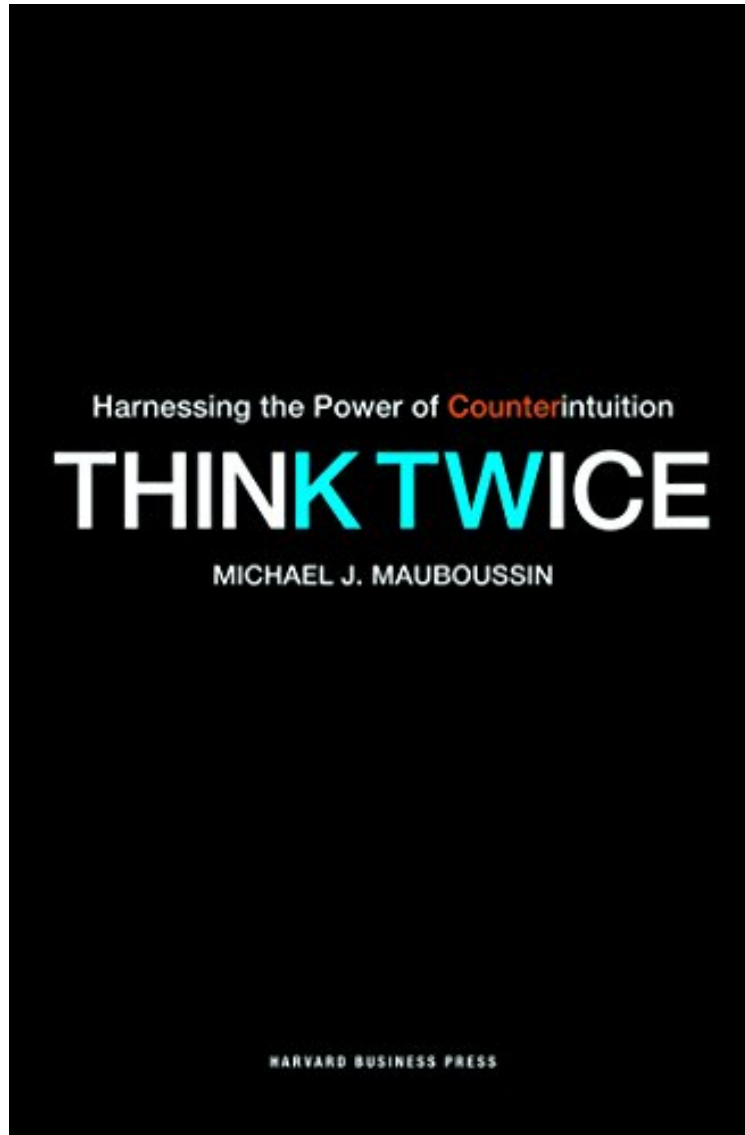


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# Think Twice: Harnessing the Power of Counterintuition

*Michael J. Mauboussin*

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**Michael J. Mauboussin : Think Twice: Harnessing the Power of Counterintuition** before purchasing it in order to gauge whether or not it would be worth my time, and all praised Think Twice: Harnessing the Power of Counterintuition:

2 of 2 people found the following review helpful. Useful for everyoneBy BPBThis is a thought-provoking book, supposedly a business book but one that offers insights to people like me who only have to make the decisions of everyday life. Since reading it, I keep seeing examples of the inside view and the outside view in making decisions both by myself and by others. I live in a hurricane-prone area. After a natural disaster, we have to deal with property damage, insurance companies, and scam artists posing as contractors. How to sort it all out? Those who take the inside

view are trusting to luck, while the cautious people who examine the situation by taking the outside view are more likely to recover from the catastrophe. How about investment decisions? It's the same thing. Those who take the inside view may get lucky, or maybe they'll end up cursing their "luck." What's this business about the inside and outside view? Read the book.

0 of 0 people found the following review helpful. Utterly Sensible, but stops short of its promise...By CustomerI am not going to delve in too much detail about the contents of the book, other reviewers have done a very good job of that. Instead, I am interested in understanding a few things in greater detail; sort of pose the questions to the author if I could. Indeed, the book raises many interesting points. The author has picked up many cognitive biases and woven a nice little story around them. To make the 'package' more attractive, he has also thrown in the tagline of the book being for 'investors', the implicit assertion being that we can make more money if we could eliminate some of the biases (as if we are already making millions in markets and could suddenly make billions!). I found nothing useful here for traders or investors (full disclaimer: I did not buy the book for that purpose, my sole interest was cognitive bias only). If you can separate the marketing hype and take out the 'trader/investor' framework, it is a mediocre book on cognitive biases at best, simply because it does not cover all of them, or even the most important ones. If you want some hard hitting stuff on biases, you are better off reading Kahneman, Tversky, et. al., directly. This book is a nice filler if heavy and comprehensive tomes are not your thing (though Kahneman happens to be very readable). Ok, with the disclaimer done, some questions and possibilities.

1. There are too many implicit statements in the book, with the author neither making open statements, nor taking them to their logical conclusion. For instance, the episodes related to portfolio managers doing worse than the market are mentioned numerous times. Each time, it is implicitly stated that the investors would well to invest in index funds rather than go with portfolio managers. Hmm...One of the major themes on crowdsourcing posits that markets run up and become ripe for crashes as diversity gets eliminated from the market and all agents start conforming to the dominant view of the market. That issue has been known in the financial literature in many forms for decades. It is the reason behind once successful trading strategies becoming useless in addition to causing market cycles (in fact, the famed Eugene Fama paper on Efficient Market Hypothesis hinges on this very feature, you cannot have a lasting advantage or a trading strategy in the market). The "Index Fund Strategy" also has to be viewed in this light. After all, Index Funds do not invest in 10,000 assets. Most leading indices comprise of 30, 40, 50 or 100 stocks or securities at best. If everyone starts to follow and invest in these indices only, diversity would get knocked out of this decision. And very rapidly too. Logically, stock pickers who were investing outside the indices would do better than indices. All of a sudden, index funds will start looking bad and money managers will start looking good, for some time...So am not so sure what the blinding insight here is. That investors should start investing in index funds? That would start a different cycle, at least some money managers will start outperforming indices significantly. Go with the money managers, index funds will get better. It is a forever oscillating system. More than that, different chapters conflate a lot of concepts. For example, a baseball team owner venting on the team because it loses 8 out of its first 12 games... The author argues that the owner was wrong because there WAS real skill involved. Why wouldn't the same thing apply to the big pension funds firing their money managers because they had a bad year or quarter? Simply pointing out that the fired folks suddenly outperformed the ones who replaced them proves neither mean reversion nor lack of skill. This conflation continues throughout the book, though I am not complaining about it. In fact, I quite enjoyed it because it put the same conflicting positions in juxtaposition as the incident of 'global oil supply debate' that the author has listed in the book.

2. Again, the idea of crowdsourcing has 'second order effect' questions that the book neither raises nor answers. We are seeing a situation where the crowd is better than experts, for the time being. I have no problem with computer based predictive systems being better than the experts. But there is a bit of a problem with overall crowdsourcing paradigm. First and foremost, all the successful predictive market and crowd wisdom experiments have needed to be well controlled and well set up. You suddenly don't go asking people on the street what the price of crude oil six months later will be. As listed by the author, people need to have right kind of incentives, they need to know about the subject well enough and so on. Question: if crowdsourcing is so effective, why is a survey of 50 or 100 economists about economic indicators usually wrong and typically wide off the mark? If expertise is such a hindrance, then what level of familiarity with the subject is the right level for getting crowdsourcing right? Next order question, of course, is the same as what tanked the likes of LTCM. If experts also typically end up creating crude mental models while predicting (simple extrapolation), wouldn't the same thing apply to all the participants? May be in a stable system (the world where LTCM's models predicted everything accurately, till the normal distributions worked), the crowd would be right. What about fundamental shifts in the market (what caused LTCM to fail and other such major turning points in financial history)? Will the crowds be able to effectively pick those? Not so sure again, as we simply don't have enough evidence. And I am not even touching upon the diversity issue here.

3. At some point, the author makes a really tired point about 'the market being more accurate than the individual trader or investor'. If you are a seasoned trader or investor, I am sure you would probably get a bemused chuckle at best. If individual biases do not add up, then why do we have bubbles at all? I know he has conveniently laid the blame at the door of market losing diversity. But if all or most of the participants in the collective are the same, just change their opinion (as it often happens in bubbles), at what point do you say the market has lost diversity? The collective argument simply means that the trend following

systems of the '80s and the madness of the last decade were actually legitimate. The collective consciousness of the market WAS driving everything up after all. And that too for multiple years.<sup>4</sup> I think the financial crisis has been just a favorite horse to flog for too many writers. No harm in analyzing it one more time and earning some quick bucks. But for every Taleb who made money in the crisis, there are many who bet against the 'madness' in 2003, 2004 or 2005, and lived to rue the day. And there have been plenty, just that those with the staying power eventually triumphed. There have been cassettes at all times, just that the crisis happened and the cassettes of the day (Roubini, et. al.) collected the accolades.<sup>5</sup> Laying all the blame for the last financial crisis at the doorstep of 'bad modelling' or 'cognitive biases' alone is probably too narrow a view anyway. Probably the biggest factor was the incentive built into the system. Unprecedented amount of liquidity pumped into the system without any apparent reason (why did Greenspan keep pumping money even when the global economy was on the boil is a question no one has an answer to), no financial oversight, individual incentives adding up to collective disaster (the author is right about this); these are probably bigger reasons for it than anything else. If your model is right and you are predicting disaster, but listening to you would force the corporation to forgo billions in profit for next few years and its bosses to lose millions in bonuses; there is only one logical outcome possible, you get fired. If you are lucky enough to be able to raise money and bet against the system, you may have the last laugh. Otherwise, you don't stand a chance. I don't think cognitive bias has a lot to do with it.<sup>6</sup> Coming back to the investor / trader premise, what about automated systems? Much of the trading on the exchanges today is carried out by automated systems. Occasional glitches do bring the problems to the surface. But how do you trade / invest in markets that pit sophisticated algorithms and computers against you? Market information may also be getting less transparent with dark pools, etc., emerging in a big way. How do these affect the collective wisdom of the market? If half the participants in the market are computers and algorithms, what shape would investor biases take then? Will the market stop having bubbles (since the computers will beat the biased humans in a big way, all of us humans will go bankrupt and there will be no bubble)? Again, I am not holding the author to it, as the book is not really addressing investing in any serious manner. Okay, with the questions over, now let us turn to why I think this book is worth four stars. One, it is a thoroughly enjoyable book with exhaustive research, a great bibliography and good anecdotes interspersed. Two, the book may not delve too deep in the topics, but at least asks the right questions. If you stay with the thoughts and are willing to push the questioning further on your own, the book gives you enough material for doing that too. Three, there are some things that you can use in day to day decision making. Ideas like the collective, etc., are difficult to deploy without going through elaborate processes and large scale organizational buy-in. But the checklists at the end of the chapters are handy in case of some of the biases. Finally, the book is a nice and light read. I would prefer it any day over a fiction book for its sheer reading pleasure. Overall, worth a read. Just don't expect it will help you make 'more money', and be happy with some research being quite dated. Cheers.<sup>0</sup> of 0 people found the following review helpful. We need to teach decision-making

By T. Pryor I borrowed this book title and some of the author's advice in a speech to accounting students. My speech title was Think Twice ... ten illogical actions to have a successful accounting career. Author Michael Mauboussin states on page 143 that almost everyone agrees decision-making is important yet we don't teach students how to make good decisions. I recommended Think Twice plus Decisive by Chip Dan Heath to the students. I was not wow'ed by this book (therefore 4, not 5, stars) but had several Aha's: 1. A crowd of partially informed is more accurate than a handful of experts. 2. Peter Drucker's question to Campbell Soup leaders : "If we did not do this (promote tomato soup) already, would we, knowing what we do now, go into it?" Drucker was one of the best at posing questions instead of giving answers. 3. To improve a team or organization, don't rely on bringing in a star. Instead improve the whole instead of adding or subtracting one person.

No matter your field, industry, or specialty, as a leader you make a series of crucial decisions every single day. And the harsh truth is that the majority of decisions—no matter how good the intentions behind them—are mismanaged, resulting in a huge toll on organizations, the people they employ, and even the people they serve. So why is it so hard to make sound decisions? In Think Twice, now in paperback, Michael Mauboussin argues that we often fall victim to simplified mental routines that prevent us from coping with the complex realities inherent in important judgment calls. Yet these cognitive errors are preventable. In this engaging book, Mauboussin shows us how to recognize and avoid common mental missteps. These include misunderstanding cause-and-effect linkages, not considering enough alternative possibilities in making a decision, and relying too much on experts. Through vivid stories, the author presents memorable rules for avoiding each error and explains how to recognize when you should "think twice"—questioning your reasoning and adopting decision-making strategies that are far more effective, even if they seem counterintuitive. Armed with this awareness, you'll soon begin making sounder judgment calls that benefit (rather than hurt) your organization.

a fine pick for any business collection strong in management issues, and addresses some of the predecessors of bad mistakes. Bookwatch