

The safest family office setup is one that bypasses the traditional pillars of toughness, austerity, and negativity for openness and curiosity.

*From Star to Founder*

EastRock

## **When Family Offices Shine - A Short Follow-Up**

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A FUN THING ABOUT WRITING THIS NEWSLETTER is the follow-up conversations. Several people who read my [last post](#) challenged me to explain in more detail why successful family offices tend to be “Version 2.0” rather than a family’s first try.

The short answer is that many Version 1.0s are insular and closed-source in their nature — the question of who and how to trust is unclear — which limits access to talent and differentiated investment opportunities.

But why do families start this way? I had to stop and think about that question.

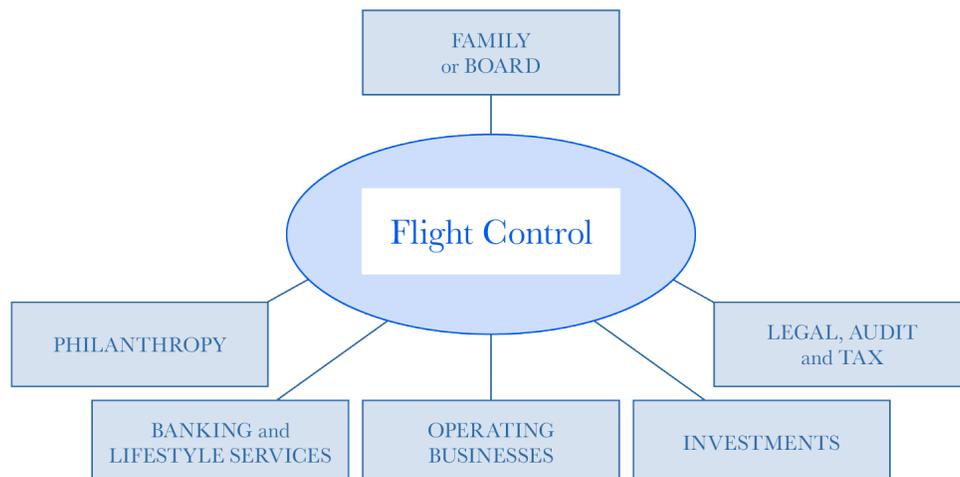
An important clue is a bias we’ve noticed from many years of hosting gatherings of hedge fund managers. At these meetings, managers trade investment ideas and at the end there is a vote for best idea. Short ideas — in which a manager takes a negative view of a company and its prospects — represent a small percentage of the pitches but a large percentage of the winners. The negativity of short pitches carries

an air of authority that is deeply convincing. But as we track the performance of these short investments over time, the results do not typically match the accolades.

Our experience, which is consistent with academic findings that [negativity makes you sound smart](#), leads us to conclude that “negativity bias” is a blind spot worth worrying about.

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Why is this relevant to family offices? Because negativity bias helps explain why families are tempted to hire a less-than-ideal person or firm for the key “Flight Control” role in their family offices. To help visualize this role, please see the family office structure graphic below. The term “Flight Control” is used here as a blanket label to indicate anyone who oversees a broad set of family office functions and communication responsibilities, whether that person or company holds the title of CEO, CFO, CIO, OCIO (Outsourced Chief Investment Officer) or something else.



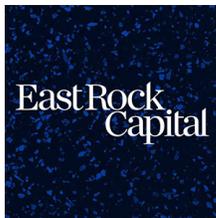
For the role of Flight Control, it is comforting to hire a family accountant or lawyer who has a history of keeping the family out of trouble, or an institutional firm with a familiar name and a reputation for conservatism.

But a defensive posture has a cost, and it can backfire into some of the more frustrating family office difficulties we’ve seen.

A corollary to talent driving the success of a family office is that finding talent is a collaborator’s game. The very best Flight Controllers — and we have a few names in mind — enjoy meeting new people, are attentive to new strategies, and, while rarely fooled by a pitch that doesn’t hold together, engage not with a “gotcha” attitude but with a mindset of “what can I learn here?”

We think the safest setup — and to some this may seem ironic — is one that bypasses the traditional pillars of toughness, austerity, and, yes, negativity. These pillars are risky because they make it hard to admit mistakes and hard to reach out for help beyond a well-known inner circle. On the contrary, Flight Controllers who are open and curious are not only better at recruiting talent, but also can provide greater stability by addressing challenges and mistakes in a transparent and collaborative way.

This sort of stability, built from well-earned trust rather than skepticism, is what characterizes the successful 2.0s that we've seen. It is powerful because it acts as a foundation for building a [constellation of talent](#) that drives the important work of finding and executing differentiated investments of the highest possible quality.



NEWSLETTER

**From Star to Founder**

Insights from partnering with exceptional investment managers as they launch and build new firms

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