Three longs & three shorts: this week's best reads [28th Oct 2018]
At the end of each week, we will share with you our favourite reads. We would be grateful if you could reciprocate.

1. Long read: What Sets Successful CEOs Apart
Authors: Elena Lytkina Botelho, Kim Rosenkoetter Powell, Stephen Kincaid, Dina Wang
Source: Harvard Business Review (https://hbr.org/2017/05/what-sets-successful-ceos-apart)
The authors conducted a 10-year study (dubbed the "CEO Genome Project") to identify what sets successful CEOs apart. They tapped into a database containing more than 17,000 assessments of C-suite executives, including 2,000 CEOs and *"sifted through that information, looking for what distinguished candidates who got hired as CEOs from those who didn't, and those who excelled in the role from those who underperformed."*
So what did they find? As per the authors, successful CEOs display the following four behaviours (to varying extents but more than the average Joe would display in these areas):
1. **Deciding with speed and conviction:** *"….High-performing CEOs do not necessarily stand out for making great decisions all the time; rather, they stand out for being more decisive. They make decisions earlier, faster, and with greater conviction. They do so consistently—even amid ambiguity, with incomplete information, and in unfamiliar domains. In our data, people who were described as "decisive" were 12 times more likely to be high-performing CEOs. Good CEOs realize that a wrong decision may be better than no decision at all."*
2. **Engaging for impact:** *"Once CEOs set a clear course for the business, they must get buy-in among their employees and other stakeholders. We found that strong performers balance keen insight into their stakeholders' priorities with an unrelenting focus on delivering business results. They start by developing an astute understanding of their stakeholders' needs and motivations, and then get people on board by driving for performance and aligning them around the goal of value creation. In our data, CEOs who deftly engaged stakeholders with this results orientation were 75% more successful in the role."*
3. **Adapting proactively:** *"Our analysis shows that CEOs who excel at adapting are 6.7 times more likely to succeed. CEOs themselves told us over and over that this skill was critical. When asked what differentiates effective CEOs, Dominic Barton, global managing partner of McKinsey & Company, immediately offered: "It's*

dealing with situations that are not in the playbook. As a CEO you are constantly faced with situations where a playbook simply cannot exist. You'd better be ready to adapt. Most CEOs know they have to divide their attention among short-, medium-, and long-term perspectives, but the adaptable CEOs spent significantly more of their time—as much as 50%—thinking about the long term."

4. **Delivering reliably:** *"…the ability to reliably produce results was possibly the most powerful of the four essential CEO behaviors. In our sample, CEO candidates who scored high on reliability were twice as likely to be picked for the role and 15 times more likely to succeed in it."*

2. Long read: Quant Investor Cliff Asness Hasn't Smashed His Screen This Year—Yet

Author: Eric Shatzker

Source: Bloomberg (https://www.bloomberg.com/news/features/2018-10-04/quant-investor-cliff-asness-hasn-t-smashed-his-screen-this-year-yet)

Cliff Asness has built AQR Capital Management into a systematic investing giant by capitalizing on two trends: the growing power of computers and the demand for lower fund fees. Today, AQR runs $226 billion in strategies built on so-called factors—behaviors that securities tend to exhibit over time. The problem is the "over time" qualifier – AQR is having a miserable 2018. So how is Asness dealing with it?

Firstly, he seems to have identified why he's doing badly: *"The big culprit on the year is systematic value investing. That one has been bad for quite a long time, probably since just after the financial crisis. And, to answer a question you didn't ask, our faith in that doesn't change a drop either. So in a given year, value might have a tough time, but if quality, momentum, and carry all do well, we can do well. This year, the other ones are not making up for value."*

Next, he claims to have checked that the factors that have worked well for him in the past have not broken down (i.e. got arbitraged away): *"It's something we actively monitor. The main tool that many people use these days to monitor the state of where we are and whether these are being arbitraged away is something called the value spread. Any factor can be thought of as a long/short portfolio. And on various value metrics—any of your favorites, price-to-earnings, sales-to-book—how expensive are the longs vs. the shorts? For the value factor itself, the longs always look cheap by definition. But for the other factors, it varies, and all of them have a range through history. None of that is at levels where the factors have not done well going forward."*

Finally, he does NOT think the end of QE fundamentally changes the game for quant funds (who, some believe, are glorified trend following machines): *"It is reasonable, it's just absolutely not borne out by the data. A lot of these tests go back longer than the bull market in bonds. Look at the core, old-fashioned but still wonderful value and momentum factors for picking U.S. stocks. The data in that starts in the '20s, and the initial tests on it were done in the mid-'80s. There was no bond bull market to drive that. The last 30 years have been a pretty massive, on net, bond bull market. But there have been some pretty horrible bear ones, and we don't see a tremendous pattern there either."*

Interestingly, Asness happily admits in the interview that Renaissance Technologies' remarkable Medallion fund is the best quant fund in the world. He also lauds Arrowstreet Capital in Boston and Rob Arnott's Research

Affiliates.

3. Long read: Two articles which should be read together: (1) How social democracy lost its way: a report from German; and (2) What the Left misses about Nationalism

Author 1: Tobias Buck

Source 1: Financial Times (https://www.ft.com/content/a1f88c3c-d154-11e8-a9f2-7574db66bcd5?accessToken=zwAAAWabgJwIkdOh-Iw80VQR6NOp8nV022a81Q.MEQCIEnfphtlySMnyxanfIgMNeHL1RRRKtCgqEJIrOx2rsSeAiAB7F0NobpEv3yxDHgi9u4-A0dQ0oG6n7r21TyKvsbqZA&sharetype=gift)

Author 2: John B. Judis

Source 2: New York Times (https://www.nytimes.com/2018/10/15/opinion/nationalism-trump-globalization-immigration.html)

In India it is a common refrain that the Congress can't get its act together whilst the BJP displays its political muscle on a daily basis. However, the challenges of traditional left of centre political parties do not seem to be confined to India alone as these articles in the FT and NYT show.

In September, the Social Democrats in Germany were drubbed not only by Angela Merkel's Christian Democrats but also by Greens and Far Right parties. Since 1998 the Social Democrats have lost half of their voter base even as the Germany economy has continued to boom.

Why is this happening? *"Many of the party's core voters have seen their lives turned upside down by sweeping economic and social change, from globalisation and automation to mass migration. The SPD, once so confident in the righteousness of its cause, has struggled to formulate a response. "The SPD has a leadership problem and a narrative problem," says Andrea Römmele, a professor at Berlin's Hertie School of Governance. "The party has no story to tell to the voters, and a story is what voters need.""*

Kevin Kuhnert, the leader of the SPD's Youth Wing says, *"For the first time in many years we have a young generation where many sense that they will not automatically be able to live better than their parents. People on low salaries have seen their wages stagnate, or even fall. They can afford less than they could at the end of the 1990s. I don't need to have a big macroeconomic debate with them: they know they do not belong to society's winners."*

The NYT's says that the rise of nationalism (bred by the rise of insecurity) is common across America and Europe. The underlying driver seems to be: *"Today's nationalist revival is in reaction to the failure of global, not nation-based, initiatives that sailed over the heads of ordinary citizens. The reaction has been most potent on the political right, but there is certainly a basis for a liberal or social-democratic nationalism. If anything, the decline of liberal and social-democratic parties is a result at least in part of their inability to distinguish what is legitimate and justifiable in nationalism from what is small-minded, bigoted and contrary to the national interest it claims to uphold."*

4. Short read: Do not believe the hype about artificial intelligence

Author: Zia Chishti

Source: Financial Times (https://www.ft.com/content/47111fce-d0a4-11e8-9a3c-5d5eac8f1ab4)

The author - inspite of running an AI service provider for corporates - says that AI is being overhyped and overpromoted. He believes that:
"We have much faster computers, thanks to Moore's law, but the underlying algorithms are mostly identical to those that powered machines 40 years ago. Instead, we have creatively rebranded those algorithms. Good old-fashioned "data" has suddenly become "big". And 1970s-vintage neural networks have started to provide the mysterious phenomenon of "deep learning"."
He highlights that celebrated AI success stories like IBM's Watson and Google's Deep Mind have performed disastrously in the real world. That begs the question: what is AI good for? Chishti's answer, *"What it has always been good for: the identification of patterns in complex data. Medical image anomaly detection, hydrocarbon detection, consumer behavioural prediction and fraud detection have all benefited from advances in computational capacity. These all share two things: large volumes of well-structured input data and well-defined endpoints."*

5. Short read: Ticketmaster stages fightback against touts

Author: Anna Nicolau and Fan Fei
Source: Financial Times (https://www.ft.com/content/138fb9fa-cc1a-11e8-b276-b9069bde0956)
The pop star Taylor Swift's business acumen is once again in full display as she comes up with a novel way to solve an age old economic problem.
The problem is as follows: when the tickets for a rock concert are sold, the fans who buy the tickets tend to span a wide spectrum of income levels (from students through to HNWs). Historically, the concert organisers would price the tickets at an "average" level to ensure that they cover all of these income categories. However, that would immediately lead to a black market wherein richer (or keener) fans would buy the tickets from poorer (less avid) fans. What Taylor Swift seems to have done with help from Ticketmaster is to have circumvented this problem by getting fans to show their hand early (and thus giving herself a chance to price them to perfection). For the tour supporting her latest album, *"…she initially only sold tickets to those who registered weeks ahead of time through Ticketmaster's new technology, called Verified Fan. Ms Swift added an additional hurdle to potential touts, unveiling a points system that gives fans who watched her videos or bought merchandise a better chance at buying tickets. Later, tickets were released on general sale but at steeper prices, with the best seats running into the thousands of dollars, slicing the arbitrage opportunity for touts."*

6. Short read: Getting Rich vs. Staying Rich

Author: Morgan Housel
Source: Collaborative Fund (https://www.collaborativefund.com/blog/getting-rich-vs-staying-rich/)
A slighlty dated yet appropriate piece for the times we live in. Morgan Housel one of the most original thinkers and writers to have emerged in recent years highlights how 'there are a million ways to get rich, but there is only way to stay rich – humility'. Whilst we all know people in real life who have gone through the experiences of Livermore in investing, Housel extends the phenomenon to companies as well. Businesses, no matter how deep the moats are, remain susceptible to disruption. Only those with a healthy dose of paranoia are able to withstand these forces and deliver excess returns over cost of capital over long periods of time.

“Andy Grove, Intel’s founder, put it this way: “Business success contains the seeds of its own destruction.” Scrappiness and the ability to think differently turns into complacency and the desire to keep things the same. Harvard Business Review wrote about Grove’s management philosophy in 1996: Grove believes that at least some fear is healthy—especially in organizations that have had a history of success. Fear can be a healthy antidote to the complacency that success often breeds. A touch of paranoia—a suspicion that the world is changing against you—is what Grove prescribes.”

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