

THOUGHTS FOR THE WEEK

DENOMINATORS

July 11, 2025

On July 4, 2025, a king reclaimed his crown.

Joey “Jaws” Chestnut won the Nathan’s Famous Fourth of July Hot Dog Eating Contest for the 17th time, consuming just over 70 hot dogs in 10 minutes. According to the National Hot Dog and Sausage Council, the average American consumes 70 hot dogs over a year.

Without the context of time, Chestnut’s consumption seems average, but in just 10 minutes, his frankfurter feat is disgustingly impressive.

Humans are prone to analyzing absolute numbers (e.g., 70 hot dogs) without context. This sneaky cognitive bias is what behavioral scientists call denominator blindness. As a quick refresher, a fraction has a numerator (top number) and a denominator (bottom number). Denominators provide perspective, like miles *per gallon*, price *per square foot*, or hot dogs *per minute*.

The consequences of denominator blindness in competitive eating are admittedly trivial, but ignoring context can have serious impacts on important day-to-day decisions.

Fear of flying is a prime example of denominator blindness. According to the International Air Transport Association (IATA), there were 46 aviation accidents in 2024, with seven causing fatalities. High-profile plane crashes often deter some travelers from flying and prompt others to drive. But viewing plane crashes in the context of 40.6 million total flights in 2024 shows flying is much statistically safer than driving.

Politicians across the aisle exploit denominator blindness to sway their constituencies. A \$100 billion spending cut or revenue increase sounds absolutely huge, but its relative impact on the \$7 trillion U.S. federal budget is modest. Likewise, the \$7 trillion budget should be viewed relative to the \$30 trillion economy it supports.

Denominator blindness can also skew investment decisions. For example, a company posting \$1 billion in earnings sounds impressive, but is less so if it needed \$100 billion of capital to generate it, yielding a return on capital of 1%, well below the market averages.

Another company might have a market capitalization of \$3.5 trillion, an absolutely impressive figure that might grab major financial news headlines. But if it generates only \$70 billion in earnings, its price-to-earnings (P/E) ratio of 50x may deter value-conscious investors from buying shares. By comparison, the average P/E ratio for the S&P 500 is 22x.

Inflation is a critical denominator for long-term savers and investors. Comparing an asset's nominal return to inflation yields its real return. And real returns are what *really* matter. For example, an investment yielding a 3% nominal return grows purchasing power in a 2% inflation environment, while a 4% nominal return erodes purchasing power in a 5% inflation environment. But high real returns aren't always the goal.

Beyond inflation, investors must consider how an asset's return compares to its return variability over time. Low-return assets often offer greater stability, while high-return assets are typically more volatile. Some investors prioritize stability, others accept volatility for higher returns, and many opt for balanced portfolios with a mix of stability and growth. Ultimately, there's no "right" way to go about making investment decisions, but failing to put an investment's expected return into context can lead to unintended consequences.

The best way to fight denominator blindness is a blend of curiosity and skepticism. When you encounter a statistic—whether it's \$70 billion in earnings or 70 Nathan's Famous franks—ask, "Compared to what?" Where there's data, there's a denominator.

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Awards:

2024-2025 Barron's Top 250 Private Wealth Management Teams

Source: Barrons.com (Awarded 2024-2025). Data compiled by Barron's based on 12-month period concluding in Dec of the year prior to the issuance of the award.

2024-2025 Forbes Best-In-State Wealth Management Teams

Source: Forbes.com (Awarded 2024-2025). Data compiled by SHOOK Research LLC based on 12-month time period concluding in March of year prior to the issuance of the award.

Mike Burbank | 2017-2025 Barron's Top 1,200 Financial Advisors: State-by-State

Source: Barrons.com (Awarded 2017-2025). Data compiled by Barron's based on 12-month period concluding in Sept of the year prior to the issuance of the award.

Mike Burbank | 2020 & 2022-2025 Forbes Best-In-State Wealth Advisors

Source: Forbes.com (Awarded 2020 & 2022-2025). Data compiled by SHOOK Research LLC based 12-month time period concluding in June of year prior to the issuance of the award.

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