

Gogerty, Nick – The Nature of Value

Columbia University Press, 2014, [Equity Investing] Grade ★★★★★

This book wants to be taken seriously – and it should. The ambition is grand and the author is innovative. Nick Gogerty could perhaps easiest be described as a serial entrepreneur within technology and finance. He's a private strategist working for leading hedge funds, banks and tech firms and he's an associate of Fertile Mind Technology, investing in technology and clean energy. He has developed hedge fund and quant strategies, been a FX prop trader in London and he has been the chief analyst at the cross-disciplinary research institute Starlab NV/SA. Gogerty's thesis is that by viewing the economy through the lens of Darwinian natural selection we can better understand how it creates value. By this we as societies can then improve our allocation of human, material and energy resources to the benefit of all humanity.

The concept of coupling economic and biological development is not at all new and visitors of this site have possibly seen us make appreciative references to Santa Fe Institute and Andrew Lo in relation to the area of complex adaptive systems that make exactly this connection. These theories are however often held at a very abstract level. Here, the author looks to the components and niches of the system and how it is built bottom-up - but never falling into the reductionist trap that you can fully understand and predict a complex adaptive system by looking to its parts as the system is created by the interaction between the parts and also is larger than the sum of the parts.

In the first section of six Gogerty discusses the difference between price and value in a way that would feel quite natural for Ben Graham. Part two and three lay the core framework for viewing the economy as driven by natural selection. The parallels to biology's hierarchy gene, organism, niche and ecology are named ino, organization, cluster and economy. The ino is an information unit of innovation that can aid in value creation. The concept is rather similar to Richard Dawkin's

“meme”. While the purpose of the gene in a biological system is survival and life itself, the purpose of an ino in an economical system is value creation. We use resources to satisfy the human needs of Maslow's Hierarchy and inos (say, an improved production process, a product feature, an innovative way to motivate staff etc.) compete – and spread - to do this as efficiently as possible. With this purpose in hand the description of the Darwinian economy ties very neatly into prevalent financial theory on how companies create value when investing capital at a higher rate of return than the cost of the invested capital (and how those who don't will be extinct). The section of clusters is probably the most valuable in the book as it views sector competition in a novel way and this discussion also lands in the third part of the book that describes moats, i.e. barriers to entry for competition. So far the text has become increasingly practical for a fundamental long-term Tom Russo type of value investor and I'm ready to rate it with a 5. However, the following part on the aggregated economy is a disappointment. Instead of taking the logical step from the earlier biological theme and discussing the macro-behaviour of complex adaptive systems, most of the remainder is dedicated to competent but quite ordinary texts on monetary shocks, inflation-deflation etc.

The book is theoretically and philosophically somewhat deep but, save one chapter (that the author suggests the reader could skip – but you really shouldn't), it is actually very easy to read with plenty of illuminating illustrations. The concept of “*price is what you pay and value is what you get*” is believe it or not, illustrated by a picture of a goose and a balloon, and it works! Perhaps though, at times there are concepts that are repeated a little too often throughout the book.

In all, the topics Gogerty touches on in this essential book are probably among the most important ones when it comes to developing the understanding of our economic world.

Mats Larsson, February 4, 2015