

Psychology of Risk Taking

Contents:

- 1) Types of Bets
- 2) Calculate Risk Fast
- 3) How Much Do You Have to Lose?
 - 3A) A Lot to Lose? Be Risk Averse
 - 3B) Little to Lose? Be Risk Aggressive
- 4) Death Opens a World of Opportunity
- 5) Fools and Cowards
- 6) Enter With Boldness
- 7) Fight and Win, or Don't Fight
- 8) Relevant Reading
- 9) Further Reflections
 - 9A) Ambition and Hopelessness Drive Risk Taking
 - 9B) Baltasar Gracian's Advice
 - 9C) Brave Men Want Security For Their Children
 - 9D) Creativity is Risky

Preamble:

A life with zero risk is neither possible nor desirable.

Risk can be managed. It can be moved from one place to another. It can be increased or decreased in amount, but it can never be eliminated.

1) Types of Bets:

There are different types of opportunities or 'bets' that will appear in life.

Smart Bets are those with big upside and small downside; they are low risk high reward bets. Stupid Bets are those with small upside and big downside; they are high risk low reward bets. Everyone should seize Smart Bets and reject Stupid Bets.

Tragically, Smart Bets are incredibly rare while Stupid Bets are common. In the game of life, it is rare that you can win smartly but there are endless opportunities to lose foolishly.

Ambivalent Bets are those where it's difficult to tell which is bigger; the upside or the downside? A bet with big upside and big downside is a high risk high reward bet, while a bet with small upside and small downside is a low risk low reward bet.

2) Calculate Risk Fast:

“Life is a game of calculated risk taking.” –WallStreetPlayboys

A critical skill is the ability to quickly calculate risk and reward.

Whenever an opportunity appears, quickly categorize it into which type of Bet it is: 'Smart' 'Stupid' 'High Risk-High Reward' or 'Low Risk-Low Reward'

This calculation will sometimes have to be done in a matter of minutes; sometimes in a matter of seconds.

In the real world it is impossible to calculate risk and reward with mathematical certainty. However, opportunities can certainly be *ranked* relative to each other in regards to how risky they are.

We cannot say there is X% chance that if you start a business you will become a multimillionaire, but we can certainly say that starting your own business is a higher risk and higher reward path than being a corporate employee.

3) How Much Do You Have to Lose?

3A) A Lot to Lose? Be Risk Averse:

If your life is going well (you have high status within the macro hierarchy), then you have a lot to lose. Being risk averse is rational.

If any high risk high reward opportunities appear you should reject them, and instead tend towards a path that is low risk and low reward.

3B) Little to Lose? Be Risk Aggressive:

“All courses of action are risky, so prudence is not in avoiding danger (it is impossible), but in calculating risk and acting decisively.” –Niccolo Machiavelli

If your life is going badly (you have low status in the macro hierarchy and this is likely to continue into the future), then you have little to lose and a lot to gain; being risk aggressive is rational.

If a high risk high reward opportunity appears, you should seize it without hesitation.

If your life is on track for failure, you have to escalate your tactics. Any fear you have is irrelevant; if there are high risk high reward strategies that you have been afraid to use up to this point, it's time to execute them.

Continue executing high risk high reward strategies until you either win or die. Better to die than to live defeated.

4) Death Opens a World of Opportunity:

"Life has more meaning in the face of death." -33 Strategies of War

Only Satan knows the things you'd be willing to do if you had nothing to lose.

There are plenty of young men in perfect health who think they have 'nothing' to lose, when in truth they have everything to lose; they have another 50 years of life ahead of them.

The only people who truly have nothing to lose are those diagnosed with terminal illnesses or those who are determined to carry out suicide.

Having nothing to lose is a miserable position to be in, but it is also a position of immense power.

You are enabled to use high risk strategies that nobody else is; everyone else is understandably afraid of the consequences, however you need not fear consequences since there is nothing you have that can be taken away.

Should you be informed you have a terminal illness or should you choose to carry out suicide, **do not slowly fade away; go out in a blaze of glory.**

Before death arrives, execute every high risk high reward strategy available.

5) Fools and Cowards:

Fools tell you to always be risk aggressive. Cowards tell you to always be risk averse.

Wisdom lies in knowing when to be risk aggressive and when to be risk averse.

You will encounter many fools going down high risk paths because they think they have 'nothing to lose', when in truth they have a lot to lose.

You will also encounter many cowards whose lives are on track for failure and who in truth have little or nothing to lose, who refuse to use high risk strategies because their fear is biasing them.

6) Enter With Boldness:

"If you are unsure of a course of action, *do not attempt it*; your doubts and hesitations will infect your execution...Going halfway with half a heart digs a deeper grave." -Law 28

Take as much time as you need to carefully consider whether or not you want to embark on a high risk course of action, or continue being risk averse.

However, when you embark on a high risk course of action you must do so with total confidence.

During the analysis that takes place *before* action, consider every doubt and hesitation conceivable.

In the moment of action, banish all doubts and fears; launch with boldness.

7) Fight and Win, or Don't Fight:

There are those who will tell you it is better to try and fail than to not try at all. When the stakes are low (as is the case with low risk low reward strategies) this is true. However when the stakes are high this is wrong; dead wrong.

When the stakes are high or when considering a high risk strategy, it is far better to have *not* tried than to have tried and failed.

Better to have *not* tried, when a little foresight and a little caution could have spared you from so much unnecessary suffering.

8) Relevant Reading:

Martin Daly:

[Risk Taking, Inequality, Homicide
Evolutionary Psychology Pioneer](#)

Felix Dennis:

[How to Get Rich
88 The Narrow Road](#)

9) Further Reflections:

9A) Ambition and Hopelessness Drive Risk Taking

Ambition + Hopelessness = Extreme Risk Taking

High Testosterone + Low Serotonin = Extreme Risk Taking

Testosterone fuels ambition. Who has high testosterone? Men
Low serotonin induces feelings of hopelessness. Who has low serotonin?
People (both men and women) at the bottom of dominance hierarchies.

Men at the bottom of dominance hierarchies have high testosterone levels and low serotonin levels; they are filled with both ambition and hopelessness.

They are the one's who engage in extreme risk taking; risks that look insane to most people but that are perfectly sane if you have nothing to lose and everything to gain.

9B) Baltasar Gracian's Advice:

"Never compete against a man who has nothing to lose." –The Art of Worldly Wisdom

Never put an adversary into the position of having nothing to lose.

If your adversary has nothing to lose, he may be willing to burn down everything and everyone including himself and including you.

9C) Brave Men Want Security For Their Children:

Most people are risk averse, period. With every decision they make they will search for a low risk option.

Among extremely risk aggressive men they may be willing to take risks when it comes to decisions affecting their own lives, but they are risk averse when it comes to their childrens' lives.

Risk aggressive men want glory for themselves, but for their loved ones they want security.

9D) Creativity is Risky:

Creativity is a high risk high reward strategy. Most new ideas are useless, but a tiny minority are spectacular.

In creative professions you will find that most people make little or no money, but a tiny minority are spectacularly rich.

'Creative' professions would include entrepreneurship, art, music, and writing.