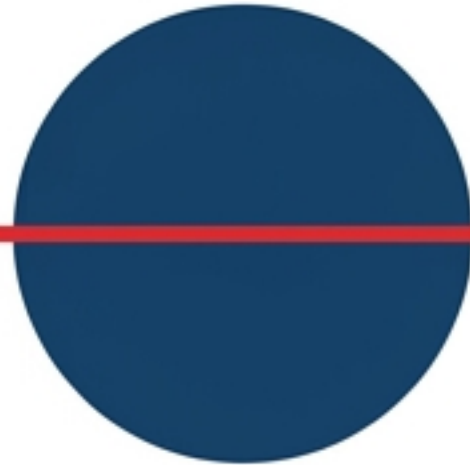


The Three Components of Compounding

Return, Quantity, and Duration — and Why They Cannot All Be Maximized at Once.



Every business is a flow of capital between two reservoirs.



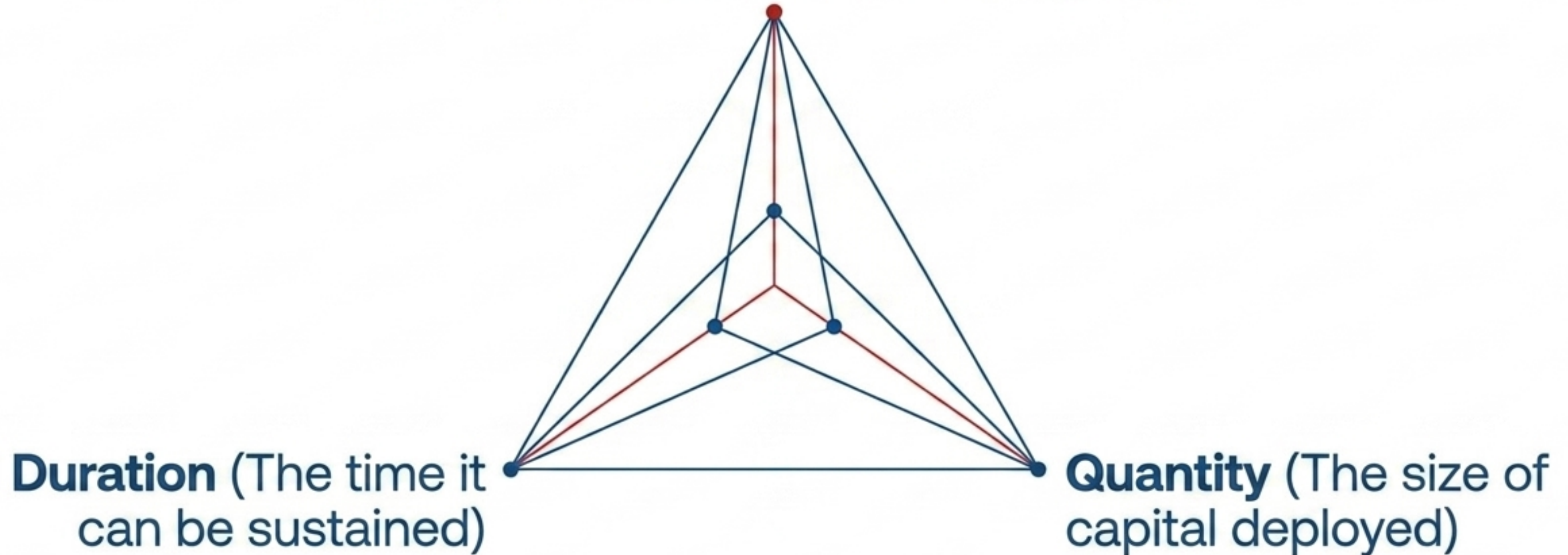
The Toll: Cash collected in the present.
Short duration.
Harvested now.

The Wave: Growth that builds over time.
Long duration.
Realized later.

What the toll absorbs, it reinvests.

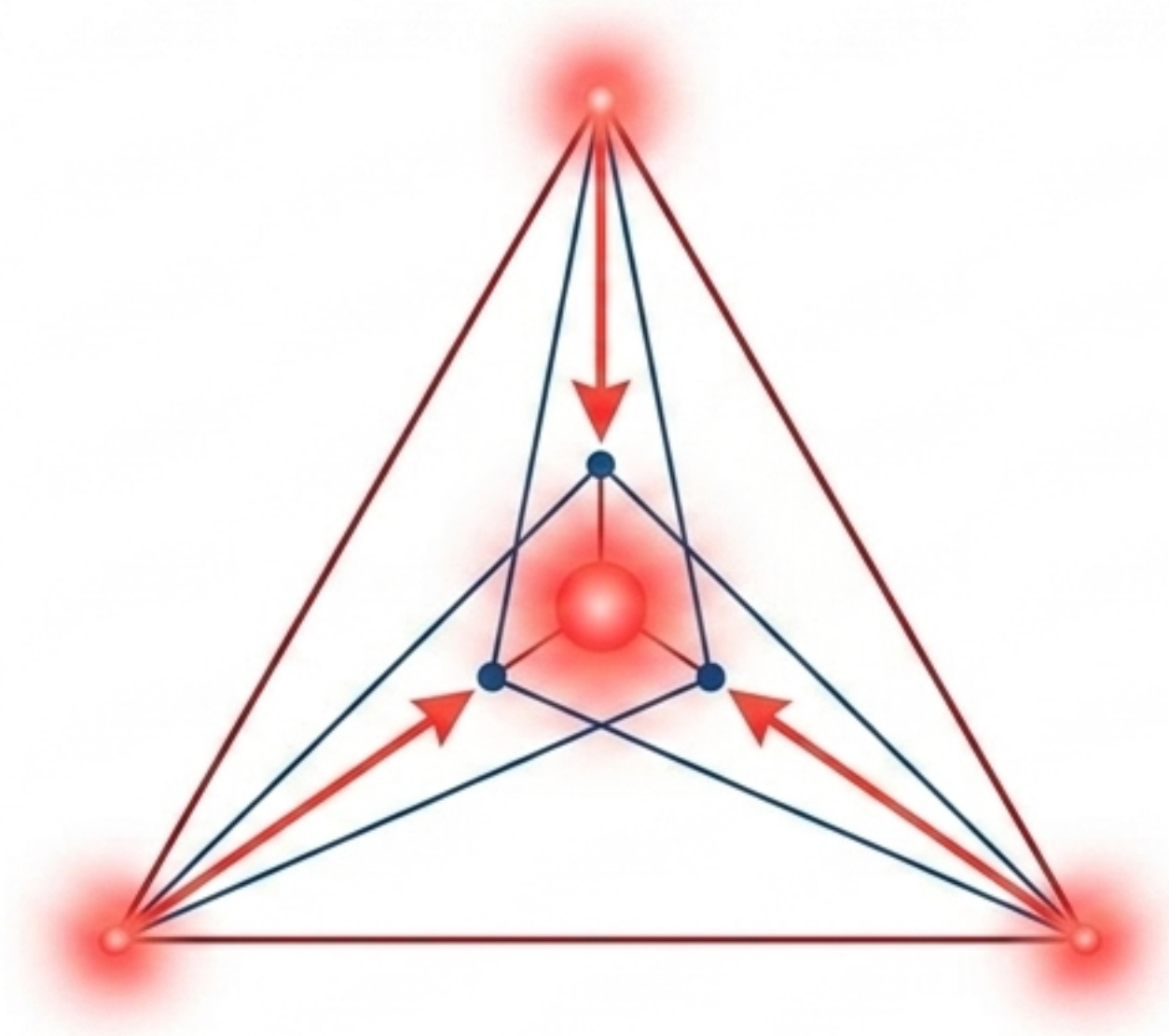
Reinvestment is governed by three structural measures.

Return (The rate earned on capital)



The Perfect Model.

A high return, earned on a massive quantity of capital, sustained for a century. (A reference point, not a reality).



The structural tensions of compounding.

Gaining on one component is paid for on another.

The tensions are structural, not accidental.



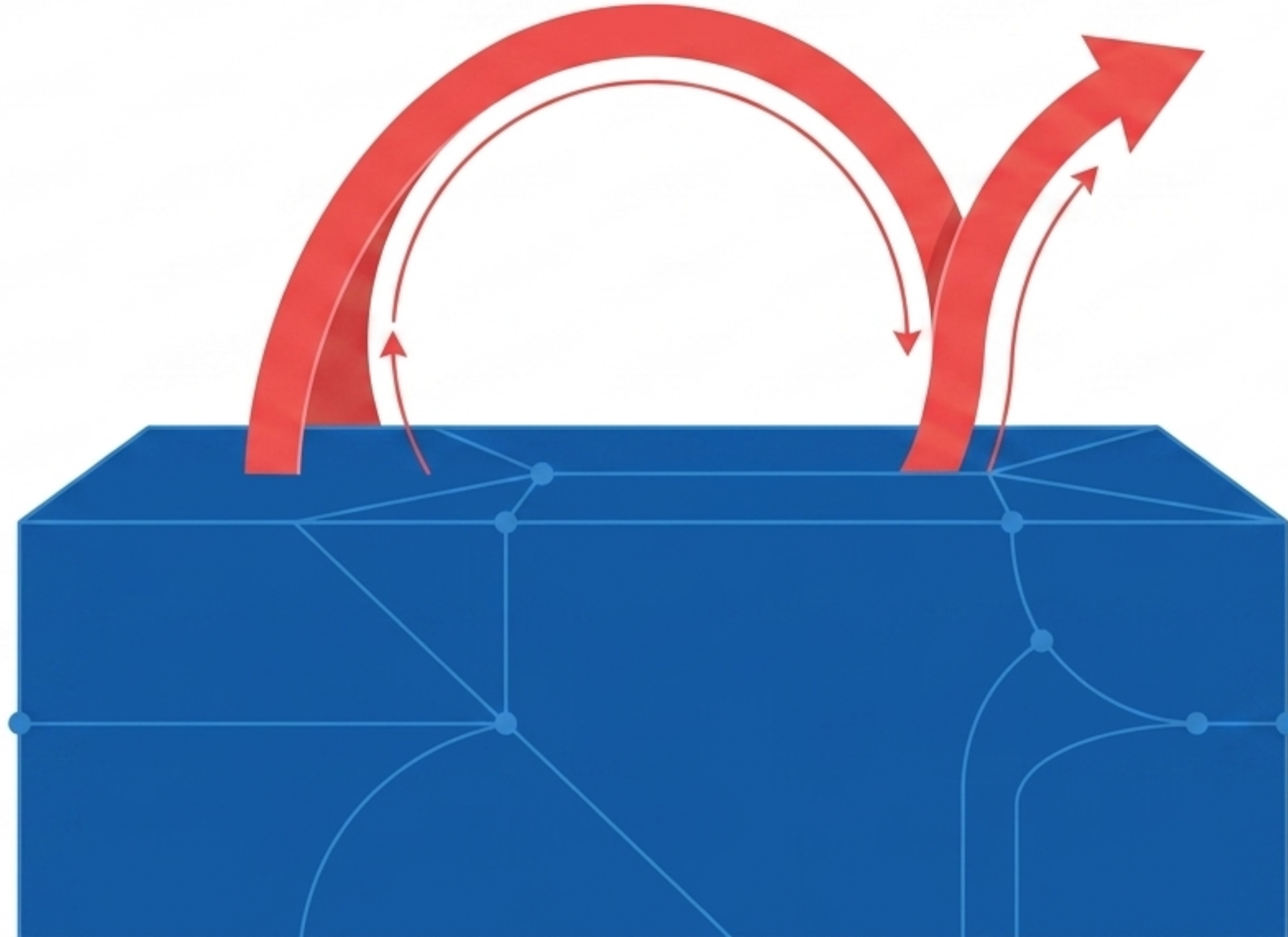
Capital-light models generate high returns but have no heavy base to absorb capital in size.



High returns attract fierce competition, eroding the rate over decades.

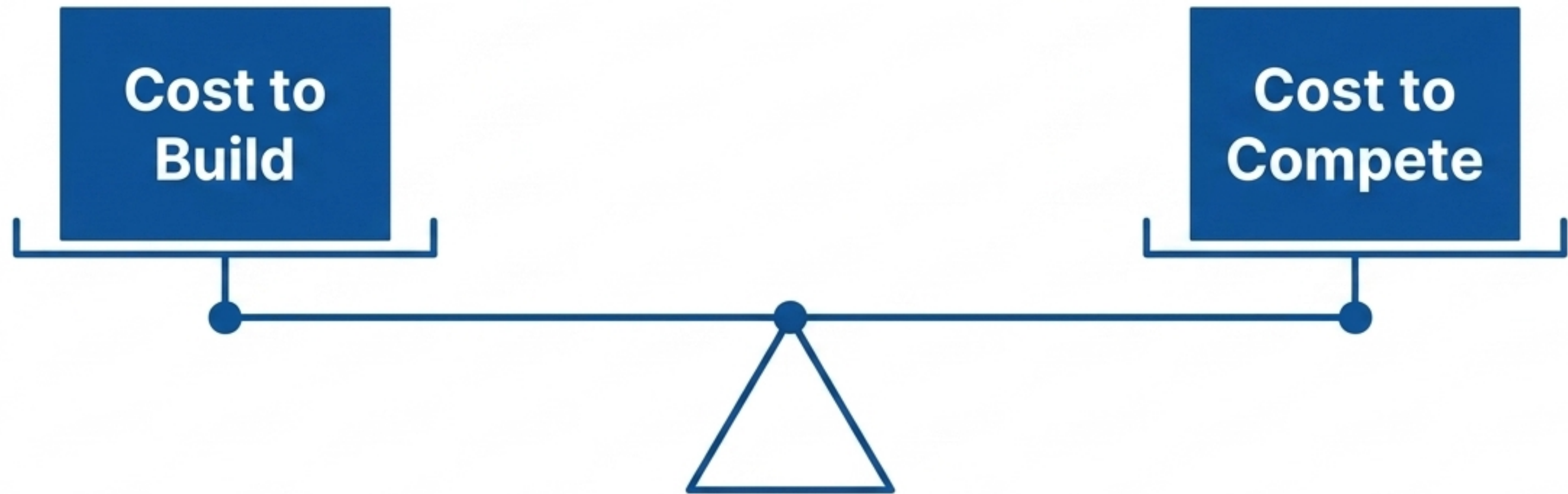
The Heavy Toll: The closest approach to the ideal.

Refusing to hand capital back by absorbing it into a massive, expanding base.



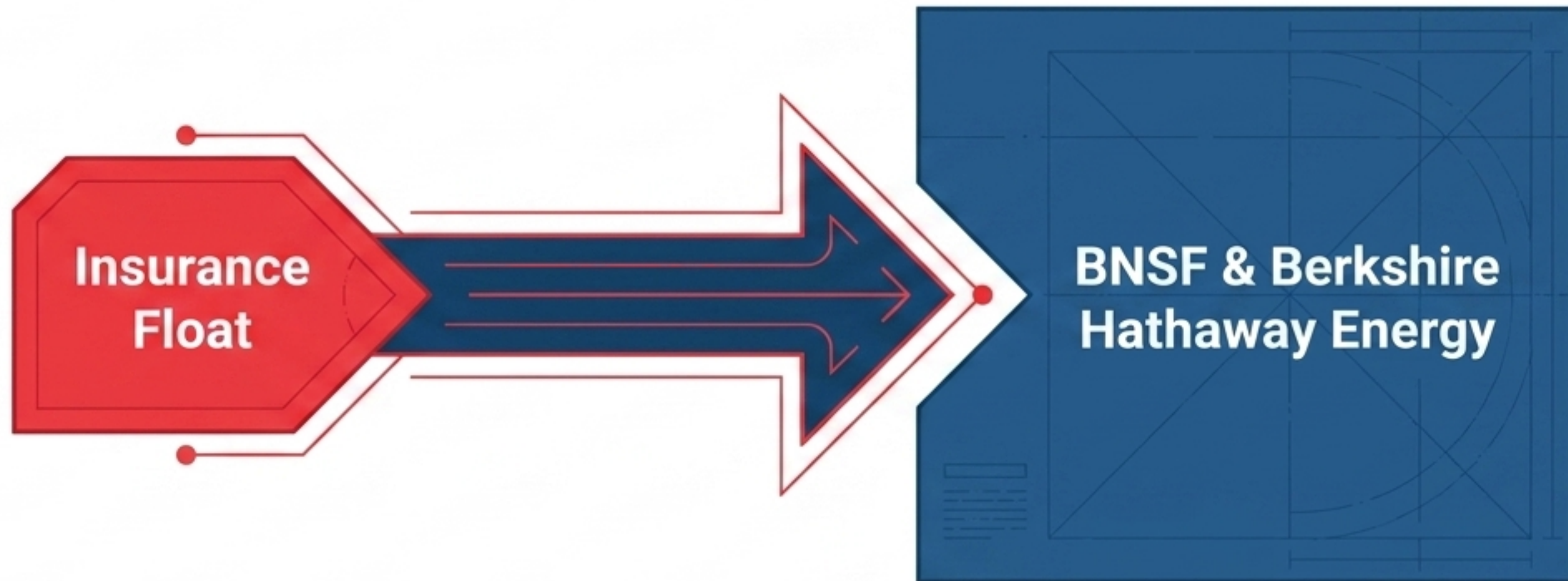
Capital intensity is the moat.

What costs a great deal to build costs a great deal to replicate.
Weight protects the position across decades.



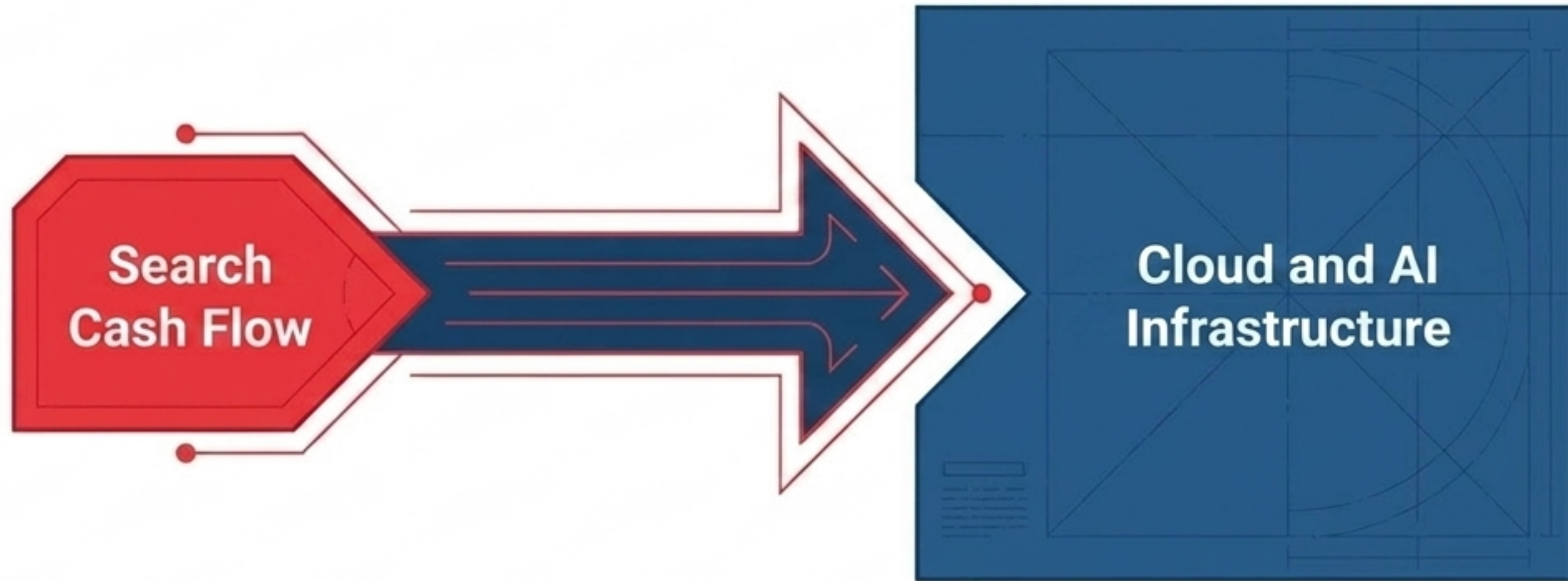
Industrializing the toll: Berkshire Hathaway

Marrying a massive, zero-cost supply of capital with regulated bases able to absorb it endlessly.



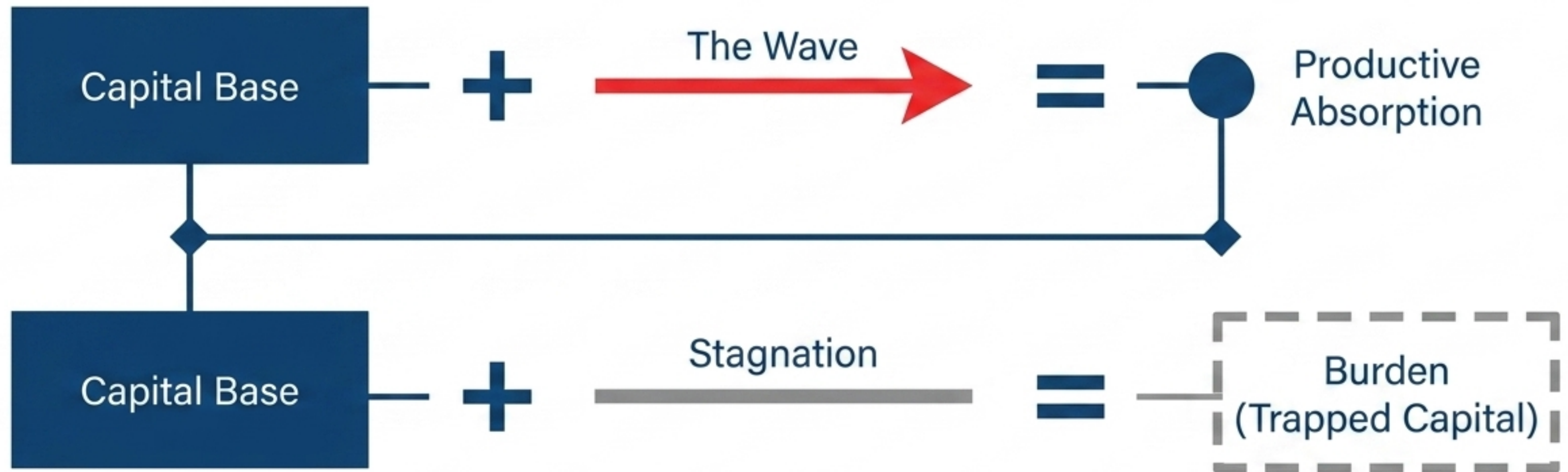
The modern substrate: Alphabet.

A new wave, the exact same logic. Building a capital-intensive base protected by scale to absorb massive cash flow.



Weight requires a wave.

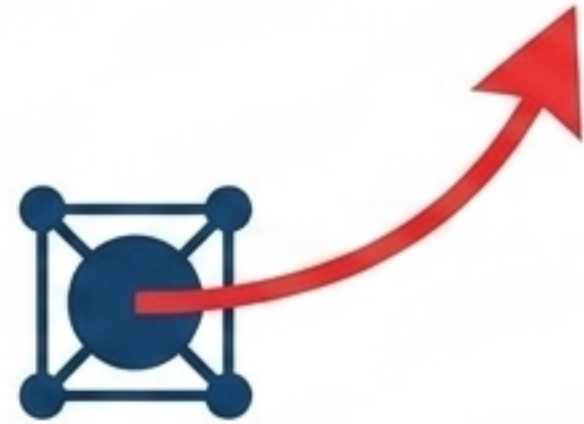
Without secular expansion, capital intensity immobilizes cash rather than compounding it.



When the wave recedes: The Coca-Cola Company.

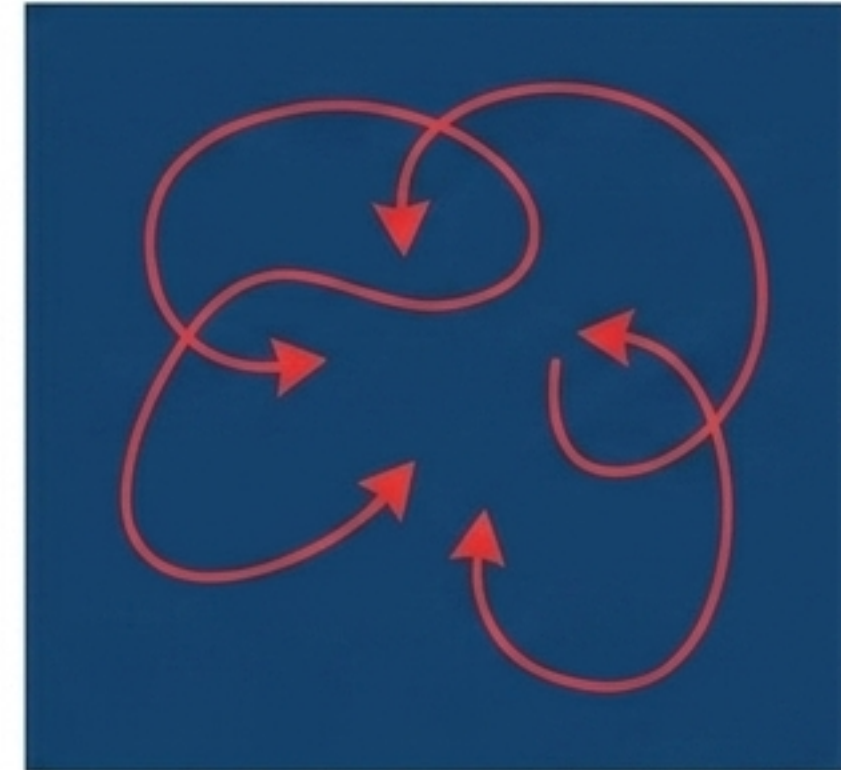
Refranchising separated the light from the heavy when the wave of volume flattened.

Light Concentrate



Returning cash to owners cleanly

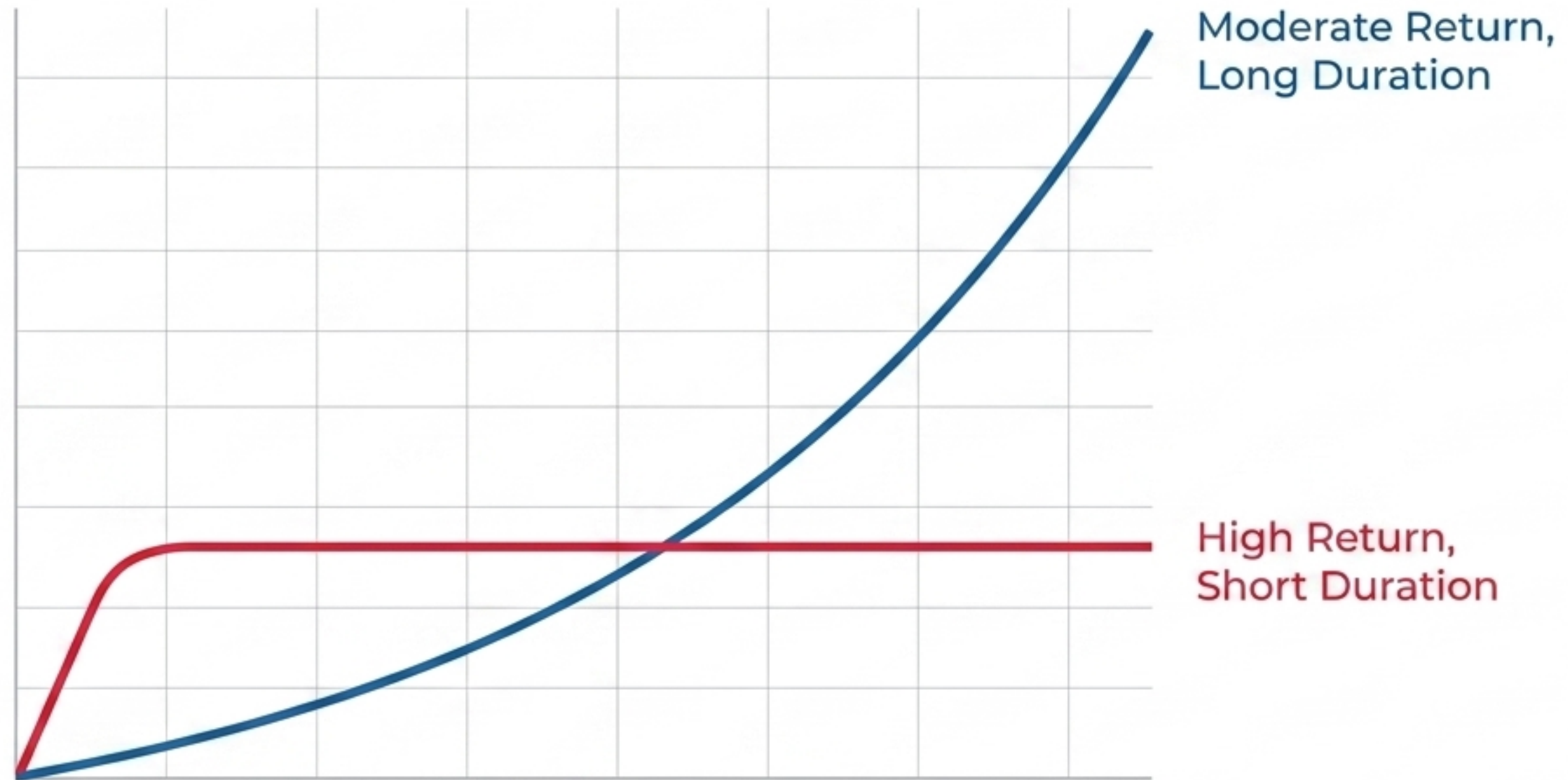
Heavy Bottling



Capital committed to maintaining stagnant assets

Duration as the practical tie-breaker.

A moderate return sustained for a very long time outruns a high return sustained briefly. The structure of compounding rewards time.



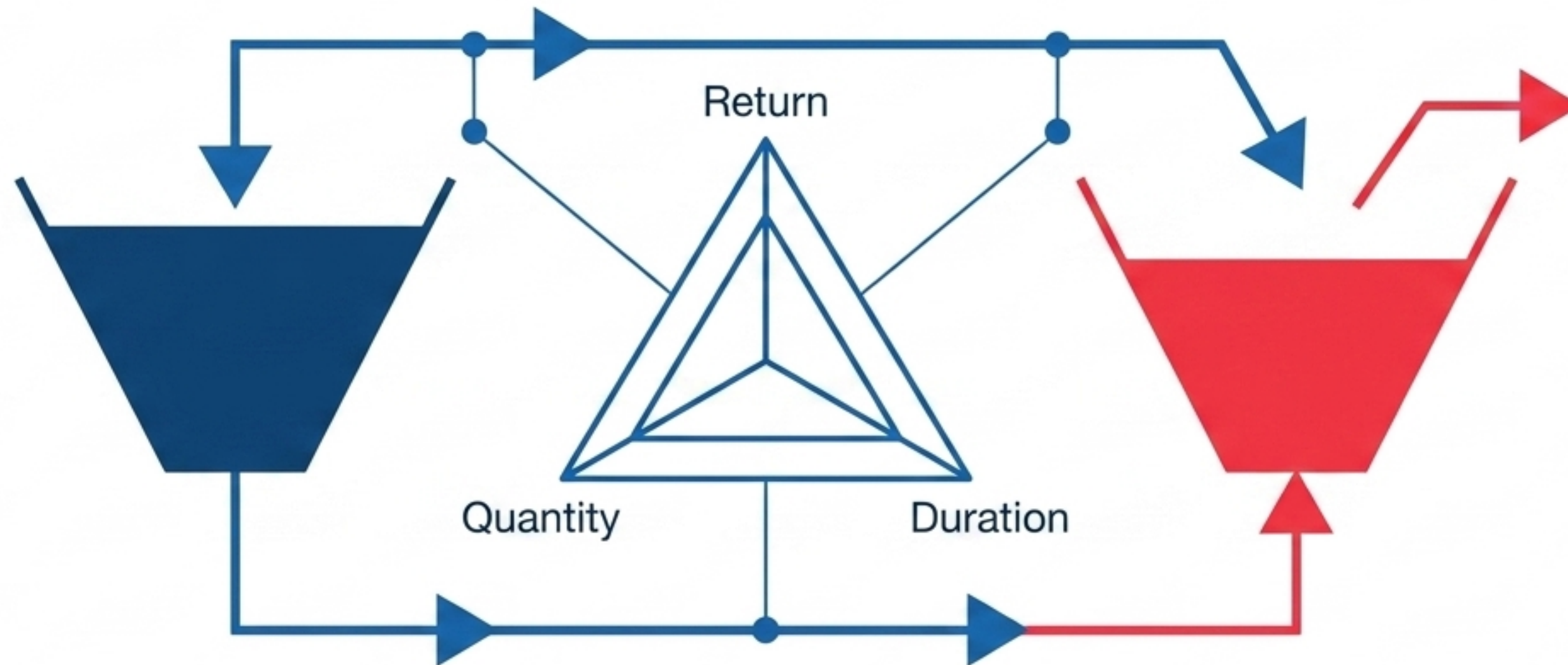
The duration of internal compounding.

Survival and compounding are different measures.
Can it productively reinvest capital a century from now?



Compounding is arbitrage, not optimization.

A business does not choose freely among the three. To buy a business is to buy its specific structural arbitrage, exactly as it stands.



This content is educational and does not constitute investment advice.