This article by Matthew Sweeney is excerpted from a letter of [Laughing Water Capital](#).

> "Gamblers bet on possibilities. Pros bet on probabilities."
> –Bob Dancer, Professional Gambler

Our investment process entails identifying companies that pass a four-part framework before we ever consider the fifth piece, which is price. The four questions I seek to answer are:

1) Is it a good business? (what will it look like in 5-10 years)

2) Who are we partnering with? (is management capable and properly incentivized)

3) Why does the opportunity exist? (are sellers irrational or shortsighted)

4) What happens when something goes wrong? (because it will eventually)

Each of these questions is deliberately open-ended, and meant to encourage careful analysis and deep thought, not quick answers. When followed properly, this process should lead us to better than average companies, with better than average management teams, that we buy at better than average prices, that will do better than average when the economy hits a rough patch. While nothing is guaranteed, if we can simply stick to this process, the result should be a portfolio that has a high probability of performing better than the averages (ie the SP500 or R2000) over time.

However, while it sounds simple, when spending a week off the grid I had little else to do other than run our businesses through this framework, and I came to realize that one of them fell short.

Points International (PCOM)

In the 1H '17 letter PCOM was introduced as a mid-sized addition to our portfolio. This was a mistake, and we sold our shares well below my multi-year price target. Thankfully, the combination of a large margin of safety from our initial purchase price, our short holding period, and an aggressive move in the stock led to us realizing an IRR of almost 90%. This is not cause for celebration. Rather, this should be viewed as a pyrrhic victory, and not only because it comes with painful short-term capital gains.

In the case of PCOM, I came to realize that our investment was based on a short-sighted answer to question 1 (putting too much weight on the possibility that the company would be sold), and an insufficient answer to question 2 (management does not own much stock, and after repeated questions on this topic, the CFO and President both responded by buying a measly 1,000 shares). Our portfolio is concentrated; we only need a few good ideas a year to perform well. There is no reason to own stock in a business that fails to impress at 2 points during our process.

Analytical mistakes are a simple fact of life in the investment business. Even the world's very best investors have batting averages in the mid .600s, and we are guaranteed to have investments that simply don't work out the way we thought they would (such as DNOW). However, PCOM was less an analytical mistake, and more a mistake in process. Mistakes in process are much more worrisome and much less forgivable than analytical mistakes because over an investment lifetime, a repeatable process well-followed is much more important than any individual investment. Thus, our successful outcome in PCOM should be viewed no more favorably than a drunken bachelorette who screams "Black Jack!!!" upon being dealt a 3 after hitting on 18. Winning one gamble doesn't make you successful. Diligently following the process in order to put the probability of success on our side is our only chance for long term success.