

Overoptimism Tendency

Demosthenes said, “What a man wishes, that also will he believe.” He was referring to denial and excessive optimism. There are other factors at play too, and they lead to happy people buying lottery tickets. –Charlie Munger

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

Update

Kahneman is also keenly aware of this issue. He **cites overconfidence as “the most damaging” thing**, leading “governments to believe that wars are quickly winnable and capital projects will come in on budget despite statistics predicting exactly the opposite. It is the bias he says he would most like to eliminate if he had a magic wand. But it ‘is built so deeply into the structure of the mind that you couldn’t change it without changing many other things.’”^[63]

Tetlock’s principles for **Superforecasting** apply here. One giant exercise in learning to apply confidence when you should have it, and avoid overconfidence the rest of the time. **“Aggressive open-mindedness.”**^[64]

- Learn to avoid the gambler’s fallacy of detecting nonexistent patterns.
- Learn to avoid overcompensation for previous mistakes. The false negative of 9/11 à the fall negative of WMD?
- Learn to analyze from the outside in - what is the base rate?
- Learn to apply new information (Bayesian updating) appropriately, avoiding under-adjustment (“This is just a blip”) and over-adjustment (“This changes everything!”)
- Learn to collaborate. Diversity on teams is helpful.
- **“You only win a forecasting tournament,” Tetlock said, “by being decisive—justifiably decisive.”**

Another favorite example comes from golf. A study found that on shots that were on line but misjudged for distance, eight times as many shots were short as were long.^[65] Players routinely overestimate their own abilities, ignore the overall base rate of the shot and/or assume ideal conditions and a perfect swing with a given club when calculating yardages.

^[63] <https://www.theguardian.com/books/2015/jul/18/daniel-kahneman-books-interview>

^[64] <http://longnow.org/seminars/02015/nov/23/superforecasting/>

^[65] <https://www.wsj.com/articles/why-golfers-overestimate-their-ability-1494591233>