SUMMARY HAYS-FORUM BASEL 2016

Text by Rolf Dobelli

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There are a hundred systematic thinking (decision) traps we regularly fall into. We won't be able to erase them completely. They are too deeply ingrained in our brains. However, by recognizing them, by having labels, by having vivid examples about them, we can increase the quality of our decisions. This is especially relevant in business where increasing the quality of decisions translates directly into monetary gains.

The failure to think clearly, or what experts call a "cognitive error," is a systematic deviation from logic—from optimal, rational, reasonable thought and behavior. By "systematic," I mean that these are not just occasional errors in judgment but rather routine mistakes, barriers to logic we stumble over time and again, repeating patterns through generations and through the centuries. For example, it is much more common that we overestimate our knowledge than we underestimate it. Similarly, the danger of losing something stimulates us much more than the prospect of making a similar gain. In the presence of other people we tend to adjust our behavior to theirs, not the opposite. Anecdotes make us overlook the statistical distribution (base rate) behind it, not the other way round. The errors we make follow the same pattern over and over again, piling up in one specific, predictable corner like dirty laundry, while the other corner remains relatively clean (i.e., they pile up in the "overconfidence corner," not the "underconfidence corner").

To avoid frivolous gambles with the wealth I had accumulated over the course of my literary career, I began to put together a list of these systematic cognitive errors, complete with notes and personal anecdotes—with no intention of ever publishing them. The list was originally designed to be used by me alone. Some of these thinking errors have been known for centuries; others have been discovered in the last few years. Soon I realized that such a compilation of pitfalls was not only useful for making investing decisions but also for business and personal matters. Once I had prepared the list, I felt calmer and more levelheaded. I began to recognize my own errors sooner and was able to change course before any lasting damage was done. And, for the first time in my life, I was able to recognize when others might be in the thrall of these very same systematic errors. Armed with my list, I could now resist their pull—and perhaps even gain an upper hand in my dealings. I now had categories, terms, and explanations with which to ward off the specter of irrationality. Since Benjamin Franklin's kite-flying days, thunder and lightning have not grown less frequent, powerful, or loud—but they have become less worrisome. This is exactly how I feel about my own irrationality now.

Cognitive errors are far too engrained to rid ourselves of them completely. Silencing them would require superhuman willpower, but that isn't even a worthy goal. Not all cognitive errors are toxic, and some are even necessary for leading a good life. Although my presentation may not hold the key to happiness, at the very least it acts as insurance against too much self-induced unhappiness. Indeed, my wish is quite simple: If we could learn to recognize and evade the biggest errors in thinking—in our private lives, at work, or in government—we might experience a leap in prosperity. We need no extra cunning, no new ideas, no unnecessary gadgets, no frantic hyperactivity—all we need is less irrationality.