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Better than to be roughly right than to be precisely wrong.

Social sciences:

* Unnecessary unproductive math
* Attempted false precision
* Overweigh anything that can be measured
* Social science is not a science.

Common mode failure

* When everything fails to work

Math

* Too complex
* Useless
* Not informative

Value at risk

* Past cannot predict the future

Bias confluence effects:

Consistency: people don’t want to change the conclusions they have reached before. They tend to disregard new evidence. (self-confirmation bias). What you do will affect what you think, pounding in what you believe. (Refrain from discussing with others on investments)

Consensus: people want to act in accordance with others (stay away from the crowd when you invest)

Pavlovian Association: misconstruing past correlation as a reliable basis for future decision makings. When you raise the price it will sell better because ordinarily there is a correlation between price and value. (Why Berkshire Hathaway doesn't do share split)

Social proof: People look at what others do instead of doing the correct thing. They are pressured into doing what others are doing.

(People associate shirt with professionals) The association is deeply rooted within their minds.

Why markets are inefficient and have boom/bust cycles:

1. Social proof (markets going up is a proof of correctness)
2. Reinforcement. If you are rewarded when markets are going up, rewarded and applauded.

Contrast Bias:

People have a relative scale in their mind instead of an absolute scale.

By bringing you to the most expensive house first then a less expensive one, the salesman is taking advantage of the contrast bias.

Ask for a lot then back off: market drops a lot, then once it recovers a little bit you will sell. This encourages short term investing.

**Influence by authority:**

Authority disproportionately influences decision making process. Solution: stay away from so-called authority figures and make decisions independently.

People don’t react symmetrically to loss and gain.

**Envy:**

It’s not greed that drives the world it is envy.

When your neighbor makes money from speculation in the markets, your wife will be jealous.

**Bias from liking distortion:**

Tendency to be misled by people liked

**Man with a hammer syndrome:**

People overuse mathematics in investment/economics because they have been doing mathematics all their life. Every profession is a conspiracy against laity. People tell you what is good for them.

**Availability Bias:**

Overweighing readily available information, the more vivid the thought, the more it will impact thinking.

People overweigh recent news. If markets are bullish recently, they tend to continue buy and vice versa. With consistency bias where people are rewarded with gains and envy of others who have made money speculating + social proof (who and who made money), you get overbuying behavior. You stay away from others when making investment decisions.

Stress induced mental changes

* People cannot function properly under stress
* Take lighter position

Say something syndrome:

* People have the need to talk even if they have nothing to talk about.

Tupperware parties

Miligrim biases involved:

1. Authority (the purpose is for scientific research)
2. Consistency bias: work people up from small to big. Apply small voltages to victims first then gradually increase
3. Commitment bias: once people have started doing something it is hard to reverse.

Open outcry bids:

1. Deprival overreaction tendency. Almost losing something
2. Social proof
3. Commitment bias

Pesando:

People respond to incentives.

Influence people:

1. Reciprocity
2. Commitment and consistency

Five W’s

1. Always explain why you are doing something

Things to learn

1. Never disclose investment details as it induces commitment bias (if you tell people you hold it, you will pound in your thoughts even further)
2. Do what’s important and hard first
3. Always ask why. (Karl Braun)
4. Use of post mortem at Johnson & Johnson, analyze what you did.
5. Pay attention to disconfirming evidence (Darwin)
6. Scarcity (for limited time only)
7. Liking – Tupperware parties – people more likely to buy if they liked the salesperson
8. Authority: people obey authorities.
9. Social proof. People followed others (this causes stock market fluctuations)
10. Manipulation even works while you know it.
11. Small gifts go a long way.
12. Why people buy at the top: they are afraid of missing out more than losing money. When markets go down, people lose money together and that feels better than missing out and others are getting rich (getting left behind) (When investing becomes social, it is bound to fail). (Stay away from the crowd when you invest and refrain from discussing it)
13. Do something syndrome: people have the tendency to do stuff, even if the best thing to do is to do nothing.

Reason for stock market greed:

1. Envy (my neighbor is getting rich)
2. Social proof – others are doing it so I must be doing it
3. Commitment bias – rewarded temporarily for the behavior, continue. Position gets bigger and bigger

How to manipulate situations

1. Reciprocation, give before you take
2. Association bias: that's why Winston wears suits to appeal to people’s trust of suited men. (people shoot the messenger because they associate the bad news with the messenger, they like the messengers who bring good news. Coca cola wants to be associated with happiness and joy.
3. People tend to underestimate risk and overestimate the glory, appeal to successful outcomes
4. Recency bias: people’s memories of the most recent events are the most vivid. That’s why markets overcorrect in the short run.