

Van Halen's legendary "no brown M&Ms" contract clause has often been misunderstood as rock stars being divas. In reality, it was a clever system check. Their concert rider included pages of safety requirements for staging, power, and equipment. Buried was a line requiring a bowl of M&Ms backstage...with all the brown ones removed. If they found brown M&Ms, it meant the promoter hadn't paid attention to the details which signaled the need to double-check everything else.

Investing works in a similar way. Shareholders are locked outside. We do not see the daily decisions or culture that will determine the company's fate. All we get are clues. The key is learning how to read them.

One clue is how management communicates. Do they speak directly to shareholders or to Wall Street? In shareholder letters and on earnings calls do they use jargon or straightforward language? One company regularly reminds questioners to remain professional and respectful, which seemed out of place, until I learned about the history of activism and management turmoil. The way management communicates speaks to how they think about stakeholders.

Another clue is guidance. Does the company give it? If so, quarterly or annually? Do they focus on long-term goals or precise earnings per share figures? Some of the best operators give limited guidance and to shareholders' dismay, deliberately don't disclose specific information to keep competitors in the dark.

In press releases, do they simply present the facts or tell investors what to think by putting qualifiers such as "strong results" in the headline? Are they promotional or practical? Great operators don't try to sell investors their story but instead explain what they are trying to accomplish and let like-minded partners opt in.

The location and headquarters building can also offer insight. Companies that embrace frugality tend to reflect that in their office choices. Heico, a world-class aerospace firm, operates from an unassuming building in an industrial office park. Look it up. No opulence or fountains or glass towers, just the essentials.

There is a billionaire founder who responds directly to my emails, usually within a few hours. No investor or public relations people, no scheduling with a personal assistant. Just straight forward answers from the person ultimately making the decisions. It does not surprise me that he has accomplished more in twenty years than most entrepreneurs accomplish in a hundred lifetimes.

Even personal habits can speak volumes. I am partnered with a CEO who took the stage with two other executives who looked like they had walked straight out of a LinkedIn photoshoot. My CEO was dressed professionally but casually. Again, not something to base an entire investment thesis on, but a clue that he may be more focused on returns than appearance. This rhymes with what people close to him have shared.

Capital allocation is another area ripe with clues. Is it reinvested or returned to shareholders? Are dividends regular or special? Are buybacks steady, opportunistic, or through tender offers? At what price? How are acquisitions financed? These patterns provide insight into boardroom conversations and the system the company uses to determine how to allocate resources.

Of course, none of these signs are proof of what's happening inside a company. But when taken together, the picture starts to come together. Like Van Halen's brown M&Ms, they can reveal leadership's true character, level of pragmatism, and ultimately whether they should be trusted with your capital.