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# Devina Mehra: Persistence of vision can mislead investors but it’s not as if there’s no escape

**Devina Mehra | 12 February 2025**

Being human comes along with a persistence of narratives. (REUTERS)

**SUMMARY**

*Humans tend to hang on to stories, but this could prevent us from seeing key changes that matter. We must learn to recognize outdated tales, for example, to spot good investment opportunities.*

Quick, which is the largest crude oil producing country in the world? You’d be wrong if you said Saudi Arabia. The US overtook it in 2018 and now produces about 20%-25% more oil than Saudi Arabia.

A friend said last year that he couldn’t recognize Bhubaneswar and Puri where he had spent the early part of his career. These examples got me thinking on both their specifics as well as data changes, in general.

Odisha has been a success story, relatively speaking. From being at the bottom end when measured by the percentage of people living in dire poverty, it is now marginally above the all-India average. Rajasthan has shown a similar trajectory. Tamil Nadu did it a decade or two before them, and from once being the country’s fifth-poorest state, it is now at the top of the chart among our major states.

Many of the impressions we have of many things, including countries and states, may be outdated. We have all heard of persistence of vision in our school science classes. The human eye can see about 12 frames per second. Animation films, for instance, rely on this. By running roughly 24 frames a second, they can give us an illusion of smooth movement.

But persistence of vision goes beyond optical vision. And connects to another characteristic of human beings—of being creatures of the story. We love stories, we remember stories, we learn through stories. This is common to all human civilizations, from the pre-historic onwards and across geographies. But this also means that when the data changes, our brains cling to old stories. This can have consequences in the real world, including in investing.

What also complicates matters is that in many cases, from year to year, changes may be almost imperceptible. But over the years or decades, they really add up. This holds true for many things: increases in life expectancy and declines in infant mortality, among others. A single year's data change is rarely headline worthy, but it all adds up.

As I pointed out in my Independence Day column, this was India in 1947: life expectancy of 32 years; literacy rate of 18%; growth in GDP of under 0.5% per annum in the first half of the 20th century (yes, it went up eight-fold after freedom); negligible capital, as the Raj was about building capital in Britain, not India; and dire poverty.

It changed over the decades… and how! Life expectancy is now close to 70 years. Mobile phone penetration is around 80%. But this persistence of narratives is not just about failing impromptu quizzes. In investing, it can be fatal for your portfolio. Think of the oft-repeated advice of investing in blue chips. But nobody talks of how the definition of a 'blue chip' changes over the years. For instance, 20-odd years ago, there was not a single financial stock in the BSE Sensex or Nifty. Now, banks and financials have the highest weight.

**Being human comes along with a persistence of narratives. Without a systematic approach and sharp focus on data, it is nearly impossible to get rid of this.**

At one time, these indices were full of public sector units (PSUs): MTNL, VSNL, BHEL, ONGC NTPC, IOC, HPCL and more. Then came a time when investors forgot that PSUs could be viable investment propositions at all. Lately, the pendulum has swung again. But the persistence of old stories means that most investors are late in getting onto and then getting off any trend.

Infrastructure and capital goods companies are another example. In the first decade of this century, they were considered great investments. The premise was that "if India has to progress, infrastructure has to do well." At the time, I did not manage assets directly, but was instead servicing fund managers. I remember going around with a presentation in 2008-09, saying that a crash was imminent in these stocks as their return on capital had been plummeting over time. But the gung-ho story persisted till the sector crashed.

Now the sequel: After 12 long years in the boondocks, the capital goods sector started to make a comeback in 2021. In our portfolio management services (PMS) schemes, we went overweight on this sector in October 2021. However, most other fund managers and investors did not discover it until 2023.

Why were we ahead of the game? Not because of genius-like insights, but because we realized that storification is an ingrained quality of human beings, that narratives and biases persist, and that just an intellectual grasp of this will not remove blind spots.

Recognition of our own fallibility is one of the reasons we shifted to a human-plus-machine system. We have an AI and machine learning system which looks at only facts and data. While there is a human filter on top of that, the human being cannot overrule the machine without good reason.

I am sure I may have missed the turn in this industry but for the fact that the system kind of poked me in the eye and forced me to see that the fundamentals of the business were changing; and forget that the sector's index had compounded only 2% for 12 years. Else, the persistence of the earlier picture may have prevented me from recognizing the change in direction.

Being human comes along with a persistence of narratives. Without a systematic approach and sharp focus on data, it is nearly impossible to get rid of this. So, what are the stories you believe in? Are they still true?

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