

Selection Bias At Work

Perusing the peerless [Packy McCormick's Not Boring newsletter yesterday](#) brought me to what I thought was one of the best examples of the selection bias at work in the real world:

["The Often-Ignored Problem with Buying Art as an Investment"](#)



What I find so fascinating about cognition (namely the hidden side of our brains) is the interplay between how complex the whole thing feels in a definition on a piece of paper versus how simple the insight is once a relatable example is presented.

Selection bias as defined by Wiki: "Selection bias is the bias introduced by the selection of individuals, groups or data for analysis in such a way that proper randomization is not achieved, thereby ensuring that the sample obtained is not representative of the population intended to be analyzed."

Selection bias emerging from that article: "People don't like to sell things that don't make them money. When you're looking at things that claim to have made people A LOT of money, it's important to remember that what is being measured doesn't capture everything."

In essence, the author points out that Big Art's party line about financial returns that outpace all other asset classes over the long-term are deeply influenced by the lack of liquidity in the space. Importantly, there are a number of dynamics in the art space (donations, aesthetic, cost of purchase/sale) that work to steeply reduce the "denominator" of potential sales one uses to measure returns. We don't hear about the works whose value is underwater 3 years later; no one is selling those considering the effort they'd have to go through when they can just leave it hanging up on their wall impressing their friends. We just hear about the Basquiat that sold for 3x.

And so the selection bias makes sense. When someone claims they've considered it all, think about what they might be NOT considering, even if it's not nefarious. In a market that already is constrained by lack of data like the art world is, one would be wise to consider the selection bias heavily before falling in love with the numbers.

Art is subjective. So too are financial returns, sometimes!