How to make better decisions in 2020

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Everywhere you look these days, there is much hand-How do we make decisions? Or, perhaps a more helpful question, how do we make better decisions? As we start 2020, a lot of us are asking ourselves the same questions because the implications are rather profound. From eating, to exercising, to investment, to leadership – finding a way to make better decisions promises significant upside and life satisfaction for all of us.

There are literally hundreds of books that have been written on this topic, and there are many components to the answer. However, a large share of the answer can be captured by better understanding the interplay between our beliefs and the world around us.

Goethe, the 18th century German writer, said that "Man is made by his belief. As he believes, so he is." A significant volume of research suggests that our beliefs (or expectations) drive our behaviour. For example, my own doctoral research supported the view that investors' expectations of market returns were one of the biggest drivers of the amount of investment risk that they were willing to take. Belief in the 1980s that fatty foods caused heart disease drove eating behaviour towards carbs and away from meat and dairy. Belief in the 2010s that carbs were linked to obesity and heart disease reversed this earlier trend.

So, if our beliefs drive our behavior, then what drives our beliefs? Essentially, there is a feedback loop between our beliefs and our environment. Our beliefs are shaped largely by our environment. And, in turn, our environment is largely shaped by our beliefs. What does this mean? Well, our environment includes factors such as the family influences we grow up with, the religious or cultural community we grow up in, our friends, the news sources we follow, or the experiences that we (or our close friends) have had. Those factors drive our beliefs – about food, about health, about investing, about leadership. And, those beliefs, in turn, drive our environment – what friends we associate with, what news sources we choose, the activities in which we engage. This feedback loop is continuous – and largely drives our behaviour; in many cases, we are not even aware of the existence of this loop in action.

The challenge with this "autonomous" feedback loop is that it reinforces cognitive biases and misleading assumptions. For example, confirmation bias – where individuals favour information that confirms existing

beliefs – is very prevalent through our social media networks, our choice of news sources (e.g. newspapers, TV news channels), even the people with whom we associate. Other biases like peer group comparisons, recency, anchoring, etc. are also reinforced by this feedback loop. As a result, our decisions are usually made in an "echo chamber" where a small subset of data, factors and viewpoints drive our choices.

If we are to make better decisions, then we need to positively address this belief – environment feedback loop. There are several ways of doing this:market by valuing their sweat and tears at a higher price than justified objectively.

1. Diversification: One easy way to get out of the echo chamber is to diversify your sources of information. For example, if you get your news from CNN, perhaps turn on Fox News periodically to see a different viewpoint.

2. Law of Small Numbers: We often use our experience to base decisions. Nobel Prize winner Daniel Kahneman (and colleague Amos Tversky) found, however, that in many cases our sample size is small and not reflective of actual probabilities. For example, it is very possible to flip a coin three times and end up with heads each time. However, taking a larger sample of coin flips would provide a more realistic view of the probabilities of obtaining heads in a coin flip.

3. Outside View: Most decisions are made with the "inside view" – we base choices on information at hand, including anecdotal evidence and our feelings. In his book "Think Twice", Michael Mauboussin argues that the outside view flips this lens and asks if there are similar situations that can provide a more objective, or statistical, justification. For example, if you got a stock tip to invest in stock "A", the inside view would be to consider just the company's expectations or the "tip" itself. The outside view would consider the prospects of other companies that

A competes with, the performance of the overall asset class, what other sources besides the tip would support, etc. Each investment decision depends on personal and market circumstances. But by using the outside view, you can look at the pitfalls to avoid and maximize the likelihood that your decision is based on facts and not wrong assumptions.

We can all make better decisions. Doing so requires us to diversify our sources, test our worldviews, and update our understanding. A better feedback loop between our beliefs and our environment leads to better decisions.

As the author Anaïs Nin said, "we don't see things as they are, we see things as we are."