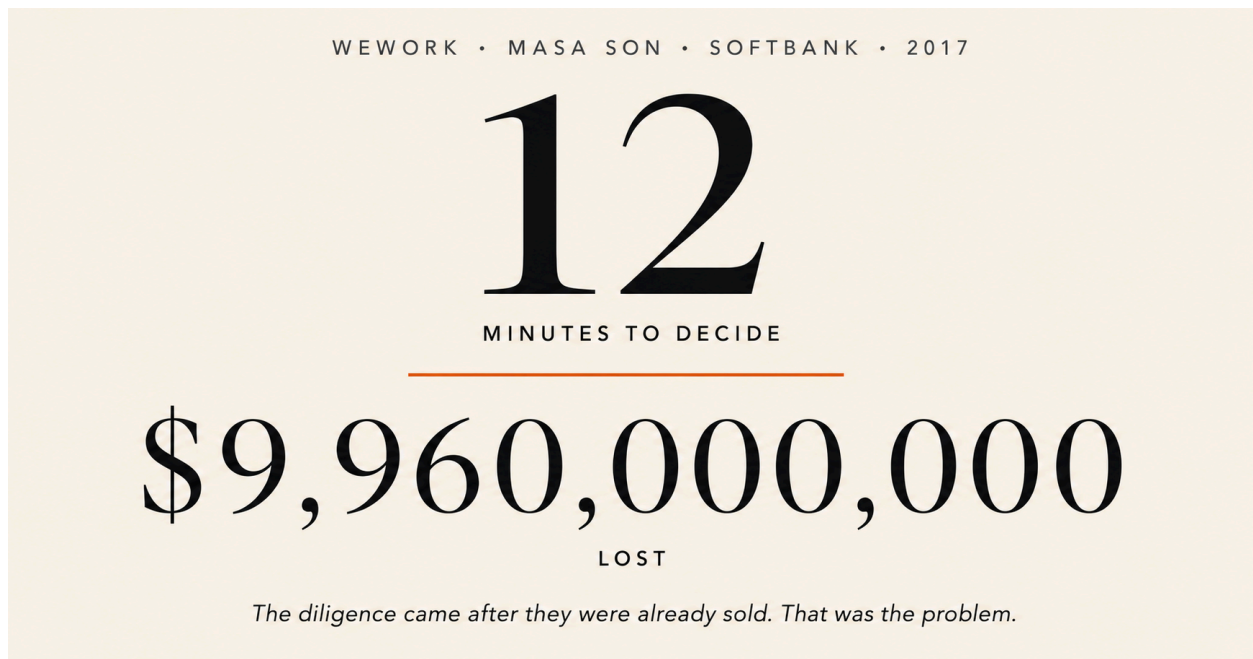


## The Danger of Conviction Arriving Quickly

How VC Teams can separate fast judgment from structural diligence.



In 2017, Masayoshi Son spent twelve minutes with Adam Neumann.

The two men walked through WeWork's New York offices. Son asked questions. Neumann answered them.

By the end of the walk, Son had decided to commit \$4.4 billion of SoftBank's capital to the company.

What followed was not an absence of diligence. SoftBank was not a careless firm. Its investment team spent the months after that walk reviewing WeWork's financials, its leases, its growth model, and its governance. The work was done.

In November 2019, SoftBank wrote down a reported \$3.45 billion on the position.

The following April, it told its investors to expect an additional loss of roughly \$6.51 billion on the WeWork holdings it carried outside the Vision Fund.

The twelve minutes are the part of the story everyone remembers. But they are not the part that matters most.

Most people think that the decision that cost SoftBank was made on the walk.

No, it was made, and remade, in every month afterward, in all the diligence that was performed, thoroughly. But, it was done in the service of a conclusion that had already been reached.

Most experienced investors already recognize this pattern, even if they would not describe it the way I just did.

Ask a partner privately about a deal that went wrong. They will rarely tell you the diligence was thin. More often they will tell you the opposite, that the diligence was thorough, that the references were called, that the model was built, and that all of it pointed in a direction the team had effectively chosen before the work began.

That is the danger this essay is about. The danger of what happens to diligence once conviction arrives quickly.

## A narrower problem than the last one

In a [previous essay](#), I argued that confidence and conviction are often built from the same raw materials: pattern recognition, founder narrative, partner alignment, and that the difference between them is **whether those materials were tested** before the team called the result a decision.

This essay is about a narrower and, I think, more uncomfortable problem: what happens to the testing itself when conviction arrives before the testing begins.

It is not a rare problem. Roelof Botha, who runs Sequoia, has said publicly: “The truth is, over Sequoia’s history of over 50 years, about half the time we don’t generate a profit on an investment.

Now there’s a power law that’s more dynamic in our industry, and when it works, it works spectacularly. But you fail a lot.”

We all know that this failure rate is not a scandal. 50% failure rate is the job. But in a typical venture capital fund, about 80% to 90% of the total returns are produced by just 20% to 10% of the startups backed.

The question worth asking is whether those failures share a structure.

If we can understand the patterns behind those failures, then the failure rate in the industry won’t have to be this extreme.

And the biggest pattern behind those failures is **conviction and diligence arriving in the wrong order**.

## Why the obvious deal is the dangerous one

Daniel Kahneman, was a psychologist and Nobel Laureate, best known for Prospect Theory, popularized in his book Thinking, Fast and Slow. His research centers on the idea that humans are not perfectly rational decision-makers. Instead, our brains rely on mental shortcuts and emotional responses that frequently deviate from traditional economic logic.

Daniel spent much of his career describing a property of the mind he summarized as ***what you see is all there is***. The mind does not keep a running list of the things it does not know. It builds the most coherent story it can from the information in front of it, and then it experiences that story as complete.

A deal feels obvious when the story has finished assembling itself. Every fact has found its place. The founder, the market, the timing, the traction, they cohere. And the more completely they cohere, the less the mind registers that anything is missing.

**This is the moment conviction arrives.** It is also, precisely, the moment the mind becomes least equipped to notice what it has not yet checked.

## Fast conviction, slow confirmation

Venture capital firms have built a process that runs in exactly the wrong order for this.

After conviction forms, the average venture deal takes weeks to close.

Analysts spend many hours and weeks reviewing documents, building models, and drafting memos and much less time testing the conviction.

So the structure is this: a fast moment of conviction, followed by a long, expensive, effortful period of confirmation.

Frequently, a long period of confirmation that begins after conviction has already formed does not test the conviction. It just dresses it.

## What changes once the mind has decided

Once the team has decided on their decisions, three things change about the diligence:

1. **The questions change.** Reference calls drift toward people likely to confirm the thesis.. The call stops being an investigation and becomes a vote.
2. **The weighting changes.** Evidence that supports the thesis is accepted at face value. Evidence that contradicts it is examined for reasons it might be wrong, or noisy, or

unrepresentative.

3. **The clock changes.** The deal now has a closing date. The assumption that would take the longest to test is the assumption most likely to be left for later, and later is where the calendar runs out.

## The case for moving fast

There is a serious argument on the other side, and it deserves to be stated at its strongest.

Investors like Marc Andreessen, Keith Rabois, and Vinod Khosla have argued, consistently, that you cannot test your way to a great venture investment. The returns in venture follow a power law. The investments that matter are outliers, and outliers, almost by definition, do not look obviously good to a consensus process.

The answer is that fast conviction and tested conviction are not in conflict.

The mistake isn't forming a view in twelve minutes. The mistake is allowing the diligence that follows to adopt that view as its starting assumption. Speed in forming a hypothesis is an advantage. Speed that erases the difference between a hypothesis and a conclusion is not.

## Then what's the fix?

Two practices are useful here, and both are well documented.

**The first is the premortem**, developed by the research psychologist Gary Klein. Before the decision is made, the team is asked to assume the investment has already failed, not might fail, but has failed, and to write down why.

He found that people are reluctant to voice their reservations during the planning phase, and that the premortem works because it makes dissent safe: it asks knowledgeable people who are worried about a plan's weaknesses to say so, framed as a contribution rather than an attack.

**The second is an inversion**, drawn from the strategist Roger Martin: **what would have to be true for this to be a good decision?** Martin's move is to stop asking whether the thesis is true and start listing the conditions the thesis depends on, then to find the condition the team is least confident about, and test that one first.

It inverts the order in which the deformed process runs. Instead of testing the easy assumptions deeply and the hard ones last, it sends the team to the load-bearing assumption while there is still time to be wrong about it.

Some firms already build this seam deliberately. A16Z has used internal red teams whose assignment is to argue against a deal the partnership is enthusiastic about.

## **What I have come to believe**

Conviction that arrives early is not the problem. Some of the best investments in venture history were recognized, correctly, in a single meeting.

The flaw is treating the speed of that recognition as if it settled the question. It does not. It only starts the question.

Conviction can arrive in twelve minutes. Whether it was right takes longer to know, and only if the work that follows is built to find out, rather than to agree.

The best part, AI tools can offload the diligence provided firms support the right decision-making process to achieve fast and tested convictions by highlighting risks without bias.

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