INTERVIEW

What Actually Changes an Investor’s Mind?

Conviction, Re-Underwriting, and the Evidence Required to Move Capital

Kim Belval interviews Mark Hayes about a question that sits underneath nearly every capital markets activity but is rarely examined with enough precision: what causes a sophisticated investor to change a belief strongly enough to change the amount of capital at risk? Positive sentiment is not conviction. Confidence in management is not conviction. A good quarter is not necessarily conviction. Even a strong belief in the company is not the same as conviction in the security at the prevailing price, and neither necessarily determines how large the position should be. Breakwater Capital Markets’ research shows investors increasingly want a modelable thesis built around segment economics, incremental ROIC, competitive evidence, cash quality, downside sensitivities, and milestones. When investors are asked what gives them enough conviction to materially increase a position, the leading evidence includes long-term earnings power, execution against commitments, capital allocation discipline, segment economics, competitive advantage, valuation, free cash flow conversion, technology returns, and downside visibility. The challenge for management is therefore not simply to communicate more persuasively. It is to understand which unresolved belief constrains capital, what evidence could change that belief, how durable that evidence is, and whether the resulting economics justify additional ownership at the price investors must actually pay.

Kim: Companies spend enormous amounts of time trying to improve investor sentiment. Is sentiment even the right objective?

Mark: Not by itself. Sentiment tells you whether an investor feels more positively or negatively about management, recent performance, strategy, or the stock. Conviction is different because conviction has consequences. It influences whether the investor initiates a position, materially increases it, holds it through volatility, or reduces it when evidence changes. You can have highly positive sentiment toward a company and very limited investment conviction because the valuation is demanding, the downside is poorly understood, the reinvestment economics remain unproven, or one crucial assumption still carries too much uncertainty.

That distinction is important because companies frequently interpret favorable investor feedback as evidence that the capital markets problem has been solved. An investor may say the strategy is compelling, management is impressive, and the long-term opportunity is attractive while holding a 50 basis point position. Management hears approval. The portfolio reveals that the approval has not crossed the threshold into meaningful capital commitment.

I would define conviction much more narrowly: it is the degree to which an investor believes the prospective return is sufficiently attractive, relative to the uncertainty, downside, and alternatives, to justify committing capital at the current price. That makes conviction a decision state rather than a communications score. The useful question for management is therefore not simply, “Do investors like the story?” It is, “What unresolved uncertainty prevents an investor who understands the company from being willing to risk more capital?”

Kim: Investors receive thousands of pieces of information. Why do only a handful actually change position size?

Mark: Because most information does not affect a load bearing assumption. It can be interesting, directionally positive, or relevant to a near-term forecast without changing what the investor fundamentally believes about the enterprise. A quarterly revenue beat may move next year's EPS while leaving assumptions about competitive duration, reinvestment returns, capital intensity, or terminal economics substantially unchanged.

The evidence with the greatest updating power tends to affect variables carrying a disproportionate share of value. If an investor believes a company can compound attractively for a decade because incremental ROIC will remain well above the cost of capital, evidence that returns on new investment are deteriorating matters much more than a modest quarterly earnings beat. Conversely, evidence that incremental returns are structurally higher than the market assumed can force the investor to reconsider the entire reinvestment runway.

That is why I would distinguish information relevance from belief changing power. A datapoint can be highly relevant to this quarter and have almost no effect on intrinsic value. Another can barely affect current EPS while changing the investor's view of moat duration or future capital conversion. Management should therefore ask not merely whether information is positive or material, but which belief the information has enough causal power to change.

Kim: How is belief changing power different from ordinary materiality?

Mark: Because its value depends on what the investor already believes. The same evidence can have radically different updating power depending on the prior. If investors already assume retention is exceptional, another strong retention datapoint may reinforce confidence without moving intrinsic value very much. If the market is skeptical about customer durability and the company produces high quality cohort evidence that contradicts that skepticism, the same category of information can materially change the investment case.

Evidence therefore has no fixed value independent of the prior belief. Its value is partly a function of the distance between the investor’s current model and the probability distribution implied by the new evidence. This is why generic calls for “more disclosure” are often inefficient. A company can produce enormous amounts of new information about variables the market already understands while leaving untouched the one disputed assumption constraining ownership.

The research increasingly emphasizes making the investment thesis easier to test through segment economics, incremental ROIC, competitive evidence, cash quality, downside sensitivities, and milestones. Those forms of evidence matter because they populate economically consequential parts of the investor model rather than simply increasing information volume.

Kim: You are describing something like belief elasticity. Some investor beliefs move easily, and some barely move at all.

Mark: Exactly. I think belief elasticity is useful because management often assumes that disagreement can always be solved through additional explanation. It cannot. Some beliefs are lightly held because the investor has limited evidence, a short history, or low confidence in the current model. A relatively small amount of high quality evidence can change those beliefs rapidly. Others are highly inelastic because they are supported by years of operating history, repeated management behavior, industry structure, or several independent evidence streams.

If the market believes a company is structurally capital intensive after a decade of poor free cash flow conversion, one presentation promising future efficiency is unlikely to change that view. The company needs operating proof that the economic relationship itself has changed. If investors believe management habitually overpromises because commitments have repeatedly been missed, another assertion that guidance is conservative will have very little updating power. The prior is too strong.

IR therefore needs to understand not only what investors believe, but how strongly they believe it, what evidence created the belief, and what class of evidence would be required to overturn it. Management can waste enormous effort attacking an inelastic belief with evidence that is simply too weak to move it.

Kim: How do you distinguish an estimate change from a thesis change?

Mark: An estimate change modifies a parameter inside the investor's existing model. A thesis change alters the model itself. If an analyst raises next year's revenue growth estimate from 7% to 8% because demand was a little stronger than expected, the underlying representation of the business may remain intact. If the analyst concludes that the company has developed persistent pricing power it did not previously possess, the investor may need to reconsider margins, competitive advantage, cash generation, reinvestment opportunities, and duration simultaneously.

This distinction matters because capital markets can react intensely to information that barely affects long-term value and initially underreact to evidence that ultimately changes the investment thesis. Near-term estimate changes are easy to process because the analytical architecture remains intact. Structural changes are harder because they require the investor to admit that the previous causal model of the business may have been incomplete or wrong.

The deeper question should therefore be whether new information fits inside the old model or requires the investor to construct a different one. Persistent changes in customer behavior, incremental ROIC, capital intensity, pricing power, competitive position, or management's reaction function can force a genuine re-underwriting rather than another spreadsheet revision.

Kim: Structural changes in long-term earnings power, capital allocation, and management credibility rank among the fastest re-underwriting triggers. Why do those events have so much power?

Mark: Because they affect several valuation variables simultaneously. Structural change in long-term growth or earnings power scores 89 as a re-underwriting trigger, change in capital allocation strategy or expected returns 86, a break in management credibility or strategic consistency 84, and competitive position or market share inflection 81. Structural margin changes, technology economics, balance sheet deterioration, policy shifts, transformative M&A, and management transition follow.

A structural change in earnings power can alter revenue, margins, cash flow, reinvestment, duration, and terminal economics. A change in capital allocation can affect the return on future cash flows and the investor's judgment of management. A credibility break can cause the investor to question several management supplied assumptions simultaneously rather than merely discount one statement.

That is what genuine re-underwriting means. Parts of the investment case that had been treated as settled become open questions again. Once a load bearing assumption becomes uncertain, the investor often has to revisit other assumptions that depended on it.

Kim: Does negative evidence sometimes have more informational value than positive evidence?

Mark: Absolutely. Positive evidence matters, but investors naturally accumulate information supporting positions they already own. Additional confirmation can therefore increase psychological confidence without necessarily improving the underlying decision. Disconfirming evidence behaves differently because it forces the investor to determine whether the thesis has actually survived a serious test.

The research is unusually revealing on this point. Changed assumptions and beliefs score 94 in information value, decision and reallocation signals 92, and disconfirming evidence 90. Those are not conventional corporate communications categories. They are belief revision categories.

A sophisticated investor should repeatedly ask, “What would I expect to observe if my thesis were wrong?” That question is uncomfortable precisely because the portfolio itself creates pressure toward confirmation. High quality conviction should not make an investor harder to persuade. It should make the investor more precise about which evidence deserves to be persuasive.

Kim: Once investors own a large position, isn't disconfirming evidence harder to accept because admitting error has financial, reputational, and sometimes career consequences?

Mark: Yes. A position is not simply an analytical conclusion. It creates incentives, accountability, identity, and emotional attachment. The larger and more public the position, the easier it becomes for confirmation bias, sunk cost thinking, and motivated reasoning to influence how new information is processed. Professional sophistication does not eliminate those tendencies.

That is why the investment process matters as much as analytical intelligence. Investors need mechanisms that force contrary evidence into the decision before the thesis becomes protected by the position itself. What evidence would cause us to reduce? Which assumption has to remain true? Which indicator would tell us the business is developing differently from our model? Those questions are much more useful when answered before the adverse evidence arrives.

The same logic applies to management. Investors increasingly value changed beliefs, disconfirming evidence, decision signals, and management judgment under uncertainty because they are assessing whether management has built comparable defenses against self confirmation.

Kim: Can an investor have extremely high conviction in the company and still have very low position sizing conviction?

Mark: Absolutely, because there are really three different judgments that often get collapsed into the word conviction. The first is thesis conviction: how strongly do I believe the investor's causal view of the company is correct? The second is security conviction: given the current price, what return and risk does that thesis imply for the stock? The third is sizing conviction: given the probability distribution, downside asymmetry, portfolio exposures, liquidity, covariance with other holdings, and opportunity cost, how much capital should I actually risk?

An investor could have 90% confidence that a company is an exceptional business and still own a modest position because the valuation requires almost perfect execution. Another investor might have only moderate confidence in a cyclical company but hold a larger position because the price implies a scenario substantially worse than the investor believes is probable and the downside is already reflected in the security.

That distinction matters enormously for investor intelligence. When an investor says, "I have high conviction," management should not assume that means the investor wants to increase the position. High conviction in the business, high conviction in the expected return, and high conviction in the appropriate portfolio weight are different analytical conclusions. Position size is ultimately where company level belief encounters portfolio level risk.

Kim: Price therefore changes conviction itself?

Mark: It changes security and sizing conviction, certainly. There is no absolute investment conviction in a stock independent of what the investor has to pay for the expected cash flows. An investor can have extraordinary confidence in management, competitive advantage, reinvestment runway, and long-term economics while having low security conviction because the valuation already discounts an extraordinarily favorable future.

The reverse can also occur. The operating thesis may become modestly weaker while investment conviction increases because the share price falls much further than intrinsic value. That feels counterintuitive if conviction is treated as sentiment because sentiment may be deteriorating at precisely the moment expected return improves.

This is why IR should be careful when interpreting investor enthusiasm. The company can improve the quality of evidence around its economics. It cannot dictate the price investors should pay for them. An investor saying, “I believe virtually everything management is saying, but I do not think the expected return compensates me at this valuation,” is not evidence of a communications failure.

Kim: Suppose two excellent investors receive exactly the same new evidence. One doubles her position and the other barely changes her view. Can both be rational?

Mark: Certainly. Investors can rationally update differently because they begin from different priors, use different causal models, assess evidence quality differently, assign different probabilities to competing explanations, and face different prices and portfolio constraints. Rational updating does not imply identical conclusions.

Imagine new evidence suggests a company's customer retention is stronger than expected. An investor who previously believed retention was the principal weakness in the thesis may update dramatically because a load bearing concern has been challenged. Another investor may already have assumed strong retention and regarded capital intensity as the central unresolved issue. The same evidence barely changes that investor's intrinsic value because it confirms something already embedded in the model.

They may also disagree about whether the evidence is causal. One investor may see improved retention as proof of greater product value. Another may believe temporary contract structures or promotional activity explain it. Both can process the same fact rationally while assigning different updating power to it.

That is why the objective of corporate disclosure should never be uniform investor belief. Management supplies evidence and explains its own understanding of the economics. Investors own the probability update. Rational markets require disagreement because the participants begin with different assumptions, models, opportunity costs, and estimates of what is already embedded in price.

Kim: Then what is conviction attrition?

Mark: Conviction attrition occurs when investors do not necessarily believe the investment thesis is wrong but cannot validate enough of it to justify the position they might otherwise hold. The underwriting diagnostic explicitly separates investor model alignment, information control, evidence sufficiency, interpretation integrity, and conviction attrition, asking where unresolved uncertainty constrains ownership.

Imagine that investors broadly agree the company has an attractive opportunity but cannot validate segment margins, incremental returns, customer durability, or downside cash requirements. They may not assign the bearish case the highest probability. Instead, they widen the range of possible outcomes. That wider distribution can reduce position size because the investor requires a larger expected return to compensate for uncertainty.

This is one reason companies often misdiagnose valuation problems. Management hears generally favorable feedback and concludes the market understands the thesis. It may understand it perfectly well. The problem may be that investors cannot assign sufficient probability to the favorable outcome because one or two critical assumptions remain weakly evidenced. The discount comes not from a negative belief but from an unresolved one.

Kim: Is the most useful investor question therefore, “Which assumption is preventing you from owning more?”

Mark: It is certainly one of the most useful because it moves directly toward the capital decision. Asking whether an investor likes management or finds the investment story compelling can provide context. Asking, “What would have to become more certain for this position to become materially larger?” forces the investor to identify the constraint.

The answer may concern operating economics: “I need proof that margin improvement is structural.” It may concern reinvestment: “I cannot see attractive returns on the capital required for growth.” It may concern competitive durability: “I do not know whether the moat survives this technology transition.” It may concern management: “I need to see capital allocation follow through before giving the team credit.” Or the answer may simply be valuation: “I believe the thesis, but the price already discounts too much of it.”

Once management understands the actual constraint, it can ask whether it possesses evidence capable of resolving that uncertainty. That is far more decision useful than knowing that an investor’s general sentiment has improved.

Kim: We have talked a lot about evidence. Do ten pieces of supporting evidence necessarily create more conviction than two?

Mark: No, because evidence quantity and evidence independence are different things. Ten apparent confirmations can contain remarkably little incremental information if they all trace back to the same underlying source. Management commentary may influence sell-side forecasts, those forecasts may be summarized by financial platforms, and AI systems may then synthesize those summaries. The investor can experience the illusion of broad corroboration while essentially encountering the same claim several times.

Independent evidence is much more powerful. Suppose management says customer demand is strengthening. That claim becomes more persuasive if reported revenue, customer behavior, channel evidence, competitor commentary, pricing, capacity decisions, and cash conversion independently move in a consistent direction. The value comes from convergence among evidence streams whose errors are not perfectly correlated.

That has become particularly important in information abundant markets because repetition can masquerade as confirmation. An investor should always ask whether five signals are genuinely independent or whether four of them are derivatives of the fifth. A thousand summaries cannot make an underlying source more informative than it was originally. The quality of conviction depends not only on how much evidence exists, but on whether independent observations converge on the same economic explanation.

Kim: Once evidence establishes conviction, how long does that conviction last? Does proof itself have a half-life?

Mark: It does, and I think proof half-life is one of the most important implications of continuous underwriting. Evidence should not be treated as a permanent asset. Its relevance decays at different rates depending on the economic claim. Balance sheet structure may change slowly. Customer behavior can change rapidly. Competitive advantage may need continual validation. AI economics may evolve extraordinarily quickly because both the technology and competitive response are moving.

An investor who concluded twelve months ago that a company had exceptional pricing power should not carry that conclusion indefinitely if competitors enter, customer behavior changes, or the basis of differentiation shifts. The prior evidence remains historically true, but its relevance to the current state of the business has depreciated.

This means conviction is not simply a stock of belief accumulated over time. It is partly a depreciating asset that must be renewed by sufficiently current evidence. That does not mean companies must re-prove every element of the thesis every quarter. It means management and investors should understand which assumptions have long evidentiary lives and which require frequent refresh. The broader information architecture is already moving toward continuously updated proof, refreshable content, and repeated re-underwriting rather than one time disclosure.

Kim: Companies frequently talk about catalysts. Is a catalyst the same thing as evidence?

Mark: No. A catalyst is an event that causes investors to pay attention or reopen a question. Evidence is what should determine how the belief changes once attention returns. An earnings release, Investor Day, regulatory decision, product launch, or strategic announcement can be a catalyst. Whether it creates durable conviction depends on what economically relevant evidence accompanies it.

A catalyst without evidence may create volume, attention, or a temporary narrative change while doing little to alter intrinsic value. Evidence without a discrete catalyst can gradually change the thesis as investors accumulate proof across several periods. The most powerful events combine the two: the catalyst creates the re-underwriting moment and the evidence is strong enough to change a load bearing assumption.

Management should therefore ask not simply, “What is our next catalyst?” but, “What will investors know after this event that they cannot validate today?” If the answer is nothing economically consequential, the catalyst may matter far less than management expects.

Kim: How much does management credibility contribute to conviction? Can investors have strong conviction in a company they do not particularly trust?

Mark: They can, especially when the economics are independently observable. But credibility changes the amount of evidence required when the thesis depends on information investors cannot validate directly. Future execution, internal segment economics, capital allocation, strategic milestones, and long-duration investment returns often require some provisional reliance on management judgment.

A break in management credibility scores 84 as a rapid re-underwriting trigger. Once investors question management's representation of the business, they begin demanding independent corroboration for assumptions they previously accepted with less friction.

Credibility therefore acts less like a substitute for economics and more like a modifier of the evidentiary burden. Strong management credibility cannot make poor economics attractive. Weak credibility can, however, increase conviction attrition because investors must widen the uncertainty around management dependent variables. That can affect ownership even before anyone concludes that management is definitively wrong.

Kim: Should management want broad investor consensus? If virtually everyone agrees with the thesis, isn't that evidence that the company has communicated exceptionally well?

Mark: Not necessarily. Management should want high model alignment, not necessarily high valuation consensus. Investors should understand the correct value drivers, important definitions, major economic relationships, and genuine uncertainties. They should still be free to assign different probabilities, discount rates, durations, and intrinsic values.

Excessive consensus can actually increase fragility if many investors own the same thesis for the same reasons. There may be little incremental buyer when the story proceeds as expected and considerable downside when a shared assumption is challenged. The intellectual diversity of the market matters because it reduces the chance that every participant is wrong in exactly the same way.

If management believes consensus itself is mispricing the company, it should identify the assumption rather than attack the valuation conclusion. Investors see potential consensus error across variables such as long-term earnings power, margins, technology returns, segment economics, capital allocation, competitive position, durability, downside, structural efficiency, and acquisition economics. "The stock is undervalued" is a conclusion. "The market is assuming incremental ROIC falls toward the cost of capital, while our evidence suggests returns can remain structurally higher" is an underwritable disagreement.

Kim: If you redesigned investor intelligence entirely around conviction rather than sentiment, what would you want management to know?

Mark: I would want a map of the investment decision. What is the investor's thesis? Which assumptions carry the most value? How strongly are those assumptions held? What evidence supports them? How independent are those evidence streams? What contradictory evidence is the investor watching? Which proof has a short half-life and needs regular refresh? What would cause a genuine re-underwrite? What would increase thesis conviction, what would increase security conviction, and what additional conditions would have to be satisfied before position size changes?

I would also want to understand investors who reach similar portfolio outcomes for completely different reasons. Two investors can both own 3% positions while one has enormous confidence in the business but thinks valuation is full, and the other thinks valuation is attractive but remains uncertain about competitive duration. Their holdings look identical. Their decision architecture is completely different.

That is why decision grade investor intelligence has to move beyond aggregated opinion. Best in class work increasingly emphasizes investor model deconstruction, valuation gap diagnosis, conviction driver identification, real time tracking, mispricing early warning, and explicit linkage between investor perception and valuation. The object is not to describe what investors said. It is to understand what would actually cause them to change what they own.

Kim: Let's bring everything together. What really changes an investor's mind strongly enough to move capital?

Mark: Evidence changes an investor's mind when it alters a belief that matters enough to change expected return, risk, duration, or confidence around those variables. The evidence does not need to be dramatic. It needs to be diagnostic. A quarterly earnings surprise may generate enormous attention while barely changing long-term value. A seemingly modest datapoint around incremental ROIC, customer retention, pricing power, capital requirements, competitive behavior, or management's response to adversity can force an investor to reconsider the architecture of the thesis. That is why sophisticated investor relations should care less about whether information is positive and more about whether it possesses enough causal relevance to update a load bearing assumption.

But belief change alone does not determine capital. The investor moves through several layers. First comes thesis conviction: do I believe my causal model of the company? Then security conviction: what does that model imply for expected return at the current price? Then sizing conviction: given uncertainty, downside asymmetry, portfolio concentration, liquidity, covariance, and competing opportunities, how much should I actually risk? The research on position sizing reinforces that breadth because investors cite long-term earnings power, execution, ROIC and capital discipline, segment economics, competitive advantage, valuation, cash conversion, technology returns, and downside visibility as important evidence. A company can score extremely well on the first question and still fail to satisfy the second or third.

The quality of evidence also matters differently than its volume. Investors should gain more conviction when genuinely independent evidence streams converge than when multiple intermediaries recycle the same original assertion. They should understand that proof has a half-life, because evidence strong enough to support an assumption last year may be stale after the competitive system changes. And they should expect rational investors to update differently because different priors, causal models, valuations, portfolio constraints, and assessments of evidence quality will produce different conclusions from the same facts.

Kim: Let's bring everything together. What really changes an investor's mind strongly enough to move capital?

Mark: The most important challenge for management is often not investor disbelief but unresolved uncertainty. Investors may broadly agree with the strategy and still refuse to increase exposure because one or two assumptions remain too weakly evidenced. That is conviction attrition. Producing more information can accomplish almost nothing if the additional information merely reinforces beliefs investors already hold. The useful response is to identify the unresolved assumption, understand how elastic that belief is, determine what independent evidence could actually change it, know how long that evidence will remain relevant, and accept that in some cases the rational answer is simply to wait for proof.

The deeper shift is from treating investor relations as a process for increasing positive opinion toward understanding it as part of a system through which evidence becomes belief, belief becomes valuation, and valuation becomes capital. Investors have obligations in that system too. They need to know what evidence would make them change their minds rather than merely accumulate confirmation for positions they already own. Management needs to understand which assumptions actually constrain ownership rather than mistake familiarity, positive feedback, or narrative agreement for conviction. Neither side should confuse attention with evidence, repetition with corroboration, confidence with certainty, or belief in a company with willingness to own the stock at any price.

A company therefore does not create conviction by producing the most evidence or the most persuasive story. It creates the conditions for rational conviction by producing evidence capable of changing the assumptions that matter, allowing important claims to be independently tested, refreshing proof before it becomes stale, and making the economics sufficiently underwritable that investors can decide for themselves whether the resulting expected return justifies more capital. The final test is not whether investors understand the story, admire management, or even believe the thesis. It is whether enough of the economics can be reconstructed, challenged, and trusted that a rational investor is willing to change what is actually at risk.