



CIO Insights

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Top 10 Myths of Investment

Ten common beliefs which lead to poor performance

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Why Investment Myths Persist

Each Myth Holds Certain Truth, Which Is Exactly Why It Is Easy To Believe

Investment myths are simple, they feel intuitive and they are repeated so often that they become conventional wisdom. But markets do not reward what is obviously true. They reward being right about what is **not yet in the price**.

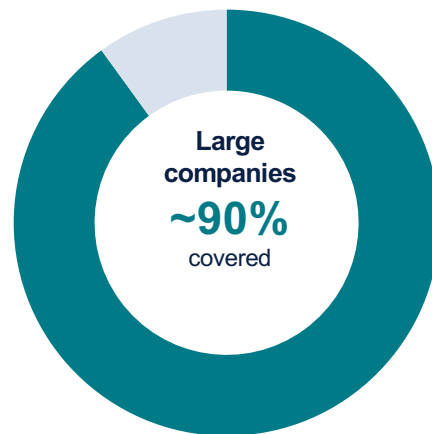
Why simple rules of thumb let investors down

- **Prices are expectations:** a share price already reflects **what millions of investors expect**, not just today's facts.
- **Institutions set most prices:** the biggest participants are **professional institutions with deep resources**, so their analysis is usually already in the price.
- **There is no easy money:** an investment approach that ignores expectations, valuation (what you pay), time horizon (how long you hold) or risk can lead to poor investment results.

Myth 1: “Investors Follow Stories; Institutions Follow Numbers”

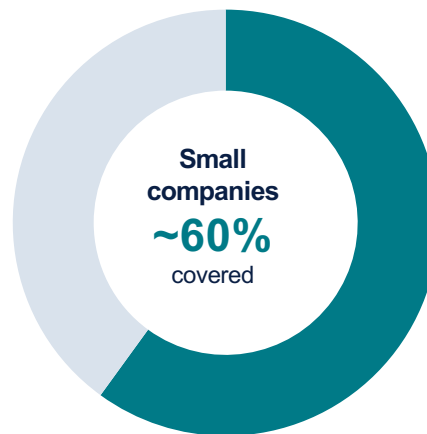
To Beat The Market: Think Like Institutions, Or Be Better, Or Invest Where Their Size Is A Handicap

Small companies get far less research



■ Any research coverage ■ No coverage

Covered by ~9 research firms on average



■ Any research coverage ■ No coverage

Covered by ~2 research firms on average

What to do instead: use stories to find ideas, then test them with numbers: what earnings, cash flow and valuation does today's price already imply, and what would have to happen for it to move? For an edge, look where big funds' size is a handicap (smaller, less-researched companies), and size positions with liquidity in mind.

What people believe: private investors buy stories while institutions buy numbers, as if the two play different games.

Why it is wrong: there is only one market. Your shares trade on the same exchange, at the same price, as a pension fund's. Institutions control far more money, so they set most of the price, and a story the numbers cannot support is, sooner or later, priced by the people doing the numbers.

The evidence: 91% of Russell 1000 (large US) companies are followed by five or more analysts; more than half of Russell 2000 (small US) stocks have fewer than five. Less research means less efficient prices, which is where a patient, well-researched investor can compete.

The trade-off: the illiquidity that keeps big funds out can make it hard for anyone to sell in a hurry, and many small companies lose money.

Myth 2: “Good Company, Good Buy; Poor Company, Sell”

A Share Price Reflects Expectations: What Matters Is Results Versus What Is Already Priced In

What people believe: a great company is always a buy and a struggling one is always a sell. Buy quality, avoid trouble: it sounds like common sense.

Why it is wrong: a great company and a great investment are not the same thing. The share price of a quality company usually already reflects high expectations, so results that are merely good, when the market expected excellent, can send the shares down. When expectations for a struggling company are very low, it does not take much to beat them, and the price can respond strongly.

The evidence: two results days, opposite reactions

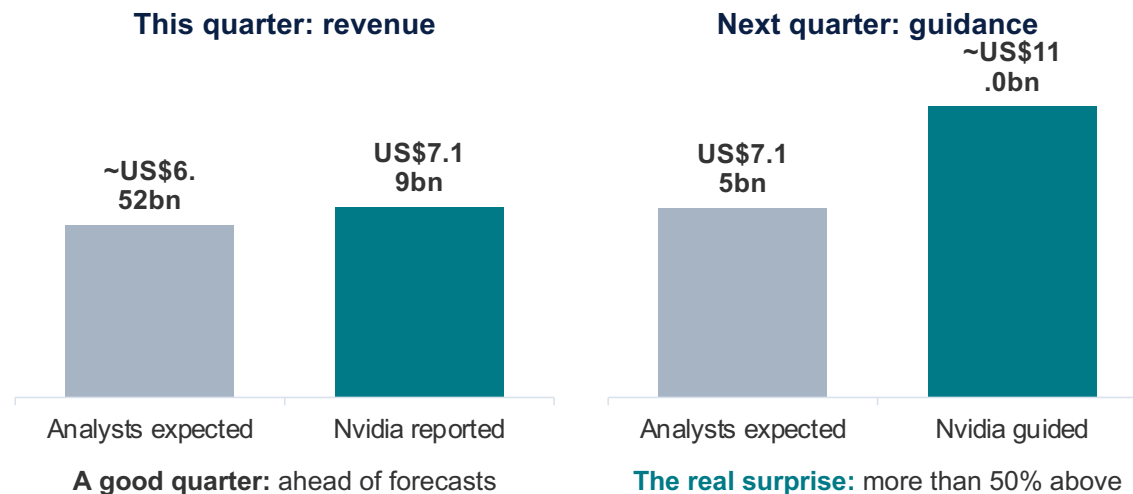
Results day	Share price next day	What the company reported	What was already in the price
Nvidia August 2024 <i>A great company</i>	Fell about 6%	Quarterly revenue of more than US\$30bn, up 122% on a year earlier and ahead of estimates.	The shares were already up more than 150% that year. Analysts said results had to beat expectations “by a long way”.
Meta 2 February 2023 <i>A company in doubt</i>	Rose more than 23%, one of its best days in nearly a decade	Fourth-quarter net profit fell 55%. But revenue beat estimates, and management promised a “Year of Efficiency” with lower costs and a larger buyback.	Investors were openly questioning its heavy spending on the metaverse. Expectations were so low that “less bad” was good news.

What to do instead: before buying a quality company, ask what the price already assumes and how far results must beat expectations for the shares to rise. Before dismissing a weak one, ask whether the bad news is already in the price, and what could surprise on the upside, such as lower costs or a bigger buyback. Judge results against expectations, not as simply good or bad.

Myth 3: “Earnings Growth Drives Share Prices”

Prices Move On Changes In Expected Earnings: The Revision (The ‘Delta’) Is What Counts

Nvidia, May 2023: results versus what analysts expected



What people believe: the companies growing earnings fastest give the best share-price returns. Over long periods, earnings and prices do move together.

Why it is wrong: over the horizons most investors care about, prices move on changes in expectations. A company growing 30% a year will not rise if 30% is already in the price; one growing 5% can jump if the market expected a decline. A results 'beat' moves the price because it forces analysts to raise their forecasts.

The evidence: after Nvidia's May 2023 results the shares closed 24% higher the next day, and brokers rushed to raise forecasts; JPMorgan doubled its price target from US\$250 to US\$500. In August 2024 growth was still very strong, but the upward revision was smaller than hoped, and the shares fell (Myth 2).

What to do instead: track the direction and size of forecast revisions, not just the growth rate. The key question: is the market likely to have to raise or cut its numbers from here?

Myth 4: “High Rates Hurt Shares; Low Rates Help”

Why Rates Move Matters: Rate Rises Often Come With Strong Growth, Cuts With Weakness

Episode	What the Fed did	S&P 500 total return	What it shows
2001 <i>Cutting</i>	Cut rates 11 times, from 6.5% to 1.75%	2001: -11.9% 2002: -22.0%	Cheaper money did not help: the economy and company profits were weakening.
Jun 2004 – Jun 2006 <i>Raising</i>	Raised rates 17 times, from 1% to 5.25%	2004: +10.7% 2005: +4.8% 2006: +15.6%	Shares kept rising through two years of rate rises.
Mar 2022 – Jul 2023 <i>Raising, then holding</i>	Raised from near zero to 5.25–5.50%, held there until Sep 2024	2022: -18.0% 2023: +26.1% 2024: +24.9%	A painful first year, then strong gains with rates at their highest in more than two decades.

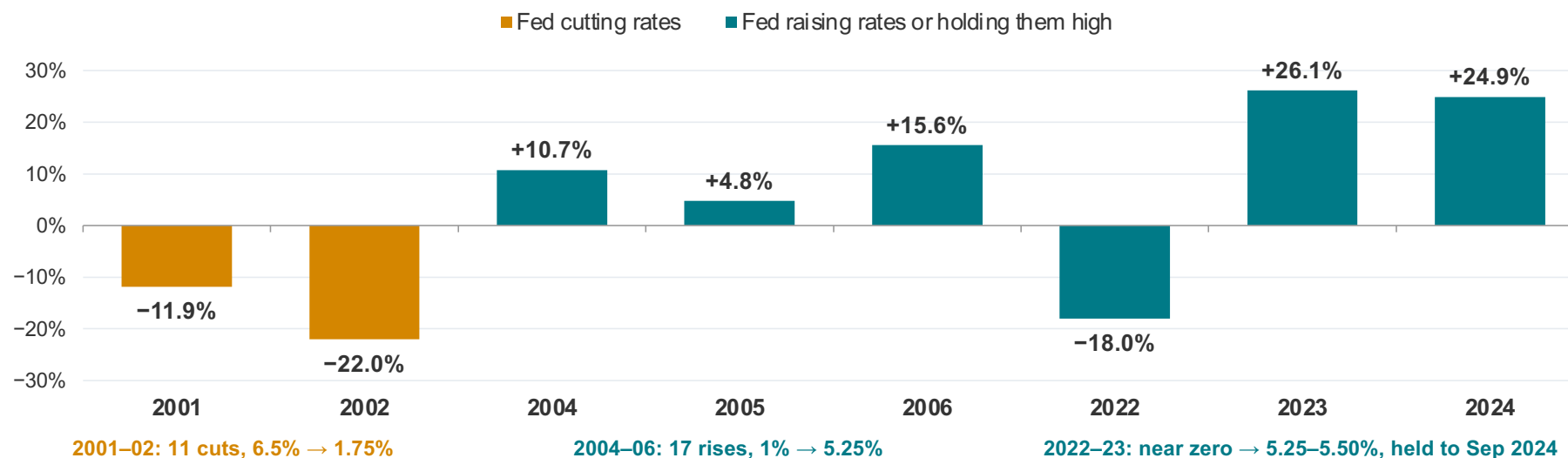
- **What people believe:** high interest rates are bad for shares and low rates are good.
- **The textbook view is not wrong:** higher rates raise companies' borrowing costs and the discount rate (the rate used to turn future profits into a value today), which lowers valuations.
- **But all else is rarely equal:** central banks usually raise rates when the economy is strong and inflation is rising, so companies can raise prices and grow revenue. They cut when the economy is weakening, and a lower discount rate does little if profits are falling.
- **The evidence (table above):** shares rose through 17 rate rises in 2004–06 and fell through 11 rate cuts in 2001–02. What drove them was the economy, not the direction of rates.

Source: KGI, Bloomberg

Myth 4: Why rates move mattered more than their level

Strong Growth With High Rates Beat Weak Growth With Low Rates

S&P 500 total return in each calendar year of the three episodes



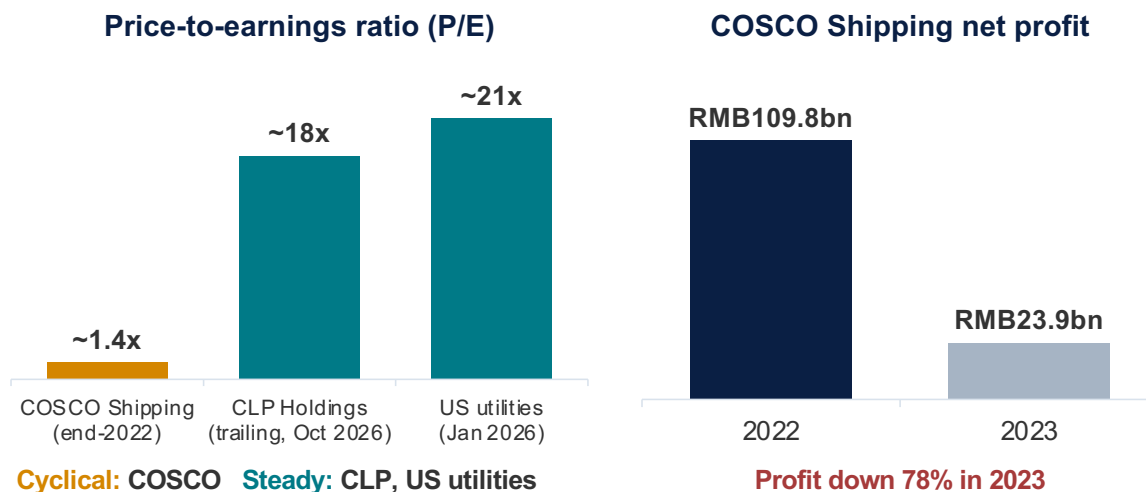
The evidence: in 2023 and 2024, with US policy rates at their highest in more than two decades, the S&P 500 returned 26.1% and 24.9%. In 2001–02, after 11 rate cuts, it lost 11.9% and then 22.0%.

What to do instead: do not trade the level of rates on its own. Ask why rates are moving and what that means for company earnings. The speed of the move and the starting valuation matter at least as much as the level.

Myth 5: “A Low P/E Is Better Value Than A High One”

A Low P/E Is Often Low For A Reason: Investors Pay Up For Earnings They Can See Coming

Shipping looked cheapest just before profits fell



What people believe: a low price-to-earnings ratio (P/E: the share price divided by a year's earnings per share) means cheap, and a high one means expensive.

Why it is wrong: a P/E is not a verdict on value. It is the price the market will pay, set by supply and demand for the shares and by how predictable earnings are. Investors pay up for visibility and demand a discount for uncertainty, so cyclical businesses trade on low multiples and steady ones on high.

The evidence: COSCO Shipping traded on about 1.4x at the end of 2022; its profit then fell 78%, from RMB109.8bn to RMB23.9bn, as freight rates normalised. Maersk's fell from about US\$29bn to US\$3.9bn. CLP's largely regulated earnings trade on about 18x and US utilities on about 21x: the price of visibility.

What to do instead: ask why a share is cheap or expensive before acting. For cyclical companies a low P/E often marks peak earnings and a high P/E the trough, so value them on normal, mid-cycle earnings.

Myth 6: “When The Facts Change, I Will Change My Mind”

Plans Made In Calm Markets Rarely Survive: A Sharp Fall Also Changes How You See The World

Date (2020)	S&P 500 close	Change from the peak	What happened
19 February	3,386.15	<i>Record high</i>	Many investors were waiting for a correction to buy.
23 March	2,237.40	About -34%	A 30% fall took just 22 trading days, the fastest on record. Many who planned to buy sold instead.
18 August	3,389.78	New record high	Less than five months after the low, the index was back at a record.

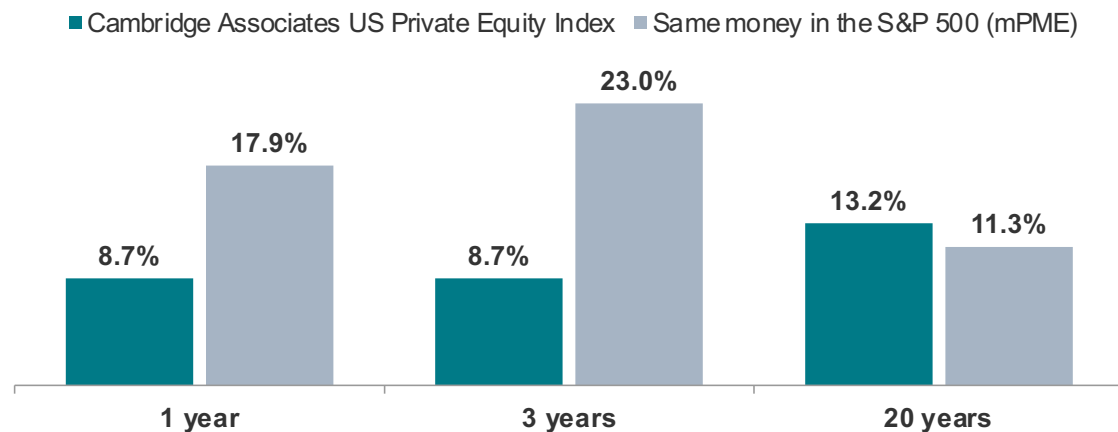
- **What people believe:** “I would happily buy my favourite share if it fell 30%.” Few do when it happens.
- **Why it is wrong:** a share does not fall 30% in a vacuum. Something causes it: a recession scare, a pandemic, a profit warning. The price is lower, but the fear is higher, and the plan made three months earlier suddenly looks naive.
- **The evidence:** in 2020 the S&P 500 fell 30% in 22 trading days, and many who were waiting to buy sold instead. Over time this costs money: Morningstar estimates the average dollar in US funds and ETFs earned 7.0% a year over the ten years to end-2024, about 1.2 percentage points less than the funds’ own 8.2%, because of when investors bought and sold.
- **What to do instead:** decide in advance what you will do when prices fall, and why, and write it down. Separate what has changed in the business from what has changed in the mood. Staged buying (investing in several instalments) and pre-set rebalancing rules help.

Source:

Myth 7: “Private Equity Locks Up Your Money, So Avoid It”

Illiquidity Is A Cost, But It Buys Time: A Long Holding Period And Time Diversification

Annual returns to 31 December 2025, after fees



The 1-year and 3-year private equity figures are both 8.7% a year: the two figures happen to coincide. mPME: what the same cash flows would have earned in the S&P 500.

What to do instead: treat private equity as a long-term holding, sized so you will never need the money early. Spread it across managers and vintage years (the year a fund starts investing), and judge it over a full cycle, not on its smooth reported swings.

What people believe: private equity locks your money up for years, so avoid it. The risks are real: more borrowing, less information, and money committed for seven years or longer.

Why it is wrong: the lock-up also helps. Investors are neither forced nor tempted to sell at the bottom, and managers can improve businesses without quarterly pressure. The longer you hold, the less year-to-year swings matter against the return over the whole period: this is time diversification.

The evidence: 13.2% a year over 20 years versus 11.3% for the same money in the S&P 500, after fees. But not in every period: 8.7% a year over both 1 and 3 years, behind 17.9% and 23.0%.

Myth 8: “If Companies Invest Heavily, The Market Will Do Well”

Corporate Confidence Is Not A Forecast: Hong Kong's Record Kai Tak Land Bids, Two Years On

What people believe: when a developer pays a record price for land, or a tech giant announces record spending, the market reads it as a signal: they know their industry best, so they must be right.

Why it is wrong: companies are run by people, and people misjudge cycles, especially at the top, when confidence and cash flow are highest. Executives also have every reason to talk up their industry: their share prices, funding costs and customers depend on it, even when they privately have doubts.

Buyer and site	Bought	Price paid	By May 2020
Sun Hung Kai Properties Kai Tak residential site	May 2018	HK\$25.2bn City record, almost 1.5x the record of six months earlier	Valued 24.1% below cost
Henderson Land Two Kai Tak plots	2018	HK\$16bn for the two plots	Valued 26.8% below cost
Goldin Financial Kai Tak site	November 2018	—	Sold at a loss of about HK\$2.57bn the largest loss on a land resale in the city's history

The evidence: the record bids came near the top of the cycle; social unrest and the pandemic followed.

What to do instead: treat corporate investment plans as information, not a forecast. The same test applies to today's AI spending.

Myth 8: The Same Question For AI Spending Today

Demand For AI Is Real, But Spending On This Scale Is A Bet On Future Returns, Not Proof Of Them

Four companies combined*	Q4 2024 (to 31 Dec 2024)	At 30 Sep 2025	Q2 2026 (to 30 Jun 2026)
Capital spending in the quarter	US\$72.3bn	–	US\$165.1bn
Share of operating cash flow	–	–	96% of US\$171.8bn
Debt, excluding leases	US\$143.7bn	US\$150.7bn	US\$357.1bn

- **What people believe:** if the biggest technology companies are spending this much on AI, they must know the returns will come, and the market should do well.
- **Why it is wrong, and the evidence:** capital spending (money for data centres, chips and equipment) more than doubled, and by mid-2026 it took 96% of the cash their businesses generated. Combined debt more than doubled, most of it after 30 September 2025. Demand for AI is real, but spending on this scale is a bet on future returns, not proof of them. Even the best-run companies can over-invest: Meta's Reality Labs (metaverse) division lost a combined US\$53bn at the operating level in 2023–25.
- **What to do instead:** ask who is funding the spending, what return it needs to earn, and who benefits from the bullish story.

Source: KGI, Bloomberg

Myth 9: “Following The Consensus Is The Safe Choice”

Consensus Is Comfortable But Already In The Price; Being Different And Right Pays Most

What people believe: following the crowd is safe. If you are wrong, you are wrong with everybody else, which is the most comfortable place for an investor to be.

Why it is wrong: comfort comes at a price. If 99% of investors already believe the same thing, they have already bought, so the good news is largely in the price and little upside is left. The 1% who think differently are more likely to be wrong, but gain far more if right.

An illustration, not data: two ways to invest

Approach (illustrative)	Chance of being wrong	Upside if right	Works best
Follow the crowd <i>e.g. the 99% who agree</i>	Lower	Limited: they have already bought, so the good news is largely in the price.	Shorter horizons: recent winners tend to keep outperforming for 3–12 months (momentum).
Think differently <i>e.g. the 1% who disagree</i>	Higher	Far greater: the price has to move to reflect a view the market does not yet hold.	Long horizons and turning points, for investors with the patience to be early.

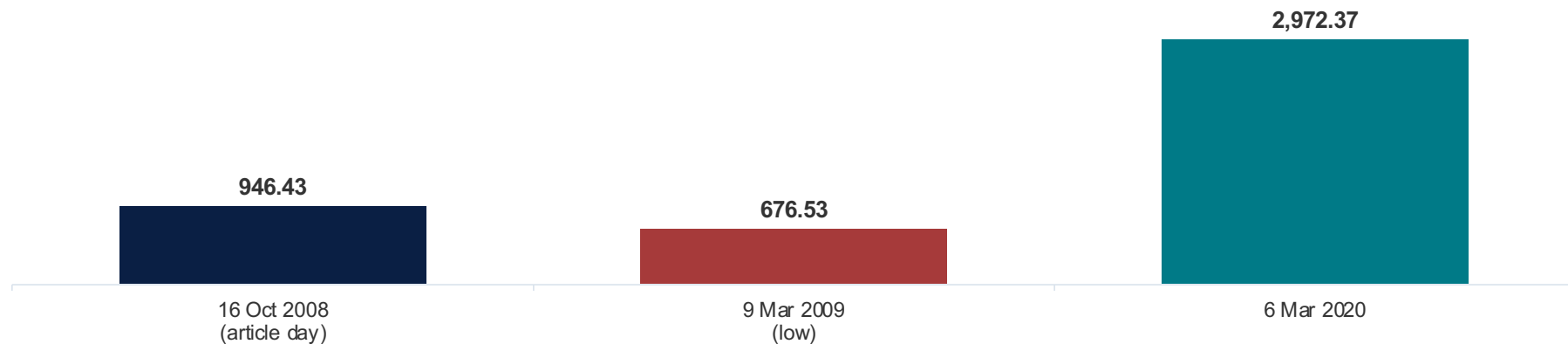
The evidence: momentum is real: research shows recent winners tend to keep outperforming for the next 3 to 12 months. Contrarian thinking pays over the long term and at turning points, because the truth rarely emerges in the short term. The classic case, Buffett in 2008, is on the next slide.

What to do instead: know which game you are playing. If you go against the crowd, have a well-researched reason, size the position so you can survive being early, and give it time.

Myth 9: Going Against The Crowd: Early First, Then Right

Buffett's "Buy American. I Am." (2008): Being Right Paid Only For Those Who Could Survive Being Early

S&P 500 closing level: Buffett's article day, the low, and March 2020 (price index, before dividends)



The classic case: Warren Buffett's article "Buy American. I Am." appeared in The New York Times on 16 October 2008, at the height of the financial crisis. That day the S&P 500 closed at 946.43.

Early, then right: the index fell a further 28.5% to 676.53 on 9 March 2009. By 6 March 2020 it closed at 2,972.37, about 214% above the 946.43 close on the article day.

What to do instead: being early is the price of being right. Go against the crowd only with a well-researched reason, size the position so you can survive a further fall, and give it time.

Myth 10: “What Looks Safe Is Safe”

Risk Is Often Invisible Until It Happens: Resilience Matters More Than Looking Safe In Calm Times

What people believe: assets and institutions that look stable, regulated and well capitalised in calm markets are safe. Banks are the classic case.

Why it is wrong: there is no crisis until we can see that there was one. What looks safest can hide the most dangerous risks, precisely because nobody is looking for them. A single trading loss can destroy a large part of a bank's capital (its cushion against losses), and confidence with it.

The evidence: one trader, one bank

Bank	What looked safe	The loss, and how it compared	What happened next
Barings (1995)	A regulated bank; the losses came from unauthorised trading by one trader in Singapore.	Losses of £827m (£927m including close-out costs), against group capital of roughly £350–440m at end-1994, depending on the measure.	The bank collapsed.
Société Générale (2008)	Hidden positions of around €50bn, more than its total capital, built by one trader.	Unwinding them cost €4.9bn .	Raised €5.5bn of new capital.

What to do instead: ask how an investment would behave in the worst case, not how calm it has looked. A bank can look stable for years until one trader shows otherwise. The same lesson, in this decade, is on the next slide.

Myth 10: One Client, One Rush For The Exit

Credit Suisse And Silicon Valley Bank: Judge By The Worst Case, Not The Calm Years

Why it is wrong, again: both banks below were regulated and looked sound. One client's default, or one rush of withdrawals, was enough to break confidence.

What is CET1? Common Equity Tier 1 capital: a bank's core capital, mainly shareholders' money, the first cushion that absorbs losses. Credit Suisse lost about one-eighth of it to a single client in one quarter.

The evidence: one client, one run on deposits

Bank	What looked safe	The loss, and how it compared	What happened next
Credit Suisse (2021–23)	The default of a single client, the family office Archegos.	About US\$5.5bn in total. The Q1 2021 charge alone, CHF4.43bn (US\$4.71bn), was about one-eighth (12.5%) of its CET1 capital of CHF35.35bn (KGI calculation).	One of several blows to confidence before a UBS takeover backed by the Swiss authorities, March 2023.
Silicon Valley Bank (2023)	Rated satisfactory or better by its supervisor through 2021.	Announced a securities sale and capital raise on 8 Mar 2023; deposit outflows of more than US\$40bn the next day.	Closed on 10 March 2023.

What to do instead: judge investments by how they would behave in the worst case, not the average one. Watch for concentration (too much riding on one client, trader or asset), leverage (borrowed money) and liquidity mismatches (money that can leave faster than assets can be sold). Low recent volatility is not low risk.

Key Takeaways: 10 Myths And What To Do Instead

None Of These Is A Trading Rule; Together They Are A Way Of Thinking About Markets

#	The myth	What to do instead
1	Investors follow stories; institutions follow numbers	There is only one market: think like an institution, or be better, or invest where institutions cannot easily go.
2	A good company is always a buy	A good company can be a poor investment, and a poor company a good one: expectations decide.
3	Earnings growth drives share prices	Share prices follow revisions to expected earnings, not the growth rate alone.
4	High rates are bad for shares; low rates are good	Ask why rates are high or low: strong growth with high rates can beat weak growth with low rates.
5	A low P/E is better value	A low P/E is often low for a reason; value cyclical companies on mid-cycle earnings.
6	When the facts change, I will change my mind	Plan your response to a sell-off before it happens, because the fall will change your mood.
7	Private equity locks up your money, so avoid it	The lock-up is a cost that buys time diversification; size it so you never need the money early.
8	Heavy corporate investment means a good market	Corporate confidence is not a forecast: companies can be wrong and talk up their own industry.
9	Following the crowd is safe	Consensus is comfortable but already priced; go against it only with a sound reason, a position you can survive being early with, and time.
10	What looks safe is safe	Judge by the worst case, not the calm years: watch concentration, leverage and liquidity; low volatility is not low risk.

Source: KGI

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