

Farnam Street Learning Community

"You do your best thinking by slowing down and concentrating."

May 2017

The investor and author Guy Spier can teach us a lot about decision making. Guy's book, [The Education of a Value Investor](#), isn't really about investing but rather [one's person's path toward seeking wisdom](#).

While we had chatted on the phone a few times, we had never met in person until we bumped into each other at the airport in Omaha. Then we met again the next morning at like 4 am in line for the Berkshire Hathaway meeting.

Here's a photo of what we both look like that early in the morning.



I hope I didn't scare you. I'm not really a morning person.

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I was going through my files the other day and came across an interview Guy gave back in 2009 with the Manual of Ideas. The excerpt below discusses the use of checklists as an aid to decision making.

Checklists are great but they have limitations. I'll tell you why after. First, here's the excerpt.

We can improve our decision-making an awful lot by using checklists. The main way that I see it is that the investment world, either by design or by nature — and I think it is a combination of the two — throws up plenty of information that is designed to trigger one of two areas in the brain.

One is the threat detection fear mechanism, which throws up a very primeval response that has evolved within us for a very long time. It is one of the oldest parts of our brain — the fight-or-flight response. When we see something that makes us fearful, and we don't have time to act, analyze and make weighted judgments, we have to decide either to run or to stay ...

Then there is another side, which is irrational exuberance, as Alan Greenspan has described it, where the part of the brain that is being triggered is, as I've seen it described in various articles, the pleasure center of the brain. It turns out that the part of the brain we stimulate by the expectation of future profits is not that far away or dissimilar to the part of the brain that is stimulated, or lights up in CAT scans, when cocaine addicts either contemplate or are taking cocaine. These are very powerful centers.

Whether it is the fight-or-flight or the expectation of pleasure centers, the effect of both is to short-circuit rationally considered thoughts. They undermine the path of the brain that can make weighted, careful judgments about probabilities and about expectations. My perception is that it is the rational neocortex from which flow the very best investment decisions. Unfortunately, the world in which we operate is a minefield of opportunities to get caught up either by the fight-or-flight or by the pleasure center ...

*I think that somebody like Warren Buffett is naturally wired not to be in either of those two extremes and spends his time in the happy middle. **I think that what the rest of us human beings can do to train ourselves to be in that happy middle is use checklists.** A checklist pulls us away from the kinds of actions that we would take if we were in either fight-or-flight or greed modes. So that is the basis for checklists.*

The example I have given in talks is an airplane that is crashing. There is no question that checklists have been extremely helpful in reducing airplane accident rates. What it does is it brings the brain back to the place where one can make rational decisions.

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I don't really disagree with anything Guy said. Checklists can bring awareness to your mind, which can pull you out of the extremes mentioned above. Especially in routine situations where what you should be doing is perfectly obvious.

However, **I think there are limitations to checklists.**

One of the limitations is that, depending on how they are used, they can cause over-confidence. Another is that you miss things that you can't account for because they haven't happened yet. You can't put an item on your checklist that says "what if something that has never happened before happens." So operating in an environment or rapid change can render a checklist worse than useless.

Using checklists can also trigger over-confidence. You think you've accounted for everything so you believe your decision is brilliant. How convenient.

Checklists can also prevent or discourage an open mind and actively prevent you from updating your beliefs with new information.

When we run our once a year public workshop, Re:Think Decision Making, discussion inevitably turns to using checklists to avoid cognitive biases. I think this is a good *first* step. Necessary but not sufficient.

The way you craft your checklist goes a long way to determining how useful it becomes. Like most things, checklists can help you. They can also hurt you. You need to think through things in a three dimensional way.

Talk soon,
Shane

P.S. If you're looking to learn more about checklists, see my friend Micheal Shern's book [The Investment Checklist](#).