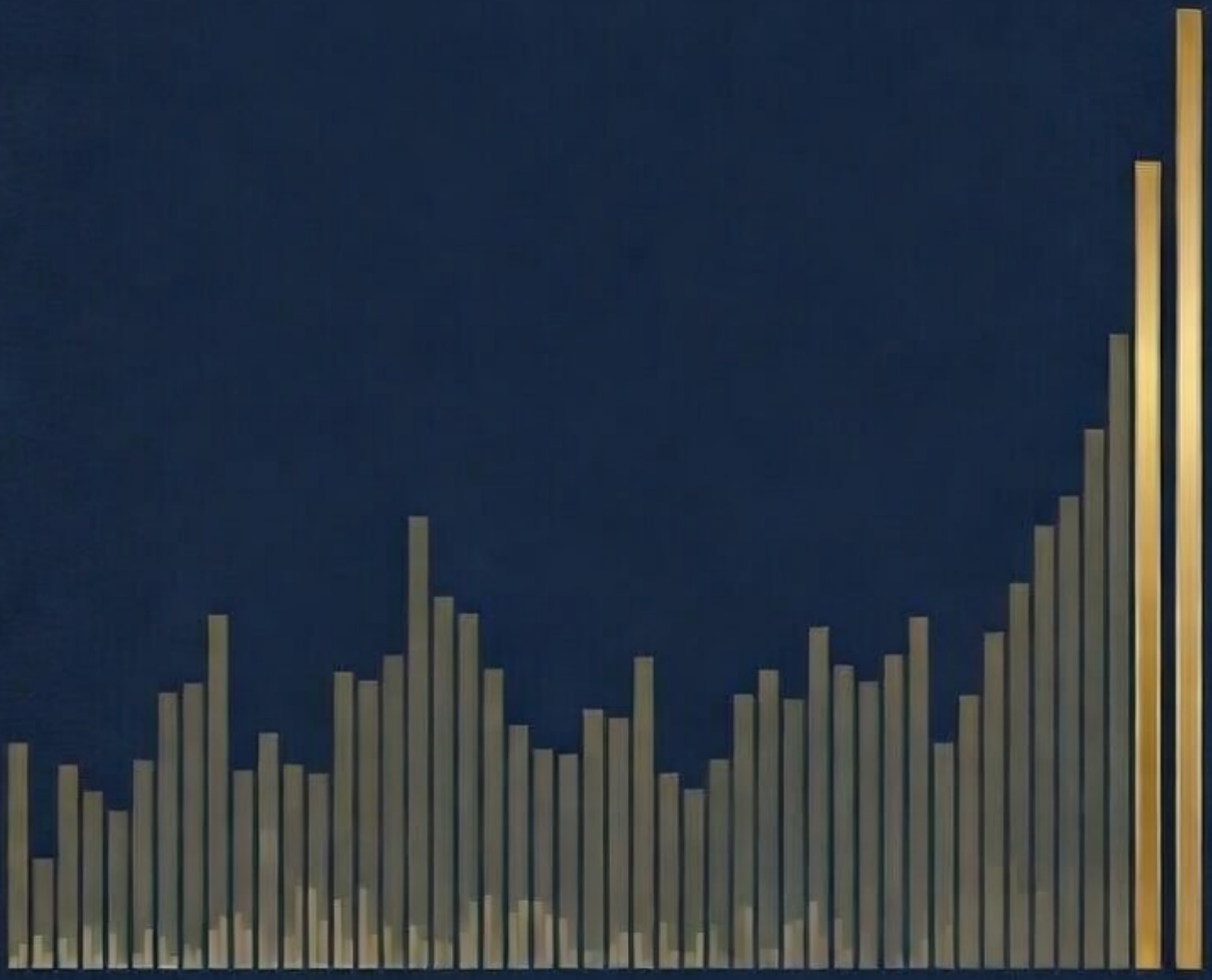
COMPOUND & CONQUER

/ Issue 7 /

The 70 businesses built to Compound & Conquer.

Markman Capital Insight



The Munger Issue

Diversification is a confession. Concentration is a conviction.

"Much of what is taught in modern corporate finance courses is twaddle," Charlie Munger observed during a legendary exchange on portfolio construction. "Modern portfolio theory... has no utility."

Charlie Munger was the no-nonsense vice chairman of Berkshire Hathaway and the business partner of Warren Buffett. Over a six-decade career, Munger helped build Berkshire Hathaway from a struggling textile mill into a multi-hundred-billion-dollar conglomerate. His investment philosophy was rooted in deep business analysis and extreme discipline. When Munger critiqued institutional finance, he spoke from a proven track record of success. He knew how to create wealth.

Traditional finance teaches investors to diversify to manage risk. Munger saw this approach as a confession of ignorance. He argued that holding thirty or forty stocks is counterproductive because it forces an investor to take money out of their absolute best idea and put it into their thirtieth best idea. This strategy dilutes overall performance. Real success comes from understanding what a few great businesses do really well and concentrating capital accordingly.

Exceptional businesses possess durable competitive advantages, high returns on invested capital, and a clear path for expansion. Over time, these traits are consistently rewarded by investors. Conversely, capital markets are notoriously unpredictable in the short term. Stock prices fluctuate based on interest rate fears, geopolitical headlines, and temporary earnings adjustments. Selling shares in a superior business during these periods of cyclical weakness destroys value. The secret to building long-term wealth is time invested in great businesses, not stock price timing.

Compounding is the underlying engine of wealth creation.

Exponential growth does not happen overnight, though. It requires time. Attempting to trade in and out of market-leading companies based on short-term price predictions interrupts the compounding process. Every transaction creates brokerage costs, tax liabilities, and the risk of missing explosive upward price moves. Munger learned that the safest way to create value was finding elite businesses and then having the patience to allow managers to reinvest cash flow at high rates of return over years and decades.

This brings the discussion back to diversification and what Munger called twaddle. Broad diversification drags performance toward the mean by mixing world-class companies with stagnant, capital-intensive businesses. Too often, this error is rationalized as finding the "next" great business. This search is difficult, highly speculative, and fraught with risk. Unproven companies face countless operational hurdles, and so much can go wrong before they ever achieve dominance.

Cycling capital into these speculative bets adds inferior assets and ultimately dilutes returns.

The greatest corporate success stories follow a consistent operational path. A company begins by mastering a specific product, service, or technology. Managers build operational efficiency and deepen expertise. Over time, scale and expertise advantages reach a point where potential rivals face insurmountable barriers to entry.

At this stage, the company turns its core capability into a structural advantage. The service may become more valuable as more people use it, like Visa or Mastercard. High switching costs might make it so painful for customers that they become locked-in, like Microsoft. The company might enjoy cost advantages that cannot be matched, like Costco or TJX. Or the business may have brands, patents, and licenses that allow a company to charge premium prices, like Apple. The bottom line is these category-dominating franchises are able to protect cash flow through all economic environments.

This month, we want to talk about two companies from the Compound & Conquer tracking list that exemplify these principles. Each business mastered a crucial technological layer, expanded its competitive moat, and built a position that rivals cannot easily duplicate.

Concentrate on the best. Hold them.

S&P Global (SPGI)

The Toll Booth of Global Capital Markets



Ten-year total return: +247.1%. CAGR: 13.2%. Source: Fiscal.ai.

S&P Global is the indispensable toll booth of the global financial system. It does not underwrite debt, manage mutual funds, or take market directional risk. Instead, the company owns the credit ratings, market data, and benchmarking infrastructure that institutional investors require to operate. Every time a corporation issues a bond or an asset manager creates an index fund, S&P Global collects a royalty. This business model creates recurring, infrastructure-grade profitability that survives economic cycles.

The origin of this financial powerhouse dates back to 1860, when Henry Varnum Poor published the first guide to American railroad financial records. Since then, the company has evolved through strategic combinations. The most notable of these was the merger of McGraw Hill Financial with S&P and the transformational 2022 acquisition of IHS Markit. This strategic evolution shifted a legacy publisher into an automated data oligopoly that powers global debt markets and institutional investing.

The turning point for S&P Global came from two major shifts in global finance: corporations began borrowing heavily through corporate bonds instead of bank loans, and millions of investors shifted their money into index funds. Regulations around the world began requiring large investors to hold

official credit ratings before buying corporate debt, effectively locking S&P Global into every corporate borrowing event. At the same time, as index funds were taking over Wall Street, the flagship S&P 500 index became the default benchmark for global stock markets. A simple market yardstick became a perpetual fee-generating engine.

The underlying strength of this model has a clear financial trajectory. Revenue expanded from $3.76 billion in 2011 to more than $15 billion in 2025, reflecting a sustained double-digit compound annual growth rate. More impressive is the profit conversion. Operating margins regularly approach 50% in its ratings division. This generates over $4 billion in annual free cash flow.

S&P Global is a textbook Rule of 50 compounder. By pairing high single-digit top-line revenue growth with free cash flow margins exceeding 30%, it operates at a level reserved for software platforms. The business requires almost zero physical reinvestment to process an additional credit rating or license an index to another asset manager. Incremental revenue flows almost directly to the bottom line, which management routinely uses to reduce share count and grow dividends.

This dominant position also creates insurmountable switching costs for its customers. Debt issuers cannot easily bypass S&P Global because institutional buyers are legally or mandate-bound to require accredited ratings. Similarly, financial institutions that rely on S&P Capital IQ and Platts pricing data face high operational risks if they attempt to switch to secondary data vendors. Again, the company provides data that global finance literally cannot function without.

The runway for future growth remains wide open. Corporations around the world must continually issue new debt to pay off old loans and fund infrastructure projects. This drives steady demand for credit ratings. At the same time, as more people automatically invest through index funds, money flows directly into products that pay royalties to S&P Global. The rapid growth of private lending and energy market analytics adds even more ways for the company to expand its profits for decades to come.

Your path to wealth with S&P Global is straightforward. Treat the business as a foundational infrastructure asset in the financial services space. Market volatility or short-term declines in debt issuance are temporary pauses in an otherwise relentless multi-decade compounding trend. S&P Global owns the scorecards and the rules for global finance, and that business is extremely lucrative. As capital markets expand over time, share price appreciation will follow.

Action: Build positions below $450. Price target [PENDING] within 24 months. Long-term hold.

Monster Beverage (MNST)

The Consumer Brand Super-System



Five-year total return: +112.0%. CAGR: 16.2%. Source: Fiscal.ai.

Monster Beverage engineered one of the most profitable retail monopolies in modern consumer history. Rather than tying up capital in heavy bottling machinery, delivery fleets, or perishable raw ingredients, the company operates exclusively as a brand architect and marketing powerhouse. It controls the high-margin intellectual property, proprietary formulas, and cultural branding that dominate grocery, convenience, and gas station shelves worldwide. This lean structure converts an everyday consumer product into a cash-generating engine that rivals top-tier technology platforms.

The business traces its roots back to 1935 as Hansen's, a modest California family company that produced fresh juices for local markets. For decades, it remained a regional player with limited reach. The decisive pivot came in 2002 with the launch of Monster Energy in a distinct, oversized 16-ounce black can stamped with its now iconic green claw mark. Recognizing that fatigue and busy modern schedules were turning energy drinks from a fringe supplement into an everyday lifestyle staple, management abandoned traditional juice lines to focus entirely on high-margin energy formulations.

The defining breakthrough occurred in 2014 through a landmark deal with The Coca-Cola Company that permanently altered beverage distribution. Coca-Cola acquired a 16.7% equity stake in Monster,

handed over its own global energy drink portfolio, and took ownership of Monster's legacy non-energy drinks. More importantly, Monster plugged directly into Coca-Cola's global bottling and distribution ecosystem. That single strategic alliance instantly unlocked prime shelf placement and route-to-market logistics across more than 140 countries.

This operational efficiency shows up clearly in the underlying financial performance. Annual revenue in 2024 expanded to $7.5 billion, propelled by steady international expansion across Europe, Asia, and Latin America. Even when aluminum prices, shipping rates, or ingredient costs fluctuate, Monster routinely defends gross profit margins above 50% and net margins near 23%. That level of profitability stands well above standard food and beverage companies, proving that consumers gladly accept higher prices for their preferred energy brand.

Monster delivers elite cash flow efficiency that easily clears the Rule of 40 standard for consumer stocks. By combining mid-teen revenue growth with gross margins over 50%, the business produces more than $1.5 billion in annual free cash flow. And because independent Coca-Cola bottlers handle physical production, warehousing, and store delivery, Monster converts those sales into usable cash with minimal capital reinvestment. Management routinely directs this excess cash toward aggressive share buybacks, steadily increasing the equity value for long-term shareholders.

The company's competitive moat relies on a combination of distribution scale and deep customer habit. The exclusive tie-up with the Coca-Cola distribution network creates a formidable wall against new entrants, making it nearly impossible for startup brands to secure premium shelf space at scale. At the same time, Monster built intense brand loyalty by aligning its marketing with action sports, gaming tournaments, motorsports, and music festivals. This emotional connection makes its core customer base highly resistant to generic or store-brand alternatives.

The runway for future expansion remains substantial. Per capita energy drink consumption in developing markets across Latin America, Southeast Asia, and Eastern Europe is still a fraction of North American levels, leaving decades of organic volume growth ahead. Furthermore, Monster continues to widen its customer demographic by launching zero-sugar options like Monster Ultra, functional hydration drinks, and entering the flavored alcohol market. These new categories open huge untapped channels without diluting the core brand.

Monster Beverage is a masterclass in brand execution. Daily fluctuations in commodity costs or broad market sell-offs do not change the daily habits of millions of consumers who buy energy drinks every morning. Monster built a permanent claim on global retail shelf space, backed by the strongest distribution network in the world. Treat this stock as a core compounder, let management reinvest the cash flow, and give compounding the time it needs to build long-term wealth.

Action: Buy below $50. Price target [PENDING] within 24 months. Long-term hold.

Concentrate on the Best

This month's takeaway.

This month started with Munger's complaint: most of what passes for portfolio wisdom is twaddle. Diversification for its own sake dilutes your best ideas into your thirtieth best idea. The alternative is not recklessness. It is discipline: find the few businesses whose moats compound, concentrate capital in them, and give management the years it needs to reinvest cash flow at high rates of return.

S&P Global and Monster Beverage could not look more different on the surface. One sells credit ratings and indexes to institutions. The other sells energy drinks at gas stations. Yet both own a layer of their industry that rivals cannot duplicate: the regulatory scorecards of global finance, and the strongest beverage distribution network on earth. Both convert that position into free cash flow with almost no capital reinvestment. Both return it to shareholders.

That is what a concentrated portfolio is built from. Not predictions. Not stories. Structural positions that protect cash flow through every economic environment. Own them, and let time do the heavy lifting.