

Making Good Decisions: Presentation for UTD FLA

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Askeladden Capital**

Intro / Bio – Samir Patel

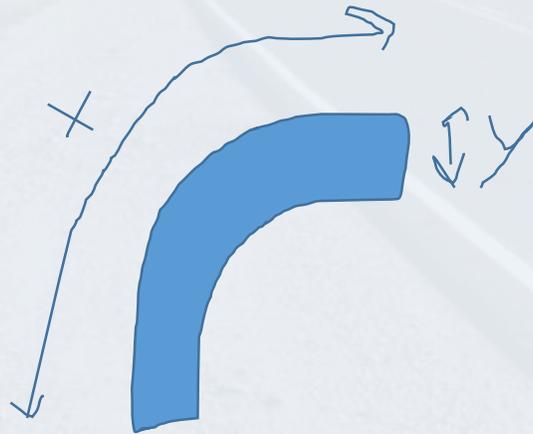
- UTD alum, two years as an analyst for a hedge fund, launched my own (Askeladden Capital) in Jan 2016
- Long-only small-cap equity
- My job description is to make good decisions – that's what I'm here to talk about
- Brief and hopefully practical useful presentation, then as much Q&A as you wish on any topic you wish

Why does making good decisions matter?

- Can't control external circumstances, but you can control how you respond to them (reactively or proactively)
- “Belief that behavior matters” is a meaningful predictor of success (however you dimensionalize it)
- Making better decisions will, over the long run and on average, lead to better outcomes (whatever you want)

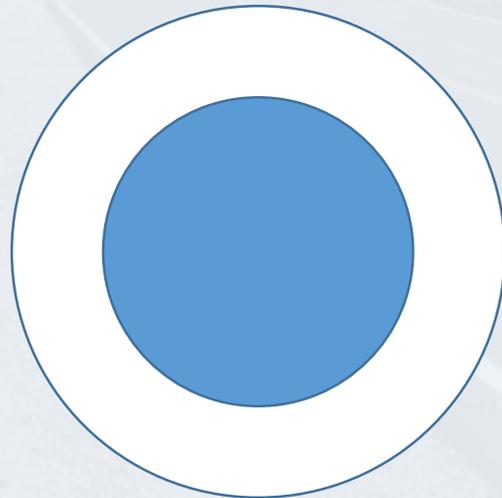
Decision Tool 1: Inversion

- If provided with only “x” and “y”, how do you find the area of this shape? (Excuse my terrible drawing; assume the two lines are straight and the two curves are perfectly circular)



Inversion (continued)

- There's no formula for this kind of shape... but there ARE formulas for circles. How would you calculate the area of the white ring? That's not hard...



Inversion (continued)

- Well, compare the shape to the ring...



Solution:

$x = 25\%$ of circumference of big circle \rightarrow find radius via $C = 2(\pi)r$

$y =$ difference between radius of big circle and small circle \rightarrow now you have radius of the small circle

Find areas of circles, subtract, then divide by 4

Inversion (continued)

- Start with the opposite and work backwards...
- Ex. want to get a job? Here's how you can *not* get a job:
 - Show up late to the interview
 - Show up unprepared
 - Have a poorly formatted resume
 - Only apply to your “dream job”
 - Be rude to the interviewer
 - Obviously you want to do the inverse of all these things – easy checklist for “how to ace an interview”
- Fairly obvious example, but power illustrated by Charlie Munger's speech on [“how to guarantee a life of misery”](#)

Inversion (continued)

- More broadly, looking at problems from different perspectives / angles can yield totally different results
- If you're stuck, instead of banging your head against the wall, try to find a different perspective or solve a different problem...

Decision Tool 2: Advise A Friend

- Other people's mistakes are easy to spot (XYZ never listens to anyone), but our own are easy to paper over (I'm a good listener! I was just tired/disinterested/undercaffeinated.)*
- Remember when you were a kid and you would ask people for advice "for a friend?" And that friend was really you...
- *example of "fundamental attribution error" – human tendency to attribute our own successes to skill/character and other people's to circumstance, and vice versa (i.e. our own failures to circumstance and other people's to skill/character)

Advise-A-Friend (continued)

- If you're in a tough situation, it can often be easier to be your own best friend than to solve the problem directly.
- If a good friend of yours with fairly similar traits was in the same situation you are in now, what advice would you give them? Now that you have no direct emotional involvement, what decision would you want them to make?
- The differences in decisions may surprise you...

Decision Tool 3: 80/20

- 80% of results are achieved by 20% of actions
 - Minimum recommended level of physical activity – 20-30% reduction in mortality. 4-5x that amount of exercise – 40% reduction in mortality. 20% of the effort gets you >50% of the way there!
 - Forget the hard, restrictive diet – cut out the equivalent of merely one soda or one snack portion of potato chips a day, and you'll lose 8 – 10 pounds in as many months
- Overwhelming tasks often look really hard but if you break them down into component steps and attack the easiest portions first, you'll likely get most of the way there. “minimum viable product” approach
- How do you eat an elephant? One bite at a time...

Decision Tool 4: Base Rates

- If you put your entire life savings into lottery tickets – and win mega millions – was it a good decision?
- No – on average, you’ll lose everything! You just got lucky.
- Statistically, big projects (building infrastructure / implementing an ERP / etc) take longer and cost more than expected... yet managers routinely underestimate time and cost
- If you’re doing the same thing as everyone else and using the same approach, unless your skill/luck is meaningfully higher than average, your results are likely to be in the neighborhood of the average
- Using an “outside view” (dispassionate thinking about similar situations) can help you avoid pitfalls that come from being too close (missing the forest for the trees).

Decision Tool 5: Human Biases / Mental Models

- Some of the things I've discussed are closely tied to the idea of human biases and/or mental models
- Human biases: predictable ways in which our brain's heuristics malfunction under certain circumstances. (ex. fundamental attribution error discussed earlier)
- Mental models: concepts like "margin of safety" (engineering, investing) or "complex adaptive systems" (things work differently at the system level than at the individual level) or "activation energy"
- Useful lists:
 - <https://www.farnamstreetblog.com/mental-models/>
 - https://en.wikipedia.org/wiki/List_of_cognitive_biases

Q&A

- Ask me whatever you want
- If you have a question you're not comfortable asking in front of the class, feel free to email at maximumeffort@askeladdencapital.com