Economic moats - A recipe for long-term outperformance

Niklas Sävås

Introduction

"In business, I look for economic castles protected by unbreachable 'moats'." - Warren Buffett

The greatest investor of all time - Warren Buffett - breaks down his investment criteria into the following four areas:

1. Circle of competence

2. Great long-term prospects

3. Competent management

4. A fair price

This text deals with the second point but also touches upon the third. In order for a business to have great long-term prospects it needs to benefit from some kind of competitive advantage. Buffett and others, as will become apparent in the text, argue that the most important competitive advantage is to keep new businesses from entering the industry. This is typically described as barriers to entry, which Buffett has popularized as "moats". In his words: *"I don't want a business that's easy for competitors. I want a business with a moat around it with a very valuable castle in the middle. And then I want the duke who's in charge of that castle to be honest and hard-working and able."*

Why is a moat important?

The vast majority of corporations operate without any significant barrier to entry. The definition of a no-moat business is when new entrants can have the same (or a better) competitive position as the existing companies within the industry. In that case, the incumbents have no advantages (in some cases even disadvantages). Without a moat, new competitors will enter the market if incumbents earn a return over the cost of capital and eventually the increased competition will lower the returns.

In his shareholder letter from 1977, Buffett explains how the participants in such industries - in this example the textile operations of Berkshire Hathaway - often fail to earn any economic profit: *"The textile industry illustrates in textbook style how producers of relatively undifferentiated goods in capital intensive businesses must earn inadequate returns except under conditions of tight supply or real shortage."*

Some firms however defy the competitive forces and enjoy returns higher than the cost of capital for extended periods of time. The companies in this "sweet spot" where the moat is resilient - often described as a wide-moat – have the potential to become great investments. Charlie Munger points to the importance of high and durable returns on capital: *"Over the long term, it's hard for a stock to earn a much better return than the business which underlies it earns. If the business earns six percent on capital over forty years and you hold it for that forty years, you're not going to make much different than a six percent return - even if you originally buy it at a huge discount. Conversely, if a business earns eighteen percent on capital over twenty or thirty years, even if you pay an expensive looking price, you'll end up with one hell of a result."*

All moats widen or narrow over time – meaning it's essential for the investor to review its strength frequently. Morningstar have therefore introduced the concept of moat trends which deals with this. Buy and hold is better described as buy - regularly review - and hold if the investment thesis still makes sense. In his 2005 shareholder letter Buffett describes the idea of "widening the moat". By keeping customers happy, eliminating unnecessary costs and improving products and services the moat strengthens. If customers are treated badly the moat shrinks. The long-term competitive position is enormously effected by the small, daily actions.

The longer the period of outperformance the company can sustain, the better returns for the investor. The challenge is of course to find these stocks as early as possible - at a price that makes sense – and to hold on to them for the longer haul.

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What qualifies as a moat?

"In short, if you can find a company that can price like a monopoly without being regulated like one you've probably found a company with a wide economic moat". - Pat Dorsey

To answer the question of what a moat is I have looked to what various thought leaders on competitive advantages think. I have already mentioned Buffett but others that deserve to be on the list are Michael E. Porter (*Competitive Advantage* and *Competitive Strategy*), Bruce Greenwald (*Competition Demystefied*), Michael J. Mauboussin (*Measuring the Moat*) as well as Pat Dorsey (*The Little Book That Builds Wealth* and *The Five Rules for Successful Stock Investing*) along with the team at Morningstar - where Dorsey was a large contributor but not part of the book *Why Moats Matter.*

All of these experts have their own way of describing and categorizing moats. By combining and simplifying their views the end result is four main categories: 1) Demand advantages, 2) supply advantages, 3) combined demand and supply advantages as well as 4) external advantages.

1) Demand advantages

- *Network effects*

"In the end though, it all comes down to the very definition of network effects: whether your product becomes more valuable as more people use it." -D'Arcy Coolican and Li Jin

Network effects occur when all existing consumers of a business benefit from the next customer who signs up. This often leads to a virtuous cycle where more users power even more users. Typical examples of firms benefitting from network effects are financial exchanges as well as social media businesses. More activity on an exchange leads to tighter spreads and increasing liquidity which market participants naturally prefer. On social media platforms, it gets more interesting for the users when more people are members. A small advantage often leads to larger benefits in a typical winner takes all scenario.

As D'Arcy Coolican and Li Jin of Andreessen Horowitz show in their paper *The Dynamics of Network Effects*, far from all companies with seemingly strong network effects manage to reach a stable winner takes all situation. Product differentiation is often taken to the tiniest detail where the best niche competitors sometimes manage to defeat the incumbent who is supplying multiple products. Many tiny competitors can be just as bad as a few big ones.

Mauboussin and Dorsey describes the differences between radial and interactive network effects. In a radial network the rest of the network doesn't earn much when a new connection is established while they do in an interactive network. The distinguishing factor is how many new links are created when the next user onboards. LinkedIn is a great example of an interactive network where a new member may benefit from their direct relations as well as indirect relations in unforeseen ways. Western Union is an example of a radial network where only a few users may benefit from when a user in Finland starts sending money to a user in Mexico – hence, the network effects are relatively small.

- *Switching costs*

Switching costs can be described as the cost that the customer needs to bear in order to make a change. One example is in the elevator business where it's a major undertaking and investment to install the product. After the elevator has been installed, the incentive to change supplier is low as the cost would be substantial. The elevator producer can therefore enjoy recurring cash flows from service and maintenance contracts over the lifetime of the elevator. Another example comes from major software programs used by banks and asset managers. The software is essential for these businesses and it's also highly integrated with the rest of the technical architecture. To change such as a system is both a complex and costly undertaking. By own experiences I know how tough and difficult it can be. Therefore - when installed - the cost to switch software becomes high.

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- Brands

The key issue with regards to brand value is that a strong brand could lead to pricing power as it increases willingness to pay or lowers the search cost. A brand that is loved by consumers is seen as a different product than the "commodity" itself. Heinz ketchup is not the same as just ketchup. When consumers know that they can trust that a product will fulfill a sought after purpose, it lowers the search cost in that less time is needed to meet the specific need.

For example, when a good barber has been found one is likely to stay with him or her as it takes time to find a new (good) one. Time is money, making this a meaningful advantage for the barber. I also feel that there is another model applicable to barbers as it feels like cheating when trying out a new one - there is an emotional switching cost which is substantial in my opinion. This is humorously described in an episode of Seinfeld (episode eight of the fifth season - highly recommended).

Products that increase customers' willingness to pay are typically those of luxury goods. These products are often status symbols and therefore not just another type of product. A Ferrari car or a Rolex watch signals that the person is rich which may be fulfilling for the user himself or in attracting others. Many luxury brands have stood the test of time and have been benefitting from strong returns on capital for decades.

Mauboussin does not view brands by themselves as moats - his research shows that there is no strong link between brand value and value creation *"brand is clearly not sufficient to ensure that a company earns economic profits, much less sustainable economic profits."* Just being well known is in itself not sufficient to gain pricing power.

In recent interviews, Buffett further says that the brand value has been, and is, deteriorating in the modern age. Consumers are more willing to experiment now than before, and the product needs to be a "must have" in order to sustain the competitive pressure. Many of the strongest franchises of the past could use their scale to spend vast sums on TV commercials which the weaker brands couldn't afford. This led to a virtuous cycle where the stronger brands grew and could invest even more on advertising. With the weakening state of TV commercials and the more targeted niche marketing online, this advantage is now much less important which the strongest brand names suffer from.

Jorge Paolo Lehmann - the richest man in Brazil and head of 3G Capital – is another great investor having been famous for investing in strong brands. He described the current disrupting situation for consumer brands with *"I'm a terrified dinosaur"* in a Forbes article in 2018 where he went on to state - *"I've been living in this cozy world of old brands and big volumes... We bought brands that we thought could last forever and borrowed cheap money to do so. You could just focus on being very efficient... All of a sudden we are being disrupted."*

When people can compare products based on price and on what others think through price comparing websites and Amazon among others, the search cost benefit has arguably been diminished. With one click it's possible to check if a product is good or not. When it comes to the so-called status brands, the picture is not the same in my opinion. I mentioned Rolex watches in the text which along with the traditional watch industry suffer from the entrance of digital watches but in my view it's too early to say if this is a short-term thing or that of a narrowing moat.

2) Supply advantages

- Cost advantage independent of scale

By having lower costs than its competition a company is able to set lower prices than the others. In industries supplying commodity products with no or limited differentiation this is essential. The cost advantage can be driven by having a superior location, access to a unique asset or by various process advantages. For example, producers of materials such as steel or cement incur regional benefits due to the characteristics of the products being expensive to ship.

Professor and fund manager Sanjay Bakshi argues that float generation inherent to businesses such as insurance can constitute as a moat. Float represents money that a company holds that may have to be paid back at some point in time. In insurance, the

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customers pay premiums up front for claims that may be triggered at some point in the future. If the insurance company is conservative in its practices it should be able to break-even (or better) causing an interest free loan.

This is something that great conglomerates such as Berkshire Hathaway, Fairfax Financial and Markel Corporation have used to their benefit. The float has represented a tremendously cheap form of financing for these companies. In fact, they have actually got paid historically to hold the money. Using that benefit together with great capital allocation skills have been a recipe for success and certainly a strong competitive advantage over time.

The lowered cost of money over the last two decades of declining interest rates has certainly been a factor diminishing the benefit of cheap float. Today many companies can borrow money very cheaply and even if it may not be for the same duration as insurance companies, the competitive advantage of a float is lower.

3) Combined demand and supply advantages

- Economies of scale

Certain firms benefit from their large scale as they are able to keep some costs fixed while selling higher volumes. They can then use the lower cost per unit as a means to cut prices - leading to even higher volumes. It may alternatively lead to companies achieving higher margins without lowering prices, which is a typical example of those benefitting from strong brands (described above).

Buffett first mentions moats in writing in Berkshire Hathaway's shareholder letter of 1986 to describe GEICO. With that, he presents the advantage of having a low-cost model driven by economies of scale: *"The difference between GEICO's costs and those of its competitors is a kind of moat that protects a valuable and much-sought-after business castle. No one understands this moat-around-the-castle concept better than Bill Snyder, Chairman of GEICO. He continually widens the moat by driving down costs still more, thereby defending and strengthening the economic franchise."*

In the shareholder letter of 1996 Buffett describes it even clearer: *"We do best on costs in geographical areas in which we enjoy high market penetration. As our policy count grows, concurrently delivering gains in penetration, we expect to drive costs materially lower."* In the last quote Buffett describes the benefit from having a dense customer group - a local advantage. This was something Sam Walton of Walmart knew when he focused on setting up branches across America in areas where he thought he could become the leader. By driving down costs due to efficient distribution and scale and constantly cloning the best ideas of his competitors Walton created a strong competitive advantage for Walmart.

By explaining Berkshire's investments in Coke and Gillette, in the shareholder letter of 1993, Buffett mentions the power of their brand names, the attributes of their products as well as the importance of having strong distributions system as keys. This moat could as such be explained as a combination of the power of brand together with economies of scale. The iconic brand, the product attributes and the great distribution system all reinforces each other to create a long-term competitive advantage.

Interestingly enough, most of the mentioned examples of Walmart, Coke and Gillette have had to withstand strong competitive pressure in the last decade. With Walmart the main rival is arguably Amazon but the whole e-commerce boom has been a disrupting force. With Coke the main disruptor may be the changed mindset of consumers demanding healthier alternatives. For Gillette the strongest competitor is Dollar Shave Club who came up with a completely new business model to break the dominance of Gillette. In today's world no one is completely safe.

- Corporate culture

"Our final advantage is the hard-to-duplicate culture that permeates Berkshire. And in businesses, culture counts. To start with, the directors who represent you think and act like owners. This same owner-orientation prevails among our managers[...]. Our compensation programs, our annual meeting, and even our annual reports are all designed with an eye to reinforcing the Berkshire culture[...]. This culture grows stronger every year." - Warren Buffett

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In his great book *Berkshire from Buffett and Beyond* Lawrence Cunningham describes corporate culture by "*a set of shared beliefs, practices and outlooks that determine a corporation's expectations and influence the behavior of its personnel toward colleagues, customers, and owners.*" He then goes on to say that the tone is set at the top and therefore states that management has a vital role to play in building a great corporate culture.

A great company can, however, continue to thrive even after losing an iconic founder which Cunningham emphasizes with reference to Berkshire. He believes that the company will be able to thrive without Buffett due to its phenomenal corporate culture. The absolute majority of Berkshire is made up of the wholly owned subsidiaries operating in diverse sectors and even though the businesses are very different, they are united by certain characteristics; such as being simple business, managed autonomously, having a high level of cost-consciousness and all being very careful about their tremendous reputations.

The current CEO of another business with a great corporate culture - Gary Kelly of Southwest Airlines - describes his employees as family members and the customers as guests at family gatherings. This standard was set by the founder Herb Kelleher which is one manager who created a great corporate culture which has stood the test of time. In Kellehers words: *"The business of business is people. Yesterday, today and forever. All airlines have airplanes but our care for employees cannot be replicated"*.

A strong corporate culture is not solely found in companies led by a strong owner-operator and/or being family-owned but I would argue that great cultures are more often found in that category. These companies tend to think in generations and not years (or quarters) which is often the case among many other companies. The right incentives are key for a strong culture and therefore important for the investor to understand when trying to identify these types of companies.

I link it to how to think about the free market economy; if a person gets more - money, personal fulfillment, satisfaction from helping others etc. - he tends to do more. Today's system where people get paid by the hour is far from ideal. Employees should get paid for what they accomplish and not for how many hours that it has taken to do a task. FedEx had problems with not getting deliveries done on time, so they changed the system so that people could go home when they were done, and the problem got solved. I think there are many lessons to learn from that.

4) External advantages

- Patents, licenses, regulation

The external advantages depend on outside forces typically coming from the government. A patent is an intangible asset that can lead to a sustainable barrier to entry. When other companies are excluded from competing, the incumbent may be able to raise prices and prosper for a long period.

Tougher regulations often lead to benefits for the incumbents as it becomes difficult, or even impossible, to compete for start-ups. A notable example of this has been within the banking industry.

Licenses and regulation are often intertwined. When only a few firms are licensed to supply their product and service, it leads to a legal monopoly. In some cases, the company is restricted on price setting by regulation, leading to low returns of capital and making the competitive advantage quite useless. It's in effect only when the regulator fails with its mission to drive down the profits to the cost of capital that it's possible to incur economic profits from regulatory moats.

How to rank moats?

On the question if there is one type of moat that is better than all others – there is no straight answer. The experts have slightly opposing views. Dorsey thinks all moats can be weak and strong but highlights the network effect as having the potential to be the strongest due to the virtuous cycle it creates. As number two he puts switching costs. Greenwald thinks that economies of scale combined with customer captivity is the strongest. Measured by the companies Buffett has had the most success with over the years, he would most likely agree with Greenwald on that point.

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Ian Jacobs, who worked as an analyst to Buffett between 2003 to 2009, described in a rare memo that the strongest brand moat can be better than a weak moat driven from a natural monopoly. Tren Griffin, an investor and director at Microsoft who also runs the fantastic blog 25IQ, offers views about moats driven by his deep knowledge about technology firms. He values network effects highest and thereafter economies of scale. Jacobs thinks network effects are only a short-term barrier to entry. He believes it only leads to a short breathing space which the company needs to replace with a stronger moat as the competitors are doing everything to earn a piece of the pie. Jacobs mentions Google overtaking Yahoo and Facebook overtaking MySpace as examples of this.

Josh Tarasoff of Greenlea Lane Capital has said that customer captivity or switching costs is the weakest model of moats because the clients may not be happy, they just don't have any option than to stay as clients. Also, it may be hard to win new customers if they know that they will become captive. Dorsey disagrees as he thinks all moats can be weak or strong and therefore the key is to not abuse the power and raise prices more than the customers can take.

Most professionals seem to agree that brands are not the strongest of moats. Mauboussin shows this in his text *Measuring the moat* where he ranks the most valuable brands and their return on capital profiles. Some of the companies in the top-twenty in terms of brand value were actually destroying value as the return on capital was lower than the cost of capital. A brand needs to increase the willingness to pay or lower the search costs for the customer to qualify as moats. Brands that only reduce search costs are – as pointed out earlier - getting disrupted in today's digital age driven by the success of Amazon while many premium brands still stand strong in a climate where people want to express themselves socially.

The best moat is the one that leads to the highest economic profit in the future. If something can minimize costs and maximize price without generating negative feedback from the existing customers and the potential new customers, a recipe for success has likely been found. I think the ultimate competitive advantage is when all stakeholders (except for the competitors) benefit from the offered products or services.

The largest technology companies known as the FAANG (Facebook, Amazon, Apple, Netflix and Google) are doing everything they can to increase customer captivity and simultaneously increase the customer benefit from network effects or scale. Amazon focuses on minimizing costs and price to achieve a long-term moat consisting of economies of scale and switching costs. Arguably, it's difficult to know how strong the benefit is until the company starts to raise prices. Netflix focuses on the mix between content and users – better content leads to more users that can be used to create better content or buy content at a lower marginal cost. Google's search algorithms improve by the number of users of its services and as its market share is close to 100% in the Western world the customer benefit of switching provider is negative – making it hard for competitors to get a piece of the pie.

How to measure if a company has a moat?

"As a first rule of thumb, if you can't count the top firms in an industry on the fingers of one hand, the chances are good that there are no barriers to entry." - Greenwald

High and stable return on capital over time is portrayed as means of detecting if a company has moat. A company without a moat may show a high return on capital for some time, but eventually competitors will swarm in and bring the returns down to the cost of capital. The intelligent investor can avoid making the mistake of buying these types of names in the first place but also decide to sell when it's increasingly clear that the situation has changed (hopefully before everyone else thinks the same).

The seminal work on how to quantify the moat is the already mentioned *Measuring the moat*, by Mauboussin, as well as ideas from some of the mentioned thought-leaders. Mauboussin describes market share stability and high returns on capital in an industry as signs of barriers to entry. Others argue that high returns on capital is not the best measuring stick as a business with stable but low returns on capital can still have strong barriers to entry. Value investor Geoff Gannon defines a moat as *"the damage that other people can do to you"* – a

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company can have low returns on capital due to mismanagement or a lousy corporate culture but at the same time benefit from a wide-moat from for example patents, regulations etc. I think that is a very valid point.

A company with economies of scale may use its advantage to lower the price instead of increasing margins. However, if the company lacks the ability to raise its margins in the future to achieve economic profits the advantage is not so great after all and actually the moat is then guarding a mediocre house instead of a glorious castle. Going back to Munger, that is not a type of business that the long-term investor will earn high returns on over time anyway so why bother?

Bruce Greenwald gives some concrete guidelines on how to think about both market share stability and return on capital in his book *Competition Demystified*. Market share changes below 5% over a five-year period and after-tax returns on invested capital of 15-25% over a decade or more is a good indication of barriers to entry according to Greenwald.

Another sign of a moat is stability in operating margins over time. This is typically either a sign of a low-cost advantage or that of pricing power, which source can be driven from various advantages. Being the low-cost provider brings the benefit of being the preferred choice for consumers during recessions and less so during booms which smoothens out the results. For companies with pricing power, they are able to raise prices when prices of input factors rise leading to stable margins over time.

It's clear that it's possible to screen for companies with moats by, for example, using return on capital as a factor. Joel Greenblatt has shown with his magic formula (described in his book *The Little Book that Beats the Market*) that he was able to generate fantastic returns by investing in franchises with the best combination of return on capital and earnings yield. I would argue that it might be a good start to screen for stocks with high returns on capital but to truly understand the moat is certainly a qualitative exercise. Ideally, the investor would want to find a company with a growing moat before the economics have reached the financial statements, which then means it is impossible to use a screen. Simple but not easy. A useful tool to find businesses with a moat could be Morningstar's index where they rank corporations on the basis of their analysts' view of their economic moats. There is also an ETF that tracks this index. Still again, the best opportunities are obviously to be found where neither Morningstar nor others have realized there is one.

How to know if a moat is widening or narrowing?

If some of the most successful investors in the world describe themselves as terrified dinosaurs having been surprised by the fast rate of eroding moats the odds may be against us ordinary mortals. Some of the worst investments come from companies with a deteriorating competitive advantage. Capitalism is ruthless when it's allowed to run its course as it brings down the economic profit to zero. The world changes quickly - meaning that a company with the strongest moat can lose that benefit rapidly. This has been the case with firms in the technology sector as well as newspapers to mention two examples apart from those with historically strong brands.

Morningstar have introduced the notion of moat trends to describe the direction the company is heading at. In *Why Moats Matter* the authors present the fact that about 16% of the companies - that they have identified with moats - have a negative trend while only 13% have a positive trend. If a company is improving faster than the competitors and achieving higher market shares it is widening the moat.

Buffett is focusing on companies in stable industries as it's hard to evaluate the moats of those in quickly growing industries. But even he has experienced the eroding moat of newspapers which suffered from the introduction of technology and also - similarly to Lehmann - on firms with strong brands. Dorsey agrees with Buffett and believes the speed of evolution in the product category is vital.

What both Buffett is acutely aware of is that businesses with strong moats that are priced as such can be both great and terrible investments. The valuation of these companies is typically high

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and when the moat is eroding the stock will suffer from a double-whammy of both lower profits and lower multiples. Buffett is a master of throwing ideas into the too hard pile – which is one way of tackling the problem. Another is to increase the circle of competence in order to try to understand the underlying dynamics of the factors impacting the situation. The firms with a growing moat could possibly also be found using Morningstar's moat trend rankings.

A narrowing moat seems scary, what else should be avoided?

It is easier to buy kittens and puppies than to drown them later." - Greenwald

The ugly twin of entry barriers is that of exit barriers. As mentioned in the beginning, with the example of Berkshire Hathaway's textile operations, the return on capital is often pushed below the cost of capital when the company lacks a moat. The main reason is that capitalism is tough. Another reason is because of exit barriers. The worst businesses are the ones that have low barriers to entry and high exit barriers. Those exit barriers could for example be created by investment in specialized equipment or specialized skills that cannot be utilized in other industries, emotional barriers, government or social restrictions etc. High levels of dedicated fixed costs also tend to be an impediment to leave an industry.

It's a tough decision for any manager to shut down a plant or a product line and fire employees. It's even worse if the management has a personal connection with the employees having founded the company. I believe this to be one of the few negative issue regarding family-owned companies. The emotional hurdle for the founder or his siblings to decide to shut down operations that should be closed can often be huge not only for the above-mentioned reason but also from mere prestige. In these situations, they are likely to struggle along and earn dismal returns on capital which sets the standard for the industry. I have observed this with businesses as cafés and restaurants where it's easier for a chain store to close a non-profitable location than for family-owned businesses. Another reason may also be due to the family-owner having more patience to ride out the storm (which is often replaced with yet another storm some years later though due to the lack of entry barriers in this industry).

Moving on to more personal experiences I have seen many examples of high exit barriers in the minds of employees. People often know when they are paid too much compared to the value they create (they should use this skill as investors as well) - by leaving their position they would get paid the market wage, which may be far below their current salary. Sadly, personal fulfillment often weighs less than money - which is likely to be of detriment for both the person and the company. Due to unions or corporate culture the company can't lower the salaries or present these employees with a golden handshake.

Conclusion

"Culture eats strategy for breakfast." - Peter Drucker

I have surely missed to bring up certain moats that other investors think are important (please send me a note about them) and I am also sure that some think certain moats are more important than others which has not been reflected here. That may have to do with the sector focus of the investor, as some moats are definitely more prominent in certain sectors than in others. This is very well described in *Why Moats Matter* which covers a lot of different industries and also company examples. What's essential for the investor is to implement a strategy that is built on evidence and that fits the individual investment profile. For the short-term speculator the concept of moats may not be meaningful at all, while it sould be essential for the long-term investor.

Some concepts might be too vague to qualify as moats, but in my view these could be interesting as they typically are not descriptive enough to fit into a useful financial model. People often try to put investing into the category of science instead of art – but it still remains an art. Possibly, more difficult "soft" measures such as for example corporate culture may be one of the few models that is not in the danger of becoming over-used because of the difficulty of applying it.

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This is perhaps more important now than ever before, in the age of big data and machine learning where many of the low-hanging fruits are likely to be picked (if they haven't been already). The best opportunities are to be found when the investor and the market have a different opinion – sadly that is also where the biggest risks are. Howard Marks writes that you have to be a contrarian and be right – finding a growing moat or a wide moat before the market values it accordingly, is an example of this. When the competitive strength is too obvious the opportunity is likely gone (except in hyperbolic situations such as the latest financial crisis).

Just because a source of competitive advantage is hard to measure and hard to fit into a model doesn't mean there isn't something useful there. A model is a representation of reality but not reality itself. In my view this is where humans can add the most value in the future realms of financial markets. Traditional value measures shouldn't be thrown out of the window, but the qualitative analysis of businesses and their long-term competitive advantages needs to develop further. By truly understanding the crucial factors impacting companies the analyst can develop an "own moat" that needs to be nursed continuously in order to widen (or at least be prevented from narrowing). It's certainly hard work but also stimulating – hopefully it shall also contribute to good investing returns. I write contribute though, as skills as execution and awareness of psychological traps are critical as well.

With that I will end with a quote from Greenwald: *"No matter how complex and unique a product seems at the start, in the long run they are all toasters"*.

Niklas Sävås, December 26, 2018

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