Outsiders can have a clearer view of a business than its managers

Devina Mehra | 10 September 2026

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SUMMARY

The rules of investing are clear: every investment must get returns. But as history has shown, managements that get carried away by waves can develop blind spots. Meta and Tesla, for example, have confident CEOs but that doesn't mean they're always right.

Over the years, I have literally trained generations of research analysts as I hired only freshers. When hiring people fresh out of college, there are two mental barriers that need to be overcome.

One relates to the whole education system, at least in India, being geared towards offering a single correct answer for each question. In this context, it was a task to get people to feel comfortable with ambiguity and unknowns. And to understand that investing, as most things in life, is a game of probability and that you necessarily have to make decisions with imperfect information.

The second hurdle relates to equity analysts having to interact with and question the top management of companies—their chief executive officer (CEO) or chief financial officer (CFO). An analyst would panic in the beginning, saying, "XYZ has been in this particular industry longer than I have been on earth. How can I question their decision?"

The interesting thing I have learnt over the years is that as an outsider, especially one with an overview of many others industries, economic history and other geographies, it is possible to see a pattern or a pitfall that the company management completely misses.

The greatest blind spots are often in a company's biggest decisions because, beyond a point, its management gets committed to, say, a new acquisition or starting a new business or bidding for a licence, and stops really evaluating whether it makes economic sense. The lessons of history are forgotten.

Look at the airline industry, for instance. Damania, ModiLuft, East West and NEPC Airlines were among the first lot of private air carriers in India in the 1990s. All eventually shut down, but this fact was merrily forgotten when Kingfisher, Deccan and Jet Airways started a few years later. When their story was about to end, in came SpiceJet, Go Air and others.

At the time of the Corus acquisition by Tata Steel nearly two decades ago, I had presented an analysis on business television why it would add to profits and cash flows for exactly two years and then the problems would begin to show. That is exactly how it turned out.

Around 2007, I remember making a presentation to several fund managers explaining how the madness over telecom shares would not last. This movie had played out in many countries, and there was a particular way that subscriber growth would taper, price-to-earning ratios would shrink and the sector's stocks would underperform. Not many listened. But the film played out exactly the same way in India, with the highs of telecom shares not being crossed for well over a decade.

More recently, I have been laughing at people who say we don't need to evaluate whether the artificial intelligence (AI) investments being made will make economic returns because the CEOs of these companies are smart, know what they are doing and have seen the 2000 dotcom crash. Really? Google went public in 2004, Tesla in 2010 and Facebook in 2012.

In any case, surviving a crash does not give you a free pass through the next crisis. The 2008 book Founders at Work by Jessica Livingston had stories of top tech companies that were largely survivors of the early 2000s crash. Most of them either do not exist or have become largely irrelevant.

Of the 30 companies covered, Apple (which listed in 1980) made it, but even those like Tripadvisor and PayPal that are still running reasonable businesses, have given zero or negative stock market returns over 10 years—even after the biggest tech bull market in history.

Many others such as Yahoo, Lycos, Flickr, RIM (BlackBerry), Alliant Computers and Viaweb (supposedly the first app for online stores) all show how ephemeral business success can be, especially in the tech sector. And these are just the names that you may have heard. Others sank without a trace.

Of the current managements, we have Tesla, or rather Elon Musk. He has repeatedly claimed that fully autonomous self-driving cars, where a driver could fall asleep and wake up at the destination, were just one to two years away, but his predictions date back to 2013. He said there would be a million robotaxis on the roads by 2020. He had many similar projections for the hyperloop. As of today, Tesla's software is still classified as a driver-assist system requiring active human supervision.

Leaving Musk aside, remember the billions poured into the Apple car before the project was junked? Or Google Glass? Or why Facebook changed its name to Meta? Because a 'metaverse' was going to take over the world. Incidentally, the person who ran Meta's metaverse is now running its AI project.

I have no great faith that tech CEOs can walk on water and defy the laws of finance if not physics. Ultimately, any investment has to make economic rates of return for it to make money for investors. I have never seen an exception to this in history.

The real analogy is with past manias of various kinds, including the internet and mortgage mania where every CEO decided they could not afford to be left behind and hence went all out to invest beyond what would make economic sense.

It did not end well. A step back into the big picture never hurts.

The author is chairperson, managing director and founder of First Global and author of 'Money, Myths and Mantras: The Ultimate Investment Guide'. Her X handle is @devinamehra