
Author interview:

Sean Iddings and Ian Cassel - “Intelligent Fanatics”



Sean Iddings and Ian Cassel are...

Sean is the founder of Unconventional Capital Wisdom, a registered investment advisor in New York State seeking to invest in high quality microcap companies led by intelligent fanatics. He is a member of MicroCapClub and writes about investments, entrepreneurship and leadership on a number of blogs and publications.

Ian is a full-time microcap investor and founder of MicroCapClub. Ian started investing as a teenager and learned from losing his money over and over again. Today he is a full-time private investor that supports himself and his family by investing in microcaps. Microcap companies are the smallest public companies that exist, representing 48% of all public companies in North America. Berkshire Hathaway, Wal-Mart, Amgen, Netflix and many others started as small microcap companies. Ian's belief is that the key to outsized returns is finding great companies early because all great companies started as small companies.

MicroCapClub is an exclusive forum for experienced microcap investors focused on microcap companies (sub \$300m market cap) trading on United States, Canadian, and UK markets. MicroCapClub was created to be a platform for experienced microcap investors to share and discuss stock ideas. MicroCapClub's mission is to foster the highest quality microcap investor community, produce educational content for investors, and promote better leadership in the microcap arena.

Both Sean and Ian co-created the book Intelligent Fanatics Project: How Great Business Leaders Build Sustainable Businesses. The book is a culmination of years of experience, intense study and collaboration on the common patterns between some of the most successful companies and leaders of the 19th and 20th century. Their goal is to help both investors and entrepreneurs generate extraordinary long-term returns and positively impact the world.

www.intelligentfanatics.com

www.microcapclub.com

www.uncapwisdom.com

@iancassel

@uncapwisdom

InvestingByTheBooks: Sean and Ian, we have to begin by saying that we truly enjoyed the excerpts from the book you kindly sent us. "Intelligent Fanatics" is bound to be a reference work, following onto books such as "Good to Great" and "The Outsiders". How did the idea to the book originate?

Sean Iddings: First, I really appreciate the very kind words and taking the time to read the excerpts.

A confluence of incidents over a few years led to a lollapalooza effect and thus the book. And since Ian reads many of the same books and focuses a great deal on quality of management, he was connecting the same ideas at the same time. The timing worked out perfectly.

I'll briefly speak about my journey:

I had read Phil Fisher's book "Uncommon Stocks and Uncommon Profits" and "Poor Charlie's Almanack" a number of years ago. Both served as a springboard for my curiosity. Fisher described the two types of successful business leaders: those that are fortunate and able and those that are fortunate because they are able. This idea hit me right between the eyes, although his scuttlebutt method left me yearning for more information on what specifically to look for in either type of great manager.

Charlie Munger then added that some managers are so talented that they can do things that mere mortals can't. He called them intelligent fanatics. He said if he were young he'd be looking to "find 'em young, get 'em small" and "if you get an opportunity to get into a wonderful business that's being run by an intelligent fanatic and you don't load up, it's a big mistake." At this point I started to seriously get interested in microcaps and stumbled upon MicroCapClub, where I became a member and Ian is the founder. Let's just say I learned a lot from him and all of the other members.

IBB: There must have been some influence from Good to Great and The Outsiders as well...?

SI: Indeed so! A natural progression, after a few years, led me to those books. Now I had a set of intelligent fanatics to study from, but I was curious to find more. Additionally, I wanted to find business leaders who were able to sustain their outperformance after their departure. "Good to Great" highlighted a number of companies that subsequently underperformed, and weren't that great anymore, after the book was published.

During this whole time I was writing a significant amount of stock analysis on Seeking Alpha building my confidence in my writing. As Steve Jobs said, looking backward you can connect the dots but cannot looking forward. The years of writing prepared me for something, but I didn't know what at the time.

Then July of last year I, as well as Ian, came across the write-up by Professor and Fund Manager Sanjay Bakshi called "Seven Intelligent Fanatics From India." Bakshi connected a few more dots for me, and I graciously thank him for that. He too has been consumed in searching for intelligent fanatics and described their characteristics. He tied in the type of managers that Berkshire Hathaway has been acquiring over the years, like Rose Blumkin. It was simply brilliant and he brought the term intelligent fanatics back into the lexicon, at least in India.

The final event that really started the idea of writing the book was actually from my neighbor. My wife and I had moved into a house shortly after getting married, and I found out that our new neighbor had written a book and it had just been released. I thought if he could do it, I could too. I learned as much as I could from him about the process (and traditional publishing) but didn't think I had anything new to contribute to the investing world. After some inversion and creative thinking the lollapalooza effect occurred.

IBB: We know Ian has been a huge part of the project and instrumental in the book's development as well, and we will come back to that. But let me first ask how you went about acquiring information? Tell us a bit about the detective work behind these stories and what sources you found most useful?

SI: Fortunately, I live only a few miles from an Ivy League University with some of the best business libraries and other resources in the world. I spent much of my time finding books, newspapers, annual reports and other resources. Whatever books I couldn't find there, I found on Amazon. I did contact a few corporate archives but they lacked some specific information we were looking for. So, we used the information we could find. Today is an amazing time to learn with all of the information available at the click of a button. I spent many hours watching video lectures on a number of the CEOs that made it into the book, and many others, and read any book that was remotely relevant. And we found a Brazilian to help translate all of the 3G partner lectures.

IBB: One is always curious how an author goes about selecting which persons make the final cut. In this case you portrait eight Intelligent Fanatics and their respective companies, but there are of course many more that could have been picked. How did you make the call on who made the final team?

SI: Great question. I'd like to preface by saying there was nothing scientific about our selection criteria and readers should not expect the book to be scientifically rigorous. Our goal was to build our, as well as everyone else's, mental model on who intelligent fanatics are, so we can find the intelligent fanatics of today running small microcaps. Building mental models, or pattern recognition, we think is where many successful individuals are superior. I just read the book "Peak" by Anders Ericsson and Robert Pool...

IBB: ...we fellow Swedes are very proud of Mr. Ericsson...

SI: ...and I think they described the importance of pattern recognition perfectly: "In pretty much every area, a hallmark of expert performance is the ability to see patterns in a collection of things that would seem random or confusing to people with less developed mental representations. In other words, experts see the forest when everyone else sees only trees." Warren and Charlie, as well as any intelligent fanatic, are a perfect example of such mental model building.

As to selection process, I started with the most obvious place, Charlie Munger. He has mentioned intelligent fanatics of the past by name, but often gave little additional information on individuals such as: John H. Patterson of National Cash Register, Simon Marks of Marks & Spencer, and Les Schwab of Les Schwab Tire Centers. The only problem is that finding information on these CEOs is not easy and they aren't widely studied. Once I finished researching, I had a decent grasp of why Charlie Munger labelled them as intelligent fanatics and searched for others that might fit the profile. Ian and I got ideas from reading many books and getting any leads from those who were successful and finding whom they learned from.

IBB: Any other useful go-to places?

SI: Well, yes. Another tactic was actually using my wife. She and I often go to Pennsylvania to see some of her friends. She lived there for a number of years and travelled to and from there and upstate NY, to see family. She'd always stop at a specific gas station about half way between our town and our destination for a pit stop. It's been a tradition for her. The station is called Sheetz, and despite the funny name, it is one of those businesses with a cult-like following. My wife and I love it because not only are the bathrooms ultra clean, it just knocks any of the competitors out with the total experience and not surprisingly it's always packed. Anyway, she also previously lived in Oklahoma, performing as a professional ballerina, and said there was a similar company there called QuikTrip. I found a book on Amazon written by QuikTrip's founder, Chester Cadieux, and found that he truly fit the bill of an intelligent fanatic and his son Chet Cadieux, who currently runs the business, does too. Interestingly, Chester was on the board of Sheetz for numerous years and highly influenced them and another gas station chain named Wawa.

IBB: Very interesting. The "surround yourself with great people" axiom comes to mind here. The term "intelligent fanatics" is just spot-on, and sure to be a term that comes back into the spotlight, used many years from now in order to instantly convey a type of situation, just like "owner-operator" or "outsider". Did the term just come up one day or did you have other working names for the project?

SI: Yes, it's been the main part of the project from the beginning.

IBB: What insights, behaviors and methods from the fanatics have you tried to bring into your own career and life?

SI: Fantastic question. I did put some of the lessons I learned from the book into action almost immediately. The first draft is laughable compared to what it is today, and I can attribute that to as Jim Collins said "getting the right people on the bus." I was able to get Ian to join to add his own touch, marketing abilities and much needed direction. How'd I do it? I gave him an incentive to think like an owner and got out of his way. He's brought much more to the book than I ever could have imagined and he is just a high integrity person to begin with, an incredible guy. We spent a considerable amount of time finding the right editor who took our book to the next level.

Furthermore, intelligent fanatics do unconventional things to get unconventional results. Ian and I thought it would be oxymoronic to write a book about maverick business leaders and their unconventional strategies then go out and ink a deal with a traditional publisher. This is not a knock against traditional publishers; they provide value and extremely wide distribution, however, thanks to Jeff Bezos and Amazon, self-publishing is a viable alternative today. We'll see how our experiment works out.

IBB: Naming your own favorite fanatic from the book is, I guess, like bringing up which one of your kids you like the most... But is there anyone that got to you more, where you really felt an attachment in his reasoning, how he built the company et cetera?

SI: For me, the 3G partners, Jorge Paulo Lemann, Carlos Alberto Sicupira, and Marcel Telles, stood out the most. Here you have a competitive tennis player and surfer, Jorge Paulo Lemann, that devised a management system that has worked in several different industries over many decades. They have proven that their method and culture creates a sustainable competitive advantage. Now I know exactly why Warren Buffett says he's never seen a better developed management group than the 3G partners.

IBB: One of the quotes from the chapter on Herb Kelleher and Southwest Airlines really stood out. Talking about the influence his mother had on him, he mentions that she said "...positions and titles signify absolutely nothing. They are just adornments, they don't represent the substance of anybody". What is your take on this?

SI: Human beings are fascinating. Give them a title or label and they begin to act differently. A title or label can make someone feel like they have power, provide undue expectations, might instill fear or many other subconscious feelings. They hold individuals and organizations back from achieving their potential.

I didn't add this in this in the book, but Herb gave this example in that quote that you'll enjoy: "I learned firsthand that what she was telling me was correct, because there was a very dignified gentleman in our neighborhood, the president of a local savings and loan, who used to stroll along in a very regal way up until he was indicted and convicted of embezzlement."

IBB: There are of course many commonalities between the people you portray and their companies, and you do list a few of them such as long-termism, owner mindset among employees, productive paranoia among others. Another intriguing fact are the multitude of follow-ons from the intelligent fanatics, the people they mentored and that went on to become great in their own right, which you refer to as the "mentor effect". Do you think that great leaders create many off-springs because of the inspirational factor or more by showcasing great habits?

SI: I think it is a combination of both factors but skewed more towards the showcase of great habits. All of our case studies developed employees internally, meaning almost all employees of these organizations start at the bottom at a young age and rise up the ranks. Thus throughout the course of an employee's career, they are surrounded by the leader and other employees with great habits. The few employees that go off on their own naturally recreate the atmosphere, strategies and cultures they grew up in since that is all they know.

IBB: Which of the fanatics you portray would you have liked to work for?

SI: I think I would have enjoyed working for any of the fanatics, maybe not as much for Patterson as he was Steve Jobs-like maniacal. I'm not really interested in working in any of their industries, but if all of them were leading an investment organization I'd probably prefer Herb Kelleher (add Colleen Barrett in with him) or Sol Price.

IBB: You bring up the seminal study on corporate culture by John Kotter. How would you define corporate culture after spending time with these outstanding leaders and companies?

SI: We'd define corporate culture simply as providing the best environment to help employees thrive and provide customers with an amazing experience. If these two things executed at a high degree, outstanding shareholder value creation will take care of itself.

IBB: We are also big believers in the power of corporate culture as a means to create and sustain a competitive advantage over long time periods. But the hardest part is separating the true skills of Great Leader from corporate performance, i.e. the numbers themselves. Great numbers tend to create Great Leader cover stories, often based on time periods that are too short...What are your thoughts about this?

SI: There of course is survivorship bias, the halo effect and other biases that could be used to debate the Great Leader cover stories and deriving casualty of great performance to the corporate culture. I'll offer a thought experiment. Imagine a polar bear in a tropical forest. How long do you think it'd survive there? I don't think it would be long. The amount of fur and fat that insulates the bear from the cold climates of the arctic would cook its internal organs in the extreme heat and humidity. They have evolved for a certain environment where they thrive, however, aren't adaptable to other environments.

Now imagine a human in an arctic climate. That isn't surprising. With the right equipment, people can live in virtually any climate on earth. Humans have evolved to be the most adaptable creatures on the planet. A human is made up of the same carbon atoms, and basic building blocks of a mammal; vertebrae, bodily organs; but has a very different capacity to adapt than the polar bear. What separates us from other animals is our brain, an extension of our slightly different DNA.

IBB: So the microcosm called "corporate organizations" could be thought of in the same way?

SI: Absolutely! I think that corporate structures are much the same. While there is very little that technically separates one company from another, companies with a certain DNA (corporate culture) can adapt far better than similar businesses with the same changing environmental conditions. They can last for decades and past their fanatical leader's tenure. We think that is the true test.

Organizations essentially are groups of humans and today virtually little else. Great leaders build the right corporate culture and lead with ruthless focus. For these efforts they get most of the limelight even though the employees are the true heroes. Otherwise, there is little else that separates one business organization, or talented group of individuals, from the next. Without quality leadership and corporate culture, a company's DNA reverts to the mean and quickly achieves mediocrity and a slow death.

IBB: Inevitably this book will be compared to Thorndike's "The Outsiders". What did you try to do differently in Intelligent Fanatics?

SI: We wanted to look at a similar iconoclastic CEO, but spend more time on the qualitative side of the business organization and see what systems/programs they utilized as they matured. It just so happens that most of our CEOs were more fanatical, focused less on capital allocation as a means of shareholder growth, and some were a bit more flamboyant. I think the term intelligent fanatic is a categorical spectrum, like autism, and "The Outsiders" fall on one side while our CEOs fall generally to the other side. At the core, they're all similar.

IBB: The book is actually called the "Intelligent Fanatics Project", not to forget the last word. So can you tell us about the "project" part of it? When will there be an "Intelligent Fanatics Today" book...?

SI: Good observation. Keep tuned. We're a few paces ahead in our soon to be released offerings and about a mile ahead in our reserve offerings.

IBB: We most certainly will. Best of luck in this endeavor, and thank you for spending time!

SEAN IDDINGS AND IAN CASSEL IN 10 SECONDS

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