

# A Framework for Making Smarter Decisions and Fewer Errors

Few things will change your trajectory in life as effectively as learning to make better decisions.

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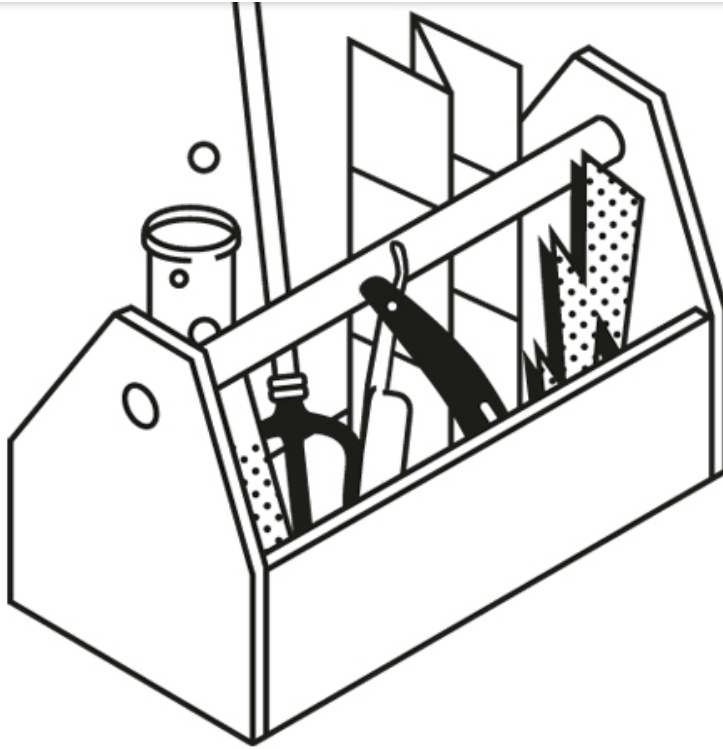
... decision-making principles in this article aren't pulled out of thin air. They're the result of many years of experience and experimentation. They draw upon the combined expertise of some of history's deepest thinkers. They summarize the core insights from influential books on decision-making. Our readers — ranging from top executives and CEOs to entrepreneurs and authors — have applied the techniques in this article to their own lives, to remarkable effect.

... This guide, we'll cover:

- [No One Taught you How to Decide](#)
- [Your Mind is a Pattern Matching Machine](#)
- [Decision Making](#)
- [Smart People Make Terrible Decisions](#)
- [Sources of Stupidity](#)
- [Intelligent Preparation: The World Is Multidisciplinary](#)
- [How We Decide](#)
- [General Thinking Concepts](#)
- [Articles to Improve Decisions](#)
- [Books to Improve Decisions](#)

Ready? Ok, Let's digg in.

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## No one Taught you How to Decide

I started working at an intelligence agency on August 28, 2001. Two weeks later, the world would never be the same.

My computer science degree lost its value after a few promotions. I came from a world of 1s and 0s, not people, families, and interpersonal dynamics.

Just out of school, I found that my decisions affected not only my employees but their families. Not only my country but other countries. However, there was one small problem. I had no idea how to make smart decisions. I had no idea how to reduce errors. I only knew I had an obligation to make the best decisions I could. But where do you start?

There is no class called “decision making.” Making better decisions isn’t one skill but rather a series of tools and frameworks. What distinguishes consistently good decision makers from poor ones is a series of diverse mental frameworks and tools (as well as relevant specific information).



attempt to make it work. While a hammer can often get the job done eventually, it comes with a cost. In my world a poor decision could cost lives, impact my country, or even start a war. A hammer wasn't enough, I wanted more tools.

To fill my mental toolbox, I looked around my organization and found some mentors. I watched them, asked them annoying questions, and tried to learn as much as I could from them. I went back to school to get an MBA. I read everything I could about making decisions and the tools I needed to develop.

Thanks to the internet, I was no longer limited to the best teachers in my organization or university. The entire world was available. I could find the best teachers in the world, learn their tools and frameworks, and add them to my mental toolbox.

“The older I get the more I realize how many kinds of smart there are. There are a lot of kinds of smart. There are a lot of kinds of stupid, too.”

— Jeff Bezos

## Your Mind is a Pattern Matching Machine

You probably don't know it but you already think in [mental models](#). Mental models are mental chunks of knowledge that represent a concept. Gravity is a model. So is [probabilistic thinking](#), [inversion](#), and [entropy](#).

Mental models shape [how you think](#), how you approach problems, and how you identify the information that matters. The mental models in your head are your cognitive toolkit.

## Decision Making

How many important decisions have you already had to make? With the benefit of hindsight, how well did you make them?

How many decisions did you make today? How did you make these decisions? Is there a better way?

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Not all decisions matter. Most decisions, like where to grab a sandwich, are unimportant. The consequences of these decisions don't matter.

Yet some decisions are critical — they change our lives. Whether its who to trust, where to live, or whom to marry, these decisions reverberate for years.

Yet most of us don't have the right tools to think through these problems. As a result, we often fall back to the pro-con list, where you list all the positive things that happen on one side and the negative things on the other trading them off.

While useful when deciding what to have for lunch, the pro-con list comes with a lot of blind spots.

ascertaining things for one's self if these same things have already been ascertained and made available by others."

—Thomas Edison

178  
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## 178 People Make Terrible Decisions

Smart people are awful at making decisions. Think about decisions like these:

Napoleon deciding to invade Russia (and Hitler doing it again 130 years later)

An editor deciding to publish O.J Simpson's *If I Did It*

Chris Webber choosing the timeout he didn't have in the 1993 Final Four

- NASA's decision to ignore the O-ring issues on the Challenger
- President Kennedy's famous blunder to continue the Bay of Pigs operation inherited from the previous administration (a mistake he quickly learned from)
- Margaret Thatcher deciding to get behind a "poll tax" that led to her ouster by her own party
- Juergen Schrempp, the CEO of Daimler-Benz, deciding to merge with Chrysler despite massive internal opposition and a general history of big M&A deals working very poorly
- Jim Cramer looking at Bear Stearns in 2007 and calling it a "BUY"
- ...and a hundred thousand more...

These were catastrophic decisions made by people who were, in some sense, professional decision-makers. They had impeccable credentials and judgment, and yet they made poor decisions due to poor judgment, a too-limited mental representations of the world, or just plain stupidity.



There are a lot of reasons we fail to make the best decision possible at the time.

Let's take a look at five of the biggest ones:

**1. We're unintentionally stupid.** I like to think that I'm rational and capable of interpreting all information in a non-biased way but that's a dream. Cognitive biases are great at explaining how our evolutionary programming leads us astray. But <sup>178</sup> Shares wledge of these biases in advance rarely helps us make better decisions. There are, however, many easily recognizable situations that increase the odds we're about to do something stupid. Whether we're tired, overly focused on a goal, rushing, distracted, operating in a group, or under the influence of a group, we're more prone to stupidity.

**We have the wrong information.** Making decisions with the wrong assumptions or facts is likely to lead to disaster.

**3. We use the wrong model.** We use mental models to make decisions. The quality of those models often determines the quality of our thinking. There are a variety of reasons that we use false, incomplete, or incorrect mental models. Novices are prone to using models that the expert knows are incomplete or irrelevant. The odds of the wrong, or out-dated, model also increase as the pace of environmental change increases.

**4. We fail to learn.** We all know the person that has 20 years of experience but it's really the same year over and over. Well, that person is sometimes us. If we don't understand how we learn, we're likely to make the same mistakes over and over.

**5. Looking over doing good.** Our evolutionary programming conditions us to do what's easy over what's right. We unconsciously make choices based on optics, politics, and defendability. We hate criticism and seek the validation of our peers and superiors.

Luckily, we can take steps to reduce the odds of stupidity and increase the odds of good decisions in each of these categories.

“The frog in the well knows nothing of the mighty ocean.”

—*Japanese Proverb*

## 178 Shares **Intelligent Preparation: The World Is Multidisciplinary**

live in a society that demands specialization. Being the best means being an expert at something. Letters after your name and decades in the trenches of experience are required before you can claim to know anything. In one sense there is nothing wrong with this — specialized knowledge is required to solve problems and advance our global potential. But a byproduct of this niche focus is that it narrows the ways we think we can apply our knowledge without being called a fraud.

So we think physicists can't teach us about love; mathematicians can't instruct us on how to run a business; poets don't know squat about “my life.” And bloggers can't contribute to philosophy.

I don't believe this is true.

Knowledge is hard to come by.

It takes work and commitment, and I think we owe it to ourselves to take it out of the box it comes in and experiment with it. We should blow past conformity and **apply all the knowledge at our disposal to the problems and challenges we face every day.**

Think about it. Over time you've picked up a lot of fundamentals about how the world works. You may have read a book about the Manhattan Project and the building of the nuclear bomb that was launched at Hiroshima. This story conveys the awesome power of self-sustaining nuclear reactions. Have you ever thought about applying those ideas to your life? You should.

## How We Decide



If you're like most people, you've never been explicitly taught how to make effective decisions. You make decisions like a golfer who never took any lessons: miserable with the state of your game and yet not seeking to learn a better swing, and instead hoping for the best every time you lift the club. Hoping that this time your choice will finally work out.

<sup>178</sup> Shares In the early 1980s, Charlie Munger and his partner Warren Buffett realized that a Savings & Loan operation they owned, as with the rest of the industry, was doomed to fail miserably due to forces outside of their control. At a time when almost none of their peers were taking action, they changed course dramatically, massively reducing the effect of the bank's failure on the rest of their business holdings. These two men knew they had to act much differently than their peers.

It worked: The S&L industry collapsed, yet Munger and Buffett escaped with barely a scratch. They saved themselves a great deal of stress and financial pain by applying a uniquely effective system of organized common sense. In hindsight, it seems like an obvious good decision; at the time, it seemed odd and unusual.

The lesson for us is that the people making consistently good decisions take advantage of [how the world works](#). That's wisdom.

Real knowledge of the art of decision making, which remains true across time and circumstances, eras and epochs, can help increase the odds that we get what we want and reduce costly mistakes.

While everyone else is guessing, falling into old patterns, blindly following cognitive biases, we can be clear-headed and laser-focused.

That's what Farnam Street is all about.

Here are some examples of applying — or failing to apply — knowledge about how the world really works.

- It doesn't matter how smart you are if you don't realize where things are additive and where they are multiplicative. Nikola Tesla failed to understand



difficulty relating to others, which made him difficult to work with. This problem cost him a Nobel Prize and a fortune that today would likely have made him the richest man in the world.

178  
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- While we all rely on maps, which are reductions of complexity, to make decisions, they are not always accurate. General George S. Patton Jr. understood that [the map is not the territory](#). When he visited the troops near Coutances, he found them sitting on the side of the road, studying a map. Responding to Patton's inquiry as to why they had not crossed the Seine, the troops informed him that they were studying the map and could not find a safe place to wade across. Patton informed them that he had just waded across it and it was not more than two feet deep.

While we all like to be in the sexy industries, that desire shows an under-appreciation for the laws of thermodynamics. Smart companies like Berkshire Hathaway, guided by legendary investor Warren Buffett, understand that contrast is important. Sexy internet businesses are rarely effective, no matter how good they are, because the others are nearly just as good. What you want is contrast — to be the big fish in a small pond. And when you analyze the types of investments he's made over the years, that's what you find. If you're going to compete with people, you want to compete with people who are way less sophisticated than you.

- Understanding and applying [the mental model of relativity](#) helped Michael Abrashoff take the worst-performing ship in the US Pacific Fleet and turn it into the best. In his book, *It's Your Ship*, he wrote: "The most important skill a skipper can have is the ability to see through the eyes of the crew."

This website is about understanding and applying these time-tested [mental models](#). Knowing how the world works means that you can stop fighting reality — and yourself along with it.

## General Thinking Concepts

Combining intelligent preparation — learning about the big time-tested ideas from multiple disciplines — with general thinking frameworks will dramatically improve your decision-making skills.

- [Inversion](#) — Otherwise known as thinking something through in reverse or thinking “backwards,” inversion is a problem-solving technique.
- [Second-Order Thinking](#) — Ask yourself, “And then what?”
- [The Map Is Not the Territory](#) — The map of reality is not reality itself. If any map were to represent its actual territory with perfect fidelity, it would be the size of the territory itself.

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of these concepts (and six others) can be found in [\*The Great Mental Models Volume 1: General Thinking Concepts\*](#).

## Articles to Improve Decisions

[How Not to Be Stupid](#) — Stupidity is overlooking or dismissing conspicuously crucial information. Here are seven situational factors that compromise your cognitive ability and result in increased odds of stupidity.

- [The Decision Matrix: How to Prioritize What Matters](#) — The decision matrix is a powerful tool to help you prioritize which decisions deserve your attention as a leader, and which should be delegated. Here’s how you can start using it today.
- [How to Learn How To Think](#) — An argument to spend more time thinking.
- [The Anatomy of a Decision: An Introduction to Decision Making](#) — A structured process to walk through decisions.
- [Use a Decision Journal \(Example Template\)](#) — One reason we struggle to get better at making decisions is that we rarely receive feedback on the quality of our decisions.
- [A Two-Step Process to Improve Your Thinking](#) — How the smartest people decide.
- [The Science of Hitting](#) — Ted Williams, one of the best hitters in baseball, knew a lot about making effective decisions.
- [An Ancient Lesson on Taking Responsibility for Decisions](#) — “A decision is responsible,” wrote Charles Frankel, “when the man or group that makes it has to answer for it to those who are directly or indirectly affected by it.”

based on [shallow knowledge](#).

- [The Three Filters Needed to Think About Problems](#) — Three filters that help us interpret reality.
- [How People Make Big Decisions](#) — We all go through psychological steps when we make big decisions.

178  
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Make sure you can answer [the next question](#).

[Avoiding Stupidity Is Easier than Seeking Brilliance](#) — If you're an amateur, your focus should be on avoiding stupidity.

[Keeping Things Simple and Tuning Out Folly](#) — William James said, “The art of being wise is the art of knowing what to overlook.” No truer words have been spoken.

[Your Environment Matters If You Want to Make Better Decisions](#) — It's hard to make rational decisions the way most of us work.

- [What Matters More in Decisions: Analysis or Process?](#) — “Our research indicates that, contrary to what one might assume, good analysis in the hands of managers who have good judgment won't naturally yield good decisions.”
- [What happens when decisions go wrong?](#) — “When a decision goes awry, we tend to focus on the people who made it, rather than on the decision itself. Our assumption, which is really unwarranted, is that good people make good decisions, and vice versa.”

## Books to Improve Decisions

We compiled a list of [39 of the most helpful books on decision making](#). Here are some of my go-to recommendations:

- [Judgment and Managerial Decision Making](#) — An academic book that effectively covers heuristics and biases (i.e., how we fool ourselves.) For a non-academic book on the same subject, see [Thinking, Fast and Slow](#) by Daniel Kahneman.

- [\*The Great Mental Models Volume 1: General Thinking Concepts\*](#) — This volume details nine of the most versatile, all-purpose mental models you can use right away to improve your decision making, productivity, and how clearly you see the world.

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### Notes:

raphrased from my friend Peter Kaufmann.  
e the work of Adam Robinson.



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