Plagiarism and Adding Value

Recently I had been nursing two ideas that I thought were really unique / interesting:

1. In my June links post, I included this bullet: "SKAM the radical teen drama that unfolds one post at a time: can't believe it's taken this long for people to really experiment with incorporating social into "tv shows" / entertainment." I've hinted at this a few times, but I've always thought it was crazy more companies haven't experimented with the power of the internet to offer more interactive types of media (almost all media seems to be made with the traditional limitations of linear TV in mind) The simplest and most appealing experiment I've always been interested is thinking about a "choose your own adventure" type of show where you could make key choices for characters and, by doing so, have your own semi-customized TV show with variable endings. As you start to think about that type of TV show, you quickly realize that it already exists; it's just called a video game. Once you start thinking about that, it becomes pretty obvious that all of media (including Netflix) is going to need to get into the video game space in a much bigger way at some point in the future. That day is probably still a way into the future, but I think it's inevitable the lines blur at some point.
    - If you think that media companies need to get into the video game space, then it implies a very bright future for every video game company today. Making video games requires lots of internal knowledge and developers, and it will almost certainly be cheaper to buy those skills by buying a video game company (and getting the already developed ecosystem, distribution channels, and IP thrown in too!) than it would be to build those skills on your own. Eventually, the lines between video games and media are going to blur completely (if you look at the ecosystems evolving around e-gaming and the narrative quality of some of the top tier games released each year, that line is blurring faster than a lot of people think!), and as they do, the video game companies are

going to have skills and assets that are much more difficult to replicate than the legacy media companies'.

- Netflix traditionally has chosen to build, not buy (the only acquisition they've ever done was a small deal to buy MillarWorld). Buying a video company would require a large check, and Netflix has been proven very right in their traditional "build don't buy" strategy. I wonder if all that would change if Disney announced a deal to buy a video game company in a few years?

2. It's easy fodder to mock the tech bubble companies from the late 90s (and mock the tech bubble in general). How silly is it that people were valuing companies on "price to eyeballs"? Yes, in hindsight, it was obviously ridiculous… but was it ridiculous, or were the businesses just early? Today, (almost) every investor understands the power of grabbing scale and looking through near term GAAP losses when a company is making huge investments into customer acquisition at a fraction of customer lifetime value. At it's most simple, Netflix's current model is "grab enough eyeballs to hit scale before we go bust;" I think that's a dramatic oversimplification but there is a kernel of truth to it!

Again, I thought I was working on some pretty unique insights. So imagine my surprise when, within about 48 hours, I read this article on Netflix that had reached the same "Netflix needs to get into gaming" conclusion, and then listened to this great podcast (from the fantastic twitter follow Modest Proposal) who mentioned how the idea behind "eyeballs" may have been ahead of its time (related, he discussed the book "F'd Companies" and how many of the companies that blew up in the book have had their business models rediscovered in multi-billion dollar market leaders today).

Obviously my ideas weren't as unique / original as I thought they were (though I do think the gaming idea is somewhat non-consensus, and I'm frequently trying to find ways to invest in the gaming space. A bunch of the companies in the space interest me, but none of them have a margin of safety that I'd feel comfortable investing in them today), and I probably won't be devoting full articles to the ideas (outside of this one!). That's one of the toughest things about writing online: if you want to write about a broad topic you'll almost inevitably be stealing / plagiarizing someone else's thoughts in some form. I don't mean plagiarism in the flat out copy / paste sense(though that happens too!); I more mean it in a "you are writing something that someone else has already covered" sense (as I would have been if I had written about the media company's need to get in to gaming).

Seeing as writing about investing is just a side hobby related to my full time passion (investing), that "almost everything has been written" situation creates a bit of a dilemma for me. I write online because I like the process and because it helps clarify my thinking, but I also want my writing to be somewhat unique / insightful / interesting. If I write about something broad enough, I can write something that most readers will have some interest in but that will have been covered elsewhere (often better) by someone else, so the writing isn't really unique / I'm not sure if I'm adding value. An example might illustrate the point best: I've got tons of thoughts on the struggles of active management versus passive, and I'm sure it's a topic many readers are interested in… but given how much thought has been devoted to the topic by great writers / thinks (Howard Marks being example that comes top of mind given recency bias, but there are plenty of others), am I really adding value by writing on that topic? If I'm defining value as introducing new thoughts / ideas to readers, than almost certainly not.

So the more niche I go, the more value I can probably add, but the less people I'll appeal to. Again, an example might be best here: if I do a deep dive into the domestic cable industry, that's going to be interesting to a smaller set of people than thoughts on general value investing, but I'll probably be able to add value for a lot more people. At the extreme, if I write about a super niche, international micro-cap, I'll probably appeal to the fewest number of people, but I may add the most value given the company has likely never been written up before or is new to almost all of the interested readers.

I guess I kind of look at the payoff structure (in terms of "value created") for writing as something like the table below:

Topic	General Value Investing	Industry Deep Dives	Large Cap Companies	Small Caps	International Micro Caps
Interested Readers (A)	100%	85%	70%	50%	10%
% of Interested Readers who learn something new (B)	2%	25%	35%	70%	95%
Readers who learn something new (A*B)	2%	21%	25%	35%	10%

Note that those numbers are by no means scientific; they are simply directionally correct based on my gut /I threw them out here for conversational purposes.

Anyway, I wanted to discuss all of this "value add" from for two reasons:

1. Just to help understand what I write / talk about / focus on the blog. Most of the companies I write about here tend to be medium cap companies (around $5B market cap) or quirkier situations. Part of the reason for that is it's generally where I spend most of my time (probably a bit smaller than that market cap, but around

there), but I also write about those companies / situations because I believe they are in the sweet spot of where I can add value while simultaneously interesting the largest number of readers.

2. To bring this back to investing, and acknowledging that I'm still not breaking any new ground here: I find one of the most dangerous things in investing is a focus on coming up with investments that are new / novel. Investing is one of the few activities where there is zero penalty for plagiarism, and the unfortunate fact is that it's exceedingly rare to come up with an angle / insight that is completely rare or unique (particularly in the public markets). I know a lot of people who have criticized some higher profile investors for simply stealing other fund's ideas and being more "marketing machines" than ground breaking investors; I've probably been guilty of leveling that criticism a few times as well, but at this point I don't think it's a particularly valid criticism. The most important thing in investing is not coming up with original ideas but doing enough work to develop the conviction to take big swings when you've got a non-consensus idea that is offering you a significant margin of safety (original ideas do help in finding things the market is missing though!). If you're simply using other people's ideas as a jumping off point to do work / try to develop that conviction, more power to you.

This post is running a bit on the long side so I'm going to wrap it up here, but I do plan on doing a follow up post in the next week or so to discuss another idea from the Modest Proposal podcast, so I'd encourage you to listen to it between now and then if you haven't already!