Three longs & three shorts: this week's best reads [7th 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: On a wing and a prayer – India gambles its defence interests on Reliance Group**

Author: Sagar
Source: The Caravan (http://www.caravanmagazine.in/business/india-gambles-defence-interests-reliance-group)
Now that the former French President, Francois Hollande, has told the world that France had nothing to do with the multi-billion dollar offset contract (associated with the 36 Rafale jets purchased by India from Dassault for a consideration of US$7.4bn) being granted to a subsidiary of Reliance Infrastructure Ltd, the question is who in India called the shots on this mega-contract. The Caravan's answer to this question is worth reading if only to understand why the more things change in India, the more they remain the same.

2. **Long read: Tesla, software and disruption**

Author: Benedict Evans
Source: Ben Evans' website (https://www.ben-evans.com/benedictevans/2018/8/29/tesla-software-and-disruption)
Benedict Evans is known to be one of the best tech strategists in the world. He's in fine form in this piece as he explains that what Tesla is doing will not only disrupt the auto ancillary sector (as the conventional drivetrain will no longer be required) but also car dealerships (they will no longer be required). Furthermore, the real disruption says Evans is "autonomy" i.e,:

“Tesla’s approach to autonomy has been to put as many sensors as possible into the cars it’s already selling, and collect as much data as possible from those sensors. It can do this because its cars are already built on a software platform (as discussed above) - it can ‘just’ add the sensors, in ways that the existing OEMs cannot yet do. Then, as it gets more and more levels of autonomy working, it can push that out over the air to the cars as software updates. Since it already has so many cars with these sensors on the road, this will have a self-reinforcing ‘winner takes all’ effect: it will have more data, and so its autonomy will be better, and so it will sell more cars, get more self-driven miles and so have more data. If this pays off, it would indeed be a profound and compelling competitive advantage for Tesla, even without thinking about all the other possibilities, such as renting your Tesla out as an autonomous taxi.”

Interestingly, Evans’ view is that neither the electric car per se nor electric batteries will be a source of competitive advantage for any car OEM. Both of these will soon be commoditised technologies. The competitive advantage will lie in the data that an OEM is able to collect on their customers and their usage. That data along with the customisation of the software loaded in the car will potentially allow the OEM to lock the customer in.

3. **Long read: The real heroes are dead**

Author: James B.Stewart

Source: The New Yorker (https://www.newyorker.com/magazine/2002/02/11/the-real-heroes-are-dead)

They say that the world’s best writers write for The New Yorker. You might say that again after reading this moving real life story of a security guard employed by Morgan Stanley. You might then say – as we did – that what really matters in life is not what happens in the next results season, or in the next election or whether we make more money next year than we did last year; what matters is how we live life, who we love and how we conduct ourselves when the odds are truly stacked against us.

4. **Short read: Investment lessons from 12 years of writing this column**

Author: John Authers

Source: The Financial Times (https://www.ft.com/content/3c740106-c273-11e8-95b1-d36dfef1b89a)

In his final piece for the FT, the veteran columnist uses a personal story to summarise what he has learnt from his years at the FT. In 1992, he won a prize (for journalism) worth GBP500. He invested his prize money in the Capability UK Growth Fund. Why? Because the fund had a good track record, the fund manager had sounded impressive when Authers interviewed him and because the asset management house behind the fund was Capel-Cure Myers, a grand old name in the City of London.

The monies invested in 1992 have now grown to GBP3,160. Had Authers invested GBP500 in the FTSE100 in 1992, it would have grown to GBP3,297. There were no index funds in the UK in 1992 but had such funds existed then, then net of fees they would have given the broadly same amount as the actively managed fund chosen by Authers. On the other hand, had the GBP500 been invested in the S&P500, the investment would have grown to GBP6,660 and had it been invested in MSCI All Word (ex-UK), it would have grown to GBP4,265.

Authers says that his personal experience highlights: (a) the value of patience; (b) the futility of paying high fees for broad-based actively managed funds since such funds almost inevitably end up giving returns in-line with the broader market; (c) the need to abandon home country bias and invest overseas; and (c) the futility of judging funds by their brand names, their track records or how impressive the fund manager sounds whilst being interviewed. The core of a sensibly managed HNW's portfolio will increasingly hinge around various tracker funds says Authers. Active managers will almost by definition have to deviate radically from the benchmark and those who survive will then slot into the "satellite" role in well managed HNW portfolios.

5. **Short read: It's teamwork: how dolphins learn to work together for rewards**

Author: Stephanie King

Source: The Conversation **(**https://theconversation.com/its-teamwork-how-dolphins-learn-to-work-together-for-rewards-103331)

A steady stream of articles from various academic sources is steadily debunking the myth that we humans are unique in our ability to co-ordinate our actions with each other on a real time basis. This study conducted at the Dolphin Research Center in the Florida Keys shows how rapidly pairs of dolphins are able to understand a relatively complex task (set by the researchers) and then able to work in a co-ordinated manner to solve the task in a variety of ways.

In this task *"pairs of dolphins had to swim across a lagoon and each press their own underwater button at the same time (within a 1-second time window).Each trial began with both dolphins and their respective trainers located at the opposite side of the lagoon from the buttons, about 11 metres away. The trainers would either both give a "press the button" hand signal at the same time, or one trainer would give the signal first, while the second trainer asked her dolphin to wait up to 20 seconds before giving the signal.*

If the dolphins pressed their buttons at the same time, a computer played a "success" sound, and the dolphins returned to their trainers for fish and social praise. If the dolphins pressed their buttons at different times, a "failure" sound was played and the trainers moved on to the next trial.

The strict timing requirement meant they had to work together. If their goal was simply "press my button", then when they were sent at different times, they would press at different times. To succeed, they had to understand their goal as "press the buttons together"."

The researchers found that *"dolphins were able to work together with extreme precision even when they had to wait for their partner. Interestingly, their behavioural strategies and the coordination between them changed as they learned the task."*

Researchers now say that this might explain why dolphins seen in the wild are so good at showing high levels of precise co-ordination. Teamwork comes naturally to these intelligent mammals whilst we human have to go on team building courses!

6. **Short read: Book review - A devastating argument on excessive pay**

Author: Margaret Heffernan

Source: Financial Times (https://www.ft.com/content/35ccc088-c262-11e8-95b1-d36dfef1b89a)

Entrepreneur Margaret Heffernan's review of Deborah Hargreaves' book ***"Are Chief Executives Overpaid?"*** begins by her stating that *"I worked for 30 years before receiving bonus. I was no slacker, I just never worked for companies that believed in them. As chief executive of my own businesses, I didn't introduce bonuses or performance-related pay. I hired good people to do work that excited them, gave them a stake in the business and that, it seemed to me, should be enough."*

Heffernan cites some powerful stats on excessive CEO pay from Hargreaves' book (which seems to be based largely on data from the UK but the underlying arguments appear to us to be just as applicable in India or USA or whichever capitalist haven you happen to be in):

- John Persimmon, of the construction firm, Persimmon earned enough in 2017 to build a house for every homeless person in York (where Persimmon is based);
- By the end of the first week of the year, the average CEO will have received more than their workers get in a year;
- In the UK, the average FTSE100 CEO will make 159 times the average worker's annual income. In the US, this multiple is 347 to 1!
- Performance related pay massively outpaces all rational measures. The argument that such pay is necessary to attract top talent in false – of 489 appointments of Fortune Global 500 companies, just four CEOs moved country for the job.

At the end of her piece, Heffernan makes a very interesting point (which is not made in the book). She says that most CEOs gladly accept/seek these outsized rewards (and remuneration committees sign off on these rewards) not just because of greed but because "These men – and they are mostly men – are not leaders but followers. They are afraid to step out of line and set a better example. Instead, accepting their huge salaries, they hide behind an old, discredited alibi: everyone is doing it."