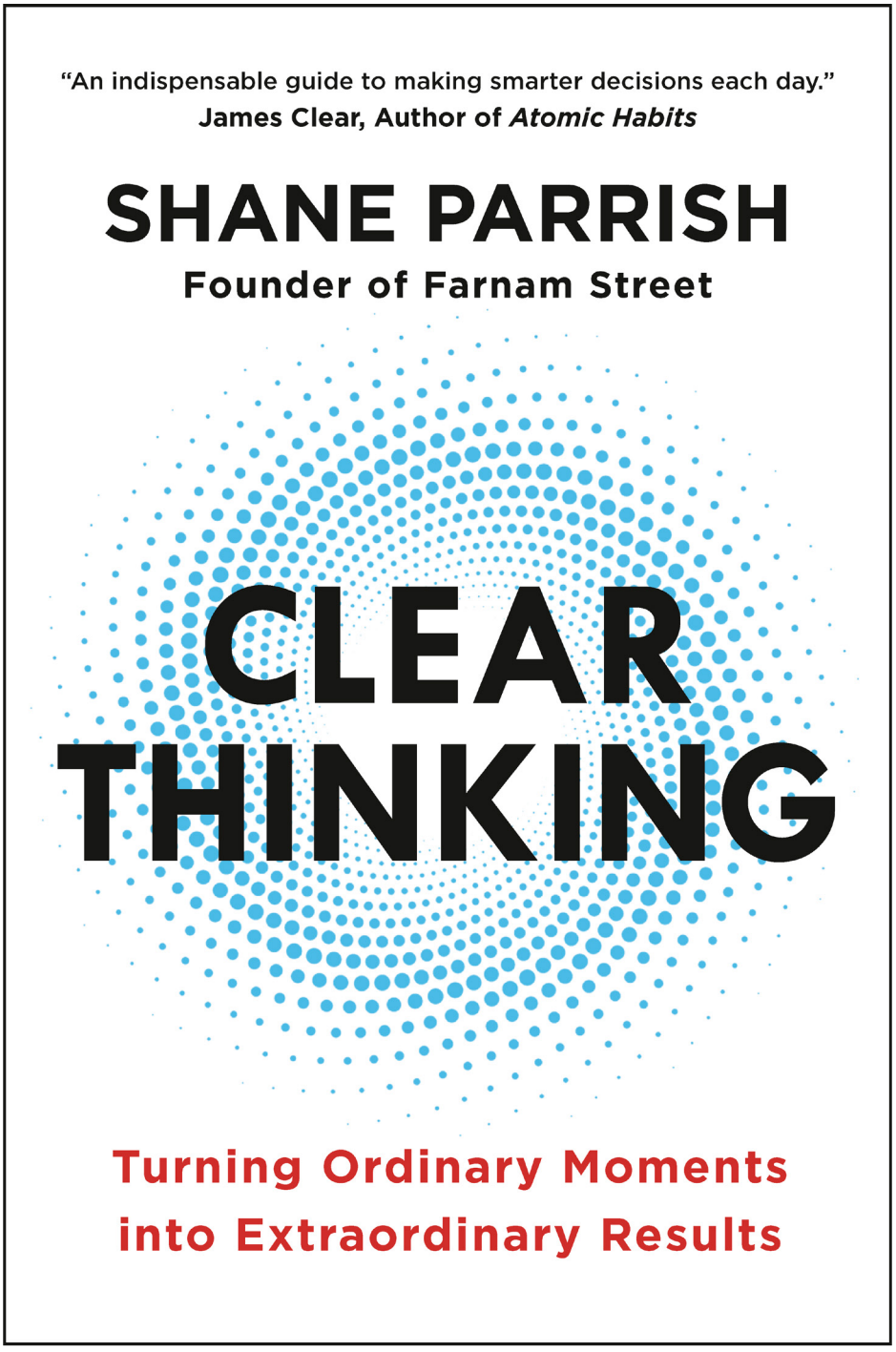
From the mind behind Farnam Street and the host of *The Knowledge Project* Podcast



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Preface

I STARTED WORKING AT AN INTELLIGENCE AGENCY IN AUgust 2001. A few weeks later, the world changed forever.

Everyone at the agency suddenly found themselves thrust into positions and responsibilities they weren't ready for. My job involved constantly figuring out how to do things few had even imagined possible. Not only did I need to solve complicated and new problems, but people's lives were at stake. Failure was not an option.

One night, I was walking home at 3:00 a.m. after one of our operations. The outcome wasn't what I had hoped for. I knew I'd have to face my boss in the morning and explain what happened and what I'd been thinking when I made the choices I did.

Had I thought everything through clearly? Was there something I missed? How was I to know?

My thinking would be laid bare for everyone to see and judge.

I walked into my boss's office the next day and explained what went through my mind. When I finished, I told him I

wasn't ready for this job or the level of responsibility it required. He put his pen down, drew a deep breath, and said, "No one is ready for this job, Shane. But you and this team are all we got."

His response wasn't exactly comforting. By "team" he meant twelve people working eighty hours a week for years. By "all we got" he meant starting the most important new program the agency had seen in generations. I walked away from our brief encounter with my head spinning.

That night I started asking myself questions that I'd continue exploring for the next decade. How can we get better at reasoning? Why do people make bad decisions? Why do some people consistently get better results than others who have the same information? How can I be right more often, and decrease the probability of a bad outcome when lives are on the line?

Up until that point in my career, I'd been fairly lucky, and while I wanted that luck to continue, I also wanted to depend on it less. If there was a method for clear thinking and good judgment—I wanted to harness it.

If you're like me, no one ever taught you how to think or make decisions. There's no class called Clear Thinking 101 in school. Everyone seems to expect you to know how to do it already or to learn how on your own. As it turns out, though, learning about thinking—thinking *clearly*—is surprisingly hard.

For the next several years, I devoted myself to learning how to think better. I watched how people acquired information, reasoned, and acted in practice, and how their actions unfolded into positive or negative outcomes. Were some people just smarter than others? Or did they have better systems or practices in place? In the moments that mattered, were people even

aware of the quality of their thinking? How could I avoid the obvious errors?

I followed the most senior people around to meetings. I'd sit there quietly* listening to what they thought was important and why. I read anything I could on cognition and talked to anyone who would pick up the phone.

I sought out the titans of industry† who seemed to consistently think clearly even when others couldn't. They seemed to know something that was not commonly known, and I was determined to find out what.

While the rest of us are chasing victory, the best in the world know they must avoid losing before they can win. It turns out this is a surprisingly effective strategy.

To catalog my learning, I created an anonymous website called Farnam Street, found at fs.blog, named in honor of Charlie Munger and Warren Buffett,‡ two people who exercise judgment for a living and who have had a profound impact on how I see the world.§

I've been fortunate over the years to talk to my heroes Charlie Munger and Daniel Kahneman about thinking and

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* Okay, mostly quietly.

† Working for an intelligence agency opens a lot of doors that you might think are closed.

‡ The headquarters for Berkshire Hathaway, where Warren Buffett is CEO and Charlie Munger is vice chairman, is on Farnam Street in Omaha, Nebraska, USA.

§ I made it anonymous because, it turns out, three-letter agencies tend to frown on public profiles. Things have changed since those days. With all the trouble they have recruiting, you can have a public profile now. In fact, while job descriptions are vague, people often put the name of the agency they work for in their LinkedIn profile now. It's important to realize when I started, we didn't exist—there was no sign on the building. The idea of having any public profile was over a decade away.

decision-making, along with other master practitioners like Bill Ackman, Annie Duke, Adam Robinson, Randall Stutman, and Kat Cole. Many of these conversations are public on *The Knowledge Project* podcast. Others, like my time spent with Munger, must remain private. Among all the people I've spoken with, though, no one has influenced my thinking and ideas more than my friend Peter D. Kaufman.

Thousands of conversations have yielded a key insight.

In order to get the results we desire, we must do two things. We must first create the space to reason in our thoughts, feelings, and actions; and second, we must deliberately use that space to think clearly. Once you have mastered this skill, you will find you have an unstoppable advantage.

Decisions made through clear thinking will put you in increasingly better positions, and success will only compound from there.

This book is a practical guide to mastering clear thinking.

The first half of the book is about creating space for it. First, we identify the enemies of clear thinking. You will learn how most of what we consider to be "thinking" is in fact reacting without reasoning, prompted by biological instincts that evolved to preserve our species. When we react without reasoning, our position is weakened, and our options get increasingly worse. When we ritualize a response to our biological triggers, we create the space to think clearly, and strengthen our position. Then, we identify a number of practical, actionable ways to both manage your weaknesses and build your strengths so that space is consistently created when you're under pressure.

The second half of the book is about putting clear thinking into practice. Once you are in a place where you've shored up your strengths and managed your weaknesses—when you've created the pause between thought and action—you can turn

clear thinking into effective decisions. In Part 4 I share the most practical tools you can use to solve problems.

Finally, once you have mastered the skills of making your defaults work for instead of against you and maximizing the tool that is your rational mind, I'll turn to perhaps the most important question of all: the question of what your goals are in the first place. All the successful execution in the world is worthless if it's not in service of the right outcome, but how do you decide what that is?

Along the way, I'll show you the most effective approaches to thinking in a way few people talk about. We won't use fancy jargon, spreadsheets, or decision trees. Instead, we'll focus on the practical skills I've learned from others, discovered on my own, and tested on thousands of people from various organizations, cultures, and industries.

Together we'll uncover the missing link between behavioral science and real-world results and turn ordinary moments into extraordinary results.

The lessons in this book are simple, practical, and timeless. They draw heavily on the wisdom of others and my own lived experience putting them into practice. I relied on these lessons and insights to make better decisions inside the intelligence agency, build and scale multiple businesses, and surprisingly become a better parent. How you use them is up to you.

If there is a tagline to my life, it is "Mastering the best of what other people have already figured out," and this book is a tribute to that belief. I've done my best to attribute those ideas to the people who deserve the credit. I've probably missed some, and for that I apologize. When you put things into practice, they become part of you. After two decades, thousands of conversations with the best in the world, and more books devoured than I can count, it's not easy to remember where ev-

erything comes from. Most of it has just been ingrained into my unconscious. It's safe to assume that anything useful in this book is someone else's idea, and that my main contribution is to put the mosaic of what I've learned from others who came before me out there for the world.

INTRODUCTION

The Power of Clear Thinking in Ordinary Moments

WHAT HAPPENS IN ORDINARY MOMENTS DETERMINES your future.

We're taught to focus on the big decisions, rather than the moments where we don't even realize we're making a choice. Yet these ordinary moments often matter more to our success than the big decisions. This can be difficult to appreciate.

We think that if only we get the big things right, everything will magically fall into place. If we choose to marry the right person, it'll all be okay. If we choose the right career, we'll be happy. If we pick the right investment, we'll be rich. This wisdom is, at best, partially true. You can marry the most amazing person in the world, but if you take them for granted, it will end. You can pick the best career, but if you don't work your butt off, you won't get opportunities. You can find the perfect investment, only to look at your savings account and have nothing to invest. Even when we get the big decisions directionally right, we're not guaranteed to get the results we want.

We don't think of ordinary moments as decisions. No one taps us on the shoulder as we react to a comment by a coworker

to tell us that we're about to pour either gasoline or water onto this flame. Of course, if we knew we were about to make the situation worse, we wouldn't. No one tries to win the moment at the expense of the decade, and yet that is often how it goes.

The enemies of clear thinking—the more primal parts of our nature—make it hard to see what's happening and instead just make our lives more challenging. When we react with emotion to a colleague in a meeting, we must make amends. When we make a decision to prove we're right rather than get the best outcome possible, we only end up with a mess to clean up later. If we start bickering with our partner on Friday, the entire weekend can be lost. No wonder we have less energy, more stress, and feel busy all the time.

In most ordinary moments the situation thinks for us. We don't realize it at the time because these moments seem so insignificant. However, as days turn into weeks and weeks into months, the accumulation of these moments makes accomplishing our goals easier or harder.

Each moment puts you in a better or worse position to handle the future. It's that positioning that eventually makes life easier or harder. When our ego takes over and we show someone we're the boss, we make the future harder. When we are passive-aggressive with a colleague at work, our relationship becomes worse. And while these moments don't seem to matter much at the time, they compound into our current position. And our position determines our future.

A good position allows you to think clearly rather than be forced by circumstances into a decision. One reason the best in the world make consistently good decisions is they rarely find themselves forced into a decision by circumstances.

You don't need to be smarter than others to outperform them if you can out-position them. Anyone looks like a genius

when they're in a good position, and even the smartest person looks like an idiot when they're in a bad one.

The greatest aid to judgment is starting from a good position. The company with cash on the balance sheet and low debt has nothing but good options to choose from. When bad times come, and they always do, their options go from good to great. On the other hand, a company with no cash and high debt has nothing but bad options to choose from. Things quickly go from bad to worse. And this example easily extends beyond the boardroom as well.

Time is the friend of someone who is properly positioned and the enemy of someone poorly positioned. When you are well positioned, there are many paths to victory. If you are poorly positioned, there may be only one. You can think of this a bit like playing *Tetris*. When you play well, you have many options for where to put the next piece. When you play poorly, you need just the right piece.

What a lot of people miss is that ordinary moments determine your position, and your position determines your options. Clear thinking is the key to proper positioning, which is what allows you to master your circumstances rather than be mastered by them.

It doesn't matter what position you find yourself in right now. What matters is whether you improve your position today.

Every ordinary moment is an opportunity to make the future easier or harder. It all depends on whether you're thinking clearly.

PART 1

THE ENEMIES OF CLEAR THINKING

Never forget that your unconscious is smarter than you, faster than you, and more powerful than you. It may even control you. You will never know all of its secrets.

—CORDELIA FINE,
A Mind of Its Own: How Your Brain Distorts and Deceives

THE FIRST THING I heard was shouting. Generally, this is not what you expect to hear when approaching the CEO's office. This CEO was different.

I walked into his office, put my briefcase on the table, and sat down directly across from him. He didn't

acknowledge my presence. While months of working for him had led me to expect as much, it was still unsettling.

I was his designated right hand, and almost nothing and no one got to him without going through me first. That's what made this call so interesting. It wasn't on his calendar.

Whomever he was talking with, the conversation had turned him red with rage. I had already learned the hard way not to interrupt him during moments like this with a nudge to take a breath. If I did, his wrath would quickly direct itself at me.

As he hung up, his eyes met mine. I knew I had a split second to say something, or he'd start yelling at me for having to take this unscheduled call.

"What was that all about?" I asked.

"They needed to be put in their place," he said.

I didn't know who had been on the other end of the phone, but the pitch of his anger led me to believe it was someone unfamiliar with him. The people who worked for this CEO knew it was easier not to tell him anything that might upset him. This included bad news, ideas that clashed with his beliefs, and of course a nudge to stop when he was making a situation worse.

It would be one of the last calls he ever took in his office. This ordinary moment changed everything.

It turned out, the person on the other end of that phone call was desperately trying to report a problem with serious consequences for the organization. When their concern was met with wrath that day, they decided to take their concerns to the board. Not long afterward, the CEO was fired.

While part of me wants to tell you it was directly be-

cause of his behavior, we both know that wouldn't be true. He was fired for not acting on the very information the person on the other end of the phone was trying to tell him, because his ego wouldn't allow for it. If he had been thinking clearly, he might still have his job.*

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* Some details of this story have been changed to protect the identity of the person involved. The general trajectory remains true.

CHAPTER 1.1

Thinking Badly—or Not Thinking at All?

RATIONALITY IS WASTED IF YOU DON'T KNOW *WHEN* TO use it.

When you ask people about improving thinking, they typically point toward numerous tools designed to help people think more rationally. Bookstores are full of books that assume the problem is our ability to reason. They list the steps we should take and the tools we should use to exercise better judgment. If you know you should be thinking, these can be helpful.

What I've learned from watching real people in action is that, just like the angry CEO, they're often unaware circumstances are thinking for them. It's as if we expect the inner voice in our head to say, "STOP! THIS IS A MOMENT WHEN YOU NEED TO THINK!"

And because we don't know we should be thinking, we cede control to our impulses.

In the space between stimulus and response, one of two things can happen. You can consciously pause and apply rea-

son to the situation. Or you can cede control and execute a default behavior.

The problem is, our default behavior often makes things worse.

When someone slights us, we lash out with angry words.

When someone cuts us off, we assume malice on their part.

When things go slower than we want, we become frustrated and impatient.

When someone is passive-aggressive, we take the bait and escalate.

In these moments of reaction, we don't realize that our brains have been hijacked by our biology, and that the outcome will go against what we seek. We don't realize that hoarding information to gain an advantage is hurting the team. We don't realize we're conforming to the group's ideas when we should be thinking for ourselves. We don't realize our emotions are making us react in ways that create problems downstream.

So our first step in improving our outcomes is to train ourselves to identify the moments when judgment is called for in the first place, and pause to create space to think clearly. This training takes a lot of time and effort, because it involves counterbalancing our hardwired biological defaults evolved over many centuries. But mastery over the ordinary moments that make the future easier or harder is not only possible, it's the critical ingredient to success and achieving your long-term goals.

The High Cost of Losing Control

Reacting without reasoning makes every situation worse.

Consider a common scenario that I've seen countless times. A coworker slights a project you're leading in a meeting. In-

stinctively you hit back with a comment that undermines them or their work. You didn't make a conscious choice to respond, you just did. Before you even know what's happening, the damage is done. Not only does the relationship suffer but the meeting goes sideways.

Too much energy is then consumed getting you back to where you were. The relationship needs to be repaired. The derailed meeting needs to be rescheduled. You might need to talk to the other people in the meeting to clear the air. And even after all of this, you might still be worse off than you were before. Every witness and every person they talked to about what happened received an unconscious signal that eroded their trust in you. Rebuilding that trust takes months of consistent behavior.

All the time and energy you spend fixing your unforced errors comes at the expense of moving toward the outcomes you want. There is a huge advantage in having more of your energy instead go toward achieving your goals instead of fixing your problems. The person who learns how to think clearly ultimately applies more of their overall effort toward the outcomes they want than the person who doesn't.

You have little hope of thinking clearly, though, if you can't manage your defaults.

Biological Instincts

There's nothing stronger than biological instincts. They control us often without us even knowing. Failing to come to terms with them only makes you more susceptible to their influence.

If you're having trouble understanding why you sometimes react to situations in the worst possible way, the problem isn't

your mind. Your mind is doing exactly what biology programmed it to do: act quickly and efficiently in response to threats, without wasting valuable time thinking.

If someone breaks into your house, you instinctively stand between them and your kids. If someone approaches you with a menacing expression, you tense up. If you sense your job is at risk, you might unconsciously start hoarding information. Your animal brain believes you can't be fired if you're the only one who knows how to do your job. Biology, not your rational mind, told you what to do.

When our unthinking reactions make situations worse, that little voice in our head starts to beat us up: "What were you thinking, you idiot?" The truth of the matter is, you weren't thinking. You were reacting, exactly like the animal you are. Your mind wasn't in charge. Your biology was.

Our biological tendencies are hardwired within us.* Those tendencies often served our prehistoric ancestors well, but they tend to get in our way today. These timeless behaviors have been described and discussed by philosophers and scientists from Aristotle and the Stoics to Daniel Kahneman and Jonathan Haidt.[1]

For instance, like all animals, **we are naturally prone to defend our territory**.[2] We might not be defending a piece of terrain on the African savanna, but territory isn't just physical, it's also psychological. Our identity is part of our territory too. When someone criticizes our work, status, or how we see ourselves, we instinctively shut down or defend ourselves. When someone challenges our beliefs, we stop listening and go on the attack. No thoughts, just pure animal instinct.

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* Thank you, Peter Kaufman, for the many conversations we've had on this that informed my thinking.

We're naturally wired to organize the world into a hierarchy. We do this to help make sense of the world, maintain our beliefs, and generally feel better. But when someone infringes on our place in the world and our understanding of how it works, we react without thinking. When someone cuts you off on the highway and road rage kicks in, that's your unconscious mind saying, "Who are you to cut me off?" You're reacting to a threat to your inherent sense of hierarchy. On the road we are all equals. We're all supposed to play by the same rules. Cutting someone off violates those rules and implies higher status.* Or consider when you get frustrated with your kids and end an argument with "Because I said so." (Or the office equivalent: "Because I'm the boss.") In these moments you've stopped thinking and regressed to your biological tendencies of reaffirming the hierarchy.

We're self-preserving. Most of us would never intentionally push someone else down to get where we want to go.† The key word here is "intentionally," because intention involves thought. When we're triggered and not thinking, our desire to protect ourselves first takes over. When layoffs loom at a company, otherwise decent people will quickly throw each other under the bus to keep a job. Sure, they wouldn't consciously want to hurt their colleagues, but if it comes down to "them versus me," they will ensure they come out on top. That's biology.

Our biological instincts provide an automatic response without conscious processing. After all, that's what they're for!

Conscious processing takes both time and energy. Evolution favored stimulus-response shortcuts because they're ad-

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* I am pretty sure I first heard this example from Jim Rohn but can't find the specific reference.

† Except, of course, whomever the song "Better Than Revenge" by Taylor Swift was written for.

vantageous for the group: they enhance *group* fitness, *group* survival, and reproduction. As humans continued flourishing in groups, hierarchies developed, creating order out of chaos and giving us all a place. Territory is how we tried to avoid fighting others—you stay out of my territory, I'll stay out of yours. And self-preservation means we choose survival over rules, norms, or customs.

The problem occurs when you zoom in from the aggregate to the individual, from the eons of evolution to the present moment of decision. In today's world, basic survival is no longer in question. The very tendencies that once served us now often act as an anchor holding us in place, weakening our position, and making things harder than they need to be.

Knowing Your Defaults

While there are many such instincts, four stand out to me as the most prominent, the most distinctive, and the most dangerous. These behaviors represent something akin to our brain's default or factory settings.[3] They're behavioral programs written into our DNA by natural selection that our brains will automatically execute when triggered unless we stop and take the time to think. They have many names, but for the purposes of this book, let's call them *the emotion default*, *the ego default*, *the social default*, and *the inertia default*.

Here's how each essentially functions:

1. The emotion default: we tend to respond to feelings rather than reasons and facts.
2. The ego default: we tend to react to anything that threatens our sense of self-worth or our position in a group hierarchy.

3. The social default: we tend to conform to the norms of our larger social group.
4. The inertia default: we're habit forming and comfort seeking. We tend to resist change, and to prefer ideas, processes, and environments that are familiar.

There are no hard edges between defaults; they often bleed into one another. Each on their own is enough to cause unforced errors, but when they act together, things quickly go from bad to worse.

People who master their defaults get the best real-world results. It's not that they don't have a temper or an ego, they just know how to control both rather than be controlled by them. With the ability to think clearly in ordinary moments today, they consistently put themselves in a good position for tomorrow.

In the following section I'll give an overview of how these defaults manifest in human behavior, and how to recognize when they're at play in your own life. Not only will your own past actions make more sense after taking defaults into account, but you'll also learn to identify when others are reacting to them too.

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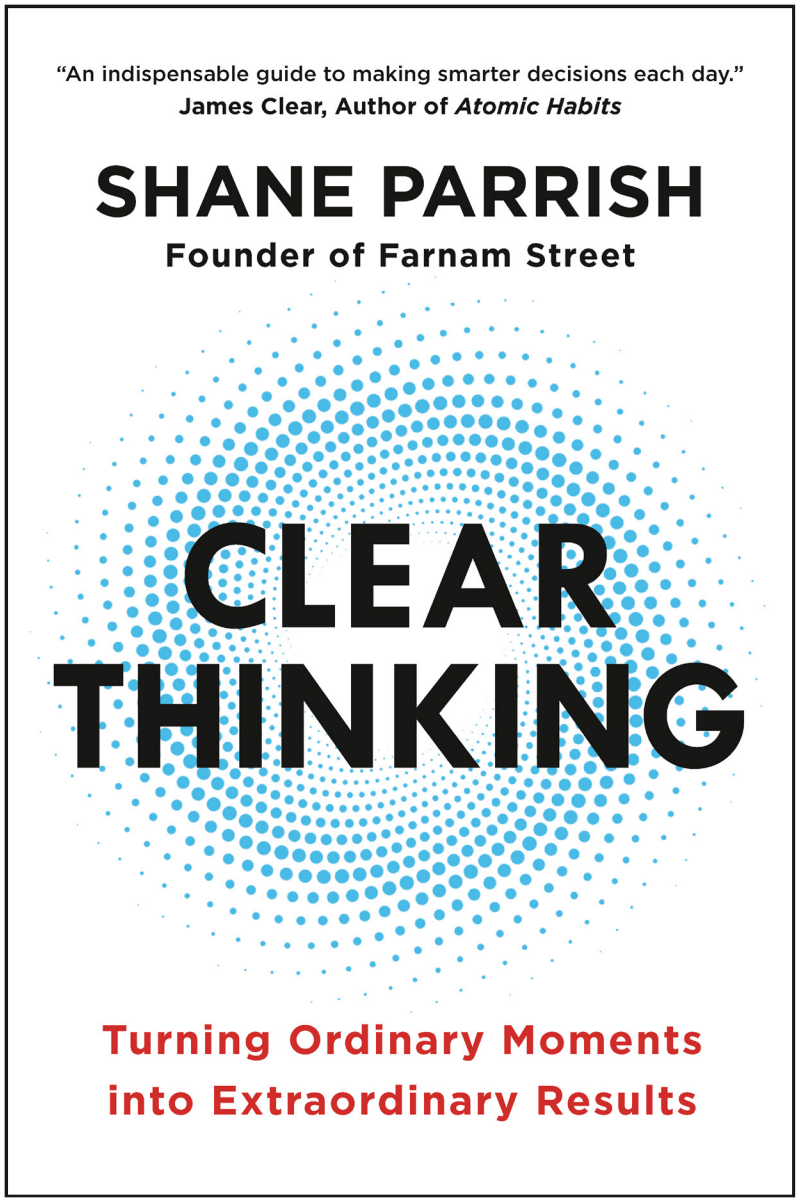

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