

## Principles Summary

Summary of the book “Life and Work Principles by Ray Dalio” focusing on Life Principles Section.

This contains the summary and important points from principles/chapters one to five from Life Principles.

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### Principle 1. Embrace Reality and Deal with it

It’s really important not to let our biases stand in our way of our objectivity. To get good results we need to be analytical rather than emotional.

Realize that, **Nature optimizes for the whole, not for the individual.** Nature seem to define **good** as what is good for the **whole** & optimizes for it. As compared and opposite to our humane definition of good or bad.

To be “good”, something must **operate consistently** with the laws of reality and contribute to evolution of the whole. That is what is most awarded.

### Adaptation through rapid trial and error is invaluable.

Take viruses for example.

- They can change forms, improve and make new strains.
- Something we experienced really, really well.

### Materialistic things are the baits that evolve us.

Chasing after the things we really like or want (goals and desires) forces us to evolve. **It’s the evolution and not the reward that matters to us and those around us.**

### Pain + Reflection = Progress.

**No Pain, No Gain:** While we don’t like pain. Everything nature made has a purpose. It alerts us and help direct us towards something (maybe meaningful/important). There’s no avoiding pain, especially if you are going after ambitious goals.

### Pain Avoidance

**People deeply hate and avoid pain.** Their basic instinct is to avoid pain, create work around and try to live a pain free life. But understanding that, **if you are not feeling pain, are not sad, aren’t feeling low/depressed that**

**doesn't means that you are happy**, motivated, energetic, mentally stable, or progressing.

People fail to understand this, and take this low-life perspective to live life. Starting at your phone screen is one way to avoid pain, eating a lot is another. But that does not means, you are doing something better or are more productive.

When you are going after big things in life, you can **NEVER** avoid pain. You can try to postpone it and when it you have to deal with later. It comes with the interest. Best way to handle pain would be to tackle it then and there only. And never delay it.

Feel lucky to feel pain as it's a good sign (referring to as mental pain of hardships). Develop a reflexive reaction to psychic pain that causes you to reflect upon it rather than avoid it. Which later on leads to rapid learning and progress.

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## Principle 2. Use the 5 Step Process to Get What You Want Out of Life

The 5 step process to get the most out of anything:

1. Have clear goals.
2. Identify and don't tolerate the problems that stand in the way of you achieving those goals.
3. Accurately diagnose those problems to get at their root cause.
4. Design plans that will get you around them.
5. Do what is necessary to push these designs to results.

*Work -> Fail -> Assess -> Learn -> Try -> Fail (Again) -> Re-Asses -> Get it done!* (Do this on repeat.)

All these 5 steps need to be executed well & in order to be successful.

When setting goals, just set goals. Don't think on how you will achieve them.

When diagnosing problems, just diagnose problems. Focus on the step you are trying to achieve.

**Blurring leads to suboptimal outcomes.**

**One question, that you will face in your life very often.**

Question: **"I don't have all the skills I need to succeed?"** Answer: **"Don't worry about it, because that is true for everyone, and for everything new you want to try."**

You just need to know:

- When those skills are needed.

- Where you can get them. This will allow you to play the game with a calm and unstoppable centeredness in the face of adversity.

### **Push yourself task to completion.**

Great planners who don't execute their plans go nowhere. And when you feel yourself losing sight of your goals, stop and ask yourself "Why?". Lose sight of this why and you will lose sight of your goals.

Everyone has at least one big problem that stands in the way of their success; find yours and deal with it. Therefore, taking steps:

1. Pushing yourself to results.
2. Focus on **key** result areas.
3. Understand that things (actions, plans, road-maps, etc.) and their results of these actions take time. And you can only get there by deliberate practice.

Therefore, **consistency is key**.

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## **Principle 3. Be Radically Open Minded**

Two big factors that halter decision making process.

1. Ego
2. Blind Spots

Understanding the effects of the above two can lead to better decision making.

### **Ego Barrier**

The Subliminal defense mechanism that makes it hard to accept your mistakes and weaknesses.

The Fight between the **Logical You** vs **Emotional You** It's like attack dogs. They want to fight even if their higher level self wants to figure out. This happens to all the people.

Therefore, avoid taking action, or making decision when you are emotional(happy, angry, sad, etc.)

### **Understand the blind spot barriers**

What are blind spots in decision making?

Areas where your way of thinking prevents you from seeing things accurately. As we're guided to see things in our own way, we might miss out on the things which are important but we don't know about them.

The Problem: People don't like to see themselves as having blind spots/weaknesses. (Which is a problem in itself. Understanding Ego Barrier is important here.)

Failure to benefit from others thinking doesn't just occur when disagreements arise. This causes a loop in which you will keep running over and over until you understand and learn.

#### **Adapting to the blind spot barriers:**

1. Teaching your brain how you want to work through discipline and practice.
2. Using compensating mechanisms e.g. programmed reminders.
3. Relying on the help of others who are strong where you are weak.

Aristotle defined tragedy as a terrible outcome arising from a person's fatal flaws. Had it been fixed, would have led to a wonderful outcome.

### **Radical Open-Mindedness**

The ability to effectively explore different points of views and different possibilities without letting your ego barrier or your blind spots come in your way.

1. You might not know what is the best possible outcome for you.
2. Decision making is a two-step process.
  1. Take all the necessary information.
  2. Make decisions.
3. **Don't worry about looking good, worry about achieving your goal.**
4. You cannot put out without taking in.
5. To understand perspective of others, suspend your judgement. Empathize and only then you can properly evaluate another point of view.
6. You are looking for the best answer. Not the best answer you can come up with yourself.

**Always seek which view is right and then proceed with it. Even the experts makes mistakes and it pays to be radically open minded.**

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## **Principle 4. Understand that people are wired very differently.**

Because of the different ways people are wired. We all experience reality in different ways and this becomes the basis of human nature.

People have different:

- Needs

- Goals
- Aspirations
- Friends & Family
- Environment
- Upbringing

The above factors motivates different people to operate differently.

**Understanding people requires radical open mindedness.** The brain battles between logic and emotion. It goes from Amygdala (emotional + subconscious) vs Prefrontal Cortex (logical + conscious) part of the brain. Controlling this fight allows you to get what we want out of the game.

Whenever you can, reconcile your feelings and thinking.

**Most constant struggle is between feeling and thinking.**

Habits allows us to perform. Which makes it the most powerful tool in your brains toolbox. Therefore, prefer to build habits as they automate your daily process e.g. using pain to trigger quality reflections.

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## Principle 5. Learn How to Make Decisions Effectively

### First Order and Second Order Consequences

First order or first consequences are the temptations that we really want or sometimes these are the barriers that stand in our way.

For example exercising, first order outcomes of exercising:

- Pain.
- Muscle soreness.
- Longer recovery time.
- Feeling body pain throughout the day.
- Less energy to do other things.

But once that exercising is done repeatedly for a month or two. The below are the second order consequences of the same exercise:

- Muscle flexibility.
- High energy throughout the day.
- Feeling happy and good mental health.
- Ability to perform other tasks with agility and speed.
- More confidence.

*This is quite opposite to the first order outcomes.* But people overweigh the first order consequences too much and forget the second order consequences. Second

order order consequences provide a contradicting and opposite result to first order consequences.

In general for many people, first order short sighted outcomes are the ones that causes major setbacks. Whereas delayed gratification, comes from thinking and measuring things in the long term.

A lot of extraordinary things in life are due to first order negative and second order positive outcomes. And it also requires a lot of mental training to get used to this thinking process and acting upon it.

Ask yourself, after every stage of decision making, “And then what?”.

First level thinking looks similar. Everyone can do the same, and reach the same conclusion. Road to out think people comes from second order thinking.

## **On improving your ability to think**

1. Ask yourself, “And then what?”
2. Think through time – what do the consequences look like in 10 minutes, 10 hours, 10 days, 10 weeks, 10 months and 10 years?

Nature filters out on the first/second order consequences of things. Giving totally different outcomes to the same task for a long time. And even worst circumstances can be made better with the right approach.

## **Internal Locus of Control**

**“While we are free to chose our actions, we are not free to chose the consequences of our actions”**

Stephen Covey, 7 Habits of Highly Effective People.

Whatever circumstances life brings you. you will be more likely to succeed and find happiness if you take responsibility for making your decisions well instead of complaining about things beyond your control.

We hate to be wrong, because it means that we need to re-asses ourselves, re do our comfortable lives and sometimes it takes an enormous amount of unlearning and re-learning.

### **Questions about second order effects.**

1. What are the most probable consequences of a system change you are considering?
2. What are the consequences of those consequences?
3. What can you do to minimize the probability and cost of unintended consequences?

## **10 Commandments of Super Forecasting:**

1. Focus your time and effort on forecasts that will prove rewarding.

2. Unpack problems to expose assumptions, catch mistakes, and correct biases.
3. Consider the larger category before looking at the particular case.
4. Revise your beliefs often and in small increments to reduce the risk of both over and under reacting to the news.
5. Find merit in opposite viewpoints.
6. Reject the illusions of certainty and learn to think in degrees of uncertainty.
7. Avoid being either a blowhard or a waffler. Aim to be purely decisive.
8. Learn from experience, whether success or failure.
9. Use precision questioning to bring out the best in others and to let others bring out the best in you.
10. Try, fail, analyze, and adjust. And try again.
11. There are no universally correct commandments including these. Question everything.

### **Biggest Threat to decision making is Harmful Emotions**

Decision making needs to be done under clear skies. Where your thinking is not impacted by emotions, or any random circumstances. Rely on logic, reasoning, and common sense if you want to get the best picture of reality. Also, Decision making is a two step process:

1. Learning all the important details.
2. Making decision based on data (learned details.)

Do not make decisions before calculations based on evidence. (That is called assumptions.)

### **Synthesize the situation at hand**

Simplify your decision-making process by removing all of the superfluous information. Synthesize your current situation, i.e., identify the factors that are important to your ongoing decision-making process.

### **Don't believe everything you hear.**

Keep in mind the **rate of change of things** and the **relationship between them**.

**Be Imprecise:** Use the concept of By-and-Large (When everything is considered about a situation or overall)

In the long run, prioritization beats efficiency.

**Be an im-perfectionist:** This in terms of uncertainty as well. Perfectionists tend to spend a lot of time on little differences at the margins on the expense of important things. Therefore, it's very important to see things on a bigger scale as well.

## Everything Looks Bigger Up Close

In all aspects of life what is happening today seems like a much bigger deal than it will appear in retrospect. Understand this, right now things or situations may seem very important but in the long run. It might turn to be just another small thing of the past. **Step back, gain perspective and sometimes defer a decision until time passes.**

## New is Overvalued to Great

It is smarter to choose the great over to the new (or the next big thing.)

## Make your decisions as expected value calculations.

- Think of each decision as a bet with a probability and a reward for being right and a probability and a penalty for being wrong.
- Sometimes it's smart to take a chance even when the odds are overwhelmingly against you if the cost of being wrong is negligible relative to the reward that comes with the slim chance of being right. "It never hurts to ask."
- The best choices are the ones that have more pros than cons, not those that don't have any cons at all.

## Prioritize by weighing the value of additional information against the cost of not deciding.

- All of your must-dos must be done before you do any of your "like-to-dos"
- You won't have time to deal with unimportant things, which is better than not having time to deal with important things.
- **It takes a lot of time to learn and master these principles. And make them a part of your routine.**
- When determining the size or complexity of a new habit ask yourself, "What can I stick to – even on my worst day?" *Master the art of showing up, and then advance.*

## Use Principles

- When Researching strategies, emphasize patterns over stories.
  - One person succeeding means nothing.
  - One hundred people succeeding is a signal.
- Slow down your thinking so you can note the criteria you are using to make your decision.
- Write the criteria down as a principle.
- Think about those criteria when you have an outcome to assess, and refine them before the next "one of those" comes along.