

BizNotes

FOR PRIVATE CIRCULATION

M
O
N
T
H
L
Y

V
I
E
W

FROM THE FUND MANAGER DESK

Follow the Cycles, not the Narrative!

“Herd follows the narrative whereas Contrarian follows the Cycles”

Let us start with some interesting facts and then turn to intriguing questions...

Last few weeks have witnessed some dramatic changes in prices in certain asset classes. Oil prices are up by 25 to 30%, IT stocks in India came out of slumber and produced stunning returns, Indian Gsec ten year bonds crashed and globally dollar index is down by over 10%+ etc. Behind these seemingly disconnected events, is there a common thread that is running across?

To explore this, let us turn to the questions.

Why does a 1 to 2% change in forecast for oil demand results in 30%+ change in crude oil price? How does a marginal change in forecast for IT spending galvanizes IT stock prices into frenzy? It doesn't stop here. Mere 3% change in Govt. borrowing has busted the bond prices by over 15% or marginal change in relative monetary policy stance had an outsized impact on the global currency markets with dollar index diving by over 10%.

What is going on here?

“Market is a huge magnifying machine. Direction, not the magnitude sets up the asset prices in this asymmetric world where frothy financial flows distort everything deviously”

It is the nature of markets to mis-price assets for marginal changes in fundamentals. Changes in fundamentals are not anything rare, constantly occurring, driven by dynamics of

BizNotes

FOR PRIVATE CIRCULATION

M
O
N
T
H
L
Y

V
I
E
W

business cycles. Much of the times, in such changes in business cycles, mis-pricing gets magnified because of the distortion of flows that gets dictated by amplified narratives that accompanies such cyclical, but marginal changes in magnitude.

One will be able to appreciate this phenomenon more thro' an illustration. Closer look at the dynamics of IT stocks in various downturns over last several years will offer clues to the phenomenon we are talking about.

As someone wise said, Tech spending that drives stocks prices in IT sector is after-all cyclical and it moves in line with global GDP growth prospects in general and with US growth prospects in particular. That said, it is not that simple. What adds complexity is the variable lag time between GDP growth and IT spending. Lag time has been different in each of the past downturns in IT spending. Where it turns interesting is, every time when tech spending hits cyclical low in the past, narrative turned manically negative amplifying some of the ongoing challenges the Industry faces from time to time.

“In 2002, end of y2k was blown out of proportion as end of IT spending. In 2009, global financial crisis was cited as end of BFSI spending. In 2012, it was the turn of “Euro crisis” ruining IT sector. In 2017, it was digital, automation and AI that will bring end to traditional IT business model”

Below chart captured this brilliantly. It shows, how narrative amplifies the otherwise cyclical downturns into a colossal catastrophe to create great contra investment opportunities for someone who keeps an eye on cycles, not on narratives that follow. This is not to, of course, claim that there are no structural challenges for the sector. As the sector matures and becomes sizable, structural headwinds do come and can't be wished away. Current structural challenges and the matured size have brought down the sector's sustainable long-term

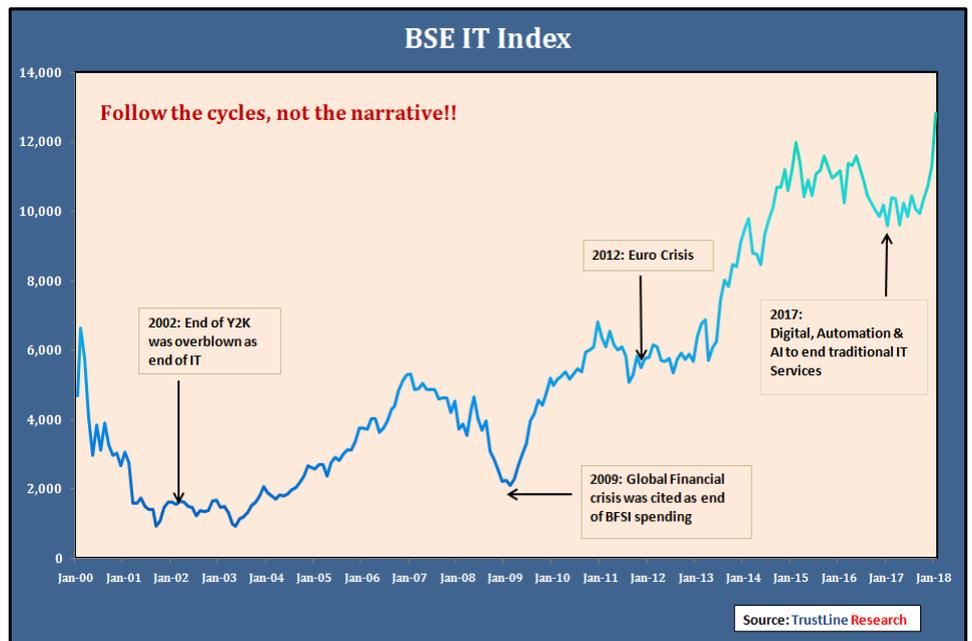
BizNotes

FOR PRIVATE CIRCULATION

M
O
N
T
H
L
Y

V
I
E
W

growth to single digits. The point here is to illustrate how, within the trend-line growth, opportunities are created because of over blown narratives that depresses the stock prices whenever cyclical low happens within the trend-line growth.



Investing is at its best when narrative goes negative.

“Time to invest is when drums are beating, not when trumpets are blaring”

Follow the cycles (mis-pricing), not the narrative for superior results in investing.

Happy Value Investing!!

ArunaGiri. N

BizNotes

FOR PRIVATE CIRCULATION

M
O
N
T
H
L
Y

V
I
E
W

CORPORATE NEWS

- **Wipro** said it would pick up minority stake in US-based **Harte Hanks** for \$9.9 Mn to strengthen its digital marketing service offerings.
- **IDFC Bank and Capital First** announced merger between the two to form a combined entity with assets under management of Rs 880 Bn, branch network of 194 and customer base of over 5 million. As per the agreement, IDFC Bank will issue 139 shares for every 10 shares of Capital First.
- Sanitaryware Company **HSIL Ltd** has commissioned a Rs. 1.6 Bn manufacturing plant in Telangana which enables the company to diversify into CPVC and UPVC pipes business. With this backward integration project, the company is well positioned to offer products for the entire bathroom requirements now, including pipes.
- **Oil and Natural Gas Corp (ONGC)** has agreed to acquire the government's entire 51.11% stake in **Hindustan Petroleum** for about Rs 370 Bn in an all-cash deal that would close by month-end.
- **Tech Mahindra** has announced that it will acquire 17.5 percent stake in US-based telecom software development company Altistar Networks for USD 15 Mn in a cash deal.
- The **Tata Motors-owned Jaguar Land Rover (JLR)** is mulling a new software hub at Shannon in Ireland as part of its wider plans to invest in electric and driver-less technology.
- At **Tata Consultancy Services Ltd (TCS)**, it is raining deals. India's largest information technology outsourcing company said that it had won a \$690 Mn, 10-year contract from a unit of British insurer Prudential.
- **Eveready Industries India** has entered the confectionary market through the launch of its brand 'Jollies'. In the first phase, Jollies

BizNotes

FOR PRIVATE CIRCULATION

M
O
N
T
H
L
Y

V
I
D
E
O

will be launched in the fruit chew segment and will cater to the domestic market.

- **Reliance Communication (RCom)**, which is in the middle of a major debt restructuring, said it would construct a 22,000 km undersea cable network at an investment of \$600 Mn, a move that would help expand the company's enterprise segment after it shut down its wireless service.

MACRO NEWS

- **The Finance Ministry** announced that it would scale back its additional borrowing to Rs 200 Bn for the fiscal, from its earlier plan to raise an extra Rs 500 Bn from the market.
- Ahead of the Budget, the government has increased the incentive on more than a hundred products including traditional exports like leather, marine, yarn and wool. The benefit in form of higher duty drawback on 102 items is expected to boost exports and also ease the liquidity crunch faced by exporters after the roll out of the **Goods and Services Tax**.
- **The Goods and Services Tax Council (GST Council)** cut tax rates on 29 products and 54 services at its 25th meeting and agreed to make the process of filing tax returns simpler.
- The net **Direct Tax collections** by the government up to January 15 in the current fiscal (2017-18) stood at Rs 6.89 Tn (provisional) -- which is 18.7 per cent higher than during the corresponding period of last year. The net Direct Tax collections represent 70.3 per cent of the total Budget Estimates of Direct Taxes for 2017-18 (Rs 9.8 Tn), the finance ministry said.
- The cabinet approved 100% **FDI in single-brand retail** without the requirement of prior government approval. India allows 100% FDI in single-brand retail, but investment beyond 49% requires prior government approval.

BizNotes

FOR PRIVATE CIRCULATION

M
O
N
T
H
L
Y

V
I
E
W

- Rating agency **ICRA** estimated that the year-end surge in bond yields would cost the banking sector nominal losses of about Rs 155 Bn. Banks need to value their trading portfolio in sync with the market rate, as such any fall in price have to be factored in the books. In the third quarter ended in December, the **10-year bond yields** rose 67 basis points, as the government announced an extra borrowing programme.

FUNDS FLOW DATA

<i>Data as on 29th Jan 2018</i>		
FUNDS FLOW DATA (Rs in Cr)		
<i>Category</i>	<i>MTD</i>	<i>YTD</i>
FII	9810	9810
DII	(614)	(614)
Total	9196	9196

DEBT & FOREX MARKET

<i>Data as on 29th Jan 2018</i>			
Debt / Forex Market			
<i>Category</i>	<i>Day</i>	<i>1 Mnth</i>	<i>3 Mnths</i>
10 Yr Yield	7.4	7.3	6.8
Re/ US \$	63.6	63.9	64.9

BizNotes

FOR PRIVATE CIRCULATION

MARKET VIEW*

Broader market hitting a bump?

The growing concern on markets being out of sync with macro realities did not fall on deaf ears, at least when it came to the broader small and mid cap space. Broader market took a breather at last with some early signs of nervousness surfacing in small and midcaps, though not reflected in the Sensex and Nifty which keeps the mercury high in this otherwise muted broader markets.

“Though benchmark indices are hitting new highs every other day, stock portfolios of retail investors have hit a bump because of subdued small and midcap stocks”

As far as flows are concerned, Indian markets have never been as lucky. In the second half of last year, when FII flows were fragile, domestic flows lent their hand with its surging flows into broader markets. Now it is the turn of FIIs to return the favor with domestic investors getting edgy with not so rosy macro. FII flows are back with a bang with net flows in this month already crossing \$1.5Bn+, while the DII (Domestic Institutions) flows have turned negative for the first time in many months. But, given FII's fancy for the large caps, it is not difficult to decipher why benchmark indices are hitting highs while the broader markets have barely moved.

Weakness in the broader space should be a welcome development for seasoned stock pickers. If 2017 was an unstoppable one-way rally for much of the broader market, with volatility returning this year, 2018 should be viewed by serious investors as an opportune year for portfolio building for an eventual breakout in 2019 when the economy starts reaping the rewards of series of structural reforms of past few years which will catapult the GDP growth rates to beyond 8%+.

“Structural reforms such as Bankruptcy code, RERA, Subsidy reforms thro' DBT, Indirect tax reforms (GST), Financialization of savings, Inflation control etc will drive the break-out for the economy from its badly stuck 7-7.5% range from FY20 onwards”

Investors should focus on portfolio construction and stock picking during the period of volatility (as and when it comes) in 2018 (because of weakening macro) by moving more additional investments into equities for benefiting from the eventual breakout that will play out from FY20 onwards.

We stay away from giving market outlook (except reporting the consensus view) as we believe that the short-term market movements are function of innumerable rational and irrational parameters and hence any attempt to predict the next market move would be a futile exercise. Hence, we would like to qualify the above consensus view on outlook with a clear caution that TrustLine does not have any specific view on the outlook and does not necessarily subscribe to that.

BizNotes

FOR PRIVATE CIRCULATION

VALUE EXTRACTS

- In this section of the newsletter, we attach an extract/write-up that we believe can add value to the readers from the “**VALUE INVESTMENT**” point of view or others that offer interesting perspective.
- Enclosed section carries an interesting article titled “**Complexity Bias: Why We Prefer Complicated to Simple**” from farnamstreetblog.com.

“I’m no genius. I’m smart in spots and I stay around those spots.”

- Tom Watson, Founder - IBM

Complexity Bias: Why We Prefer Complicated to Simple

Complexity bias is a logical fallacy that leads us to give undue credence to complex concepts.

Faced with two competing hypotheses, we are likely to choose the most complex one. That’s usually the option with the most assumptions and regressions. As a result, when we need to solve a problem, we may ignore simple solutions — thinking “that will never work” — and instead favor complex ones.

To understand complexity bias, we need first to establish the meaning of three key terms associated with it: complexity, simplicity, and chaos.

Complexity, like pornography, is hard to define when we’re put on the spot, although most of us recognize it when we see it. The Cambridge Dictionary defines complexity as “the state of having many parts and being difficult to understand or find an answer to.” The definition of simplicity is the inverse:

BizNotes

FOR PRIVATE CIRCULATION

“something [that] is easy to understand or do.” Chaos is defined as “a state of total confusion with no order.”

“Life is really simple, but we insist on making it complicated.”
— Confucius

Complex systems contain individual parts that combine to form a collective that often can't be predicted from its components. Consider humans. We are complex systems. We're made of about 100 trillion cells and yet we are so much more than the aggregation of our cells. You'd never predict what we're like or who we are from looking at our cells.

Complexity bias is our tendency to look at something that is easy to understand, or look at it when we are in a state of confusion, and view it as having many parts that are difficult to understand.

We often find it easier to face a complex problem than a simple one.

A person who feels tired all the time might insist that their doctor check their iron levels while ignoring the fact that they are unambiguously sleep deprived. Someone experiencing financial difficulties may stress over the technicalities of their telephone bill while ignoring the large sums of money they spend on cocktails.

Marketers make frequent use of complexity bias.

They do this by incorporating confusing language or insignificant details into product packaging or sales copy. Most people who buy “ammonia-free” hair dye, or a face cream which “contains peptides,” don't fully understand the claims. Terms like these often mean very little, but we see them and imagine that they signify a product that's superior to alternatives.

How many of you know what probiotics really are and how they interact with gut flora?

BizNotes

FOR PRIVATE CIRCULATION

Meanwhile, we may also see complexity where only chaos exists. This tendency manifests in many forms, such as conspiracy theories, superstition, folklore, and logical fallacies. The distinction between complexity and chaos is not a semantic one. When we imagine that something chaotic is in fact complex, we are seeing it as having an order and more predictability than is warranted. In fact, there is no real order, and prediction is incredibly difficult at best.

Complexity bias is interesting because the majority of cognitive biases occur in order to save mental energy. For example, confirmation bias enables us to avoid the effort associated with updating our beliefs. We stick to our existing opinions and ignore information that contradicts them. Availability bias is a means of avoiding the effort of considering everything we know about a topic. It may seem like the opposite is true, but complexity bias is, in fact, another cognitive shortcut. By opting for impenetrable solutions, we sidestep the need to understand. Of the fight-or-flight responses, complexity bias is the flight response. It is a means of turning away from a problem or concept and labeling it as too confusing. If you think something is harder than it is, you surrender your responsibility to understand it.

“Most geniuses—especially those who lead others—prosper not by deconstructing intricate complexities but by exploiting unrecognized simplicities.”

— Andy Benoit

Faced with too much information on a particular topic or task, we see it as more complex than it is. Often, understanding the fundamentals will get us most of the way there. Software developers often find that 90% of the code for a project takes about half the allocated time. The remaining 10% takes the other half. Writing — and any other sort of creative work — is much the same. When we succumb to complexity bias, we are focusing too hard on the tricky 10% and ignoring the easy 90%.

Research has revealed our inherent bias towards complexity.

BizNotes

FOR PRIVATE CIRCULATION

In a 1989 paper entitled “Sensible reasoning in two tasks: Rule discovery and hypothesis evaluation,” Hilary F. Farris and Russell Revlin evaluated the topic. In one study, participants were asked to establish an arithmetic rule. They received a set of three numbers (such as 2, 4, 6) and tried to generate a hypothesis by asking the experimenter if other number sequences conformed to the rule. Farris and Revlin wrote, “This task is analogous to one faced by scientists, with the seed triple functioning as an initiating observation, and the act of generating the triple is equivalent to performing an experiment.”

The actual rule was simple: list any three ascending numbers.

The participants could have said anything from “1, 2, 3” to “3, 7, 99” and been correct. It should have been easy for the participants to guess this, but most of them didn’t. Instead, they came up with complex rules for the sequences. (Also see Falsification of Your Best Loved Ideas.)

A paper by Helena Matute looked at how intermittent reinforcement leads people to see complexity in chaos. Three groups of participants were placed in rooms and told that a loud noise would play from time to time. The volume, length, and pattern of the sound were identical for each group. Group 1 (Control) was told to sit and listen to the noises. Group 2 (Escape) was told that there was a specific action they could take to stop the noises. Group 3 (Yoked) was told the same as Group 2, but in their case, there was actually nothing they could do.

Matute wrote:

Yoked participants received the same pattern and duration of tones that had been produced by their counterparts in the Escape group. The amount of noise received by Yoked and Control subjects depends only on the ability of the Escape subjects to terminate the tones. The critical factor is that Yoked subjects do not have control over reinforcement (noise

BizNotes

FOR PRIVATE CIRCULATION

termination) whereas Escape subjects do, and Control subjects are presumably not affected by this variable.

The result? Not one member of the Yoked group realized that they had no control over the sounds. Many members came to repeat particular patterns of “superstitious” behavior. Indeed, the Yoked and Escape groups had very similar perceptions of task controllability. Faced with randomness, the participants saw complexity.

Does that mean the participants were stupid? Not at all. We all exhibit the same superstitious behavior when we believe we can influence chaotic or simple systems.

Funnily enough, animal studies have revealed much the same. In particular, consider B.F. Skinner’s well-known research on the effects of random rewards on pigeons. Skinner placed hungry pigeons in cages equipped with a random-food-delivery mechanism. Over time, the pigeons came to believe that their behavior affected the food delivery. Skinner described this as a form of superstition. One bird spun in counterclockwise circles. Another butted its head against a corner of the cage. Other birds swung or bobbed their heads in specific ways. Although there is some debate as to whether “superstition” is an appropriate term to apply to birds, Skinner’s research shed light on the human tendency to see things as being more complex than they actually are.

Skinner wrote (in “‘Superstition’ in the Pigeon,” *Journal of Experimental Psychology*, 38):

The bird behaves as if there were a causal relation between its behavior and the presentation of food, although such a relation is lacking. There are many analogies in human behavior. Rituals for changing one's fortune at cards are good examples. A few accidental connections between a ritual and favorable consequences suffice to set up and maintain the behavior in spite of many unreinforced instances. The bowler who has released a ball down the alley but continues to behave as if he were controlling it by twisting and turning his arm and

BizNotes

FOR PRIVATE CIRCULATION

shoulder is another case in point. These behaviors have, of course, no real effect upon one's luck or upon a ball half way down an alley, just as in the present case the food would appear as often if the pigeon did nothing—or, more strictly speaking, did something else.

The world around us is a chaotic, entropic place. But it is rare for us to see it that way.

In *Living with Complexity*, Donald A. Norman offers a perspective on why we need complexity:

We seek rich, satisfying lives, and richness goes along with complexity. Our favorite songs, stories, games, and books are rich, satisfying, and complex. We need complexity even while we crave simplicity... Some complexity is desirable. When things are too simple, they are also viewed as dull and uneventful. Psychologists have demonstrated that people prefer a middle level of complexity: too simple and we are bored, too complex and we are confused. Moreover, the ideal level of complexity is a moving target, because the more expert we become at any subject, the more complexity we prefer. This holds true whether the subject is music or art, detective stories or historical novels, hobbies or movies.

As an example, Norman asks readers to contemplate the complexity we attach to tea and coffee. Most people in most cultures drink tea or coffee each day. Both are simple beverages, made from water and coffee beans or tea leaves. Yet we choose to attach complex rituals to them. Even those of us who would not consider ourselves to be connoisseurs have preferences. Offer to make coffee for a room full of people, and we can be sure that each person will want it made in a different way.

Coffee and tea start off as simple beans or leaves, which must be dried or roasted, ground and infused with water to produce the end result. In principle, it should be easy to make a cup of coffee or tea. Simply let the ground beans or tea leaves [steep] in hot water for a while, then separate the grounds and tea

BizNotes

FOR PRIVATE CIRCULATION

leaves from the brew and drink. But to the coffee or tea connoisseur, the quest for the perfect taste is long-standing. What beans? What tea leaves? What temperature water and for how long? And what is the proper ratio of water to leaves or coffee?

The quest for the perfect coffee or tea maker has been around as long as the drinks themselves. Tea ceremonies are particularly complex, sometimes requiring years of study to master the intricacies. For both tea and coffee, there has been a continuing battle between those who seek convenience and those who seek perfection.

Complexity, in this way, can enhance our enjoyment of a cup of tea or coffee. It's one thing to throw some instant coffee in hot water. It's different to select the perfect beans, grind them ourselves, calculate how much water is required, and use a fancy device. The question of whether this ritual makes the coffee taste better or not is irrelevant. The point is the elaborate surrounding ritual. Once again, we see complexity as superior.

“Simplicity is a great virtue but it requires hard work to achieve it and education to appreciate it. And to make matters worse: complexity sells better.”

— Edsger W. Dijkstra

The Problem with Complexity

Imagine a person who sits down one day and plans an elaborate morning routine. Motivated by the routines of famous writers they have read about, they lay out their ideal morning. They decide they will wake up at 5 a.m., meditate for 15 minutes, drink a liter of lemon water while writing in a journal, read 50 pages, and then prepare coffee before planning the rest of their day.

The next day, they launch into this complex routine. They try to keep at it for a while. Maybe they succeed at first, but entropy soon sets in and the routine gets derailed. Sometimes they wake up late and do not have time to read. Their perceived ideal

BizNotes

FOR PRIVATE CIRCULATION

routine has many different moving parts. Their actual behavior ends up being different each day, depending on random factors.

Now imagine that this person is actually a famous writer. A film crew asks to follow them around on a “typical day.” On the day of filming, they get up at 7 a.m., write some ideas, make coffee, cook eggs, read a few news articles, and so on. This is not really a routine; it is just a chaotic morning based on reactive behavior. When the film is posted online, people look at the morning and imagine they are seeing a well-planned routine rather than the randomness of life.

This hypothetical scenario illustrates the issue with complexity: it is unsustainable without effort.

The more individual constituent parts a system has, the greater the chance of its breaking down. Charlie Munger once said that “Where you have complexity, by nature you can have fraud and mistakes.” Any complex system — be it a morning routine, a business, or a military campaign — is difficult to manage. Addressing one of the constituent parts inevitably affects another (see the Butterfly Effect). Unintended and unexpected consequences are likely to occur.

As Daniel Kahneman and Amos Tversky wrote in 1974 (in *Judgment Under Uncertainty: Heuristics and Biases*): “A complex system, such as a nuclear reactor or the human body, will malfunction if any of its essential components fails. Even when the likelihood of failure in each component is slight, the probability of an overall failure can be high if many components are involved.”

This is why complexity is less common than we think. It is unsustainable without constant maintenance, self-organization, or adaptation. Chaos tends to disguise itself as complexity.

“Human beings are pattern-seeking animals. It's part of our DNA. That's why conspiracy theories and gods are so popular: we always look for the wider, bigger explanations for things.”

— Adrian McKinty, *The Cold Cold Ground*

BizNotes

FOR PRIVATE CIRCULATION

Complexity Bias and Conspiracy Theories

A musician walks barefoot across a zebra-crossing on an album cover. People decide he died in a car crash and was replaced by a lookalike. A politician's eyes look a bit odd in a blurry photograph. People conclude that he is a blood-sucking reptilian alien taking on a human form. A photograph shows an indistinct shape beneath the water of a Scottish lake. The area floods with tourists hoping to glimpse a surviving prehistoric creature. A new technology overwhelms people. So, they deduce that it is the product of a government mind-control program.

Conspiracy theories are the ultimate symptom of our desire to find complexity in the world. We don't want to acknowledge that the world is entropic. Disasters happen and chaos is our natural state. The idea that hidden forces animate our lives is an appealing one. It seems rational. But as we know, we are all much less rational and logical than we think. Studies have shown that a high percentage of people believe in some sort of conspiracy. It's not a fringe concept. According to research by Joseph E. Uscinski and Joseph M. Parent, about one-third of Americans believe the notion that Barack Obama's birth certificate is fake. Similar numbers are convinced that 9/11 was an inside job orchestrated by George Bush. Beliefs such as these are present in all types of people, regardless of class, age, gender, race, socioeconomic status, occupation, or education level.

Conspiracy theories are invariably far more complex than reality. Although education does reduce the chances of someone's believing in conspiracy theories, one in five Americans with postgraduate degrees still hold conspiratorial beliefs.

Uscinski and Parent found that, just as uncertainty led Skinner's pigeons to see complexity where only randomness existed, a sense of losing control over the world around us increases the likelihood of our believing in conspiracy theories. Faced with natural disasters and political or economic

BizNotes

FOR PRIVATE CIRCULATION

instability, we are more likely to concoct elaborate explanations. In the face of horrific but chaotic events such as Hurricane Katrina, or the recent Grenfell Tower fire, many people decide that secret institutions are to blame.

Take the example of the “Paul McCartney is dead” conspiracy theory. Since the 1960s, a substantial number of people have believed that McCartney died in a car crash and was replaced by a lookalike, usually said to be a Scottish man named William Campbell. Of course, conspiracy theorists declare, The Beatles wanted their most loyal fans to know this, so they hid clues in songs and on album covers.

The beliefs surrounding the Abbey Road album are particularly illustrative of the desire to spot complexity in randomness and chaos. A police car is parked in the background — an homage to the officers who helped cover up the crash. A car’s license plate reads “LMW 28IF” — naturally, a reference to McCartney being 28 if he had lived (although he was 27) and to Linda McCartney (whom he had not met yet). Matters were further complicated once The Beatles heard about the theory and began to intentionally plant “clues” in their music. The song “I’m So Tired” does in fact feature backwards mumbling about McCartney’s supposed death. The 1960s were certainly a turbulent time, so is it any wonder that scores of people pored over album art or played records backwards, looking for evidence of a complex hidden conspiracy?

As Henry Louis Gates Jr. wrote, “Conspiracy theories are an irresistible labor-saving device in the face of complexity.”

Complexity Bias and Language

We have all, at some point, had a conversation with someone who speaks like philosopher Theodor Adorno wrote: using incessant jargon and technical terms even when simpler synonyms exist and would be perfectly appropriate. We have all heard people say things which we do not understand, but which we do not question for fear of sounding stupid.

BizNotes

FOR PRIVATE CIRCULATION

Jargon is an example of how complexity bias affects our communication and language usage. When we use jargon, especially out of context, we are putting up unnecessary semantic barriers that reduce the chances of someone's challenging or refuting us.

In an article for *The Guardian*, James Gingell describes his work translating scientific jargon into plain, understandable English:

It's quite simple really. The first step is getting rid of the technical language. Whenever I start work on refining a rough-hewn chunk of raw science into something more pleasant I use David Dobbs' (rather violent) aphorism as a guiding principle: "Hunt down jargon like a mercenary possessed, and kill it." I eviscerate acronyms and euthanise decrepit Latin and Greek. I expunge the esoteric. I trim and clip and pare and hack and burn until only the barest, most easily understood elements remain.

[...]

Jargon...can be useful for people as a shortcut to communicating complex concepts. But it's intrinsically limited: it only works when all parties involved know the code. That may be an obvious point but it's worth emphasising — to communicate an idea to a broad, non-specialist audience, it doesn't matter how good you are at embroidering your prose with evocative imagery and clever analogies, the jargon simply must go."

Gingell writes that even the most intelligent scientists struggle to differentiate between thinking (and speaking and writing) like a scientist, and thinking like a person with minimal scientific knowledge.

Unnecessarily complex language is not just annoying. It's outright harmful. The use of jargon in areas such as politics and economics does real harm. People without the requisite knowledge to understand it feel alienated and removed from

BizNotes

FOR PRIVATE CIRCULATION

important conversations. It leads people to believe that they are not intelligent enough to understand politics, or not educated enough to comprehend economics. When a politician talks of fiscal charters or rolling four-quarter growth measurements in a public statement, they are sending a crystal clear message to large numbers of people whose lives will be shaped by their decisions: this is not about you.

Complexity bias is a serious issue in politics. For those in the public eye, complex language can be a means of minimizing the criticism of their actions. After all, it is hard to dispute something you don't really understand. Gingell considers jargon to be a threat to democracy:

If we can't fully comprehend the decisions that are made for us and about us by the government then how can we possibly revolt or react in an effective way? Yes, we have a responsibility to educate ourselves more on the big issues, but I also think it's important that politicians and journalists meet us halfway.

[...]

Economics and economic decisions are more important than ever now, too. So we should implore our journalists and politicians to write and speak to us plainly. Our democracy depends on it.

In his essay "Politics and the English Language," George Orwell wrote:

In our time, political speech and writing are largely the defence of the indefensible. ... Thus, political language has to consist largely of euphemism, question-begging and sheer cloudy vagueness. Defenceless villages are bombarded from the air, the inhabitants driven out into the countryside, the cattle machine-gunned, the huts set on fire with incendiary bullets: this is called pacification. Millions of peasants are robbed of their farms and sent trudging along the roads with no more than they can carry: this is called transfer of

BizNotes

FOR PRIVATE CIRCULATION

population or rectification of frontiers. People are imprisoned for years without trial, or shot in the back of the neck or sent to die of scurvy in Arctic lumber camps: this is called elimination of unreliable elements.

An example of the problems with jargon is the Sokal affair. In 1996, Alan Sokal (a physics professor) submitted a fabricated scientific paper entitled “Transgressing the Boundaries: Towards a Transformative Hermeneutics of Quantum Gravity.” The paper had absolutely no relation to reality and argued that quantum gravity is a social and linguistic construct. Even so, the paper was published in a respected journal. Sokal’s paper consisted of convoluted, essentially meaningless claims, such as this paragraph:

Secondly, the postmodern sciences deconstruct and transcend the Cartesian metaphysical distinctions between humankind and Nature, observer and observed, Subject and Object. Already quantum mechanics, earlier in this century, shattered the ingenious Newtonian faith in an objective, pre-linguistic world of material objects “out there”; no longer could we ask, as Heisenberg put it, whether “particles exist in space and time objectively.”

(If you're wondering why no one called him out, or more specifically why we have a bias to not call BS out, check out pluralistic ignorance).

Jargon does have its place. In specific contexts, it is absolutely vital. But in everyday communication, its use is a sign that we wish to appear complex and therefore more intelligent. Great thinkers throughout the ages have stressed the crucial importance of using simple language to convey complex ideas. Many of the ancient thinkers whose work we still reference today — people like Plato, Marcus Aurelius, Seneca, and Buddha — were known for their straightforward communication and their ability to convey great wisdom in a few words.

BizNotes

FOR PRIVATE CIRCULATION

“Any intelligent fool can make things bigger, more complex, and more violent. It takes a touch of genius — and a lot of courage — to move in the opposite direction.”

— Ernst F. Schumacher

How Can We Overcome Complexity Bias?

The most effective tool we have for overcoming complexity bias is Occam's razor. Also known as the principle of parsimony, this is a problem-solving principle used to eliminate improbable options in a given situation. Occam's razor suggests that the simplest solution or explanation is usually the correct one. When we don't have enough empirical evidence to disprove a hypothesis, we should avoid making unfounded assumptions or adding unnecessary complexity so we can make quick decisions or establish truths.

An important point to note is that Occam's razor does not state that the simplest hypothesis is the correct one, but states rather that it is the best option before the establishment of empirical evidence. It is also useful in situations where empirical data is difficult or impossible to collect. While complexity bias leads us towards intricate explanations and concepts, Occam's razor can help us to trim away assumptions and look for foundational concepts.

Returning to Skinner's pigeons, had they known of Occam's razor, they would have realized that there were two main possibilities:

- Their behavior affects the food delivery.

Or:

- Their behavior is irrelevant because the food delivery is random or on a timed schedule.

Using Occam's razor, the head-bobbing, circles-turning pigeons would have realized that the first hypothesis involves numerous assumptions, including:

Ist February' 2018

TrustLine

BizNotes

FOR PRIVATE CIRCULATION

- There is a particular behavior they must enact to receive food.
- The delivery mechanism can somehow sense when they enact this behavior.
- The required behavior is different from behaviors that would normally give them access to food.
- The delivery mechanism is consistent.

And so on. Occam's razor would dictate that because the second hypothesis is the simplest, involving the fewest assumptions, it is most likely the correct one.

So many geniuses are really good at eliminating unnecessary complexity. Einstein, for instance, was a master at sifting the essential from the non-essential. Steve Jobs was the same.

Article from farnamstreetblog.com

Ist February' 2018

TrustLine

BizNotes

FOR PRIVATE CIRCULATION

DISCLAIMER:

This document is provided for assistance only and is not intended to be and must not alone be taken as the basis for an investment decision. Nothing in this document should be construed as investment or financial advice, and nothing in this document should be construed as an advice to buy or sell or solicitation to buy or sell the securities of companies referred to in this document. The intent of this document is not in recommendatory nature. Each recipient of this document should make such investigations as it deems necessary to arrive at an independent evaluation of an investment in the securities of companies referred to in this document (including the merits and risks involved), and should consult its own advisors to determine the merits and risks of such an investment. The investment discussed or views expressed may not be suitable for all investors. This document is being supplied to you solely for your information and may not be reproduced, redistributed or passed on, directly or indirectly, to any other person or published, copied, in whole or in part, for any purpose.

Copyright of this document vests exclusively with TrustLine Holdings Private Limited.

About TrustLine

At TrustLine, we run a specialized PMS fund (Portfolio Management) for exclusive set of high net-worth clients (long only value based fund). We are a company with a single mission- to deliver superior long-term returns to our clients. We are managing over Rs.350+ crores of AUM for over 375+ highly satisfied clients. This makes us among the top 20 discretionary portfolio managers in India, with industry leading performance.

Over the years we, at TrustLine, have gained rich domain expertise by focusing and specializing in Portfolio Management Services (PMS). Unlike our competition, we are a unique firm focused only on PMS. This sets us apart and gives us a competitive advantage in the PMS space. At TrustLine we believe, the quality of "Research" is fundamental to delivering out-sized returns. When research is complemented by contrarian investment approach, the rewards can be dis-proportional. This forms the foundation of our investment choices and stock selection in our core PMS business. Our disciplined practice of this "Value Investment" principle has enabled us to deliver superior risk adjusted returns with significant out-performance over bench-mark indices.

With a client retention rate in excess of 99%+, we have grown as an organization through strong references, primarily driven by solid track record of building wealth across good and bad market cycles, through focused and disciplined approach to investing.

TrustLine products include:

- **Intrinsic** (Deep Value fund)
 - **Intrinsic Floater** (Arbitrage Fund)
-

TrustLine Holdings (P) Ltd

39/19, IInd Floor, Aspen Court, 6th Main Road, Raja Annamalai Puram, Chennai – 600 028;
Tel: 044 – 42083877, e-mail: pms@trustlineindia.com.
