

Investing in Tech Stocks and Reconsidering Hannah Arendt on Totalitarianism, Revolution, and Adolf Eichmann
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What Happens Next is a podcast where experts are given just SIX minutes to present their argument. This is followed by a Q&A period for deeper engagement.

This week's topics include Reconsidering the political philosopher Hannah Arendt on subjects of totalitarianism and Adolf Eichmann. The second presentation will be on Lessons on how to invest in tech stocks.

This is truly a variety show as these topics are so different.

Our first speaker will be Richard Bernstein who is the Vera List Professor of Philosophy and the former dean of the New School for Social Research. Richard is also the author of Why Read Hannah Arendt Now?

Hannah Arendt's ideas remain relevant. In this Weekend's Wall Street Journal Book Discussion, there is a review of two new books about Hannah Arendt. One is on the dispute between Arendt and Isaiah Berlin about the Adolf Eichmann trial and the other book is about Arendt's disagreements with the famous sociologist Theodor Adorno. Seems like she had trouble making friends with some of the other leading European intellectuals of her time.

I want to learn from Richard what is original about Hannah Arendt's views on totalitarianism and what other of her ideas are worth further investigation.

Our second speaker today is Mark Mahaney who is the top ranked Institutional Investor equity analyst for internet stocks. Mark covers this sector including some of the best-known names like Amazon, Google, Microsoft, Facebook as well as Spotify, Shopify and Zillow. Today, Mark will discuss his new book Nothing but Net: 10 Timeless Stock-Picking Lessons from One of Wall Street's Top Tech Analysts.

I want to learn what these investment lessons are and then apply them to a particular stock like Spotify so we can learn how to implement his stock picking technique.

Since I started this podcast in March 2020, I have commented on each of the employment reports released by the Bureau of Labor Statistics. I do this because the US employment report is the most important economic statistic globally and reflects the economy's rate of change towards recovery.

This Friday's economic announcement was another surprise. The labor report was strong and better than forecast. Using the Establishment survey, employment increased by 531,000 jobs in October. The surveys for August and September were revised upward by a combined total of 250,000 and averaged 400,000 for those two months.

The demand for workers remains near record levels with 10.6 million job openings.

According to Casey Mulligan who spoke on this program, employment should improve now that the government reduced its payments for not working.

Employment is up 18 million since the trough of the economic downturn in April 2020 but still down 4 million since before Covid.

I want to highlight a paper just released by Miguel Faria Castro, an economist at the St. Louis Fed that focuses on early retirement by older workers. He finds that since Covid there have been 3 million more retirements than were otherwise expected. And that this explains most of the decline in employment.

What is discouraging about this problem is that it is likely that these early retirees will not return to the labor force. Some older workers may have been scared of contacting Covid and others felt like maybe given the poor state of the economy in 2020 that accelerated their retirement plans. And I suspect, when workers recognized the joys of retirement that they won't return to work.

Historically retired persons return to the workforce when they face an unexpected decline in wealth, but with the stock market and real estate at all-time highs, I don't think lack of savings will be the issue in the near future.

The implication of this early retirement is that if the Federal Government uses fiscal stimulus through spending like the \$1.2 trillion infrastructure legislation that passed the House yesterday, there may be an insufficient number of domestic unemployed workers to do the job. This will cause wages to rise and be inflationary.

During the live call, please feel free to email me questions at larrybernstein1@gmail.com
Let's begin today's program with our first speaker.

Richard Bernstein.

Okay. My name is Richard Bernstein. Most people call me Dick. I am a Professor of Philosophy at the New School of Social Research and I was a former Dean. And I want to talk to you about Hannah Arendt and the little book that I've just been written, which has now been translated into a dozen languages.

I think most people have heard, know the name Hannah Arendt, and many people associate her with the controversy based on her report of the Eichmann trial in the early sixties and many people associate her with her phrase the Banality of Evil. Some know that she wrote about totalitarianism without knowing much about her.

Hannah Arendt was born in 1906 and she died in 1975. When she died, she was known mainly by New York intellectuals, but something remarkable has happened between 1975 and today. She is now recognized as one of the most important political thinkers of the 20th century. I can tell you from my own experience, wherever I go in this world, whether it be Korea or Shanghai or Belgrade or Lima, there are people who are passionately interested in her work.

Before I begin talking about some of her ideas, let me say something about her life, because I think it's relevant and interesting. She was born in 1906 in Germany and that's where she grew up. She is born into an assimilated Jewish family, but she tells us the word Jew was not even mentioned in her family when she was growing up. It's only in the 1920s with the rise of antisemitism that she became much more aware of what's going on politically and historically.

Some friends of her, she was quite Bohemian and quite left. She never joined organizations, but some friends of her who were Zionists asked her to do some research on antisemitic propaganda in the German library. She was apprehended because it was considered propaganda. She was interrogated for eight days, but she had the good luck of being released. The reason I say that is good luck is because we know other people in a similar situation were murdered in the basements of the Gestapo.

On the basis of her experience, she made a decision to leave Germany illegally, and she did so in the Spring of 1933, making her way first to Prague and ultimately to Paris where many German exiles, particularly German Jews, resided for a number of years thinking that France was relatively safe. When the second world war started, the French government made the decision to put old German exiles into a camp, and she was sent to an internment camp in the Southern France named Gurs. And when the Germans actually marched on France in 1940, there was chaos and she managed to escape from the camp.

I don't want to tell the whole story, but she really was continued to be lucky because she managed to get a visa to the United States, even though she was a stateless Jew. In order to come to the United States to New York, you had to cross France. It was illegal to leave France without papers, cross Spain and take a boat from Portugal. Fortunately, and she always liked to speak about Fortuna, her luck, and she had good luck, and she arrived in this country in New York in the spring of 1941.

Hannah Arendt had never been in an English-speaking country before, but almost immediately, she began writing articles mainly about Jewish and Zionist issues. In some of these are early articles, about refugees that have now become classics. After only being in the country for three years, she submitted a proposal for a manuscript that ultimately became *The Origins of Totalitarianism* that was published in 1951. Now, you have to remember that she worked on odd jobs. She was not a university professor, and she wrote this book on her own time. But when the book was published in '51, it was not a best seller, but it gained her an increasing recognition. And from that time on, she went on to write a number of extremely important books, like *The Human Condition* and *On Revolution*. And then of course in 1962, she wrote the *Eichmann and Jerusalem*.

Now, I want to mention two major themes that make her such a significant thinker. I should say this. After the Trump election in 2016, she virtually went viral. She was all over the social media and is still on a lot of social media. One of the reasons is that she had a remarkable insight into tendencies towards fascism, totalitarianism that are very much still with us. She spoke of the time as dark times. And when she spoke about dark times, she wasn't referring exclusively to totalitarianism

Let me give you a brief description of dark times because you'll see how relevant it is. She wrote the following. She said, "If the function of the public realm is to throw light on the affairs of men by providing a space of appearance in which they can show in deed and word, for better or worse, who they are and what they can do, then darkness has come when the light is extinguished by credibility gaps and invisible government, by speech that does not disclose, but sweeps it under the carpet, by exhortations more and otherwise that under the pretext of upholding old truths, degrade all truth in meaningless triviality."

Well, that's a perfect description of what began to happen dramatically after the Trump election. She understood how propaganda works. She understood why people are not always interested in the true facts. What they want is a story that speaks to their anxieties, even if it is not true. The idea of alternative facts was not a surprise to her. It's something that she anticipated that could happen and could happen again. At the end of her book on totalitarianism she wrote that even all the totalitarian regimes have disappeared, meaning Hitler and Stalin, totalitarian methods will be with us when people cannot deal intelligently with human affairs. We see how much of those techniques are still with us, not only lies, not only trying to distort facts or to make facts to all opinion, but in the torture. I don't know if some of you have read recent military judges, sharp critique of the use of torture in this country.

After WW2, never again, but since then, we've seen torture. We've seen genocides. We've seen all kinds, and what we also have seen that Hannah Arendt understood is the increasing number of millions of refugees. It's not only for the darkness that I think that she's famous for, there's another side to Arendt. Arendt was a deep believer in what you call new beginnings. She had a technical word that she used for that, which was natality, but she thought that if people come together and act that empowerment can grow and they can create something new. This is a very deep theme in Arendt. She saw that this coming together, and she sometimes called it the revolutionary spirit, is something that happened over and over again in history. I mean, in other words, she would've understood.

She died before something like solidarity movement in Poland, but she would've understood how people sitting around the kitchen beginning to talk that it could grow into a movement that became nonviolent and that would ultimately overthrow communism. She was a great advocate of the revolutionary spirit. The truth is she also had a strong, positive view about the American Revolution. The American Revolution was not primarily what we call the American Revolution, what happened in 1776, it would happen after, how people created themselves a new constitution, a new Republic, something that had never existed before. She thought this was a fantastic achievement, and she praised it. Although she was always double edged. She was critical because she thinks that soon after the constitution was written, there was a kind of forgetfulness and a failure to create the kinds of institutions in which people could participate and be free itself.

Arendt is, I'll tell just a little anecdote of how this book out to be read. I was speaking to my editor shortly after Trump got elected, when her name was all over social media. He turned to me and he said, "Why don't you write a little book about Why Read Hannah Arendt Now," and that is the title of my book. I wrote it for people who are intelligent, who are not professionals, who are interested in Hannah Arendt and want to know something of her main ideas. I'm enormously pleased to say that of all the things I've ever written, this is really the most popular book, translated now into many different languages, because I do think that she is a thinker that speaks to many people. I think I'm going to end my remarks here. I'm happy to answer any questions about Hannah Arendt, about totalitarianism, about the Eichmann book, about her views on Zionism, whatever you want to ask me. Okay.

Larry Bernstein:

Perfect. Thank you. Dick, I just wanted to compare Hannah Arendt's experience with my own family's escape from Germany as well. My grandparents escaped from Austria and ended up in France at the same time as Hannah Arendt. When the war started, my grandfather was sent to a similar camp in Nimes in 1940 after the Germans invaded.

Hannah Arendt found the good graces of a fellow by the name of Varian Fry, who was able to get her a US visa and other papers. Varian Fry was working for a group to help Jewish intellectuals escape from Europe. They saved Arendt. They saved Marc Chagall, the painter, and others.

Richard Bernstein:

Yeah.

Larry Bernstein:

My grandparents and my mother escaped over the Pyrenees as well and out and got through to Portugal, but 2 years later than Arendt, they left in January 1943. I think what's interesting about Arendt is it's clear that having to run from the Nazis all over Europe did affect her thinking greatly. My first question for you is she was on an eight-year escape to run away from the Nazis. How do you think that very physical movement affected her philosophy and her fears in her ideas and her writings?

Richard Bernstein:

Yeah, it's interesting that you have grandparents that had a very similar experience. It had a deep effect. First of all, when she was in Germany, she said what really distressed her was not her enemies. They all had enemies. But when they saw that they're friends and other people were going along with the Nazis, she actually made a decision that she was going to leave intellectual life. When she went to France, she said, "When you are attacked as a Jew, you fight back as a Jew, not as a German, not as a world citizen, et cetera." When she went to France, she said you want to do only practical work. She actually worked for the organization called Youth Aliyah that sent young Jewish adolescents to Palestine. Many people think that she was primarily a university professor. She was not. She was an independent person. She was an independent thinker in that time. I think the whole experience of the rise of the Nazis and her experiences, even as a stateless Jew, I mean, deeply shaped her thinking, and the influence of that period is all over her work.

Remember, she was not in a concentration camp. She was not sent to be exterminated, and this is something also about Hannah Arendt, a wonderful irony. When she wrote the article, *Why We Have Refugees*, she says, we Jews are now a new type of human being. Our enemies put us in concentration camps. Our friends put us in internment camps. That was the kind of telling remark about the Germans and the French.

Larry Bernstein:

I mean, it's interesting that later the French would hand the refugee Jews off to the Nazis and off they went to Auschwitz, so internment camp was a holding pen if you will.

Richard Bernstein:

I think this is another significant event that they only much later came to understand. The women who did not escape from the internment camp, Gurs, who stayed there were ultimately sent to Auschwitz by Adolf Eichmann. I think that Arendt never forgot that. If she hadn't escaped, she could have been sent off to Auschwitz.

Larry Bernstein:

For sure. You mentioned that what really surprised her when she was in Germany was that her friends went along with the Nazis. The most famous friend was also her lover and teacher, the philosopher Martin Heidegger. How do you think about that relationship, why she really never turned on him despite his support of the Nazi party and how she thought about that problem?

Richard Bernstein:

The first thing to recognize is this. When she had her affair with Heidegger, she was 18 or 19. It's before Heidegger showed any inclination of sympathy with the Nazis. It's much more to be put in the characterization that we know all too well in this country of a young student is infatuated with her professor. Heidegger had a wife and two children at that time. She then, after a year or two in this relationship, she left Heidelberg, and she did not have any contact with Heidegger until 1949, which is the first time that she ever went back to Germany. Many people are really perplexed because she condemned so many other people, while she never publicly condemned Heidegger for his role in the Nazi party. It's true that Heidegger was the great love of her life. She thought that Heidegger was the greatest philosopher of the time, but even though she could be sharply critical of all kinds of people, she never publicly criticized Heidegger. That's the facts and you have to draw your own conclusion.

Larry Bernstein:

Well, what conclusion do you draw from that?

Richard Bernstein:

I really think, this would take a long time, so I think of it as a certain type of blindness. After '49, they renewed a correspondence. She kept all his letters. She not only kept his letters at her bedside, before she died, she gave them to an archive, so she knew that this would someday be revealed. I mean, I do not have the full answer, but I think it has to do with modern matters of the heart that somehow, he was special and that Hannah Arendt, like anybody else had her blindness. She did, but what was so interesting is that in the period where she had no contact, she actually called him a murderer. She was very, very critical of Heidegger.

She went to Freiburg where he was teaching, he sent her a note, they met, and that was the start of their renewed friendship, which I think is a bit of a blight on the life of Hannah Arendt.

Larry Bernstein:

All right, let's go next to her book on Eichmann, and the Eichmann trial, which was entitled, Eichmann in Jerusalem: A Report on the Banality of Evil. This book was extremely controversial.

It was controversial primarily because of her views of both Eichmann and about the trial itself. And so, maybe I'll start with the trial. She condemned the kidnapping of Eichmann, and then bringing him to Israel to have what she referred to as a show trial in the Soviet style, where the evidence was not limited to his own actions, but more generally to the Holocaust itself. And she really had it in for the prosecutor of the trial, who she made particular fun of.

How do you make sense of her views related to the kidnapping of Eichmann? When Ben Gurion went to the Knesset to announce that they had kidnapped Eichmann, and he was coming to Israel, he received a standing ovation, and it was worldwide news that this horrible Nazi was going to be brought to justice. Why did she view this process as being so problematic?

Richard Bernstein:

I think that what you said is just slightly misleading, because ultimately, she justified the kidnapping. She justified that he should be brought to Israel. She justified the fact that, she argued against those people who said that the Israeli court conduct and make an objective judgment. In the end, what's so interesting, she even justified some crucial statements of the final vote about it. It's not completely accurate to say that she condemned all this. I think she was extremely hostile to them. She felt strongly, if you're bringing an individual to a trial, it's the individual that is on trial, not the whole of the history of anti-Semitism, not everything that happened in the Holocaust itself.

And it was clear that what you call a show trial, Ben Gurion and particularly the prosecutor wanted to make this trial about the history of anti-Semitism in the world. In fact, he begins his prosecution by going all the way back to Haman, and sees this as the culmination of anti-Semitism. He thought, and it's true, if you consider what any kind of criminal trial normally is, most of all that trial, was simply irrelevant. I'll give you one beautiful illustration. At a certain time, the diaries and notebooks of Hans Frank were introduced as evidence. He was the Governor of Poland that was overseeing Auschwitz himself.

And at one point, he released a defense. It was not a very strong defense of Eichmann. He asked a simple question. "Is the name Eichmann mentioned once in all those documents?" And the answer was no. It became, it was very dramatic. This was on TV. It was very moving for lots of people to hear the stories, and this was deliberate. Ben Gurion wanted the world to know what really happened to Jews, and he also wanted Israelis to know, because there had been a myth in Israel. Well, the Holocaust, just went to their gas chambers, rather innocently. And he wanted the Israelis to know the horror of what actually had taken place at that particular time, and it became a very significant event in Israel itself.

It's true. She's absolutely right. There were all kinds of myths about the book, that she exonerated Eichmann, that she blamed the Jews for being the victims that had to do with some of the sections on the Jewish councils. I think this, that one of the main reasons why there was such a strong reaction to this book, you have to remember, that up until the '60s, the Holocaust was barely a topic of discussion, except for professionals. It's because people like to think, when you come to good and evil, there are the good guys and the bad guys. The bad guys are sadists, they're vicious, they're malicious, et cetera.

That's the way in which we think about it. We think about good and evil the way we think about Westerns. We think about good and evil the way we thought about Saddam Hussein and Osama bin Laden. We are the good guys, and we're going to get them, better or worse. And Eichmann, her deepest message, if you want to think seriously about evil in the 20th century, those terms are too simplistic. They are completely simplistic about what actually happens to people in such a situation. But people don't really need that.

They want to hear he's vicious, and he's sadistic, and so forth. And she was saying, "That's not what he was." I don't want to completely exonerate her description of Eichmann, because I don't think it's completely right, but I think this deep conceptual point that people really always like to think of these as absolutely evil, no questions asked. She said at one point, "Most evil in this world is committed by people who don't claim they committed evil." That's not a message people like to hear.

Larry Bernstein:

Let's talk about her most famous expression of her professional career, which is, the banality of evil. How do you think about whether or not that was an accurate description of Eichmann? How should we think about that as a concept, independent of Eichmann?

Richard Bernstein:

I think it was a mistake to use that term, because it has been completely, systematically misinterpreted. It was interpreted as her saying that the Holocaust and the murder of Jews were simply banal. She never said that, and that was not her point. Her point was something different, is that her understanding of Eichmann is that he a careerist. He was a real bureaucrat. If there hadn't been a Nazi era, he might have been either successful or a failure as a middle manager.

He was more concerned with his career; he was more concerned with advancing himself. The banality of evil refers to his intentions. His intentions were not by her view a systemically Jew-hater. It was wonderful wearing that uniform. It was wonderful having all that power. And so, that his motives were banal, and in the way she put it, and I quote her, "The deeds were monstrous. The man was not a monster."

Larry Bernstein:

She traveled to Jerusalem, she participated in the trial for like four days. It was a contemporaneous account of the trial, and a contemporaneous view of the evidence that was provided. Since then, there have been a number of biographies on Eichmann. The most important I think is by Bettina Stangneth, and her book is entitled, Eichmann Before Jerusalem, which plays on Hannah Arendt's book title, The Unexamined Life of a Mass Murderer. And Bettina was able to get access to Eichmann's recordings and writings that he did while he lived in Argentina. And what came across from that, was that Arendt's description of this careerist, and not really a Jew-hater, was misleading, that he in fact was a Jew-hater, had worked very hard to achieve the death of millions of Jews. How do you think about whether her historical analysis or psychological analysis of Eichmann holds up with the current thinking of biographers and analysis of Eichmann himself?

Richard Bernstein:

Yeah, I myself have gone through all this literature, and I know what he's talking about, and I know what Eichmann did in Argentina. I think, let me just say this. I think that Arendt was wrong, although sometimes, she has insights into it that he was much more vicious, proud of his anti-Semitism than she acknowledged. He wasn't simply a careerist in it. I sometimes think that Eichmann was like a movie, the Woody Allen movie, a Zelig figure. And if thrown into a situation where you are to be a vicious anti-Semite, that's what you do.

If you're thrown into a trial where you're supposed to be a moderate person, that's what you do. And he had no depth to him whatsoever. I want to say this. If you're going to argue simply on the historical grounds, that I think that Arendt gives too favorable of a portrait of Eichmann. But I think there are two issues, the historical issues about which I think there are a lot of questions, and what I call the conceptual issue. The conceptual issue, can people do horrendous, evil deeds out of banal motivations? And I think that the answer is yes, and I think that we see that all the time in our lives.

I think that I would say, I would give her, critical of her on the exact historical, but people don't go further. She's making another point about the motivations for doing evil, and here I think she's profoundly right. I remember when Abu Ghraib became so popular, and everybody was blaming the immediate people. People weren't blaming our administration. They weren't blaming Rumsfeld. Those were the people who created the conditions for the possibility of something like that.

And they could say, "Oh, we didn't intend any kind of evil," but you created the conditions in which this could happen. So that's why I think the concept is an interesting concept even though the judgment of Eichmann historically is not accurate.

Larry Bernstein:

I want to go to your last point about creating evil out of an opportunity, and I think one of the great moral questions we face is what would we do *if* you get in these very strange situations? I mean, Eichmann is given the opportunity to lead the mass murder of a people, and he takes it by the horns and rides with it as best he can. I think a lot of people when offered the chance to lead a genocide might want to pass, may not want to choose that, make that decision, maybe even commit suicide or run. Why are you giving Eichmann a bit of a pass or that he was just an opportunist? Well, an opportunist in the most horrible of ways. Should we judge a man when you have an opportunity to do bad things that you choose not to do it?

Richard Bernstein:

No, wait a minute.

Larry Bernstein:

Or do it with such zeal?

Richard Bernstein:

Yeah, what I object to what you said is giving him a pass. I don't think that she was giving him a pass because the main positive argument. She called him one of the greatest criminals of all time. He was responsible for what he did. He could have done otherwise and we know there's plenty of evidence that there were many, many Nazis who were asked to do awful things who didn't want to do them and they were not penalized. So I think the main issue is responsibility. Responsibility is that he had the opportunity, he could have asked to be transferred to a different division. He could have done all sorts of things.

And so you can't get him off the hook for being responsible for what he did because we know there were other people in analogous situations who refused to participate and were not necessarily penalized. It was so interesting that there's a book by Christopher Browning who shows many people were asked to murder Jews in Eastern Europe. There were a number who refused to do it. They were not punished. They got away with it. He had choices and he bears responsibility for what he did, and I'm with Arendt on that point. Yeah.

Larry Bernstein:

Maybe we tread on similar ground. I think one of the things that really shocked Arendt when she went to the trial was Eichmann's use of language and his constant use of cliches. And she said, "Oh, my God. This guy's just an idiot." I think that's what really got under her skin. "This guy's a half-wit.

Richard Bernstein:

Yes.

Larry Bernstein:

"I can't believe that someone who speaks like this, someone who thinks like this, could be so successful at killing millions of people. I mean, how is it even possible?"

And I wonder if, yes, it's true Eichmann spoken in cliches and was incoherent. One of the things that she mentions in her book is the first thing... We're an hour before Eichmann's execution and the first thing he says is, "I don't believe in an afterlife." And then a half an hour later, he says, "I will see you in the next life." It's like, he couldn't even get that straight in his last couple of moments.

Richard Bernstein:

I want to interrupt you on that. That's the only time in the book she speaks about the banality of evil. Here he is professing this, "Long live Germany. I'll see you all after," and she thought that summed up the whole thing, but the truth is it's the only time in the entire book that she uses the word banality. Okay, continue. I'm sorry to interrupt you.

Larry Bernstein:

Well, I was just thinking, did she misunderstand Eichmann's poor language skills to miss his management talents and his ability to manage bureaucracy and his evil intent to succeed in this

endeavor? Or at the heart of this whole concept, it's really not about Eichmann himself, but the evils of bureaucracy in general, that-

Richard Bernstein:

Yes.

Larry Bernstein:

... bureaucracies work their petty sort of ways to achieve whatever the objective of the leaders are.

Richard Bernstein:

Her positive explanation is, and it sounds odd to an American ear, is what she calls his faultlessness. That he was so caught up in his cliches, he was so caught up in bureaucratic language, that he had the inability really to think about what... I mean, look, by the way, we know he was a master bureaucrat. He was very successful in sending millions of people, organizing the transportation to send them to the various camps so he wasn't stupid. He was a very sophisticated bureaucrat, but that's different from thinking about what you're doing and coming to understand it.

And the way she liked to put it, he simply lacked the imagination to enter into the kinds of minds of the victims that were being murdered when he sent them in those trains. So that's, I think, her point. She calls it faultlessness, is it was his inability to think. And she didn't mean inability to think like a bureaucrat, but to stop and think what you're doing. She loved that English expression, stop and think. Eichmann for her, like many, many bureaucrats, do not stop and think what it is that they really are doing. They just do it automatically, yeah.

Larry Bernstein:

One last question on the word banality for a second. You're right. Let's say she just uses it once in the book but she also uses it in her title. I mean, she calls it a report on the banality of evil. You can't miss it. In other words, it's as if the whole book had come to that one point and, bang, she slammed it home with that. Do you not view that as the core essence of the entire book?

Richard Bernstein:

No, I do not look at it as the essence of the book and it's a very interesting historical fact. Much earlier with her great teacher, Karl Jaspers, she had a discussion about Nazi crimes and she was arguing that Nazi crimes are crimes which are beyond any kind of normal crimes, and so forth. And said... This is 25 years before she used the expression, she said, "You know, you have to understand evil in all its banality. It's like a fungus that can spread throughout the world." And I think that that's the view that she really... That's another aspect of the banality.

It's not something big. It's not something deep. It's on the surface and it spreads like a fungus that can do terrible damage. I'm a little bit hesitant to say that, "Oh, the whole thing is really just about the banality of evil. I think there's so much more about human nature, the failures of human nature, the attempt that we always want to use simplistic categories to understand

difficult events where they don't work, and that you have to understand the complexity of what's really going on, particularly, I think, after totalitarianism.

You cannot think about evil, as George W Bush once put it when he was talking about Saddam Hussein, "We are the good guys. They're the bad guys and we're going to get the bad guys." Like the old Western type of thinking. That's the way people want to think about evil. It's just completely inappropriate, the way evil really works. I think that's something I want to emphasize. Okay? Yeah.

Larry Bernstein:

I end each session with a note of optimism. Dick, what are you optimistic about?

Richard Bernstein:

I am optimistic about what I call the other aspect of Hannah Arendt. I think that one of her great messages is no matter how dark things look, no matter how despairing they can be, and she says it happens sometimes almost like a miracle that people can come together and change things, and I deeply believe in that message. I see, for example, that the time that we're in is a very dark time. I think the probability is that America is going to be succeeded, a high probability, by a fascist state, and that's the way it looks.

I mean, indeed, if you look at all that information that was revealed about Trump just before... He really wanted a coup and who knows, next time there could be a coup. But the other side is there is the possibility, not the necessity, that people will say no and will begin to act together and put it end to it. We've seen this happen. Yeah, I give a very good example. It's not comparable, but it's an example.

I lived through the McCarthy period and when you've lived through the McCarthy period, people thought this the worst that America is ever going to see. What was so fascinating about McCarthy is how it ended. The question, "Have you no sense of decency?" And within a short period, I think America came to their senses and realized what a terrible demagogue he was.

Something like this could happen again, although I make no predictions. If you ask if I'm optimistic, I wouldn't put it as optimistic, but hopeful that somehow, we'll get out of this mess of polarization, that people will realize that we're destroying democracy, that there will be a return to a certain amount of compromise and civility. We've seen it before in this country. Why not again?

Larry Bernstein:

Dick, thank you so much. That was wonderful.

Larry Bernstein:

Mark Mahaney is a senior managing director at Evercore and is the head of internet research. Mark is a five-time, number one ranked institutional investor internet equity analyst. You previously met Mark on What Happens Next when he discussed various internet stocks, such as Amazon and Spotify.

I asked Mark to chat with us again because he's publishing a new book to be released November 9th entitled, Nothing but Net, about how to invest in tech and growth stocks.

Mark Mahaney:

All right, Larry. Thank you very much for having me on and it's nice to reconnect. I really wanted to talk about Nothing but Net. That's a book I've got coming out November 9th, already available for pre-order at your favorite online bookstores.

What led me to write this book is that I've seen a mistake made over and over again is the impetus to trade rather than to invest in high quality tech stocks.

I tried to put together 10 lessons from both the big wins and the big losses in the consumer internet space. Have there been big wins? Absolutely. Facebook's up over 600% since its IPO. Google's up over 3000%. Netflix up over 45000% since its IPO. And wait for it, Amazon's up over 160000% since its IPO. So, there've been some phenomenal wins in here, phenomenal successes. But there've also been some phenomenal blow-ups like Zulily or Blue Apron or names that are even better known, Groupon.

But you could also look at the failed opportunity of eBay, Yahoo, and even AOL Time Warner. I think there are lessons from both the successes and the failures in the group I'm the oldest and longest lasting internet analyst on the street, and so with plenty of mistakes along the way. If you're picking stocks, it's an odds business. You're going to make plenty of mistakes. And I try to learn from those, too. I go through these 10 lessons in the book.

First is, if you look at it from a long-term perspective over the last five, 10, even 20 years, we've been in a very consistent bull market, especially since 2008, 2009. I want to start off with the warnings, which is that there will be blood, or you can lose a lot of money when you pick the bad stocks.

In the book, I go through the examples of Blue Apron and Groupon. Groupon's down about 93% since its IPO. But I do try to remind people, Groupon at the time of its IPO way back in 2011, was a "guaranteed sure thing." All that's in quotes. This was a company that it rebuffed a \$6 billion offer from Google, had a business model that was so innovative there were hundreds of copycat imitators and was the fastest company to reach a billion-revenue run rate in history. Like, wow, what could go wrong? Well, a lot of things went wrong and there are lessons in there, particularly in terms of the quality of the management team. I think that was really the big Achilles heel.

Lesson number two, even if you get the best companies, even if you pick the best stocks, you can still lose money from time to time. Even the best-in-class stocks aren't immune from major selloffs. The companies that I think are just phenomenal outperformers and that objectively have been over the last 2, 5, 10 years, the FANG stocks, Facebook, Amazon, Netflix, and Google, they've all suffered corrections that have ranged from 20-44%,. Either that's because of the massive selloff in NASDAQ at the end of 2018, or for company missteps.

I always refer to Facebook's face plant, when in the middle of 2018 in the wake of the Cambridge Analytica scandal, you had a 43% correction in Facebook stock because Facebook reacted aggressively to that scandal by massively increasing its operating expense spend and

warning the street about the material revenue deceleration. This lesson is even the best stocks can suck at times.

Third is don't play quarters. Stay focused on the long term and ignore short term stock price fluctuations. I think they're so hard to do it's almost a fool's errand because you got to match fundamentals and expectations. And it's a very hard combo to get right. Invest in the high-quality assets.

Lesson number four, revenue matters more than anything. I've become a very dye-in-the-wool fundamentalist when I think about tech stocks and growth stocks. I have found that the stocks follow fundamentals. When it comes to growth and high-tech stocks that matter the most are revenue, revenue, and revenue.

I love this example of Netflix over the course of the decade, 2010 to 2019. Netflix as a stock was the single best performing S & P 500 over that time period, up almost 2000%. Yet free cashflow, what happened to it? It deteriorated dramatically. The free cashflow burn went from 20 million loss in 2013 to over 3 billion in 2019. Free cashflow burn continued to worsen each and every year. There was a massive disconnect between the stock and the free cashflow.

Where was the connect? The connect was with the revenue growth. The company was able to sustain pretty much 30% streaming revenue growth for almost a decade. That's what the market bid up and the company was also able to accelerate its net subscriber additions almost every single year...

Yes, of course, earnings matter. But the leading indicators, revenue growth, and sub ads. And especially if you can find these companies that can do these wonderful things like maintain 20% revenue growth. It's one of the markers I look for with high quality names. And I'm talking about doing that from scale from a couple of billion in revenue. It's a very hard thing to do. I think only about 2% of the S & P 500 is able to consistently do that.

I also look for companies that have got, what I call GCIs: growth curve initiatives. Things that a company, and I'll stick with the Netflix example, at the beginning of 2018 revenue growth materially accelerated because they expanded into the Asian markets, because they successfully implemented a dollar price increase, and because they rolled out local original content in the US. It shows 13 reasons why overseas they've had different shows like Casa de Papel, which we all know is Money Heist. So, I definitely look for growth curve initiatives that they can get me to that 20% revenue growth.

Lesson number five, it don't mean a thing if it ain't got that product swing. You really want to focus on companies that have been successful at product innovation. I mean companies that have the ability to generate numerous successful product innovations. There's usually something in the water there, either the management team or the corporate structure.

I know when it comes to investing, past performance is no guarantee of future performance, but I don't think that's necessarily true when it comes to management teams and product innovation. Amazon is the wonderful poster child for this point. There's a company that showed the ability to innovate in at least three dramatically different areas: online retail, cloud computing, and in devices with the Kindle. When you see a company that can do that, and that evidence was clear by about 2007, 2008, there was plenty of investment gains to be made after

that, and plenty more innovations that came after that. So, focus on companies that have got this great product innovation.

Lesson number six was the importance of TAMs. So, with TAMs, the bigger, the better. They matter. They can be expanded. They help drive growth. They can lead to scale, and scale wins.

And what I particularly like to see are companies with small market shares with large TAMs. I know it sounds simple, but that's what you're looking for. Google, the fact that Google was able to sustain 20% revenue growth for a decade after hitting a 25 billion revenue run rate, a feat that only two other companies in history have ever been able to achieve, the fact that they were able to do that is precisely because for a good chunk of that period, they were a single digit percentage share owner of a trillion-dollar TAM, a T-TAM, as they call it, an end market, a global advertising that's in excess of \$1 trillion. So, look for that low penetration, big TAMs stories. That's what you want to look for.

Lesson number seven is following the value prop, not the money. It's the companies with compelling customer value proposition that beat the companies with the great business models. Another way to think about this is look to invest in customer-centric ones as opposed to investor-centric ones. Amazon versus eBay. One company that focused on customers, the other focused on the investors. eBay used to have the major market capitalization advantage. It was six X, the market cap of Amazon as late as 2006, but that all changed because Amazon had a much better customer consumer value proposition when it came to price, selection and convenience, and its market cap now is 50 X that of eBay's. There's also the example of GrubHub and Door Dash. The first company had the great investor-centric model. The second one had the great consumer-centric model. The latter one now is worth dramatically more than the first one was taken out for.

Lesson number eight, management matters an enormous amount. You get the management team and you'll likely get the stock right. I go through a series of case studies in the book to try to cull out a couple of the things we're really looking for as signs of really good management team. If you work backwards and you look at the largest tech companies in the world, almost all of them are founder-led. So, I definitely have a bias towards founder-led companies, companies with long term orientation, great industry vision. And I also throw in here the point about the companies to be forthright with employees and investors about mistakes and challenges.

I'm a big fan of Uber. I think that's one of the next stocks, major tech stocks, that can get a lot bigger. I still think that can go up something like 10 X in market cap over a five-to-10-year period, which is a huge increase. And one of the reasons is I've got a fair amount of confidence in the CEO. Now, he's not the founder, so ding the stock for that. But he's got a very good track record with me in terms of being very upfront.

When Expedia, during the great financial crisis, Dara Khosrowshahi, he was the first and just about the only tech executive I came across who was willing to say that, I think his literal expression was, "It's a dog's breakfast out there." I remember that because I put it in the title of an earnings note. And when Dara a decade later became the CEO of Uber, I called that up. And I said, "Here's the person who was willing to be forthright about when times are tough. This is the kind of person you want running a business," because times did get tough for Uber, it turned out, just a year and a half later with COVID. And then I'll just finish up with two other

points that I detail in the book, how to handle valuation of high growth, high tech stocks. Sometimes it's pretty simple when you get robust earnings like Facebook does, and then there's a debate over where that should be 18 or 20- or 25-times earnings, but people can reasonably argue over that. In the case of Netflix, you could even argue at 70 times earnings, Netflix was an attractively valued stock because for a five-year period, the earnings growth there came closer to 90% year-over-year. But then I go through the really tough edge cases of what do you do when companies have no earnings?

In tech land, you're going to come across these examples a lot. There's a good number of the new, IPO NASDAQ listings that are profitless companies. I go through and use as a screen to decide whether a valuation argument can actually be made. One, are there public companies with similar business models that are already profitable? Two, if the company as a whole isn't profitable, are there segments within the business that are? Three, is there a reason why scale can't drive a business to profitability? And four, are there concrete steps that management can take to drive the company to profitability? If you have an unprofitable public company, but you can answer yes comfortably to two or three of those questions, you can probably make the valuation argument.

And then finally the last lesson it is to hunt for DHQs.

Not DQ, that's Dairy Queen. DHQs: dislocated high-quality companies. So, what I've tried to do is summarize in the book through these different chapters what are high quality companies that have this premium revenue growth, that 20% revenue growth tick. Companies that have large TAMs, relentless and successful product innovation, compelling customer value props and great management. And then buying them when they're dislocated, that allows you to minimize valuation risk.

So, what's a dislocated stock? One that's traded off 20 to 30% or stocks that are trading at a discount to their growth rates. And what I found in the last 25 years of covering these companies, that dislocation happens to the best stocks, those FANG stocks. They've all had their fair share of dislocations. I have not yet seen a high-quality company that didn't dislocate at least once in a year and a half period. So, if you can identify the high-quality companies and be patient, those dislocation opportunities will come. Take advantage of them. That's the single biggest takeaway from the book. DHQs, hunt for dislocated high-quality companies. That's it. That's the book, *Nothing but Net: 10 Timeless Stock-Picking Lessons from One of Wall Street's Top Tech Analysts*.

Larry Bernstein:

In your acknowledgement section, you mentioned that one of the reasons you wrote the book was so that your son would have a better understanding about how to invest. I've got kids too. Would you recommend this book both for the starting investor as well as for the sophisticated ones? Who's the audience for your book?

Mark Mahaney:

Yeah. It's both. There was this wonderful book, I'm sure you remember it, *One Up on Wall Street* by Peter Lynch. And I thought that was a Bible for a generation of retail investors and

institutional investors. There's a lot of wisdom that came from somebody who had worked the market so hard for so many years and he had some wonderful examples. And if you can remember one thing from that book is it may well be like the coffee buy the stock, that was his approach to Dunkin' Donuts.

I'm trying to provide a framework that you can use for the next Facebook, the next Amazon, and I'm sure there will be some over the next 10 years.

Larry Bernstein:

I want to ask a question about diversification and investing in tech stocks. You mentioned that there was this battle between eBay and Amazon. And eBay ended up with lower revenue growth and a mediocre stock performance, while Amazon ended up being one of the best performing stocks of all time. Is the moral of the story, you're supposed to buy both stocks, and one stock will be a dud and the other will be a fabulous performer and you don't need to be right predicting in advance which firm will end up dominating the other? I mean, when you get investment returns like Amazon's, who will even remember that eBay is in your portfolio. And when I look at my own portfolio, there's some duds. There's some that are average market performers and then there's just a couple that just do spectacularly well. Isn't that true of every portfolio, whether it be tech or any other industry. The key is that you got to make sure you've own some high performing assets more than anything else. Seriously, who cares about eBay?

Mark Mahaney:

Well, that's a good point. It's good to have diversification obviously in the portfolio, but the book is really geared on trying to find those Amazons and try to avoid the eBays. eBay was a phenomenal stock, by the way, for the first five years as a public company. Why was it so phenomenal? And then it became a true dud. From 2005 to 2015, 10-year period, eBay stock went nowhere.

And the mistake was this was a company that had a beautiful business model, high gross margins and high operating margins, but a value proposition that was pretty checked. Amazon, started to gain and its value proposition to the customers, you can buy something and then we'll get it to you in a week, week and a half. That wasn't nearly as compelling as a company like Amazon that invested an enormous amount of money in building out a logistics network that would get your product within three days, then two, then one, and now same day. What you want to find are the companies that are the most consumer-centric. You're looking for that winner. The false read was to stick with the high margin business rather than go after the low margin business.

One of the most prominent portfolio managers on Wall Street stopped me in the elevator in 2000, pointed his finger at me and said, "You know Amazon's never going to make any money.". And now Amazon is on track to be the largest generator of free cash flow in the world. So, with scale, scale doesn't solve all problems, but darn it certainly solves a lot of problems.

Larry Bernstein:

I want to just drill down a little bit more on that classic Amazon quote because that institutional investor who you met in the elevator was not alone. That was a very common thought that Amazon, one, would not make money. And second, that they were using their free cash flow to invest in CapEx and businesses that investors suspected had little return to it. And now you're saying in retrospect, oh my God, these investments were just out of the park successes. People really questioned the same day or Prime two-day delivery system. Because getting that right, getting that investment decision right was the crux of the matter. And why do you have such confidence that Bezos can do that so consistently?

Mark Mahaney:

And Larry, you're asking a great question. Last thing I want to do is fall into the trap of the narrative fallacy to create the narrative to explain the events that happened in the past. It wasn't preordained that Amazon would be as successful as it was and Bezos would be as successful as he has been. I want to be really clear about that. Anybody who went all-in on Amazon and its IPO, I mean, good to you, but there was an enormous amount of luck. But there was a point in Amazon's history when that went from being a speculative investment to this is a high-quality name that we want to buy when it's dislocated. The question is when was that point in its history? My personal opinion is that that was around that 2006, when the company really showed how innovative it could be. Why? That's when the Kindle came out. Even better, that's when AWS or cloud computing came out.

And when you had a management team that could successfully innovate in a dramatically different business that should have been the tell that there was something truly special there. And I know the stock had already run up there, but that's all right. It had plenty of room to go after 2006. I think Prime was described by Amazon management, as the best customer loyalty program in history. Market first was negative on it because of the losses associated with it.

But a year or two later, it was clear that Amazon Prime was growing and at an accelerated rate. And that led to more satisfied customers, more spend per customer. Then when you realized that the company had also not only had great product innovation, but had great customer loyalty programs, i.e., was really focused on customer satisfaction, that was probably another really good tell for a company that should have gone from being one of your potentially a speculative investment to being a core, high quality growth/tech investment and part of your portfolio.

Larry Bernstein:

I want to apply the lessons from your book to a sample stock, and let's use Spotify. I know from our previous conversation that this is one of your favorite stock picks and that you currently have a buy recommendation on it. Could you discuss Spotify as it applies to lesson number four: revenue matters. Lesson five: does Spotify have that product swing? And Lesson six, how do you think about Spotify's TAM or its total addressable market defined as its industry's annual total sales for its product segment. And finally, does Spotify's revenue growth and its industry market size justify Spotify's market valuation?

Mark Mahaney:

This is a company, is it a high quality? It's certainly dislocated. This stock is traded off well over 30% from the highs. And what was that product innovation on the part of Spotify? They brought in podcasting and included that in the mix, which therefore made the service more compelling to consumers.

They really showed great industry vision. They did it right when podcasting started hitting critical mass. So, to me, they kind of check the box when it comes to product innovation.

When it comes to management, this is a founder-led company, and I've done enough work around the management team to know that this is a company that really thinks long term, has had great industry vision. The TAM, the way we looked at the TAM is we thought it was excess of a hundred billion. Now it's not a T TAM; it's not a trillion-dollar TAM but it's one that's an excess of a hundred billion. And one, therefore, which the company only has a single digit percentage share of. So that's one of those relatively large TAM, small penetration. I like the, the setup there.

And in terms of the customer value proposition, that kind of the fourth screen I look at, I think that value proposition is pricing power. When companies raise prices and customers stick, churn doesn't get elevated, that means that customer value proposition is super strong.

Amazon's done that. They've raised the price of Prime three times over 18 years that Prime's been out. Netflix has done this numerous times over the years; shows you how strong that value proposition is. And Spotify has now done it for the first time. First time ever, they started raising fees at the end of last year, coming into this year, and churn continued to come down. Also, when you just step back and think about it, that those things that we all carry around, they're not phones; they're music devices, they are social media devices, and you can pretty much be certain that just about every smartphone in the world has some sort of music app on its home screen. This is something that is just widely, broadly endorsed, engaged, adopted by consumers globally. So that's how we came up with a over a hundred-billion-dollar market.

Now, then what about the 20% revenue growth? The company has been pretty consistently printing revenue growth around that level. And we think given the low penetration and a large TAM, that they can continue to do that for several more years. You got a stock that's dislocated. That's the pitch on Spotify.

Larry Bernstein:

Spotify's revenues have been growing at 20% since 2018. But is it profitable? No, it's EBIT has consistently been negative in 2018 the Company's EBIT was negative \$43 million. 2019 EBIT was minus 73, 2020 negative 293. And the forecast for 2021 is minus 90. Spotify is currently valued at 4.7x current sales.

Here is a company with negative earnings, trading for almost 5 times sales, how do we think about this as a value proposition? And when you have a valuation of around \$40 billion, and you're thinking about the TAM, the total size of the addressable market of around \$100 billion, so Spotify's market cap that's 40% of its TAM using 100 billion as your number. How do you think about market cap as a percentage of its Total Addressable Market?

Mark Mahaney:

You're asking some really great probing questions. Another way I think about it is I look at the market cap of say, a Netflix. Netflix now is doing almost \$300 billion market cap. Spotify is a sixth of that,. And I think, well, what's the end use case here? It's people having entertainment options on their phone, whether it's watching video or listening to music, the subscription fee prices, by the way, aren't dramatically different. The real difference between these isn't so much the TAM or the consumer use case, it's the gross margin setups because the suppliers are much more concentrated with music with the big powerful labels, than they are with video, with produced film and series. That's really the big difference. But it's not enough, I don't think, to warrant that kind of market cap difference between the two. The company isn't profitable.

Then I get to those four logic questions. Well, is there any particular reason why scale over time doesn't help drive them to profitability? And I think the answer is no; there's nothing in particular that structurally stops from doing that. And by the way, sort of like Netflix... I mean, we lived through this. Netflix had no leverage with the studios, much smaller studios or with artists, when they first got into original content seven years ago. But now Netflix it's become a must shop destination for content creators. That's what allowed it to gain leverage in terms of its streaming costs. And I think the same actually can happen with Spotify over time.

Also, as you become bigger, you become a platform you can layer in more revenue streams. Advertising. One of the advantages of podcasting, by the way, this is very specific to Spotify, is that podcasting, the ad revenue associated with podcasting isn't shared with the label. So as podcasting grows, as ad revenue around podcasting grows, that's going to help the gross margins at a name like Spotify. So that those are kind of a couple points I'd give you on Spotify.

Yeah. It's hard to be exact when you look at these names about what the right valuation is, especially when they're pre-profits or they're very slim in the profits. And I think the point I try to get across here is, you want to avoid precision traps. What you're looking to try to figure out is, is the valuation ballpark reasonable? Don't let the perfect be the enemy of the good, because valuation is always based on future forecast and we're all as good as each other in terms of predicting the future. IE. It's not predictable.

Larry Bernstein:

Lesson 7 is the customer proposition. And using Amazon, as an example, the customer proposition is unbelievable. I mean, Amazon offers customers an incredible product selection, anything they want at a reasonable price delivered in a day or 2. I mean amazing. But when I think about the customer proposition for Spotify, I'm baffled.

We are having this conversation on my podcast. I publish this podcast on Spotify, but I own it, and I choose to give it to Spotify for free, which obviously is a great deal for them. But what is it that Spotify offers its customers? It's offering a platform to listen to music and podcasts. Sure, it owns some of its podcasts. But it doesn't own most of the podcasts or the music, as you pointed out; the music recording industry does. What is Spotify's customer proposition that is so compelling to you?

Mark Mahaney:

The world's music library personalized on your device whenever you want it. Now that's also offered by other companies. In the past, Pandora. Although Spotify's global; Pandora's had very limited success outside of the US. Apple music, although that's not available on the majority of the world's phones, because Apple devices are a minority of the world's phones. It's an Android world, not an Apple world.. But that's Spotify's advantage, that the basic value proposition of music streaming...

Larry Bernstein:

Let's move on to Uber. Pre-Covid, Uber had an incredible product, for a relatively cheap price, they will pick you up using your smartphone's GPS and Uber will take you wherever you want to go. Amazing. Currently, labor markets are incredibly tight. Uber prices are much higher because it is very difficult for Uber to find you a driver. How do you think about tight labor markets as a risk to Uber's business?

Mark Mahaney:

Well, so Uber's a marketplace. And it has had an enormous number of challenges. And you got to manage that marketplace. We've had dramatic demand and supply fluctuations caused by COVID. Although, it had one huge hedge in terms of its delivery business, that was positively boosted by COVID. But its mobility business, which was prior to COVID, what most investors associated with Uber, that got hit as almost as hard as the travel companies did. And then there was this surprise that they were going to need to incentivize drivers. They were going to have to lean much more heavily than expected on driver subsidies in order to rebalance the marketplace. It's very easy for all of us on the demand side to start back up with Uber. All we do is open up the phone and click the app again. But for drivers, there were some frictions.

But the value proposition here, I think has also been proven. You've seen pretty material rise in pricing. And you have not seen driver demand fall off as strongly as the pricing, in some cases has shot up, i.e. there's a real value proposition because people still need to get from point A to point B. And what are your alternatives? Car ownership, taxis, public transportation. That's why the value proposition we think is extremely compelling here.

But yes, there's a huge amount of execution risk associated with Uber. It's a very large TAM. They have a tiny share of it. I think the management team, I think at Uber, based on that has a lot of credibility with me personally, but I think increasingly will in the market. And I think there's a chance for a real material re-rating opportunity here at Uber, and the chance for the company to be able to generate given a small penetration of a very large TAM, the ability of the company to sustain premium revenue growth for years and years, i.e. 20% revenue growth for three, four, five years. And I don't think that's priced into the stock at all.

Larry Bernstein:

I would like to ask a question about changing business strategy, and I want to focus on Zillow. The company's original business plan was to offer a real estate listing platform. Zillow was successful, and in your book, you referred to Zillow as real estate porn. And then Zillow changed its business plan. Zillow got into the business of buying, refurbishing, and flipping homes. Zillow announced this week that it was getting out of that business. I am not

particularly interested in whether it was a good decision or a bad one, but I am fascinated by management teams radically changing their business model. How do you think about Zillow as an example of how to radically altering their business strategy?

Mark Mahaney:

Well, I used the Zillow pivot in the book as an example. And to me, this is an example of the advantage of having a founder-led company. This was a very risky pivot that they've made. But I'm going to take you back a few years. When they first announced, they were going to get into this, the stock tanked. I think it traded off as much as 30% over the following several quarters because it was perceived to be a lot more expensive than originally thought. It's a different area of competence. Prior to iBuying, Zillow was an advertising tool for professional real estate agents. A few other things, but that was principally it.

Then with iBuying, they actually go into the business of trying to price, purchase, fix, sell homes. That's a very different set of challenges and competencies required. And it could be damn expensive, too. And you could be sitting out there with a lot of housing inventory. Imagine what happens if there's a dramatic decline in home prices. Are you going to be able to react quickly enough to get that inventory off your books? I think it was the right strategic call.

But I don't think they could have done that if the company hadn't been founder-led, because that was something that you're telling investors, we're going into a major new adjacency, major TAM, but dramatically different set of competencies. "It's going to be extremely expensive." I don't think most professional managers would've had the guts to do something like that. And it required founders. This is like Jeff Bezos announcing Amazon Prime, which hurt the stock, hurt the company's financials for a short period of time now. But back then it was unclear how long it was going to hurt. It was certainly going to be costly.

Yeah. Founders have the ability, the guts to do that.

Larry Bernstein:

We end each session on a note of optimism. What are you optimistic about your sector?

Mark Mahaney:

I just think that there's still sustained secular growth ahead for these businesses. There are two fascinating challenges I think that need to be worked out in 2022. First is, how do we do targeting and tracking of advertising campaigns in a post-privacy world? There's probably been a big win for consumers in this. They have the ability to opt out of being tracked, but it's a huge negative for marketers and retailers, their ability to track consumers, to know whether their ad campaign really worked or not. That's been diluted and it's a huge negative for names like Facebook. So, somebody needs to do it, i.e. Facebook is one of them. Somebody who can come up with an alternative, effective tracking, targeting technique in advertising and marketing that doesn't undermine privacy, boy, there's a lot of value to be created in that.

The second key issue that I'm focused on for next year, and my guess is will be fixed, stems from what I refer to as shipocalypse.. Somebody who can solve supply chains, there's a lot of upside to the companies that can figure that out.

Larry Bernstein:

Mark, thank you very much. I really appreciate it.

Mark Mahaney:

Thank you, Larry.

Larry Bernstein:

That ends today's session. I want to make a plug for next episode on Sunday 11/14.

The first speaker will be Ivy Zelman who is the top ranked equity analyst specializing in housing. Ivy runs her own investment bank called Zelman and is known for her controversial and contrarian investment predictions. Next Sunday, Ivy will explain why she is bearish on home prices and stocks that specialize in home building and construction. Ivy thinks that there will be a decline in housing demand because of higher interest rates that will undermine affordability just at a time when housing supply is surging and expected to hit the market.

Our second speaker is Tim Bale is a Professor of Politics and International Relations at Queen Mary at the University of London. Tim research focuses on European and British politics. I want to find out what are Europe's most pressing political issues and the relative popularity of center/right political parties. In particular, I want to learn what German politics will like post Merkel, will Macron win reelection, and how does Boris Johnson in the mix.

If you are interested in listening to a replay of today's What Happens Next program or any of our previous episodes or wish to read a transcript, you can find them on our website Whathappensnextin6minutes.com. Replays are also available on Apple Podcasts, Podbean and Spotify.

I would like to thank today's speakers for their insights. I would also like to thank our listeners for their time and for engaging with these complex issues. Please stay tuned next Sunday to find out What Happens Next.