

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

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Behavioral finance

Superforecasting (Part 4) — Tetlock's next six commandments

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This month we continue our discussion of Philip E. Tetlock's intriguing and influential book *Superforecasting: The Art and Science of Prediction*. As the appendix to the book, Tetlock included "10 Commandments for Aspiring Superforecasters." Last issue, we reviewed the first five of these commandments.

Now I'll summarize the rest of them. But I will echo my recommendation from last month, that to get the full impact of Tetlock's findings you should ideally read his entire book and appendix.

As I hinted last time, the traditional limit of 10 commandments wasn't enough for Tetlock. He needed 11! So we'll be reviewing six, not five, more commandments. But never fear: I'm confident you'll find each one valuable and interesting in its own right.

Tetlock's sixth commandment is: *Strive to distinguish as many degrees of doubt as a problem permits but no more*. Few things are either certain or impossible. Superforecasters think in terms of specific percentages, as in, "Is it 55% likely, or maybe more like 60% likely?" It's rarely all or none.

The seventh commandment is: *Strike the right balance between under- and overconfidence, between prudence and decisiveness*. It's one thing to estimate the odds of an event happening. It's another to know how confident you are that those odds are correct. The more confident you are, the more decisive you can be in making decisions.

Tetlock's eighth commandment is: *Look for the errors behind your mistakes but beware of rearview-mirror hindsight biases*. To improve, you need to learn from your past decisions where you went right and where you went wrong. To do this, you first need to keep accurate records of those past decisions and the reasons behind them. And then you need to analyze them with clarity and brutal honesty.

Here's the ninth commandment: *Bring out the best in others and let others bring out the best in you*. Teams, if organized and run properly, can make better decisions than the individuals who make up those teams. But this requires some special techniques to bring out the best in everyone and to avoid the pitfalls of groupthink.

Tetlock's 10th commandment is: *Master the error-balancing bicycle*. We are all prone to errors in forecasting. Properly balancing the different types of errors requires practice and accurate feedback. It's like riding a bike: You can't learn to ride one by reading a book! Biking takes practice and experience – sometimes painful experience – to learn the balance that's needed.

And now for Tetlock's 11th and final commandment: *Don't treat commandments as commandments*. As Helmuth von Moltke warned, "It's impossible to lay down binding rules because two cases will never be exactly the same." Different problems may require different applications of the commandments. Superforecasting requires "constant mindfulness," even when trying to follow these commandments.

Following the advice of Tetlock's 11th commandment, I look at all the above more as a toolkit than as a set of rigid, by-the-book instructions. And I view his first commandment as one of the most important: Be aware that many things are simply too complex to accurately predict.

For these types of problems, it makes more sense to prepare yourself for many possible outcomes, rather than placing too much confidence in any one prediction. For this reason, in most cases, preparation trumps prediction. ■



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