

**Akbar Khan** <akbarkhan.goa@gmail.com>  
To: Anshul Khare <anshul@safalniveshak.com>  
Cc: Vishal Khandelwal <vishal@safalniveshak.com>

Thu, Jul 16, 2015 at 10:16 AM

Thanks Anshul. I am amazed how you can come up with such multiple references ("curse of knowledge" or what Heath brothers described as "listeners and tappers" problem in their book "Made to stick"). Well I have to include this to my reading wishlist.

Sure, you can quote the conversation.

Best regards,  
Akbar

On Wed, Jul 15, 2015 at 9:22 PM, Anshul Khare <anshul@safalniveshak.com> wrote:

Yes Akbar. I see your point.

I guess I am guilty of trying to explain two ideas with a single illustration :)

In the first para where I mentioned about moving from point B to A and then further to C, in my own mind I assumed that graph to be representative of DMU.

When I moved to the second para where I am trying to explain the prospect theory, I imagined the same graph to be representation of loss aversion curve. So mentally I juxtaposed the two graphs, but never really made it sufficiently clear to the readers. So it's unreasonable to assume that the reader would also see what I see. A typical case of "curse of knowledge" or what Heath brothers described as "listeners and tappers" problem in their book "Made to stick".

Thanks for pointing it out. I am happy that latticework series is helping me get more clarity on the subject with feedback from tribe members.

I am planning to update the DMU post. I hope I have your permission to quote this email conversation.

Regards,  
Anshul

On Mon, Jul 13, 2015 at 3:09 PM, Akbar Khan <akbarkhan.goa@gmail.com> wrote:

Hi Anshul,

Thanks for writing. I do enjoy reading your articles.

I agree with your points in your email.

If A is the origin, this statement from the article is not correct:

**"When somebody moves from point B to point A, the utility derived by getting Rs 100 is 15 units. Whereas when one moves from point A to point C, 10 units of utility is derived by gaining Rs 100."**

If A is the origin, you won't move from B to A, you move from A to B or A to C. Also in the graph the point B on x-axis would be -100 and C would be +100 with A as 0.

In order to explain DMU, Expected Utility theory was sufficient.

When you go into the loss quadrant of prospect theory, it is actually the reverse. According to Kahneman, when faced with losses, we are ready to take higher risks while seeking higher returns and trying to recover our losses. For example averaging on downside as the stock keeps falling. We want to buy more as losses increase. Or the behaviour of a gambler. As the losses increase, he will gamble till he goes broke.

Does this make sense?

Best regards,  
Akbar

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On Mon, Jul 13, 2015 at 1:44 PM, Anshul Khare <[anshul@safalniveshak.com](mailto:anshul@safalniveshak.com)> wrote:

Hi Akbar,

Thanks for your feedback.

I agree the graph which I drew doesn't look exactly the same as Kahneman's prospect theory graph. I drew my graph using fewer data points and that's the reason the graph hasn't come as smooth and crisp as that of prospect theory curve.

Moreover, my attempt was to connect DMU with loss aversion so I focused my graph on the DMU aspect of it. Perhaps I should have included the original prospect theory graph too.

As far as absolute wealth/gain is concerned, I guess DMU rests on the concept of relative gains only. May be I wasn't able to communicate that idea clearly in my writing.

Consider the prospect theory graph. If you stay in the top right quadrant only and traverse the graph up and then down, you will come back to the same point. However, the way I understand the prospect theory graph is that when you are talking about losses, you don't traverse back the same section of the graph, you actually move to the bottom left quadrant and then measure the gain/loss.

In my graph, the point A could be considered as origin (0,0). When a person loses Rs. 100 we don't say that he is moving down from point C to point A. For losses we have to come to the loss quadrant, i.e., the bottom left quadrant (in my graph it's the area below point A, towards point B). So a loss of Rs. 100 should be shown by moving from point A to B. And for gain of Rs. 100 we should traverse along the graph from point A to point C.

I hope this resolves your concern to some extent.

-Anshul

On Sun, Jul 12, 2015 at 8:29 AM, Vishal Khandelwal (Safal Niveshak) <[vishal@safalniveshak.com](mailto:vishal@safalniveshak.com)> wrote:

Thanks Akbar!

No, the Kindle version is not available as of now.

Anshul - you may please respond to Akbar's point on the Prospect Theory.

Regards,  
Vishal

**Vishal Khandelwal**

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On Fri, Jul 10, 2015 at 11:41 AM, Akbar Khan <[akbarkhan.goa@gmail.com](mailto:akbarkhan.goa@gmail.com)> wrote:

Dear Vishal,

Thanks for the login details.

Is it possible to read the issues on kindle?

A feedback on the last latticework of mental models. According to me the article interpretation of the Kahneman concept was incorrect. The Prospect theory by Tversky-Kahneman is not about absolute wealth but about gains and losses. Further the Investors dislike losses about more than twice how much they like gains. After you gain  $x$  amount and you lose  $x$  amount you cannot be at the same point again. The figure should also show the curve much steeper in the lower left quadrant compared to the top right quadrant.

Best regards,  
Akbar