
Invest Like the Best - Episode 4 – Walking and Thinking – Morgan Housel

The Invest Like the Best podcast is hosted by Patrick O'Shaughnessy. [In this episode](#) he interviews one of the best writers within the investing space - Morgan Housel.

Housel is a partner at the Collaborative Fund, a Private Equity firm owned by Craig Shapiro. Housel is famous for his great writing both at the Motley Fool where he spent the first nine years of his career and then at his current workplace. In the interview he mentions that he loved his job at the Fool but asked himself the question *"If you are 70 years old and you had worked with what you do for your whole life would you feel comfortable?"* – and decided to shift gears. He is writing on everything related to investing and I recommend everyone to read his work at the [Collaborative Fund](#). I have summarized the key insights I took with me from the episode. Enjoy!

Public markets vs Private markets

Housel describes how investing in public markets are all about analyzing data while in private markets doing a thorough evaluation of the founder is key. In private markets there is often not enough financial data to make an in-depth analysis and therefore vital to find the right people.

In my view, trusting the right jockey is sometimes a tempting approach also in public markets - evident from books such as [The Outsiders](#) and [The Intelligent Fanatics](#) (don't miss [our interview with the authors of the latter Sean Iddings and Ian Cassel](#)).

Insights into active management

Housel thinks active management is here to stay but that fees for asset managers will continue to go down. *"A good asset manager should make as much as a good doctor"*.

I listened to a podcast episode with Ken Fisher recently and his take was that the average fee has

gone down due to that more money has gone into passive funds and not necessarily because active managers have lowered their fees. At one end we have index funds charging a few basis points and at the other active funds charging a few hundred basis points.

Housel also discusses financial advisors and thinks they are needed to fill the gap where the information online is not enough. Marrying the two is a recipe for success – which Vanguard has succeeded with.

Reading and writing

Housel describes himself as a late bloomer as he started reading in his early twenties (it is never too late!). A large chunk of his reading today is to scan Twitter and reading blogs to find new ideas on what to write about. He describes his work as a serendipitous journey where nothing is deliberate, and the best ideas come randomly when he is doing something unrelated. When taking long walks, he thinks the best and he is relying a lot on the subconscious to bail him out.

One of my favorite quotes in this regard – of priming yourself to think better - is from Marcus Aurelius *"The things you think about determine the quality of your mind, your soul take on the color of your thoughts"*.

Personal finance

Housel stresses the importance of understanding that there are two ways to achieve wealth. Either focus on the top-line or bottom-line. The problem is that many focuses on the first and forgets the second. Remember: If you spend all you earn you still end up with a big fat zero. If the large expenses - like tuition, house and car - are kept down you are well on your way to financial safety.

Housel himself focus on the bottom line as it works best for him: Less stuff = More happiness.

The lesson is to find your own way based on your preferences – just make sure that you end each month with something more than nil. Simple but timeless advice.

Learning from history

For those of you who follow Housel knows that he has written a lot about what one can learn from history. I urge you to read his piece about the [Wright Brothers](#). That story and similar stories (for example about how Penicillin was invented and how Scurvy was avoided) are examples of titanic events. But at the time, nobody cared. The lesson: It's not just about the quality of the idea - timing needs to be right too.

Housel thinks reading old newspapers is great as it makes you appreciate how things were not evident at the time. Some books he recommends in this vain are Benjamin Roth's: *The great depression: A diary* and Frederick Lewis Allen's three books: *Since yesterday*, *Only yesterday* & *The big change*.

Corporate strategy

Housel thinks centralization has not been a good strategy – and that decentralization is the way to go. This is not new as the trend of decentralization has gone on for some time, however the degree of decentralization has shifted. New firms such as Zappos and Valve have no formal hierarchy but instead operate using self-organizing teams. An example of how good the strategy can be – and also how few individuals can create tremendous wealth - is that of the game Doom. It was created by 10 developers from Texas. Another one from my country, Sweden, is that of the game Minecraft - a billion-dollar company (Mojang) more or less created by one brilliant developer in Markus "Notch" Persson.

Niklas Sävås, September 20, 2019

Personal skills

Housel describes how personal skills are hugely important, in addition to technical skills, to become successful. He thinks that is often forgotten. Having worked a lot with complex software development projects I empathize strongly with this - if the customer and the vendor have problems communicating, integrating their systems will be way more difficult. A person who knows both is the most valuable, by far.

Another topic discussed, which is related to the earlier point on history, is the impact of how one will view investing if growing up when the stock market crashed or boomed. Being raised in a crash seems to make people more risk averse and vice versa. Sometimes what makes intuitive sense is actually true.

Blog recommendations from Housel and O'Shaughnessy

In the episode Housel and O'Shaughnessy mentions a couple of the blogs they follow:

[The Waiters pad](#) with Mike Deriano

[Slate Star Codex](#) with an anonymous Doctor

[Paul Graham's blog](#) with Paul Graham

[Abnormal returns](#) with Tadas Viskanta

[Melting Asphalt](#) with Kevin Simler
(recommended by Patrick)

If you liked this brief summary of the episode you will love the whole one. Happy listening!