## What is the Dunning-Krueger Effect?

* **Concept Definition:** People with low ability tend to overestimate their ability and people with high ability tend to underestimate their ability. This is sometimes also called [illusory superiority](https://web.archive.org/web/20221118115544/https:/en.wikipedia.org/wiki/Illusory_superiority) which is a special case of the Dunning-Kruger Effect.
* **Concept Founder:**The initial study “Unskilled and Unaware of It: How Difficulties in Recognizing One’s Incompetence Lead to Inflated Self-Assessments“ was publishedby [David Dunning](https://web.archive.org/web/20221118115544/https:/en.wikipedia.org/wiki/David_Dunning) and [Justin Kruger](https://web.archive.org/web/20221118115544/https:/en.wikipedia.org/wiki/Justin_Kruger) in 1999.
* **Concept Benefit:**Discover a more realistic view of your own ability and identify situations where another person over or underestimate their own ability.

## How to demonstrate it?

* Dunning and Kruger performed the following study. Here is the simplified version:
* They gave the candidates a self-assessment test regarding their intellectual skills in [inductive](https://web.archive.org/web/20221118115544/https:/en.wikipedia.org/wiki/Inductive_reasoning), [deductive](https://web.archive.org/web/20221118115544/https:/en.wikipedia.org/wiki/Deductive), and [abductive](https://web.archive.org/web/20221118115544/https:/en.wikipedia.org/wiki/Abductive) [logical reasoning](https://web.archive.org/web/20221118115544/https:/en.wikipedia.org/wiki/Logical_reasoning), English grammar, and personal sense of humor.
* They also asked the candidate shall rate how well they performed on the test compared to other candidates.
* After the test is evaluated, the researchers compare the difference between the estimated test result and the real test result.
* The study then shows that low performers think the are above-average performers.
* Note that even though incompetent people overestimate themselves, their estimation is still lower than the underestimated prediction of competent people. So the bias exists in a moderate form and not in an extreme form.

## Where can it be found?

* **Investment Environment:** Some amateur investors believe they found the best stock and bet all of their assets into this one stock. They ignored the fact that financial institutions have more researchers, accumulated knowledge, research tools, and resources to evaluate any stock than an average private investor. The stock market is a zero-sum game in the short run and private investor is in direct competition with big institutions. As a private investor, it is most of the time better to join them and not fight them. A famous recommendation from Warren Buffet is to [buy the S&P 500 index](https://web.archive.org/web/20221118115544/https:/www.fool.com/investing/2022/09/13/what-warren-buffett-would-most-likely-recommend-in/) which can be can be considered only “market average“ by some ambitious investors. This advice implies not overestimating one’s capability in a highly competitive field such as investment.
* **Working Environment:** People with low ability could apply for job positions out of their capabilities. A good recruiter should have the capability to distinguish really talented candidates from over-confident candidates. You might have encountered coworkers who are over-confident about their performance. If your boss thinks of the organization's success as mainly because of him alone, then he might be a victim of this effect too.
* **Study Grades:** Good-performing students often underestimate their test result grades, while bad students often overestimate their test results.

## Why does it exist?

* **Unable to Detect:** This theory suggests that people who are victims of the effect lack the ability to become aware of their incompetence. Incompetence often includes being unable to tell the difference between competence and incompetence, which is why it is difficult for incompetent people to recognize their incompetence. They are so incompetent that they are unable to distinguish the good from the bad.
* **Unconsciously Ignore:** Unlike the previous example, this theory suggests that people might unconsciously filter out negative feedback. When the mind is presented with two conflicting pieces of information, the mind is in a state of [cognitive dissonance](https://web.archive.org/web/20221118115544/https:/en.wikipedia.org/wiki/Cognitive_dissonance). For example, they think they are good in Math, but the math test result is horrible. Any healthy living creature creates its own model of the world and acts according to its perceived model. If the model is inconsistent or conflicting, then the mind needs to solve the consistency. In this math test example, the mind needs to find an explanation for this mismatch. Option A would be accepting the math test result and also accepting one’s incapability. Option B would be assuming the math test is invalid, unfair, or not representative for evaluation. Victims of the Dunning Kruger Effect often chose the latter one intuitively and the negative feedback becomes their blind spot.

## How do I benefit from it?

* **Do:** Question yourself, and evaluate your own capability objectively based on real facts. Seek objective feedback from your friends, teacher, and co-workers and learn from them.
* **Don‘t:** Don’t overestimate your ability, but also don’t underestimate your ability. Know yourself first and know the others well enough to draw an unbiased conclusion. Your performance will improve much more if you can see the true way and you will be able to achieve your goals more realistically.