

# So Much for Snap Decisions

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A Nobel Prize winner explains

(About thinking slow)

WALL

BY DIANE COLE

**H**ow is it that so many people make decisions that, from their perspective, seem so right—and turn out so wrong?

Blame it, in part, on thinking “fast.”

That’s the message that **Daniel Kahneman**, psychologist and Nobel Prize winner, delivers in his new book, “Thinking Fast and Slow.”

or slow, there is little payoff in thinking slow.

**WSJ:** Could you give an example?

**MR. KAHNEMAN:** If you are going to spend the slow time looking for rationalizations for opinions you formed without reasoning, you are not gaining much.

To avoid mistakes, we must both slow down and try to think differently. That is hard to do.

**WSJ:** In your book, you discuss overconfidence as a common pitfall. What impact does that have?

**MR. KAHNEMAN:** Overconfidence is everywhere. We all have clear and certain beliefs, and our certainty is not impaired by the fact that other people hold contradictory beliefs. We just think they are biased.

When optimism and overconfidence come together, you get many mistakes. Optimistic estimates can in retrospect seem almost delusional. One example is that people end up paying about twice as much as they originally expected to pay for kitchen renovations.

**WSJ:** Is there a way to keep our self-certainty from blocking out other evidence?

**MR. KAHNEMAN:** You can imagine yourself trying to make the case for your belief before a skeptical judge.

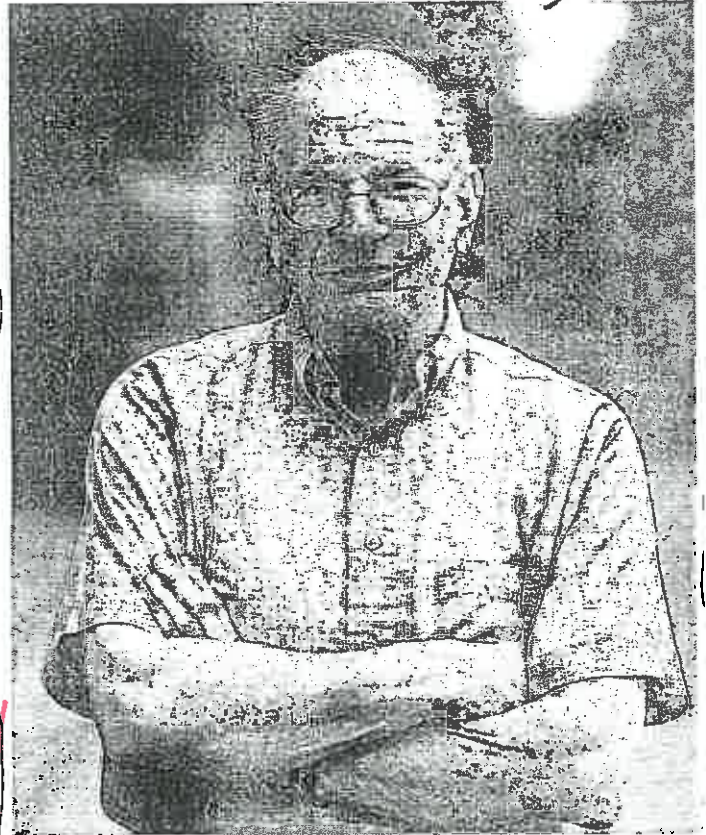
It is even better to try to construct the best possible case against your own position, because searching for arguments that support your position is unlikely to lead you to correct your mistakes.

### The Age Factor

**WSJ:** Does age affect our decision making?

**MR. KAHNEMAN:** People become less impulsive with age. They also get some wisdom from experience at work, unless the situation they face is rapidly changing.

Decision making deteriorates with more advanced age. It becomes difficult to follow complex arguments, and confi-



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dence diminishes. This is why the old are often victims of financial predators.

**WSJ:** Any advice on how to avoid overconfidence in financial decisions?

**MR. KAHNEMAN:** I don’t think individuals should be in the business of picking individual stocks, because they will be taken advantage of. What happens is that when the market is doing well, it is populated by geniuses who think they can try it for themselves. It’s natural and inevitable that this leads to overconfidence and foolish actions.

**WSJ:** Can people learn from errors of financial overconfidence?

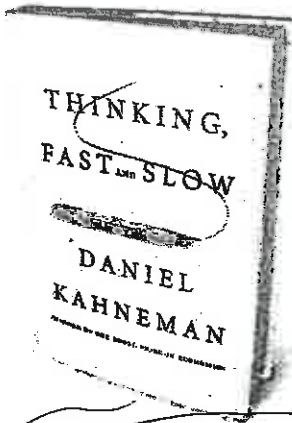
**MR. KAHNEMAN:** The first thing for people to know is to accept the limits of their knowledge.

When you’re young, you have time to make up for financial losses. But when you are older, it is a very concrete matter.

You should be thinking about how much you need to spend every month. And many investment professionals are quite aware of that, so they steer people on a path toward diminishing risk, because those people don’t have enough time to recover a loss.

### Reality Checks

**WSJ:** In your book, you also discuss “the planning fallacy”: making decisions based on best-case-scenario forecasts.



Typically, he says, people rely on blink-of-an-eye judgments, driven by emotion and impulse, in navigating life—even when we should be thinking “slow,” using reason, deliberation and logic to weigh our options.

What to do? To get a better idea of how to improve decision making, particularly in later life, we spoke with Mr. Kahneman from his home in New York.

Here are edited excerpts of that discussion.

### It’s Not Just the Speed

**WSJ:** Why do people get tripped up by thinking “fast”—going with gut feelings—instead of thinking “slow” and seeking out factual information?

**MR. KAHNEMAN:** The real question is whether we would do better if we slowed ourselves down: Could we avoid mistakes that we make when following intuition?

If you are going to make a mistake whether you think fast

## to think 'slow'

Let's say that a person is thinking about moving to a different locale or climate. How does one avoid that thinking error?

**MR. KAHNEMAN:** I think the best advice that I would give people in that situation is, rather than inventing your world and deciding that you'll be happier, is to look at people like you, with similar tastes and similar levels of expenses. Talk to them. See if you can afford it.

It's like Amazon suggesting what books you'll like based on what you've read before, but in this case, it is based on what your friends like. In general, don't try to imagine what it's like to be in a certain situation; talk to people who are in that situation.

**WSJ:** Why is that important?

**MR. KAHNEMAN:** There is a term, "affective forecasting." Do you know how you will feel in a certain circumstance?

People are not really good about that. So you should not trust your imagination and your fantasy, but investigate what it's like by talking to people who are in those circumstances.

And it is still not guaranteed, but that at least is some information.

**WSJ:** How do you get a realistic read on what will be fulfilling?

**MR. KAHNEMAN:** There are many ways of doing this. One is to look at other people like you.

Another is to experiment.

thinking about moving to a different climate, as well. Experimentation and observation are very important.

**WSJ:** That sounds like a scientific approach. Would you advise people, in general, to think more like a scientist?

**MR. KAHNEMAN:** I don't think that people should generally try to think like scientists. Most of the time, it does not matter, and being yourself is the best you can do.

On some occasions, when the stakes are high, examining the evidence more systematically—especially the evidence that makes you uncomfortable—is likely to be worthwhile.

This is how scientists often operate in evaluating their own ideas. They imagine a severe reviewer who will be searching for weaknesses in their argument.

### Pursuit of Happiness

**WSJ:** Can we know in advance what will make us happy in the future?

**MR. KAHNEMAN:** We cognitive psychologists distinguish between satisfaction in life and sort of routine happiness.

There is a fair amount of evidence that keeping involved with good causes is one thing that enhances both.

In general, people are most happy in social situations, interacting with people they like or love. They are also happy focusing on activities they love, whether at work or at home.

As I conceive of it, happiness has a lot to do with how much time you spend in situations that make you happy and leave behind a warm glow.

Life satisfaction is your evaluation of your own life—it is determined by the goals you set yourself and by comparing your achievements to those of others. There is clear evidence that generosity brings its own reward, making people more satisfied with being themselves.

And that might apply to

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