

PERSPECTIVES

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Behavioral finance

Superforecasting: The Art and Science of Prediction

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Last month I wrote about making judgments, or predictions, and how simple algorithms often perform better than experts. It was an American psychology professor, Paul Meehl, who originally arrived at that insight in 1954. Since then, more than 200 separate academic studies have backed Meehl up.

Yet humans are strongly drawn to the idea of making predictions. It's even been said we have an addiction to prediction! As it turns out, though, we're not that great at discerning the good predictions from the poor ones.

In this issue, I thought we'd dig a little deeper into the topic of prediction and forecasting. I'd like to discuss some of the findings outlined in the excellent 2015 book *Superforecasting: The Art and Science of Prediction*.

Forty years ago, in 1976, a 22-year-old Canadian named Phillip E. Tetlock graduated with a Master's in Psychology from the University of British Columbia. Tetlock then headed to Yale, receiving his PhD in Psychology in 1979.

He joined the University of Berkeley, where he had the opportunity to work with Daniel Kahneman and Amos Tversky, two of the founders of the science of behavioral finance.

In 1984 Tetlock began what turned out to be a 21-year research program on expert forecasting: the most extensive research ever done in the discipline. He closely tracked 284 expert forecasters from various disciplines and leanings. He amassed the results of over 28,000 forecasts, over periods ranging from one year to 10 years.

When Tetlock published his results in 2005 they caused quite a stir. As the media reported: "the average expert was roughly as accurate as a dart-throwing chimp." Not only that, but most experts were well below the results achieved by using simple algorithms.

However, while that was the main take-away of the media and was true of the average, Tetlock found that some types of forecasters were actually better than the average – and some systematically worse. He also discovered characteristics to distinguish the two.

A few years later, a U.S. government-sponsored agency, the Intelligence Advanced Research Projects Activity (IARPA), created a major contest designed to examine and improve forecasting techniques. This came about partly as a result of the exceptionally poor forecasting in predicting the possession of weapons of mass destruction after Desert Storm.

Phil Tetlock led a team that ended up winning that contest. In the process he learned much more about the art and science of forecasting.

His method this time, called the Good Judgment Project, included many more forecasters: 20,000 over its first four years. Many of these were interested volunteer lay people, not just professional experts. As Tetlock relates, these volunteers "tried to figure out if protests in Russia would spread, the price of gold would plummet, the Nikkei would close above 9,500, war would erupt on the Korean Peninsula, and many other questions about complex, challenging global issues."

In sifting through the hundreds of thousands of forecasts, Tetlock discovered there was very much an element of skill in forecasting. A small number of forecasters he calls *Superforecasters* had a very clear superior ability to predict the future.

He also learned more about things that could and couldn't be predicted.

I'll discuss more about what makes a good forecaster, and some of Tetlock's tips on forecasting techniques, in the next couple of issues.

Until then, when you hear the numerous forecasts coming out at this time of year, keep the following in mind. Bold predictions by famous people, and any forecasts about things that involve a myriad of complex factors, should be treated with a great deal of skepticism. ■



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