

Compounding and Commitment

One thing it took me a long time to appreciate is how difficult it is to hold even great companies for long enough for compounding to kick in. It takes a rare level of commitment, especially when the business changes in ways you never anticipated.

It's helpful to focus on things that don't change a lot over time: the people, the culture, and the operating system a company uses to make capital allocation decisions. Together, they form something like a company's DNA.

Danaher is a great example.

The Rales brothers' first acquisition, in 1981, was Master Shield, a vinyl siding company. Not exactly the obvious starting point for a once in a lifetime investment.

Yet over the next 40 plus years, Danaher evolved from this to a tool manufacturer to a diversified industrial conglomerate, then into life sciences and, more recently, a leader in medical diagnostics.

This was the progress required to keep the company relevant. But to many investors, it would look like thesis drift.

What I find interesting is that while what Danaher does has changed dramatically, its focus on building per-share value has remained remarkably consistent.

That's a reason there's value in approaching an investment with the intention of holding it forever, even if it rarely works out that way. This shifts your attention away from what a company does today and toward the people, culture, and systems that could help it evolve over decades.

There are certainly no guarantees, but I've found this can help you stay invested as the business changes in positive ways nobody could have predicted.