

## Got Data?

In recent months the news has been filled with discussions of problems involving banking, credit, housing, climate change, terrorism, pandemics and changes in energy production and consumption.

The future seems less predictable than ever before. Nevertheless, business managers are typically required to make decisions in the face of uncertainty and make forecasts in spite of unsettled conditions.

Some people may use intuition as their guide and have some success with this at times. For most people, the more facts and data available to them, the more their assessments may reflect the actual conditions they confront.

While part of the human brain has evolved for quick response, it's also capable of data collection and careful, reasoned analysis. In our personal lives, there's an important place for both types of brain activity. Most of us have had the experience of driving a car where a split-second response made the difference between avoiding an accident or not.

In business settings, however, the more time-consuming analysis activity takes precedence. Warren Buffett has often made the point that his investing success is due in large part to gathering the relevant information, making a careful analysis of the data, and taking the emotion out of his decisions.

A recent article in the *New York Times* about the Hubble Space Telescope offers an example of how proper data collection and analysis can change viewpoints. It reads: "Phenomena that astronomers used to almost come to blows arguing about have now been settled by Hubble measurements, often in conjunction with other telescopes. 'It's the numbers not

the pictures that are Hubble's real legacy value,' said Dr. Matt Mountain, director of the Space Telescope Science Institute in Baltimore."

Bill James, the baseball analyst for the Boston Red Sox, describes his job as looking objectively at the data, without preconceptions or biases. He makes his recommendations to the team's management with "cold reason, based on hard evidence."

### THREE "TRAPS"

Whether you are assessing the potential for a new product or investigating the success of a marketing campaign, it can be useful to consider if you are falling into one of these traps:

1. Holding onto old data and viewpoints as the only basis for decisions.
2. Being overly attached to one's previous assumptions.
3. Failing to properly analyze the new situation.

The congressional testimony of former Federal Reserve Chairman, Alan Greenspan, on Oct. 23, 2008, shows that even those considered to be highly skilled in their endeavors can get stuck in certain ways of thinking. The exchange went like this:

*Greenspan:* "I found a flaw in the model that I perceived is the critical functioning structure that defines how the world works, so to speak."

*Chairman Waxman:* "In other words, you found that your view of the world, your ideology, was not right, it was not working".

*Mr. Greenspan:* "Precisely. That's precisely the reason I was shocked, because I have been going on for 40 years or more with very considerable evidence that it was working exceptionally well."

As we have seen with the recent economic turmoil, it's useful to regularly appraise a situation and re-evaluate the circumstances.

### THREE REQUIREMENTS

The "three traps" can be countered by focusing on three requirements:

1. The need for accurate, up-to-date information.
2. The need for careful analysis of the data.
3. The need for an attitude shift.

We're not going to "get back to normal"; constant change is the new normal. This situation brings the need for continually updated information. The foundation of a successful decision making process is accurate, up-to-date information. While the data is essential, meaningful analysis of the data creates the payoff.

A British physician, Dr. Thomas Fuller (1654-1734), had an attitude that could be beneficial to present day managers in construction and home improvement related businesses: "Get the facts, or the facts will get you. And when you get them, get them right, or they will get you wrong."

A similar sentiment was expressed by the late John Tukey, the famous statistician of AT&T Bell Laboratories, (also attributed to the late W. Edwards Deming, pioneer in quality control): "In God we trust. All others must bring data!"

Many reputable economists and analysts suggest that "Volatility is the new normal." As uncomfortable as this may be at times, profitable opportunities await those that can keep up with a constantly changing environment.

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