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David Sokol has three investment rules
By Curtis Seltzer

People write books for different reasons—money, prestige, money, self-validation, score-settling, money, ego and money. And sometimes it's not about money. It's about positioning, about building a platform from which to move up.

David Sokol heads MidAmerican Energy, an important 80-percent-owned subsidiary of Warren Buffet's Berkshire Hathaway. He's rumored to be one of the leading candidates to succeed Buffet. Sokol has led MidAmerican into lowering the utility's carbon profile and into wind. As long as the regulators approve rate hikes, returns are guaranteed. Buffet moved into utilities after years of shunning them, because their returns are safer than almost all alternative equities in a bad market.

While Sokol, too, is from Omaha, he seems cast from a different mold. He recommends books about Attila the Hun. He ranks employees each month according to those he thinks he would fire first. Buffet is no pussy cat, but management that is inspired by aggression and fear doesn't seem to be his style.

Sokol self-published Pleased But Not Satisfied, which is available from The Bookworm, 8702 Pacific St., Omaha, NE 68114, 402-392-2877. He sets out six business guidelines: Customer Commitment, Employee Commitment, Financial Strength, Integrity, Environmental Respect, and Operational Excellence. Nothing wrong with these ideas; also nothing about Attila.

He writes about his approach to mergers and acquisitions: "In the case of acquisitions, failure often revolves around overly aggressive assumptions, inadequate diligence or failure to consider the culture of the acquired company."

Land investors might consider these three points as well.

Overly aggressive assumptions. Land and timberland always make money for patient money. Buy and hold works better for land investments than stocks.

When, however, buyers go into a deal aggressively assuming a quick flip, or a rapid doubling of their invested capital, or a 15 percent annual appreciation rate, or that everything will work out just right and on time, or that future interest rates will favor their time-sensitive plans for the property, or that stumpage prices will rise, or…they get in trouble. Aggressive assumptions in business deals or land deals rarely work out perfectly across the board.

The pinch generally comes with either an under-capitalized buyer who can't ride out the turbulence or one who is counting on a sequence of things to happen by certain dates.

Every land investment should carry two or three back-up plans that lay out a damage-control path, or even a total escape, if the unexpected occurs or when hopeful assumptions don't play ball. If an investment works when you assume a certain amount of things not working out quite right, then it's likely to be a lot better deal than one where your money rests on all assumptions coming true, in full and on time.

The only way I've seen aggressive assumptions work consistently is when they're packaged with going-into-it flexibility and ride-it-out capital.

Diligence. Deep research can be done on land. Hidden information can be excavated. Buyers can base decisions on reasonably reliable facts.

Land deals get in tangles when the buyer doesn't invest the necessary time and money in digging deep. Adequate scoping usually reveals booby traps in land purchases. Inadequate scoping, however, endangers a buyer, as Sokol points out.

Need to consider the culture of the acquisition. Land does not exist as an island. It's part of a topographical and human community. It's subject to its own personality, owner expectations, zoning and community norms. A new owner usually can't do just whatever he feels like with a parcel he just bought, and there's trouble if he tries.

Of the three, diligence can protect a buyer against overly aggressive assumptions and failure to consider the culture of the property.

Sokol is pleased with himself, but not satisfied. That's a pretty good place to be these days.

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