

Love Means *Always* Having to Say You're Sorry

By Mariko Gordon

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This year marks my 25th wedding anniversary, which, given my inauspicious start in the relationships department, is pretty remarkable. **Yes, my first boyfriend dumped me.** Thankfully he was a gentleman so he didn't disappear without offering me valuable feedback: Stop being so damn critical.

My offense: he'd prepared a lovely picnic, one involving strawberries and Cool Whip, and because I have a thing about plastic food (despite a hypocritical weakness for Doritos and Filet o' Fish sandwiches) I suggested that real whipped cream would be preferable.

No one likes a food zealot, never mind an ungrateful wench.

And while I've learned since then to show appreciation and gratitude for what works and brings delight, it's not easy being a Pollyanna - **I'm hardwired to find mistakes and want to fix them** (whipped cream would have totally been better).

So it's not surprising that I became a money manager, as **our mistakes are calculated in real time and down to the penny, blinking red on my computer monitor for extra emphasis**, lest I fail to notice that we are costing our clients money.

Making mistakes and fixing mistakes is not the same thing

While it's easy to tote up investment mistakes, it's a lot harder to gauge whether a firm ever learns from its mistakes. **Investment mistakes are easy to analyze and compare, what's not so easy or obvious is the analysis required to implement improvements**, thereby avoiding (or at least reducing) similar errors in the future.

To quote from one of my new favorite books - **George Box's [Improving Almost Anything](#)** (how could a self-improvement freak not love that title?):

"Nothing is perfect and Murphy's Law says that the day-to-day operation of the system itself can help to tell us what's wrong with it. The catch is that it will only tell us if we listen. If we don't listen then the bug that's in the system will cause the same glitch to happen



again and again. [...] Another way of saying this is that 'every operating system supplies information on how it can be improved and if we use that information it can be a source for continuous improvement.'"

To Mr. Box's point, **I would suggest that to ignore a firm's culture around mistakes is ... a mistake.** Why? Because in practice it's not whether or not money managers will make mistakes, it's simply a question of when. **What you want to know is how they will react when those mistakes inevitably occur.**

Intransigence, denial or fear do not lead to healthy, sustainable growth in either business or investment portfolios. **A mistake is an opportunity to fix the root causes** and make a good thing (picnic with strawberries and Cool Whip) even better (picnic with strawberries and real whipped cream).

Embracing mistakes leads to unexpected bonuses

My buddy Ben Dattner, whose book [The Blame Game](#) is hot off the presses, writes about the huge benefits to hospitals that institute a policy of copping to their mistakes, rather than indulging in a strategy of "defend and deny." Malpractice lawsuits drop dramatically.

Further research showed that **hospitals with the most cohesive and best-led medical teams actually reported MORE errors than their peers.** Why? Because their willingness to disclose mistakes let them learn from and avoid repeating them. **Those hospitals that reported the fewest errors, on the other hand, had cultures of fear** (and had worse outcomes than their peers). They *made* more mistakes than the better hospitals - they just didn't report them.

In the financial world, investors performing due diligence may ask about investment mistakes, but they often do so in an anecdotal way. **They're more interested in specific examples of mistakes rather than assessing how mistakes are tracked, analyzed and dissected.** Personally, I think it's more useful to ask the question broadly and see what sorts of mechanisms firms have to **systematically track and learn from mistakes.**

Are their errors lower than average because of a culture of fear (off with their heads!)? Or are they higher than average because they want to learn how to do a better job? Which firm are you willing to bet on when they're having a patch of underperformance? The one based on heads rolling or the one continually learning from its mistakes?

Operational mistakes need to be considered as well

Investment mistakes are easy to see and track; **operational errors are harder for outsiders to observe but equally deadly.** And while on the investment side past performance has already occurred (and, as the saying goes, is not a predictor of future



results), **when you hire a money manager you are betting on a particular investment and operations platform** with an expectation that they will be sustainable and scalable in the future.

For an operational take on attitudes towards mistakes, the various error logs money management firms must keep for compliance reasons (plus some others they *should* keep) may be of interest to investors. **If you find an error log devoid of entries, you're likely viewing a "defend and deny" report** rather than one born of true perfection.

One thing is for sure ... mistakes happen. Cool Whip is served. Seventeen year-old know-it-alls get schooled in the ways of love. After all, what is life but an exercise in continuous improvement?

Mistakes are opportunities for learning, but in order for learning to take place, they need to be treated with tender loving care. After all, how we address our mistakes can be the difference between having an exquisite picnic and getting dumped.

P.S. Hugh, if you're reading this, our 25th anniversary is sometime in the next 90 days. It would be an operational mistake to not get the date right.

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