

## Lecture 31

### Confirmation Bias

Confirmation bias states that we search for information (or interpret information in a way) to confirm our beliefs. Humans have pre-existing beliefs and they sometimes trick themselves that they were led to those beliefs through research on analysis of information while in fact they specifically looked for information to confirm that belief.

An example of confirmation bias would be someone going online to Google why is milk bad for you. You will obviously find reasons why milk is bad if that is what you are looking for. The right thing to do would be to look for information that would disqualify your hypothesis and analyze that.

#### How it affects our trading:

One of the biggest biases for traders. Traders tend to have a belief about the direction of a stock and then look for reasons to take that position. The problem in trading is that there will always be reasons to be long, short or flat. So if you are looking for a reason you will find many. Mostly this happens when a trader has a position. When a trader has a position that is the biggest reason for the trader to want/to believe that the stock is going his way. Because of this the trader goes to try to find reasons why it should do that. The right approach would be to look for reasons why it won't go that way and evaluate that.

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