

II. Overconfidence

Wishful Thinking Bias

- People exaggerate probability that their team will win.
- People exaggerate probability that the candidate they favor will win.

Overconfidence in friends and leaders

- Every central bank head is thought to be a genius, at least for awhile
- Overconfidence in your fellow students

Overconfidence in people

- Managers are thought to be great geniuses, then are terrible
- Rakesh Khurana, HBS, *The Search for Charismatic CEO*
- Nassim Taleb, *Fooled By Randomness*
- Irving Fisher in The Stock Market Panic of 1929 still insists that the bull market was justified

III. Cognitive Dissonance

Cognitive Dissonance

- Mental conflict that occurs when one learns one's beliefs are wrong, avoidance behavior
- Ads for recently purchased cars
- Disposition effect

Will Goetzmann and Nadav Peles

Cognitive Dissonance and Mutual Fund Investors

- Found that even badly performing mutual funds retain some investors
- Hypothesize they hang on because they suffer cognitive dissonance since they chose the fund
- Did a survey and found that these investors remember the past performance of the fund wrong