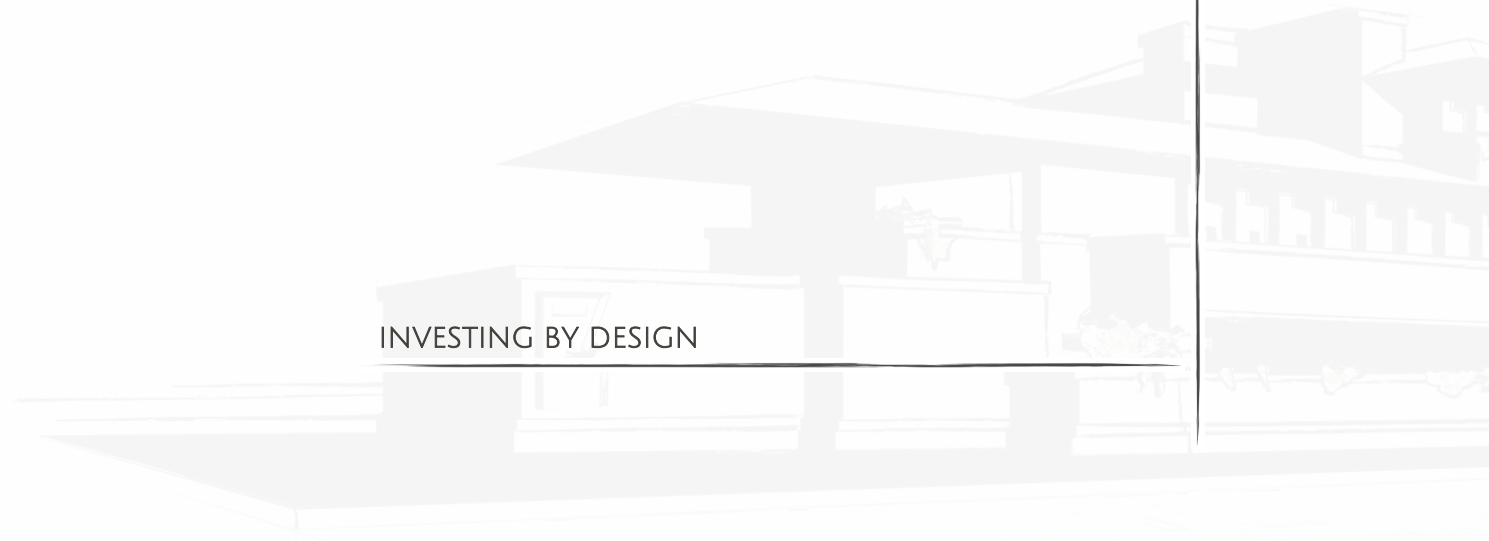




May

2016

INVESTING BY DESIGN



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DISCLOSURES

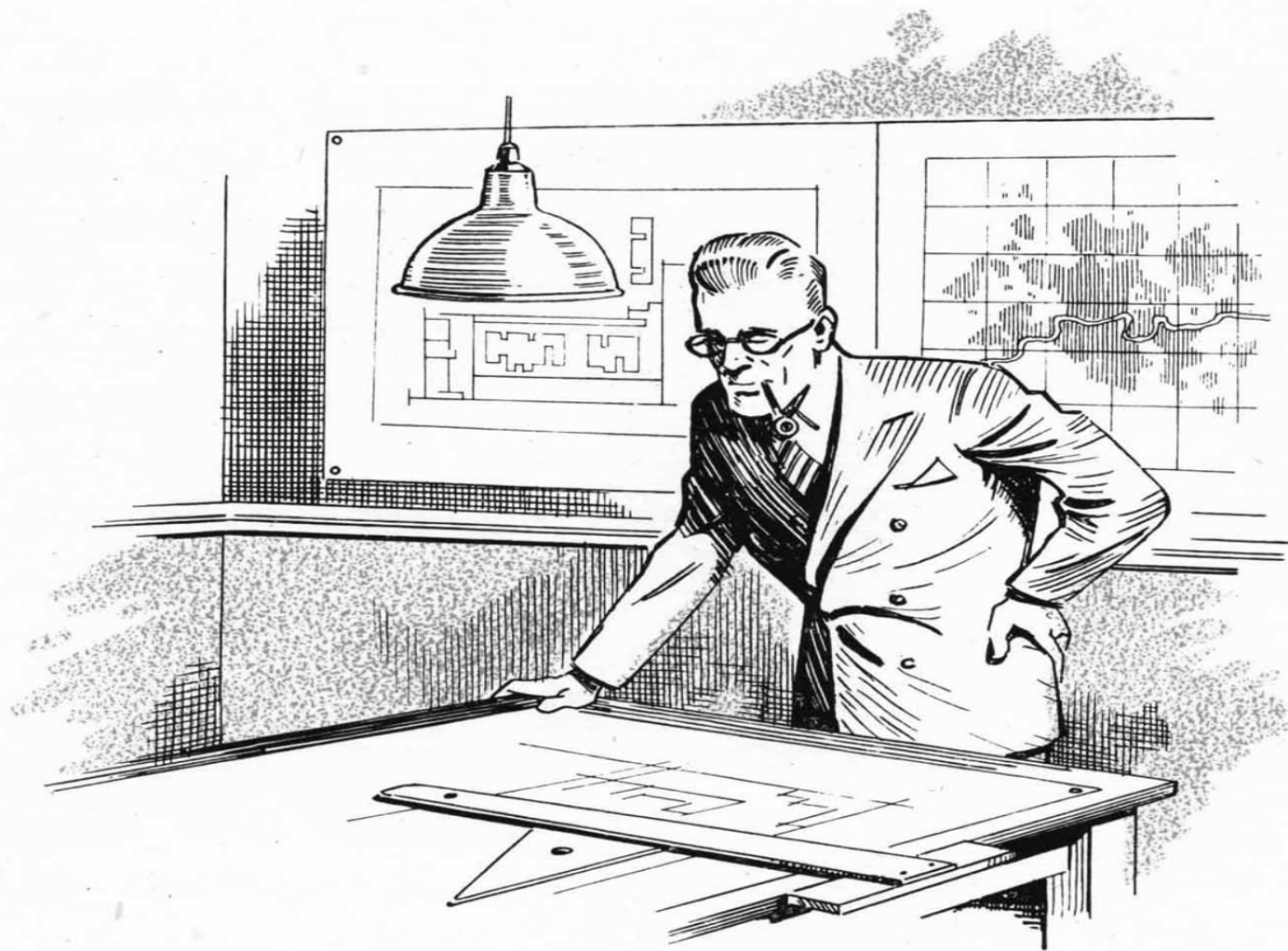
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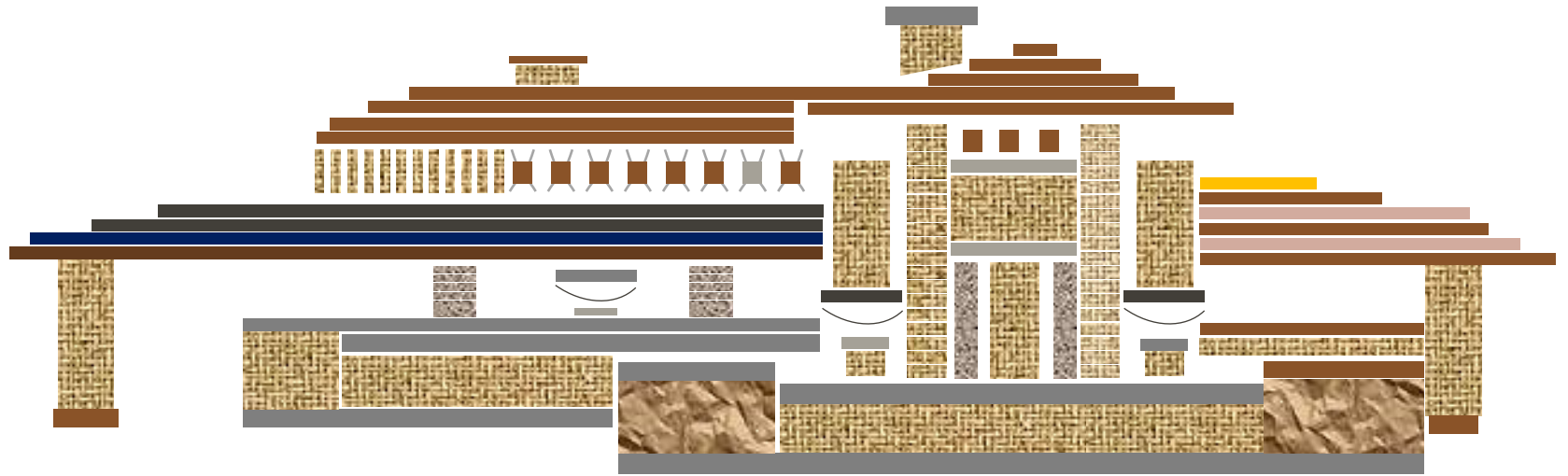
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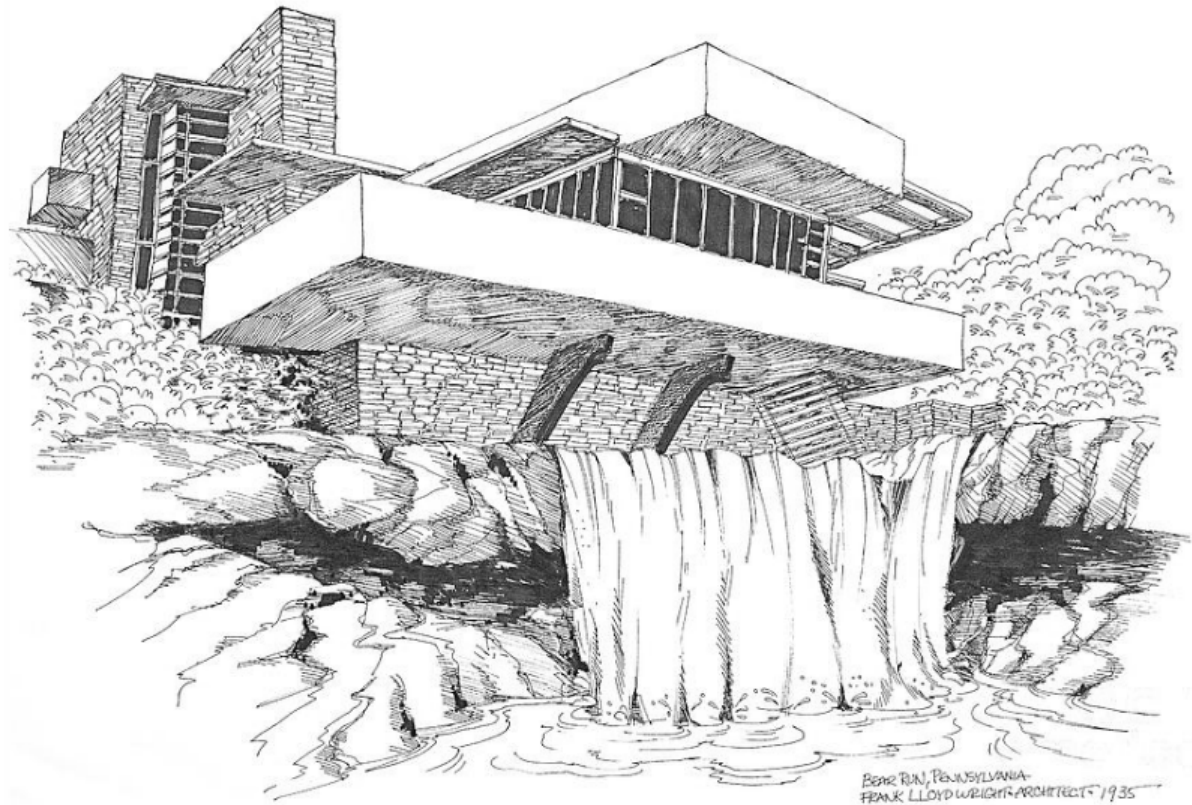
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DARWIN D. MARTIN HOUSE
FRANK LLOYD WRIGHT



“

Early in life I had to choose between honest arrogance and hypocritical humility.

I chose the former and have seen no reason to change.

”



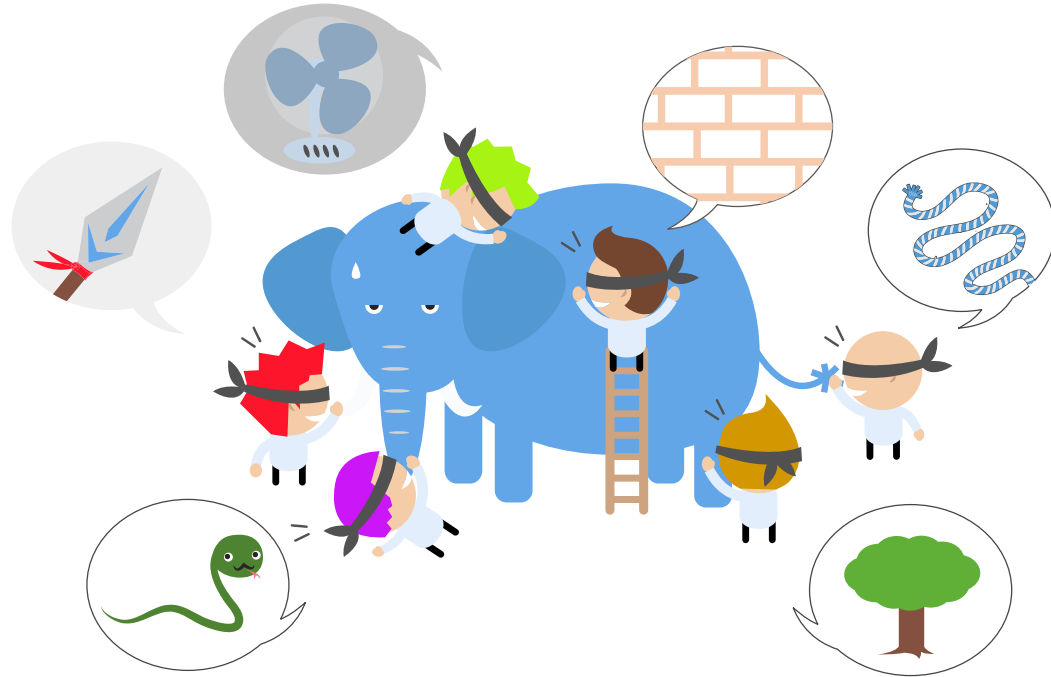
TODAY'S
MATH JOKE

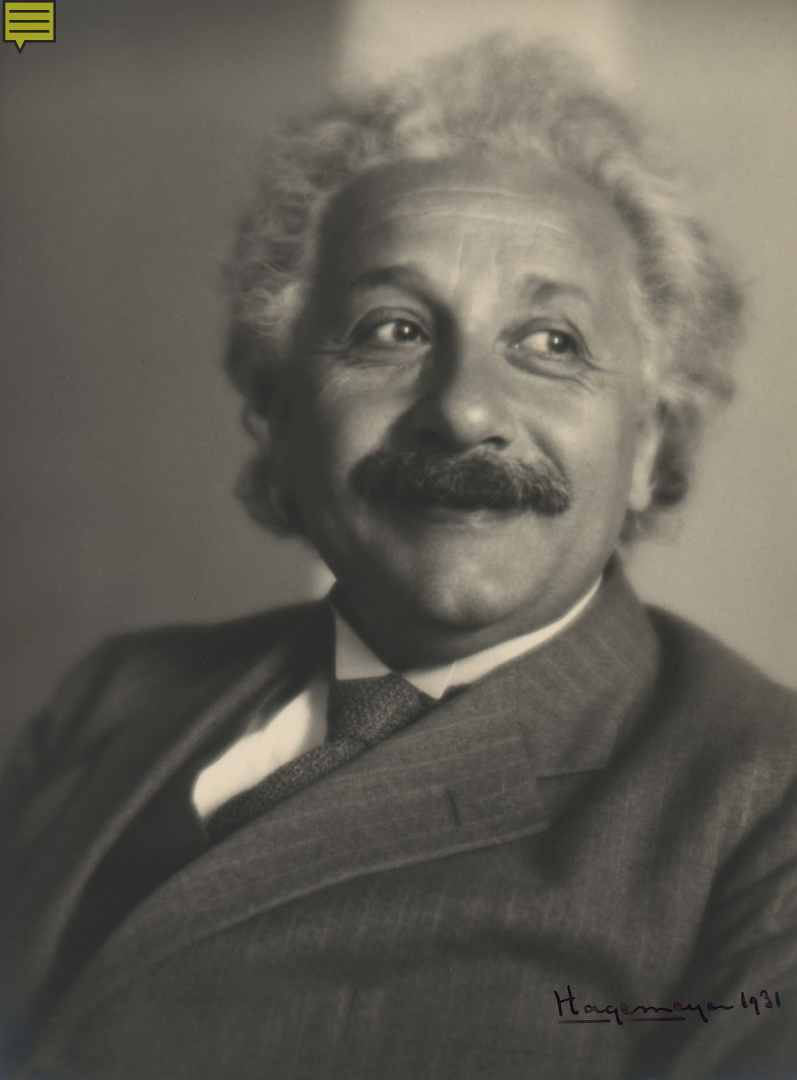
$\sqrt{-1}$ $2^3 \Sigma \pi$

AND IT WAS
DELICIOUS



SIX BLIND MEN DESCRIBE AN ELEPHANT

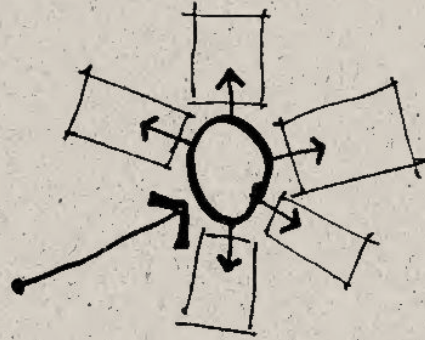




Hagemeyer 1931

“CREATIVITY IS
INTELLIGENCE
HAVING FUN”

- Albert Einstein



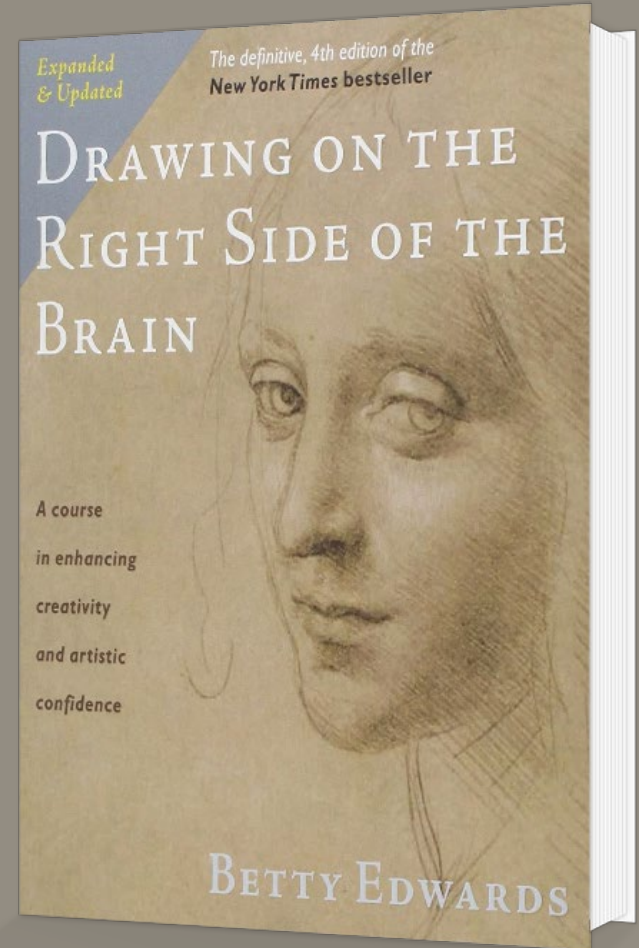
101 Things I Learned in Architecture School

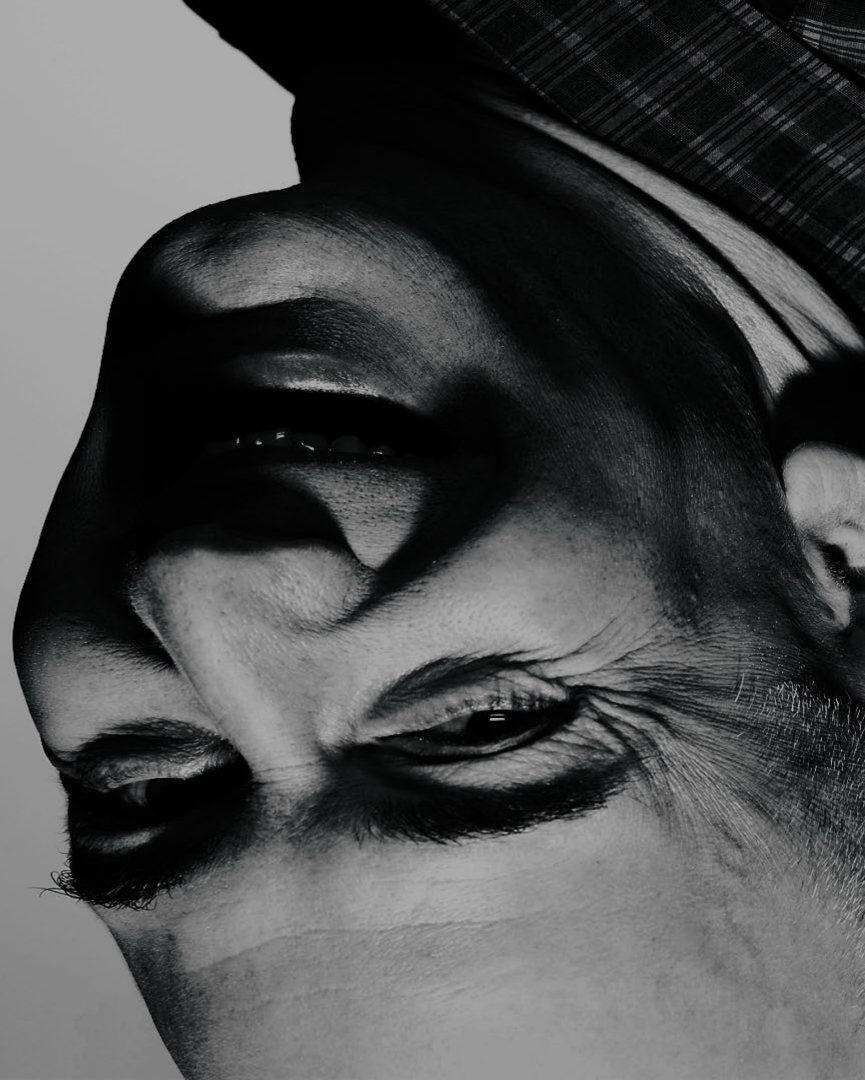
Matthew Frederick

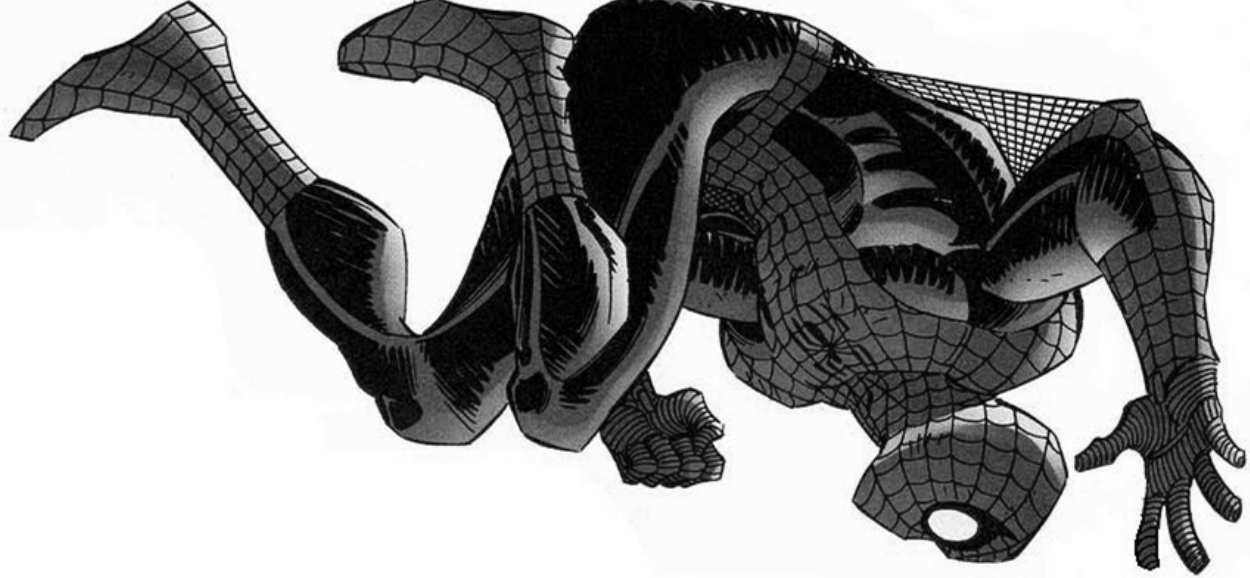
“

Perceptual skills, learned through drawing, can be used for thinking more broadly in many fields. *If we learn to appreciate perceptual skills, we can “see things in context,” “see the whole picture,” and “see things in proportion and in perspective.”*

”





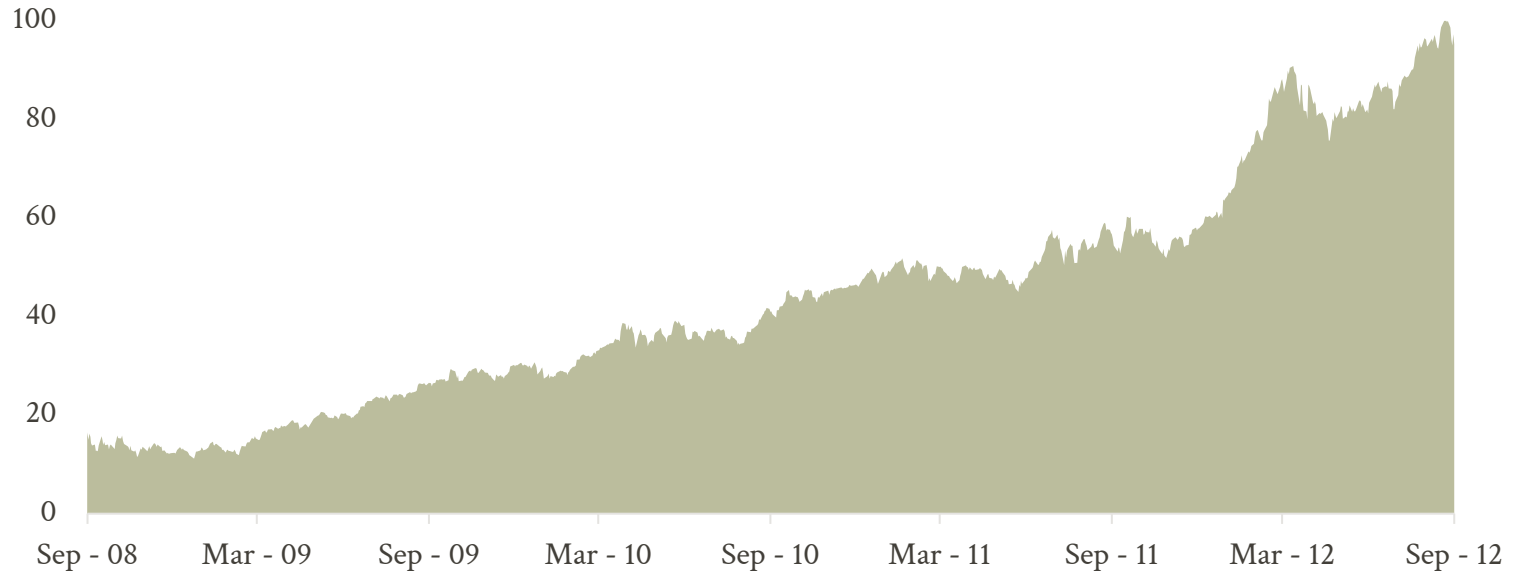






PEAK APPLE?

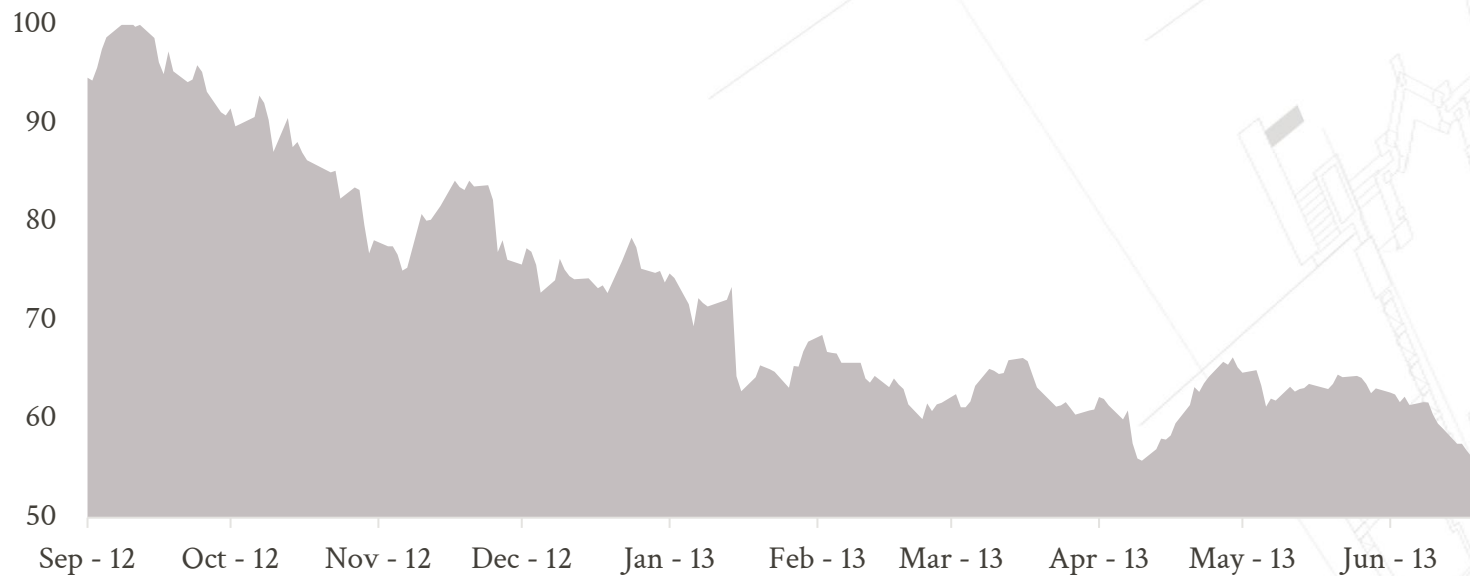
Apple's spectacular rise to growth stock stardom





BAD APPLE?

Apple's equally spectacular fall from grace

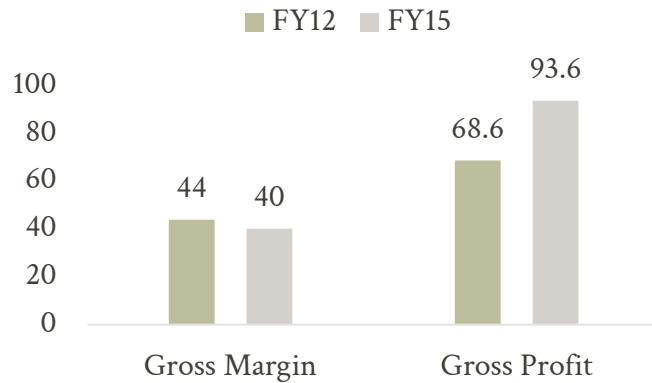


HOW DO YOU LIKE THEM APPLES?

Apple's equally spectacular fall from grace

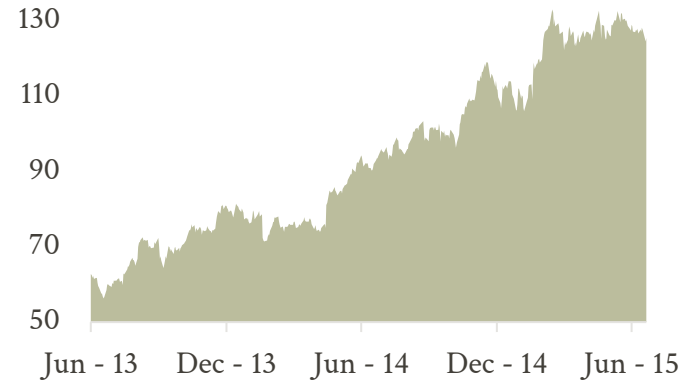
Gross margins declined . . .

But gross profits increased substantially



Higher profits and higher multiple . . .

Even bigger gains for shares





“

The most effective, most creative problem solvers engage in a process of meta-thinking, or thinking about the thinking.

Meta-thinking means that you are aware of how you are thinking as you are doing the thinking.

Meta-thinkers engage in continual internal dialogue of testing, stretching, criticizing, and redirecting their thought processes.

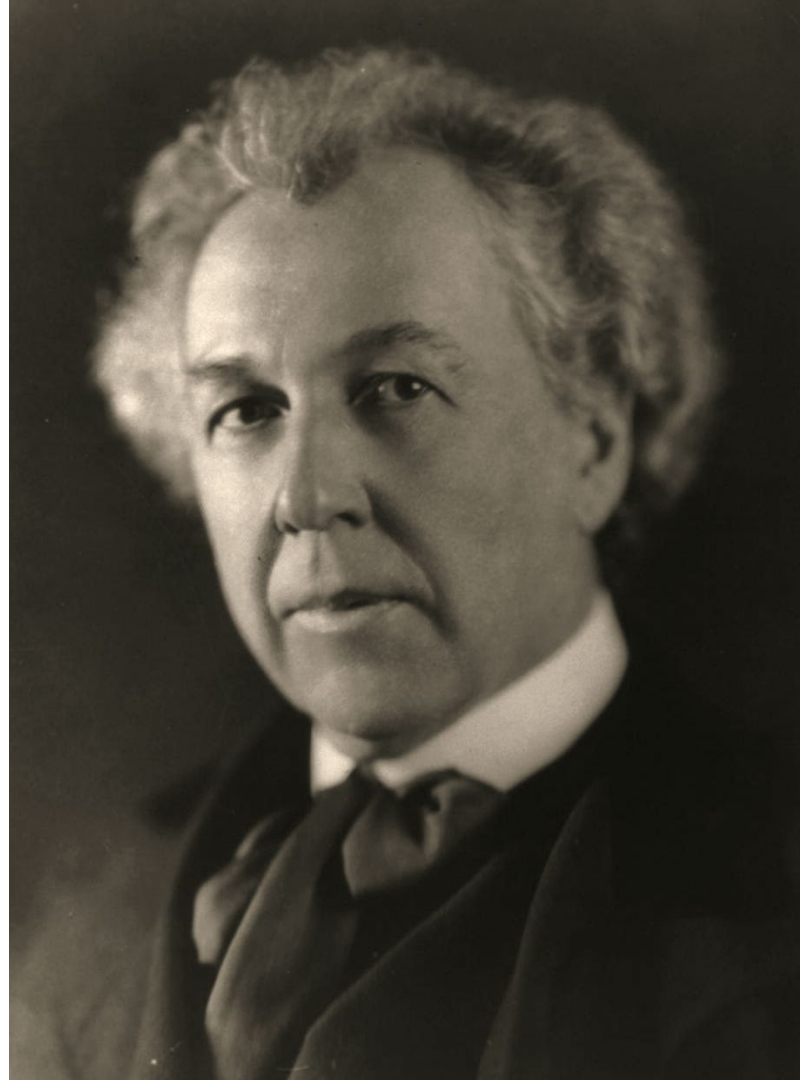
”





"LESS IS ONLY MORE
where
MORE IS NO GOOD."

- Frank Lloyd Wright



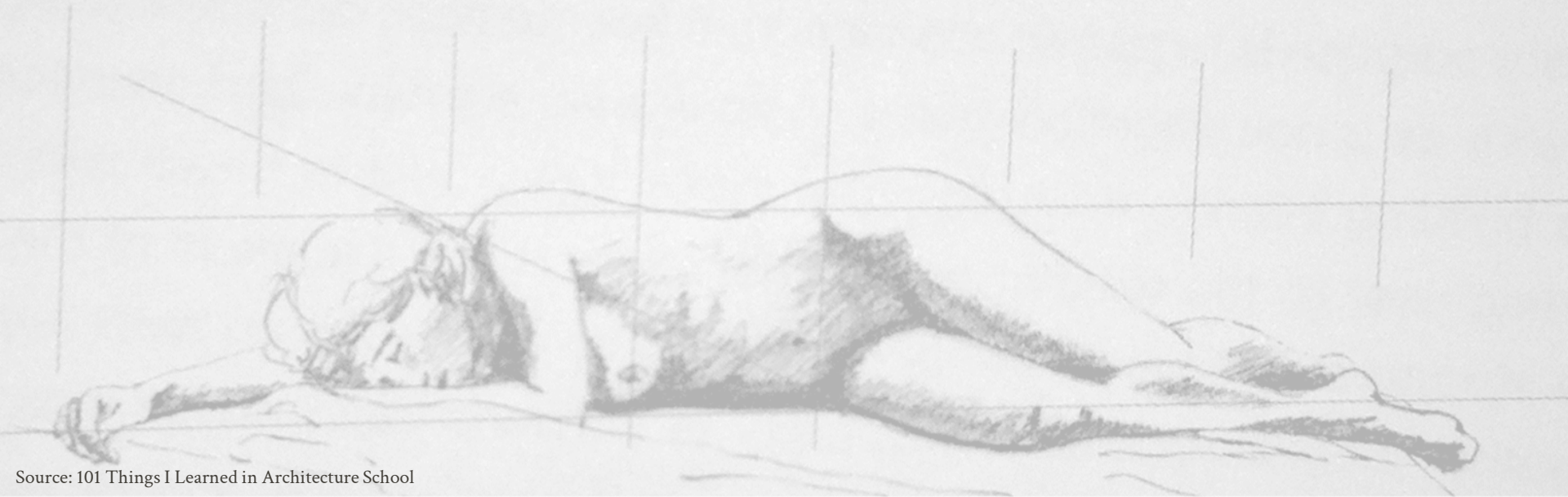


“

When drawing in any medium, never work at a "100% level of detail" from one end of the sheet toward the other, blank end of the sheet. Instead, start with the most general elements of the composition and work gradually toward the more specific aspects of it.

Begin by laying out the entire sheet . . . When you achieve some success at this schematic level, move to the next level of detail. If you find yourself focusing on details in a specific area of the drawing, indulge briefly, then move to other areas of the drawing. Evaluate your success continually, making local adjustments in the context of the entire sheet.

”





STEADY-STATE APPROXIMATION

Objective: Compare the rate expression obtained by applying the steady-state approximation to a sequence of elementary steps to the measured rate expression.



Experimental rate expression

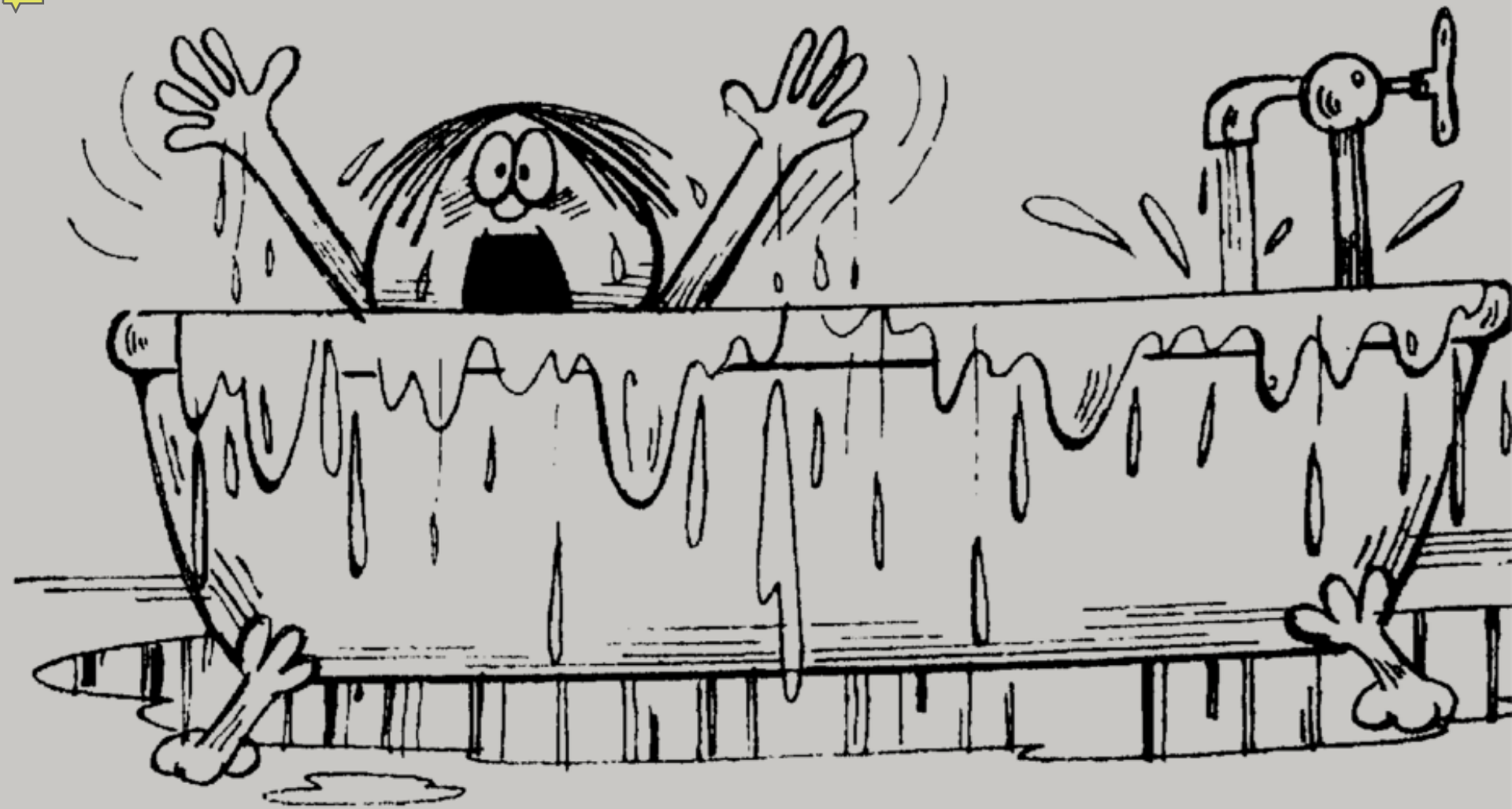
$$r_{A,B} = \frac{0.72 (A) (B)}{1 + 2 (A)}$$

Elementary steps



Steady-state approximation

$$d(AB^\ddagger) = 0 = k_1 (A) (B) - k_{-1} (AB^\ddagger) - k_2 (AB^\ddagger) (A) + k_{-2} (A_2B)$$





VALUE
OF FIRM

=

STEADY
STATE
VALUE

+

FUTURE
VALUE
CREATION



STEADY
STATE
VALUE

=

NOPAC /
WACC

+

EXCESS
CASH

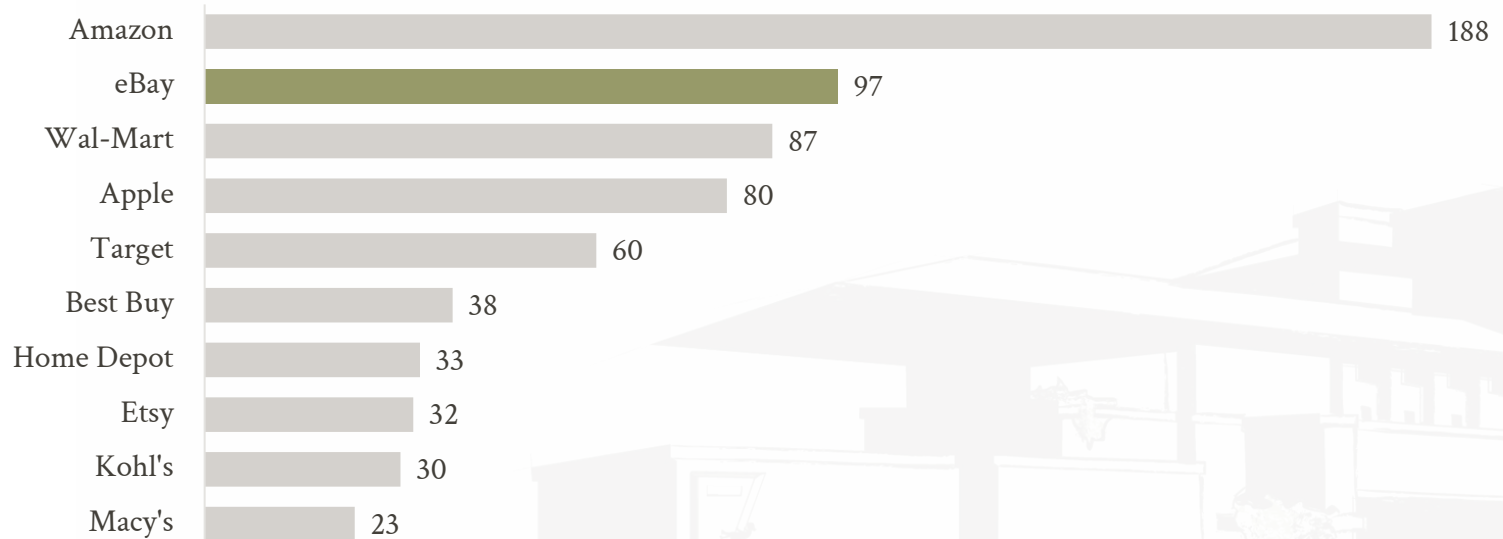


"I liked it better before big data and metadata when we just had good old regular data."



MOST POPULAR RETAIL WEBSITES IN THE UNITED STATES

Unique monthly visitors in millions



HOW TO MAKE MONEY ON

ebay

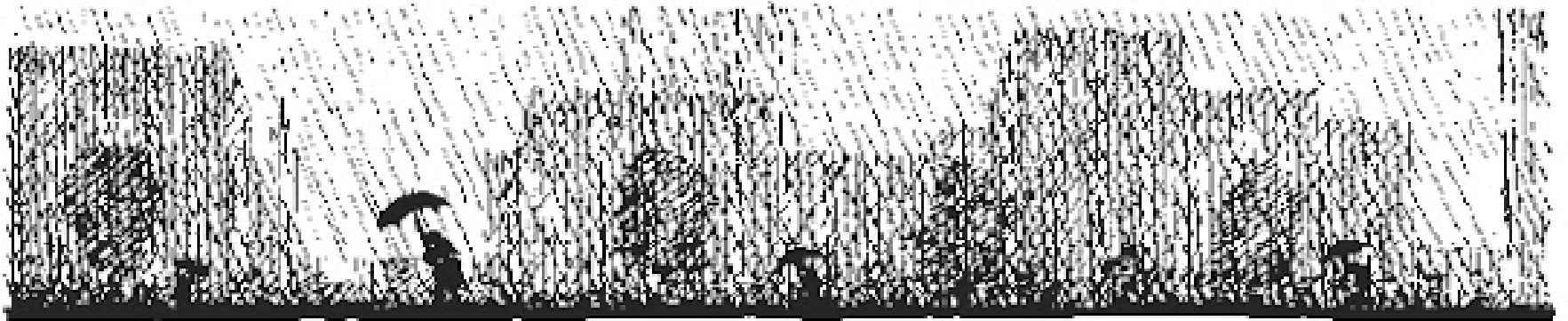




“

Being process-oriented, not product-driven, is the most important and difficult skill for a designer to develop.

Being process-oriented means: 1) seeking to understand a design problem before chasing after solutions; 2) not force-fitting solutions to old problems onto new problems; 3) removing yourself from prideful investment in your projects and being slow to fall in love with your ideas; 4) making design investigations and decisions holistically (that address several aspects of a design problem at once) rather than sequentially (that finalize one aspect of a solution before investigating the next); 5) making design decisions conditionally-that is, with the awareness that they may or may not work out as you continue toward a final solution; 6) knowing when to change and when to stick with previous decisions; 7) accepting as normal the anxiety that comes from not knowing what to do; 8) working fluidly between concept-scale and detail-scale to see how each informs the other; 9) always asking "What if?" regardless of how satisfied you are with your solution.





“

Properly gaining control of the design process tends to feel like one is losing control of the design process.

The design process is often structured and methodical, but it is not a mechanical process. Mechanical processes have predetermined outcomes, but the creative process strives to produce something that has not existed before. Being genuinely creative means that you don't know where you are going, even though you are responsible for shepherding the process . . . Engage the design process with patience . . . Don't try to solve a complex building in one sitting or one week. Accept uncertainty. Recognize as normal the feeling of lostness that attends to much of the process. Don't seek to relieve your anxiety by marrying yourself prematurely to a design solution; design divorces are never pretty.



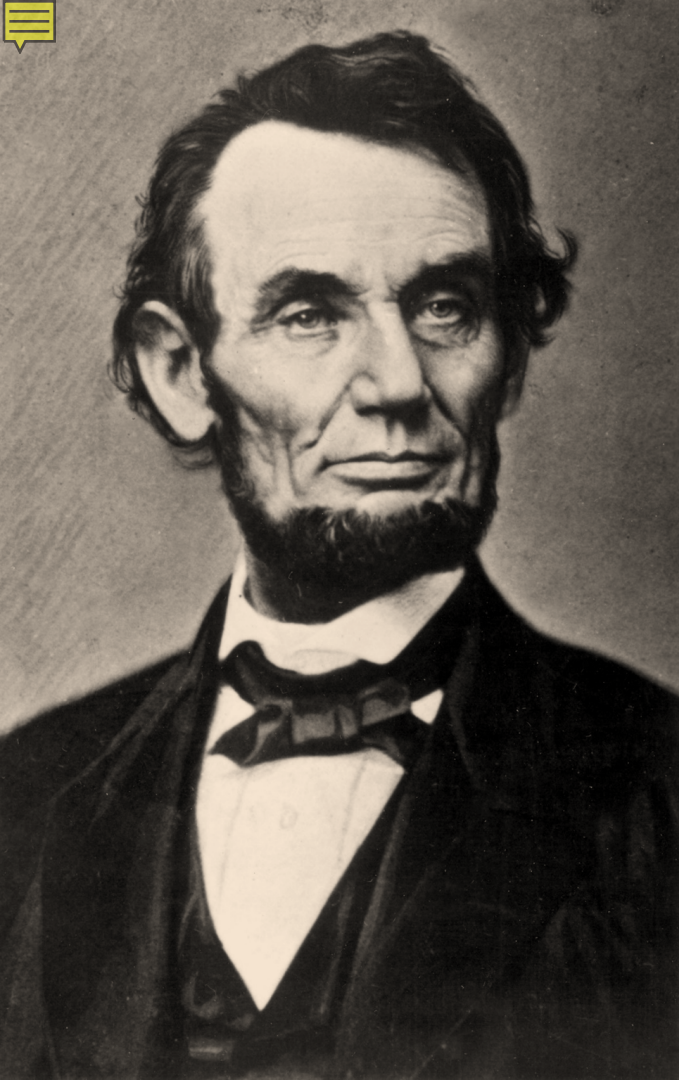


“

It is quite a three pipe problem.
And I beg that you won't speak to me for fifty minutes.

- Sherlock Holmes





"Give me six hours to
chop down a tree and
**I will spend the first four
sharpening the axe."**

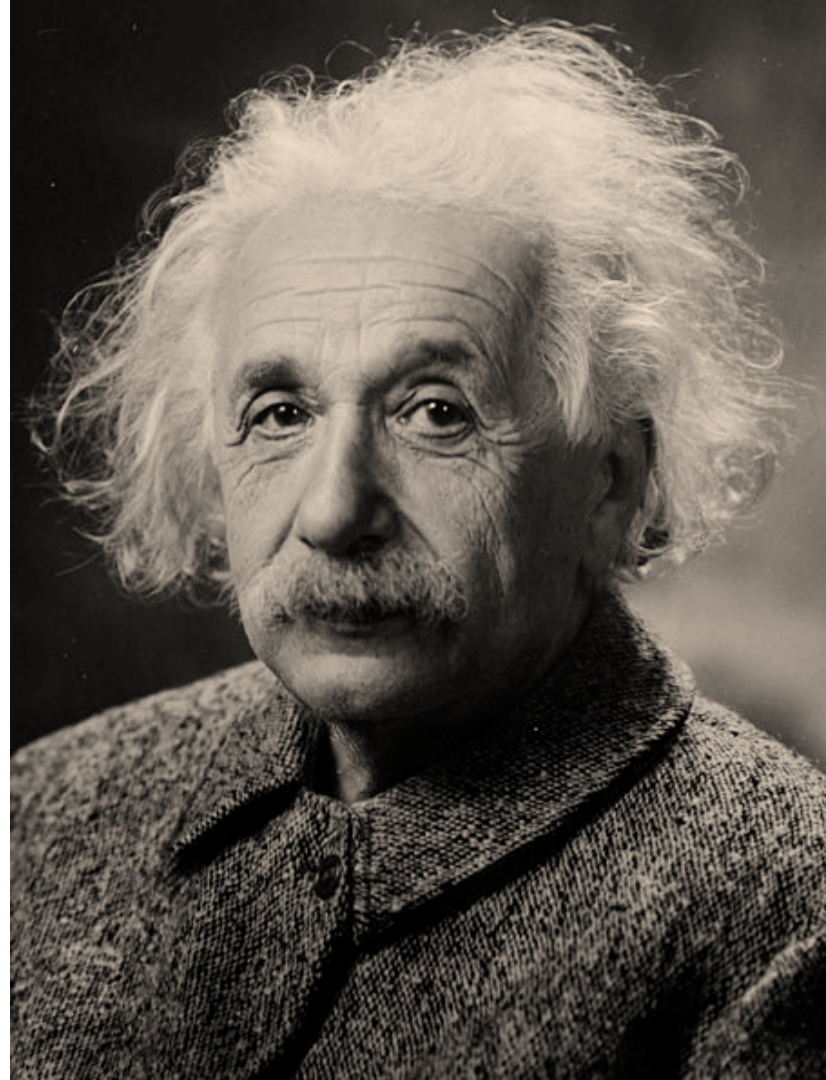
- Abraham Lincoln



"The intuitive mind is a sacred gift and the rational mind is a faithful servant.

We have created a society that honors the servant and has forgotten the gift."

- Albert Einstein

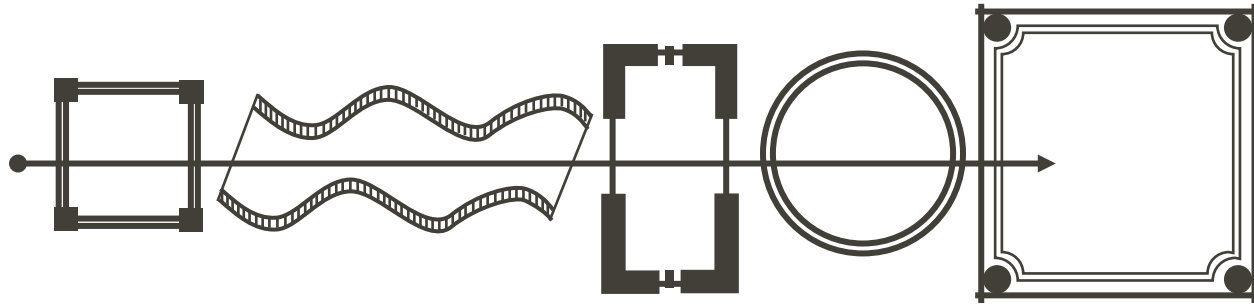




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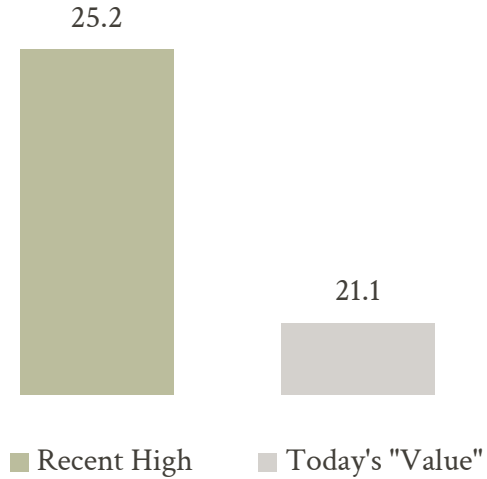
Our experience of an architectural space is strongly influenced by how we arrive in it.

A tall, bright space will feel taller and brighter if counterpointed by a low-ceilinged, softly lit space. A monumental or sacred space will feel more significant when placed at the end of a sequence of lesser spaces. A room with south-facing windows will be more strongly experienced after one passes through a series of north-facing spaces.

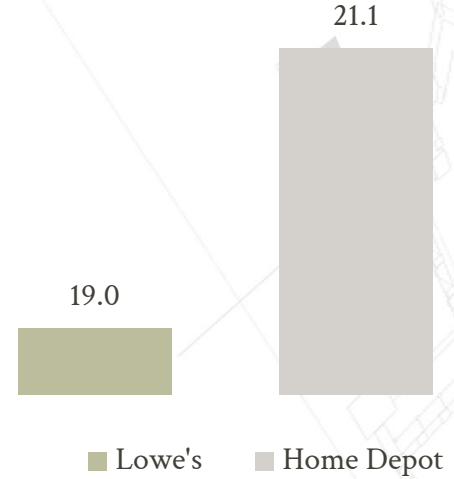


IT'S ALL RELATIVE ... PART I

HOME DEPOT FORWARD P/E MULTIPLE

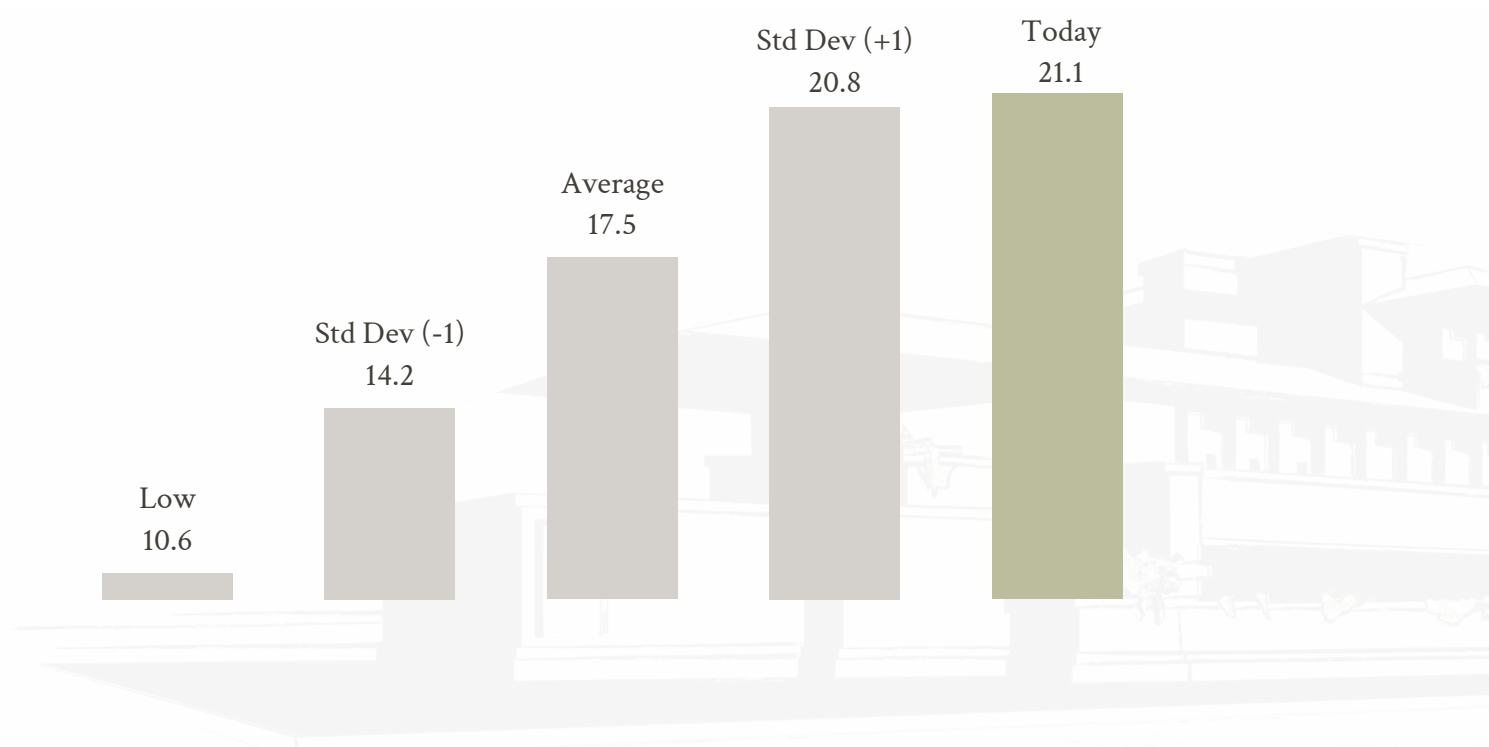


HOME DEPOT VS LOWE'S P/E MULTIPLE



IT'S ALL RELATIVE . . . PART II

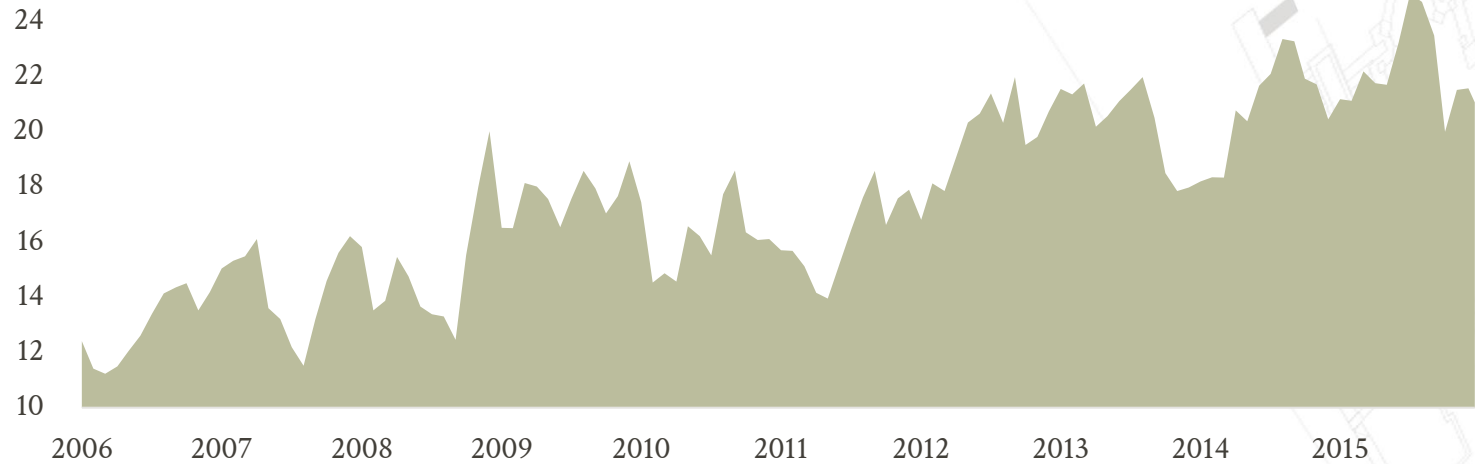
HOME DEPOT FORWARD P/E MULTIPLE



IT'S ALL RELATIVE . . . PART III

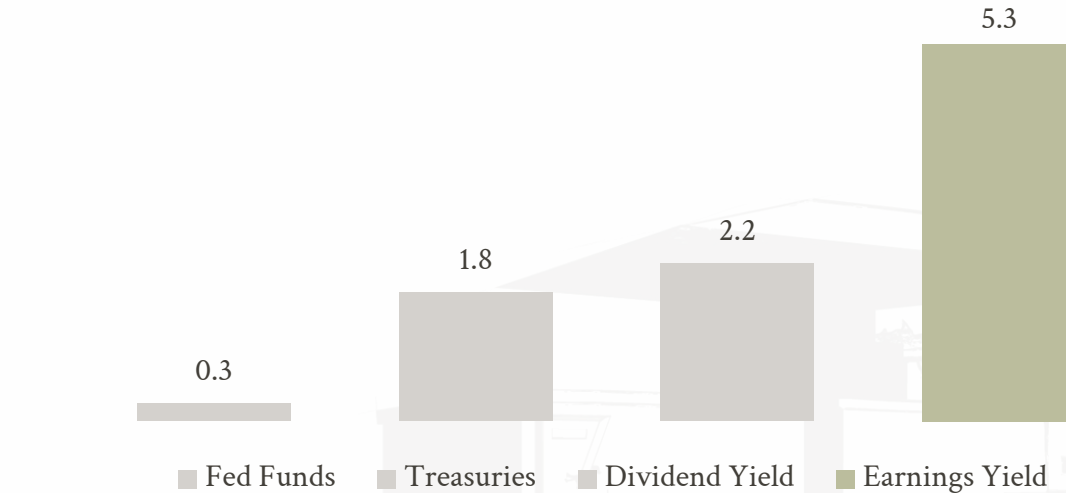
Our experience is strongly influenced by how we arrive at it

Home Depot Forward P/E Ratio



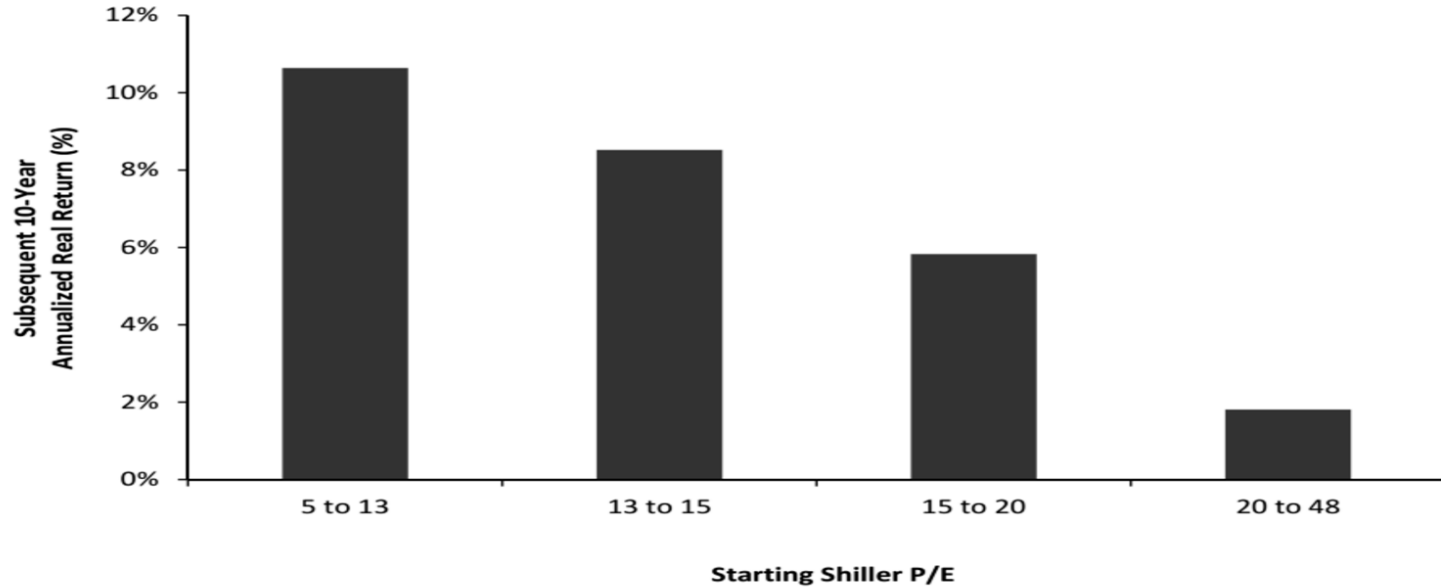
THE BULL CASE FOR STOCKS ...

Like walking through a wright design, our scale has been manipulated



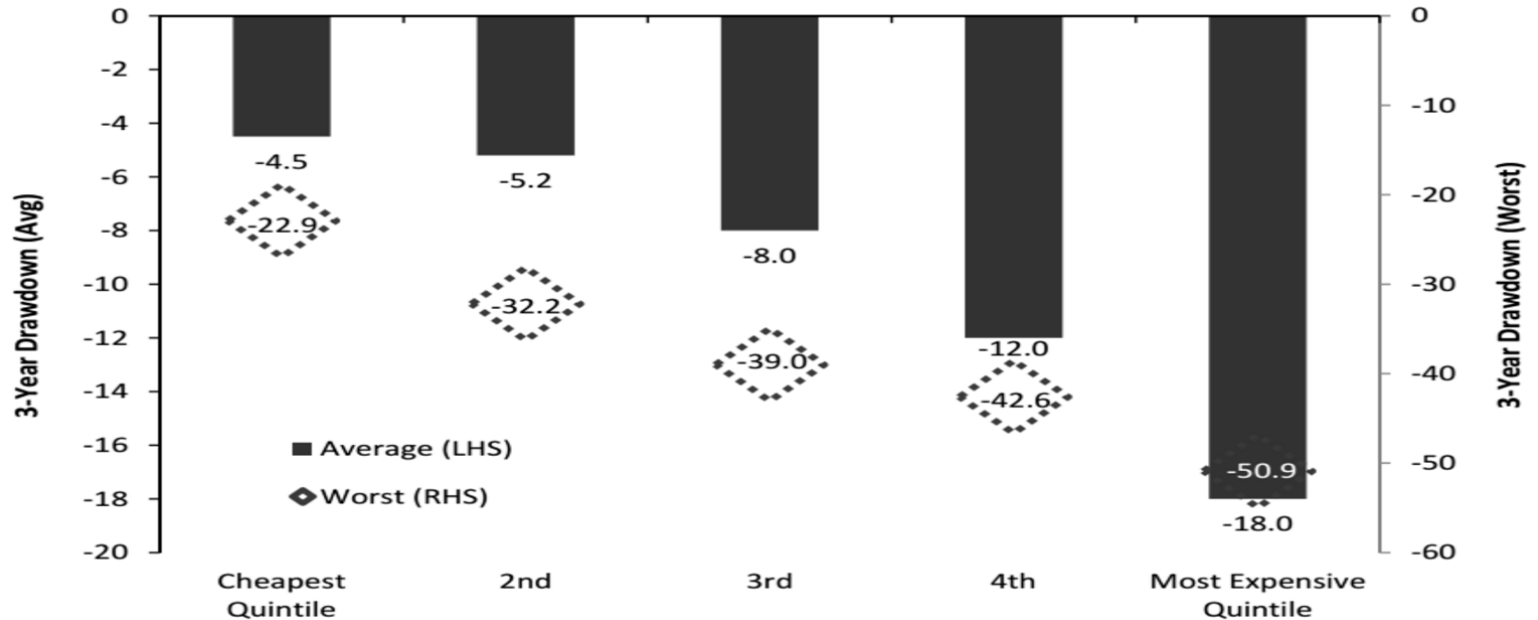
THE BEAR CASE FOR STOCKS ...

What happens to risk assets when the scale is reset?



THE BEAR CASE FOR STOCKS ...

Three-Year Drawdown, from Starting Valuation (S&P 500, from 1940)







“

THERE IS PERHAPS NO OTHER
PROFESSION THAT REQUIRES
ONE TO INTEGRATE SUCH A
BROAD RANGE OF
KNOWLEDGE INTO SOMETHING
SO SPECIFIC AND CONCRETE..

- Mathew Frederick



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