Twitter Thread by Unknown Market Wizards



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@WizardsUnknown



Pat Dorsey as well. On mistaken moats:-

More recently, the ethanol craze is an instructive example. A confluence of events in 2006, including high crude oil prices, tight refining capacity, a change in gasoline standards, and a bumper crop of corn (the main input for ethanol), all combined to produce juicy 35 percent operating margins for

the most profitable ethanol producers, and solid profitability for almost all producers. Wall Street hyped ethanol as the next big thing, but unfortunately for investors who valued ethanol stocks as if they could sustain high profits, ethanol is a classic no-moat business. It's a commodity industry with no possible competitive advantage (not even scale, since a huge ethanol plant would actually be at a cost *disadvantage* because it would draw corn from a much larger area, driving up input costs, and it would have to process all of its residual output, which consumes a lot of natural gas). So, you can guess what happened next.