Summary Notes

Principles are fundamental truths that serve as the foundations for behavior that gets you what you want out of life.

To be principled is to consistently operate with principles that can be clearly explained.

Adopting principles without giving them much thought can expose you to the risk of acting in ways inconsistent with your goals and your nature.

Think for yourself to decide:

1. What you want
2. What is true
3. What you should do to achieve 1 in light of 2

To be a successful entrepreneur, you have to bet against the consensus, which means being painfully wrong a lot.

Systematize your decision making. Put it in the forms of algorithms you can put in computers.

The most important thing for you to do is write down your principles to clarify them.

Almost everyone expects the future to be a slightly modified version of the present, but it's usually very different.

Dalio is big on transcendental meditation, learned at the Maharishi Mahesh Yogi ashram.

One lesson Dalio learned was that he was surprised by something only because it hadn't happened in his lifetime. But it had happened in history.

When everyone thinks something is a sure bet, it's already priced in, so betting on it will likely be a mistake.

"There are always risks out there that can hurt you badly, even in the seemingly safest bets, so it's always best to assume you're missing something."

Dalio saw the only way to succeed would be to:

1. Seek out the smartest people who disagreed with him so he could try to understand their reasoning
2. Know when not to have an opinion
3. Develop test, and systematize timeless and universal principles
4. Balance risks in ways that keep the big upside while reducing the downside

Early on, Dalio wrote down the criteria he used to make a decision to take a position in the markets. Then, when he closed out a trade, he could reflect on how well those criteria had worked.

The best thing you can do to improve your thinking is to think through your principles for making decisions, write them out in words and computer algorithms, back test them if possible, then use them on a real-time basis to run in parallel with your brain's decision making.

"If you work hard and think creatively, you can have just about anything you want, but not everything you want." [48]

With fifteen to twenty good, uncorrelated return streams, you can dramatically reduce your risks without reducing your expected returns. The "Holy Grail of Investing." [56]

Individual assets within an asset class are usually about 60% correlated with each other, so even if you think you're diversified, you're not. [57]

Making a handful of good uncorrelated best that are balanced and leveraged well is the surest way of having a lot of upside without being exposed to unacceptable downside. [58]

To solve disagreements:

1. Put our honest thoughts on the table

2. Have thoughtful disagreements in which people are willing to shift their opinions as they learn, and

3. Have agreed-upon ways of deciding (voting, authorities, etc.) if disagreements remain so you can move on without resentment. [64]

Dalio's book recommendations: The Hero with a Thousand Faces, The Lessons of History, River Out of Eden, On the Role of the Individual in History, The Spiritual Brain, Power of Habit

People who attain their dreams early typically don't end up happy unless they get excited about something else bigger and better to struggle for. [123]

PRINCIPLES

Look to the patterns of those things that affect you in order to understand the cause-effect relationships that drive them and to learn principles for dealing with them effectively. [127]

If you write down every kind of encounter you have (loss of a job, personal disagreement, late for something) and compile them in a list, it would probably total just a few hundred items and only a few would be unique to you. You can develop principles for every kind of interaction. [128]

Creating Your Own Principles:

1. Write down every kind of encounter you have and how you have, and should, handle it. Update these are you get more data and stress-test your assumptions.

2. Record why you made certain decisions, then check in on that reasoning later.

LIFE PRINCIPLES

Think of problems as puzzles you need to solve. By solving the puzzle, you get a gem in the form of a principle that helps you avoid the same sorts of problems in the future.

1. Embrace Reality and Deal With It

1.2: Truth, an accurate understanding of reality, is the essential foundation for any good outcome. [135]

1.4a: Don't get hung up on your views about how things should be because then you'll miss out on learning how they really are. [140]

1.4c: Evolution is the single greatest force in the universe; it is the only thing that is permanent and it drives everything. [142]

1.4d: Evolve or die.

1.5: Evolving is life's greatest accomplishment and its greatest reward. [147]

1.6b: Remember "no pain, no gain" Evolution won't always feel good. [152]

1.7: Pain + Reflection = Progress. If you can develop a reflexive action to psychic pain that causes you to reflect on it rather than avoid it, it will lead to your rapid learning/evolving. If you push through this process of personal evolution, you will naturally ascend to higher and higher levels. Go towards the pain rather than avoid it. The quality of your life will depend on the choices you make at those painful moments.

1.8: Weigh second and third-order consequences. Often the first order consequences are the temptations that cost us what we really want, and can be the barriers that stand in our way. [156]

1.10a: Think of yourself as a machine operating within a machine and know that you have the ability to alter your machines to produce better outcomes. [157]

1.10c: Distinguish between you as the designer of your machine and you as a worker with your machine. [159]

When you encounter your weaknesses you have four choices:

1. Deny them

2. Accept them and work at them to convert them to strengths

3. Accept them and find ways around them

4. Change what you're going after

To confront your own weaknesses: [162]

1. Don't confuse what you wish were true with what is really true.

2. Don't worry about looking good—worry instead about achieving your goals.

3. Don't overweight first-order consequences relative to second and third order ones.

4. Don't let pain stand in the way of progress.

5. Don't blame bad outcomes on anyone but yourself.

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

The five-step process in short:

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 the problems to get at their root causes.

4. Design plans that will get you around them.

5. Do what's necessary to push these designs through to results.

Do each of these steps independently. Don't think about how you will achieve your goals while you're setting your goals.

2.1 Have Clear Goals [172]

- Prioritize: you can have anything you want, but you can't have everything you want

- Don't confuse goals with desires. A goal is something you need to achieve. Desires tend to be things you want that stand in the way of your goals.

- Never rule out a goal because you think it's unattainable.

- Don't mistake the trappings of success with success itself.

- Knowing how to deal with your setbacks is as important as knowing how to move forward

2.2 Identify and Don't Tolerate Problems [174]

- View painful problems as potential improvements that are screaming at you.

- Don't mistake the cause of the problem with the real problem. Get to the root of it.

2.3 Diagnose problems to get at their root causes [175]

- Focus on "what is" before deciding "what to do about it"

- Distinguish proximate from root causes (I didn't check the train schedule -> I didn't check the train schedule because I'm forgetful)

2.4 Design a plan [176]

- Think about your problem as a set of outcomes produced by a machine.

- Remember that there are typically many paths to achieving your goals, you only need to find one that works.

- Write down your plan for everyone to see and to measure your progress against.

- Recognize that it doesn't take a lot of time to design a good plan. It's necessary to design a plan, though, and not get caught up in execution.

2.5 Push through to completion [177]

- Good work habits are underrated.

- Establish clear metrics to make sure you're following your plan.

Those are the five steps, then there are a couple finer points…

2.6 Remember that all weaknesses don't matter if you find solutions [178]

- Look at the pattern of your mistakes and identify at which step in the 5-step process you typically fail.

- Everyone has at least one big thing that stands in the way of their success. Find yours and deal with it.

3. Be Radically Open Minded

3.1 Recognize your two barriers: your ego and your blind spots.

- Those who adapt do so by:

- Teaching their brains to work in a way that doesn't come naturally (like the creative designing an organization system).

- Using compensating mechanisms (like programmed reminders).

- Relying on the help of others who are strong where they are weak.

3.2 Practice radical open-mindedness

- Decision making is a two-step process: First take in all the relevant information, then decide.

- Don't worry about looking good, worry about achieving your goals.

- You're looking for the best answer, not simply the best answer that you can come up with yourself.

3.3 Appreciate the art of thoughtful disagreement

- Open-mindedness isn't easy because of your lizard brain, so you have to practice taking feedback impersonally.

4. Understand that People are Wired Very Differently

5. Learn How to Make Decisions Effectively

Think about how you can make all of your decisions well, in a systematic, repeatable way, and then being able to describe the process so clearly and precisely that anyone else can make the same quality decisions under the same circumstances.

5.1: Recognize that the biggest threat to good decision making is harmful emotions, and the decision making is a two-step process (first learning, then deciding)

- Failing to consider second and third order consequences is the cause of a lot of painfully bad decisions, and it is especially deadly when the first inferior option confirms your own biases.

5.2: Synthesize the situation at hand

- One of the most important decisions you can make is who you ask questions of

- Don't believe everything you hear

- Everything looks bigger up close: what's happening today seems like a bigger deal than it will in retrospect

- New is overvalued relative to great

- Don't over squeeze dots

5.6 Make your decisions as expected value calculations [251]

- 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.

5.7 Prioritize by weighing the value of additional information against the cost of not deciding. [254]

- 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.

5.9 Use Principles

- To do this well:

- 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.

5.11 Convert your principles into algorithms and have the computer make decisions alongside you

WORK PRINCIPLES

"In order to be great, one can't compromise the uncompromisable." [305]

"Make your passion and your work one and the same and do it with people you want to be with." [317]

1: Trust in Radical Truth and Radical Transparency

- 1.1: Realize that you have nothing to fear from knowing the truth. [326]
- 1.2a: Never say anything about someone that you wouldn't say to them directly and don't try people without accusing them to their faces. [327]

2: Cultivate Meaningful Work and Meaningful Relationships

3: Create a Culture in Which It Is Okay to Make Mistakes and Unacceptable Not to Learn From Them

- 3.1a: Fail well. Everyone fails, so fail well.
- 3.2a: Get over "blame" and "credit" and get on with "accurate" and "inaccurate."
- 3.4: Remember to reflect when you experience pain.
- 3.4b: Know that nobody can see themselves objectively. [354]

4: Get and Stay in Sync

- 4.3: Be open-minded and assertive at the same time.
- 4.3c: Watch out for people who think it's embarrassing not to know. [363]
- 4.4: If it's your meeting, manage the conversation [364]
- 4.4f: Watch out for topic slip
- 4.4i: Let people talk for two minutes before being interruptible

5: Believability Weight Your Decision Making

- 5.2: Find the most believable people possible who disagree with you and try to understand their reasoning
- 5.2b: Remember that believable opinions are most likely to come from people who have successfully accomplished the thing in question at least three times, and who have great explanation of the cause-effect relationships that lead them to their conclusions.

- 5.2d: Pay more attention to people's reasoning for a conclusion than their specific conclusion

- 5.3: Think about whether you're playing the role of a teacher, student, or peer, and whether you should be teaching, asking questions, or debating.

- 5.4: Understand how people came by their opinions [379]

- 5.4a: If you ask someone a question, they'll give you an answer, so think through who you should address your question to.

- 5.7: Pay more attention to whether the decision-making system is fair than whether you get your way. [383]

6: Recognize How to Get Beyond Disagreement

- 6.1: Principles can't be ignored by mutual agreement.

- 6.3: Don't leave important conflicts unresolved. [388]

- 6.4: Once a decision is made, everyone should get behind it even though individuals may still disagree. [389]

7: Remember that WHO is more important than WHAT

8: Hire Right, Because the Penalties for Hiring Wrong are Huge

- 8.1: Match the person with the design [407]

- 8.1a: Think through which values, abilities, and skills you are looking for (in that order).

- 8.1d: Look for people who sparkle, not just "any of those" [409]

- 8.4: Pay attention to people's track records.

- 8.4b: Recognize that performance in school doesn't tell you much about whether a person has the values and abilities you are looking for. [413]

- 8.5: Don't hire people just to fit the first job they will do; hire people you want to share your life with.

- 8.6: When considering compensation, provide both stability and opportunity [416]

- 8.6d: focus more on making the pie bigger than on exactly how to slice it so that you or anyone else gets the biggest piece.

- 8.8: Great people are hard to find so make sure you think about how to keep them. [418]

9: Constantly Train, Test, Evaluate, and Sort People

- 9.1: Understand that you and the people you manage will go through a process of personal evolution. [423]

- 9.1a: Recognize that personal evolution should be relatively rapid and a natural consequence of discovering one's strengths and weaknesses; as a result, career paths are not planned at the outset. [423]

- 9.3: Evaluate accurately, not kindly

- 9.3c: Think about accuracy, not implications

- 9.5: Don't hide your observations about people. [428]

- 9.5d: Use evaluation tools such as performance surveys, metrics, and formal reviews to document all aspects of a person's performance. [429]

- 9.8: When you are really in sync with someone about their weaknesses, the weaknesses are probably true [436]

- 9.8d: Evaluate employees with the same rigor as you evaluate job candidates [438]

- 9.11: Don't lower the bar

10: Manage as Someone Operating a Machine to Achieve a Goal

- No matter what work you do, at a high level you are simply setting goals and building machines to help you achieve them. [449]

- 10.2: For every case you deal with, your approach should have two purposes:

- To move you closer to your goal

- To train and test your machine

- 10.5: Clearly assign responsibilities

- 10.5b: Watch out for job slip

- 10.6: Probe deep and hard to learn what you can expect from your machine [459]

- 10.6c: Use daily updates as a tool for staying on top of what your people are doing and thinking.

- 10.6g: Don't assume that people's answers are correct, you occasionally need to double check them.

- 10.6l: Pull all suspicious threads

- 10.8: Recognize and deal with key-man risk. Every key person should have someone who can replace them. [463]

- 10.10: Great leadership is generally not what it is made out to be [464]

- Being maximally effective is the most important thing that a leader must do. It is more practical to be honest about one's uncertainties, mistakes, and weaknesses than to pretend they don't exist. It is also more important to have good challengers than good followers.

- 10.10c: Don't give orders and try to be followed, try to be understood and to understand others by getting in sync.

- 10.11: Hold yourself and your people accountable and appreciate them for holding you accountable [468]

- 10.11a: If you've agreed with someone that something is supposed to go a certain way, make sure it goes that way, unless you get in sync about doing it differently.

- 10.12: Communicate the plan clearly and have clear metrics conveying whether you are progressing according to it.

11: Perceive and Don't Tolerate Problems

- Problems are like coal thrown into a locomotive engine because burning them up—inventing and implementing solutions for them—propels us forward. Every problem you find is an opportunity to improve your machine. Identifying and not tolerating problems is one of the most important and disliked things people can do. [473]

- 11.1: If you're not worried, you need to worry. And if you're worried, you don't need to worry.

- 11.2: Design and oversee a machine to perceive whether things are good enough or not good enough, or do it yourself.

- 11.2b: Watch out for the frog boiling in the water syndrome.

- 11.2e: Taste the soup, make sure it tastes good before going out to the customer

- 11.4: Don't be afraid to fix the difficult things

- 11.4b: Think of the problems you perceive in a machinelike way

12: Diagnose Problems to Get at Their Root Causes

- 12.1: To diagnose well, ask the following questions:

- Is the outcome good or bad?

- Who is responsible for the outcome (RP)?

- If the outcome is bad, is the RP incapable and/or is the design bad?

- 12.1f: Just because someone else doesn't know what to do doesn't mean that you do know what to do. [489]

- 12.1i: Managers usually fail or fall short of their goals for one or more of five reasons:

- They are too distantThey have problems perceiving bad qualityThey have lost sight of how bad things have become because they have gotten used to itThey have such high pride in their work (or such large egos) that they are unable to solve their own problemsThey fear adverse consequences from admitting failure.

- 12.4 Use the following drill down technique to gain an 80/20 understanding of a department or sub-department that is having problems [492]

- Step 1: List the problems, inventory all the core problems. Be specific. Name names. Don't try to find solutions yet.

- Step 2: Identify the root causes. Keep asking "Why?".

- Step 3: Create a plan that addresses the root causes.

- Step 4: Execute the plan and transparently track its progress.

- 12.5 Understand that diagnosis is foundational to both progress and quality relationships [495]

13: Design Improvements to Your Machine to Get Around Your Problems

- 13.1: Build your machine. Observe what you're doing and why, extrapolate the relevant principles from the cases at hand, and systemizing that process. It takes longer to build a machine than to complete a task, but it pays off over the long run. [499]

- 13.5: Build the organization around goals rather than tasks.

- 13.5e: Don't build the organization to fit the people. [504]

- 13.5h: Make departments as self-sufficient as possible so that they have control over the resources they need to achieve their goals.

- 13.5k: Don't just pay attention to your job; pay attention to how your job will be done if you're no longer around. [506]

- 13.5l: Use "double-do" rather than "double-check" to make sure mission-critical tasks are done correctly.

- 13.6: Create an organizational chart to look like a pyramid, with straight lines down that don't cross. [508]

- 13.8: Keep your strategic vision the same while making appropriate tactical changes as circumstances dictate. [511]

- 13.9: Have good controls so that you are not exposed to the dishonesty of others [513]

- 13.9e: Use public hangings to deter bad behavior. [514]

- 13.10: Have the clearest possible reporting lines and delineations of responsibilities [514]

- 13.10b: Constantly think about how to produce leverage.

- 13.11: Remember that almost everything will take more time and cost more money than you expect. [516]

14: Do What You Set Out to Do

- 14.1: Work for goals that you and your organization are excited about… and think about how your tasks connect to those goals. [520]

- 14.3: Use checklists

- 14.5: When you hit your goals, celebrate!

15: Use Tools and Protocols to Shape How Work is Done

- 15.1: Having systemized principles embedded in tools is especially valuable for an idea meritocracy

16: Don't Overlook Governance

- 16.1: All organizations must have checks and balances

- 16.1b: Make sure that no one is more powerful than the system or so important that they are irreplaceable [533]

Wrap up

- An idea meritocracy requires that people do three things:

- Put their honest thoughts on the table for everyone to see.

- Have thoughtful disagreements where there is quality back and forth in which people evolve their thinking to come up with the best collective answers possible.

- Abide by idea-meritocratic ways of getting past the remaining disagreements.