

Don't Blink: The Hazards of Confidence

by Daniel Kahneman: Professor emeritus at Princeton, Nobel Prize laureate in Economics
Published in the *New York Times* October 19, 2011

This is an intriguing article about what Kahneman calls the “illusion of skill”—the ingrained belief that we have the ability to accurately predict an outcome, despite overwhelming evidence to the contrary.

According to Kahneman, “people come up with coherent stories and confident predictions even when they know little or nothing. Overconfidence arises because people are often blind to their own blindness.”

The article describes how this is painfully obvious when it comes to picking stocks, where individual investors have a strong tendency to shoot themselves in the foot, and even professional managers consistently underperform the market. As Kahneman says: “overconfident professionals sincerely believe they have expertise....You will have to struggle to remind yourself that they may be in the grip of an illusion.”

Kahneman’s “over confidence” assumption resonates with us at CCM and this is one of many compelling reasons why we utilize passive investments such as index and exchange – traded funds in client portfolios.

Click the link below to read the article:

<http://www.nytimes.com/2011/10/23/magazine/dont-blink-the-hazards-of-confidence.html?pagewanted=1&r=1&emc=eta1>