

Man commonly misappraises his own abilities and his own possessions.

-Charlie Munger

*This article is part of a [multi-part series](#) on human misjudgment by Phil Ordway, managing principal of [Anabatic Investment Partners](#).*

The overappraisal-of-your-own-possessions is also known as the “**endowment effect**.” If I ask one group of people how much they’d pay for a coffee mug, the answer might be \$5. But if I give a coffee mug to a similar group of people and ask them how much it’s worth, the answer is usually \$8 or \$10. The mere act of owning the coffee mug makes it more valuable to its owner.

The same effect is extremely powerful with regard to investments. “The stock doesn’t know - or care - that you own it,” as Buffett would say.

On a related note, lost wallets are most often returned when the contents of the wallet lead the finder to believe its owner bears a close resemblance to the finder.

The tendency to like oneself and similar people makes for self-reinforcing culture. Thus, when an institution or organization goes wrong “some of the most useful members of our civilization are those who are willing to ‘clean house’ when they find a mess.”

Other examples from Munger:

- Foolish gambling decisions. Excessive self-regard leads to more addictive sports betting than race track betting, or to cases of stupid bets against superior players in poker or golf.
- Bad hiring decisions. The antidote here is to “underweigh face-to-face impressions and overweigh the applicant’s past record. Just such a case happened on an academic search committee. Munger convinced his fellow committee members to cease all interviews and appoint the person with the superior record despite protests of his lack of “academic due process.”
  - “In my opinion, Hewlett-Packard faced just such a danger [of being overinfluenced by face-to-face impressions and by skillful ‘presenters’] when it interviewed the articulate, dynamic Carly Fiorina...and I believe (1) that Hewlett-Packard made a bad decision when it chose Ms. Fiorina and (2) that this bad decision would not have been made if Hewlett-Packard had taken the methodological precautions it would have taken if it knew more psychology.”
- Criminal justice. “According to Tolstoy, the worst criminals don’t apprise themselves as all that bad. They come to believe either (1) that they didn’t commit their crimes or (2) that, considering the pressures and disadvantages of their lives, it is understandable and forgivable that they behaved as they did and became what they became.” The antidotes are fair meritocracies and severance for the worst offenders.

