

## **Skewed Businesses**

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This is a list of businesses that are classified based on their vulnerability to the unknown (Black Swans). Some businesses (negatively skewed businesses) can be heavily impacted by a rare event. Other businesses (positively skewed businesses) thrive on rare events.

Read "The Black Swan" by Nassim Nicholas Taleb, if you want to go deeper into this.

### **Negatively Skewed Businesses (Vulnerable to the unknown)**

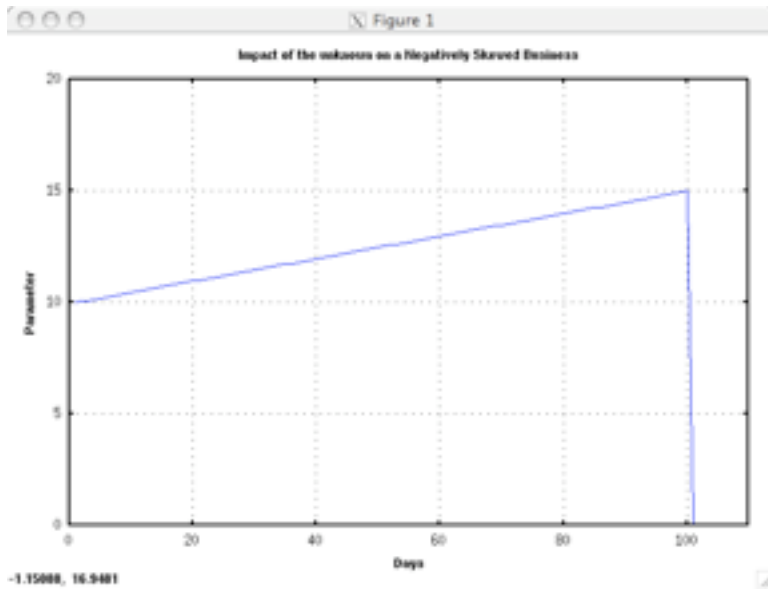
1. Banking (those that lend money)
2. Large-scale Data Storage providers (Amazon S3, etc.). And the numerous front-ends and variations (hosted version control etc.)
3. Digital security (Anti-virus, encryption solutions, etc.)
4. Disaster/catastrophe Insurance providers
- 5.

### **Positively Skewed Businesses (Thrives on the unknown)**

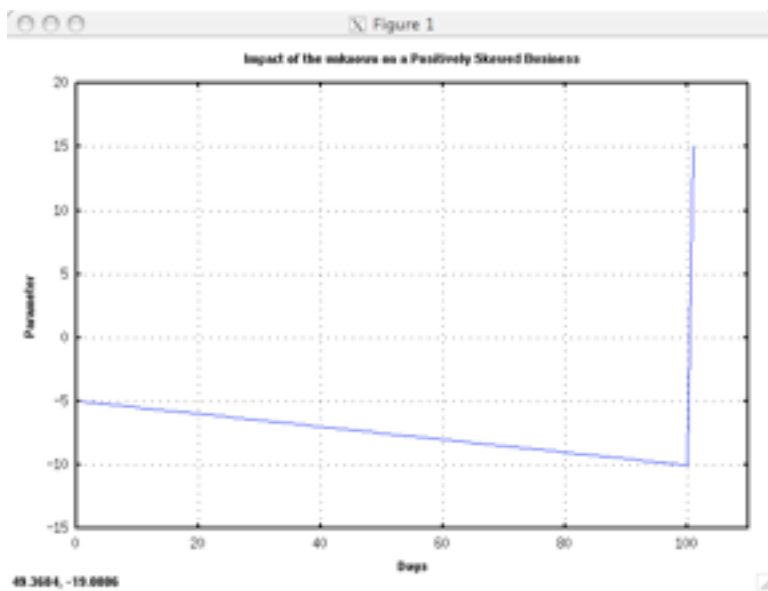
1. Publishers
2. Movie studios
3. Technology venture capital
4. Option buyers - "long gamma," "wing traders," etc.
5. Talent agencies
6. Art dealerships
7. Pharmaceutical companies
8. Mining firms
9. Oil exploration
10. Scientific research firms
- 11.

This article is just meant to capture the list of companies that clearly belong to either categories. Negatively skewed businesses tend to offer highly seductive cash-flow properties, and there are all kinds of other biases at play that I'll deal with in another piece.

Usually, negatively skewed businesses depend heavily on a parameter that happens to be negatively skewed. The following diagrams make the distinctions clearer. The large drop is due to the high impact of the unknown. An example being catastrophic data loss at a data backup company due to a fire. In such a scenario, the parameter on the vertical axis could be a measure of trust.



Positively Skewed Businesses show the opposite behavior:



The large upward jump in the second diagram could be an unexpected hit or, in the case of a mining company, the discovery of a major deposit. The gradual decrease up to the big jump is due to the costs of searching.

Note that the big jump or the big loss may never arrive. This is simply a way of ranking businesses based on epistemological robustness.

More to come as I think about a systematic method to estimate whether a particular business does/does not depend on a negatively skewed parameter.