put in charge due to a similar frustration, after Citi missed out on a period of rapid growth and innovation in alternative products. Right people, wrong timing.

#### **FROM CAMEROON AND UGANDA: DISPLACEMENT RISK. TIMEFRAME RISK.**

I’ve spent a few weeks annually volunteering in Africa for a number of years, and it has made me re-think the after-effects of human displacements of all sorts (war, famine, earthquakes...). It is so tempting to think that once an active conflict or a natural disaster has passed, a place is safe, or peaceful ... yet in my last three trips, to Uganda, Zambia, and Cameroon, I’ve noticed the very long tail of impact from displacements of all sorts. Long in distance, and long in time.

In Uganda, I stayed in the same very small town on two visits, about 10 years apart. On the second visit, there were a lot more armed men roaming around, a lot more glares from strangers and a lot fewer smiles. One friend

who had lived there all his life explained to me, “here it has been safe, but all around us, there is fighting. This man, I don’t know him (*pointing*). This one too. Before, I know everybody. Now I do not know. I do not trust.” I am wondering if this mis-trust extends to any place where there has been a big dislocation of people, whether through conflict or natural disaster or economic shifts. Instead of thinking of risks like these in terms of the immediate crisis, it seems a timeframe of decades is more appropriate.

Again, this is a small and specific example, but it brought home the notion of **timeframe risk** and **transfer of risk** in a whole new way. There had not been conflict in the specific sites I visited for decades, but the fighting “nextdoor” has impacted even the peaceful areas hundreds of miles away, fundamentally changing the nature of community. We all have investment stories about being right, but too early... which can look an awful lot like wrong, at least in the shorter term. It seems to me that the mis-match between human and social timescales and investment timescales is even greater than I thought.

#### **FROM THE FARTHEST CORNERS OF CAMBRIDGE, MASS: OPEN-NESS RISK. CLOSED-NESS RISK.**

One dreary evening ‘round midnight I realized I did not have the obscure book that was assigned reading for class the next day. My heart sank as I wondered, can I get up at 5 and hope the library is open? Can I fake my way through the discussion in class? But wait! It is not 1985! I can look online! The whole thing is on Google Books! The same thing happened the following week, and that one was available from Amazon for free on my Kindle (most titles pre-1923 are out of copyright and available from several different e-sources).

The democratization of information, the free-ness of raw material I’ve been finding in the academic world reminds me of a meeting several years ago with the Apple folks. Of course management is notoriously mum when it comes to discussing the future, be it products or strategies or the weather. In fact in years of visiting Cupertino there is only one case I can remember when there was unabashed enthusiasm displayed: it was when they first launched iTunesU. One guy actually said, “*this* will change the world.” Apple has highlighted to me an interesting and new sense of **risk of open-ness versus risk of closed-ness** – while Apple is essentially still a closed-loop system (and often critiqued for being so), the system itself is in service to a mission of more open-ness of content and media. Likewise, the nitty-gritty details of Google’s search algorithms are certainly not open to the world, but the mission of the closed parts is to open up information of all sorts to

the users. What is open and what is closed in your organization? Is it as you intend?

One fun exercise (okay, maybe “fun” should be in quotes) is to map value creation across an open/closed scale – it really varies by situation. In military technology, there is still a fair amount of information that’s classified, or secured, or otherwise valuable precisely because it is proprietary. In investing, or academia, or many other thought-based venues, there has historically been a big premium given to proprietary systems, or information – but what do we see if we really examine that? Is it the systems, or the data, or the information that has provided some sort of ‘edge’, or is it what all those things have been used for? Chances are, as technology has made the basic data less and less proprietary, the ‘edge’ has come more from its use or interpretation, and less from the mere fact that it exists. Is it the ecosystem they’ve created, the mosaic of all of those elements coming together, the interaction of actual people? And if it’s the system that is powerful rather than its individual elements, shouldn’t the focus be on growing the value and robust-ness (not just the size!) of the system, rather than closing it off?

### **NEWEST FAVORITE WEBSITES:**

*As usual, these are semi-educational in nature, so you can justify their use as a coffee break that is slightly more redeeming than reading Us magazine or checking on your fantasy sports team for the hundredth time today.*

### **RSA ANIMATE:**

The easiest way to find this content is to search for “RSA” on YouTube. Have you ever been to a conference with those cool cartoony note-taker guys, where they illustrate each talk real-time? Well this series does the same thing – it is like listening to a TED talk but seeing it animated before your very eyes. Dan Pink’s motivation talk (related to his book, Drive), is especially good: <http://www.youtube.com/watch?v=u6XAPnuFjlc>.

## **ECONO-RAP:**

When you hear the phrase “we the people”, do you start singing the preamble to the Constitution? Do you know that a conjunction goes around “hookin’ up words and phrases and clauses”? Is this knowledge embedded in your brain solely because of Schoolhouse Rock? Do you wonder what kids today are doing without such a resource? Well, fear no more! The Econo-Rap about principles of economics

(<http://www.educationalrap.com/song/demand-supply.html>) is destined to become a classic – it’s got a great beat, and you can dance to it. And the parent site has songs for all sorts of topics, from lab safety to fractions to state capitals (“in Alaska, you know Juneau’s the boss”):

<http://www.educationalrap.com/>

## **PLAYLIST FOR GETTING STARTED & KEEPING GOING:**

*“Getting started, keeping going, getting started again - in art and in life, it seems to me this is the essential rhythm not only of achievement but of survival, the ground of convinced action, the basis of self-esteem and the guarantee of credibility in your lives, credibility to yourselves as well as to others.”*

*-Seamus Heaney*

If you, like me, sometimes need a little help getting started and keeping going, try this list:

- **Rosalita, Bruce Springsteen**
- **Girlfriend, Avril Lavigne**
- **Hanging on the Telephone, Blondie**
- **Faith, George Michael**
- **Celebrity Skin, Hole**
- **Hurts So Good, John Cougar**
- **Bad Romance, Lady GaGa**
- **U Can’t Touch This, MC Hammer** (*see, you are laughing already!*)
- **Baby I’m a Star, Prince**
- **Signed, Sealed, Delivered, Stevie Wonder**
- **If You’ve Got the Money, Willie Nelson**
- **Short Skirt/Long Jacket, Cake**
- **Pink Cadillac, Bruce Springsteen**
- **Desire, U2**
- **I’ll Take You There, Mavis Staples**
- **These Are Days, 10000 Maniacs**