

EXCLUSIVE OUTLOOK



WEST COAST ASSET MANAGEMENT

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www.wcam.com ■ 805.653.5333

Wagging the Dogma

West Coast Asset Management refers to its investment style as “entrepreneurial.” We bring a business owners sense of focus, opportunity and involvement to the art of investing. Therefore, when we heard about the recent enterprise of Peter Thiel, an original Facebook investor, PayPal co-founder and hedge fund manager, we were intrigued. Thiel’s foundation has launched a “Twenty under Twenty” fellowship that provides \$100,000 over a two year period to winning applicants under the age of 20 to drop out of college in order to pursue entrepreneurial ideas. Peter Thiel is taking entrepreneurial investing to its literal extreme.

This program has touched a nerve in the halls of academia as opponents exclaim that it is an irresponsible assault on the virtues of higher education. On the flip side,

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worthwhile investment at any cost. In fact, Thiel claims that we are now in the midst of an “education bubble,” similar to the dot com bubble and the housing bubble. Both

Thiel and his supporters argue that the virtues of academia are out of step with our economy and that it is time to challenge the universal belief that higher education is a

sides have a point; the high cost of education is a prudent investment for most, but in the current economy, it may be the appropriate time to challenge the notion that it is a prudent investment for all. In order to draw headlines for his message, Thiel proclaims that his foundation is paying kids to drop out of college (the term he prefers to use is “stop out”). However, what is interesting to us as entrepreneurial investors, is that Thiel is applying the cornerstones of sound investment philosophy by awarding grants to a select number of exceptionally bright kids and then using the attention to shine a spotlight on the dogmas entrenched in higher education.

Thiel’s press release in May states that “the Fellows will pursue innovative scientific and technical projects, learn entrepreneurship, and begin to build the technology companies of tomorrow.” In addition to the money, the Fellows will also benefit from mentorship and support from the staff of the Thiel Foundation. From more than 400 applicants, the Foundation ended up selecting 24 winners from diverse backgrounds

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who will be tackling an even more diverse range of business ventures. The pursuits vary from an “inexpensive high performance liquid chromatography system,” (huh?) to ways to bring banking services to the remotest areas of the developing world. One Fellow is further developing a patent-pending solar panel, one wants to revolutionize web based price comparison methods, and another is working to extract minerals from asteroids. The kids are among the brightest minds of their generation; many “stopping” out of elite Ivy League institutions. They are the Doogie Howsers of the next generation. One girl enrolled at MIT by age 14, a boy was enrolled at the University of Washington by age 12, another developed products for Coca-Cola and Universal Music in his teens, and one had started his first business by age 9.

THE EDUCATION BUBBLE

Thiel's press release further states that the students “applied at a time of increasing debate about the cost and value of college and student debt.” Thiel has been leading the charge on that debate. Although he ironically possesses both an undergraduate and law degree from Stanford, he now insists that the US is in a “higher education bubble,” as he explained to TechCrunch, a leading industry publication, in April. He says, “A true bubble is when something is overvalued and intensely believed. Education may be the only thing people still believe in in the United States.” And, as with prior bubbles, the education bubble is also about “security and

insurance against the future,” and “consumption masquerading as investment” and is characterized “by a core national belief that no matter what happens in the world, these [are] the best investments you could make.”

Indeed, the college graduates of 2011 are facing a particularly challenging job market, with unemployment around nine percent, while simultaneously strapped with college debt averages of \$23,000, up 47 percent from a decade ago according to Consumer Reports. National Public Radio aired a special series on the unique challenges graduates face in this difficult economy juggling fewer career opportunities, with unprecedented levels of debt coupled with the requirement to start paying it down immediately upon graduation. One graduate with a degree in aviation is cleaning pools, one has \$50,000 in debt, a degree in television production, and a job at a home improvement store, while another with \$85,000 in debt and an English degree from Brandeis University has moved back in with her parents and has a job as a cashier. A San Diego woman is so frustrated that she filed a lawsuit against Thomas Jefferson School of Law claiming that the school misrepresented employment statistics for graduates. The suit states that she has more than \$150,000 in student loans after graduating with honors in 2008 and passing the California Bar, yet she has been unsuccessful finding employment as

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an attorney.

ENTREPRENEURIAL INVESTING IN ENTREPRENEURS

With such sobering anecdotes circulating at graduation season, it is not surprising that Thiel's message that "it pays to drop out" has captured the nation's interest. What has captivated our interest as investors, however, and why we think Thiel's fellowship is exceptionally brilliant, is that the program possesses all of the hallmarks of a shrewd investment. For example, for years we have propagated the investment philosophies of thinking like an owner, buying the best, understanding what you own, seeing things for yourself, and diversifying enough to mitigate risk while concentrating enough to amplify results. Thiel has strategically applied each of these fundamentals to the selection of the Foundation's Fellows through an extensive application and interview process.

There is a strong likelihood that the investments made in these individuals will result in profitable thriving businesses in the future. As described above, the 24 Fellows are not the average college drop-outs. The applicants presented active business models, new technologies, off-the-chart test scores, and patents pending. These individuals will likely succeed with or without a college degree. Therefore, the message that "it pays to drop out" has the very distinct qualification that it will likely pay to drop out for these extraordinary but specific individuals.

It is unlikely the average student will improve his position in life by dropping out of school, but Thiel has successfully instigated a national discussion suggesting just that.

A fairer assessment of the value of higher education would be to examine a random selection of college students provided \$100,000 to drop out of school and compare their abilities to make a living with a random selection of recent graduates. That is not what Thiel has done. Instead, he took 24 of the brightest young minds in the world to illustrate a point about the whole of higher education. The term to "wag the dog" is often used in politics when one diverts attention away from a more significant subject in order to focus attention on a matter of less importance; the tail is wagging the dog rather than vice versa. Thiel is performing a calculated twist on the maneuver. He made a sound and rationale business decision (something not necessarily worthy of grabbing headlines on its own) in order to raise awareness of systemic flaws in higher education.

Thiel has explained that he does not want to profit from the

innovations, but rather wants to provide the opportunity for the winners to learn more than they would by staying in school. Yet, he can only benefit by being strategically positioned in the inner circle when the next start-up phenomenon such as Facebook launches. For every successful drop-out story like Mark Zuckerberg or Bill Gates, there are many times more examples of drop-outs that have struggled to prove their worth without the fundamental credential that a college degree can provide. However, in this instance, the proposal to extract young, brilliant and promising minds and provide every available tool to nurture ideas and allow them to mature without the burden of expenses, debt, family, or possessions offers the purest environment for innovation. What a great idea! Whatever the grander message behind the fellowship, Thiel has most certainly made a smart investment.

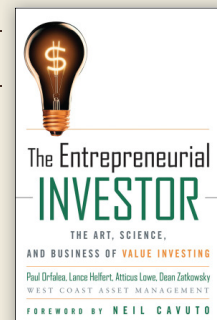


Peter Thiel

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