



VALENS RESEARCH

Breaking Biases in Valuation And All Decision-Making

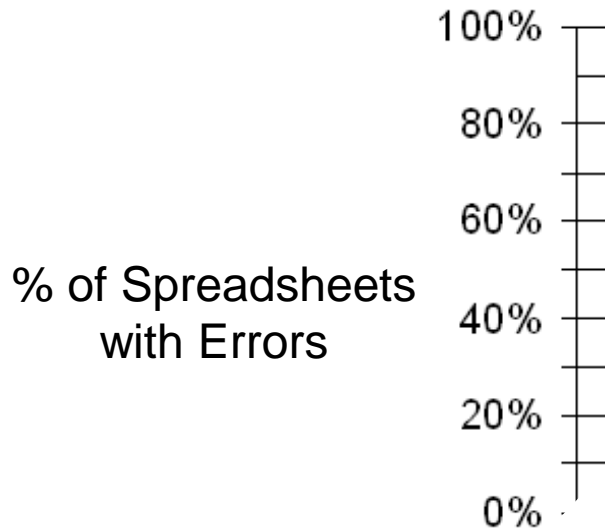
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September 2016

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- The “Subversive Spreadsheet”

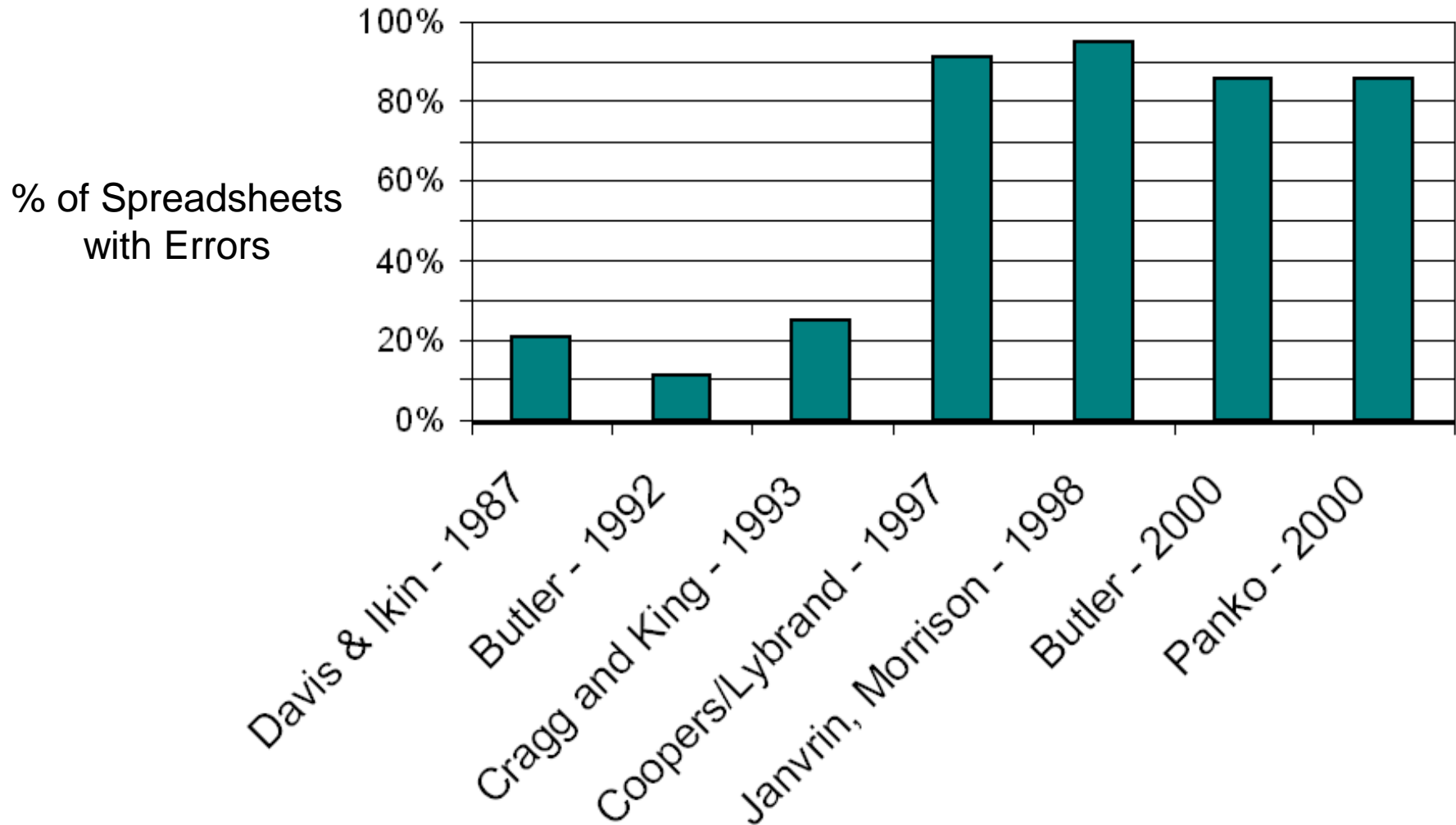
Potentially “direction changing”



Source: “What We Know About Spreadsheet Errors”, Raymond R. Panko, January 2005

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Potentially “direction changing”



Source: "What We Know About Spreadsheet Errors", Raymond R. Panko, January 2005

Authors	Year	Number of SSs Audited	Average Size (Cells)	Percent of SSs with Errors	Cell Error Rate	Comment
Davies & Ikin	1987	19		21%		Only serious errors were reported.
Cragg & King	1992	20	50 to 10,000 cells	25%		
Butler	1992	273		11%		Only errors large enough to require additional tax payments
Dent	1994	Unknown		30%		Errors caused by users hard-wiring numbers in formula cells. Henceforth, all future computations would be wrong.
Hicks	1995	1	3,856	100%	1.2%	One omission error would have caused an error of more than a billion dollars.
Coopers & Lybrand	1997	23	More than 150 rows	91%		Off by at least 5% In accounting, such errors are material.
KPMG	1998	22		91%		Only significant errors that could lead to an incorrect decision.
Lukasic	1998	2	2,270 & 7,027	100%	2.2%, 2.5%	In Model 2, the investment's value was overstated by 16%.

Authors	Year	Number of SSs Audited	Average Size (Cells)	Percent of SSs with Errors	Cell Error Rate	Comment
Butler	2000	7		86%	0.4%**	Only errors large enough to require additional tax payments**
Clermont, Hanin, & Mittermeier	2002	3		100%	1.3%, 6.7%, 0.1%	Computed on the basis of non-empty cells and so included text rather than just numbers and formulas.
Interview I*	2003	~36 / yr		100%		Approximately 5% had <i>extremely</i> serious errors
Interview II*	2003	~36 / yr		100%		Approximately 5% had <i>extremely</i> serious errors
Lawrence and Lee	2004	30	2,182 unique formulas	100%	6.9%***	30 most financially significant SSs audited by Mercer Finance & Risk Consulting in previous year.
Powell, Lawson, and Baker	2007	25		64%		44% of the spreadsheets had serious errors. Of those, all had errors of \$100,000 or more, 7 had errors of \$1 million or more, 6 had errors of \$10 million or more, and 1 had an error of more than \$100 million.
cs	2002 to 2007	750+	200-1000 rows by 50-300 columns	~10% to 20%		Errors from intended versus errors of analysis; Double-counting debt, double-counting FCF, forgotten terminal values, miscomputed WACC, virtually all of the above

Effective Decision-Making

Certain tenets of good, critical thinking

“To improve judgment, suspend judgment.”

Seek Disconfirming Evidence

Reticular activation

How to beat the market

Understand the market's valuation

Know the market will change its mind

Make a position *just prior* to that

Informational Advantage

Analytical Advantage

Emotional Advantage

Unless an analyst explicitly addresses the expectations embedded in the stock and then clearly explains how his or her view differs from what the market's implied expectations are...

...one can be sure that any relation between the rating and the subsequent performance of the stock is pure accident.

-- *Bill Miller*

Some sources of bad financial decision making

- Groupthink
- Sunk costs bias
- Overconfidence -- Hubris

“We don’t like flip-floppers”

- The dark side of commitment and consistency
- Gamblers’ confidence
- Mock Juries
- How were we taught to value companies in school?

Pride goes before a fall

Don't "take pride in your work"

“The Asset Life Signal” - e.g. WMI

The New York Times

Waste Management Stuck in Accounting Mire

January 30, 1998 - “...its problem with **misleading accounting goes back to 1992**, not 1994 as previously announced;

“...**huge charge against earnings...** as company revises the way it has accounted **for value of assets as well as ...expenses ...**

Source: www.nytimes.com

"In April 2002, charges were filed by the SEC against Waste Management's former most senior officers, including Dean L. Buntrock, founder, chair of the board of directors, and chief executive officer.

"SEC complaint alleged: He set earnings targets, fostered a culture of fraudulent accounting, personally directed certain of the accounting changes to make the targeted earnings, and was the spokesperson who announced the company's phony numbers."

"The most important thing we do
is meet our numbers.

It's more important than any
individual product, it's more important than
any individual philosophy, it's more
important than any individual cultural change
we're making.

We stop everything else when
we don't make the numbers."

– Joe Nacchio, CEO, Qwest

“Qwest fraudulently recognized over \$3 billion of revenue and excluded \$71.3 million in expenses”

Some sources of bad financial decision making

- Groupthink
- Sunk costs bias
- Overconfidence -- Hubris
- Emotions

Fear

- Cut winners short in fear of giving profits back
- Hesitate in pulling the trigger because you fear the prospects of a loss
- Hang on to losing trades because you fear taking the loss
- Jump into unplanned trades because you fear leaving money on the table

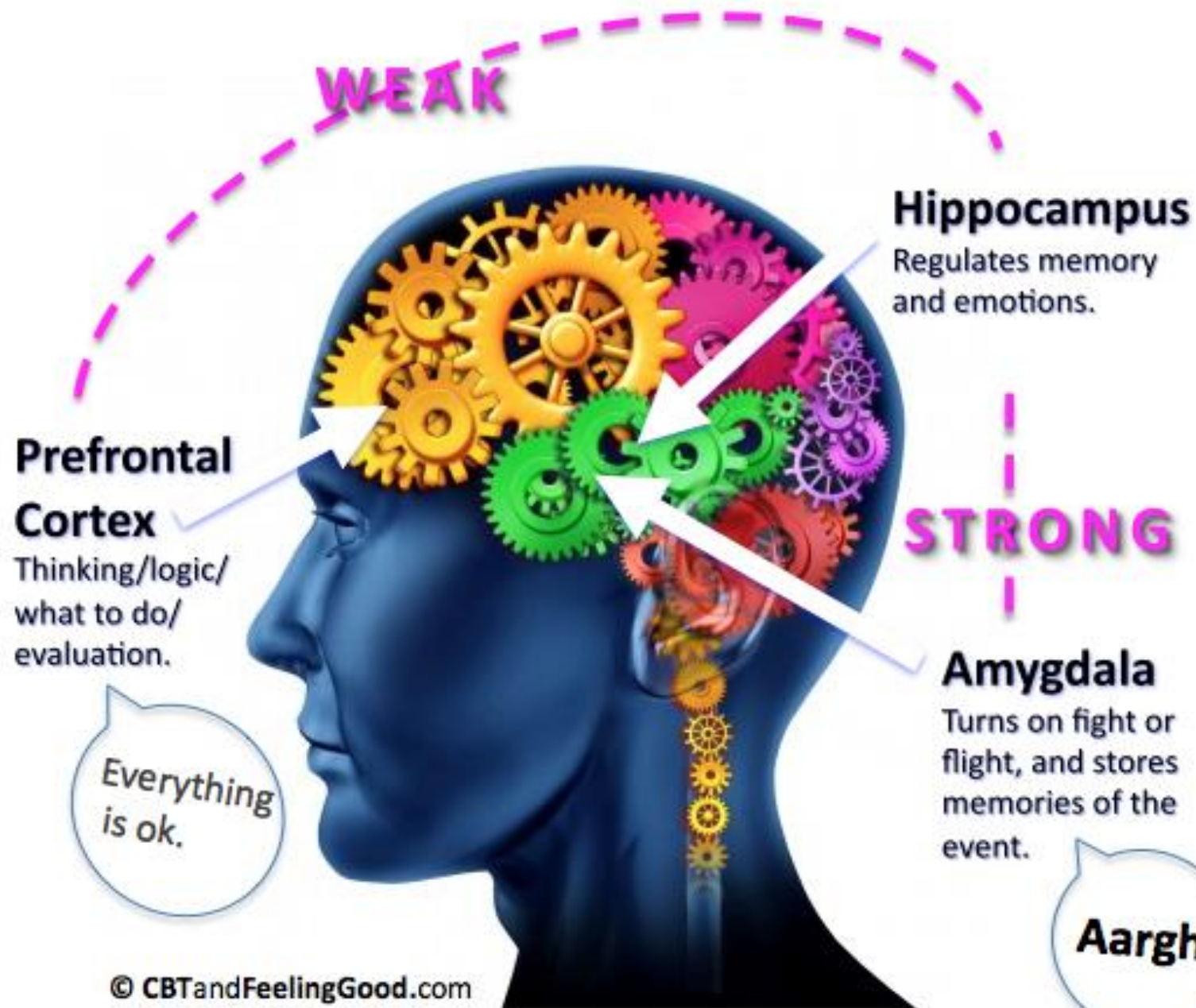
Desire

- You “need” the money
- You have to have the money...
- Or... house, status, guy, girl, anything on a pedestal
- A high source of bad trading
- To see the world as it is, be desire-less

Do you want to be smart or do you want to be angry?

Or frustrated, or disturbed, or emotional...

The amygdala hijack



When you hate anything, you hate yourself

When you hate anything, you hate yourself

Is this figurative or literal?



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Holding on to anger is like
drinking poison and expecting
the other person to die.

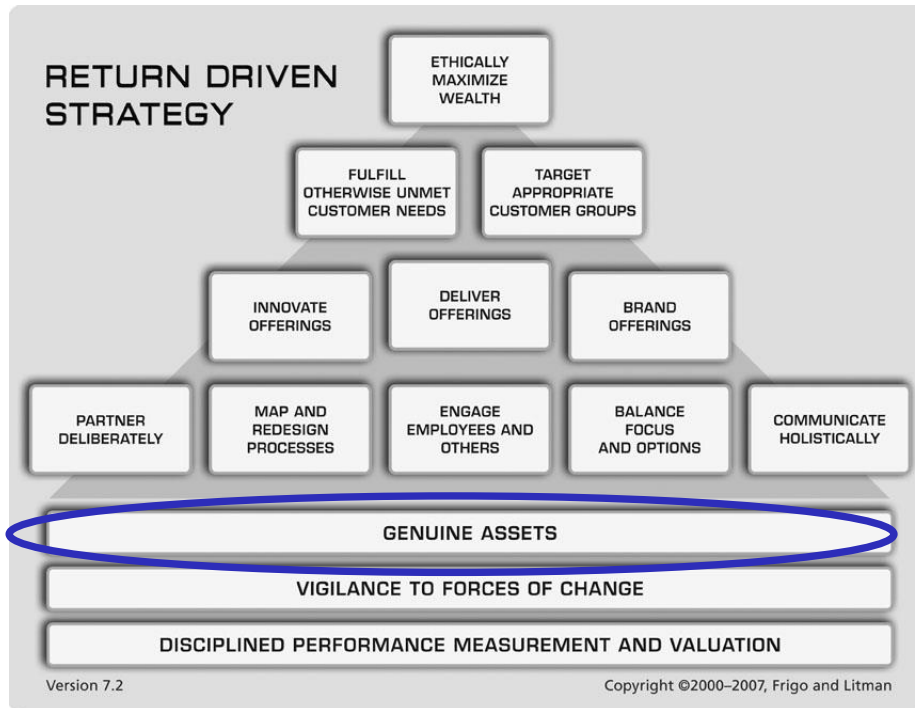
-Buddha



Some sources of bad financial decision making

- Groupthink
- Sunk costs bias
- Not seeking disconfirming information
- Emotions

Genuine Assets for ultimately improving returns



■ H

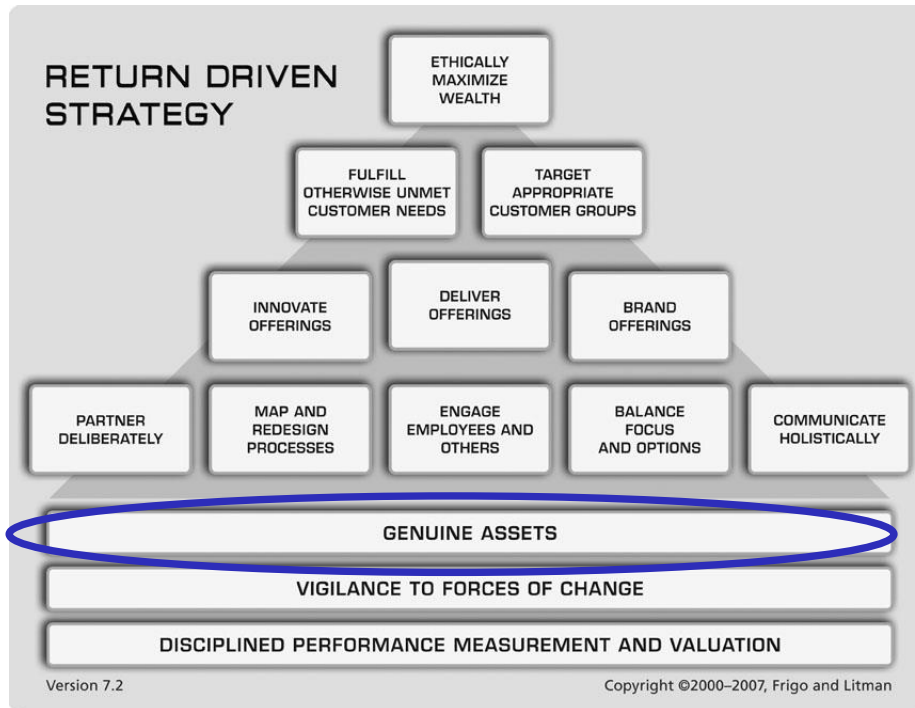
■ V

■ V

■ G

■ C

Genuine Assets for ultimately improving returns



■ Humilitas

■ V

■ V

■ G

■ C

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“When there’s no pride, there’s no prejudice, because pride and prejudice are not that different. The moment you have pride in something, you are prejudice about something else.” —Sadhguru

This quote is from the book:

Joy 24x7

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“Humility is the antidote to most errors of self-deception.”

—David R. Hawkins

This quote is from the book:

[Transcending the Levels of Consciousness: The Stairway to Enlightenment](#)

“I am the most humble person I know”

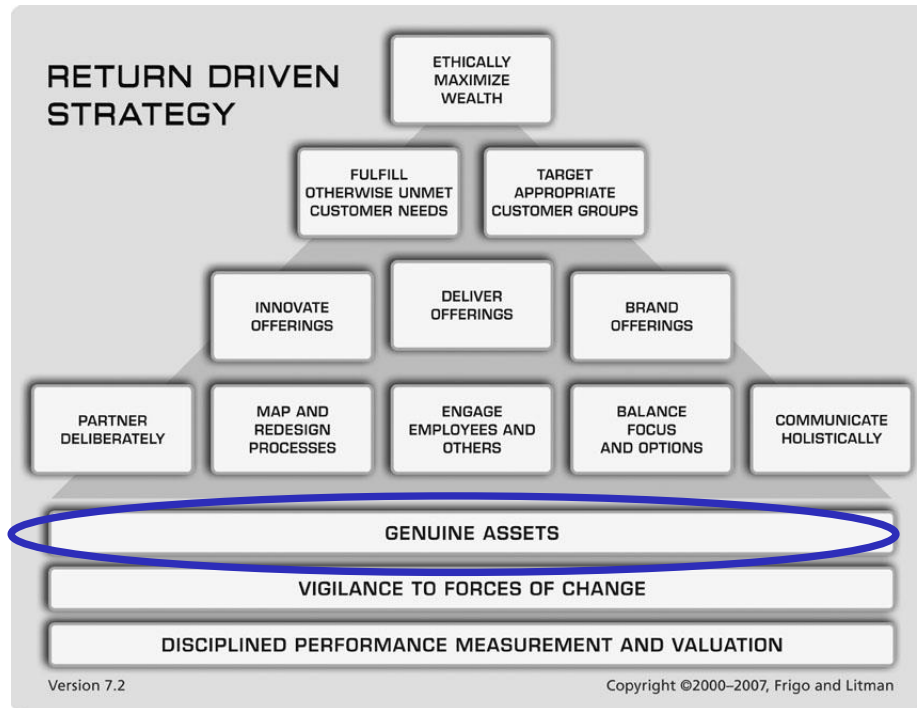
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“Humor is a means of detachment or recontextualizing the events of life. It is a way of being lighthearted and “wearing the world like a loose garment.” It leads to compassion for the totality of human life and reveals the option that one can play at life without getting involved in it as though it were an exhausting life-and-death struggle.”

—David R. Hawkins

The Six Big Genuine Assets for every Tenet



■ Humilitas

■ Veritas

■ V

■ G

■ C

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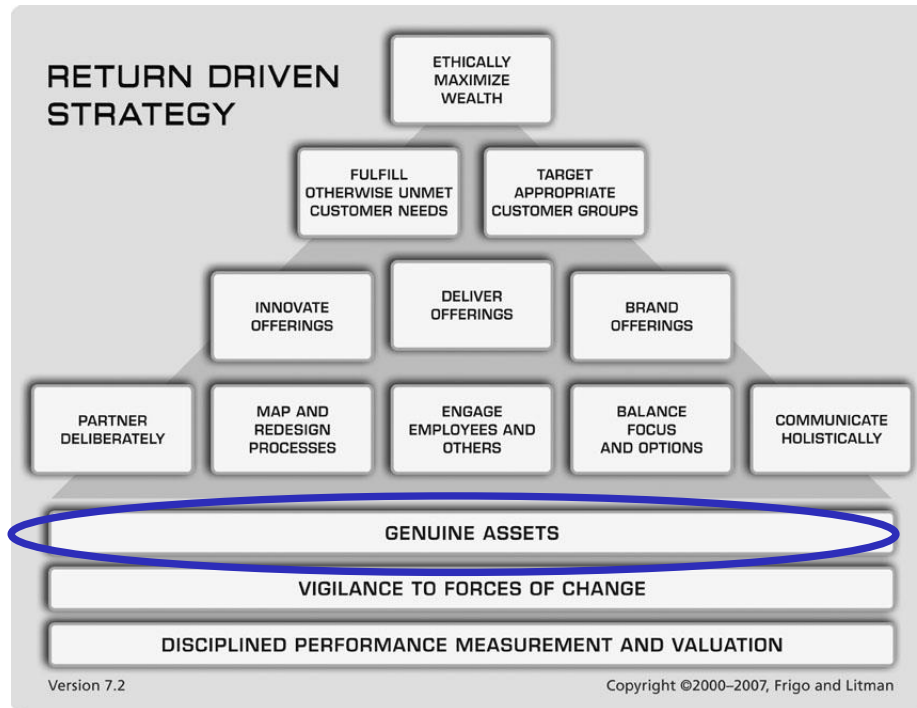
“Alignment with truth rather than gain brings strength, self-respect, and true empowerment rather than ego inflation. The dictum, 'What gains a man to win the world but lose his soul?' now becomes an axiom that guides decisions and choices of options.” —David R. Hawkins

This quote is from the book:

Transcending the Levels of Consciousness: The Stairway to Enlightenment

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The Six Big Genuine Assets for every Tenet



■ Humilitas

■ Veritas

■ Venia

■ G

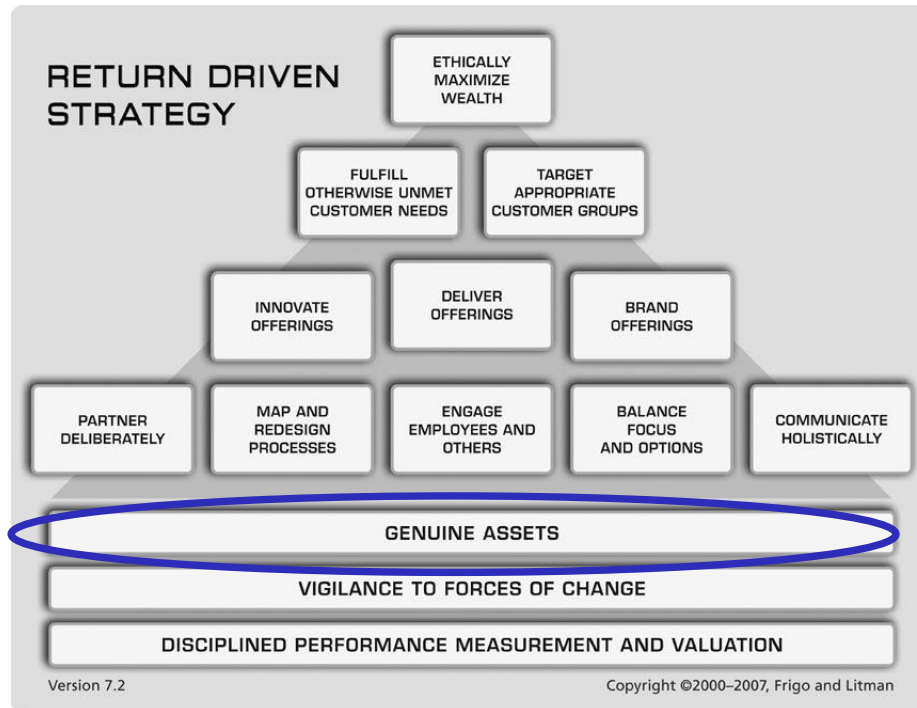
■ C

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“Reluctance to forgive is a consequence not only of unwillingness to let go of the ego juice of perceived injustice but also the illusion that others do not ‘deserve’ it. In reality, it is the forgiver and not the forgiven who benefits the most.” —David R. Hawkins

The Six Big Genuine Assets for every Tenet



- Humilitas

- Veritas

- Venia

- Gratissimus

- C

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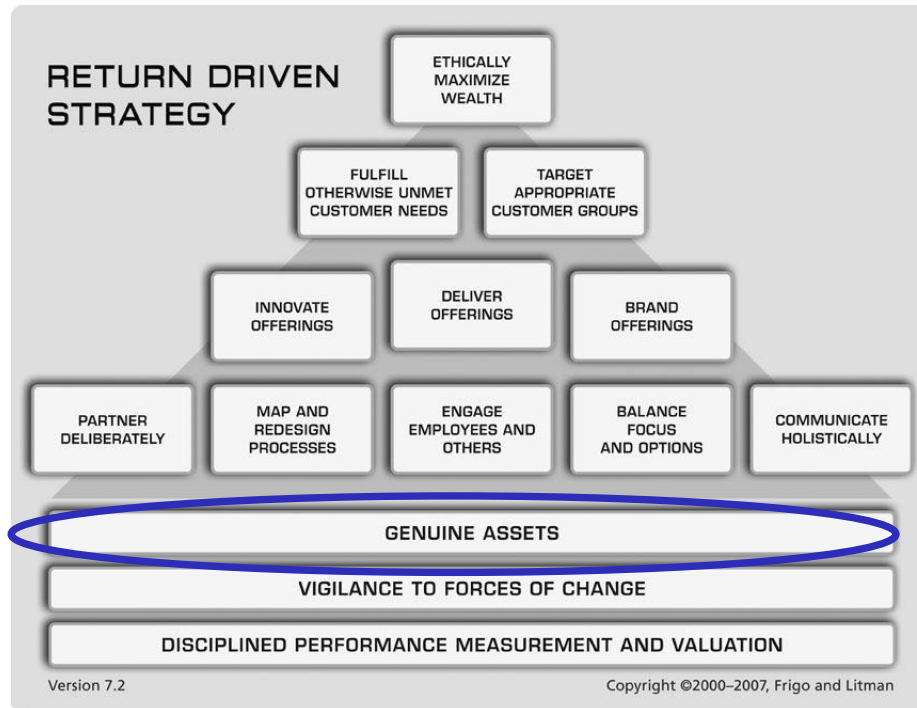
“The universe provides abundantly when you’re in a state of gratefulness.” —Wayne W. Dyer

This quote is from the book:

[Everyday Wisdom](#)

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The Six Big Genuine Assets for every Tenet



- Humilitas
- Veritas
- Venia
- Gratissimus
- Compassus

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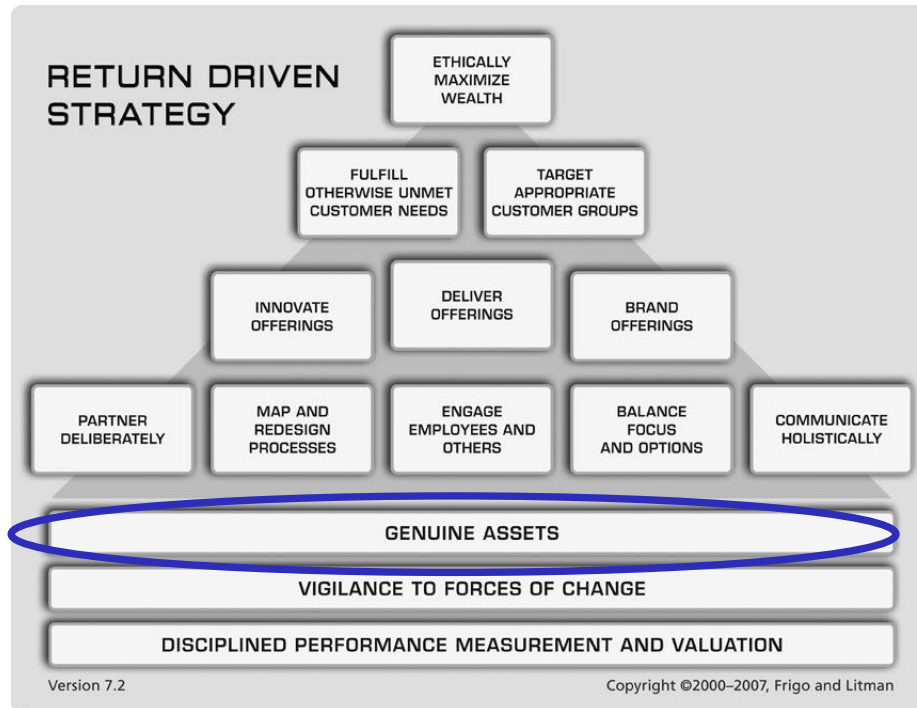
“The divine qualities of forgiveness, compassion and service will make him lovable in the eyes of all. He will experience intense joy throughout his life.” —The Holy Vedas

This quote is from the book:

[The Holy Vedas](#)

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The Six Big Genuine Assets for every Tenet



■ Humilitas

■ Veritas

■ Venia

■ Gratissimus

■ Compassus

RETURN DRIVEN STRATEGY

ETHICALLY
MAXIMIZE
WEALTH

FULFILL
OTHERWISE UNMET
CUSTOMER NEEDS

TARGET
APPROPRIATE
CUSTOMER GROUPS

INNOVATE
OFFERINGS

DELIVER
OFFERINGS

BRAND
OFFERINGS

PARTNER
DELIBERATELY

MAP AND
REDESIGN
PROCESSES

ENGAGE
EMPLOYEES AND
OTHERS

BALANCE
FOCUS
AND OPTIONS

COMMUNICATE
HOLISTICALLY

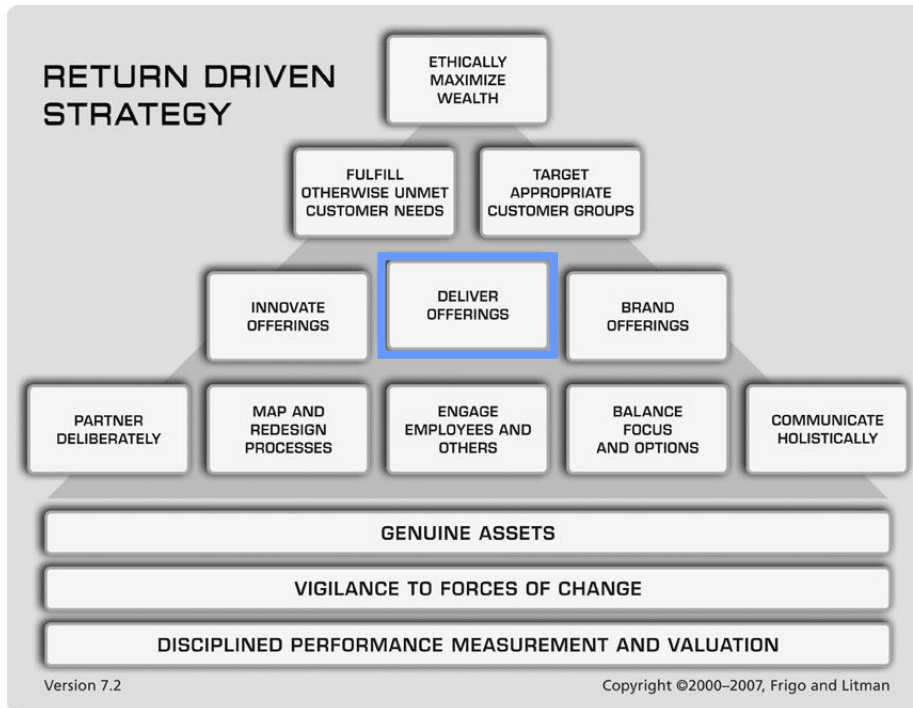
GENUINE ASSETS

VIGILANCE TO FORCES OF CHANGE

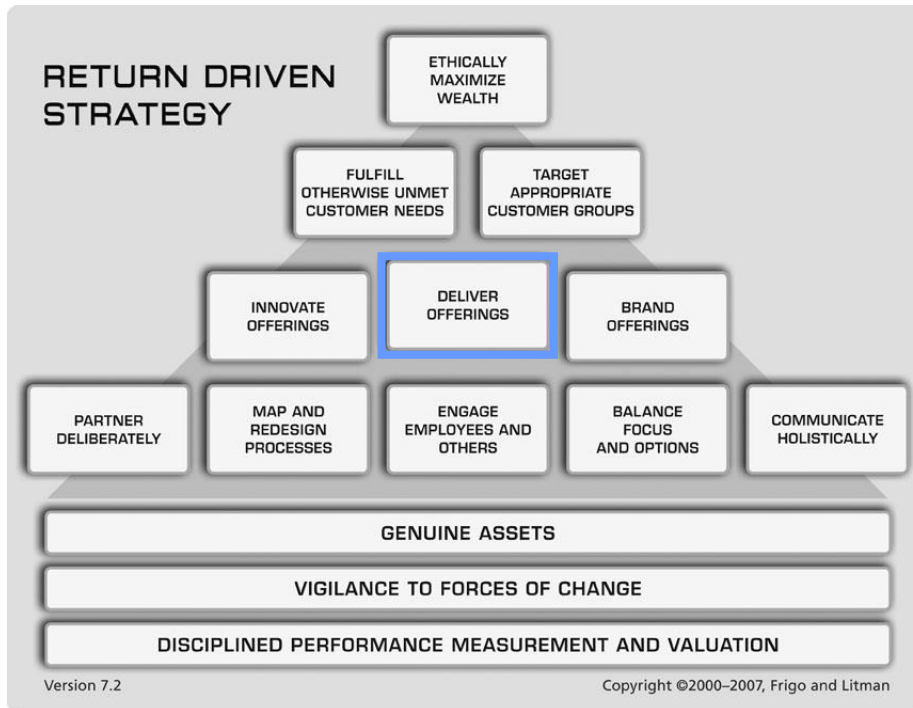
DISCIPLINED PERFORMANCE MEASUREMENT AND VALUATION

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- More efficacious sleeping
- More efficacious eating
- More efficacious breathing



- More efficacious sleeping
- More efficacious eating
- More efficacious breathing

More efficacious
everything?

American Osteopathic Association, Cancer Nursing

Mayo Clinic, WebMD, Frontiers in Psychiatry

University of Oslo, Alberta, Yale, BU, OSU, GW...

American College of Sports Medicine

Oprah, Mercola, Chopra

Michael Milken

Ray Dalio

The CFA Institute

Meditation



www.sadhguruonline.com

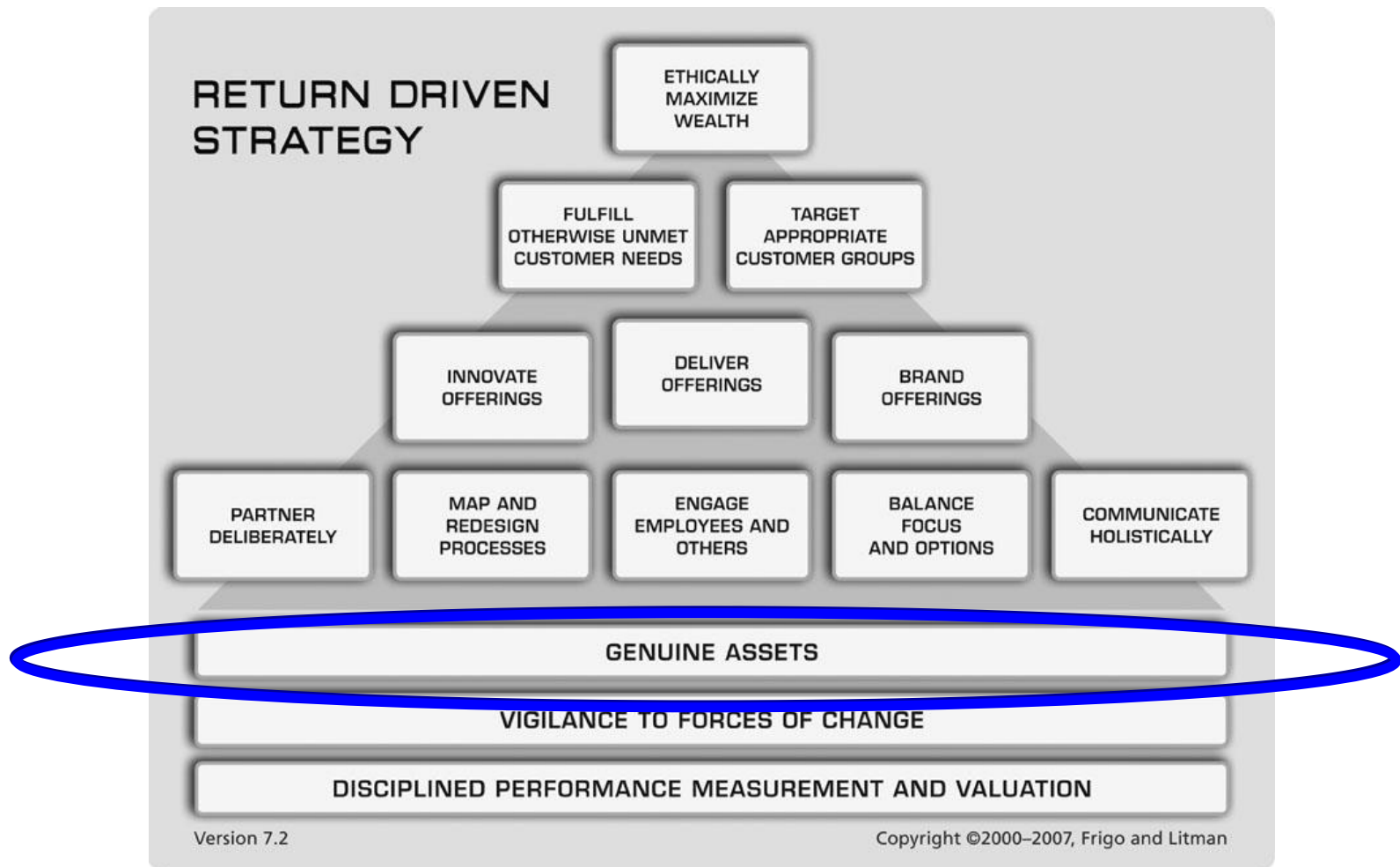
“Cool”

Anywhere

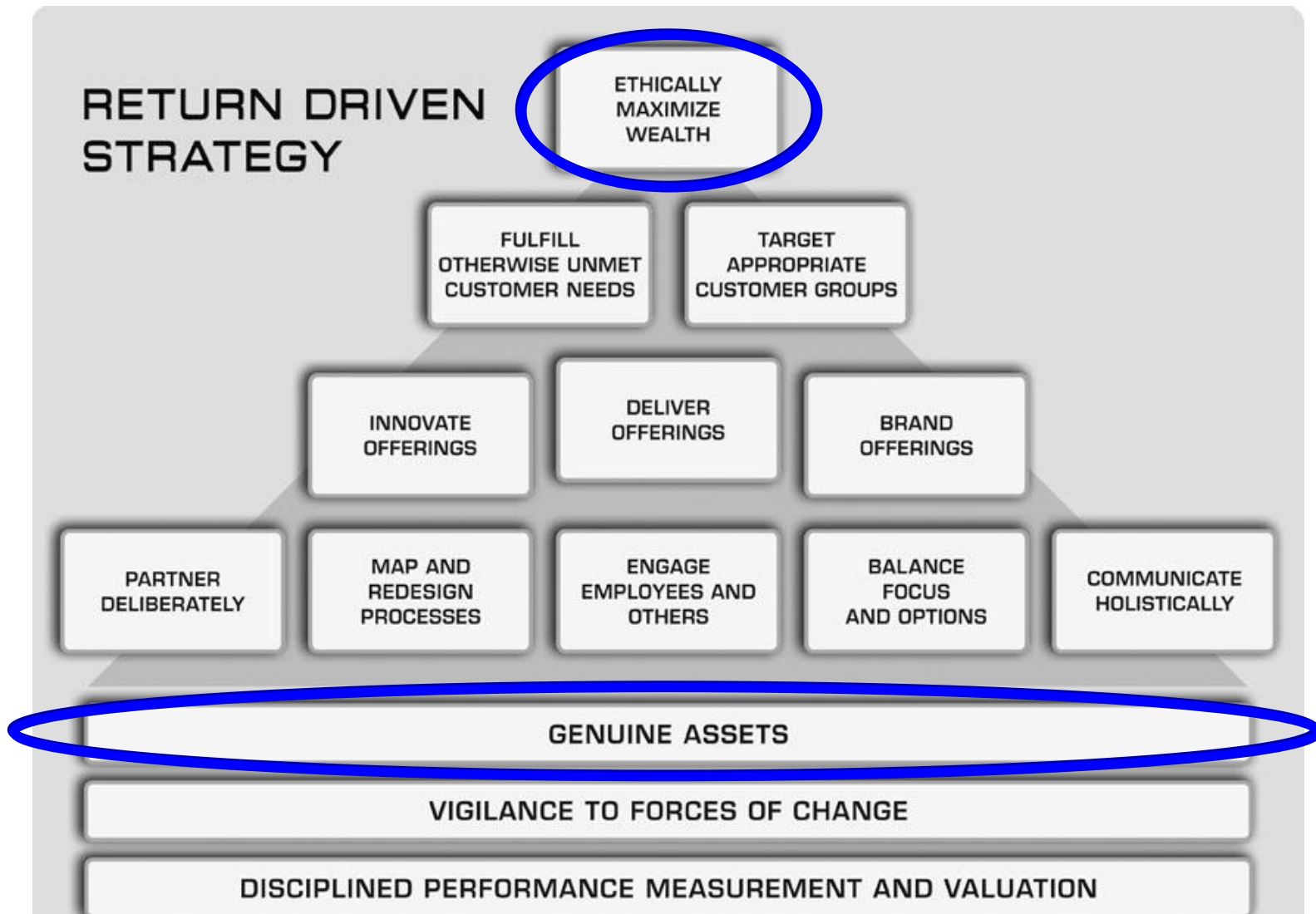
Cheap

Private

So, Lovingness, Joyfulness, and Peacefulness
are Genuine Assets, are they not?



Why do what you do?



Love, Joy, and Peace... as Wealth



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Breaking Biases in Valuation And All Decision-Making

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