

How to Make Good Decisions With Probabilistic Thinking

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I'm always interested in learning how to make good decisions. After all, optimizing our lives has a lot to do with the quality of our decisions. The better decisions we make, the more likely we are to reach our full potential.

In that regard, I recently read [Thinking in Bets](#) by Annie Duke. I was interested in the book because I have noticed that many leaders use “thinking in bets” when making decisions. A clear example is Bill Gates. This is what I wrote in [A Key Factor to Living Life to the Fullest](#):

I learned about this “making bets” concept from watching a 2007 interview with Bill Gates and Steve Jobs. In the interview, Gates repeatedly used the term “our bet,” “we bet,” and the like to explain the history of Microsoft.

For instance, Bill Gates and Paul Allen started Microsoft based on a bet that the microcomputer would become huge. They also bet that software would become a key part of the upcoming microcomputer revolution. That's why they named their new company Microsoft.

While they may use different terms, I have found that many leaders have a similar way of thinking. They use *probabilistic thinking* instead of *deterministic thinking*. They realize that there are factors outside of their control.

Here are some lessons on decision making that I learned from the book.

1. Decision quality is different from outcome quality.

We tend to assess the quality of a decision based on the quality of its outcome. If the outcome is good, we assume that the decision is good. If the outcome is bad, we assume that the decision is bad.

This way of thinking, however, is misleading. Why? Because there are two factors that influence an outcome: *decision quality* and *luck*. A good decision with bad luck could give you a bad outcome. On the other hand, a bad decision with good luck could give you a good outcome.

We need to realize that decision quality and outcome quality are *different*.

2. Beware of hindsight bias.

The tendency to equal decision quality with outcome quality is exacerbated by *hindsight bias*. When we see a bad outcome, it becomes “obvious” to us that the decision leading to it was bad. We think that we (or they) should have known it beforehand. We forget that luck plays a role in the outcomes.

Beware of hindsight bias. Always remember that there are factors outside of our control. We couldn’t know how things would play out in advance.

3. Good decisions maximize your probability of getting good outcomes.

If outcome quality isn’t equal to decision quality, then what makes a good decision? Well, a good decision is the one that maximizes your odds of getting a good outcome. While you can’t be *certain*, you can increase the *probability* of getting a good outcome.

To make a good decision, take into account the different factors that you *can* control and make the best possible decision based on them.

4. Think of the possibilities and then the probabilities of each.

There are two steps to make a good decision. First, think about the *possibilities*. Think about the different actions that you could take. Second, think about the *probabilities*. Think about how likely each action leads to a successful outcome. More specifically, think about the expected value of each alternative. The action with the highest expected value is the one that you should take.

5. Think long-term.

Even with good decisions, it's possible that you would get bad results in the short-term. In the long-term, however, there is a good chance that you *will* get the results you want. So don't be dismayed by bad outcomes. Keep making good decisions for the long-term.
