

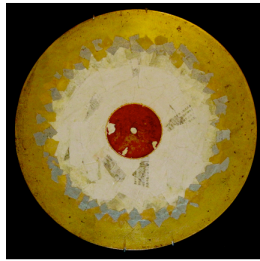
Continuous Improvement

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Steve O'Keefe, Editor

steve.okeefe@orobora.com

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Orobor, Inc.

644 Greenville Ave, Ste. 234

Staunton, Virginia 24401

Email: info@orobora.com

Phone: (540) 324-7023

fecalnomics

Why Good People Make Shitty Decisions

by Steve O'Keefe

Fecalnomics is the study of **poor decision-making**. The concept of "fecalnomics" originated with an Amazon review I wrote of the book, [*Thinking Fast & Slow*](#), in which Nobel economist Daniel Kahneman shows how monkeys throwing feces are more accurate than human stock pickers over the long toss.

Considering recent electoral results in the United States and the United Kingdom, this is an opportune time to reflect on how and why humans make terrible decisions and what we can do to improve both our good-decision rate and our happiness with our decisions. Here, then, are 10 basic principles of *fecalnomics*.

1. Humans Make Quick Emotional Decisions

When forced to make a choice, human beings make quick emotional decisions, then look for supporting evidence if they have to defend their position. Kahneman calls these thought patterns "System One" (for fast emotional thinking) and "System Two" (for slower, logical thinking). Kahneman and his late colleague, Amos Tversky, came at economics from psychology and basically said the "Rational Man" of classical economics isn't wearing any clothes! Real men and real women are driven by primal passions which we dress up in "rational" arguments after the fact, if ever at all.

2. "Research" Means Bolstering Quick Emotional Decisions

What we call "research" or "science" is very often an effort to prove an emotional hunch rather than an attempt to understand reality or discover truth. This problem plagues all scientific experimentation. It leads to a lot of research going unpublished because it does not correlate well with emotional beliefs. Research that "has a good story arc," on the other hand, gets elevated. Humans do not form their beliefs based on analysis of data; they measure the veracity of data by its affinity with their beliefs. In the case of political candidates, voters make emotional decisions early on, then consult the media that supports their views for evidence to defend their decision. When we do research, we are almost always looking to confirm an entrenched belief.

3. We Ignore Averages and Believe We're Exceptional

If half the marriages in the U.S. end in divorce, what's the chance your marriage will? If you're married, you likely rate your chance of divorce at far less than 50%. Maybe 10%. You know the odds, but you don't believe they apply to you. The problem is, *no one believes the odds apply to them in any given situation*. We're often surprised by an outcome that could easily be predicted. We refuse to consult the science available and, when we do, we ignore the guidance in favor of our own

instincts. If we did not, people would not get married, would not have kids, would not start businesses, and certainly would not become scientists. The failure rate for real science is so high that Kahneman suggests a person must be "delusional" to be successful as a scientist.

4. We Underestimate How Long Things Will Take

The best story in *Thinking Fast & Slow*, in my opinion, is one where a group of experts in the burgeoning field of Behavioral Economics gather for the purpose of producing a college textbook and curriculum. Kahneman polls the room privately on how long they expect this effort to take. The average of their guesses is two years. The people in the room have themselves done research that shows this effort takes on average seven to 10 years with a 40% incompleteness rate. The dramatic difference between their predictions and their own research is discussed and each obstacle is explained away in turn. It took eight years to complete the project. None of them likely would have started the project if they thought it would take eight years. They may not have known exactly what would happen to slow them down, but they should have known that *something was likely* to happen to drag their schedule closer to the mean.

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5. We Underestimate How Much Things Will Cost

One of the ways humans believe we are making progress on our life goals is by ignoring any evidence we are not. Almost all marketing enables this illusion by stressing benefits and hiding costs. If you hold title to an asset, you feel as if you own that wealth. Many assets, however, are purchased with debt, are taxed, and require maintenance, storage and insurance. Our wealth turns out to be indentured servitude — a promise to generate revenue streams for other people. If we do not pay, our assets go away and possibly our liberties, too. Human beings build great structures at enormous expense and fail to fund simple maintenance to preserve them. We inject toxic sludge deep underground when we know treatment is a better solution. No reserves are set aside for dealing with problems in the future. We enjoy benefits today while pushing costs away, so we naturally underestimate and underfund the cost of nearly everything.

6. We Believe Tomorrow Will Be Like Today

Two hundred years ago, 99% of Americans worked in agriculture. Today, less than 2% do. A hundred years ago, half of Americans worked industrial jobs. Today, less than 5% do. Manufacturing currently employs less than 15% of U.S. workers. Most Americans today work in services. Many of these service jobs are quickly being automated away. We see an arc of progress from our own perspective that looks gradual and consistent and we project it into the future. The real arc is much more dramatic. We're no longer the smartest thing on Earth. Your kids ask Google or Siri or Watson; they don't ask you; they never will again. If machines are now demonstrably "smarter" than humans — making better decisions, faster, based on more data, with confidence-graded outcomes — then it's Game Over for humans.

We're now the amusing pets of a superior species. We can expect to be treated as such in the future.

7. We Hold Onto Mistakes As If They Were Children

Humans can't stand to lose or go backwards. Our fear of losing something we have is so severe that we will do almost anything to avoid a loss. This loss-avoidance-ratio can be calculated with some accuracy. In terms of income, it takes a \$10K increase in pay to make you as happy as a \$5K decrease makes you sad. The result of this weird loss avoidance ratio is that we think everything we possess somehow gains a magical quality that makes it much more valuable than the same thing on the open market. It's like your Samuelson [Economics](#) textbook should be worth more because it has your margin notes. The problem is that human beings (and corporations and governments) are loath to cut their losses and move on. We hang onto worthless things much longer than we should, with painful consequences.

Protecting Yourself From *fecalnomics*

8. Calm the F! Down

Things are neither as bad nor as good as they appear. We tend to confuse the exception with the rule and overreact emotionally to almost everything we learn. Take the U.S. elections. Congressional incumbents historically have a 95% re-election rate — that's why it seems like nothing in Washington, D.C., ever changes. In 2016 — surprise! — incumbents had a 95% re-election rate. It's not rational to expect change. Kahneman points out that all extremes erode to the mean over time. That's why I think Google is doomed because they hire geniuses and ride them to mediocrity. I have decided to work more with college dropouts because their exceptional days are ahead of them. Consult the averages. Data *does* matter. No person or thing outperforms the average for very long.

9. Visualize Being a Loser

If you want to make better decisions, stop getting all caught up in the euphoria of how awesome it's going to be and think, for a moment, of what happens if it all goes horribly wrong? Americans have the highest confidence-to-skillset ratio in the world. Over 90% of us think we're better-than-average drivers. Kahneman points out how difficult it is for people to see downside accurately. We don't believe average results apply to our situation. Because of our belief that the future will be a smooth extension from the present, we are unable to imagine the obstacles that will arise. Conduct what Kahneman calls a *pre-mortem* and analyze what went wrong before you begin, so that you're more aware there are risks, even though you're not sure how they'll manifest.

10. Get Over It

The lessons on happiness that spring from Kahneman's research are quite startling. He spurred the global movement toward accurately measuring satisfaction and happiness. What drives *dissatisfaction* is the gulf between accomplishments and expectations. Lower your expectations, says Kahneman, and you will be happier more often. Write off your losses quickly and move on. You are by nature excessively risk-averse so dwelling on past losses leads to a spiral of fear and paralysis. Kahneman says experiences that are painful at the time are often fondly remembered and deeply satisfying. See Malcolm Gladwell's [David and Goliath](#) for a book-length discussion of that phenomenon. Kahneman labors to explain this without simply citing childbirth — an extremely unpleasant experience that usually leads to deep life satisfaction. So get over it, cut your losses and make life changes. Things are never going to be the same again. You may come to see this loss as the best thing that ever happened to you. The secret to happiness, it turns out, is to decide to be happy — no matter what fecal material is flung your way.