

December 9, 2014

Dear clients and friends,

Re: Zero to One by Peter Thiel

In the spirit of the season, please accept this book from Lewin Capital Management. *Zero to One: Notes on Startups, Or How to Build the Future* is a quick and fascinating read about entrepreneurship and innovation. The author, Peter Thiel, is the billionaire founder of Paypal (whose colleagues later went on to found such interesting companies as LinkedIn, Tesla, Yelp and YouTube) and thus he has the perfect street cred to write on this topic. I often find “how-to” books by successful people to be filled with idiosyncratic “advice” akin to lottery winners writing about how they picked their numbers; however, this book is different. It offers a refreshing perspective on the importance of critical thinking and the pursuit of contrarian truths.

Thiel believes there are a lot of startups in Silicon Valley making small modifications to already existing ideas (in his parlance these incremental advances are “1 to n” ideas that have little chance at success). He advises prospective entrepreneurs to go deeper by asking, “What valuable company is nobody building?” This is a difficult question to answer, but a good starting point is to look for a contrarian truth (or an important truth that few people believe), and to build a business that capitalizes on it. According to Thiel, these “0 to 1” novel ideas lead to the most successful businesses.

I found Thiel's belief in the merit of pursuing “contrarian truths” interesting given the parallels I see with LCM's beliefs on investing. The predominant view in the investment industry is that the stock market is efficient and everything is already priced in. LCM's view is that a process of critical thinking and independent analysis can uncover mispriced opportunities that would remain hidden if one did not challenge the prevailing wisdom. After witnessing the madness of crowds up close during the tech bubble, it always amazes me that more people do not consider the possibility that it might be *safer* to think independently than to invest with the herd.

The book contains some other thought-provoking and radical ideas. Rather than spoil it, I will leave you to discover them on your own. While a book on tech startups may seem to fall outside a value investor's literary canon, my view is that anything that gets me thinking is a worthwhile read. I hope you enjoy this book as much as I did.

I wish the best of the season to you and your family.

Sincerely,

Dan