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Peter Thiel's CS183: Startup - Class 11 Notes Essay

36-46 minutes

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Here is an essay version of my class notes from Class 11 of CS183: Startup. Errors and omissions are mine. Credit for good stuff is Peter's.

Class 11 Notes Essay—Secrets

I. Secrets

Back in class one, we identified a very key question that you should continually ask yourself: what important truth do very few people agree with you on? To a first approximation, the correct answer is going to be a secret. Secrets are unpopular or unconventional truths. So if you come up with a good answer, that's your secret.

How many secrets are there in the world? Recall that, reframed in a business context, the key question is: what great company is no one starting? If there are many possible answers, it means that there are many great companies that could be created. If there are no good answers, it's probably a very bad idea to start a company. From this perspective, the question of how many secrets exist in our world is roughly equivalent to how many startups people should start.

How hard it is to obtain the truth is a key factor to consider when thinking about secrets. Easy truths are simply accepted conventions. Pretty much everybody knows them. On the other side of the spectrum are things that are impossible to figure out. These are mysteries, not secrets. Take superstring theory in physics, for instance. You can't really design experiments to test it. The big criticism is that no one could ever actually figure it out. But is it just really hard? Or is it a fool's errand? This distinction is important. Intermediate, difficult things are at least possible. Impossible things are not. Knowing the difference is the difference between pursuing lucrative ventures and guaranteed failure.

Discovery is the process of exposing secrets. The secrets are *dis- covered*; the cover is removed from the secret. Triangle math was hard for Pythagoras to discover. There were various Pythagorean mystery cults where the initiated learned about crazy new things like irrational numbers. But then it all became convention.

It can also work the other way, too. Conventions can get covered up and become secrets again. It's often the case that people stop believing things that they or previous generations had believed in the past.

Some secrets are small and incremental. Others are very big. Some secrets—gossip, for instance—are just silly. And of course there are esoteric secrets—the stuff of tarot cards and numerology. Silly and esoteric secrets don't matter much. And small secrets are of small importance. The focus should be on the secrets that matter: the big secrets that are true.

The purpose of this class is to share and discuss some secrets about starting companies. The big ones so far have involved monopoly vs. competition, the power law, and the importance of distribution.

"Capitalism and competition are antonyms." That is a secret; it is an important truth, and most people disagree with it. People generally believe that the differences between firms are pretty small. They miss the big monopoly secret because they don't see through the human secrets behind it. Monopolists pretend that they're not monopolists ("Don't regulate us!") and non-monopolists pretend that they are ("We are so big and important!"). Things only tend to *look* similar on the surface.

The power law secret operates similarly. In one sense it's a secret about finance. Startup outcomes are not evenly distributed; the follow a power law distribution. But in another sense it's a very human secret. People are uncomfortable talking about inequality, so they either ignore it or rationalize it away. It is

psychologically difficult for investors to admit that their best investment is worth more than the rest of their portfolio companies combined. So they ignore or hide that fact, and it becomes a secret.

The distribution secret also has two sides to it. Distribution is much more important than people think. That makes it a business secret. But it's a human secret too, since the people involved in distribution work very hard to hide what's going on. Salespeople do best when people do not know they're dealing with salespeople.

II. The Next Secret

Probably the biggest secret—bigger than monopoly/competition, power law, or distribution—is that there are many important secrets left. This used to be a convention forty or fifty years ago. Everyone believed that there was much more left to do. But generally speaking, we no longer believe that. It's become a secret again.

Consider the original question for a moment—what important truth do people not agree with you on? It seems like an easy question. That is, until you try to answer it. It turns out that it's really tough. In fact, when people actually think about it for a bit, they very often conclude that it's impossible. They start at one extreme and then just move all the way to the other.

But that is too big a move. That answers do not come easily does not mean that they don't exist. There *are* good answers to the question. Secrets exist. And finding them is neither easy nor impossible—just hard.

III. The Case Against Secrets

The common view is that there are no secrets left. It's a plausible view. If it's wrong, it's not obviously wrong. To evaluate it, we must first understand why people don't believe in secrets anymore.

A. Anti-secret Extremism

The extreme representative of the conventional view is Ted Kaczynski, more infamously known as the Unabomber. He was a child prodigy. IQ of 167. A top student at Harvard. PhD in math from Michigan. Professor of math at UC Berkeley. But then he started a solo bombing campaign after becoming disenchanted with science and technology. He killed 3 people and injured 23 more. The victims included computer store owners, technical grad students, geneticists, etc. Finally he was found and arrested in 1996.

But in late 1995 the FBI didn't really have a clue who or where the Unabomber was. Kaczynski had written a manifesto and anonymously mailed it to the press. The government gave the go-ahead to print it, hoping for a break in the case. That ended up working, as Kaczynski's brother recognized the writing and turned him in.

But more interesting than how Kaczynski was caught was the manifesto itself. It was basically a long, crazy anti-tech diatribe. The core of the argument was that you could divide human goals into three groups:

1. Goals that can be satisfied with minimal effort;
2. Goals that can be satisfied with serious effort, and;
3. Goals that are impossible to satisfy.

It was the classic easy/hard/impossible trichotomy. Kaczynski argued that people are depressed because the only things left are (1) easy things or (3) impossible things. What you can do, even kids can do. But what you can't do, even Einstein couldn't do. So Kaczynski's idea was to destroy technology, get rid of all bureaucracy and technical processes, and let people start over and work on hard problems anew. That, he thought, would be much more fulfilling.

A less sinister version of this is the hipster phenomenon. Cool people make some ironic anti-tech juxtapositional statement and thereby become even cooler. Never mind that gears and brakes on bikes are actually pretty useful; hipsters do without. This is a somewhat silly manifestation of the wider dynamic. But in some form or another, a lot of people believe that there are only easy truths and impossible truths left. They tend not to believe in hard truths that can be solved with technology.

Pretty much all fundamentalists think this way. Take religious fundamentalism, for example. There are lots of easy truths that even kids know. And then there are the mysteries of God, which can't be explained. In between—the zone of hard truths—is heresy. Environmental fundamentalism works the same way. The easy truth is that we must protect the environment. Beyond that, Mother Nature knows best, and she cannot be questioned. There's even a market version of this, too. The value of things is set by the market. Even a child can look up stock prices. Prices are easy truths. But those truths must be accepted, not questioned. The market knows far more than you could ever know. Even Einstein couldn't outguess God, Nature, or Market.

B. The Geography of Secrets

Why has our society come to believe that there are no hard secrets left? It probably starts with geography. There are no real white spaces left on the map anymore. If you grew up in 18th century, there were still lots of unexplored places. You could listen to captivating stories about explorers and foreign adventures and, if you wanted, go become a real explorer yourself. This was probably true up through the 19th and early 20th centuries, when National Geographic still published tales of exotic, underexplored places.

But now you can't really be an explorer anymore. Or at least it's very hard to explore the unexplored. People have done it all already. Maybe there are something like 100 uncontacted tribes somewhere deep in the Amazon. Maybe they'd have something interesting to teach us. But maybe not. Either way, most people don't seem to care much.

The oceans remain unexplored in a fairly interesting way. The planet is 72% covered by oceans. Some 90% of the inhabited ocean is deep sea. There have been only about 200 hours of human exploration there. So oceans are the last big geographic piece that people aren't really looking at. But that may be because the default assumption is right; there's nothing terribly interesting there. Deep sea exploration simply lacks the magic of exploring new lands and continents.

The frontier of knowledge seems to have waned along with the geographical frontier. People are increasingly pessimistic about the existence of new and interesting things. Can we go to the moon? We've done that already. Mars? Impossible, many people say. What about chemistry? Can we identify oxygen? That's been trivial since the 18th century. So what about finding new elements? That's probably a fool's errand. The periodic table seems pretty set. It may be impossible to discover anything new there. The frontier is closed. There is nothing left to discover.

C. Secrets and Sociology

Four primary things have been driving people's disbelief in secrets. First is the pervasive incrementalism in our society. People seem to think that the right way to go about doing things is to proceed one very small step at a time. Any secrets that we're incentivized to discover are microsecrets. Don't try anything too hard in the classroom; just do what's asked of you a bit better than the others and you'll get an A. This dynamic exists all the way up through pre-tenure. Academics are incented by volume, not importance. The goal is to publish lots of papers, each of which is, in practice at least, new only in some small incremental way.

Second, people are becoming more risk-averse. People today tend to be scared of secrets. They are scared of being wrong. Of course, secrets are supposed to be true. But in practice, what's true of all secrets is that there is good chance they're wrong. If your goal is to never make mistake in your life, you should definitely never think about secrets. Thinking outside the mainstream will be dangerous for you. The prospect of dedicating your life to something that no one else believes in is hard enough. It would be unbearable if you turned out to be wrong.

Third is complacency. There's really no need to believe in secrets today. Law school deans at Harvard and Yale give the same speech to incoming first year students every fall: "You're set. You got into this elite school. Your worries are over." Whether or not such complacency is justified (and we should suspect it's not), it's probably the kind of thing that's true only if you don't believe in it. If you believe in it, you're probably in a lot of trouble.

Finally, some pull towards egalitarianism is driving us away from secrets. We find it increasingly hard to believe that some people have important insight into reality that other people do not. Prophets have fallen out of fashion. Having visions of the future is seen as crazy. In 1939 Einstein sent a letter to President Roosevelt urging him to get serious about nuclear power and atomic weaponry. Roosevelt read it and got serious. Today, such a letter would get lost in the White House mailroom. Anyone who opened it would probably think it was a joke. Nuclear weapons seemed very outside of possible in the late 1930s. But visions of the future were taken seriously then.

In defense of the case against secrets, all these things—incrementalism, risk aversion, complacency, and egalitarianism—have worked pretty well for most people. Distrusting prophets has become a good heuristic. 30 years ago, people started cults. And other people joined them. Someone would claim to have some great secret that no one else knew about. The guru or cult leader was the paragon of anti-egalitarianism. People were encouraged risk everything to join the cult because that was the only path to Truth. Complacency and incrementalism meant missing out. Today, it's probably impossible to start those kinds of cults, which is good. People simply wouldn't buy in.

IV. The Case Against the Case Against Secrets

So there's something to be said for the case against secrets. But the case *against* that case is stronger. The problem with the idea that there are no hard truths left is that it's wrong. There *are* secrets within reach. When you drill down on it, belief in a society without secrets has some very strange implications indeed.

On some level, every form of injustice involves a secret. Something is being done. It's unjust. It's happening because society allows it to happen. The majority of people don't understand the injustice of it. Invariably that's understood only by a small minority. In the '50s and '60s, there were a number of different views about things being very unjust. These secrets became conventions over time. The majority was won over. So to say that there are no secrets left today means, in some sense, that we are either a completely just society or we shouldn't try to be. Either everything is right as it is. Or whatever injustice exists is mysterious and can't be fixed. Each of those positions seems very odd.

In the economics context, disbelieving in secrets leads to the conclusion that markets are completely efficient. But we know that's not true. We have experienced decades of extraordinary inefficiencies. You weren't allowed to say in 2000 that people were behaving somewhat irrationally regarding Internet companies. You weren't allowed to say in 2007 that there was a housing bubble. The market could not be understood. To the extent anyone could understand, it was the Fed. They had a model that said no

more than $25bn could be lost in the worst-case scenario. There was no second-guessing. We all know how that turned out.

Political dissent requires secrets too. Any sort of extreme criticism of the government is necessarily based on some secret truth that things are very wrong. Some of these secrets are probably right. Many others are not. But disbelieving in secrets generally is equivalent to saying that it's not possible for any political dissident to be right, ever. This plays out in interesting ways. Since no one believes in secret truths anymore, the political tactic that people use is to try to discredit the other side by associating them with conspiracy theorists. If you are a Democrat, you rage about Tea Party activists and their secret beliefs. If you're Republican, you profile Occupy Wall Street people and talk about their wild theories. All conspiracy theories are crazy and wrong. There are never any secrets.

There is an interesting version of this in corporate governance. Consider the HP board drama of the past decade. The backstory is that HP went through a bunch of CEOs. In 2004-2005 there was a big debate amongst HP board members about what the board should spend its time talking about. On one end of debate was Tom Perkins, an engineer, longtime HP veteran, and co-founder of the VC firm Kleiner Perkins. He thought that board should spend its time talking about new technology and developments—that is, hard substantive problems. On the other side was Patricia Dunn, who argued that science and tech were too difficult and were beyond the board's competence. Dunn thought that the board should focus on processes; was everything going okay in the accounting department? Were people following all the ethical rules?

Against this backdrop came a very contested acquisition of Compaq. Someone on the board started leaking information out to the press—a clear violation of the proper processes. Dunn tried to find the leak. Wiretaps were set up. But that caused quite a bit of trouble because it turns out that wiretapping is illegal. So there was this nested series of bizarre events relating to process. There were process violations that sought to catch the people who were violating proper process protocol on a board that wanted to do nothing but focus on process.

Tom Perkins believed in secrets. Hard but solvable problems exist, and we should talk about them. But if you believe that there are no secrets—that everything is either reducible to simple processes or is impossibly hard—you end up with something like the HP fiasco. It's hard to work toward a radically better future if you don't believe in secrets.

V. The Case For Secrets

Of course, a case against a case against something isn't a case *for* that thing. If secrets exist, there should be affirmative argument for why. So why should we think that there are still secrets?

That difficult problems do get solved is evidence that secrets exist. It's not always straightforward to tell whether a given problem is merely hard or actually impossible. But the people who actually solve hard problems are people who believe in secrets. If you believe something is hard, you might still think you can do it. You'll try things, and maybe you'll succeed. But if you think something is impossible, you won't even try.

Fermat's last theorem is a good example. It states that no three positive integers a, b, and c can satisfy the equation $a^n + b^n = c^n$ for any n greater than two. Mathematician Andrew Wiles started working on it in 1986. He managed to prove it in 1995. No one would ever succeed in doing these incredibly hard things if they didn't think that it was possible. In some sense you can't have meaningful progress if you don't think that there are solvable secrets out there.

The story of web 2.0 and the information age has been the story that, on some level, many small secrets can add up and change the world. It's easy to make fun of things like Twitter. You're limited to 140 characters. No individual tweet is particularly important. Most are probably kind of useless. But in the aggregate, the platform has proven quite powerful. Social media has, the story goes, played a non-trivial role in great political transformation and even governmental overthrow. The secret force behind this web 2.0 empowerment is the fact that there are far more secrets that people think. If things are very different in the increasingly transparent world, it just means that they were covered up before. To the extent that things are not transparent, they are secretive. And all these small secrets add up to something very big indeed.

The big version of this is WikiLeaks. The Julian Assange line is that, "New technology… can give us practical methods for preventing or reducing important communication between authoritarian conspirators." Conspiracy is broadly defined as anything involving any information that's shared between a few people but not amongst everybody. The crazy twist here is that more secrets ended up coming out than Assange probably would have liked. There are so many secrets that what they are isn't

the only factor. What can matter even more is the order in which they get revealed. Does the secret that brings down a government get revealed before the secret that would destroy its revealer?

VI. How To Find Secrets

A. Search Methodology

There is no straightforward formula that can be used to find secrets. There are certainly reasons to suspect that there are many of them left. But there are problems with just trying to hammer out a complete list. First, that list would be grossly incomplete. No one person can know every secret, since the good ones necessarily involve really hard problems. Second, ubiquitous distribution of a list of secrets would change their character; the secrets would cease being secrets and would become conventions as soon as people read and accepted them.

So you can't generate some exhaustive list. But what you can do is develop a good method or approach to finding secrets. We know that important secrets are neither small nor silly nor esoteric. The important ones are the big ones that are true. So those are the first two criteria to build into your model. You can safely discard anything that is small or false.

From there it's worth making a rough division between two different types of secrets. There are secrets of nature and then there are secrets about people. Natural secrets involve science and the world around us. The process of finding them involves going out and getting the universe to yield its secrets to us. Secrets about people are different. These are things that people hide because they don't want other people to know about them. So two distinct questions to ask are: What secrets is nature not telling you? What secrets are people not telling you?

There is something to be said for both approaches. But the importance of human secrets is probably underappreciated. It may be worthwhile to focus more on human secrets, both because they can be very important in their own right and because they can help us get to the secrets of nature. What aren't people telling you can very often give you great insight as to where you should be directing your attention.

On one level, the anti-competition, power law, and distribution secrets are all secrets about nature. But they're also secrets hidden by people. That is crucial to remember. Suppose you're doing an experiment in a lab. You're trying to figure out a natural secret. But every night another person comes into the lab and messes with your results. You won't understand what's going on if you confine your thinking to the nature side of things. It's not enough to find an interesting experiment and try to do it. You have to understand the human piece too. It is the intersection of natural secrets and human secrets that is most interesting and enlightening.

But the general bias is that secrets about nature are the really important ones. Natural secrets are metaphysical. They deal with the fundamental nature of universe. If you think that these secrets are foundational, you end up concluding that physics is the fundamental science. Studying nature becomes the most important thing you could possibly do. This is why physics Ph.D's are notoriously difficult to work with; because they know fundamental things, they think they know all things. It's not clear how many levels up that logic can go without getting too twisted. Does understanding physics automatically make you a great marriage counselor? Does a gravity theorist know more about your business than you do? At PayPal, a physics PhD and prospective hire once interrupted his interviewer early-to-mid-question by shouting, "Stop! I already know what you're going to ask!" He was wrong. He didn't get hired.

The alternative, underexplored route is secrets about people. These might be political secrets. Or they might be anthropological or psychological secrets. Here, you just ask the questions and see where they lead. What kinds of things are we allowed to talk about? Are there areas that people can't look into? What is explicitly forbidden? What is implicitly off-limits or taboo? Looking for secrets in this way, at least at the outset, is more promising than trying to find natural secrets. But the secrets themselves tend to be more dangerous. Natural secrets are transparently hard, but are also politically safe. No one really cares about superstring theory. It wouldn't really change our daily lives if it turned out to be true. Human secrets are different. There's often much more at stake there.

Consider the anti-competition secret again. If you didn't already know it, there are two approaches you could use to figure it out. The first is the human approach. You could ask: what can people who are running companies not say? That would get you thinking, and you would soon realize that monopolists have to pretend that they are small and things are enormously competitive, while non-monopolists have to pretend they are large players with a permanent edge. The other route you could take is the Econ 1 route where the fact that economic profits get competed away in perfect competition is a secret about

nature. Either approach could work. But you get there much faster if you ask the people question. The same is true with the power law secret. You could start with quantitative analysis, plot out the distribution of startup outcomes, and go from there. Or you could look at what VCs say, wonder what they can't say, and think about why.

B. The Search For Secrets Applied

Many venture capitalists seem to be looking for incremental improvements—small secrets, if they're even secrets at all. Founders Fund is more interested in looking for big secrets. One way to get started thinking about big secrets is to think about majors that aren't at Stanford. Physics, for example, is a real major at all real universities. So ignore it for a moment. The opposite of physics might be nutrition. Stanford doesn't have it. Real universities don't let you major in nutrition.

That might mean we're onto something. And indeed, one company that Founders Fund has found particularly interesting is putting together a sort of Manhattan Project for Nutrition. Most top scientists have gone into fields other than nutrition over the past couple of decades. Most of the big studies were done 30 or 40 years ago. There's not really an incentive to study nutrition today. So the business plan is to get the six best possible people on it and figure things out definitively. There is plenty of room for improvement; people know more about the universe than about they human body. And unlike the real Manhattan Project, which got plenty of funding because of its obvious military applications, nutrition has been chronically underfunded. The food groups are probably completely wrong at this point. The pyramid that tells us to eat low-fat and ridiculous amounts of grains and carbohydrates was probably more a product of Kelloggs' lobbying than actual science. And now we have an obesity explosion. Getting nutrition right isn't quite low-hanging fruit. But there are reasons to think that the right people haven't been incented to look at it hard enough.

Another search for secrets leads to biotech. Stem cell research and cancer research are the two really big areas there. There are lots of people working in each of those respective fields. But despite all the activity, there is surprisingly little overlap between the two. Stem cell research is very controversial and politicized; the anti- people are generally anti-science and have political agendas. The pro-people are equally and oppositely vehement in insisting that stem cell research is unqualifiedly wonderful. The biggest problem with injecting stem cells into people is that they start to divide and multiply. You get something that looks a lot like cancer. Neither side of the stem cell debate wants to make too much of this. But that's odd. Maybe there is a subset of cancer cells that behave like stem cells, and research at this intersection would be promising. A few people have been taking that approach. The overarching point is that structure and politics have thus far precluded investigation. So it may be a good place to look for secrets.

Cleantech is interesting. Very few cleantech companies or investments have worked well. The sociological truth about all the cleantech investments is that cleantech was fashionable. People are concerned about the environment. Investors and entrepreneurs are people. So investors and entrepreneurs got involved in cleantech to make an environmental statement. There's a sense in which some key part of these decisions was decoupled or confused with the underlying merits of the business in question. But obfuscation was necessary. You can't just say you are doing *x* to be fashionable. Saying you're doing something because it's cool is decidedly uncool. Cool people don't talk about being cool.

So what would you do if you recognized that all the cleantech stuff was driven by unstated desire to be fashionable? One option would be to swear off cleantech entirely. But could you profit from the insight? Could you start a cleantech company that embraced the dynamic and focused on making a fashion statement? The answer is yes. You could start Tesla, which is exactly what Elon Musk did.

At this point Tesla is probably the most successful cleantech company in the U.S. It builds very high-end electric-powered sports cars. There are different ways to frame the decision to cater to the luxury market. Elon's take is that you needed rich people to underwrite the research and development required to make cheaper electric cars for the mid-market. But what's key is that he took the sociological truth as a starting point instead of ignoring it. In 2005, Tesla seemed crazy. Better solar panels seemed to be the way to go. Seven years later, Tesla has built a fantastic brand. Solyndra has not. As we've talked about before, you build a monopoly business if you can start with a brand and build a tech company up from under it.

What is taboo or off-limits can often shed light on macroeconomic secrets. The U.S. trade deficit is an example. At its current rate of around 4% of GDP, it's probably quite unsustainable. But people aren't very comfortable talking about that. The existence of a trade deficit in the first place is awkward for many people. If you believe in globalization, you would expect to see a trade surplus. Instead, money is flowing uphill, into the U.S. If this deficit is unsustainable, there are a few implications. Either imports will have to fall or exports must go up. Increasing exports seems more plausible. Where does the U.S. have

the biggest comparative advantage in exports? Probably in agriculture. Looking into agricultural technology is counterintuitive for tech investors, since agriculture is often about as far removed from technology as possible. But that's a good sign. It turns out that there is some very promising agritech development underway. Agritech may turn out to be a valuable secret that one might miss by not thinking about how people are talking (or not talking) about the economy.

Alternative governance is another example. The basic debate in the U.S. is big government versus small government—i.e. whether the government should do more with more or less with less. But both positions seem increasingly stale. No one talks about the alternatives: do less with more or do more with less.

Granted, the do less with more alternatives is ignored for good reason. It makes no sense. But the alternative where the government can do more with less is very promising. Doing more with less is, of course, the very definition of technology. The underexploration of this quadrant evinces an ideological blind spot. Pro-government people don't like criticizing the government; we should just solve any problems with more government. Anti-government people hate to talk about fixing government; we should just focus on getting rid of it. Even though applying technology to government could benefit everyone and be something of an optimal outcome, very few people want to talk about it.

The basic challenge is to find things that are hard but doable. You want to find a frontier. But don't simply accept others' definitions of the frontier. Existing priorities and ways of thinking need not be your own. Think things through and go find some secrets. There are many of them out there. Just remember that they are concealed not just by nature, but also by the people all around you.

VII. What To Do With Secrets

What should you do when you find a secret? The easy answer is patent it, if you can. But what to do beyond that?

A. To Tell Or Not To Tell

The basic choice is whether or not to tell other people about your secret. If you don't tell anyone, you'll keep the secret safe. But no one will work with you. When you die, your secret will die with you.

Alternatively, you could tell your secret to everybody. You may be able to convince some people that it's actually true and build a team. But then the secret is out. More people may try to compete with you.

What kind of secret you have may influence your decision to share or hide. If it's an intellectual secret, there's probably little downside to just sharing it widely. The same goes for natural secrets, though perhaps to a lesser extent. But secrets about people are entirely different. Sharing them can be quite costly. At one point Faust tells Wagner:

> The few who knew what might be learned,
>
> Foolish enough to put their whole heart on show,
>
> And reveal their feelings to the crowd below,
>
> Mankind has always crucified and burned.

Human and political secrets tend to be quite dangerous. Julian Assange would probably agree.

B. Secrets and Startups

The challenge in the startup context is to figure out exactly who and how many people you should share your secret with. A lot of this is timing. The right time to bring people in is rarely at the very beginning, all at once. But it's not never, either. The timing question is a complicated one, but some intermediate answer is likely the best. Much depends on what you think the rest of the ecosystem looks like. If you think that you have a big secret but lots of other people are about to discover it, it's worth being risky. You have to move as fast as possible and tell whomever you need to.

This is what PayPal did in the summer of 1999. After some failed business models involving beaming money via palm pilots, they realized that linking money and e-mail together would be powerful. This seemed like a really big secret. But it also didn't seem very hard. Surely, other people were going to figure out the same thing in short order. So the PayPal team had scramble and share the secret liberally. This is never without its risks. People you talk to may end up competing with you instead of joining you. In June of '99, a candidate for a management position shared a secret during his interview with Peter

Thiel that he should not have shared: he wanted Peter's job. It was a dangerous political secret. Peter, it turned out, liked his job and wanted to keep it. The interviewee was not hired. A few weeks later he tried to launch a competitor.

The fraud problems that PayPal ran into were also a big secret. Fraud was endemic in finance and banking, but no one ever talked about it. Banks don't like to come out and say, "We have hundreds of millions of dollars stolen from us every year and we have no idea how to stop it." So they don't say it. Instead they build in loss budgets and reserves and just try to keep things quiet.

C. Small and Vocal vs. Big and Quiet

In Silicon Valley today, there's a sense in which most secrets are kind of small. You can get an advantage, but it will be copied very quickly. To succeed you need to achieve hypergrowth, and soon. The idea is to reveal fast and get your exponential curve growing such that no one can catch you. But it's certainly worth asking whether there are other companies for which the dynamic would be a lot slower. There may be lots of cases where there's no need to give up the secret right away. It may make sense to keep profiles low, use trade secrets and unique expertise, and build up a great business over the course of several years.

It's hard to know how many companies are doing this. The many companies that are doing fairly incremental things and trying to grow super fast are very visible. People working on bigger ideas on a more protracted timeline will be more on the stealth side. They aren't releasing new PR announcements every day. The bigger the secret and the likelier it is that you alone have it, the more time you have to execute. There may be far more people going after hard secrets than we think.

D. Perception vs. Reality

Understanding secrets isn't just important in starting companies. It's also important if you are looking to go work for an existing company. We know that, per the power law secret, companies are not evenly distributed. The distribution tends to be bimodal; there are some really great ones, and then there are a lot of ones that don't really work at all. But understanding this isn't enough. There is a big difference between understanding the power law secret in theory and being able to apply it in practice.

Say you're looking for a startup job. You know it's important to land on the right part of the distribution curve. You want to go to one of the great companies. This may seem easy, since there's a general sense in the media and tech community about what the best companies are. People perceive that startup A is much better than B, which in turn is much better than C. So you'd shoot for A and line up an interview at B as a backup, right?

Maybe. That works in a world where the power law is true, but there are no secrets. *But in a world with many secrets, the best companies may be hidden*. The power law is the same. But it's harder to navigate because people may have misidentified the best companies. Your task in a secretive world is to identify the hidden companies with the *potential* to be the best. What potentially great company are people overlooking? Do not take the perceived distribution of best to worst as a given. That is the fundamentalist view. The market, the media, the tech blogs—they all know better than you. You can't find secret startups that might be great. What do you know?

This doesn't mean you should seek out and join obscure companies. Esoteric truths are not what we're after. But you should try to identify *important* truths. And very often those are hidden.

We end with Tolkien:

> The Road goes ever on and on
>
> Out from the door where it began.
>
> Now far ahead the Road has gone,
>
> Let others follow it who can!
>
> Let them a journey new begin,
>
> But I at last with weary feet
>
> Will turn towards the lighted inn,
>
> My evening-rest and sleep to meet.

You go on a long journey. The designated road never really ends. But later on in the LOTR, there's an alternative version:

> Still round the corner there may wait
>
> A new road or a secret gate,
>
> And though we pass them by today,
>
> Tomorrow we may come this way
>
> And take the hidden paths that run
>
> Towards the Moon or to the Sun.

The road isn't infinite. It's possible that, just around the corner, there's a secret gate leading to a secret road. Take the hidden paths.