

## The Power of Low Costs

*This post by MOI Global instructor Phil Ordway has been excerpted from a letter of [Anabatic Investment Partners](#), based in Chicago, Illinois.*

*Phil shared his research and insights into the “power of a low-cost advantage” at Wide-Moat Investing Summit 2018. [Replay here](#).*

Over the life of the Fund 50-80% of our capital has been deployed in companies that have a clear, defined cost advantage over their competitors. A competitive advantage can come in many different flavors, but my favorite might be a low-cost advantage. I don't think it's necessarily better than others, but for me it's easier to understand. A low-cost advantage company also fits well with my own areas of strength (patience) and knowledge (financial, industrial, and consumer companies).

An underlying premise here is that the world is competitive. I think the rumors of the death of capitalism are premature, and I see vicious competition almost everywhere. There are few better allies to have in this fight than a low-cost advantage. Put another way, high costs – or even just an industry-average cost structure – can create serious impediments to success. Suffering less and avoiding failure can turn a prosaic business into a great success.

Some of the companies I most admire (Costco, Amazon, Southwest) use a low-cost business model to create a virtuous feedback loop with volumes: low costs enable low prices; low prices generate high volumes; high volumes enable lower costs; lower costs are reinvested in lower prices; and on and on we go. The best companies take this feedback loop and combine it with other hallmarks of “wide moat” companies – brand loyalty, network effects, effective capital allocation, etc. – to get exceptional and durable long-term results. Many great companies use a low-cost strategy to create other competitive advantages such as brand loyalty. What could be better than customers who have a deep, deserved trust that they only need to look in one place to find the best price?

A separate and parallel point could be made about our process as it relates to this topic. Just as a low-cost advantage gives a company a valuable edge that can be exploited over many years, the company must survive and be patient. A low-cost advantage tells us nothing about what will happen this quarter or this year; the world is too messy and unpredictable for that. I feel the same way about a value-investing approach to investment – it tips the odds in our favor over a period of many years, but interim periods can be all over the map. Things are always changing, but we remain steadfast in our philosophy and investment principles. For all things low-cost and value investing I remain short-term cautious and long-term bullish.