Fearon, Scott (with Powell, Jesse) – Dead Companies Walking

Palgrave Macmillan, 2015, [Equity Investing] Grade ★★★★

Dead Companies Walking is something of a biography of an investment career stretching more than 30 years, primarily in the U.S. small/mid cap market and over 20 years of running a hedge fund. During his career, Scott Fearon has had particular success with finding businesses that will deteriorate and often ultimately enter bankruptcy and the book is an excellent and thoughtful guide to what common attributes these businesses have and how, as an investor, one spots them. His research methodology is fundamental analysis with great importance put on company meetings. Mr. Fearon puts a lot of emphasis on management quality in his analysis and it is also the lens through which he studies failing businesses.

The book starts with some typical mistakes management make which lead down the path of failure for their business. The six mistakes are:

- Only learning from the recent past (and not looking for longer super cycles)
- Relying too heavily on a single formula for success
- Misreading or alienating your customer
- Being a victim of a mania
- Failing to adapt to tectonic shift
- Being physically and/or emotionally detached from the business operations.

The author also proposes that most of these typical mistakes often grow from excessive optimism by management.

The text goes through a number of case studies on each point above from Fearon's career that are very good, although even more detail on each case could potentially have made it better. Especially good are his cases relating to manias such as the dotcom boom in the 1990s and from within the retail industry where some companies he studied altered their offering which lead to problems down the road, such as Zale or JC Penney.

After discussing common failures, the book has a chapter on what makes struggling businesses successfully turn around which is interesting and helps clarify the mistakes described in earlier chapters as the author sees the contrast between management owning up to problems and taking actions versus not doing so.

The last part of the book is mostly a tirade against Wall Street as well as the author's own industry to the extent that it focuses on asset gathering rather than performance. He also discusses the risk of moral hazard post the gigantic bailout after the 2007/08 financial crisis. This part is of less interest and does not really pertain to the title of the book.

The primary objective of the book is to educate investors in how to spot problematic businesses and how to profit from it by shorting. Fearon's thesis is that management is key and its actions or inaction lead to problems for the business. As a main part of his methodology is to analyze and categorize what mistakes management do to set the business on the wrong course the book is also suitable for management to read to avoid pitfalls.

By and large he achieves his objective although the book could have been an even better read by concentrating solely on the topic of its title and removing some of the text around investments in general such as the current climate or his view on Wall Street. I think that author's thesis is very valid and this is an area not well covered by existing literature so the book contributes to building understanding. Also, it's an easy read. The book's main strength is the author's long hands-on experience and case studies from his career.

Overall for a bottom-up investor looking to short I think this a very good read. I would have liked even more detailed case studies and a clearer focus on specifically failing companies to make the book even better.

Erik Karlsson, April 30, 2015