

Why half-truths can be more dangerous than outright lies, argues Devina Mehra

When looking at data presented by anyone else or even by yourself, check not just whether it is technically correct but what it leaves out.

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It is normal to think that having a grain of truth at least in what is being said would be better than outright lies but you would be mistaken.

Why?

"Something that's true but incomplete might be more dangerous than something that's wrong, as a little truth is a fuel for a lot of overconfidence", said Morgan Housel.

That's why Storification misleads and you have to watch out for #survivorship bias.

At times it may be laziness at work with the mind looking for shortcuts and at others, a careful 'economical with the truth' decision, even by yourself.

We have all seen those statements in interviews, on social media etc.

If you or your ancestors had invested \$1000 or 10,000 Rupees in, take your pick: Apple, Microsoft, Tesla, HDFC Bank, ITC, Hindustan Lever 20,30,40 years back or maybe Tata Elxsi, Deepak Nitrites etc, drum roll...this is how much you would be worth now.

Now there are several nuances to this.

One, in the real world, you would not have only bought what turned out to be blue chips in hindsight but may well have bought a whole lot of hot stocks of the season as this real-life example illustrates.

We've all heard stories of kids who became rich because their parents bought stocks, forgot about them and never sold them.

This is a real Indian 'parent's portfolio' which had remained untouched for about two decades. That included hot stocks of their time: DSQ, NEPC, Silverline, Apple Credit etc Worthless now!

Thanks to survivorship bias, by now you had all but forgotten all about the hot stocks of two decades ago.

Even if you didn't chase the flavour of the season, all these stocks were in Nifty 50 at some point: Satyam, Idea, Reliance Power, Reliance Capital, YES Bank, Cairn, Zee, Unitech, JP, Suzlon, Indiabulls Housing & many others that went nowhere.

A few decades back, your parents buying the blue chips of the day would have stocked up on the JK group, Thapar group, Mafatlal group shares plus the likes of Hindustan Motors, Premier Automobiles, etc.

No one then thought they were headed to oblivion.

There is yet another nuance: even stocks that are the poster boys for great compounding had long periods of going nowhere in life.

Hindustan Unilever did practically nothing from about 1999 to 2010. Bata had zero returns for 15 long years - to give only 2 examples.

Then there's is the data for Apple.

Apple itself was at its listing price in 1997 and had only doubled in 20 years by 2000. That meant a compounding of only 3.5 percent for 20 years after its IPO, with many steep drawdowns. Remember, this was at a time when interest rates were or near double digits in the US. Hardly the best investment in decades - until that turned.

Tesla gave zero return for 10 years till a two-year rally made the CAGR look suddenly spectacular.

To add to the fun, it also nearly went bust in the interim!

This is a classic example of how the eventual result is not a good pointer to whether the decision was correct.

So, all those stories of grand compounding successes are technically 'true' and drive a lot of FOMO, but what they leave out is vital.

Such half-truths are not the domain of survivorship bias alone, the same holds true for businesses too.

Many of you would have seen long videos explaining how coloured paints are delivered twice a day from the Asian Paints plant to each dealer.

The truth? Every paint shade is mixed/ manufactured at the dealership itself.

There IS no twice-a-day delivery. It is just Storification.

What's more, it'd be extremely cost-inefficient to have this type of delivery schedule.

The half-truth part? Asian Paints WAS a pioneer in the professionalisation of management by an Indian-owned company and the early adoption of technology

But this kernel of truth has been used to spin fantastical stories that sound just plausible enough, given the track record of the company. Of course, a single visit to a paint dealer reveals the truth, but then some people can be fooled some of the time.

Hence, when looking at data presented by anyone else or even by yourself, check not just whether it is technically correct (for example, if the calculations match) but what it leaves out.

Add a wide-angle lens and the picture often changes.

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