

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

Behavioral finance

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Superforecasting (Part 2) – What makes good forecasters different?

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In last month's Perspectives, I introduced the book *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. Forecasting is hard. Most of us simply can't do it well. However, Tetlock found that some forecasters could predict better than expected.

In this month's issue, I'd like to discuss what makes these good forecasters different.

Tetlock conducted his first major study from 1984 to 2005, involving expert professional forecasters. He discovered the average forecaster is about as accurate as a dart-throwing chimp! However, as noted, that's the average. Tetlock also found that some forecasters appeared a bit better than chance while others did systematically worse.

He noticed that the difference between the two groups isn't based on their education, experience or intelligence. It is rather based on how they think. The poor forecasters tend to be "big-idea" people, with very strong beliefs and set ideologies. They twist and squeeze the facts into their set world view. The good forecasters tend to be more pragmatic and use many tools to form their predictions. They are also much more flexible in their thinking. They adjust their thinking of the world as information changes. Tetlock dubbed the big-idea forecasters "hedgehogs" and the eclectic forecasters "foxes." Foxes beat hedgehogs quite consistently in their predictions.

Tetlock's much larger second study, the Good Judgment Project, involved over 20,000 forecasters from all walks of life, professional and amateur alike. From this study he discovered many more good forecasters – and he also learned more about them.

In their philosophical outlook these forecasters tend to be cautious and humble. They believe nothing is certain and reality is complex. They don't think things that happen are "meant to be" and recognize that many things in the past could have gone differently.

In their abilities and thinking style they tend to be intelligent, but are often not overly so. They tend to be actively open-minded, intellectually curious and self-critical. Most tend to be quite comfortable with numbers.

In their methods of forecasting, they tend to be pragmatic and value diverse views. They are analytical, think in terms of probabilities rather than absolutes, and update their probabilities readily as facts change. They are also good self-psychologists, regularly checking their own thinking for cognitive and emotional biases.

In their work ethic, they have a growth mindset, believing that it's possible to get better. And, they have grit. They work hard and keep at it no matter how long it takes.

Now, these are all general characteristics. Not every superforecaster Tetlock studied had all of them. The strongest predictor was the degree to which a person was committed to "belief updating and self-improvement." This was roughly three times as important as its closest rival, intelligence.

Tetlock found that these superforecasters seem to have the ability to forecast many things better than could be expected by chance. But he also found they are far from perfect. And they are the first to recognize that the future, for many complex things, is very difficult to predict.

So, beware of putting too much faith in any prediction. Our belief is that it's far better to prepare yourself for many possible futures, rather than relying too much on any one prediction, which could easily turn out to be wrong.

Here's something ironic. Hedgehogs tend to produce worse predictions than would be expected by chance. Yet many of these big-idea, super-confident experts become very well-known and well-followed in the media. It's possible their followers don't know how poor their predictions are. Or, perhaps these followers care more about the sizzle than the steak. ■



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