

CORE DISCIPLINES

All-in and Win-Win: Tsai Capital, today, is the result of a quarter century of hard work and continuous, incremental improvement in all areas of the business. Our success—and our clients’ success—would not be possible were it not for an aligned group of investors who share a similar mindset. We are all-in.

It’s our mission to bring a scientific spirit and integrity to the business of investment management and to create win-win outcomes. We seek to build long-term relationships with all our counterparties while being guided by the African proverb: “If you want to go quickly, go alone. If you want to go far, go together.”

Remember Einstein: In choosing individual securities, Tsai Capital ignores (or exploits) short-term volatility and focuses instead on the potential for long-term capital appreciation. This approach broadens the universe of our investment opportunities as other market participants, generally operating under institutional constraints, have a much shorter time horizon.

Once we have made an investment, we seek to hold it for many years. This long-term strategy is inspired by an insight widely attributed to Albert Einstein: “Compound interest is the eighth wonder of the world. He who understands it, earns it; he who doesn’t, pays it.”

Invert, Always Invert: Preservation of capital is of paramount importance to successful long-term investors. How come? Well, just consider this simple mathematical principle: while a 50% loss reduces \$1 of capital to 50 cents, a 100% gain is then necessary to recover the initial \$1 of capital. Moreover, this phenomenon expands in a non-linear fashion: for example, a 400% gain is required to offset an 80% loss. Carl Jacobi’s famous exhortation—“invert, always invert”—clearly applies to investing, where the best way to make money is first not to lose it.

That’s why we always require a margin of safety before purchasing any stock. No matter how outstanding a business may be, we will commit capital only when we believe the market offers us a large discount to the company’s intrinsic value.

Never Forget Tussman: Knowledge acquired through a multidisciplinary approach is essential to understanding the world and to minimizing risk. Our extensive network of fellow investors, analysts, executives, and business owners helps in idea generation and due diligence.

We strive to be open-minded in order to understand all the major factors that might affect the outcome of an investment. Our goal is to eliminate blind spots. Our research process is inspired by the late Joseph Tussman, a philosophy professor and educator who observed, “What the pupil must learn, if he learns anything at all, is that the world will do most of the work for you, provided you cooperate with it by identifying how it really works and aligning with those realities.”

Follow the Business, Not the Market: We are convinced that nobody can consistently predict what the market will do. That’s a fool’s game. Our capital allocation strategy is, therefore, market agnostic. Instead of obsessing, as so many others do, about the direction of the general market, we focus on business fundamentals. All of our attention is devoted to finding the best individual investments that offer significant upside potential and a margin of safety at the time of purchase.

It's All in the Swing: Our preference for inaction motivates us to swing hard when we see a pitch we like. This results in a relatively focused portfolio—which may substantially deviate from our benchmark over short time frames.

We are solely focused on investing in compounders, which we define as high-quality growth companies with durable competitive advantages and the capacity to reinvest capital at high rates of return over long periods of time.

Finally, in our quest to invest in truly exceptional companies, we prefer certain business models—particularly those that benefit from a network effect or some other kind of positive feedback loop. That's because growth created in a self-reinforcing manner can be highly durable.

Important Disclosures

Past performance is no indication or guarantee of future performance and no representation or guarantee is being made as to the future investment performance of Tsai Capital's separately managed accounts or any entity.

References herein to Tsai Capital's efforts to minimize losses and seek a margin of safety should not be construed to imply an absence of risk in any investment. All investments carry risk, including the risk of loss of investment principal. Additionally, short-term market volatility may present increased risks for investors who have shorter investment horizons due to impending or current liquidity needs.