

Strong Opinions Weakly Held

There is no better place to watch human nature in its full splendor than through the lens of capital markets. Maybe due to necessity born of circumstance or merely because of the inherent fragility of any stance taken in the private markets industry, opinions, for the most part, tend to be strongly stated but weakly held. We tell ourselves that to be a great investor, we need dexterity of thought. We tell ourselves that curbing dogma and having a ductile mind will eventually lead us to the promised land of outsized returns. Are these tenets true, or are they just well-veiled forms of self-deception designed to give us the flexibility and justification to do anything and everything? There is no need to get on an accusatory high horse with this one because the bending of so-called “firm stances” runs rampant in all annals of finance. Actually, it might just be a human trait, because there are examples of about-faces in all walks of life – parenting, politics, corporate, sports, etc. However, about-turns sting a little more in the world of investing because students of the art have long been taught that long-term, eye-on-the-prize discipline is the most essential ingredient of success.

The phenomenon of backing away from stated core views warrants in-depth study. In such cases, accountability tends to take a backseat to a self-aggrandizing notion of the evolution of thinking. Well-regarded discipline all of a sudden gives way to elastic thinking and adaptability. It is truly fascinating to watch the mental knots that are both tied and untied to justify the reversal of central and fundamental doctrines.

I've reflected on why I've often observed that strong opinions in private assets investing are typically held loosely. Here are some of the points I have developed.

- **The perceived attractiveness of the opportunity erodes cornerstone principles:** Exceptions to rules are typically driven by some perceived amazing opportunity that makes it acceptable to act in nontypical ways. You see this with both GPs and LPs. “Yes, we stated that the most optimal fund size for our strategy is this, but because of the current fantastic opportunity set of potential deals, we are going to double the fund size”, “Yes, we have stated on many occasions that our sweet spot for deals is this, but because of the amazing one of a kind nature of this particular deal, we are willing to pay up substantially for it”, “Yes, the fees and carry for this fund are outrageous and nontraditional, but it’s a hard to access fund that just granted us access so we have to do it”, Yes, we never participate in funds that require us to also allocate to their other vehicles to get exposure to the one we want, but because they have given us the opportunity to invest in such a renowned organization, we are willing to make the exception”, “Yes, we have it as part of our investment policy to never pursue funds of that magnitude, but this particular humungous fund is doing something so different that we clearly see a path to outsized returns”, etc. The game of mental Twister can induce vertigo in any bystander, let alone in those participating with shameless dexterity. This is not unlike those online memes in which the appropriateness of a romantic suitor's words is judged by the attractiveness of said suitor.
- **Experience can be a double-edged sword:** I have seen several reports where fraudsters state that the easiest marks are those who are the most suspicious of fraudulent behavior or those who take more precautions than the average person against fraud. I believe the same can be said about investors with the most experience regarding what to avoid. The more years of experience one has and the more understanding one has of what to avoid, the more likely one seems to feel most equipped to buck the trend or go against the grain of expectations. I believe this is commonly described as “the curse of expertise”, “overconfidence bias,” or “inattentional blindness”, where the expert is prone to tunnel vision because their focus is on something very nuanced/technical/complex, rather than the glaring bypassing of what they know not to do. I have fallen victim

to this many times, and what I realized is that rational observers seldom intervened because of all the goodwill I had built over the years through clear-minded decisions. It is almost as though the reasoning of others is “he has been doing this for way more years than I have, so if he says this time is different, he is likely seeing something below the surface that I cannot”. I am quite sure this (among other things) is why some employees at companies, or even citizens of countries, follow the irrational instructions of a leader or subject-matter expert, even when most of them are truly scratching their heads.

- **The lure of the sweet-sweet temptress, FOMO:** FOMO will eventually tempt us all. The gravitational pull of not wanting to be left out is a true menace to even the most seasoned investors. FOMO in investing takes many forms, but the one I am most used to is when intellectual firepower is harnessed to make a decision look devoid of FOMO, even though savvy spectators can smell it a mile away. This goes without saying, but a current FOMO trend sweeping private assets investing these days is “AI”. Buyout, growth, venture, real estate, real assets, and even credit GPs are all talking about AI. A venture capitalist recently told me that startups that don’t have “AI” in their name or in their business proposition are having a very difficult time securing financing. That is how FOMO typically creeps up on you – it shows up in an all-encompassing manner and engulfs everything around you, making you feel that if you don’t willingly participate, you will forever be kicking yourself. With AI, you will hear smart people say things like “I am not interested in the application layer, I am a picks and shovels type of person and that is how I will participate” or “where is all the electricity going to come from, that is where I will play” or “let’s not forget about the credit side of all these massive projects, that is my focus” or “I am more interested in how AI will disrupt the most boring industries so that is where I am setting up camp”. FOMO, you sweet-sweet temptress.
- **Chasing performance/performance anxiety:** This scenario is a tricky one because it typically appears when a portfolio has experienced weak performance from a steadfast adherence to a coherent investment philosophy. A perfect example is what is happening in the market currently - private assets investments are generating weak returns while public markets are generally soaring. Many CIOs with healthy private assets allocations (grounded in a philosophy of long-term returns from value creation through operational improvements) are likely exhausted from hearing various stakeholders make statements like, “Why don’t we just allocate the private assets capital to the S&P?” Weak-stomached CIOs can and have succumbed to such simplistic but gnawing pressure, leading to a jettisoning of core philosophies to appease critics and chase performance. A measured amount of empathy can be dispensed to these pressured CIOs, but it is difficult to be totally sympathetic to their plights because you should not get any points from compromising the expertise you were hired to deliver.

This piece is less of an indictment of investors than a mirror held up to the fragile architecture of conviction itself. In private markets, principles often bend not because the facts have changed, but because opportunity, ego, FOMO, and pressure make compromise feel sophisticated. The danger is not in changing one’s mind; it is in mistaking surrender for wisdom. True discipline requires knowing the difference between thoughtful adaptation and the quiet abandonment of what we once claimed to believe.

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June 28th, 2026