



**COGNITIVE BIAS IS
IMPACTING YOUR
DECISIONS AND
BOTTOM-LINE**

Art Seifert and Lindsey Tepfer



Bias and Evolutionary Man

- Fast thinking facilitated survival. Kicked in fight or flight chemicals that triggered escape mode without a great deal of cognition...heuristics
- The more times flight saved the day, the more ingrained this behavior became until it was habit or instinct.
- Required little energy, became instinctive and work for millenniums. (If we used slow thinking for all cognition we could not consume enough calories in a day to fuel...the cognitive thought diet??)

What's Going on Here?

- Explain the chemicals released into the systems and what they do.
- How does this chemical flood facilitate flight?
- What happens when the threat isn't a sabre tooth but an angry boss reacting to our late arrival?
- What conditions follow the release of the chemical smorgasbord?

THE NEW YORK TIMES BESTSELLER

THINKING,
FAST AND SLOW



DANIEL
KAHNEMAN

WINNER OF THE NOBEL PRIZE IN ECONOMICS

"[A] masterpiece . . . This is one of the greatest and most engaging collections of insights into the human mind I have read." —WILLIAM EASTERLY, *Financial Times*

Thinking Fast and Slow

- Psychology of judgement
- Decision Making
- Behavioral Economics
- 2002 Nobel Prize in Economic Sciences
- Constant worrier
- Pessimistic
- Swagger-less
- Always questioning his own thinking
- Established cognitive basis for:
 - *Heuristics*
 - *Bias*
 - *Professor Emeritus at Princeton*

Amos Tversky

- Psychology of prediction and probability judgement
- Prospect theory and behavioral economics
- Quiet swagger
- Optimist
- Organized
- Highly disciplined
- Spotless office
- Twinned with Kahneman for more than a decade
- Died before Kahnemen received the Nobel prize
- Paratrooper in Israel Defense Force
- Captain and decorated war hero
- Malcom Gladwell's intelligence test

#1 New York Times Best-selling Author

MICHAEL
LEWIS



THE
UNDOING
PROJECT

A Friendship That Changed Our Minds

The Undoing Project: A Friendship that Changed Our Minds

- A book about changing how people think about how people think
- Great read brilliantly written by Michael Lewis
- Fascinating, complicated love story of two polar opposite geniuses working together
- Trying to figure out why man is NOT the rational actor he was thought to be
- Partnership worked because Kahneman was always sure he was wrong and Tversky always thought he was right.
- Judgement and decisions deviate in identifiable ways from idealized economic models
- Departures from perfect rationality can be anticipated and specified
- Errors not just common; they are PREDICTABLE.

How does bias impact decision making?

- Confirmation and Anchoring Bias
- *Confirmation Bias: The tendency to search for, interpret, favor and recall information in a way that confirms one's preexisting hypothesis. It is a type of cognitive bias and a systematic error of inductive reasoning.*
- *Anchoring Bias: A cognitive bias where an individual relies too heavily on an initial piece of information when making decisions*

Explain the biases are at work here?

- What is confirmation bias and how does it work?
- What is anchoring bias and how does it work?
- How does vulnerability to confirmation and anchoring bias keep us from making optimal decisions?

Sunk Cost and Overconfidence Biases

- Sunk Cost Bias
- *Expenses paid previously that are not affected by and should not impact current or future decisions and costs that should be ignored when analyzing new investment activities.*
- Overconfidence Bias
- *A tendency to hold a false and misleading assessment of our skills, intellect and talent.*

Explain the biases are at work here?

- Explain the biases are at work here?
- What is sunk cost bias and how does it work?
- What is overconfidence bias and how does it work?
- Left unconsidered, how do these two biases impact decision making?

Negativity Bias

- *Is the notion that, even when of equal intensity, things of a more negative nature have a greater effect on one's psychological state and process than neutral or positive things.*

Explain the bias is at work here?

- What is negativity bias and how does it work?
- How does negativity bias impact decision making?

Conclusion

- Saying to yourself by now...I get bias does exist and can have an impact on decision making...now what? What practical steps can I take to mitigate the impact of bias in decision making?
 - *The first step is being open to the reality of bias and being able to identify which bias may be impacting your thought process.*
 - *Take a test to uncover which bias(es) might be at work...we have a test.*
 - *As a leader in your organization, you can raise awareness of bias and its impact on your organization.*
- Be prepared for pushback. Nobody likes to be accused of bias.