IGY Foundation. Thinking about how to think: Short-term vs long-term

List of some characteristic traits (neither exclusive nor exhaustive)*

Short-term characteristics	**Long-term characteristics**
Inputs/causes:	
Most often agents	Most often principals (with principles?)
Comfortable with win/lose tradeoffs	Has a win/win orientation
Impatient	Patient
Works from second hand opinions	Works from primary data/first principles
Spin	Facts
Commission based pay	Permanent capital appreciation oriented
Seeks growth/volume/quantity	Quality is everything
Transaction/deal oriented	Seeks relationships
Transient plans and targets	Focused on the right framing and mindset
Eat-what-you-kill-now mindset	Defers gratification
Compulsive/expedient	Thoughtful
One-off event oriented	Seeks self-reinforcing, virtuous spirals
Compartmentalises inconsistencies	Joined up
Political	Entrepreneurial
Takes	Gives
Outputs/effects:	
Drains the moat	Builds on rock
Rents	Owns
Doesn’t rock the boat	Iconoclastic
Harvests	Plants
Shouts	Whispers
Seeks social proof	Motivated by internal reward
Wants to be liked	Prepared to be misunderstood
Ego-driven, selfish desire for instant gratification	Magnanimous
A handout	A hand up

Denial	Acceptance
Fragile	Anti-fragile
Brexit/us-and-them/nationalist/populist	Enlightened, win-win, closer integration
Addicted to artificial highs	Connected to people
Lots of competition for ideas	Less competition for ideas
1 + 1 = 2	Compound interest
Can play both sides	Straight-talking
Susceptible to excess	Avoids some of the worst mistakes
Scale economics kept	Scale economics shared

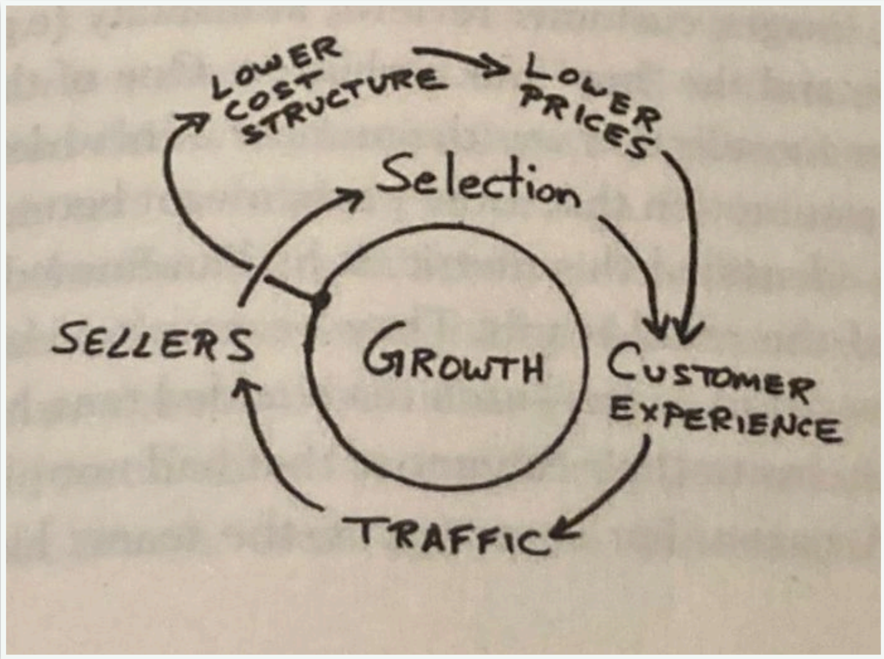
Who?:

Short-term shareholders (share-renters)	Long-term shareholders (share-owners)
News hungry drama feeders: some brokers, analysts, reporters, advisors, consultants	Founders, good employees/board members
One-off charity donors seeking to avoid social awkwardness or assuage guilt/shame	Multi-year, relationship based (anonymous?) donors
Some politicians, salespeople, spin doctors	Philosophers, thinkers, statesmen/women, gurus
Aid that leads to aid dependency	Foundations/charities etc. ultimately seeking to put themselves out of business
Turn of the millennium Fannie Mae, Feddie Mac, AIG, GE, Enron.	Costco, Berkshire Hathaway, Amazon

*With special thanks to Chris Begg for his sage input.

<u>Thinking about how to think: Short-term vs long-term</u>

Perhaps old habits die hard after all, as we start these observations on short and long-term thinking with some business analysis. It seems to Zak and me that for most companies to thrive over the long-term, one constituency must be looked after before all others and, contrary to what some on Wall Street or in Westminster may suggest, that constituency is the customer. We reason that if a firm's relationships with its customers is profitable and enduring, then that will provide the cash flow to pay a decent salary to its employees, a fair price to suppliers, a dividend to shareholders, the tax people can have their take and, crucially, still leave something to reinvest in new and better products. A self-reinforcing virtuous spiral can be established. The sketch below penned by Jeff Bezos in the 1990s as his model for Amazon illustrates how better products lead to happy customers, lead to more cash flow, to better products, to more customers and so on, with all parties enjoying and benefitting from a growing ecosystem of win-win relationships. It's hard to do and takes patience, and a certain orientation and discipline but, when it works, it is a beautiful (and very profitable) model.



So far so good. The financing of a charity, however, can be more troublesome. The beneficiaries of a charity, be it children, those with chronic conditions, mental health issues, food hunger and so on, by and large can't afford the full market price of the services a charity provides; this, after all, is the charity's raison d'être. Instead, the funding shortfall is made up by donors. The result is that, unlike the business example above, charity management often have two prime constituencies as they are required to look after the beneficiaries with one hand, whilst simultaneously maintaining and growing a donor income stream with the other. This "one man, two guv'nors" dynamic is made harder in the UK by the country's (unintended, I think) just-in-time, fund-raising culture, whereby charities do not know what they can spend next year without having first raised it this year. Such hand-to-mouth funding fosters financial insecurity, makes long-term planning difficult and it may also promote, perhaps require, a drift by the charity into constant sales/ spin-mode in an attempt to pay the bills. Under such pressure, any means to get the donor to sign up can be seen as fair game. Suffice to say, the model does not always work well.

Zak and I wrote a fair amount about mistakes in the Nomad letters (which can be found elsewhere on the IGY Foundation website) in which we discussed how mistakes often result from overweighing an apparent short-term win, without fully recognising the consequent, long-term cost. We all do this to some extent. A list of common mistakes/vices might include snacking on chocolate cake, smoking, drinking, drugs, (Pastor Zakaria will be available for confession shortly), lying, stealing, cheating…all represent a short-term high/convenience whilst borrowing something from the long-term. Companies are not immune: firms that cut (vital) investment spending to "protect (this year's) profits" or make acquisitions to plug revenue growth holes are borrowing from their future. Of course, businesses can be well run or poorly run, and charities can be well run or poorly run too, but, in our opinion, the distinction between good and bad is often synonymous with a long-term or short-term orientation: long-term good, short-term bad.

In the morning of the Berkshire Hathaway Annual General Meeting in Omaha, Nebraska each year, the firm shows a twenty-minute video containing clips from the last fifty/sixty/seventy(?!) years. In one clip, perhaps from the 1980s, the firm's Chairman, Warren Buffett, is asked how he differs from other investors and he provides a one word reply: "patience". Zak and I may be biased, but we think that clip is quite a moment.

Patience is a product of confidence and trust**.

If Zak and I are not confident in our analysis and/or, if we don't trust the other guy then, without those two bedfellows, what is the case for being patient? And, without patience there is no force preventing the drift toward short-termism, with all the moat-draining behaviour that implies.

In our opinion, (reasoned) confidence, (deserved/earned) trust and (resultant) patience is what seems to be lacking in so many business, charity and political ecosystems. The table above contains a list of short-term characteristics and their long-term alternatives. The list is not exclusive (outputs and inputs are often inter-changeable) or exhaustive, but it may be the start of a map away from the worst moat-draining activities and behaviours and toward a more rational and fruitful allocation of time and resources. And, ultimately, as Charlie Munger (Berkshire's vice-Chairman) likes to ask, don't we all want to live in a seamless web of deserved trust? We hope that the check list may be of some benefit to you, as it has been to us, in spotting and avoiding the worst of the short-term folly.

Nick Sleep,
Winter 2022

**thank you, Peter Kaufman, for sharing that astute definition. Spot on, as usual.