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AMI's Director of Research, Jacob Benedict, moderates a discussion with retired NFL executive Michael Lombardi.

This edition of *Notes from the Road* actually originates close to home. On September 7th AMI hosted an event for clients that featured a discussion with long-time NFL executive Michael Lombardi. Michael has worked alongside some of the greatest coaches and executives in football history, including Bill Walsh, Al Davis, Nick Saban and Bill Belichick. Lombardi served as the General Manager for the Cleveland Browns and most recently as a senior executive for the Super Bowl champion New England Patriots. He retired from the NFL in 2016 to write a book about his experiences and join Bill Simmons' media company *The Ringer*. Belichick, the long-time coach of the Patriots, said that Michael is "one of the smartest people I know...He's one of the smartest people I've ever worked with."

We were fortunate to meet Michael through a mutual friend and develop a relationship. Interestingly enough, Michael is also a big Charlie Munger / Warren Buffett fan, which led to our initial introduction. And perhaps surprisingly to those in attendance, his insights had a lot of value for both investors and managers.

During his work in the NFL, Michael became a student of what made organizations and leaders successful. In fact, one summer Michael conducted an in-depth research project studying the hallmarks of a great coach. He identified four areas of leadership:

- Management of Meaning: Does the coach have a plan for what he wants to do and how we want to do it?
- Management of Attention: Can the coach communicate that plan effectively to his players and his assistants?
- Management of Self: Can the coach be honest with himself and admit when he makes mistakes and subsequently fix them?
- Management of Trust: Do the individuals in the organization trust that the coach is going to follow-through on his commitments and do the right thing?

Most coaches have two or less of the traits. Good coaches have three. Great coaches have all four. Michael completed this project in the mid-1990s and recommended two coaches that he thought fit the bill: Bill Belichick and Nick Saban (who both went on to illustrious careers).

Great coaches understand that culture is everything. Changing a culture at an organization is incredibly tough though. Michael explained that whenever a coach takes over a new team, he inherits three types of players: Group 1, Group 2 and Group 3. Group 1 players will do whatever it takes to make a team successful. Group 2 players are undecided, unsure of whether to trust the coach, the organization and the process. Group 3 players are the malcontents, looking out for their own interests and regularly questioning authority.



Michael Lombardi with longtime Patriots coach Bill Belichick. Belichick called Lombardi "one of the smartest people I've ever worked with."

Group 3 players are often the most gifted individuals in the organization. How else would they have risen so high? But Group 3 players are toxic. Most coaches try to win over Group 3 players. Group 2 players, seeing the attention that Group 3 players receive, become Group 3 players. The culture then becomes toxic.

Great coaches like Bill Belichick or Norman Dale from the movie *Hoosiers* realized that you can't pander to Group 3 players. Instead, they build a team focused on rewarding Group 1 players. Group 2 players buy-in and Group 3 players either get on the bus or go somewhere else. As Nick Saban, the head coach at the University of Alabama, once responded in an interview in 60 Minutes:

Interviewer: Why are you so tough on people?

Nick Saban: Well, I don't know if it's fair that I'm really tough on people. We create a standard for how we want to do things, and everybody's got to buy into that standard or you really can't have any team chemistry. You know, mediocre people don't like high achievers and high achievers don't like mediocre people.¹

In other words, coaches have to decide who they are going to build the organization around: Group 1 or Group 3 players. How do football teams do this? One way is by forcing your stars to play on special teams – a difficult, thankless job – thereby setting the tone that even the best players will do the dirty work required to build a winning organization.

Once a coach begins to instill a winning culture, he or she must execute. Michael likes to quote Marcus Aurelius: "The secret to all victories lies in the organization of the non-obvious." In other words, *great coaches know where to focus their attention.*

Bill Belichick, like Bill Walsh, doesn't waste time or motion. Michael explained that Belichick is in the office early and knows what needs to be done each day. And these tasks might seem non-obvious to fans, players, or even other coaches.

¹ "The Perfectionist" aired on Nov. 3, 2013 and was rebroadcast on Sept. 14, 2014. The correspondent was Armen Keteyian. Draggan Mihailovich, producer.

Belichick might focus on things like third-down goal-line defenses or two-point conversion plays while other coaches are thinking about general strategy.²

On a broader level, great coaches also understand an incredibly important concept that is well framed by our mutual friend: “If you do as everyone else does, don’t be upset or surprised when you get the same results.” Great coaches know that to build great teams, they have to be different *and* they have to be right. Successfully betting against the consensus is incredibly difficult – it requires foresight, discipline, and patience. It is also the key to success in investing.

As Michael shared, most NFL owners don’t have the traits necessary to support this kind of program. They want to pander to the star player, who is in Group 3. They don’t understand why a coach gets dragged into the details and instead the owner wants to talk about big picture things like the pass game and the draft, things he can understand. And most owners can’t stand the inevitable criticism from fans and the media that come with being different. Accordingly, few owners are willing to follow the Patriots model. And that’s why the Patriots can find consistent success in an ultra-competitive league. As John Maynard Keynes famously said, “Worldly wisdom teaches that it is better for reputation to fail conventionally than to succeed unconventionally.” And so most owners put their teams through a coaching carousel, destroying any hopes of building a lasting culture. Remember, Bill Belichick, now regarded as one of the greatest coaches in NFL history, was run out of Cleveland in the 1990’s. Again, there is wisdom for investors – in order to find success, we have to be willing to stick with a sensible investment strategy, through both thick and thin.

Doesn’t this sound like a lot of work? Don’t Bill Belichick and his star quarterback Tom Brady get burned out? To Belichick and Brady, much like Buffett or Munger, it isn’t work. Coaching and playing football is part of their DNA. Michael explained that both coach and player start each year with something to prove. They’ve already forgotten about last year’s Super Bowl. They have an innate drive and passion that doesn’t stop.

We received great feedback from our clients that were able to attend the event. Thank you to those who could come for making the event a success! Michael is an incredibly kind and thoughtful person, and his intellectual curiosity is contagious. Unlike many speakers from the sports world, Michael did a great job bridging the gap between his experiences and the typical organization because he’s thought so deeply about management and operating principles and taken the time to identify engaging stories that illustrate his points. We certainly walked away with some key insights for our own processes and approach.

We feel so blessed and fortunate to have such a wonderful group of kind and loyal clients. It makes our jobs a true joy, and allows us to practice patient and disciplined investing.

Sincerely,

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² This isn’t to say that things like general strategy aren’t important. They are, it’s just that they aren’t enough. A mathematics professor might say they are “necessary but not sufficient.” Michael, echoing our mutual friend, would call this a false duality – people see it as either or, but in reality it’s both. Coaches have to be good at things like general strategy and play-calling, but they also have to excel at more “non-obvious” things like building a culture or contingency planning.