The Analyst's Dilemma

Stephen Chung
Executive Director
Zeppelin Real Estate Analysis Limited
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Analysis helps to enhance the 'possibility' of return (profit) and to reduce the risk involved (thus the 'chance' for loss). It can be very macro, such as looking at a certain economy / region / country / city / real estate sector, or very micro, such as looking at an investment opportunity / project. It can be simple using simple arithmetic, or it can involve relatively sophisticated econometric modeling. It can even be non-quantitative (not all things are easily quantifiable).

Very often, people would relate analysis to market predictions and this is a fair expectation. Nonetheless, the author would add that while market conditions may at times favor doing certain things or certain parties (buyers or sellers), it does NOT necessarily mean that individual companies and investors (as potential buyers or sellers) should / can make use of the then favorable circumstances or follow the trend, as individual parameters for return and risk vary. Further, and this is often not realized, **analysis enables an investor (or sometimes forces one) to look at things rationally, systematically and professionally**. This behavior in itself is NOT a guarantee of success but is likely to get one closer to it.

Back to the 'prediction' bit. The author personally would rather use the term 'projection' i.e. analysis involves asking the various "what-ifs" questions and doing the necessary projections (and non-quantitative critical thinking too) e.g. to assess the likely (or unlikely) scenarios, the dominant factors, the project sensitivities, or their effects etc. Fall back strategies can thus be made. In short, the analyst admits he / she is no god and is only attempting to use limited resources to make sense of almost unlimited and continuous market activities. With 'prediction', it sounds like something cast in stone AS IF THE MARKET OUTCOME CAN BE MANAGED and this 'perceptive fixation' (consciously or subconsciously) helps no one (analyst or investor included) in meeting the challenges presented by a fluid and dynamic market. This is said NOT to avoid proper responsibility but to make sure the users / investors are aware of the pitfalls or hypes.

That said, and irrespective of which word (prediction or projection) one prefers to use, **the analyst's dilemma**, as suspected, speculated and hypothesized by the author, is very roughly stated as follows: **The 'prediction' an analyst makes may have a higher chance of being realized IF the market does NOT take (or listen to) him / her seriously, and vice versa**. It does NOT follow that such an analyst's prediction (to which the market does not heed much) will always turn out to be true, it is just that predictions not heeded to "seem" to have a better chance of being realized (and the concerned analyst can then say "I have told you so…"). Here's a simplified illustration on the above:

a) Say a relatively unknown analyst makes a prediction that a certain real estate sector would see a price increase of 50% in 2 years. Assume no one listens (or is even aware of his / her prediction) and the market strives along. Then presto, the analyst' s prediction comes true (whether by hard work or sheer luck etc) and prices do go up by 50% in 2 years.

b) Say instant fame (or popularity) is achieved and everyone now listens to the analyst. Again, the analyst toils with the figures and announces that another real estate sector would see prices go up by 50% in 3 years (or it could be down 50% in 3 years, it doesn' t matter in our illustration). But this time, people listen and they will jump into the market. Thus, market prices do not go up in 3 years but instead in just 6 months, and since the buying prices are pushed up too soon, the room for a good profit is reduced (except for the "early birds") and actually risks have increased for most (especially those who have been slow to react). The market starts to query the analyst, and if the market goes down due to over-expansion too soon, he / she gets even more blame. Perhaps he / she ought to have factored his / her own influence into the equation (which implies a heavy ego on his / her part and is a pretty difficult task to do anyway).

Naturally, in the real world, things are more elaborate than that and to state the obvious, the above is not a reflection on any one individual / analyst in the industry. People have often said "So and so have become hugely successful and wealthy without having to go through such analytical processes" thus implying its (analysis) lack of practical value. To this, the author admits **there had been / are / will be people who really did / do / will not require such analyses**, perhaps owing to having a highly configured and intelligent brain etc. But the real question is: How many (business / financial world' s) Einstein(s) were / are / will be there? Probably one out of a million at best. **For the rest 999,999 people, they would have served themselves better by adopting a more systematic and professional approach to investments**, real assets included.

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