

## The Illusion of Accuracy

There is a temptation on the part of analysts to present the appearance of accuracy. Sometimes this temptation itself causes us to knowingly present forecasts that we know are not accurate but give the appearance of accuracy.

For example, I just finished valuing a patent portfolio for a client. I worked very hard on this assignment and my conclusion of value was that the patents had a value of \$5.0 million. However, this number just doesn't look right. Right? The concern is, when people see the cover of the report, they will reflexively believe that this is a generic number.

The temptation is to present a number that is less accurate but looks more accurate. A number like \$4.85 million or \$5.125 million. But if I concluded that one of these numbers was the reflection of my best work, I would have been lying. (According to my analysis, the value was \$5.0 million and the number I published was \$5.0 million.)

In other situations, when developing a decision tree, some of the risks of various scenarios unfolding is, according to my analysis, 50%. Again the temptation is to plug 45% or 52.5% into the model because many readers may believe that 50% appears to be a wild guess. If 50% best reflects the analyst's analysis, it should be used.

A similar manifestation of the Illusion of Accuracy is to avoid using the same number repeatedly in the same model. For instance, if I believe that a reasonable royalty rate is 6% and that a further premium of 6% should be added to the discount rate (to reflect the risks of patent invalidity, for example), the temptation is to change at least one of the numbers. But, if one can support reasons for using 6% in both instances, that is the proper number to put into the model in both places.

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