

In The Trenches_ Conversation ...h Brent Beshore (October 2024)

Fri, Oct 25, 2024 1:30PM 1:11:23

SUMMARY KEYWORDS

investment process, due diligence, controlling factors, industry importance, business model, margin and speed, seller integrity, forced virtue, portfolio construction, uncorrelated assets, risk mitigation, decision making, pricing power, technology disruption, emotional resilience

SPEAKERS

Speaker 1, Steve Divitkos, Brent Beshore

S Steve Divitkos 00:00
Hey, Brent, welcome back to the show, my friend.

B Brent Beshore 00:02
Hey, thanks for having me.

S Steve Divitkos 00:04
It's great to have you here. We spoke for the first time couple years ago, and most of that conversation revolved around your experience as an operator. And so today, I want to take a somewhat different angle and dig into your experience as an investor, and I'll admit at the outset that many of these questions are somewhat self serving and self indulgent, because many of the things that I'm going to ask you are things that I'm wrestling with as a newish investor transitioning from operator. So I'm excited to personally learn from your experience. And this first question actually might be the one that I'm struggling with the most as a newish investor, and that is, is a long list of detailed questions, a sign of a thoughtful and engaged investor, or is it a sign of somebody who hasn't yet figured out what is truly important?

B**Brent Beshore 00:57**

Yeah, I would say, it depends on which phase of the investment process you're in. So when I was an inexperienced investor, I would just ask a ton of things, because I just didn't know what I was doing, and I was just trying to find some foothold to get some information and give me a better idea of what was going on. I think as I've gotten older, the the number of questions I asked early on in the process is much fewer. I'm trying to circle in on what are the three to five key things that are the I would call them like controlling factors, that if you get those right, you can get a lot of other stuff wrong, and the investment is going to turn out just fine. And if those three or five things, if you get any one of those wrong, it's going to be going to be pretty challenging to depending on the price, it's been pretty challenging to have a good investment. So early on, I almost think about this as a gating process, right? It's a multiplicative system. You've got to get through all the gates, and there's, there's lots and lots of gates, depending on how you count, the earliest gates, I think are just, hey, is there a willing seller? Is the price within reason compared to the quality of the business? And what are the like, I said, three to five things you gotta know about the business to make it investable. When you get past that, and you sort of, you develop a relationship, you get comfortable with sort of those three to five things, you move on to the, what I would call like true exploratory due diligence phase. That's when you can roll out a long list and say, Hey, I just got to check the box, right? Like, are there liens on your property? Have you committed felonies? You know, how does your accounting system work? Like, how long have, you know, what's the tenure of employees? You know, what's the compensation levels? How's compensation changed over time? How do you think about incentive comp? You know, all the stuff that you're going to want to dig into to to really round out the experience of, okay, what is this business? But, I mean, look, any business that we're going to invest in, by definition, hopefully has been successful. So you can assume there's a lot of good stuff going on. The question is, just why and where does the moat, if you want to call it that, or the competitive advantage, where does that lie? And unfortunately, in the size of businesses that we typically invest in, most of the time that moat is in the seller, which makes it really challenging to transfer. And so that's another kind of key area that I'm always trying to focus in on, is how much of the moat is in the seller, versus it's dispersed throughout the the organization.

S**Steve Divitkos 03:19**

You know, I read a book recently by Brad Jacobs called How to Make a Few Billion Dollars. I'm looking at it as we speak on my bookstand, and one quote that he said in that book that seems relevant to this conversation is you can get a lot of stuff wrong as long as you get the big trend right. And your answer, in part, at least suggested to me that when we think about big trends we might think about, like industry or macro considerations. Is it fair to say that you spend a lot of time thinking about that as a gating item before you dig into the very detailed, nuanced questions? Or is that an oversimplification?

B**Brent Beshore 03:55**

I would say certainly industry matters, business model matters. But there's a lot of nuances. You know, my favorite purchase is a business that is in an industry that is maybe not super sexy, that doesn't look that attracted from the outside. And maybe with a business model that, on first blush, isn't that differentiated, but when you get actually underneath the surface, and there's some kind of key indicators that you can talk about, you know, the two that we like to think about a lot are margin and time to pay. So if you have high margins, it means you're valuable to your customers. If they pay you quickly, it means you're valuable to your customers. So there's something going on that's non commodity. If you can take a high margin, quick pay business and it looks like it's a business, maybe that's a commodity. But we like to dig in underneath the surface. I mean, most of the time, you know, our favorite purchases are things that look like they're one thing and actually behave in a very different, very different way. So certainly, industry matters. I mean, look, I have no idea what the price of oil should be, if we're going to get into something that that at least even rhymes with the price of oil. That's going to be something that's going to be a sort of a check against it. We don't know what the price of oil should be, and if it's going to go up a ton when oil goes up or down a ton if oil doesn't, that's really just a naked bet that we're making. So we're going to want to see it doesn't mean it's disqualifying. It just means that there's going to be a lot of other things that we want to really press in on understand. Okay, how can we maybe blunt the trauma with the variance in the price of oil, and then just really, again, looking at the business model and saying, you know, I think the difference. Brad Jacobs is trying, and I've listened to a few of his things. I haven't had the chance to read his book yet, but it's actually on my on my bookshelf as well. But what I heard in a few of the interviews I've listened to was he's really trying to bet on, like, a big secular trend. We're often not doing that. So if anything, we're kind of betting against big, secular trends. You know, we're going into something like fence building and saying, okay, fences have been around for 1000s and 1000s of years. Do we think that fences are going to become less relevant in the future? I don't think so, at least that, that irrelevance is going to be pushed out so far in the future that it makes it inconsequential to us now.

S**Steve Divitkos 06:05**

Yeah, well, it sounds like you went through a similar, I guess, struggle earlier on in your investing career that I'm going through. I think what I attribute it to is like the former operator in me coming out, I think as a CEO, especially, CEO of a small business, your life is spent in the weeds, and I've just found it incredibly difficult to extract that way of thinking for me as an investor. And I think the searchers that I work with who are looking to acquire businesses, I think half of them love the amount of detail that I get into, and the other half understandably, absolutely despise the amount of detail that I attempt to get into. So at the risk of being intellectually lazy and just attributing it to one thing, honestly, I just think it's the former operator in me that I don't think I'm ever going to be able to extract from my way of thinking.

B**Brent Beshore 06:51**

I think that's really good, though. I would say is, don't shy away from your strengths. I mean, I'm a former operator too, right? And in many ways, I still consider myself far more of an operator than an investor in many ways. The thing is, you gotta, you gotta learn over time. And this is where I think that I've, you know, what is the value of judgment? Experiences, you know, hitting your face on the pavement over and over again and learning from it. You know, it's focusing on the right things at the right time. And sometimes you really do need to get into details and understand what is the minutiae? Because the minutiae matters. Often it doesn't. And so deciding when it matters and when it doesn't, that's judgment. That's what wisdom is. That's come from experience. And so, I mean, that's why from a permanent equity perspective, people are like, How in the world would, why would you guys put everything online? I mean, like, we've we published our entire due diligence checklist. We told you the reasons behind why we do certain types of due diligence. Why is that? Because you can't replace judgment. We're unconcerned with somebody coming along and saying, Oh, well, now I've got a checklist. Now I can do what we do. We're not worried about that, right? I mean, because we know how hard it is, we know how brutally difficult the actual work is, so we're happy to share, we want the industry to be better.

S**Steve Divitkos 08:00**

Okay, let's move on to idea number two. And I know that you are a fan, as are so many of us of Warren Buffett and Charlie Munger. So Warren Buffett has famously said price is my due diligence. So I want to get your reaction to that. Is that an oversimplification and a bit of marketing spin, or is that truly wisdom to live by?

B**Brent Beshore 08:19**

Okay, so do you know the history of that quote?

S**Steve Divitkos 08:23**

I do not think so. I'd love to learn about it, though.

B**Brent Beshore 08:26**

So that was actually a quote said to me, not joking during dinner with Buffett, based on me pestering Buffett with all kinds of due diligence questions. This was a dinner.

S**Steve Divitkos 08:36**

Okay. It was related to the question we just discussed.

B**Brent Beshore 08:39**

It was Buffett, it was Todd Combs, it was Ted Cites, and Patrick O'Shaughnessy and I, and it was a five of us, and we had like, a three and a half hour dinner at at Buffett's Country Club. And I came in with just a guy came in hot with a list of, you know, all the questions that I'd never heard him ask before, all focused on the earliest days of Dempster Mill and Sanborn Maps and all the stuff that was relevant, I feel like to what we do now, when people talk about, you know, Berkshire or Buffett, like, I'm like, well, which one are you talking about? Because there's been like, five eras of Berkshire, I'm really interested in, really the first era, maybe a little bit into the second era, right? Like, I stopped paying attention, because it's really just not relevant for the most part, for what I do for a living. Anything past, like the mid 1980s. And so, you know, when I was in that meeting, in that dinner, and I kept saying, okay, so how do you think about this? How do you think about replacing leadership? How do you think about the speed in which you're going to move in terms of, you know, ability to write a check on a deal, and he kind of in the most kind and caring, Buffett way, he got annoyed with me, and he just wanted to put the hammer down and stop me pestering with questions and move on to more important things, like Notre Dame sports, which we talked about for half the dinner. And he said price is my due diligence. And I remember, like saying, like, Oh, that makes sense. Right? He's like, he's like, look, at the end of the day, I use price as a proxy for, how much can I tolerate in diligence. And that makes complete sense. And, I mean, I think it's the same way that that we try to think about as well. I mean, we bought a business that if it had been widely marketed, had some real bad blemishes on it that were obvious. And if it had been widely marketed, probably would have been a, you know, seven or 8X multiple business, great business model, but had a lot, I want to emphasize a lot of hair on it. A lot of hair. And we know we bought it for about a three times multiple. I remember going to our legal team and look, lawyers are trained to just spot risk everywhere, right? And they're not good at calibrating the amount of risk and the magnitude of risk compared to the reward. And so I went to our legal team and I said, Hey, I understand you're finding tons and tons of things that are wrong with it. I don't disagree. What I need from you is, I need a list of all the problems that you think the reason why you don't think we should do this deal. And so they list out all of the problems, and I said, I need you to put the probabilities that those things come true, and you can even give me ranges, but we're going to use the midpoint of the ranges, right, and then I need to understand the magnitude of the of the problem, right? And when we added all that up, the magnitude of the problems that they were coming up with were like a couple million bucks. And I was like, great in this deal, this particular deal, I am perfectly happy to pay a couple million dollars extra after close. If all of those things come true, right the close over all of them, price is my due diligence. Now, the reality is, maybe one of them came true, and I think the total cost on it was under \$100,000 so oftentimes, you know, I think the danger is you get yourself into a position where you overestimate the likelihood of risk coming to pass, or you can get yourself into the opposite position, which is you underestimate it, right? So again, this is where the judgment comes in, and why there's no replacement for just experience and sort of the acquisition of wisdom over time.

S

Steve Divitkos 11:59

So that process that you just articulated, where you list the risks, you try to quantify their effects, and you assign some sort of probability to it, is that the tool that you guys utilize to avoid the risk of, let's say, falling in love with a deal because of purchase price, only? And the reason why I asked that is Because I've seen particularly new acquirers, younger in their careers, I often see them kind of falling in love with a good purchase price, and as a result of that good purchase price, they ignore risks and sources of hair and imperfections that they would otherwise be unwilling to ignore. And in some cases, deals are cheap for a reason, right? There's the value trap for lack of better words.

B

Brent Beshore 12:40

Of all cases, businesses are cheap for a reason. Like the market is actually pretty efficient, that the only difference is in our area the market, that we can do something about the risk. So we always talk about it internally as, it's not that the risks aren't there, it's that we feel comfortable in mitigating the risks. There's a huge difference between the two. So somebody else who would buy the same business, it could be a complete failure. In fact, I would say half our businesses that we bought could have been a catastrophe, catastrophic failure for another buyer. And you know, look, we're dangerous for us, but we felt comfortable with our resources and our experience and our network to be able to mitigate those risks.

S

Steve Divitkos 13:20

So, every deal, obviously, is highly specific, idiosyncratic. Are there any risks that you would see and right off the bat, disqualify a deal as a result of those risks. So seller integrity, for example, is one that comes to mind that tends to be a pretty, pretty reasonable risk to just walk away from an otherwise attractive deal. Is there anything else like that, in your world, where you look at it, you say, Absolutely not?

B

Brent Beshore 13:43

I don't know. Seller integrity is one we could even talk about.

S

Steve Divitkos 13:46

Let's talk about it.

B**Brent Beshore 13:47**

I mean, I would say we're all messy. We all have, under different circumstances and different pressures we all have feel a pull to act in ways that maybe we would otherwise won't ignore. And so I would say, as we go into every transaction thinking about a concept we call forced virtue. So how can we through the arrangement of incentives, through maybe the contractual relationship, ensure a level of virtue that the at least highly aligned incentives to encourage Virtue, post close, and we've gotten into some situations. We bought businesses from people that were very challenging post close, and thankfully, we were able to say to them, Hey, I understand you're not happy. I understand that you, for whatever reason, want to do something different. I would remind you that your incentives and our incentives are pretty perfectly aligned. And if you want to go shoot your gun at somebody, if you shoot it at us, you're hitting yourself, and so maybe let's work through things, and let's calm down and let's not do something stupid. And I would also say, depends on the level and degree to which you're going to work with the person post close. So the old adage you can't do a good deal with bad people. I think it's pretty true. I would say, pay attention to that. But if somebody is willing to step out of the business, or is excited about stepping out of the business, and really will have very little day to day involvement, post close and you can get comfortable that the moat is largely, if not completely, outside of sort of their purview. Again, these are a lot of ifs you can do deals with some pretty challenging people, and we have, and I would say some of those deals have been the best deals we've done.

S**Steve Divitkos 15:47**

So I mean, are we talking about a difficult and quirky personality, or are we talking about a seller who has not paid her taxes, who has been unethical with her suppliers, who has paid, you know, contract laborers in cash to avoid paying, you know, the government remittances. Like, are we talking things like that, or are we talking about just like a understandably difficult and unique personality?

B**Brent Beshore 16:11**

Both. We've done both, we bought a business before that. I mean, we multiple businesses we bought, we've said to the seller, hey, we're going to self report post close to various government agencies and raise our hand and say, Hey, we, you know, we bought this business. This business is not following the rules. We want to follow the rules. Will you work with us to get into compliance? And that's just part of the due diligence process. And we've, we, you know, there's a, really, there's a great process, honestly, for all the crap the IRS gets for not being helpful. There is a process with the IRS to have an anonymous discussion with the IRS without reporting first, to be able to say, Hey, this is what we're thinking about getting involved in. Can you walk me through the consequences, and how would the IRS consider this matter? Again, not telling you what we're doing, not telling you what we're buying. We're just telling you, hey, this is the situation, and the IRS is actually very happy to work with you to try to mitigate that type of thing. I would say that the former that you talked about having challenging personalities is almost par for the course. So if you think about, and I always think about the world in terms of selection biases, right? Because I think it's so dominant, and so it's so obvious when you look at it from this direction, but it's invisible for most people. It's like, who starts a business? Usually in order to start a company and to stay with it for a long enough period of time to grow into something that we would acquire, it requires a certain disconnect from reality. It requires a certain level of arrogance, a certain level of grittiness and stubbornness maybe, that is uncommon in the general population group. And so this is also what, what unfortunately causes a lot of these businesses to hit the ceiling of brute force. Brute force, where, you know, nothing that they can do will ever get past kind of the level they're at, because the same attributes that got them into business and help grow the business to where it is, will not allow them to continue to grow the business, right? So they tap out, right? Usually it's mostly control issues, a lack of willingness to trust others. You know, all the things that somebody else is worried about, it's a mirror of their own challenges. It's a mirror to their own downfall. And so I would say the norm, and by the way, we love, we enjoy working with this type of person, is to work with somebody who's probably going to be pretty divergent, intellectually and from an emotional perspective than than the typical population group. And so we think of it as our life's work to work with these groups of people and help transition these businesses and treat them incredibly well, and oftentimes they become our friends. But man, there are some tough conversations that have to occur. Almost every transaction includes some very challenging conversations, and you just, over time, you get better at well, I know not to do it that way, and I know not to do it that way, eventually, over time, I think you get better at it.

S**Speaker 1 18:44**

Let's zoom out a little bit and talk about the portfolio as a whole. I'm curious if you guys are explicit about portfolio construction, or do you just simply invest in the best opportunities as they present themselves.

B**Brent Beshore 19:22**

It depends on the level of conviction we have. So we think about portfolio construction a lot. We'd like to have a basket of uncorrelated assets. And when you look at the investing category of investing in an organization, like a permanent equity as an LP, you know, I think our LPs would say that they're excited about buying into an uncorrelated investment that has uncorrelated assets, right? So, you know, 2020, everything's going down. Our stuff's fairly fine. 2021 it's going through the roof. We're pretty steady, like we just don't go through the massive undulations up and down and sort of follow the general market. We have made very large bets as a percentage of the fund, into certain companies based on the conviction that we've had. And you know, if you find something that you feel like is, you know, I would say once in a lifetime opportunities seem to come around every two to three years. So they're not truly once in a lifetime opportunities, but they're rare opportunities. And you can spot them, there's something unusual about it, and I've never seen one that we've invested in that's that's not turned out to be that way. You just, they just have a feel to them. Now, you could choose to only do those in your career, but I think you're also probably generating sub par total returns on an equity pool if you do that. So that you can't always be shooting for only sort of the once in a lifetime deals, but when you find them, you are, we are willing to invest a disproportionate amount of capital into those, and that very much rhymes with sort of the investing greats. The challenge is, if you do it and it doesn't go well, you're screwed. I mean, there is a tremendous amount of risk to doing it, and there's existential risk on behalf of the firm. I mean, you know, you either look like a genius or an idiot, and you're neither, is often the case.

S**Steve Divitkos 21:19**

So permanent equity has grown considerably over the the many years that you've been running yet. And I'm curious again, this is something that I'm not yet struggling with, but as I contemplate raising my second fund, it's certainly something that I'm worried about. So as your firm has scaled, how have you personally avoided the trap of becoming too busy, and as a result, limiting the amount of time that you spend simply thinking?

B**Brent Beshore 21:44**

Yeah, so many different ways to attack this. I think the pinnacle of of anyone in leadership is to be always useful and never necessary. That's the standard that I try to hold myself to. That's the standard that I think, that we encourage our CEOs to become. We encourage a lot of our leaders in the organization. It's a really high standard. So, always useful, never necessary. If you get yourself in a position to be always useful. It means you're still in touch. You still understand what creates value. You're still able to put your talents to work. You're able to pick and choose how quote, unquote busy you are. And sometimes you know, you can say, hey, I could insert myself into that, but it's not worth it, whereas other times, you say, it is worth it. But the having the choice to insert yourself, or to not insert yourself, is is really the pinnacle of business leadership. So I try to, you know, follow that for me as well, I would say I go through seasons where I'm better at it than others. My role has changed over the years, and I fill different roles in different seasons for permanent equity. When I think I'm at my best is when I am in seasons where I'm always useful, but never necessary, and I think I'm hopefully entering into that season right now. I mean, if you look at my calendar, I try to keep it fairly open. I think probably the biggest challenge I face I was, I was actually talking about with my counselor yesterday, I said to her, right? You know, I said, the hardest no for me is somebody who is kind and generous and reaches out and says, Hey, I am where you were, 5, 7, 10, years ago. I would love to get 15 minutes of your time. I have these burning questions I'd love to ask you. It feels terrible to me to say no to that. And so, I mean, I get a decent amount of these now, and so I have to be really careful with how I spend my time in that way, because it's far easier for me. I'm less disciplined, and it's people pleasing. I mean, to be completely honest, it's not a good thing. This is not like a if that came across as magnanimous or kind like that's not what I was trying to say. It's purely that I hate disappointing people, and it's easier to actually disappoint people that I know than people I don't know. It's a weird quirk of mine, and I hate it, but I think that's where I'm probably slipping the most, is taking on too many of those instead of saying, Hey, I wish I had the time. I'd be happy to maybe answer an email, or if you have any specific questions, happy to answer those. I sometimes kind of do it that way, but is incredibly costly, and I sort of put the cost aside of hopping on the phone for 15, 20, minutes with six, seven people a week. It just totally disrupts your ability to, as you said, think. So trying to be more disciplined on it, but obviously doing so imperfectly.

S**Steve Divitkos 24:46**

Are you making these time allocation decisions when each opportunity presents itself? Or do you lean on any like frameworks or rules or tools that you utilize to guard your own time and make sure that you're spending it at a. Highest and best use?

B**Brent Beshore 25:02**

Yeah. I mean, I try to think about as concentric circles of commitment. So obviously, I'm most committed to my marriage. You know, my wife comes before anybody else, and I want to treat her as such. And I've gone through seasons where I haven't treated her as such, and it's been challenging. I think I'm in a season now where I try to prioritize my wife. The next ring out is my children. So what they need, I mean, yesterday is my daughter's eighth birthday, picked up takeout, took it to school with her. My wife and I enjoyed lunch with her. I had a lot of other stuff to do, but look, you know, that's a commitment that I've made and that I feel very strongly about and excited about doing that. I would say the next ring out are more extended family and close friends. I'm going to make time for them, and then, of course, my coworkers and the people I've made a long term commitment to here at permanent equity. Like I said, the challenge for me, though it's easier and I'm more disciplined, because I think that I have more clear boundaries set with that. It's always the new and exciting and shiny thing that comes along. I love new ideas. I love new people. I love to interact with them. I want to treat them as made in the image of God. So it's really hard for me to dismiss people, and oftentimes I get squishy on exactly on the opposite end of where I should be, and so that's where I'm trying to do better work in that area.

S**Steve Divitkos 26:32**

Aren't we all my friend. Moving on to the investing decision making process, I'm curious how frequently, if ever, do you break your own rules when making an investment decision? So for example, investing in an industry you said you would never invest in, or paying a multiple that you said you'd never pay or assuming a risk that you said you'd never assume. To what extent have you broken your own rules, for lack of a better way to put it, and if you have, what have you learned as a result of having done so?

B**Brent Beshore 27:02**

It's a great question. I think what I've gotten to is hard and fast rules are makeup for inexperience, and so I would say, the the more experience I get in my investing career, the less rule driven I've become. I think if you'd asked me five, seven years ago, you know, what is the maximum multiple you'd pay for something? I would have said, Oh, I can't imagine, five times, maybe five and a half times. You know, the question is, five and a half times? What? You know, if you're paying five and a half times garbage, it's going to be garbage either way. We paid everything from a two point some multiple on true free cash flow, like owner earnings, all the way up to 10 plus multiple on certain deals. You know, when it comes to industry, I mean, we have a very eclectic mix of companies. And so there are very, very few rules now that I would say are true rules, you know, one would probably be, we don't have a taste for restaurants. Just in general. We've seen enough restaurants, and we think there are specialists in the restaurant business that can do it better than we can and already have economies of scale. And so we just shy away. We from time to time, see pretty attractive, you know, restaurant businesses that have come through, I think there's just something we're like, that's just not us. Yeah, traditional retail has been an area that we just haven't really. We just think it's a very difficult business. And there's so many different wins buffeting that business, it's just going to be difficult to kind of get clear signal in it. Like I said before, oil and gas has been an area where I know some great investors in that area, and, you know, buddy of mine joked to me one time, he's like, Hey, have you ever seen oil deal come out of Texas, just know, I passed on twice. You know, I think about that a lot, right? So I would say those are the types of things that we largely when we were kind of screening, hey, we're going to probably not be towards those things, although we'll take a look at them and see if, hey, maybe there's something different, unusual. I mean, look, we looked at, I don't know, a tremendous number of clothing businesses through the years and said no to every one of them that thought they were the most garbage long term businesses we'd ever seen. And of course, the public markets are littered with graveyards of investors that thought that they could get into clothing business and make money in it, and just it got torched. We made our largest investment history the firm in a children's clothing brand in Southern California called riling crew, and crew, and it's been wonderful. We just had our board meetings last week, and the father and the daughter who co founded the company are amazing. We love the business. It's way ahead of projections. We love the business model. It's been a very good business for us, and we're excited about it for a long time. So we'll kind of break, you know, I don't if that's breaking a rule, it's looking at a lot of things and saying, no, no, no, no, no, and then occasionally coming across something and saying, Wow, that's very different than the others that we've come across.

S**Steve Divitkos 30:10**

So related to the idea of rules, I'm curious to do you guys use checklists when making or at least sanity checking investment decisions, and if you do, what have you learned about when they're useful versus when they're less useful?

B

Brent Beshore 30:26

Yeah, well, so, I mean, so we have a tremendously long due diligence checklist that we're running through that is that is all tied up into, ultimately, the price we're paying. So I would say is, yes, we're very big fans of checklists. We want to make sure that there's nothing that we just happen to miss that's an obvious like, Oh, we didn't ask about environmental risk or something like that, or we didn't dive into contracts that they had. I mean, we're going to be reviewing all of those types of things, you know, in terms of the value of it. I mean, I think it's not going to improve your thinking broadly. It's just going to make sure that you didn't screw up and not see something that was obvious in hindsight, I think is in we're always adding to those lists too. I mean, I feel like every deal is an opportunity to find a way that we could have gotten screwed or maybe did get screwed. I mean, every single deal, we're like, Oh, we've surely seen it all at this point, and something new will come up that we hadn't seen before. So we're always trying to add to those checklists and make sure that we're at least covering all the bases.

S

Steve Divitkos 31:25

So from a due diligence perspective, that makes a great deal of sense. How about when you're sanity checking whether or not to make an investment? So an illustrative checklist in that regard, could say, I don't know. Is the industry large? Is the industry growing. Does the company have pricing power? Are its margins above X? Is our entry multiple below Y? Like, do you guys use checklists of that variety when sanity checking whether or not to even engage in the due diligence process?

B**Brent Beshore 31:54**

Yeah, I mean, so yes, I would also say that in our diligence checklist, are those types of questions. Well, though, because what we try not to do is have a investing checklist and a diligence checklist. It's actually just all the same thing. I mean, what you're trying to do is you're trying to put together a portrait of, what does the company actually look like, right? And maybe it's more like a puzzle, right? You're getting a little puzzle pieces here and there, and you're trying to round out, okay, broadly, what do we think that we are buying? So when we are running through the diligence checklist, it is an exercise in the investing. We're always trying to ping and say, Okay, does this make us less likely or more likely to buy the business? Almost always, in due diligence, the company doesn't get better. So you're almost always chipping away at, if you want to call it margin of safety, or whatever the terminology you want to use, whatever the value buffer you have built in. And we'll even say to some companies like, hey, the price that we're paying for this, there's not a lot of margin and due diligence, like, if we find that things are not as you say they are, we're not going to have much margin to continue forward with the deal. Other deals, we go into it and say, hey, look, we know that there's going to be a tremendous amount of stuff we find, and we built it into the price. Price is my due diligence, and that's just part of it. You know, every deal that we do, we write a memo that is extremely detailed about the thesis and about the core controlling factors that we believe are key to the why we want to buy the business, and key to the long term, not only survival, but flourishing of the business. That's a good litmus test. We so we write that going into due diligence, by the way, and then due diligence is verifying and trying to understand how much of that holds up. We had a deal recently that we had two of the three controlling theses break in due diligence, and we said, hey, this isn't even a close decision. Like the answer is no. But we very clearly go into every single diligence saying this is the core reasons why we're interested in the business, and this is how we want to kind of think about evaluating it.

S**Steve Divitkos 34:00**

Back to your personal role as the leader of the firm. What do you think is the most important part of what you do at permanent equity that is least well understood by those on the outside looking in?

B**Brent Beshore 34:12**

I mean culture and people for sure. I mean, yeah, every I feel like every great organization has a flavor to it that is an extension of the founder or of the person who is is, you know, at the top. When you get into sort of the professional managerial class, I feel like this is where it gets squishy and you find, you find companies with no soul, like it's very clear permanent equity is an extension of who I am, and now it's been tremendously augmented by we have an incredible team, and I can't imagine not being on the journey with them. But my job is to, you know, Coach the coaches. Is to help understand, you know what are we willing to board and punish? What are we excited about? Where do we go in the future? What do we want to do more of? What do we want to do less of? Certainly, in collaboration. But no, I mean, I the most important thing I do is to make sure that the the right people are in the organization and doing the right things. And by the way, people are complicated and messy, and so there's always going to be room for improving communication, helping build trust. And it gets mocked on, you know, shows like the office or whatever, like we're not doing Trust falls. But man, I tell you what trust building and how we set up the office, and what we do together, and how we do it, and what is the pacing, and how much can we take on? All these are critical, you know, feel type decisions that really, I think are probably the most crucial to what we do, like the mechanics of what we do and that, like how we find companies, how we negotiate with them, how we diligence them, document them and buy them. That's pretty well established, and I feel comfortable that if I were to get hit by a bus tomorrow, that like, we would continue to make really good investment decisions. You know, I would worry most about just the culture, and it's just ever so slight. You can kind of operate on the fumes for a while, but there are just some tough conversations that have to occur, and how you get people to work together, and very different types of people. Our team is extremely diverse cognitively, very diverse emotionally. We come from very different backgrounds on the team, so there's a lot of opportunity when it's going poorly. There's a lot opportunity for friction, and I would say is when it's going well. It's a tremendous superpowers that everyone can bring to the table and really use together.

S**Steve Divitkos 36:39**

You mentioned how permanent equity is an extension or reflection of yourself, at least in some ways. And that reminds me of when I was running my software company, I experienced what I often refer to as this idea of contingent happiness, which is to say I was about as happy as my company was successful, and of course, I hated that that was the case, but it was inescapably so. So I guess the question is, how do you avoid, if it is indeed possible to avoid this, how do you avoid tying up a lot of your own identity and sense of self worth and overall happiness? How do you avoid kind of hitching that to the wagon of the commercial success of permanent equity?

B**Brent Beshore 37:23**

It's a great question. I would say that at various points, well, okay, the degree to which you can get high on the success is the degree to which you can get low on the failure. Right? So it's very much a double edged sword. And when things are going great, the stress of keeping them going great, it builds and builds and builds. I would say my identity was very much into my 20s and probably midway through my 30s, very much tied up in the business. And I would say, is incredibly toxic for me. Maybe you could handle it better. I lived in a pretty constant state of anxiety and discontent and irritability that I don't think made me better worker at home. And so look, largely part of this is my faith background, like, I believe I'm a steward of the business. I don't believe I'm the owner of the business. I believe that it is my job to receive whatever it is that God wants to make the business. It's his to build and his to grow. And so I try to be a good steward to the people that we have, to our customers, to our vendors, to all the stakeholders. And ultimately, if it wasn't my ingenuity, it wasn't mine that I built it, then I don't have to have the burden of it being something that if it's taken away from me, or if it goes in a different direction, that's okay. I'm going to trust that that's that was for my good. And I feel like that really has freed me up to be way more gentle and kind and calm and considered, which probably has dramatically increased the quality of the business and the quality situation for everyone. I think that if you asked people I work with, you know, am I a better leader today than I was five years ago? It'd be unbelievably, of course, resoundingly, yes. Do I show up differently to work? Absolutely, 100% so I feel like that the tying of identity to performance creates a real a real danger that I think most of us are taught at an early age, right? I mean, all of us, at the end of the day, we want to matter and we want to belong. That's what we all want. At a pretty early age, we're usually taught that in order to belong, in order to matter, you have to perform. And so we constantly get on this treadmill of performance, and how do I do the next thing and provide the next thing, and I'm only as good as the most recent performance I've had, and it's exhausting, and it feels really shallow and hollow. And so yeah, I would say I've been there, and I've suffered through that, and thank God I'm most days not there anymore. Occasionally, get yourself into a position to help. But most days, I'm not.

S**Steve Divitkos 40:02**

Let's transition to the part of the conversation that will be especially indulgent and especially self serving for me, what I want to do here is present you with a emerging list of what I refer to as my own investing first principles. So these are quick sanity checks that I go through when evaluating any given investment. And what I'd love to do is we'll go one by one. I'll bang off each one. And from you, I'd like to hear A, do you agree or disagree with it? And B, why like what in your experience either supports or refutes the idea in question. So let's start off with Maximum number one, a good opportunity should just smack you right in the face. If you have to make a long list of pros and cons, then the answer is no.

B

Brent Beshore 40:49

Yeah, absolutely. 100% agree. The the thesis for an investment should be very simple, straightforward should be obvious. Because especially in the beginning, if it does, if it's not obvious in the beginning, it's not gonna get more obvious. Not gonna get more obvious in due diligence. And you've got to go into due diligence on these things with a with a pretty good margin of safety, or it's never going to work out well.

S

Steve Divitkos 41:11

Yeah, there was, I think it was Mohnish Pabrai, the guy who wrote the Dhandho Investor I'm going to butcher this quote, but he said something to the effect of, if I have to open up Excel to prove out my investment thesis, then I know I should probably say no.

B

Brent Beshore 41:25

Yes, sir, yeah. We always say that our math is easy, easy on the back of a napkin.

S

Steve Divitkos 41:32

Okay. Number two, this is a pretty straightforward one, no quick or forced decisions. If I have to skip any part of my process, then the answer is, no.

B**Brent Beshore 41:42**

I'd probably disagree with this one. It depends on the price. So it depends on the price and the circumstances. If there's a reason, there needs to be a reason, it needs to fit. So oftentimes we'll have intermediaries who are trying to jam things down, like trying to get things done quickly for at no reason other than they just want to get it done. And, you know, speed kills all deals, time kills all deals, and all that stuff. We sidestep all that. We say, Hey, we're going to take our time. That's appropriate. But I would say, there are certain situations that we've come across where, for whatever reason, there's a weird, unusual situation that requires to move with a with a heavy amount of speed. And if you can get comfortable that the price is appropriate to make up for the diligence that you're missing, I think that that's a good reason to move forward now, most of the time the answer is, hell no, don't do that. You're going to get yourself into trouble. But I think that that's where, again, having the flexibility to say, the best deals that any investor will ever do are ones that there's something weird, unusual about the deal that makes it non marketable and makes it where there's some unusual aspect to it that makes it appropriate for you. Now, the story has to fit, though. Again, the story has to be like, you know, if somebody came to me and said, Hey, weird thing, my I'm making up this scenario. This never happened to us, but I'm just making it up on the fly here, it's like, you know, my husband, he's run this business for 35 years. He got diagnosed with terminal brain cancer. He had a stroke last week. You know, we need these resources to help this experimental treatment, and the treatments coming up in X amount of days. And whatever it is this business, you can see it's had a great history. You can interview anybody in the company you want. You can have whatever access you want, but we've got to get the deal done in the next three weeks or, we're not going to have the cash to pay for this experimental treatment. Whatever it might be. I'd at least look at that and say, okay, man, that's a really unfortunate situation. Sorry, you're going through that. We're probably not going to be a good fit, but happy to do a little work and see if that's something we would do. That would probably be an accelerated timeline and make us uncomfortable broadly. But again, if the price was right, not to gouge people in the situation, if the price is right, you know you're solving their problem, and they're helping you as well. And that's the beauty of a deal.

S**Steve Divitkos 44:10**

So the price has to be low enough to accommodate or account for whatever you may miss in diligence as a result of a highly expedited timeline.

B**Brent Beshore 44:19**

That is correct, yeah. Again, going back to the price is my due diligence. Like, price can build in a lot. You just got to be careful with what are the big downside shocks, right? So if you find something that you're like, look, there's a risk here that whether it's a government agency, or there's a huge customer concentration risk, or whatever the thing would be, where the you know, they won't make up for that price, that's where you got to be really careful and just back away and say no. But oftentimes the risk and the price are mismatched in those situations.

S**Steve Divitkos 44:48**

Okay, this next one might be my former credit investor showing through, but this one says, just don't die. Worry about minimizing downside, not maximizing upside.

B**Brent Beshore 44:59**

Yeah, well, again, it depends on what you mean by that, I would say. So, you know, in the private markets, we can do a deal where we can bind outcomes. So if you think about it, you can use preferred return structures. You can use a variety of different structures to create bounded outcomes. I often think that we try to use them in binding the downside and hopefully not the upside. I think you can get into some dangerous situations where, if you start looking at something as a credit officer right and taking credit risk, obviously, in credit there's a limited upside, there's a defined, limited upside and there's unlimited downside basically. In equity, it's usually the the opposite of that, right? And so we want to think about, what is the likely scenarios that the business will undergo, what is the band of likely outcomes? And we want to think about, how can we shift those band of likely outcomes upwards over time? So not only increase the quantity of earnings, but the quality of earnings over time, which is highly under appreciated. I mean, eventually quality turns into quantity, but over a long enough period of time. And so you may have a business that has made \$3 million a year, but it's kind of like always squeaking by. There's always a last minute thing that happens. It's very different than a business that just clicks off month by month, a very steady amount of cash flow and is growing at sort of a steady rate, really wanting to understand what are the dynamics and likely outcomes of the business, and then really trying to price it appropriately depending on that.

S**Steve Divitkos 46:38**

Yeah. So practically, I guess what I mean by just don't die and protect downside more than maximize upside. I think practically, what that would look like would be something to the effect of like customer retention and or recurrence of revenue and or entry multiple is more important than company growth or industry growth or market size or available white space. That's like a more practical example.

B**Brent Beshore 47:03**

Absolutely, 100% I would agree under that definition. I would 100% agree with you. And I think that I see other investors hoping that the price they paid will work out. We want to pay a price and have the terms where the most likely scenario is we make a really good return and we have the upside to make a great return, like that's what we want.

S**Steve Divitkos 47:29**

Yeah, I found it an interesting transition. Although I was a credit investor a very long time ago, I've just, I've taken note of the fact that as a credit investor, I was trained to think through what could go wrong, but as an equity investor, I guess arguably, my job is now to think through what could go right. And I found it's been very hard to take off my former credit investor hat, even as an equity investor.

B**Brent Beshore 47:29**

I don't know. I mean, I think it's a really valuable mindset, though, to be in. To be honest I mean, I think that we think about things pretty similarly. You know when we're going throughhook, if you're buying something at a call it a five times multiple on free cash flow, or six times multiple. I mean, you're starting yield on that investments, you know, already a pretty decent return, unlevered, yep. So the question you have to ask yourself is, okay, if everything stays on course, and let's say that that cash flow yield is growing by 5% per year, just naturally, kind of over a full cycle. I mean if you just don't screw it up, that'll pay off over time. The question is, you know, will it sustain? And, you know, entropy is a real thing, and things typically don't stay the way that they have been. At least there's a lot opportunity for them to go off the rails. And so we're always thinking about, okay, what are the reasons why things would diverge on the downside from where they've been, but also what would cause them to diverge on the upside? So I think the more narrow the band of outcomes you can actually get yourself in a weird situation where, and we bought businesses like this in the past, they're very frustrating, where you're like, Okay, we can just keep the same team doing the same thing and, you know, make a high teens, low 20s return. But there's all this other opportunity that we could go after. The problem is, if we go after that other opportunity, we open up the company from, you know, going down a little bit to going to zero, and on the upside we go from, you know, high teens, low 20s to maybe, 30s and 40s in returns. But is that, you know, let's call it a 15, 20% chance of going to, you know, mid to high 30s return worth the chance of going to zero? Oftentimes, we look at that and say, not really. And so, we want to get involved in businesses where we say, hey, let's keep the core structure of what made it successful in the first place. And then hopefully we have a leadership team that has the humility, and we have the humility to be able to come alongside and say to them, okay, hey, can we start shifting the business upwards? It's easier said than done, though. I mean, I think that again, the world we live in is littered with people who thought that they could just come in and, quote, unquote, make a few changes. Doesn't turn out so great.

S**Steve Divitkos 50:05**

All that proverbial low hanging fruit, right from the low hanging fruit the unsophisticated seller who built a business that you deemed worthy of betting the next 10 years on.

B**Brent Beshore 50:14**

That's exactly right. Yeah. If it's so easy to do, somebody would have already done it.

S**Steve Divitkos 50:20**

Okay. These next three are stolen directly from Warren Buffett. So I have a feeling I know how you're going to answer, but the risk of asking them anyways, I'll give the maxim, and then I'll try to explain practically what it means. If it's too complicated, move it to the too hard bucket and simply move on. So what I mean there is, let's say you come across a business that has 1000s of paying customers. It's growing nicely, it's profitable. Everything seems to be going well, but in your heart of hearts, you realize that you don't truly understand the nuances of this business.

B**Brent Beshore 50:55**

Yeah, again, it depends on the price you pay. So I think you can make up for a lot of lack of understanding to some degree, based on paying a price that justifies it. So look, most of the businesses we've got involved in, we don't understand all the nuances, but we're paying a price that we feel comfortable we can learn into them. Occasionally, we're wrong, and you're going to be wrong occasionally. I think that's what makes buying one business at a time and putting all your net worth into one business at a time, which is, you know, a large chunk of the small business market so dangerous is that, you know, let's say, at one out of every 10 times you make an appropriate bet and the bet goes wrong, well, again, multiplicative system, you're back to zero. So I think that's where building out the portfolio over time, or having a more diversified source of capital, or only reserving back, you know, reserve back enough capital that you can survive a pretty devastating loss, is important. But yeah, I mean it. This is where the judgment comes into play. I feel like this is, you know, yes, when you say it, of course, if you don't understand something, you can get yourself into deep trouble. It depends on what degree of understanding, and if you can isolate the lack of understanding to kind of like a quarantined amount, that's where I think then you can turn it from being un-understandable in that quarantine box, again, going back to like, example of like, a tax fraud. What are the consequences of tax fraud? I don't know. It could be zero or it could be up to a million dollars. Well, now we quantified this. We can't understand it prior to closing. There's no way to know, it's either going to be somewhere between zero and a million dollars. Well, but you can say that, okay, I'm willing to take that million dollars of risk and I'm willing to build that into the purchase price, and if it goes 100% up to that amount. Now, what you can't do is say, we think it's a million dollars of risk and ends up being ten million of risk. So you got to really make sure you understand at least the box that you can put it in.

S

Steve Divitkos 52:58

Yep. So this next one comes from the idea that I've been asked before, like, if you could only understand one thing about a business before making an investment decision, what would that thing be? And my answer is, pricing power. So the next maxim is, how much will the CEO sweat the night before she has to raise her prices?

B

Brent Beshore 53:22

I mean, it's a great question. And I would say is, I mean, if you think about the two things that I said earlier in this conversation that we really like to look at, which is margin and speed to pay, that's basically an approximation for what you just said, yeah. So yeah. I mean, I would say it's a very good proxy for the quality of the business. And again, you can still get into decent businesses at a decent price and make money doing it. It's just hard, right? I mean, this is the cigar butt thing, in common sort of value investor, Buffett, Munger language, you know, buying a cigar butt which has a couple puffs on it, you know, you're going to pay a discounted price. There's a lot of ways to make money in this world. I mean, do you want to make money by going around and puffing on other people's chewed up, discarded, slimy, disgusting cigar butts? There are easier and better ways to live, I would say. And so you got to be careful with what you get involved in.

S

Steve Divitkos 54:17

This is the last Buffettism, I think. And this is one of the reasons why I am very, very hesitant to invest in software these days, despite having been a software CEO myself for just under a decade, the question, or I guess the maxim, is, am I very confident, or at least, am I reasonably confident that I know what this business will look like in 10 years?

B**Brent Beshore 54:38**

Yeah, I think this is probably one that we most subscribe to. We either want to have a high confidence that we'll know what it'll look like in 10 years in terms of demand, but also in terms of what is going to be the technological disruption so we build swimming pools. Is the ability for people to dip their bodies in water for pleasure, going to change? Yeah, probably not. Is there an AI thing that's going to remove the desire to do backyard barbecues? Probably not. At least, if there is, it's so far down the road now, you know, depending on the geography, risk, depending on, I mean, you know that business is all in Phoenix and Tucson, if there's like, a devastating natural disaster in or manmade disaster in Phoenix and Tucson, that'd be devastating for the business. So I mean, how much can you know about the industry? I think you can know more than, I think what most people would give you credit, at least in certain areas. And then the question is, just again, where's the judgment and where's the wisdom, and how much do you actually know? And trying to have humility and saying, maybe there is a technology that comes along. I remember in our pool business, people were talking about the use of AI and being able to visualize pools in their backyard. We heard about the technology. We were actually one of the first adopters in the entire industry. So we were able to get headsets for our sales team where they could walk people around their backyards, right? You can go learn models. Now, the interesting part is, if you told me, would it revolutionize the industry, I would say, absolutely. I mean, everyone's going to want to come in there, see their backyard, because you can do it so detailed with like, it's actually their house. What type of dog do they have, what type of steaks do they want on the grill? I mean, literally, you can do that level of detail. The interesting part was it was kind of a novelty. We we did it for, I don't know, six or eight months. About half the people got queasy looking at the goggles and and then the other half were like, Yeah, that was interesting. But like, that's not the major decision making point. And so it was like, Oh, interesting. We thought it was gonna have an impact. It didn't. Move on. But I think that we want to feel comfortable that we can be on the forefront of adopting relevant technology, not cutting edge technology, but relevant technology over time, or at least maybe be in a position to not be disrupted by it over time.

S**Steve Divitkos 56:54**

And this last one is, I guess, less of an investing first principle and more of just like a sanity check or a self check that I go through personally. So the question, or I guess in this case, two questions, is, do I have to talk myself into doing this, or do I have to talk myself out of doing it? What would my reaction be if the deal completely fell apart in its late stages?

B**Brent Beshore 57:16**

Yeah. I mean, I love that. It's interesting. Where my mind goes into is, I've been at this long enough now, and I've seen deals die for the craziest reasons, where I don't even get excited about a deal until, like, maybe the day of closing, yeah, until the round paper. I mean, it is like, I have no reaction at all if we're working on a deal and it falls apart halfway through due diligence, no matter how good it is, because I just assume that, like, anything that doesn't make it into the very, very, very final stages is very low likelihood at that point. I mean, even when I ask our team, and, you know, we'll be halfway through due diligence, and I'll say to our team, you know, what's the probability of closing on that? And we'll say, oh, 80, 85%. I'm like, in my mind, I'm thinking like 40% at best, take whatever they think and cut it in half. So, but yeah, I mean, I think it's a good test of, like, are you really excited about the deal, or are you kind of neutral to it? If you're going to commit decade of plus of your life to it, to a company, you better be fired up for it. I mean, this is not a small commitment. I mean, I think it's a feature and a bug in our system, like liquidity is basically zero for these businesses, right? And it takes a tremendous amount of effort to get to any liquidity. So if you're not in love with this thing, I mean, you're gonna have lots of reasons not to love it after you close, no matter what. In fact, there's probably never been a business that we've bought where I've not wanted to sell it at some point. Thank God, I can't, right? I mean, we can, but it goes through a long, arduous process. But I mean, that's where I mean, I admire people who are in the public markets and can poke a buy button or a sell button, and who don't go crazy, because I would be like one of those people that, like, my emotions would override my good sense. And if I could have poke a sell button on a lot of our business, I absolutely would have.

S**Steve Divitkos 58:56**

Yeah, I added this to my process only because, like as human beings, we are uniquely good at convincing ourselves, and we can convince ourselves of substantially anything, and very rarely are we aware when we are convincing ourselves of something. And so this is kind of the investment equivalent of a little thought exercise I used to go through when I was running my company, which is, you know, pretend a randomly selected employee walked into your office and unexpectedly quit. If you're secretly kind of relieved, that's a C player. If it would be kind of a temporary pain, but you could ultimately replace them. They're probably a B player. And if they walk into your office and you face existential dread, and you clear your next three weeks of your calendar to convince them to stay, then you found your A player. So this was my attempt at, like, creating an investment, equivalent of that thought process. Of course, it was not original. I stole that from somebody. I just don't remember from whom, but all my ideas are entirely unoriginal.

B**Brent Beshore 59:56**

Of course, nothing new under the sun.

S**Steve Divitkos 59:58**

That's right, okay. Last two questions for you, Brent, folks would be forgiven for looking at you and seeing success after success after success. So obviously that's not true, because that's not true of anybody. So the question is less to do with like mistakes, because we all make mistakes, and that's how we learn and grow, but more about like, how you think about yourself personally. So the question is, in what areas of your professional life do you still feel less sure of yourself? Where do you feel fundamentally insecure despite your experience?

B**Brent Beshore 1:00:39**

Yeah, I mean, I feel like maybe the, what's that curve where it's like the novice thinks that they know a lot, and then you go through the valley of despair, and you come out the other side, and slowly build over time. Yeah, the longer I live, and the more I do this, the lesser I'm of most things, and the more expectant I am of challenging behavior. I mean, I've seen so much now, having looked at, you know, hundreds, I mean, hundreds of deals in depth, and 1000s of deals, 10s of 1000s of deals, you know, in shallow and having, you know, worked in operating a lot of these companies now for over a decade, it never fails to surprise me what pops up. I think the future is unknown and unknowable. I'm more bullish than ever on, on really thinking about optionality as being paying a premium for optionality. And so I mean that that alone should tell you that I am unconfident in a lot of things. In fact, I'm unconfident in most things. If you'd asked me five years ago what our number one company would be, my sort of star of the show, that's the company that struggled the most. If you'd asked me, what's a company that was not doing great, that's a company that was a home run for us, how things all shake out, it's really challenging, because there's so many different factors that are going into it. And, you know, it's complex adaptive systems, so the exhaust feeds it in different ways too. So I would just say is, where am I not confident? I'm not confident that I'm a great judge of people. I'm not confident that I can ask all the right due diligence questions. I'm not confident that we can start to pay up for businesses because I've got some magic judgment that's kicked in. I am confident that being truthful with people, I think principles, I'm becoming more confident in, being truthful and kind to people is the best call. Always. There's never a time where being nasty and condescending and short term with somebody is the right call, no matter how the game looks. And also like the longer I live, the more I see my own shortcomings clearly, and it gives me empathy and grace for other people's shortcomings. I think we just all have different shortcomings, and we tend to judge our shortcomings less harshly than other people's shortcomings, even though it's the equivalent. We're just doing it differently. So I think that all of that may be summed up as is pay an appropriate price, treat people really well, try to do your best and just ultimately, let the chips fall where they may.

S

Steve Divitkos 1:03:32

So your answer brought to mind another question, and this isn't something that I'm struggling with yet, but I know with 100% certainty I will struggle with it in the years to come. So obviously, like even the best investors are going to be wrong every now and then, right. And so in my portfolio, you know, just to use round numbers, let's say that I have 15 companies, some amount of them are not going to work out. Some, you know, heaven forbid, might go to zero. Some might just otherwise be disappointing relative to my expectations. And as a type A overachiever, I don't do well with failure, so I'm, you know, almost worried in advance of how I'm going to deal with that disappointment. So my question more for you, I guess, an emotional and psychological level, is, what have you learned about dealing with instances in which you have been wrong and something either went very poorly or just went very poorly relative to your initial expectations, as I assume a fellow type A overachiever, what have you learned about dealing with that?

B

Brent Beshore 1:04:31

I mean, I would say the fact that you're even recognizing it now is a huge step. You got to prepare ahead of time, because where I see people get really caught sideways is when failure creeps up on them and surprises them, like you're gonna fail, like it's a foregone conclusion, like no one gets to go through this life without tremendous amount of failure, like hardship, difficulty. Struggle will come. It'll come personally. It'll come professionally. The only way to not struggle is to sort of isolate and guard off your heart. This is why this is a side ramp. This is why I think stoicism is probably the most like poisonous of all of the philosophies. Because basically what it does is it encourages you to shut down your heart, like just feel nothing. Like if nothing matters and you don't care about anything, it's a slightly prettier form of nihilism. And that's not a way to live, like you want to live full hearted. So you want to put your heart into things. You want to care. You want to attach to things. You want to be committed, and you want to experience the joy that comes with that in relationships, in people, and companies. I mean, that is the point of life. How do you deal with failure? I mean, you gotta figure out, you know, am I my performance? If you are your performance, then when your performance suffers, you're going to suffer. And even when your performance doesn't suffer, you're going to be concerned about it suffering. And so you got to ask yourself, like, what is the what is the point? I mean, I was saying this to a friend of mine. If you look at the 30 wealthiest people in the world, almost all of them are divorced and have terrible relationships with their children. Relationships with their children. Those are the 30 most successful financially people in the world. Like, is that success? I think we just ask ourselves, is that success? I don't know. I mean, I think a definition of success would be, you know, if you play golf, it's like, how many times you make a good swing and the ball goes right in the fairway. And you're like, Okay, made a good swing ball went in the fairway. Occasionally, make a good swing ball goes in the fairway, hits a sprinkler head, shoots off out of bounds. Does that mean you made a bad swing? No. Does that mean you should be angry and upset? That's just No, of course, not right? And occasionally, you make a terrible swing and it hits a tree and bounces right in the middle of fairway, right? So you're going to have these things that happen in your life. I think the question is, just what really matters? And I mean, in 100 years, no one's gonna know your name, no one's gonna know my name. Like, that's the stark reality. And if you think it's anything different, you're deluding yourself. And even the people who we do know their names, we didn't know them. We don't really know who they are. So like, we get a limited, finite amount of time on this earth, and the quicker that we can realize, at least, I think, that it's about relationships. Like, people are made for people. We're made for each other, what we get to do together and how we get to help each other. Like, that's the fun part. But like, if we're tied to how well are we doing, it's gonna be really difficult. Now, that doesn't mean be lazy. That doesn't mean don't care that I'm saying the exact opposite. If you free yourself from not if you free yourself from I'm saying I'm not the product of the outcomes, then it actually allows you to do better at the swinging, which will actually create better outcomes. But I think that's the work to disconnect those two things. And believe me, I'm like, I've gone through hundreds of hours of counseling to try to understand, by the way, in a business of our size, I mean, we have a lot of employees now, we have a number of companies. I mean, everything's always going wrong all the time. Somebody's getting cancer, somebody's kids in trouble, something's going wrong, some big customer. I mean, I can literally open up Slack on a daily basis. And I guarantee you, every time I open up Slack, there's some negative news in there. You just got to look at and say, Hey, there's going to be good news. There's going to be going to be bad news. We're just going to keep trying to play the best we can.

S

Steve Divitkos 1:08:05

Yeah, yeah. Well said. Last question for you, Brent, at the risk of putting you on the spot, because this is a bit of a tough one to come up with off the top of your head. But the question is, what is the most meaningful lesson that you've learned over the past 12 months? And it could be anything, personal, commercial, spiritual, intellectual, anything?

B

Brent Beshore 1:08:27

Yeah, I think it actually relates to a lot of what we talked about in this conversation. I think our western culture tells us never to be needy, like if I asked you, are you a needy person? Like, what is the thing that you think about? Are you needy? Steve?

S

Steve Divitkos 1:08:46

My immediate reaction is, no, absolutely no.

B**Brent Beshore 1:08:48**

Of course, I'm not needy. I don't need anything. No, I'm good, right? That's when you ask people, how are you I'm good, Busy, but good, right? Like, we try to be not needy. The problem with not being needy is there's no foothold for relationship. I mean, even I feel this on a call, like I don't have a foothold for relationship with you, because, actually, I don't know what you're really struggling with. I can kind of guess based on some things you've said, but like, you've not let me in. You've not kind of said enough, and this isn't the right format to do it either. But like, I don't have a foothold or a handhold to actually be in real relationship with you. And I feel like that we go through life basically having these stone walls that we interact with, right? We try to position ourselves as these polished, polished walls that walk around to each other, and then we ask each other how we're doing. And we basically pretend like everything's great, like I don't know of a single person, if you really get to know them, that's doing great. Now, I think there are periods of time where there's peace, there's periods of time of prosperity, but man, I can tell you what. Like, there are struggles. Like, I'm in a season in my marriage where things have gotten a little bit better recently, but we've been in some season of struggle. Like, it's been really, really difficult. We've got an eight month old. We've got four kids now, you know, it's busy at home. It's busy at work. I say busy because I hate that term, right? Busy is a choice that you make, but it's just a season like, I don't know how to not feel stretched thin. Now, if you ask me, how are you Brent, I'd be like, I'm good. How are things with your family? I'm good. Right? When we say we're good, we don't give people an ability to actually get to know us. And so what I would say is, I'm trying to be needier, and I'm trying to be more honest about what those needs actually are, because the only way to be in real relationship with somebody is to see their needs and meet their needs, and the only way for them to be in relationship with you is to see your needs and meet your needs. And that's what we're doing for each other, is seeing needs and meeting needs. That's what we want to be. We want to be seen, understood and be known. That's what makes us matter. That's what makes us belong. And so probably the single best thing is, if I look at the tragedy of most men in their 30s, 40s and 50s, especially type A drivers in business, it is, how do we present ourselves as needing nothing and having everything? And it gives us no ability to have meaningful relationships. And that's something that I'm hoping to change a lot.

S**Steve Divitkos 1:11:04**

Brent, you're the man. I feel very fortunate to learn from you, and very fortunate that you were as generous with your time today as you were for the second time. So thank you so much for joining us. I really appreciate it.

B**Brent Beshore 1:11:18**

Thanks for having me on man, it means a lot to me to have me back.