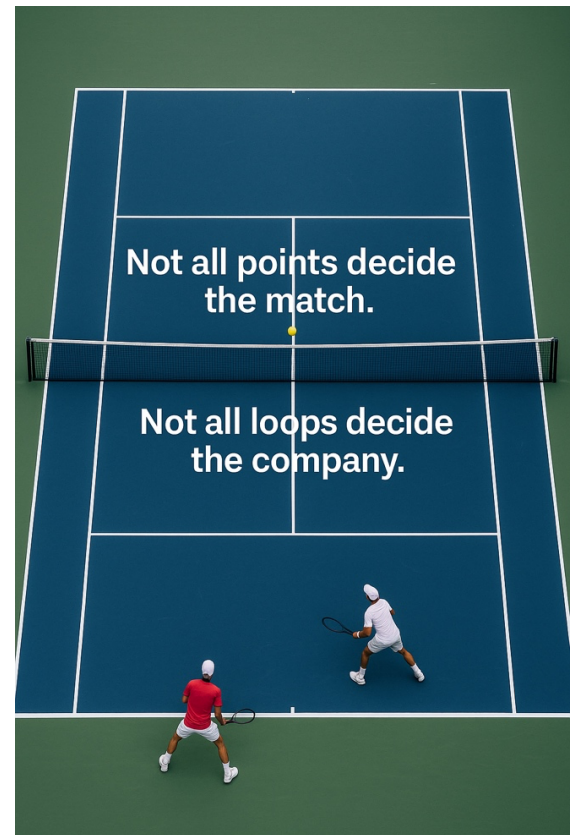


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INSIDE

Most CEOs run their companies in direct violation of the 4% rule, and that's why they decay.

Everyone knows how compounding works in retirement. Almost nobody sees how the same physics determines whether a company survives or quietly bleeds out.



Everyone knows the 4% rule of retirement. Almost nobody realizes that it explains why most companies decay, and why a few compound into dominance.

- By Dr. Daniel M. Böhi and Raanan Shenhav

When financially literate people talk about retirement, the conversation inevitably turns to the safe withdrawal rule, the idea that you can withdraw around 4% of your portfolio each year without running out of money.

The principle is deceptively simple: if you consistently extract less than what your portfolio regenerates, your wealth compounds. If you extract more, you quietly erode the base, and future returns collapse. It is presented as retirement advice, but at its core, it is a physics rule, a fundamental law of regenerative systems. Keep the extraction below regeneration, and the system grows; exceed regeneration, and the system decays. People think they are discussing portfolio management. In reality, they are describing one of the most universal mechanisms of survival and dominance.

Yet almost nobody extends this insight to companies. And that is the tragedy, because compounding, regeneration, decay, and timing are far more violent and unforgiving inside organizations than in any financial portfolio.

Warren Buffett understood this long before the rest of the world caught on. Berkshire Hathaway is not a monument to clever stock picking; it is a compounding machine designed around the simple idea that as long as the system regenerates faster than you extract value, the base expands exponentially. Buffett reinvests relentlessly, avoids unnecessary extraction, preserves the base, and lets time magnify the gains. This discipline, rather than any esoteric genius, is what makes him the world's most famous serial compounder. But here is what CEOs routinely miss: Buffett plays in a system that *permits* compounding. Companies do not.

The 4% rule works only in linear, infinite-ergodic systems: systems where returns average out over long horizons, volatility smooths over time, shocks dissipate, decay is limited, and one primary loop (capital) dominates the outcome. Financial markets behave this way. Real companies do not. They operate in a non-linear, non-ergodic environment where shocks accumulate instead of averaging out, where the consequences of a single mis-timed decision can permanently bend the trajectory downward, and where internal decay forces quietly compound beneath the surface long before any financial metric reveals the damage.

This is not an academic distinction. It is the difference between survival and decline.

Unlike a portfolio, which operates within a single loop, companies operate across dozens of interdependent loops: product, customer trust, brand equity, talent momentum, innovation velocity, operational quality, decision latency, leadership credibility, organizational energy, pricing power, and many more. But here is the uncomfortable truth that most CEOs never articulate: not all loops matter equally, and not all loops matter at the same time. Companies do not behave like diversified financial portfolios where each component contributes a small, stable portion of return. Companies behave more like complex, interdependent organisms, where a few loops produce most of the regenerative power, and where the decay of just one critical loop can destroy the entire system.

This is what non-ergodicity means in practice: in markets, bad years average out; in companies, bad years scar the future. A year of delayed decisions does not "average out" when competitors move forward. A lost customer trust loop does not revert when the calendar turns. A period of declining innovation velocity does not magically heal. A stretch of leadership indecision permanently lowers organizational energy and momentum. In companies, these effects accumulate, compound, spread, and metastasize. There is no averaging mechanism. There is only one trajectory, and it can shift quickly, quietly, and often irreversibly.

This is why the 4% rule collapses as a management analogy. In a portfolio, withdrawing a bit too much money in one year may be inconvenient but rarely fatal. In a company, extracting too much energy, credibility, talent, trust, innovation, or renewal at the wrong time can permanently erode the compounding capacity of the system. In a portfolio, you can catch up later. In a company, "catching up later" is the single most prominent delusion executives tell themselves. Later does not come. Later is already gone.

And yet this does not mean companies are helpless. It means something far more critical: that CEOs must manage timing as aggressively as capital. In non-ergodic systems, timing is everything. A handful of decisive moments shape the next decade, not the average of thousands of small decisions. Companies do not win by consistently outperforming every day; they win by being ready and fully energized at the exact moment when the decisive loop opens. That window may be brief, unpredictable, and unforgiving, but it is always decisive. Companies that miss these windows accumulate decay. Companies that capture them accumulate an advantage.

To help leaders operate effectively in this kind of environment, we built the Compounder's Law and the A.G.E.R.E. framework (Age, Gain, Energy, Renewal Velocity, Enterprise Value). If the 4% rule tells retirees how much they can safely extract without eroding their base, A.G.E.R.E. tells CEOs where they must invest, at which moment, in which loop, and at what velocity to expand their base. It is fundamentally a system for identifying, measuring, and accelerating the handful of loops that truly determine the enterprise value trajectory.

A.G.E.R.E. does not assume that all loops matter. It assumes the opposite: only a few loops matter at any given moment. And among these, only one or two loops are truly decisive. The job of leadership is not to manage everything; it is to identify which loops are compounding, which are decaying, which are neutral, and which are silently approaching their point of irreversible inflection. The companies that dominate are not the ones with the best processes or the most talent. They are the ones who know which loop is decisive *right now* and who have the internal energy to accelerate that loop with force when the window opens.

This is where most CEOs underestimate the real driver of compounding: human energy. A portfolio does not get tired. People do. A portfolio does not lose belief. People do. A portfolio does not lose trust in leadership. People do. The entire compounding mechanism of a company depends on psychological capital (PsyCap), the internal energy that powers loop activation, loop acceleration, decision readiness, renewal intensity, and the willingness of teams to perform at their best when it matters most.

The decisive moments that determine whether companies compound or decay do not come with warning labels. They do not announce themselves. They do not give you a warm-up period. They arrive without a schedule, and when they arrive, the organization either has the psychological energy to respond or it does not. And this is why human energy is not a soft concept; it is the single most crucial enabling force behind any compounding dynamic. A decayed PsyCap loop kills momentum faster than a recession, a competitor, or a technological disruption. It destroys the ability to activate the right loop at the right time. It creates a form of organizational latency that compounds decay.

If you want to understand compounding inside companies, stop looking at financials and start looking at energy. The companies that dominate are those that can mobilize full energy at the decisive moment, not those that perform uniformly well at all times. This is why elite sports analogies are not clichés; they are accurate. Champions do not win because they play perfectly every point. They win because they play perfectly at the few moments that decide everything. Business is no different, except that the consequences of mis-timing are far greater.

The 4% rule helps you retire safely. Warren Buffett applied his underlying logic to build one of the most extraordinary financial machines in history. But Compounder's Law, together with the A.G.E.R.E. framework, helps companies survive and thrive in a non-linear, non-ergodic world where compounding is harder, timing is more unforgiving, and decay is far more catastrophic. The physics is the same, protect the base and accelerate the gain, but the stakes are infinitely higher. A retiree faces personal financial risk if they miscalculate. A CEO faces the collapse of their company's regenerative loops, a loss of competitive edge, a downward spiral in enterprise value, and the irreversible erosion of trust, talent, and future potential.

So now the most critical question is brutally simple: which loop in your company must never be allowed to decay? And is it already decaying?

If you cannot answer that, your compounding advantage is already slipping, whether you see it or not.

If you want to explore how Compounder's Law or A.G.E.R.E. applies to your company, we're in Zürich, one conversation away.

To find out more about "The Compounder's Law": Böhi, Daniel and Shenhav, Raanan (2025): Compounder's Law: Engineering Competitive Advantage with Endogenous Loops and Psychological Capital;
<https://www.researchgate.net/publication/395442105> Practitioner Manuscript.

Get in touch!

To sign up for the "Loophole Letters" or if you would like to discuss a specific topic in greater depth, please get in touch with Dr. Daniel M. Böhi or Raanan Shenhav:

info@pond29.com