The Scale of Life in Business and Performance-Based Value Investing

By KEE Koon Boon

Commerce would not have progress beyond the barter system without the invention of a system of weights and measures. Before there was the traditional Chinese steelyard (*gancheng*), buyers and sellers eye the heap of goods to determine their weight. It is difficult to achieve a fair trade. With the *gancheng*, the object to be weighed hangs at one end of the beam, while the weights at the other end are slided left or right until a perfect balance of the beam is found. Reading of the mark where the weight-string rests is made to determine the weight of the object. There are 16 markings on the arm of a *gancheng*, such that 16 *qian* is equivalent to 1 *liang* and 16 *liang* is equivalent to 1 *jin* (or 604.79 grams). The Chinese unit of measurement was based on the number 16 instead of 10.

But why 16? The wisdom behind this number will help us understand why Sam Walton and Amazon Inc grew stronger over time like a sturdy oak, why Vanguard Group is the world's largest mutual fund manager with $1.6 trillion in assets under management, and why investors deserve a dependable investment product by insisting upon performance-fees-only asset managers.

16 is the sum of 7, 6 and 3. 7 stands for the *Beidou* Seven-Star Constellation, which symbolizes the need to have the right direction in our heart when we use the measurement tool to make money and not be too greedy. 6 stands for the directions North, South, East, West, Up, and Down, which cautions us to stay centered in our ethical principles when making money. Lastly, 3 stands for *Fu* (Good Fortune), *Lu* (Prosperity), *Shou* (Longevity). When we make money by squeezing one *liang* improperly out of others, we lose *Shou* (Longevity); wrench two *liang* and we lose *Lu* (Prosperity). Give money back to the customers and society in a sustainable way and we gain *Fu*, *Lu*, *Shou*. Thus, the 16-unit scale is not merely a tool to measure and make money, but more importantly, it is a scale to guide and measure our values in life and in business.

The late retail giant Sam Walton, whom the world's greatest investor Warren Buffett felt was the greatest CEO of all time, saw the anomaly of retailers overcharging the customers. Sam seeks to correct things by being a champion of the customer with Wal-Mart's "Everyday Low Prices" by passing along cost savings back to the customers to make better things ever more affordable to people of lesser means. This resulted in Wal-Mart gaining *Fu*, *Lu*, *Shou* and its astounding multibagger success to over S$200 billion in market capitalization from its initial listing size in 1970 of S$40 million.

Jeff Bezos sacrificed the comforts of his investment banking job to establish Amazon in 1994 with the support of his wife and the life savings of $300,000 from his parents. Now, the internet retailer beats its brick-and-mortar giants at their own game by delivering goods cheaper to its customers. Surveys by Morgan Stanley and Wells Fargo found that Amazon sold a broad range of items 6 to 19 percent cheaper than Wal-Mart. By leveraging its scalable infrastructure and virtuosity in analytics in delivering a dependable and enjoyable customer experience, the customer-centric Amazon has grown bigger more quickly than any company in retail history. Wal-Mart took 27 years to hit $30 billion in sales while Amazon did it in 16 years and its market cap multiplied to nearly $80 billion.

Similarly, John Bogle saw the anomaly of mutual funds charging exorbitant fees to investors for professing to beat the market, when in fact most of them lagged the market benchmark. Bogle set up Vanguard in 1974 to pioneer low-cost index mutual funds for retail investors. By passing back savings to the investors from advisory fee reductions and economics of scale, its low-expense model enables Vanguard to deliver competitive returns without chasing complex risk that they did not understand or respect. Bogle estimated that the costs of securities intermediation in the funds management industry in 2007 are $528 billion. These include sales loads, management fees, operating and marketing expenses, transaction and advisory fees, hidden turnover costs, and soft dollars, and they recur year after year at around 2.5 percent of average assets. Vanguard's economic moat allowed it to have around a 1 percentage point savings, which, when applied to $1.6 trillion of assets, produces savings of $16 billion annually.

Commerce is not merely about the measurement of the weight of profits collected in multiple clever transactions to build abstract personal wealth. Only in the endeavor to perform first for customers, and serve them with the highest possible integrity and character, can commerce find its foundation for durable business success and create society's abundance. The secret at Wal-Mart, Amazon and Vanguard to gaining the *"Fu*, *Lu*, *Shou"* multibagger success is that the less they *take*, the more the customer and fund investor *make*. That is why enterprises designed for the public weal are the quintessential Lion Infrastructure – the bigger it is, the easier, not harder, it gets.

Bogle shared a meaningful story from Reverend Fred Craddock who was known for his conversational preaching. Craddock, when visiting in the home of his niece, strikes up a conversation with an old greyhound dog.

"I said to the dog, are you still racing?"

"No," he replied.

"Well, what's the matter? Did you get too old to race?"

"No, I still had some race in me."

"Well, what then? Did you not win?"

"I won over a million dollars for my owner."

"Well, what was it? Bad treatment?"

"Oh, no," the dog said, "they treated us royally when we were racing."

"Did you get crippled?"

"No."

"Then why?" Craddock pressed, "Why?"

The dog answered, "I quit."

"You quit?"

"Yes," he said, "I quit."

"Why did you quit?"

At last, the reason: "I just quit. Because after all that running and running and running, I found out that the rabbit I was chasing wasn't even real."

Bogle believed that the rabbit that he has been chasing in his career, which is "essentially giving investors a fair shake in their quest to accumulate assets for a secure future", is real. It is not the illusory rabbit of *success* – defined by the measured wealth, fame, and power – but rather the real rabbit of *meaning* - defined by the immeasurable integrity and virtue.

Yet, there seems to be something missing in the long hard chase for the rabbit of meaning in the asset management industry. Stage 1 is epitomized by *fairness* in Vanguard's low-cost business model. Stage 2 requires a sense of *caring* to inspire the extra level of intensity and dedication in performing for investors. Such performance-based caring is an exacting and demanding business that requires the ablest and most dedicated navigators providing value above all without loads, hidden charges, soft dollars, and without fixed management fees. Asset managers who truly care do not get paid any fixed fees and are paid *only* performance fees *after* they execute their job with excellence.

Yes, the pursuit of a mission that honors society as a whole is painful and requires sacrifice, tough-mindedness and discipline. Then, rather than chasing after that rabbit, finding that it is fake, and quitting in dismay, like the greyhound, it is worthwhile to chase the *real* rabbit of life and business despite the pain and sacrifice, and then keep running, and running, and running, as hard as we possibly can.