INVESTMENT BIASES & HOW TO OVERCOME THEM

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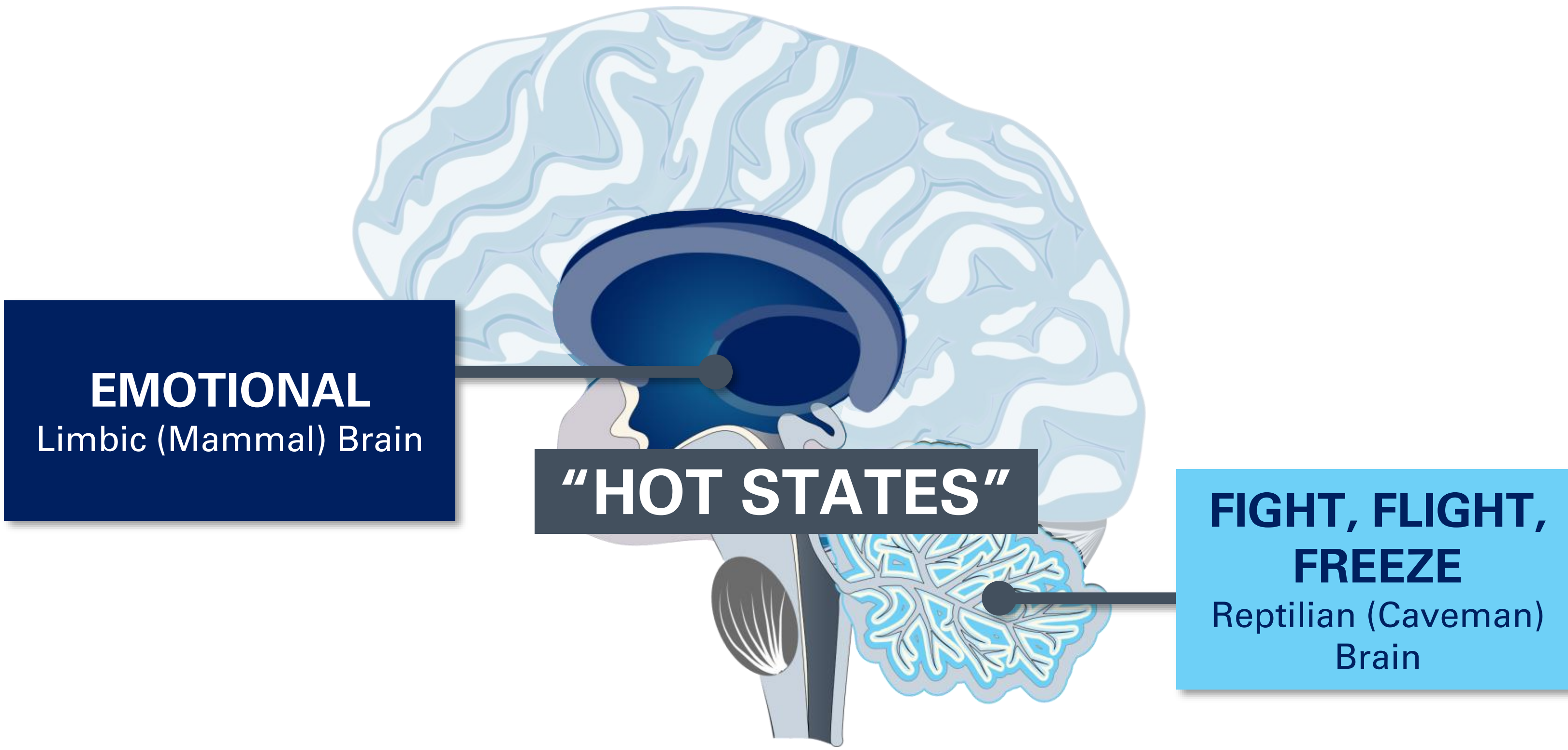
WHAT ARE BIASES?

Biases:

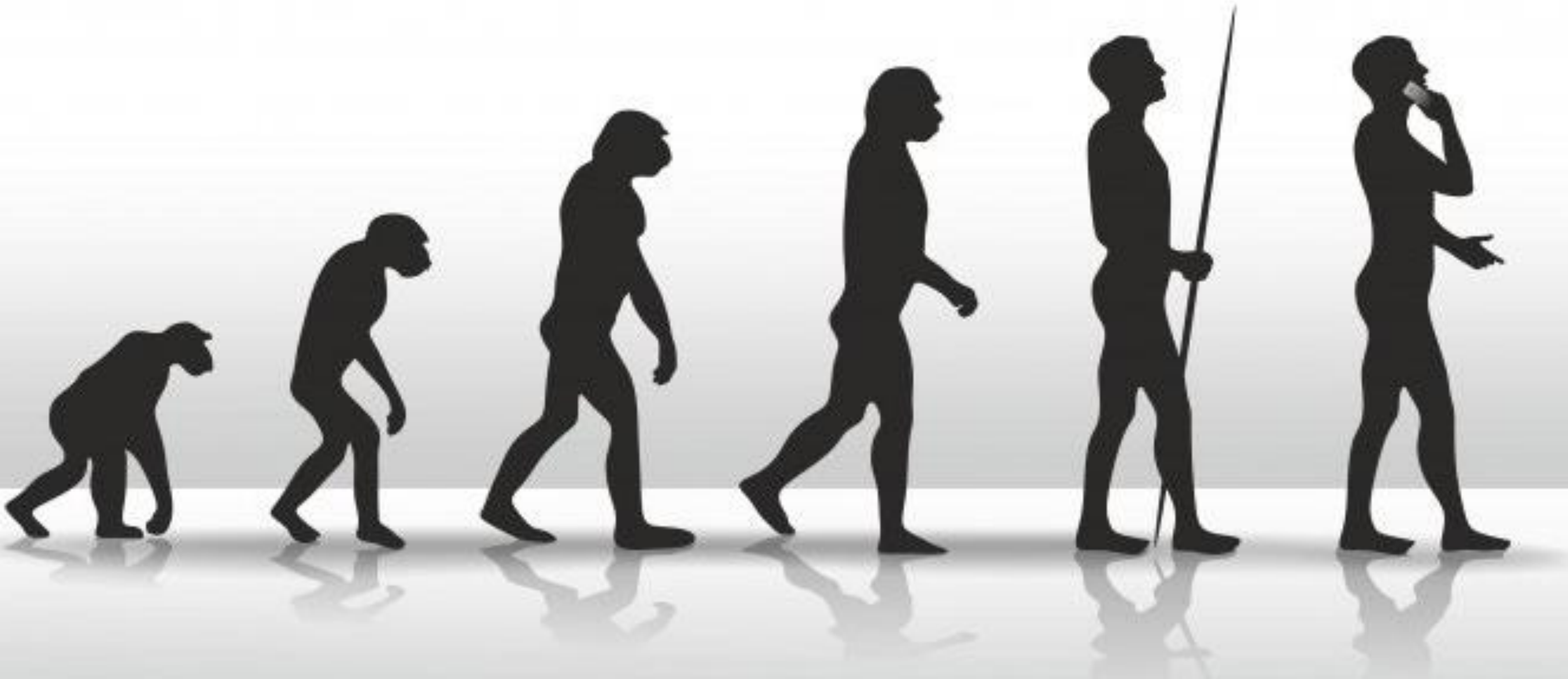
Gaps between philosophy and implementation

WHY DO BIASES EXIST?

REACTIVE BRAIN (HOT STATES)

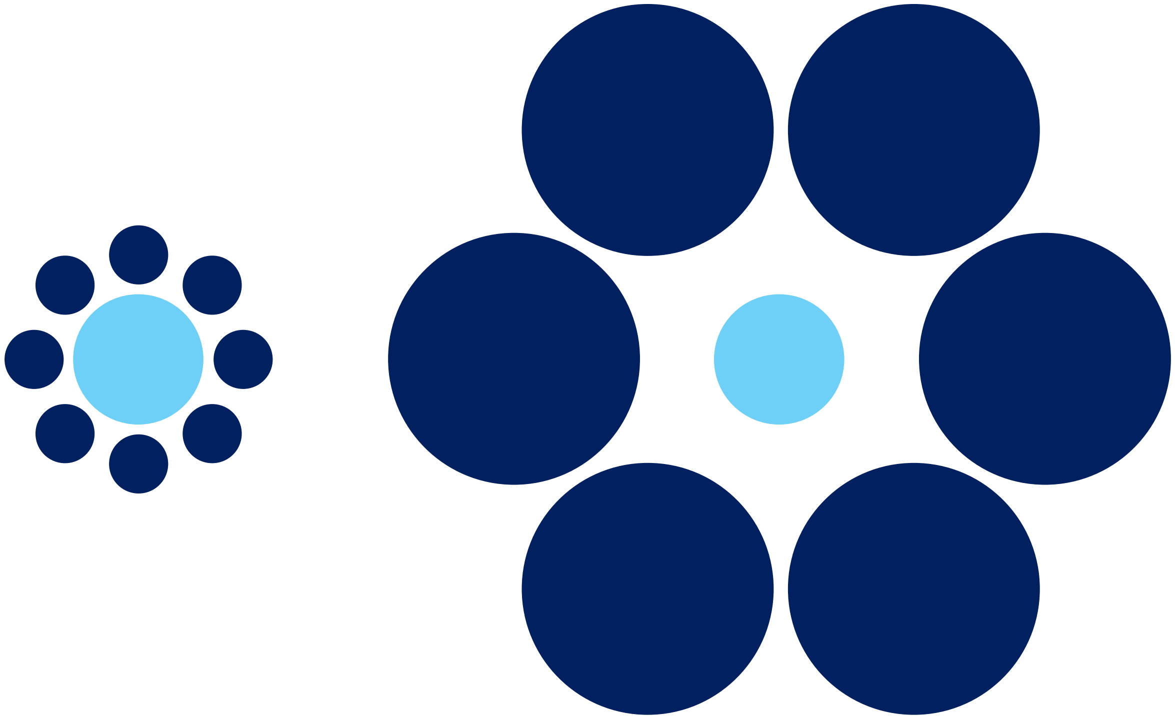


CAVEMAN BRAIN

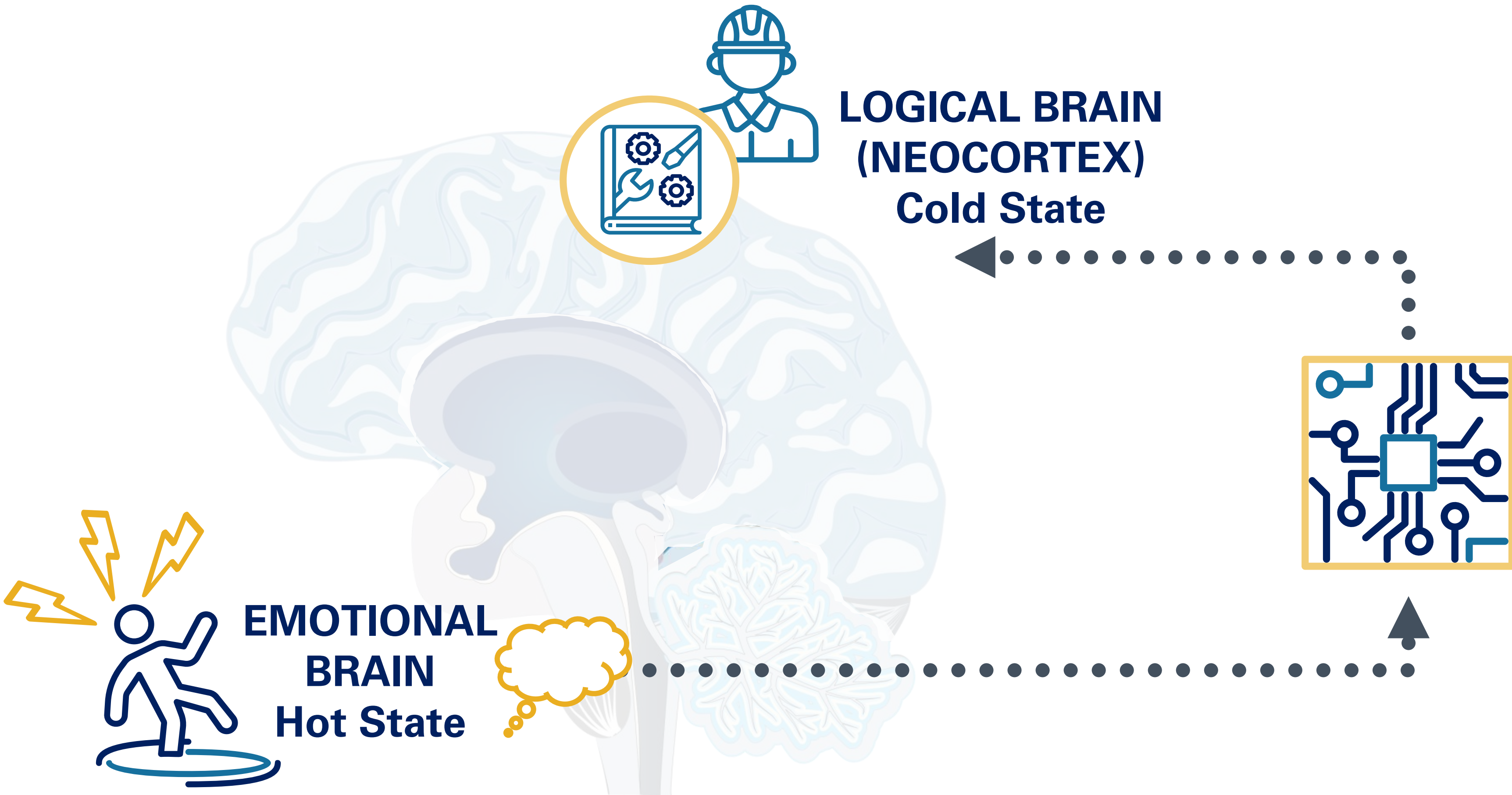


Source: yourgenome.org

WHICH LIGHT BLUE CIRCLE IS LARGER?



LOGICAL BRAIN



WHAT LEADS TO HOT STATE DECISIONS?

- Complex problem
- Incomplete or changing information
- Shifting or competing goals
- High stress, due to time constraints or high stakes
- Decisions require interaction with others

Source: Klein, Gary. Sources of Power: How People Make Decisions. MIT Press, 1999.

TOOLS TO OVERCOME BIAS

SECOND-LEVEL THINKING

OVERCOMES HERDING, RECENCY, FRAMING & INFORMATION BIASES

FIRST-LEVEL THINKING	SECOND-LEVEL THINKING
Linear and simple conclusions	Non-linear and complex conclusions
Emotional thinking, intuitive and fast	Logical thinking, difficult and high effort
Safe and obvious	Difficult and unconventional
Likely to yield same results as everyone else	Separates great outcomes from ordinary

EXAMPLE OF BIAS

HERDING, NARRATIVE & SAPIENS BIASES IN PRIVATE MARKETS

- PE firm raising Fund I
- Spun out of reputable large firm
- Limited access for LPs, highly exclusive

Example of investment decisions made due to connections rather than fundamentals

Shared Connection Bias

Same School Bias

Peer Bias

CONCLUSION

SUGGESTED READING LIST

- Ariely, Dan. *Predictably Irrational: The Hidden Forces That Shape Our Decisions.* HarperCollins Publishers, 2009.
- Chabris, Christopher & Simons, Daniel. *The Invisible Gorilla: How Our Intuitions Deceive Us.* Crown Publishers, 2010.
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- Marks, Howard. *It's Not Easy.* Oaktree Capital Management, 2015. https://www.oaktreecapital.com/docs/default-source/memos/2015-09-09-its-not-easy.pdf
- Montier, James. *The Little Book of Behavioral Investing: How Not to Be Your Own Worst Enemy.* John Wiley & Sons, Inc., 2010.

Q & A

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