Can you tell me about your past mistakes?

Throughout the years, I have had countless conversations with fellow analysts about how our job as professional skeptics permeates all areas of our lives. Whether watching a television commercial, discussing the premise of a show or movie, going shopping, or casually speaking to loved ones, this skepticism can come across as a wet blanket snuffing out any sprouts of levity. Quite frankly, in social situations, overly critical stances and opinions can be received as extremely annoying and even pseudo-intellectual. Allowing one's professional defense mechanisms to unrestrictedly seep into one's personal life can cause unintended disdain. I have been told on many occasions to just relax and stop analyzing every little thing. In defense of all analysts, I want to firmly state that the reasons for this behavior are very textured and need careful unpacking – it is extremely difficult to restrain skeptic muscles and intuitions that have undergone many years of professional training.

I am keenly aware of the never-ending intellectual debate between qualitative loyalists and quantitative-leaning analysts about the potency of their respective approaches. Undoubtedly, there are irrefutable merits and limitations to each school of thought. However, I believe there is a high degree of consensus around the assertion that some mix of both approaches is needed to attain the ultimate goal of finding the truth. Qualitative exploration tends to be more nuanced and involves critically assessing biases and challenging norms with the fluidity of life experiences, while quantitative methodologies usually exhibit a good degree of rigidity and are also relatively easier to transfer and/or replicate. Qualitative probing, executed deftly, with experience and history as a foundation, is an exceptionally effective endeavor when attempting to minimize the asymmetry of information during investment due diligence.

One thing I know with certainty is that all qualitative investigations should be undertaken with humility, empathy, and respect. As analysts, we need to always remember that it is fundamentally easier to be a critic who pokes holes in the work of others than to be in the arena putting much more than just our reputations at risk. Yes, we are doing our jobs, and we have stakeholders to whom we are accountable, but the pursuit of doing excellent work should not be misinterpreted as being superior to others. This wordy but extremely relevant quote by Theodore Roosevelt serves as a sobering check when my sense of self starts to overinflate or when my ego starts veering towards being insufferable:

"*It is not the critic who counts; not the man who points out how the strong man stumbles, or where the doer of deeds could have done them better. The credit belongs to the man who is actually in the arena, whose face is marred by dust and sweat and blood; who strives valiantly; who errs, who comes short again and again; who spends himself in a worthy cause; who at the best knows in the end the triumph of high achievement, and who at the worst, if he fails, at least fails while daring greatly, so that his place shall never be with those cold and timid souls who neither know victory nor defeat."*

One potent tool within the Swiss Army knife of qualitative due diligence questions is "Can you tell me about your past mistakes?" This query is a formidable litmus test of General Partners'

("GP") character, and it also possesses the ability to conjure up a wide spectrum of visible body language signals that range from cringy sweaty discomfort to increased attentive engagement. It is akin to the mythical job interview question that has perennially inspired global intrigue "Can you tell me about your weaknesses".

Asking for the specifics of past blunders creates the opportunity to adjust the direction of investment due diligence. This question is most effective when asked after the exchange of pleasantries and after many of the routine self-flattering GP pitch has been heard. A decent amount of rapport and sincerity should have been established before the response can be assigned relevance. With the aforementioned prerequisites mentally confirmed, an analyst can calmly ask the GP to expound on past mistakes. The body language witnessed around this generally uncomfortable topic is a very important data point. Did the GP take this question in stride? Was there a change in eye contact? Did the established rapport feel eroded after this question was asked? It is critical to note that the qualitative essence of this question underscores the fact that there is nothing concrete about the interpretation of body language. Although most of us cannot feign a high level of psychological expertise, there is still little doubt that this seemingly simplistic inquiry can crack open a valuable window into the respondent's mind.

Another aspect to consider is how prepared the GP is for this question. Did he/she have answers ready? Preparedness gives insight into how seriously a fund manager takes the issue of past errors. However, over-preparedness can also signal the likelihood of stock answers that carry little value within the universe of due diligence information. A GP that allows an analyst to choose which mistake to delve into is usually conveying signs of overall confidence and, more often than not also indicates that the organization has learned from its mistakes and will likely not repeat them in the future. In addition, a GP who is willing to be vulnerable when explaining what has been done wrong historically demonstrates maturity and the implementation of corrective measures. On the other hand, any visible signs of scrambling or incoherence when describing past mistakes could be deduced as a problematic lack of introspection or a warped sense of future infallibility.

Defensiveness is another thing to watch for. There are always reasons (some good and some bad) for past errors. An analyst is generally not playing a "gotcha" game – most of us are just trying to rationally reduce the degree of should-be-expected surprises that occur during long-term unions. Most analysts expect to see weak/bad investments in a GP's portfolio. On their own, weak/bad investments are never categorically viewed as a harbinger of future weak/bad deals. Weak/bad deals could be errors in judgment, rookie fumbles, or indefensible miscalculations. Good analysts are informed by the assertion that "an error does not become a mistake until there is the refusal to fix it". A defensive response is generally worrying because it does not show enough respect to the asker of the question – it assumes that admitting past missteps makes one irredeemable and it does not acknowledge the delicate tightrope of thorough due diligence.

The "past mistakes" question is particularly useful when used in conjunction with other due diligence work. It is not a magic bullet by any means, but it does open up more paths for further questioning. Some will argue that the question is too retrospective – there is truth to this, but most qualitative and quantitative analyses are backward-looking. The goal is to use as many past actions/events as possible to soundly inform the potentiality of future happenings.

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