

Predictable Surprises

Surprises

- Un Predictable
 - Beyond our Control
- Predictable
 - Within Our Control

Smoking

- Primary Consequences : Pleasure
- Secondary Consequences: Lung Cancer

Do we not know that SMOKING is harmful to health? However people smoke and end up falling sick.

This is a Predictable Surprise

Stock Market Busting

- FII's Buying
- Ridiculous Valuations
- Margin Trading and Banks
- Everyone buying: Whom would they sell to?
- Markets Crashed:

It was a Predictable Surprise

Real Estate Bubble Bursts

- Massive Construction Activity
- Prices going up in spite of Supply
- Ridiculous prices even in distant suburbs
- People started buying liabilities thinking they were buying Assets
- EMI Defaults

A Predictable Surprise

26/ 11/2008

- Frequent Terrorist Attacks
- Hatred towards India increasing
- Information on attacks on Taj and Trident
- Porous Security

This was also a Predictable Surprise

Characteristics of Predictable Surprises

- Leaders know of a problem and that it will not solve by itself
- Organizational members recognize that the problem is getting worse
- Fixing the problem would incur significant costs in the present while the benefits of action would be delayed and ambiguous
- A small vocal minority benefit from inaction and is motivated to subvert the actions of the leaders for their own private benefits

Why Don't we Prevent Predictable Surprises

- Cognitive Defects
 - Positive Illusions
 - Egocentrism
 - Discounting the future especially in uncertainty
 - Ignoring Decisions of Others: Confirmation Bias
 - Status Quo Bias
- Organizational Roadblocks
 - Structural Barriers: Collection, Processing and dissemination of Information
 - Disfunctional Incentives: No rewards for fixing the problem. Not my responsibility

Current Investor Cognitive Defects

- **Belief Perseverance:** Investors unable to change their opinions even when new information is available
- **Regret Avoidance:** Tendency to avoid actions that could create discomfort over prior decisions

Future Predictable Surprises

- Loan Waiver to Farmers
- Frequent Flier Programs
- Fiscal Impetus to improve Markets
- Derivative Markets and Margin Trading
- Global Warming
- Investors expecting Junk Stocks to go up

Thank You