Twitter Thread by Daniel

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“How do you know?”
You never know!

In investing, you have to act on incomplete knowledge.

I came across a great article by @honam lately.

In it, he discusses his decision-making under the condition of an unknowable future.

I think the learnings are worth sharing ■■

“The truth is, in the beginning, we never knew how things would turn out.” - Ho Nam

When you analyze a company, you (hopefully) come up with an investment thesis at the end.

But it’s nothing more than that - a thesis.
The future is yet unwritten thus unknown.

Sequoia’s Mike Moritz has beautifully described an initial investment as a “giant step into the unknown.”

That’s why your work isn’t done after the decision to buy.
Investing is a journey.

You have to reevaluate your investments constantly.

Ho Nam’s article offers four questions (we’ll discuss three) that can help you do that and decide whether you should hold, sell, or double down.

Although they’re primarily VC (Venture Capital) focused, I believe we can all learn something from them.

1. Does the company generate cash?

Especially in the VC world, but also with bigger and more established companies, it’s not a given companies make money.

There’s a tendency to overpay for vision and underpay for value at the moment.

But Cash-Flow is a form of safety.

Companies that make money survive bad times when companies that don’t die.

“Difficult times are when the best companies separate from the pack.”

Learning:

First, look for what’s already there (Cash-Flow, etc.) and only afterward think about what ‘might’ can be built on that in the future.

2. What is the moat/competitive advantage?

Every attractive long-term option has to have something that makes it unique, inimitable.

No matter how good the profits or cash-flows are, if nothing protects them, it’s just a matter of time that they’ll vanish.

Learning:

Look for structures (positive feedback loops, a mission-driven culture, etc.) that give the company a long-term advantage.

Especially young companies only survive if they offer something others don’t.

3. How much liquidity do you need / How much liquidity do you want?

This third point is primarily important to figure out when to exit.

After the company got successful, new liquidity has to flow into the company (higher salaries, more employees, more projects).

But when the time comes that the amount of liquidity the company “wants” not “needs” exceeds a certain level, it might be time to call the day and make an exit.

This last point is probably not very practical for most of us (who are not in the VC business).

Yet, I find it interesting how meaningful the relationship and “personal connection” between investors and companies are.

At least for Altos. (The company Ho Nam Co-founded and works for as a Managing Director)

Learning:

If the relationship between stakeholders/investors and the management starts to shake, it might be time to call it an end.

Same or at least similar priorities are important.

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Here's the original Article by @honam:
https://t.co/f34Wg4BMXN

If you're interested in another quick and very informative read, check out this article by @joshtarasoff :

https://t.co/W1uq4pQOUY

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