



## Travels in Four-Packistan<sup>1</sup>

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The following is in response to our article two weeks ago, [The New Ptolemains](#), by C. Thomas Howard.

It is impossible to determine whether a robustly healthy 95-year-old man who smoked all his life owes his health to the cigarette brand he smoked, or only to luck. The statistical fact of his having lived to be 95 is not enough to prove that the cigarette was responsible. Similarly, it is impossible to determine whether an investment manager who performed well over a long period was skillful, or just lucky.<sup>2</sup>

. . .

Suppose that you've stumbled on a remote but populous country of 70 million people in Central Asia, where 99 percent of the population smokes, averaging four packs a day. Let's call the country Four-Packistan. Its tobacco industry is enormous; there are over 100 companies selling cigarette brands. Each company offers an average of 100 brands, for a total of more than 10,000 brands. Sales of cigarettes are well over \$100 billion a year, though the whole industry—as we shall see—is much larger than that.

The Four-Packistani Ministry of Health requires every cigarette company to publish the cancer rate each year for smokers of its brands. As a result, an enormous quantity of statistical data exists on cancer rates for smokers of the thousands of cigarette brands.

### **Cancer Prevention in Four-Packistan**

The industry is highly competitive. Cigarette companies compete by making implied claims that their brands *prevent cancer*. Though the vast majority of the population smokes, the cancer rate in the nonsmoking population has been determined from the half-million nonsmokers. The tobacco companies' advertising implies that smoking their brands reduces cancer risk below this nonsmoker level—in other words, that smoking their brand prevents cancer. The

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<sup>1</sup> Excerpted and condensed from [The Big Investment Lie](#) by Michael Edesess, Berrett-Koehler 2007.

<sup>2</sup> Even active management advocate Tom Howard, in his recent article in Advisor Perspectives, "The New Ptolemains", acknowledges, "A manager who has produced good returns could just be lucky rather than skillful."



companies back their claims with the carefully compiled statistics on cancer rates required by the Four-Pakistan Ministry of Health.

Most people in Four-Pakistan believe that smoking prevents cancer, provided you smoke the right brands. Many researchers at universities, who are funded by grants from the huge tobacco companies, perform studies to try to determine what characteristics of cigarettes most help them to prevent cancer. The researchers do this by plowing through the mountains of existing data on cancer rates for the ten thousand cigarette brands, running multiple regressions and other “sophisticated” statistical procedures to try to find factors that correlate with low cancer rates.

### **Doubts Surface**

Even so, a small contingent of tenured Four-Pakistan professors claim, based on their analyses, that smoking any brand of cigarette at all will not help you to prevent cancer but will cause it. They point out that on average cigarette smokers get more cancer than nonsmokers. Of course this carries little weight with cigarette smokers because they know that to prevent cancer you’ve got to smoke the right brands. But the tenured professors claim that there’s no statistical evidence that there is any such thing as the “right” brands. They point out that the only reason why cigarette companies are able to advertise that the cancer rate for some of their brands is lower than the nonsmoker rate is because there are so many brands to choose from. With over 10,000 cigarette brands you’re bound to have a wide spectrum of results in the cancer rate studies each year. In any given year, the cancer rate for at least some brands—maybe dozens of them—will be better than the nonsmoker rate. It’s just a statistical fluke, they say.

These tenured professors point to their statistical studies showing that there’s absolutely no correlation between which brands had low cancer rates last year and which will have low cancer rates next year. Therefore, they say, it’s useless to use the past cancer rate for any particular brand as a guide to the future. You’re just as likely to get cancer by smoking the brand that had a low cancer rate last year as by smoking one that had a high cancer rate.

But these tenured professors’ studies don’t get as much publicity as the cigarette industry’s advertising, so they are not well-known to the public. Furthermore, the desire among the populace to prevent cancer is so great that their will to believe that smoking the right brand will prevent cancer is impervious to scientific evidence.



## **A Sprawling Industry**

A frantic commerce in consulting, advice, and other services has developed around the belief that smoking prevents cancer, if you smoke the right brands. This industry includes managers at health maintenance organizations (where it is believed that smoking a selection of cigarettes with the best cancer-preventive characteristics is essential to good health), consultants and advisors, marketers, newsletter publishers, television commentators, and many others, all devoted to disseminating information about which cigarettes are best to smoke to help prevent cancer.

## **Cognitive Dissonance**

This whole situation in Four-Packistan may seem strange to us because we know—or think we do—that cigarette smoking causes, not prevents cancer. But it doesn't seem the least bit strange to the Four-Packistanis.

The Four-Packistanis—smart, well-educated ones as well as the less-educated—simply say that some cigarette brands lower your cancer risk. It's a recorded fact. The data show it. They say that if you can't use the data on cancer incidence for these brands to tell you how to prevent cancer what can you use?

And they say that there are a lot of smart and wealthy people in the tobacco industry using very sophisticated methods to determine which smoking strategies and which brands work best to prevent cancer. They say it is well established that smoking prevents cancer if you smoke the right brands. It's hard to argue with them.

## **The Money Management Industry**

It may have occurred to readers by now that there are even more active money managers—tens of thousands of them—than there are cigarette brands in Four-Packistan. And the statistical evidence that using their services is detrimental to your wealth is just as strong as the statistical evidence that smoking is detrimental to your health.

And yet, using the same invalid statistical methods and advertising as is used to tout the health-enhancing characteristics of cigarettes in Four-Packistan, these managers tout the wealth-enhancing characteristics of their services.

## **A Challenge**

A challenge to active management advocates: Can you assemble the comprehensive statistics proving the dangers of smoking, side by side with the



comprehensive statistics on after-fee-and-tax returns to active management, and prove that the evidence is less strong that active management impairs your wealth than that smoking impairs your health?

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