

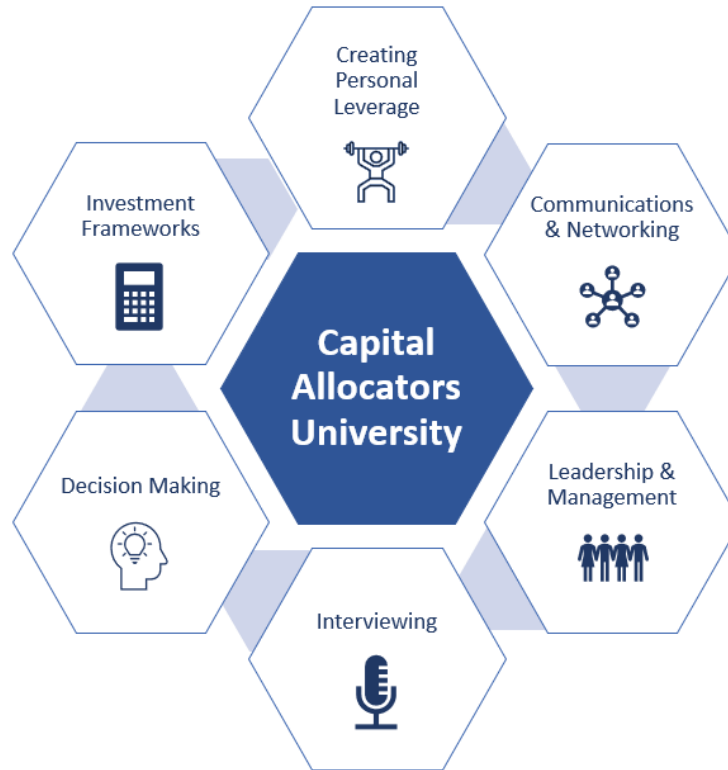


**CAPITAL**  
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WITH TED SEIDES & RAHUL MOODGAL

Decision Making





# Thanks to Today's Sponsor

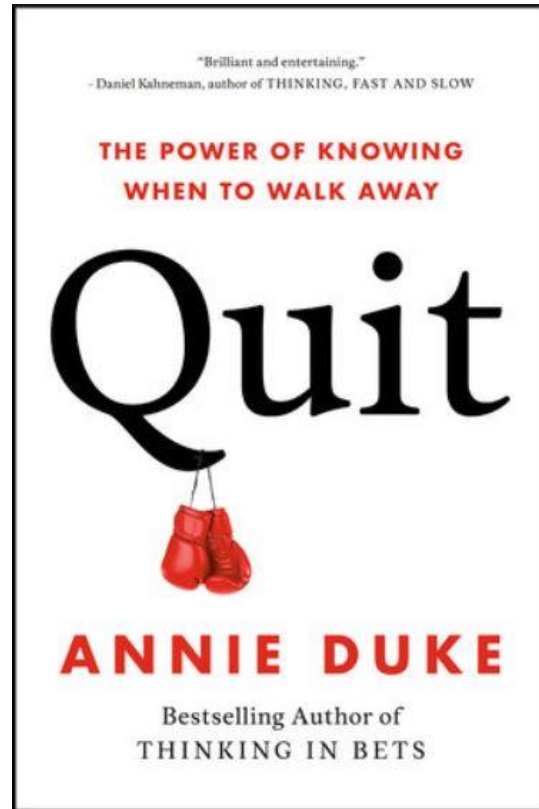




- University of Pennsylvania, National Science Foundation Fellow
- 2004 World Series of Poker Champion
- Best-selling author
- Co-Founder, Alliance for Decision Education



Coming on October 4<sup>th</sup>...



“What you know sits on the head of a pin.  
What you don’t know is the size of the universe.”

- Annie Duke

# Agenda

- **Definition**
  - Nature of Problem
  - Process
  - Quitting
  - Application
- 
- Roundtable Session
  - Q&A with Annie
  - Feedback
  - Homework

# Decision Making – Definition

*How do you define a good decision process?*

**Please refer to 7:52 in the session recording**



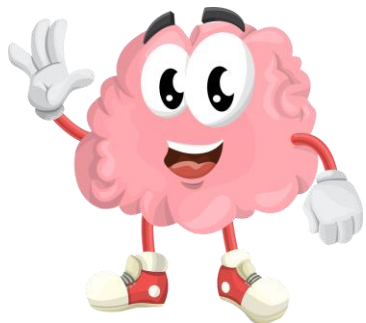
- Key Takeaways:
  - A decision is a bet on an uncertain future
  - A good decision is the best possible judgment
  - Based on a probabilistic mapping of the future
  - Good outcome  $\neq$  good decision process

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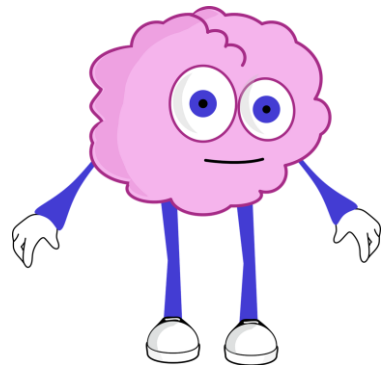
# Decision Making – Challenge

- Decisions are beliefs
- Belief formation is problematic
- Hardwired to make mistakes
- Need to build processes to improve decision quality



How our brain *doesn't* form beliefs

- Hear something
- Think about it
- Decide what is true



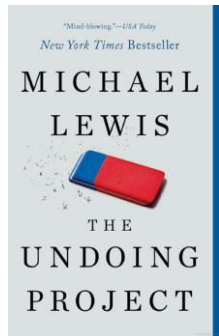
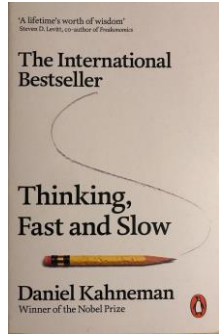
## How our brain actually forms beliefs

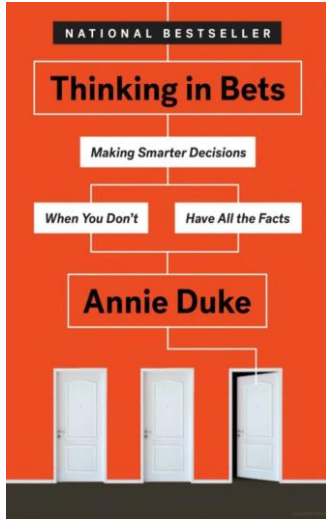
- Hear something
- Believe it is true (System 1)
- Maybe, at some point, think about it (System 2)

## Behavioral finance applications

- Confirmation bias
- Risk aversion
- Overconfidence
- Sunk costs

➤ What is true and what to do



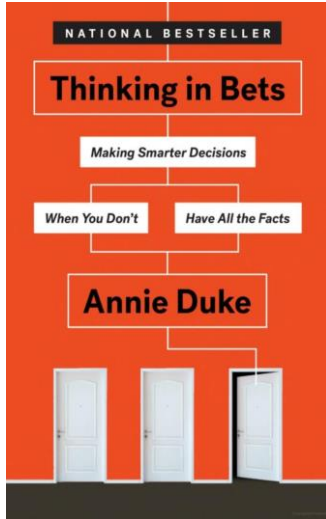


## Decision assessments are flawed

- Outcome bias/resulting
- Self-serving bias

➤ Hard to get better

# Decision Making – Challenges



Worse if we are smarter

- Rationalization
- Revisionist history

Even worse with a team

➤ Process required to mitigate flaws



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# Decision Making – Framework

*In How to Decide, you lay out a framework for making decisions. What is that framework?*

**Please refer to 14:48 in the session recording**

## Key Takeaways:

- Possibilities – what are the potential outcomes?
- Probabilities – how likely are each to occur?
- Preferences – which outcomes are good ones?

- Improving the Decision-Making Process
  - Structure
  - Conduct
  - Mindset

# Decision Making – Structure

Size: 4-6 people



Composition: Cognitive diversity



# Decision Making – Conduct

- Independence of Thought
  - Sequencing of conversation
  - Consideration of speaker
  
- Cognitive Safety



# Decision Making – Conduct



*If this is your boss, would you take the other side?*



# Decision Making – Structure

*What's the biggest way a decision process can go wrong in a group?*

**Please refer to 25:09 in the session recording**



- Key Takeaways:
  - Avoid initial discussions in a group setting
  - Group discussion is subject to anchoring



# Decision Making – Mindset

*How can you best prepare to make a good decision?*

**Please refer to 27:04 in the session recording**

- Key Takeaways:
  - Avoid making decisions when you're "in it"
  - Get objective advice from outsiders
  - "If I were making this decision today..." doesn't work
  - Decision-fit state

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# Decision Making – “Quitting”

*What have you learned about quitting in your research?*

**Please refer to 32:36 in the session recording**

- Key Takeaways:
  - “Grit” and “quit” are the same decision
  - Bias towards inertia
  - Quitting gives freedom to act under uncertainty

## Feedback improves decision quality



- Journal
- Decision review
- Process enhancements



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## Inside view and outside view



## Pre-Mortem analysis:

- Structured approach
- Time efficient
- Unearths lingering risks

# Decision Making – Manager Application

*What common pitfalls do you see money managers make in their decision process?*

**Please refer to 40:55 in the session recording**

- Key Takeaways:
  - Track sell decisions
  - Create a structured process around sell decisions
  - Alpha correlated to where process structured

# Decision Making – Allocator Application

*How do you apply the lessons from quitting to decisions to redeem from a money manager?*

**Please refer to 44:06 in the session recording**

- Key Takeaways:
  - Incorporate base rates
  - List redemption criteria in advance
  - Stick to the criteria
  - Conduct pre-mortem analysis on early signals
  - Same assessment for good and bad results

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## 1) How do you deal with the potential for loss?

Consider that losses come in many shapes and forms: losing money in an investment, personal loss of a professional opportunity, a breakup, \*gasp\* losing your cellphone, losing your way (in an unfamiliar place or in life), losing your cool, losing track of time, losing a family member, losing an argument, losing a competition, losing a bet. Often the fear of loss can be even more crippling than the loss itself.

Use a personal narrative to discuss how you faced loss, how you dealt with it and lessons learned, if any.

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Over the next week, practice the following:

1. Catch yourself one time blindly accepting what someone else said (System 1)
2. Make one change to your investment decision process
3. Structure one decision around possibilities, probabilities, and preferences