# Why Things Break: Easy Causes of Business and Investing Failure

Jul 2, 2019 by [Morgan Housel](https://www.collaborativefund.com/blog/authors/morgan/)

Tens of billions of individual steps have to go right in the correct order to create a human. But only one thing has to happen to cause its demise.

Consider: the average kitchen remodel takes 12 weeks. But after just five weeks a human embryo has a brain, a beating heart, a pancreas, a liver, and a gallbladder. By birth it has 100 billion neurons, 250 trillion synapses, 11 cooperating organ systems, and a personality. It’s staggeringly complex.

Death, on the other hand, is simple. Most deaths – trauma, heart disease, stroke, some cancers, infections, drugs – are caused by blood and oxygen deficiencies. That’s it. A disease itself might be complex, but the fatal strike is not enough blood and oxygen getting to where it’s needed.

Making a human: incomprehensibly complex.

Death of a human: really simple.

The idea of “complex to make, simple to break” is everywhere. Construction requires engineers; demolition only requires a sledgehammer. Even when something doesn’t break easily – like cockroaches or businesses with a moat – the thing that could break it is usually simpler than whatever made it.

Maybe that’s an obvious idea. But doing something useful with it isn’t.

Benefiting from anything requires two acts: getting it and keeping it. Getting rich and staying rich. Getting market share and keeping market share. Getting someone’s attention and keeping someone’s attention.

Business and investing focus leans heavily toward the getting, because getting something new is more exciting than keeping what you already have. But the keeping [is just as important](https://www.collaborativefund.com/blog/the-freakishly-strong-base/), since compounding requires longevity. And it’s almost always simpler than the getting, which makes it more realistic to control.

There are a million ways to succeed at business and investing. But once successful, failures are usually caused by only a few simple things.

**Success pushes you away from whatever made you successful to begin with**

“Paranoia gave him success. Success gave him confidence. Confidence ended his paranoia.” So many versions of that story, in varying degrees, should be written on the tombstone of failures.

The core of this is Scott Adams’ idea of systems vs. goals. Goals motivate people to do great things. But once a goal is met those things tend to stop. And it feels OK to stop, because the goal was met. Systems are better because they’re a way of doing things indefinitely. But indefinite is hard because people burn out, become interested in other things, and gain the means to do something else.

Paranoia is often the first thing to be lost. Early on, before you’re successful, you lose sleep questioning your decisions, worried your competitors will run you over, and scared your customers will lose faith. Each of those fears might help you succeed. But they’re painful, so once you’re success you’re eager to let them go. And letting go feels fine because your success is taken as an indication that your worries weren’t necessary.

I often think of this story of former Bear Stears CEO Jimmy Cayne’s life the year before the firm collapsed:

*Mr. Cayne became a billionaire, and he went from being merely obnoxious to being seriously disconnected. He routinely took three- and four-day weekends, as well as extended vacations. For his long weekends, he frequently commuted from Bear Stearns headquarters by helicopter to his New Jersey golf club, where he had permission to land his helicopter on the grounds, and where he kept a house.*

He’s an extreme example. But some degree of success sparking a change to your habits and environment is common. And the first habits to go are the painful ones, which tend to be ones that were key to your initial success.

**Success increases size, size increases complexity, complexity plants landmines**

There’s [an ironic rule in biology](https://www.collaborativefund.com/blog/casualties-of-your-own-success/) where species tend to get bigger over time because big bodies dominate smaller competitors, but those same big bodies increase the odds of extinction because they turn you into a slow, lumbering, giant that can’t hide and needs massive amounts of food. The T-Rex is gone. The cockroach survived.

Same thing happens to businesses. Growth can be both a wise strategy and the early path to failure.

Size increases some things linearly and others exponentially. Increasing revenue 100x can be modeled in a spreadsheet. But managing 10 people is a completely different universe from managing 1,000. A little fame attracts new customers, which you should want. A little more attracts competitors, regulators, and trolls, which can be the end.

Some businesses only work at scale, and some pull it off. But when size benefits some things at one rate but increases hidden risk at some faster rate, it can get ugly, especially since the increasing risks – like souring corporate culture – are hard to measure, but the benefits – like revenue – are easy to track.

The graveyard of companies that worked at one size and imploded at another is big. And the hardest thing is that they didn’t grow because they were greedy; they grew because there were known advantages to growing.

**Success teaches you how to win the last war, which becomes the only war you know how to fight**

Say you get good at one thing. You learn, through real experience, that the thing works. It isn’t theoretical; you have results.

But now you have a problem. Information gained through real experiences [is the most influential kind](https://www.collaborativefund.com/blog/you-have-to-live-it-to-believe-it/) of information that exists. So now you believe your skill is right with a heavy degree of confidence and entrenchment. Which becomes a liability when the world evolves away from the thing you’re so confident in.

Say you run a successful value investing fund from 2002 to 2007. You learn that value investing works, so you keep at it, with the same strategy. Then, in all likelihood, your returns have been terrible ever since 2007.

Maybe that’s OK – everything’s cyclical. Or maybe your investors abandoned you and you’re second-guessing yourself.

The problem is that someone who didn’t succeed at value investing from 2002 to 2007 may not have been attached to it as a strategy. They may have had an open mind to other strategies that did well over the last decade. They might understand something the value manager struggles admit: value did well from 2002 to 2007 because it was in favor at the time, not because it’s special, and not because you’re especially smart.

Big companies have a long history of not adapting. Sometimes that’s because size slows them down. Often, though, it’s because the whole reason they got big is because of a certain strategy, a certain formula, a certain way of doing things, which makes them the least willing of any company to do things a different way even when it’s necessary. Adaptation is key to survival, and willingness to adapt is often the inverse of however successful you were in the past.

**Success reduces the impression of needing room for error**

“The minute you have a back-up plan, you’ve admitted you’re not going to succeed,” says … Elizabeth Holmes.

It’s easy to mock this, but there’s something important to unpack.

There are two ways to look at backup plans, room for error, and margins of safety.

One is like Holmes: a reflection of your lack of confidence and planning.

The other is the idea that backups and room for error let you stick around long enough for the odds of benefiting from a low-probability event to fall in your favor. Which make them goldmines.

Few prizes are so great that they’re worth pursuing even if they could put you out of business. So room for error and backup plans have incredible value for everyone – novice to pro. I know I can make a three-point shot if you give me 20 attempts; one attempt, and we’re rolling the dice. This is as true for an NBA pro as it is for me. Business and investing shots are the same. Everyone’s odds of winning are proportionate to their odds of sticking around.

The problem is that Holmes’ review of backup plans is more intuitive than the time-horizon one, and if came from another founder than her it might sound wise. I remember seeing a net below a rollercoaster. It freaked me out – I wanted there to not need to be a net more than I wanted to see a net as backup plan. The same silly flaw influences CEOs and portfolio managers, who require constant confidence from stakeholders. The better your reputation is, the more confidence people expect you to have, and the less room for error they expect you to need. Once you oblige, risk piles up. Bear Stearns leveraged its balance sheet 30-to-1. A novice would never do that. You need past success to lead you to believe room for error is that unnecessary.

**What looked like success was random, mismeasured, or a temporary trend**

Nassim Taleb says, “For so many, instead of looking for ‘cause of death’ when they expire, we should be looking for ‘cause of life.’”

The same is true for most competitive advantages. Serendipity can masquerade as skill, and that will always be the case because the thrill of thinking you’re special and will continue being special is more powerful than the cold reality of statistics.