Motley Fool ONE Exclusive:

Tom Gardner interviews The Outsiders *author Will Thorndike*

TOM GARDNER:

Welcome. Tom Gardner, your *Motley Fool ONE* advisor, co-founder of The Motley Fool here with Will Thorndike, the author of The Outsiders. Will was also somebody who graduated four years ahead of me from the same high school in Massachusetts — Stratton School …

WILL THORNDIKE:

That's right …

TOM GARDNER:

… and Will has written a book that … It's very funny. I have two copies of it here, which I have read and taken notes in, separately, because I love this book that much. It's a great playbook for understanding business and investing, capital allocation, leadership, how to evaluate a CEO. We're going to sit down here and we'll go through the book page by page with you.

WILL THORNDIKE:

Excellent.

TOM GARDNER:

Let's just start with how you would describe the premise of the book that you created?

WILL THORNDIKE:

I think the best analogy for the book is duplicate bridge. I don't know. Do you play bridge?

TOM GARDNER:

I don't play bridge, but I'm familiar with it …

WILL THORNDIKE:

I'm a terrible bridge player, but duplicate bridge is a form of bridge in which a group of teams of two show up in a room. They're divided into tables of four. And then each table is dealt the exact same cards in the exact same sequence … so, effectively eliminating the role of luck. And at the end of the evening, the team with the most points wins. So, it's a pretty pure test of skill.

And I would contend that in an industry, over long periods of time … 20 years, which is the average tenure of the CEOs in this book … it's duplicate bridge. So, if one company materially outperforms its peers, that's worthy of study. So, that's the pattern across the eight CEOs profiled in this book. Each of them outperformed their peer group dramatically over their tenure and then they also each outperformed Jack Welch in terms of performance relative to those, too.

TOM GARDNER:

What was the catalyst for writing the book? What was the seedling that caused you to say, "This is more than a single study or a single-company analysis? This is a broader look."

WILL THORNDIKE:

I work in the private equity business, and every two years we host a conference for our CEOs. About 10 years ago, I raised my hand and said, "I'll do one of the talks at the conference," and then had to figure out what I was going to talk about. And I'd heard about this sixties-era conglomerateur named Henry Singleton. I connected with a Harvard Business School student who was entering his second year. He agreed to do a for-credit independent study and together we did a deep dive on Singleton and his company Teledyne versus the other conglomerates of that era.

TOM GARDNER:

What were Teledyne's returns, ballpark?

WILL THORNDIKE:

Twenty-eight years at just over 20% compounded.

TOM GARDNER:

With Henry Singleton as the CEO.

WILL THORNDIKE:

Henry Singleton was the CEO throughout, and he was an extraordinary guy. And so at the end of that, I wrote it up. I gave the talk and the student I worked with came to me and said, "Listen, if you enjoyed that, I know a really smart guy in the class behind me." That first student was a Phi Beta Kappa in physics from Stanford. He was a high-caliber guy and the second guy was a Phi Beta in chemistry from Harvard. So, I just got into this vein of super high-talented second year students in Harvard Business School and worked with them to do each of the chapters.

TOM GARDNER:

So, there are maybe three ways that you're proposing to evaluate a CEO. One of them is just the overall return of the creation of the value. The second is versus the market. The third is versus peers in the industry. Do you have a view as to the ranking of those? And as an investor, do you care about one of those more than the other? Obviously it could be situational if you're an institutional investor and you've got a lot of slices in your portfolio. But if you're an individual investor out there, which one of those three things do you want most and which one do you care least about?

WILL THORNDIKE:

Well, I think if your objective is to evaluate a CEOs ability, the most relevant is performance relative to the peer group, and to assess that, you need longer periods of time. You need more than 24 to 36 months to really be able to evaluate that. Again, the typical tenure of the CEOs in the book is north of 20 years. But I think that's the one that's going to give you the best sense for true ability relative to peers operating under similar circumstances.

TOM GARDNER:

The book is proposing that the CEO is an incredibly important contributor and player on the stage of a business. What sort of weighting do you give that in your own investments when you're investing in the public markets? You're running a private equity firm, but when you make public market investments, how much do you spend time on the CEO versus the competitive advantages, pricing power and all the other factors you could look at?

WILL THORNDIKE:

I think the rough weighting for me would be one-third to one-half of a consideration. Very significant. And again, my approach as an individual investor is I run a very concentrated portfolio in my personal account, and I own things for very long periods of time. So, if you removed either of those constraints, I might answer your question differently, but the benefits of this set of traits are greater the longer your holding period. So, one way to think about it is it's a way to increase your long-term rate of compounding in this set of skills, this capital allocation ability.

TOM GARDNER:

So, if you were to only be holding stocks for a year … or for six months, which is tragically how long the average individual investor holds …

WILL THORNDIKE:

Much less important …

TOM GARDNER:

… or a mutual fund, that wouldn't be factor. But as you lengthen your time horizon … I don't know if you know, Will. The portfolio that I run in our service is called the Everlasting Portfolio. I am mandated to hold each investment for a minimum of five years …

WILL THORNDIKE:

Yes, great …

TOM GARDNER:

What I've actually said to the membership base is I would be happy to have that mandated to ten years …

WILL THORNDIKE:

Yes …

TOM GARDNER:

In fact, the number one factor I think most people could use to improve their investment returns is simply to double their average holding period, whatever it is.

WILL THORNDIKE:

I couldn't agree more. I think the value of that — the value of that sort of a time horizon — has only grown over time, as all of the … as the rise of social media and …

TOM GARDNER:

High-frequency trading …

WILL THORNDIKE:

High-frequency trading …

TOM GARDNER:

And these arguments are out there, Will, that you'll see …

WILL THORNDIKE:

The media shows …

TOM GARDNER:

… like long-term investing is dead because of these factors. Because of social media. Because of high-frequency trading, you have to be on top of things second-by-second. You should be moving your firm closer to the exchange so that your transactions take one millisecond of a millisecond less than the competitors, and you're saying that that's actually creating time arbitrage and a greater opportunity for long-term investors than ever before.

WILL THORNDIKE:

Yes, I firmly believe that, and I think if you look at the truly great long-term investing records, they're disproportionately concentrated in people with much longer holding periods and typically very concentrated portfolios.

TOM GARDNER:

So, you're going to say that to find a great outsider CEO and a great investment like the ones you've outlined in the book, your holding period to really enjoy that should be …

WILL THORNDIKE:

Minimum of five to ten years. And the quality of the business, for that sort of time horizon, is critical, as well. I don't mean to diminish that. But if you have a truly concentrated portfolio, you can afford to be picky about both business quality and the management team.

TOM GARDNER:

That's great. Before I go into some of the narratives in the book, I want to talk a little bit about capital allocation and the five factors or maybe there's a sixth John Malone factor …

WILL THORNDIKE:

Right …

TOM GARDNER:

… of joint ventures, but the five factors that a CEO is looking at in terms of how to use capital and how we might think about that as investors.

WILL THORNDIKE:

Yes. So, there are three basic ways you can raise capital. You can tap your internal cash flow, you can raise equity or you can sell debt. Those are the three alternatives. And then there are only five — in the case of Malone, maybe six — but generally only five things you can do with it.

You can invest in your existing operations. You can buy other companies. You can pay down debt. You can pay a dividend. Or you can repurchase your shares. That's it. And over long periods of time, the decisions a CEO makes in choosing across those options and choosing which levers to pull and which to ignore have a gigantic impact on long-term returns for shareholders.

And so, a simple way to think about that is if you have two businesses with identical operating results over 20 years, 10 years … pick your time horizon … Over a longer-term period of time, if the two companies pursue different capital allocation strategies, the per share results for shareholders will be wildly different.

TOM GARDNER:

So, these are circumstantial entirely, or for the fun of it, I'll put you on the spot and say, Will, would you rank those? If you were the CEO of Generic ABC Widgets, we know that there are going to be particular circumstances in industry or something environmental that's going to cause you to lean one way or the other. But in just a super long-term 150-year way, can you rank those five as being more effective in more situations and to a greater impact than others?

WILL THORNDIKE:

I think it's hard to have an absolute weighting. You could look at this group and you could see that every single one of them did one of two things that were significant. They bought back very significant percentages of the stock over time — thirty percent or more, in seven of the eight cases — and they did sizeable (and least one and in most cases several) sizeable acquisitions, meaning deals that were at least a quarter of the size of the company at the time they were done.

But I think it's very case-dependent. I mean, I think the most important thing is that they have this cool, rational mind-set. That they're continually looking for the highest-return option and that circumstances are going to vary over time. In fact, over 20 years, a company can move from being a rapidly growing company to a more mature business and the ideal alternative will be different at the beginning versus at the end. So, I think it does vary.

TOM GARDNER:

Maybe at the bottom of the list would be dividends, at least according to these eight case studies …

WILL THORNDIKE:

Yes …

TOM GARDNER:

… that that's the most infrequently used.

WILL THORNDIKE:

Yes. Sorry. That's, I think, a very fair point. I think dividends — the one common thread across this group was minimal dividends — in some cases no dividends … Buffett and Singleton being sort of extreme cases there. Minimal dividends. I would distinguish there's two types of dividends, obviously. There's the standard quarterly dividend, and this group generally stayed away from quarterly dividends. They did, occasionally, pay special dividends, and the special dividend is an interesting tool that can be used selectively at different points in time.

But the thing about dividends they didn't like primarily was that they're so tax inefficient. This group was very, very focused on tax efficiency which, again, over longer holding periods, taxes matter greatly.

TOM GARDNER:

Just for the fun of it, could you give any examples of misuses of those approaches to capital allocation? Let's say share buybacks — just a classic example of when a share buyback does not impress you.

WILL THORNDIKE:

I would say that there's a lot of attention in the news, now, about an increasing number of companies who are implementing share buyback programs …

TOM GARDNER:

Everyone's Henry Singleton out there. This is awesome. This is great news, right?

WILL THORNDIKE:

No. Definitely not. I mean, there's sort of two approaches to buying back shares. The most common one, and the one that almost all of the companies that are announcing buyback programs today are following is you announce an authorization. It's usually not a very significant percentage of the company's market cap that could be bought in — so it's not a large commitment — and it's implemented quarterly, often in even quarterly allocations to share repurchase. And it's often designed to offset option issuance.

If you look at the pattern from this group, it's entirely different than that. It's the very occasional, very large repurchase is the pattern, and the recent example of that is one of John Malone's entities, Liberty Capital. In the second quarter of 2011, if you tuned into the earnings call, you found out that 11% of the shares had been retired in the last 90 days. That's the pattern. You wait. And Henry Singleton used tender offers and bought in large chunks of stock …

TOM GARDNER:

They're making a call on an attractive time to buy the stock rather than a cookie-cut, quarterly repurchase …

WILL THORNDIKE:

Exactly …

TOM GARDNER:

… to rebalance against the option grants.

WILL THORNDIKE:

Exactly.

TOM GARDNER:

So, when you talk about these eight companies buying back more than 30 percent of their outstanding shares, is that net?

WILL THORNDIKE:

That's net.

TOM GARDNER:

That's net.

WILL THORNDIKE:

That's net.

TOM GARDNER:

So, that's substantial.

WILL THORNDIKE:

Yes.

TOM GARDNER:

Okay. How about acquisitions? Two out of three acquisitions fail, so …

WILL THORNDIKE:

Two out of three acquisitions …

TOM GARDNER:

… so what makes this group so effective?

WILL THORNDIKE:

I think it's the same mind-set — very similar to the buybacks — it's this idea that you're patient and you're waiting for compelling opportunities, and when you see them, you're prepared to act in size. So, the pattern across this group was long periods of inactivity followed by a discrete, large transaction. So, if you look at Capital Cities, one of the companies in the book … The CEO, there, Tom Murphy was CEO for 29 years.

He made six large deals in 29 years. Each one of them was larger than a quarter of the company's market cap at the time it was made, but they were very selective. Dick Smith, at General Cinema, did three large deals over 20 years, each of which was significantly accretive. So, they were very careful. They waited for high-probability bets and then they pounced.

TOM GARDNER:

How about misuse of capital in terms of reinvesting in your core business? When's that a bad idea?

WILL THORNDIKE:

It's a bad idea if the returns are marginal. So, it's all about can you deploy capital in projects that have returns that are attractive. And for every company, the definition of attractive will be somewhat different, but you need to be able to hit a target level of return. Often with internal projects, they're viewed as being strategic, and the use of that word strategic can often mask the actual …

TOM GARDNER:

(unclear)

WILL THORNDIKE:

… returns in a project. So, it's really important for managers to be forced to quantify their returns from the projects they're proposing, and all of these companies were very rigorous in how they made those decisions.

TOM GARDNER:

Let's go through some of the stories. ABC — Cap City's ABC. Let's just say ABC versus CBS — rowboat versus QE2.

WILL THORNDIKE:

This is an analogy that Warren Buffett uses. He'll take the example of Capital Cities, which was Tom Murphy's company before it acquired ABC and CBS, and he'll look at the long-term difference in returns between those two companies.

When Tom Murphy took over Capital Cities, it owned five radio stations and four TV stations, all of them in very small markets. CBS, at the same time, was the dominant media business in the country that had the highest-rated broadcast network. Major TV and radio stations in all of the largest markets in the country — Chicago, New York, L.A., etc. It had very valuable publishing and music properties. It was just a juggernaut.

So, at the time Murphy took over, his business was worth one-sixteenth of CBS's market value and then 28 years later, it was worth three times the value of CBS. And so, over that period of time, Murphy …

TOM GARDNER:

That was a pretty good, pure comparison …

WILL THORNDIKE:

It's a very good, pure, pure comparison. Murphy executed this very focused kind of acquisition and integration strategy. He ran his businesses exceptionally well with a very decentralized operating philosophy, organizational structure. And CBS ran with 42 presidents and vice presidents …

TOM GARDNER:

All getting in limos …

WILL THORNDIKE:

All get getting in limos. They built a landmark skyscraper in midtown Manhattan at enormous expense, the Blackrock building. They diverged into other business lines. You know, the New York Yankees baseball team at one point in time. The toy business. Murphy was focused, laser-like, on the media businesses he knew well, which were terrific businesses that they operated very well.

TOM GARDNER:

Let's talk Teledyne and Singletonville. You mentioned the average repurchase of the eight companies in the book is around 30%, 33% maybe …

WILL THORNDIKE:

Yes.

TOM GARDNER:

Henry Singleton, a little bit higher.

WILL THORNDIKE:

Yes, so Henry Singleton, he's an interesting case. He has a very unusual background for a CEO. He's a world-class mathematician, so at age 23 he wins something called the Putnam Medal, which is awarded to the top young mathematician in the country. Richard Feynman, Nobel Prize winning physicist won it later. So, he's operating at a very high level. He's an MIT Ph.D. in electrical engineering. When he's at MIT, he programs the first computer at MIT as his doctoral thesis. He's a high-level …

TOM GARDNER:

Running a public company is a lay-up for him.

WILL THORNDIKE:

… math and science guy. He becomes CEO at age 43 of this conglomerate and he proceeds to, over the next 28 years at the helm, he buys in 90%+ of the shares. So, no one has ever come close to that level of stock repurchase.

TOM GARDNER:

Why are people not doing that? In other words, that was controversial or truly unorthodox …

WILL THORNDIKE:

Yes …

TOM GARDNER:

… you'd say. What would the complaints against that approach have been?

WILL THORNDIKE:

So, historically, buybacks were very controversial and they were perceived by Wall Street as signaling a lack of internal growth opportunities. They were a signal of weakness. They meant that you couldn't deploy that capital and invest in your existing operations.

TOM GARDNER:

And a high-level mathematician is looking at …

WILL THORNDIKE:

He's just looking …

TOM GARDNER:

… at all the options and looking at what's the best mathematical result I could get …

WILL THORNDIKE:

Absolutely …

TOM GARDNER:

… and it's buy back my own stock rather than to build another factory or to go out and take a risk elsewhere.

WILL THORNDIKE:

He was just continually solving the problem of how we create the most value per share long term. Everything Henry Singleton did was viewed through that prism.

TOM GARDNER:

Let's talk General Cinema, jumping around a little bit in the book. I mean, I thought of this, as I read the chapter … that it's almost like a slow-burn, Berkshire Hathaway textile business. That there is a leak in the boat …

WILL THORNDIKE:

Yes …

TOM GARDNER:

… of the cinema business, but it's going to take a long time for it to fail and Dick Smith is getting out of that boat.

WILL THORNDIKE:

Yes. I think that's a very good analogy. So, Dick Smith, who was the longtime CEO at General Cinema … which was a public company … but a very small public company. His father took it public. They specialized in drive-in movie theatres and his father died within 24 months of the company going public.

So, at age 37, Dick Smith inherited the CEO role and he proceeded to take the business first out of drive-ins into suburban strip malls. They were the pioneer in the suburban strip mall movie theatre business which, for a period of time, was a very good business, as the population, post-World World II, moved into the suburbs.

And then he realized that business was maturing and he began to look for other businesses with better long-term growth prospects. And he first went into the Pepsi bottling business, which is a very good business — very successfully …

TOM GARDNER:

How would an investor look at that and say, "That's not like CBS buying the New York Yankees?"

WILL THORNDIKE:

That's a very good question. It's a diversifying acquisition outside of the core company's business. I think you can argue in this case that the core economics of the theatre business — the way theatre owners make their money is with concessions …

TOM GARDNER:

So, there is a connection …

WILL THORNDIKE:

… so Smith had a long-term familiarity with the beverage business and the power of those brands and he proved to be an excellent operator within the bottling business, and so they ended up buying a platform company and then successfully adding to that over time and eventually selling it back to the …

Dick Smith was a very effective seller of businesses. Very opportunistic. And when he saw businesses maturing, and he felt he could get paid for that …

TOM GARDNER:

He had no problem selling.

WILL THORNDIKE:

… he had no problem selling.

TOM GARDNER:

I mean, all of these CEOs had no problem dismantling their empire. I mean, there were times to expand and construct and then were there times to sell off and withdraw or be patient. Repurchase shares which, in a way, is an act of shrinking your empire …

WILL THORNDIKE:

Exactly …

TOM GARDNER:

… rather than, "Hey, look at all the things that we can own. All the fun we can have …"

WILL THORNDIKE:

Yes …

TOM GARDNER:

"… all the risks we can take."

WILL THORNDIKE:

You know, that's very true. They were all comfortable buying in shares, shrinking the share base and selling or spinning off. They were active users of spin-offs. Business units. And also closing underperforming units. I think the two exceptions to that would be Buffett at Berkshire doesn't like to sell things. He will occasionally close something, like the textile business when it simply can't …

TOM GARDNER:

Buffett doesn't like to sell things that won't pay dividends. Doesn't like to pay dividends. Doesn't like to buy back stock …

WILL THORNDIKE:

Doesn't like to buy back stock …

TOM GARDNER:

And that's kind of interesting. It probably goes back to the Buffett partnership and his commitment to the relationships that he's built …

WILL THORNDIKE:

Exactly …

TOM GARDNER:

And in essence, he doesn't want to go out and say, "I'm going to opportunistically buy this stock at a discount from the people that have been long-term holders. They may make an emotionally irrational decision to sell it to me or not realize how great our long-term prospects are, so I'm not going to be a share buyback guy."

WILL THORNDIKE:

I think that's exactly right. They talk about this long-term web of deserved trust that they're trying to build at Berkshire. He and Charlie Munger talk about that, and I think he feels as though that would pick at that. But he has announced, interestingly, a couple of times, parameters around which he would do buybacks and he actually succeeded in buying in some shares — not an enormous amount relative to the market count — but over the last 18 months, he's had the first real buyback ever in the company's history.

TOM GARDNER:

Let's talk about Kay Graham, the first-time CEO. I mean, it's true of all of these CEOs. This is their first time as CEO. They're not being recruited by Spencer Stuart to jump from one organization and one industry to the next …

WILL THORNDIKE:

That's right …

TOM GARDNER:

They're in for 20-plus years.

WILL THORNDIKE:

That's right. I think that's one of the most surprising findings of the book — that all of these CEOs were first-time CEOs. Only two had MBAs. Half not yet 40 when they got the job. And Kay Graham is the most extreme example of that because she inherits the CEO role after her husband commits suicide, tragically. She hasn't held a job in almost 20 years, so she finds herself the only female CEO of a Fortune 500 size company and she hasn't been in the work force in almost 20 years, and she proceeds to put up far and away the best operating results and value creation of any CEO in the newspaper industry over the next 25 years.

TOM GARDNER:

Why do you think this is? Why is the first-time CEO, non-MBA under the age of 50 or even 40 an effective leader of a public company?

WILL THORNDIKE:

I think it relates to the power of fresh eyes, freshness of perspective … the ability to look at industry circumstances objectively and to not be caught up in industry conventional wisdom. And to be purely rational about these decisions, as a result.

TOM GARDNER:

Ralston Purina and maybe a concept that's stood out to me in that chapter is if you've got a highly predictable business, you should very seriously consider using debt.

WILL THORNDIKE:

Yes, absolutely, and Bill Stiritz, who is the CEO of Ralston Purina, was the first CEO in the consumer products area to really understand that and to run those businesses almost like a public LBO in the early days of when those concepts were gaining acceptance in the private equity world. And he's an interesting case because he's the only one of the eight who was an insider, so he came up through the ranks at Ralston Purina, and once he became CEO, he turned out to be very independent.

TOM GARDNER:

Do you think it's possible that this is also a playbook for succession planning for executives? The CEOs that I've talked to that are outsider-like or innovative, long-term CEOs, 20-plus years … I think their tendency is to turn to the right-hand person they've been working with who may also be in their late fifties or early sixties. Maybe an operating mind more than the investor type …

WILL THORNDIKE:

Yes.

TOM GARDNER:

… and in my conversations, what I have advocated from my position as a Fool is what about a very youthful, more visionary investor mind-set … investor-oriented candidate who could now take over for the next 25 years? If you pick somebody who's 61 years old or 64 years old, it's likely it's going to be one of the 5 to 7-year, 10-year CEOs. That worked at General Dynamics, which is the last company I want to mention, but I wonder if you've thought that this is also a blueprint for how to think about your successor?

WILL THORNDIKE:

I think that's an interesting idea. I think it is a blueprint. I think it's hard to implement that. I think you have to have enough independence, enough credibility with your board to be able to make an unconventional succession decision …

TOM GARDNER:

Boards are set up not to do that.

WILL THORNDIKE:

Boards are set up to make that hard …

TOM GARDNER:

Minimum risk …

WILL THORNDIKE:

… make that hard to do. And that's increasingly through post-Sarbanes Oxley. Boards are increasingly risk-averse.

TOM GARDNER:

Let's talk General Dynamics. I'm kind of playing the John Malone line here, but this was a company that was also lower than whale dung …

WILL THORNDIKE:

Yes …

TOM GARDNER:

… when the turnaround began. So, talk a little bit about some of the decisions that went into creating … I mean the returns at General Dynamics have been …

WILL THORNDIKE:

Extraordinary. Yes, extraordinary. Well, Bill Anders took over at General Dynamics at probably the lowest point in sixty years in the defense industry … immediately after the Berlin Wall came down. It was apparent that defense spending was going to be cut very dramatically and that, that whole paradigm of what you spend money on in the defense budget was going to change. And General Dynamics was positioned with large programs that were specifically designed to counter the Soviet threat that was now gone. So, that's a tough circumstance, and Anders quickly moved to the idea …

TOM GARDNER:

They were also negative cash flow with a massive amount of debt …

WILL THORNDIKE:

They had a lot of debt. They had negative cash flow. They were just generally, poorly positioned. He looked at that and he quickly came to the conclusion that they had a variety of business lines and they needed to ruthlessly look at them and decide which business lines they were existing leaders in and could build off of, and which they weren't, and they needed to exit from the latter and build on the former. So, he proceeded to very quickly move to sell off businesses where the company wasn't a leader and to try to build on those where it was.

Ironically, in some of the business lines where it was a leader, when he went out to try to buy other companies to enhance the leadership position, those CEOs were interested in buying him … so he then was faced with this conundrum of what to do … and he ended up being very rational and selling when he got prices that were extraordinary.

So he rationalized the company's businesses. He also ran the existing business better than it had been run. It had been run in a way that was very capital inefficient, so he tightened the operations. And the result of all that was a tsunami of cash — a wave of cash came into the company. They then had to figure out how to allocate that, and unlike historic patterns in the defense business, they chose to do a very large buyback, a series of them. [00:26:50]

TOM GARDNER:

Never happened in the industry …

WILL THORNDIKE:

Never happened in the industry before. And then they paid a series of very large special dividends which they were able to do in a tax-advantaged way. So, wildly different than anything that had ever occurred in the industry before and that attracted Warren Buffett's attention, actually, interestingly.

TOM GARDNER:

Sometimes it takes being lower than whale dung to … I just interviewed Malcolm Gladwell about a week and a half ago, and it's essentially if your back is against the wall, you've got nothing to lose … your board is perhaps more willing to be unorthodox or to accept an outlier approach, and that can be the thing that unlocks a tsunami of cash flow in a business that looks like it almost has to go into bankruptcy.

WILL THORNDIKE:

Yes, I think that's right. I think that's right. I think the circumstances helped him.

TOM GARDNER:

So, now I'm going to do something interesting, Will … at least it's interesting to me. I have assembled 21 factors out of the book that are patterns that I see. They're not travelling across all eight organizations, and I just want to see … You can literally reflect on any one of them or just go check I agree with that one or tweak, modify or kick it out.

WILL THORNDIKE:

Great. Let's do it.

TOM GARDNER:

Here we go. If you want to find a great outsider CEO and get the great 20-plus year returns, 15-20% a year incredible returns that these CEOs got, you should start by looking for a CEO under the age of 50 at a small cap company.

The larger the institution, the less likely that it's going to compound 20% a year, although it spin-offs in the sale of assets. By the way, I see you're just nodding, so you can just jump in at any time.

Generally it could be a good idea to look for a business that's lower than whale dung with a new CEO — a John Malone like situation.

The CEO has a significant ownership stake. Is it important that, that exists or not?

WILL THORNDIKE:

I think that's very important, or it has a path to that. Yes, I think that's very important.

TOM GARDNER:

And that path to that would be through restricted stock grants for a taking over the business?

WILL THORNDIKE:

It could be a restricted stock grant. It could be some sort of a program tied to long-term appreciation in the stock. I mean, Valeant is an interesting example in this in terms of how Pearson's been compensated, so I think there are different models for that, but a path to meaningful ownership.

TOM GARDNER:

So, jump in.

WILL THORNDIKE:

So, the under 50 thing I think is generally true, but not in every case, true. So, Anders is 57. I think it's a bit circumstance-dependent, but I think generally that's true. I think you can find these opportunities in larger-cap companies, although I would generally agree the really long run, the really long ride is more likely in a smaller cap situation.

TOM GARDNER:

Like what capitalization would you look at? Like sub-$5 billion market cap?

WILL THORNDIKE:

Yes. I think something like that. And then you're looking at business quality is important, too. I mean the ideal situation is you have a neglected, underrun gem surrounded by stuff that isn't so great that a rationally-oriented CEO can fix or rationalize or deconglomerate.

TOM GARDNER:

I know this is such an unfair question, but what percentage of poorly run public companies are a gem just covered with moss?

WILL THORNDIKE:

One in five, maybe.

TOM GARDNER:

One in five, maybe.

WILL THORNDIKE:

...

TOM GARDNER:

Okay, next factor. The business is headquartered off the beaten track for the industry. If it's a technology company, maybe it's not in Silicon Valley. If it's a finance company, maybe it's not on Wall Street. It's Warren Buffett in Omaha rather than Warren Buffett in Lower Manhattan.

WILL THORNDIKE:

I think that tends to be a positive marker.

TOM GARDNER:

That's also a Gladwell. That's also a Gladwell observation in David and Goliath. A decentralized operation, so this person is more of an investor than they are an operator.

WILL THORNDIKE:

I think that's very powerful. That's one of the really strong, non-financial, non-capital allocation findings in the book … is the prevalence of these decentralized and in most cases dramatically decentralized organizational structures.

TOM GARDNER:

So, an interesting question that an individual investor could ask in calling Investor Relations is, "How many people are in the corporate office versus the operating units?"

WILL THORNDIKE:

Yes.

TOM GARDNER:

Runs it like a private company. Super long-term perspective and almost no or very little focus on external communications.

WILL THORNDIKE:

I think that's valid.

TOM GARDNER:

Are these CEOs introverts and they're shy in the media spotlight or are they just not interested in spending their time in what they think is an ineffective use of it?

WILL THORNDIKE:

A combination. Across the group there were some clear introverts. Others who were extroverted and just chose not to spend their time. So, I think it's a mix. The key being that they not spend their time on that and that they have a reason for that. That doesn't mean they're not communicating effectively with shareholders. It just means they're choosing to do that through annual meetings and letters more so than quarterly guidance.

TOM GARDNER:

They're trying to be as effective, as efficient in their [crosstalk 00:31:40] as possible.

WILL THORNDIKE:

Yes. The numbers I've heard … A typical public company CEO spends about a day a week, about 20% of their time on investor relations.

TOM GARDNER:

Terrible.

WILL THORNDIKE:

So, just being able to reduce that and spend it more productively on other strategic capital allocation, optimization-related activities is generally positive.

TOM GARDNER:

Focuses very intensely on owner earnings or cash earnings rather than on reported net income. Maybe unpack that one a little bit.

WILL THORNDIKE:

I think one of the clear, common threads across this group was a focus on cash flow as opposed to reported net income, and there are all sorts of ways those two numbers can diverge … but they really focused on cash economics. And the marker of that was they often had, in most cases, unique metrics that they used to focus on managing the company and how they explained their business to shareholders. I think that is one of the major markers of this set of traits … is the use of unique, cash-based, per-share metrics.

TOM GARDNER:

But … cash-based. In other words, the year is 1999. You're seemingly outsider CEO is not saying, "page views on the Internet …"

WILL THORNDIKE:

No …

TOM GARDNER:

… is my idiosyncratic way for evaluating how well we're doing.

WILL THORNDIKE:

Yes. Cash-based.

TOM GARDNER:

Cash-based.

WILL THORNDIKE:

Page views does not cut it.

TOM GARDNER:

Avoids the use of consultants and often avoids, outright, any use of bankers in the numerous or large acquisitions that they're making.

WILL THORNDIKE:

Yes, I think generally that's true. I think there are examples of focused usage of both bankers and consultants by this group very productively. I think the key is to use them sparingly and in a targeted fashion. For instance, Bill Anders at General Dynamics actually benefitted significantly from a Bain study in arriving at that initial insider round divesting non-leading businesses that didn't have leadership positions. But generally, yes.

TOM GARDNER:

But Katherine Graham did not benefit from the McKinsey study.

WILL THORNDIKE:

Katherine Graham … Her son, Donald, described it as the most expensive consulting project in history, in which McKinsey came in and after an extensive review told The Washington Post company in the early eighties to stop repurchasing shares.

TOM GARDNER:

And they did that for a couple of years before realizing that, that was bad advice.

WILL THORNDIKE:

That's right. Yes.

TOM GARDNER:

Committed to buying back more than 30% of their company. In evidence you can see … the marker you're looking at is just fully-diluted shares and you're basically looking at whether that's traveling higher or lower.

WILL THORNDIKE:

Yes, and you want to see the progress against that 30% target in meaningful chunks and then you want to hear how a management team describes their thinking around that. They should be viewing it as an investment that they expect to get an excellent return on — not for other reasons.

TOM GARDNER:

So, if I see a company with 20 million shares outstanding and it's going from 20 million to 19.9 to 19.7 to 19.3 from one year to the next … that's not as exciting as if …

WILL THORNDIKE:

No …

TOM GARDNER:

… I see a company that has 20 million shares outstanding and then all of sudden it drops to 17.5 and they have a good articulation as to why.

WILL THORNDIKE:

Yes. I would argue in the former case, you get almost zero credit.

TOM GARDNER:

Zero credit.

WILL THORNDIKE:

Yes.

TOM GARDNER:

Got it. Awesome. Is not paying dividends. We talked about that before — because they're tax inefficient. But maybe a special dividend, particularly if there's some tax benefits.

WILL THORNDIKE:

Yes, I agree with that. And if you were looking for markers of this set of traits, you could look at the second half of 2012 and companies that leveraged up to pay a special dividend in the second half of 2012 knowing that the tax rate on dividends was absolutely going to go up January 1, 2013 … those people get it. They're behaving like owners. The Washington Post company did that.

TOM GARDNER:

They are willing to have a secondary offering when their stock is richly priced. In fact, I want to ask you about that one separately, Will. Let's say you're a shareholder of a public company. The stock has tripled. The market is on fire. It's been a great four years. The expectations of the performance of the investment you made are beyond what you had modeled initially and the CEO comes out and says, "We're selling 10% of the stock to raise capital." That's maybe a marker of an outsider CEO, but does that make you feel good in that moment or does that make you think, "Hey, I should be lightening my position up a little bit here, too, because I'm getting the signal that this stock's overpriced."

WILL THORNDIKE:

If an outsider-type CEO announces that, it's a signal … Or even announces a stock deal — a large acquisition paid for with stock … like Buffett did with GenRe, for instance, which was the largest deal still that they have done as a percentage of enterprise value … did it all in stock. The stock was trading at 3x book value. That's absolutely a peak … It's a signal that they think the stock is fully priced, and so I think it's a time to recalibrate your assumptions and calculate the incremental return from today that you think is realistic.

TOM GARDNER:

It's possible, and I want to talk about this in a second, after we get through the patterns, that the Facebook acquisition, WhatsApp, today … the majority of which was done with Facebook stock …

WILL THORNDIKE:

Absolutely …

TOM GARDNER:

… it's possible that Mark Zuckerberg is demonstrating some outsider …

WILL THORNDIKE:

I agree. I think that's possible. Three of nineteen as cash, is what I saw …

TOM GARDNER:

Yes, exactly. Okay, a few more traits here. Works with a very small group of highly talented people that view themselves as being on a great adventure.

WILL THORNDIKE:

Yes.

TOM GARDNER:

I realize that's tough to find that as a marker, but if you get to know a company well, and you get to know the leadership group, let's say the three or four people that are in the office of the CEO …

WILL THORNDIKE:

That's right. I think the key part of that being they are only three or four … That the corporate headquarters is small. I think that's the key — that there's this commitment to a decentralized sort of a structure and that there's a small team at the top at corporate.

TOM GARDNER:

Doesn't split the stock.

WILL THORNDIKE:

Generally true, yes.

TOM GARDNER:

And at least considers doing the opposite of what everyone else is doing out there. If not, just tends to do that.

WILL THORNDIKE:

That's right, although I would say that the key point in that is that their thought process is rational, so they're not being contrarian just to be contrarian — this idea of intelligent iconoclasm. So, they're willing to go in the complete opposite direction, but they have a rationale for it.

TOM GARDNER:

And the final one I'll just go with is we talked about the bare bones offices versus the CBS palace that you see built. Cabs over limos. Any signs that you can find. There's certainly a chapter or section in one of Peter Lynch's books, and as I visited companies I remember … A great outsider company, actually, that I held for a while when I was running our small cap service is called Drew Industries. I don't know if you've heard of the company.

WILL THORNDIKE:

No …

TOM GARDNER:

Their offices are basically right next to a karate gym. And we walked in … I mean, it's been an unbelievable stock, and they have very outsider-like qualities there.

WILL THORNDIKE:

I couldn't agree more with that, and I have two quick anecdotes. So, generally this idea of frugality is a powerful theme across the group. I grew up around Boston, and I went to the movies at a General Cinema movie theatre in a mall near the house I lived in and I never knew that as I exited that building after watching The Shining or whatever movie I was seeing there that to my left, there was a nondescript door. And that was the door to the corporate headquarters for General Cinema which owned Neiman Marcus, the largest educational publishing business in the country (Harcourt Brace Jovanovich) and a sizeable Pepsi bottling operation. So totally nondescript.

The second story is Tom Murphy at Capital Cities. In the very earliest days there, he got hired to run their first TV station, which was located in a former convent outside of Albany, New York. And the guy who hired him insisted he paint it to project a professional image to advertisers and Murphy's response was to paint the two sides facing the road. And to this day, a picture of that building hangs in Tom Murphy's office in the ABC building at Lincoln Center.

TOM GARDNER:

So, in a way, these CEOs are completely turning their back on prestige.

WILL THORNDIKE:

Yes, traditional forms of prestige. They did not attend Davos. They did not give TED talks. They weren't into that outward-facing part of the world. I think they wanted to be respected by knowledgeable investors, their employees and their customers.

TOM GARDNER:

I'm wondering what you think about outsiders versus innovators, and the overlap between the two. A little bit of it is your reference to Steve Jobs, Herb Kelleher, Sam Walton and a little bit more of the high-profile CEO, although that's not necessarily true of innovators. But the innovative CEO — do you view these outsider CEOs as being innovators or as being financial innovators?

WILL THORNDIKE:

I view them more as being optimizers than innovators. I think the innovator CEO model would be Jobs and …

TOM GARDNER:

Elon Musk …

WILL THORNDIKE:

Elon Musk and Zuckerberg. Herb Kelleher. These are sort of unique, genius CEOs. It's hard to replicate what makes them successful. They have extraordinary technical expertise or marketing ability. They're sort of unique geniuses. And these CEOs were very, very talented, but I think that the core of what made them successful was temperament. Was this ability to look rationally and coolly across options and just consistently, over long periods of time, make rational decisions despite the noise. Despite what their peers were doing. Despite what the press was writing about. Despite what Wall Street analysts were asking them to do or expecting them to do.

TOM GARDNER:

I mean, essentially what you're saying is that these CEOs, these outsiders were investors.

WILL THORNDIKE:

They were …

TOM GARDNER:

And Buffett has said that the most important thing he ever did in becoming a great investor is learning how to manage his temperament. So, the way to evaluate the great outsider CEO who is effectively an investor is to understand their temperament.

WILL THORNDIKE:

I completely agree with that. I think this traditional thinking around what makes a great CEO is the world is traditionally divided into manager/operators and investors. Those are seen as two different camps and the really great CEOs combine both attributes and they're very much investors. That's a critical part of what they do and how they create value.

TOM GARDNER:

Have you heard of conscious capitalism? Is that something you've ever heard of? Have you heard of that term?

WILL THORNDIKE:

No.

TOM GARDNER:

Conscious capitalism is a philosophy espoused by Whole Foods, Nordstrom, Patagonia. It essentially says you have to have a scorecard for all of your stakeholders to be truly sustainable. Multigenerational. So the financial stakeholder is one key, the employee is the second key stakeholder. The customer is a third key stakeholder. And then you have a whole bunch of other stakeholders — your suppliers, your communities that you're operating in. Potentially your competitors are stakeholders and potential partners in certain ways that you may not have thought until you realized that you're all in some purpose-driven mission together.

WILL THORNDIKE:

Yes.

TOM GARDNER:

For example, as I read the John Malone chapter, I thought, this is an incredible financial mind who basically doesn't deeply care about the customer. And I'm not knocking him for that. I'm just saying he's not upgrading his rural cable systems. I'm assuming he's not passionate about overspending on customer service and customer care. He's learning how to milk certain assets and use that capital to redeploy elsewhere. And he's a brilliant, long-term … View this in a positive way. This term is usually viewed negatively. But he's a brilliant long-term financial engineer. Is that what you think the category of the outsider CEO is?

Like Tom Murphy isn't. Tom Murphy is the esprit de corps of being at ABC, he built a very high retention rate of employees and leadership throughout the company …

WILL THORNDIKE:

Yes …

TOM GARDNER:

The wish that he was still there and that they had never sold shares and all of that loyalty effect of that business felt different to me than the way John Malone did things.

WILL THORNDIKE:

I would say within the group, John Malone is probably the extreme case of someone who could be perceived as being a pure optimizer, but I think that misses attributes of his that made him successful that are important and were generally across the group. I think this is true. So, while he was excellent at capital allocation and a brilliant analytical mind, he created an extraordinarily powerful culture at TCI. Not a single top executive left that business in the first 20 years he was there …

TOM GARDNER:

And that's unbelievable.

WILL THORNDIKE:

Extraordinary loyalty.

TOM GARDNER:

That's incredible.

WILL THORNDIKE:

And we spoke to top executives. I mean, there is deep personal loyalty to TCI that he built there.

In terms of the customer experience, I would say a couple of examples that would be countered as a pure optimization mode … So, when it became clear that the satellite-delivered product, the dish, was going to be a real competitor for cable, TCI led the industry in investing in the next generation of set-top boxes, and it invested very significantly, well in advance of the advent of satellite technology to provide a product for its customers that would be competitive. So, the spur there was competition …

TOM GARDNER:

Sure …

WILL THORNDIKE:

… but he penalized years of earnings to invest in a superior product and that was something that …

TOM GARDNER:

Then the reverse of that, which was a smart move, would be not to upgrade technologically if you didn't see it as competitively necessary.

WILL THORNDIKE:

Right. That's right.

TOM GARDNER:

Do you have any outsider companies that you like? Obviously, Transdigm. You mentioned in the book Transdigm which has been an incredible aviation company.

WILL THORNDIKE:

Transdigm would be at the head of that list. Nick Howley and his team have done a remarkable job. I think there's sort of a group of companies — I'll tick through them — but that I think get this general sort of program. They're sort of clustered around these traits in this way of viewing the world. So, in the insurance industry, you've got a group of mini-Berkshires who, I think, really do understand these principles, and I know you guys are involved with a number of these names, but Markel, Fairfax, Allegheny, White Mountains. There's a reinsurance company called ArchRe that's really interesting. It's done some interesting things over a long period of time.

TOM GARDNER:

In essence, the way the insurance business is working, for those who aren't familiar with it, is that float is a form of debt the company's using to take advantage of their expertise as investors.

WILL THORNDIKE:

That's right. It's a low-cost source of capital. And so, the other part of that is they need to be able to have a set of investment opportunities whose return is meaningfully higher than the cost of the float. But if they have access to those sorts of opportunities, that can be very, very accretive over a long time.

Kinder Morgan, I think, is a very interesting example in the energy field. There's a small software company called Constellation Software that really gets these principles. There's a homebuilder called MBR. They're sort of selected businesses. Eddie Lampert has done some interesting things in prior incarnations in and around capital allocation very successfully. Sears is an interesting situation on which I don't have an opinion. Leucadia National now merged with Jefferies.

TOM GARDNER:

Have you ever heard of a company — this has been a long-time investment of mine, and as I read the book, I called the CEO and said, "You're a chapter of this book that hasn't been written yet," and he said, "It's very funny. I've been sent the book by a few shareholders and they've said, 'You're the ninth chapter.'" It's a company called Middleby. Have you ever heard of Middleby?

WILL THORNDIKE:

You know, I haven't heard of Middleby, no.

TOM GARDNER:

Middleby is a commercial oven business. They were initially serving the full restaurant/kitchen/refrigeration/deli cases and he came in with the stock around $3 a share in the year 2000 …

WILL THORNDIKE:

Yes.

TOM GARDNER:

Here are some of the things that he did. He actually abandoned most of the product lines without even trying to sell them. He focused entirely on the oven. He said, "The oven demands new technology, safety issues, energy efficiency. It's a huge purchase for restaurant chains. We're going to dominate that category. We're going to abandon everything else." Stock got crushed because the earnings went down.

The way I found it is actually I started looking at companies whose growth rate decline was decelerating …

WILL THORNDIKE:

Interesting

TOM GARDNER:

There's some mathematical evidence that it's turning around. Then I started reading about this guy, Selim Bassoul, who's the CEO. He has since made something like 130 acquisitions.

He paid a special dividend to begin getting the family ownership out. The company was almost bankrupt. The stock was at $3. Today it's at $260 …

WILL THORNDIKE:

Wow.

TOM GARDNER:

And it's from 2000. I found it at $13. The pain for me was that the month I found it, before I could recommend it, it went up 40%. I was sitting there thinking … But of course, the whole point of the outsider approach is if you're thinking 20 years forward, valuation is a factor …

WILL THORNDIKE:

That's right …

TOM GARDNER:

… but it's not a primary or lead factor …

WILL THORNDIKE:

That's right …

TOM GARDNER:

… because if you've got all these other principles in place, are you going to look back and say my cost basis, split adjusted, is $1.42 or $1.78 …

WILL THORNDIKE:

Right …

TOM GARDNER:

… with the stock now at $59 …

WILL THORNDIKE:

Exactly.

TOM GARDNER:

It shouldn't matter as much to you. Obviously, it's important to run valuations. So, Middleby is a company …

WILL THORNDIKE:

That's interesting. I'll take a look at that. That's very interesting.

TOM GARDNER:

So, what's your next book, Will?

WILL THORNDIKE:

You know …

TOM GARDNER:

The Insiders?

WILL THORNDIKE:

There's a lot of material for that book. I think I'm focused on doing some articles and things now and I don't yet have a book project in mind. I don't think it's likely I'll do a sequel, but I'm sort of …

TOM GARDNER:

How has the book done?

WILL THORNDIKE:

The book's done surprisingly well …

TOM GARDNER:

Very well.

WILL THORNDIKE:

It's sold very well. It's resonated in the community that I had hoped it might, which is the professional investment community and related CEOs. I've really enjoyed it. It was a fun process.

TOM GARDNER:

So, as a close to our conversation, can you talk a little bit about your private equity firm? Like, you've been around 20 years. What were the principles that started it? What have you learned? What has changed in your approach during that time?

WILL THORNDIKE:

Yes. So, our private equity business focuses on a very specific type of company, very specific business model. We like businesses that compete in growing markets and have recurring revenues, which makes sense to you. You would be able, as a Motley Fool founder, to relate to these things. And so, we like businesses with that set of economic characteristics. And then we're focused on investing at a smaller size range than our larger peers in private equity.

TOM GARDNER:

So, what size would that be?

WILL THORNDIKE:

So, we writing checks of $10-30 million. Businesses would be worth $25-150 million.

TOM GARDNER:

Got it. You'd be taking a 20-40% stake.

WILL THORNDIKE:

Two-thirds of the time, we're control investors. A third of the time we're minority investors. Minority owners. We like to back talented, younger CEOs. That's an explicit part of our strategy which would be different than our peers.

TOM GARDNER:

So, when you take a majority stake in a talented, younger CEO, that person is still being empowered to run the company. You're not trying to put in a new leader.

WILL THORNDIKE:

If we're the control investors, we're usually bringing in a younger CEO. So, when we make a minority investment, we're riding with the incumbent.

TOM GARDNER:

Out of curiosity, how long have the businesses been in business that you typically invest in? Have they been in business for four years or have they been in business for 31 years?

WILL THORNDIKE:

It ranges. There's no real rules. I mean, 10 to 30 years. Ten to fifty years. It depends very much on the business.

TOM GARDNER:

What's your holding period? How does liquidity work for the …

WILL THORNDIKE:

An explicit part of our strategy is longer-holding periods, so longer than the norms in private equity. So we've owned things, on average, across the time we've been doing this between six and seven years. That would be on average. So we have numerous companies we've been in for more than ten years.

TOM GARDNER:

And when you're in a company for 14 years, are you getting dividends and that's how you're recouping …

WILL THORNDIKE:

Usually. Usually there would be a series of dividend recapitalizations, dividend distributions. Or we might sell a piece of the business or a business line along the way. But usually we've gotten some meaningful liquidity out, but we're holding with a balance …

TOM GARDNER:

Got it. And what types of returns can somebody who's an investor in private equity expect? I mean, obviously circumstantial for the time period but looked out over 20 years …

WILL THORNDIKE:

Yes …

TOM GARDNER:

… either what have your returns been or what do you think somebody who's now looking at their portfolio and saying, "I'm going to allocate 5-10% of my portfolio to private equity. I'd like to get these types of returns."

WILL THORNDIKE:

I think net returns, over long periods of time for the industry, have been in the low to mid-teens, net IRRs, and our returns have been in the mid-20s … our returns over time … so I think that's a band somewhere in that range. But, remember you're trading very significant illiquidity for participation in those funds. The typical 10-year fund life with two years of extensions and so your capital is locked up for a long period of time.

TOM GARDNER:

Last question. How have things changed for you now in terms of the investments you're making than when you started there? They're obviously presumably larger. But what factors are you looking for that you're weighting more heavily now than you were before or has there been a change?

WILL THORNDIKE:

Yes, the number one change is we now weight market growth much more heavily than we did historically. We've just found that over long holding periods, the power of being in a growing market is disproportionately larger.

TOM GARDNER:

I picked up that line — I think it was in the Teledyne chapter about Henry Singleton — but in my research, I've been looking at longer-time periods. It's like sales growth really matters. I've mentioned this to our members, but you look at Whole Foods and Starbucks … their equity returns have been incredible … something like 18% a year for Whole Foods, 24% a year for Starbucks since they became public in 1992 …

WILL THORNDIKE:

Yes …

TOM GARDNER:

Both of them have sales growth rates that are higher than the actual equity returns, and so it's shocking for anyone who's trained in the value discipline to think that you would invest in a business thinking that it might grow sales at 24% a year for 21 years …

WILL THORNDIKE:

Yes …

TOM GARDNER:

… but if you can find those engines …

WILL THORNDIKE:

Absolutely …

TOM GARDNER:

That is a huge opportunity for growth in your portfolio.

WILL THORNDIKE:

There's enormous power in that.

TOM GARDNER:

Awesome. Will, what was your first investment ever and why?

WILL THORNDIKE:

So, it ties into the book, but the first investment we made in this private equity business was we backed a guy who came out of TCI, John Malone's cable company. We acquired a small group of systems in Kentucky. John Malone liked this guy and through him, we got the programming discounts. So, we were buying HBO and MTV and the major cable channels with the purchasing power of TCI's 13 million subscribers. So, we had a structural advantage in this little company by virtue of the relationship the CEO had with Malone and we built that company up over six or seven years and then sold it, in pieces, to different cable companies. One of the biggest pieces was sold to Cox.

TOM GARDNER:

Are your kids investors?

WILL THORNDIKE:

They're interested. They're interested, yes …

TOM GARDNER:

That's awesome …

WILL THORNDIKE:

But not active yet.

TOM GARDNER:

We're working on that in Motley Fool One to get the whole family investing …

WILL THORNDIKE:

Yes …

TOM GARDNER:

… so maybe we'll try and get the whole Thorndike family to invest.

WILL THORNDIKE:

Absolutely. Yes.

TOM GARDNER:

But Will, thank you so much …

WILL THORNDIKE:

Thank you, Tom.

TOM GARDNER:

I've read this book twice in the last six months. It's one of my favorite business and investment books that I've ever read and I felt like 75% of it was reaffirming and 25% of it was, "Wow. I hadn't actually ever thought of things that way," and that's a huge amount of a book for me after 20 years into The Motley Fool. So, thanks for an outstanding book, and even if you're not going to write the next one, we'll be reading your articles.

WILL THORNDIKE:

Well, thank you, Tom, and congratulations on all your success building the Fool over almost 20 years, yourself.

TOM GARDNER:

Thank you.

WILL THORNDIKE:

All right. Take care.

TOM GARDNER:

Fool on!