

Duke, Annie – Thinking in Bets

Prentice Hall Press, 2018, [Behavioral Finance] Grade ★★★★★

If you were to analyze poker, it's basically a game of decision making under uncertainty. Should I call? Raise? Go all in? Or maybe fold? The only thing you know for sure is the hand you are dealt. The uncertainty lies in everything else.

Poker is about making the right decisions when you don't have all the information available. When looking at the stock markets it's not hard to spot the similarities. The market is just a big pile of uncertainty with you stuck in the middle trying to make money.

Internet poker was a big thing when I grew up, and my enthusiasm for the sport (if it is one?) has indeed served me well. I stumbled across Annie Duke when she was interviewed on The Capital Allocators Podcast. When I heard that she was writing a book about how to approach life as a betting game, I was already sold.

This is a book about decision strategy, and Annie is a very experienced decision strategist. Even if the book is filled with anecdotes from Annie's poker career this is far from a poker book. Instead it's a book about making good decisions when you can't see all the cards, both figuratively and literally. It turns out, this is a situation we find ourselves in almost all the time. When we decide to go to the movies we're taking a bet on that the movie will be a better experience than staying home. When we order meat at a restaurant it's a bet that it will prove a better experience than the fish. Every decision is a bet on something - we are just not used to think about decisions this way.

Duke suggests that by analyzing our decision process we can subsequently use tools that makes it easier activate system 2 (it's time to read Daniel Kahneman's *Thinking, Fast and Slow* if you for some unexplainable reason haven't already) and think more rationally.

One interesting example of this is one about actual betting. Most people are in the habit of making statements as if they were always true. We often accept these at face value since it instinctively seems at least moderately accurate. If we instead reply with "Wanna bet?", the mindset shifts dramatically. Now we try to think hard if the said statement is maybe 70% or 100% true. The difference is of course enormous, but without forcing ourselves to make a bet, we take mental shortcuts and jump right to the, often wrong, conclusion. By trying to ask ourselves if we would place a bet on something, we can help ourselves along the path to Kahneman's famous system 2.

Another very helpful idea that the author taught me was the idea of setting up decision groups whose only task is to analyze and evaluate each other's decisions. The group is in itself an interesting concept, but what its mere existence does to you is far more interesting. Before deciding, try to foresee what your decision group will make of it. What objections might they have? Which questions will they ask? What will they think about your decision? Will they approve of your action or will you walk away embarrassed? By anticipating the decision-group's feedback before you even make up your mind in the first place, you are far more likely to make a rational decision based on facts and not gut feeling alone. You don't even have to go to the group, as long as the group's pressure affects your decisions.

If you've read a book or two on behavioral finance you will certainly feel at home with *Thinking in Bets*. It takes all the common concepts and tries to find a more practical approach to beating biases and poor decision-making. This is a great book for anyone; buy it for Christmas for everyone you know. It is not an investing book; it's a book about not being a dumbass. Which for sure is a goal I have as an investor.

Olle Qvarnström, November 29, 2018