

Principles

by Ray Dalio

What follows are three distinct parts that can be read either independently or as a connected whole. Part 1 is about the purpose and importance of having principles in general, having nothing to do with mine. Part 2 explains my most fundamental life principles that apply to everything I do. Part 3, explains my management principles as they are being lived out at Bridgewater. Since my management principles are simply my most fundamental life principles applied to management, reading Part 2 will help you to better understand Part 3, but it's not required—you can go directly to Part 3 to see what my management principles are and how Bridgewater has been run. One day I'd like to write a Part 4 on my investment principles. If you are looking to get the most bang for your buck (i.e., understanding for the effort), I suggest that you read Parts 1 and 2, and the beginning of Part 3 (through the Summary and Table of Principles) which will give you nearly the whole picture. It's only about 55 pages of a normal size book.

Above all else, I want you to think for yourself—to decide 1) what you want, 2) what is true and 3) what to do about it. I want you to do that in a clear-headed thoughtful way, so that you get what you want. I wrote this book to help you do that. I am going to ask only two things of you—1) that you be open-minded and 2) that you honestly answer some questions about what you want, what is true and what you want to do about it. If you do these things, I believe that you will get a lot out of this book. If you can't do these things, you should reflect on why that is, because you probably have discovered one of your greatest impediments to getting what you want out of life.

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Introduction

Principles are concepts that can be applied over and over again in similar circumstances as distinct from narrow answers to specific questions. Every game has principles that successful players master to achieve winning results. So does life. Principles are ways of successfully dealing with the laws of nature or the laws of life. Those who understand more of them and understand them well know how to interact with the world more effectively than those who know fewer of them or know them less well. Different principles apply to different aspects of life—e.g., there are “skiing principles” for skiing, “parenting principles” for parenting, “management principles” for managing, “investment principles” for investing, etc—and there are over-arching “life principles” that influence our approaches to all things. And, of course, different people subscribe to different principles that they believe work best.

I am confident that whatever success Bridgewater and I have had has resulted from our operating by certain principles. Creating a great culture, finding the right people, managing them to do great things and solving problems creatively and systematically are challenges faced by all organizations. What differentiates them is how they approach these challenges. The principles laid out in the pages that follow convey our unique ways of doing these things, which are the reasons for our unique results. Bridgewater’s success has resulted from talented people operating by the principles set out here, and it will continue if these or other talented people continue to operate by them. Like getting fit, virtually anyone can do it if they are willing to do what it takes.

What is written here is just my understanding of what it takes: my most fundamental life principles, my approach to getting what I want, and my “management principles,” which are based on those foundations. Taken together, these principles are meant to paint a picture of a process for the systematic pursuit of truth and excellence and for the rewards that accompany this pursuit. I put them in writing for people to consider in order to help Bridgewater and the people I care about most.

Until recently, I didn’t write out these principles because I felt that it was presumptuous for me to tell others what would work best for them. But over time, I saw the people who I cared about most struggling with problems and wanted to help them; I also found that their problems were almost always the result of violating one or more of these principles, and that their problems could be solved by applying these principles. So I began writing down the types of problems and the broken principles that caused them. When I began, I didn’t know how many principles I would end up with but, through this process, I discovered that about 200 principles pretty much cover all the problems.¹ I’m sure that I will come up with more as I learn more.

When I say that these are my principles, I don’t mean that in a possessive or egotistical way. I just mean that they are explanations of what I personally believe. I believe that the people I work with and care about must think for themselves. I set these principles out and explained the logic behind them so that we can together explore their merits and stress test them. While I am confident that these principles work well because I have thought hard about them, they have worked well for me for many years, and they have stood up to the scrutiny of the hundreds of smart, skeptical people, I also believe that nothing is certain. I believe that the best we can hope for is highly probable. By putting them out there and stress testing them, the probabilities of their being right will increase.

¹ Since I learned these principles by encountering reality and reflecting on my encounters, and I am still doing these things, I expect there are more principles to come. So I am still creating this document by throwing various thoughts down when they occur to me, trying to put them in some sensible order and trying to smooth over the bumps. Organizing these principles into a sensible order is a challenge since they relate to each other more like a matrix than as a sequence. To help guide you, I’ve tried to organize them around large themes like building a great culture, managing people well, and creative problem-solving. I will continue these things, so this is an evolving document.

I also believe that those principles that are most valuable to each of us come from our own encounters with reality and our reflections on these encounters – not from being taught and simply accepting someone else's principles. So, I put these out there for you to reflect on when you are encountering your realities, and not for you to blindly follow. What I hope for most is that you and others will carefully consider them and try operating by them as part of your process for discovering what works best for you. Through this exploration, and with their increased usage, not only will they be understood, but they will evolve from "Ray's principles" to "our principles," and Ray will fade out of the picture in much the same way as memories of one's ski or tennis instructor fade and people only pay attention to what works.² So, when digesting each principle, please...

...ask yourself: "Is it true?"

Before I discuss the management principles themselves, it's important for me to articulate my own most fundamental life principles because my management principles are an extension of them.

In Part 1, I explain what I mean by principles, why I believe they are important, and how they are essential for getting what you want out of life.

Part 2 explains my most fundamental life principles. I describe what I believe are the best ways of interacting with reality to learn what it's like, and how to most effectively deal with it to get what you want. I also discuss what I believe are the most common traps that people fall into that prevent them from getting what they want, and how people's lives can be radically better by avoiding them. I wrote this so you can better understand why my other principles are what they are, though you don't need to read this part to understand the others.

Part 3 is about my management principles. As I have run Bridgewater for more than 35 years, it explains Bridgewater's approach up till now. It begins at the big-picture, conceptual level, with an explanation of why I believe that any company's results are primarily determined by its people and its culture. It then drills down into what I believe are the important principles behind creating a great culture, hiring the right people, managing them to achieve excellence, solving problems systematically and making good decisions.

There are of course lots of other types of principles. For example, I hope to one day write about my investment principles. However, management principles are now what we need most, so here are the ones that I think make sense and have worked for me.

² While this particular document will always express just what I believe, others will certainly have their own principles, and possibly even their own principles documents, and future managers of Bridgewater will work in their own ways to determine what principles Bridgewater will operate by. At most, this will remain as one reference of principles for people to consider when they are deciding what's important and how to behave.

Part 1: The Importance of Principles

I believe that having principles that work is essential for getting what we want out of life. I also believe that to understand each other we have to understand each other's principles.³ That is why I believe we need to talk about them.

We will begin by examining the following questions:

What are principles?

Why are principles important?

Where do principles come from?

Do you have principles that you live your life by? What are they?

How well do you think they will work, and why?

Answer all questions with complete honesty, without worrying what I or others might think. That honesty will allow you to be comfortable living with your own principles, and to judge yourself by how consistently you operate by them. If you don't have many well-thought-out principles, don't worry. We will get there together, if we remain open-minded.

1) What are principles?

Your values are what you consider important, literally what you "value." Principles are what allow you to live a life consistent with those values. Principles connect your values to your actions; they are beacons that guide your actions, and help you successfully deal with the laws of reality. It is to your principles that you turn when you face hard choices.

2) Why are principles important?

All successful people operate by principles that help them be successful. Without principles, you would be forced to react to circumstances that come at you without considering what you value most and how to make choices to get what you want. This would prevent you from making the most of your life. While operating without principles is bad for individuals, it is even worse for groups of individuals (such as companies) because it leads to people randomly bumping into each other without understanding their own values and how to behave in order to be consistent with those values.

3) Where do principles come from?

Sometimes we forge our own principles and sometimes we accept others' principles, or holistic packages of principles, such as religion and legal systems. While it isn't necessarily a bad thing to use others' principles—it's difficult to come up with your own, and often much wisdom has gone into those already created—**adopting pre-packaged principles without much thought exposes you to the risk of inconsistency with your true values.** Holding incompatible principles can lead to conflict between values and actions—like the hypocrite who has claims to be of a religion yet behaves counter to its teachings. Your principles need to reflect values you really believe in.

³I wish everyone wrote down their principles. I wish I could read and compare the principles of all the people I'm interested in—Steve Jobs, Albert Einstein, people running for political office, people I share my life with, etc. I'd love to know what they value most and what principles they use to get what they want. Imagine how great that would be—e.g. imagine how much valuable fundamental thinking could be harnessed. I hope that my doing this will encourage others to do the same.

4) Do you have principles that you live your life by? What are they?

Your principles will determine your standards of behavior. When you enter into relationships with other people, your and their principles will determine how you interact. People who have shared values and principles get along. People who don't will suffer through constant misunderstandings and conflict with one another. Too often in relationships, people's principles are unclear. Think about the people with whom you are closest. Are their values aligned with yours?

What do you value most deeply?

5) How well do you think they will work, and why?

Those principles that are most valuable come from our own experiences and our reflections on those experiences. Every time we face hard choices, we refine our principles by asking ourselves difficult questions. For example, when our representatives in Washington are investigating whether various segments of society are behaving ethically, they are simultaneously grappling with questions such as, "Should the government punish people for bad ethics, or should it just write and enforce the laws?" Questions of this kind—in this case, about the nature of government—prompt thoughtful assessments of alternative approaches. These assessments in turn lead to principles that can be applied to similar occasions in the future. As another example, "I won't steal" can be a principle to which you refer when the choice of whether or not to steal arises. But to be most effective, each principle must be consistent with your values, and this consistency demands that you ask: Why? Is the reason you won't steal because you feel empathy for your potential victim? Is it because you fear getting caught? By asking such questions, we refine our understanding, and the development of our principles becomes better aligned with our core values. To be successful, you must make correct, tough choices. You must be able to "cut off a leg to save a life," both on an individual level and, if you lead people, on a group level. And to be a great leader, it is important to remember that you will have to make these choices by understanding and caring for your people, not by following them.

You have to answer these questions for yourself. What I hope for most is that you will carefully consider the principles we will be exploring in this document and try operating by them, as part of the process of discovering what works best for you. In time, the answers to these questions will evolve from "Ray's principles" to "my principles," and "Ray" will fade from the picture in much the same way as memories of your ski instructor or basketball coach fade after you have mastered the sport.

So, as I believe that adopting pre-packaged principles without much thought is risky, I am asking you to join me in thoughtfully discussing the principles that guide how we act. When considering each principle, please ask yourself, "**Is it true?**" While this particular document will always express just what I believe, other people will certainly have their own principles, and possibly even their own principles documents, and future managers of Bridgewater will work in their own ways to determine what principles Bridgewater will operate by. At most, this will remain as one reference of principles for people to consider when they are deciding what's important and how to behave.

Part 2: My Most Fundamental Life Principles

Time is like a river that will take you forward into encounters with reality that will require you to make decisions. You can't stop the movement down this river, and you can't avoid the encounters. You can only approach these encounters in the best way possible.

That is what this part is all about.

Where I'm Coming From

Since we are all products of our genes and our environments and approach the world with biases, I think it is relevant for me to tell you a bit of my background so that you can know where I'm coming from.

I grew up in a middle-class neighborhood on Long Island, the only son of a jazz musician and a stay-at-home mom. I was a very ordinary kid, and a less-than-ordinary student. I liked playing with my friends—for example, touch football in the street—and I didn't like the school part of school, partly because I had, and still have, a bad rote memory⁴ and partly because I couldn't get excited about forcing myself to remember what others wanted me to remember without understanding what all this work was going to get me. In order to be motivated, I needed to work for what I wanted, not for what other people wanted me to do. And in order to be successful, I needed to figure out for myself how to get what I wanted, not remember the facts I was being told to remember.

One thing I wanted was spending money. So I had a newspaper route, I mowed lawns, I shoveled the snow off driveways, I washed dishes in a restaurant, and, starting when I was 12 years old, I caddied.

It was the 1960s. At the time the stock market was booming and everyone was talking about it, especially the people I caddied for. So I started to invest. The first stock I bought was a company called Northeast Airlines, and the only reason I bought it was that it was the only company I had heard of that was trading for less than \$5 per share, so I could buy more shares, which I figured was a good thing. It went up a lot. It was about to go broke but another company acquired it, so it tripled. I made money because I was lucky, though I didn't see it that way then. I figured that this game was easy. After all, with thousands of companies listed in the newspaper, how difficult could it be to find at least one that would go up? By comparison to my other jobs, this way of making money seemed much more fun, a lot easier, and much more lucrative. Of course, it didn't take me long to lose money in the markets and learn about how difficult it is to be right and the costs of being wrong.

So what I really wanted to do now was beat the market. I just had to figure out how to do it.

The pursuit of this goal taught me:

- 1) It isn't easy for me to be confident that my opinions are right.** In the markets, you can do a huge amount of work and still be wrong.

⁴ Rote memory is memory for things that don't have an intrinsic logic for being what they are, like a random series of numbers, words in a foreign language and people's names (all of which I have trouble with). On the other hand, I have a great memory for things that make sense in a context. For example, I can tell you what happened in every year in the economy and markets since the mid-1960s and how many things work.

- 2) **Bad opinions can be very costly.** Most people come up with opinions and there's no cost to them. Not so in the market. This is why I have learned to be cautious. No matter how hard I work, I really can't be sure.
- 3) **The consensus is often wrong, so I have to be an independent thinker.** To make any money, you have to be right when they're wrong.

So ...

- ...1) **I worked for what I wanted, not for what others wanted me to do.** For that reason, I never felt that I had to do anything. All the work I ever did was just what I needed to do to get what I wanted. Since I always had the prerogative to not strive for what I wanted, I never felt forced to do anything.
- ...2) **I came up with the best independent opinions I could muster to get what I wanted.** For example, when I wanted to make money in the markets, I knew that I had to learn about companies to assess the attractiveness of their stocks. At the time, Fortune magazine had a little tear-out coupon that you could mail in to get the annual reports of any companies on the Fortune 500, for free. So I ordered all the annual reports and worked my way through the most interesting ones and formed opinions⁵ about which companies were exciting.
- ...3) **I stress-tested my opinions by having the smartest people I could find challenge them so I could find out where I was wrong.**⁶ I never cared much about others' conclusions—only for the reasoning that led to these conclusions. That reasoning had to make sense to me. Through this process, I improved my chances of being right, and I learned a lot from a lot of great people.
- ...4) **I remained wary about being overconfident, and I figured out how to effectively deal with my not knowing.** I dealt with my not knowing by either continuing to gather information until I reached the point that I could be confident or by eliminating my exposure to the risks of not knowing.⁷
- ...5) **I wrestled with my realities, reflected on the consequences of my decisions, and learned and improved from this process.**

By doing these things, I learned how important and how liberating it is to think for myself.

In a nutshell, this is the whole approach that I believe will work best for you—the best summary of what I want the people who are working with me to do in order to accomplish great things. **I want you to work for yourself, to come up with independent opinions, to stress-test them, to be wary about being overconfident, and to reflect on the consequences of your decisions and constantly improve.**

After I graduated from high school, I went to a local college that I barely got in to. I loved it, unlike high school, because I could learn about things that interested me; I studied because I enjoyed it, not because I had to.

⁵ The way I learn is to immerse myself in something, which prompts questions, which I answer, prompting more questions, until I reach a conclusion.

⁶ This included my retail stockbroker, the people I was caddying for, even my local barber, who was equally engrossed in the stock market. (It wasn't as precocious as it sounds. At the time, instead of talking about the Yankees, everyone was talking about stocks. That was the world I grew up in.)

⁷ Sometimes when I know that I don't know which way the coin is going to flip, I try to position myself so that it won't have an impact on me either way. In other words, I don't make an inadvertent bet. I try to limit my bets to the limited number of things I am confident in.

At that time the Beatles had made a trip to India to learn how to meditate, which triggered my interest, so I learned how to meditate. It helped me think more clearly and creatively, so I'm sure that enhanced my enjoyment of, and success at, learning.⁸ Unlike in high school, in college I did very well.

And of course I continued to trade markets. Around this time I became interested in trading commodities futures, though virtually nobody traded them back then. I was attracted to trading them just because they had low margin requirements so I figured I could make more money by being right (which I planned to be).

By the time I graduated college, in 1971, I had been admitted to Harvard Business School, where I would go in the fall. That summer between college and HBS I clerked on the floor of the New York Stock Exchange. This was the summer of the breakdown of the global monetary system (i.e., the Bretton Woods system). It was one of the most dramatic economic events ever and I was at the epicenter of it, so it thrilled me. It was a currency crisis that drove all market behaviors, so I delved into understanding the currency markets. The currency markets would be important to me for the rest of my life.

That fall I went to Harvard Business School, which I was excited about because I felt that I had climbed to the top and would be with the best of the best. Despite these high expectations, the place was even better than I expected because the case study method allowed open-ended figuring things out and debating with others to get at the best answers, rather than memorizing facts. I loved the work-hard, play-hard environment.

In the summer between my two years at HBS, I pursued my interest in trading commodities futures by convincing the Director of Commodities for Merrill Lynch to give me a job as his assistant. At the time, commodities trading was still an obscure thing to do.

In the fall I went back to HBS, and in that academic year, 1972-73, trading commodities futures became a hot thing to do. That is because the monetary system's breakdown that occurred in 1971 led to an inflationary surge that sent commodity prices higher. As a result of this, the first oil shock occurred in 1973. As inflation started to surge, the Federal Reserve tightened monetary policy to fight it, so stocks went down in the worst bear market since the Great Depression. So, commodities futures trading was hot and stock market investing was not. Naturally, brokerage houses that didn't have commodities trading departments wanted them, and there was a shortage of people who knew anything about it. Virtually nobody in the commodities futures business had the type of Harvard Business School background that I had. So I was hired as Director of Commodities at a moderate-size brokerage and given an old salt who had lots of commodities brokerage experience to help me set up a commodities division. The bad stock market environment ended up taking this brokerage house down before we could get the commodities futures trading going. I went to a bigger, more successful brokerage, where I was in charge of its institutional/hedging business. But I didn't fit into the organization well, so I was fired essentially for insubordination.

So in 1975, after a quick two-year stint on Wall Street after school, I started Bridgewater. Soon after, I got married and began my family.

Through this time and till now I followed the same basic approach I used as a 12-year-old caddie trying to beat the market, i.e., by **1) working for what I wanted, not for what others wanted me to do; 2) coming up with the best independent opinions I could muster to move toward my goals; 3) stress-testing my opinions by having the smartest people I could find challenge them so I could find out where I was wrong; 4) being wary about overconfidence, and good at not knowing; and 5) wrestling with reality, experiencing the results of my decisions, and reflecting on what I did to produce them so that I could improve.**

⁸ By the way, I still meditate and I still find it helpful.

Since I started Bridgewater, I have gained a lot more experience that taught me a lot more, mostly by making mistakes and learning from them. Most importantly:

I learned that failure is by and large due to not accepting and successfully dealing with the realities of life, and that achieving success is simply a matter of accepting and successfully dealing with all my realities.

I learned that finding out what is true, regardless of what that is, including all the stuff most people think is bad—like mistakes and personal weaknesses—is good because I can then deal with these things so that they don't stand in my way.

I learned that there is nothing to fear from truth. While some truths can be scary—for example, finding out that you have a deadly disease—knowing them allows us to deal with them better. Being truthful, and letting others be completely truthful, allows me and others to fully explore our thoughts and exposes us to the feedback that is essential for our learning.

I learned that being truthful was an extension of my freedom to be me. I believe that people who are one way on the inside and believe that they need to be another way outside to please others become conflicted and often lose touch with what they really think and feel. It's difficult for them to be happy and almost impossible for them to be at their best. I know that's true for me.

I learned that I want the people I deal with to say what they really believe and to listen to what others say in reply, in order to find out what is true. I learned that one of the greatest sources of problems in our society arises from people having loads of wrong theories in their heads—often theories that are critical of others—that they won't test by speaking to the relevant people about them. Instead, they talk behind people's backs, which leads to pervasive misinformation. I learned to hate this because I could see that making judgments about people so that they are tried and sentenced in your head, without asking them for their perspective, is both unethical and unproductive.⁹ So I learned to love real integrity (saying the same things as one believes)¹⁰ and to despise the lack of it.¹¹

I learned that everyone makes mistakes and has weaknesses and that one of the most important things that differentiates people is their approach to handling them. I learned that there is an incredible beauty to mistakes, because embedded in each mistake is a puzzle, and a gem that I could get if I solved it, i.e., a principle that I could use to reduce my mistakes in the future. I learned that each mistake was probably a reflection of something that I was (or others were) doing wrong, so if I could figure out what that was, I could learn how to be more effective. I learned that wrestling with my problems, mistakes, and weaknesses was the training that strengthened me. Also, I learned that it was the pain of this wrestling that made me and those around me appreciate our successes.¹²

⁹ It is unethical because a basic principle of justice is that everyone has the right to face his accuser. And it is unproductive because it does not lead to the exploration of "Is it true?" which can lead to understanding and improvement.

¹⁰ I do not mean that you should say everything you think, just that what you do say matches your thoughts.

¹¹ The word "integrity" is from the Latin root "integer," which means "one" i.e., that you are the same inside and out. Most people would be insulted if you told them that they don't have integrity—but how many people do you know who tell people what they really think?

¹² I believe that our society's "mistakephobia" is crippling, a problem that begins in most elementary schools, where we learn to learn what we are taught rather than to form our own goals and to figure out how to achieve them. We are fed with facts and tested and those who make the fewest mistakes are considered to be the smart ones, so we learn that it is embarrassing to not know and to make mistakes. Our education system spends virtually no time on how to learn from mistakes, yet this is critical to real learning. As a result, school typically doesn't prepare young people for real life—unless their lives are spent following instructions and pleasing others. In my opinion, that's why so many students who succeed in school fail in life.

I learned that the popular picture of success—which is like a glossy photo of an ideal man or woman out of a Ralph Lauren catalog, with a bio attached listing all of their accomplishments like going to the best prep schools and an Ivy League college, and getting all the answers right on tests—is an inaccurate picture of the typical successful person. I met a number of great people and learned that none of them were born great—they all made lots of mistakes and had lots weaknesses—and that great people become great by looking at their mistakes and weaknesses and figuring out how to get around them. So I learned that the people who make the most of the process of encountering reality, especially the painful obstacles, learn the most and get what they want faster than people who do not. I learned that they are the great ones—the ones I wanted to have around me.

In short, I learned that being totally truthful, especially about mistakes and weaknesses, led to a rapid rate of improvement and movement toward what I wanted.

While this approach worked great for me, I found it more opposite than similar to most others' approaches, which has produced communications challenges. Specifically, I found that:

While most others seem to believe that learning what we are taught is the path to success, I believe that figuring out for yourself what you want and how to get it is a better path.¹³

While most others seem to believe that having answers is better than having questions, I believe that having questions is better than having answers because it leads to more learning.¹⁴

While most others seem to believe that mistakes are bad things, I believe mistakes are good things because I believe that most learning comes via making mistakes and reflecting on them.

While most others seem to believe that finding out about one's weaknesses is a bad thing, I believe that it is a good thing because it is the first step toward finding out what to do about them and not letting them stand in your way.

While most others seem to believe that pain is bad, I believe that pain is required to become stronger.¹⁵

One of the advantages of my being over 60 years old—and there aren't many—is that we can look back on my story to see how I came by these beliefs and how they have worked for me. It is now more than 35 years after I started Bridgewater and about the same number of years since I got married and began my family. I am obviously not your Ralph Lauren poster child for success, yet I've had a lot of successes, though they're probably not what you're thinking.

Yes, I started Bridgewater from scratch, and now it's a uniquely successful company and I am on the Forbes 400 list. But these results were never my goals—they were just residual outcomes—so my getting them can't be indications of my success. And, quite frankly, I never found them very rewarding.¹⁶

¹³ After all, isn't the point of learning to help you get what you want? So don't you have to start with what you want and figure out what you have to learn in order to get it?

¹⁴ In fact I believe that most people who are quick to come up with answers simply haven't thought about all the ways that they can be wrong.

¹⁵ I don't mean that the more pain the better. I believe that too much pain can break someone and that the absence of pain typically prevents growth so that one should accept the amount of pain that is consistent with achieving one's objectives.

¹⁶ I have been very lucky because I have had the opportunity to see what it's like to have little or no money and what it's like to have a lot of it. I'm lucky because people make such a big deal of it and, if I didn't experience both, I wouldn't be able to know how important it really is for me. I can't comment on what having a lot of money means to others, but I do know that for me, having a lot more money isn't a lot better than having enough to cover the basics. That's because, for me, the best things in life—meaningful work, meaningful relationships, interesting experiences, good food, sleep, music, ideas, sex, and other basic needs and pleasures—are not, past a certain point, materially improved upon by having a lot of money. For me, money has always been very important to