

“It seems clear to me that I’ve been wrong for many years in saying that the single greatest challenge for investors is to develop self-control. In fact, the single greatest challenge investors face is to see ourselves as we actually are. What makes Warren Buffett and, perhaps even more, Charlie Munger so remarkable is how honest they are about themselves with themselves.” -Jason Zweig <sup>[1]</sup>

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

Charlie Munger’s famous speech “[The Psychology of Human Misjudgment](#)” has changed my life.<sup>[2]</sup> In that spirit, the goal of this talk [at the Zurich Project Workshop 2017] is to improve my own understanding of the concepts by updating “The Psychology of Human Misjudgment” with more recent examples and case studies while also incorporating the related work of Kahneman, Tversky, and other prominent researchers. There is no substitute for the original, and this isn’t an attempt to substitute or improve upon it. I highly recommend both the audio recording of the 1995 version and the comprehensive, updated written account in [Poor Charlie’s Almanack](#).

Despite the emphasis on failure and folly, the goal of this talk is **not** to assign blame or to condemn and ridicule the mistakes; there is no place for schadenfreude here. Learning from the mistakes of others is a very effective and less costly method, but compiling a database of failures - collecting inanities, as Munger would put it - opens us up to accusations of throwing stones in a glass house. To be clear, all of us are prone to these mistakes. By studying failure I’m trying to avoid it myself. An interest in the psychology of human misjudgment is a natural outgrowth from the desire for self-improvement. By seeking an explanation for other people’s mistakes, we can hope to internalize the reasons and improve our own decisions. Just bias from extra-vivid evidence can cause our brains to misfire, the goal in this exercise is to highlight vivid, interesting examples that will sear the misjudgments into our brain. By creating a readily accessible framework for decision-making - by crafting a personal system of psychology - we can all improve our outcomes in life. The idea is to avoid these common psychological traps - to be less stupid - rather than to be brilliant.

I’ve been working on this for quite a while, and it’s an ongoing effort.<sup>[3]</sup> There are sure to be errors and misapplications here, so corrections and suggestions of all kinds are welcome. This essay is also in dire need of good editing, so please forgive its length and loose writing.

-Philip C. Ordway  
June 2017

<sup>[1]</sup> Email exchange with the author

<sup>[2]</sup> I used the audio recording of Munger’s original speech and the updates he made in the reprint in “Poor Charlie’s Almanack.” All errors and mistakes of transcription are my own.

<sup>[3]</sup> “[Investing, Fast and Slow](#)”



Preface: Phil Ordway on "Human Misjudgment Revisited"

