

P E R S P E C T I V E S

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Behavioral finance

Superforecasting (Part 3) — Philip Tetlock's first five commandments

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Over the past two months, I've been discussing *Superforecasting: The Art and Science of Prediction*, by Philip E. Tetlock. In this book, Tetlock describes his research on forecasting and what he has learned from it. On the surface, forecasting the future is difficult. But it seems some people can make predictions that are right more often than would be expected by chance.

Last month I looked at what made the good predictors different. In this article, I'd like to review the first five of what Tetlock called in the appendix to his book, "The 10 Commandments for Aspiring Superforecasters." What Tetlock calls commandments are the key lessons he has learned over his career of studying forecasting and forecasters.

I'll summarize here the first five commandments, and then the other five in next month's issue. However, for anyone seriously interested in improving their own forecasting ability, I highly recommend reading the entire book and appendix to get a fuller understanding of these techniques.

Tetlock's first commandment is: *Triage*. In the medical world, triage refers to prioritizing, that is, knowing where to focus your efforts. With forecasting, it's important to focus your efforts on decisions where forecasting is challenging, but not impossible. Some things are very predictable, like the morning and evening rush hours in Vancouver. There's not much point in issuing forecasts about these. But other topics of forecasting, Tetlock says, "have well-deserved reputations for being radically unpredictable (for example, oil prices, currencies)." It's interesting that Tetlock, the world's foremost expert in prediction, views as unpredictable the very two things we Canadians are most interested in trying to predict!

His second commandment is: *Break seemingly intractable problems into tractable sub-problems*. Superforecasters widely use this technique, and for good reason. All humans have limited brain power. But breaking a big problem into several smaller problems is an effective way to help us get around this limitation.

The third commandment is: *Strike the right balance between inside and outside views*. An "inside view" is a prediction that we create in our head by figuring out what should logically happen. An "outside view," by contrast, is looking at what has actually happened in the past in similar situations. It's like doing a renovation on your kitchen or bathroom. Your initial plan, breaking the work into components and totalling them, might suggest a budget of \$30,000. But the outside view, looking at what others have spent when doing similar projects, might suggest costs two or three times your original budget.

Tetlock's fourth commandment is: *Strike the right balance between under- and overreacting to evidence*. Most people do one of two things. They stick too firmly to their original views in the face of changing data. Or, they flit from one view to another with every item of news. The challenge is to keep a balance between the two – and good forecasters are better at it than most.

The fifth commandment is: *Look for the clashing causal forces at work in each problem*. There are almost always multiple ways of looking at a problem, and arguments for each of these different perspectives. It is helpful to respect all of the perspectives and factor them into any forecast.

Next month, I'll share with you the rest of Tetlock's commandments for effective forecasting. As we'll find out, the traditional limit of 10 commandments proves not to be quite enough for him! ■



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