How Warren Buffett Avoids Getting Trapped by Confirmation Bias

Warren Buffett is arguably the most successful investor in history, and a good part of his success is his ability to make investment decisions without being influenced by the combination of emotional factors and subconscious biases that govern most human behavior.

One of the most insidious bugs in the software that runs the human brain is what psychologists call “confirmation bias.” That’s the tendency that influences all of us to put more faith in information that agrees with what we already believe, and discount opinions and data that disagree with our beliefs.

Confirmation bias explains in part why it’s nearly impossible to present enough factual evidence to convince a staunch Democrat or Republican that...
their candidate has serious flaws, or to persuade someone arguing for or against gun control that the other side may have a few good points. Confirmation bias can creep into every decision we make – employee performance evaluations, major purchases, management actions, and so on.

For investors, confirmation bias is particularly dangerous. Once an investor starts to like a company, for example, he may dismiss negative information as irrelevant or inaccurate. Investors often stick with a declining stock far longer than they should because they interpret every bit of news about the company in a way that favors the company prospects, and even seek out information that bolsters their case that the company remains a good investment.

One might think Buffett’s ability to make decisions dispassionately is due to some characteristic of his brain that makes him far more rational than the rest of us. While I wouldn’t discount that possibility, Buffett also uses specific techniques to keep cognitive biases from influencing his decisions.

The Buffett Approach
To avoid confirmation bias, Buffett acknowledges that even his decisions could be swayed by this brain bug - an important first step – and then gives voice to opinions that contradict his own. At the recent Berkshire Hathaway annual meeting in Omaha, Buffett invited hedge fund trader Doug Kass to participate. Kass is a critic of Buffett and his investment style, and is actually betting against Berkshire Hathaway stock by shorting it.

Inviting a vocal critic who is short-selling the firm’s stock to participate in an annual meeting is largely unprecedented. These events are usually scripted or at least tightly controlled by management, and controversy is rarely welcome. Buffett, on the other hand, viewed inviting Kass as an opportunity to spice up the meeting.

Employing specific strategies to avoid confirmation bias isn’t new for Buffett. An article by Jason Zweig, author of the excellent Your Money & Your Brain, pointed me to a lengthy Fortune piece written by Buffett a dozen years ago. He wrote,
Charles Darwin used to say that whenever he ran into something that contradicted a conclusion he cherished, he was obliged to write the new finding down within 30 minutes. Otherwise his mind would work to reject the discordant information, much as the body rejects transplants. Man’s natural inclination is to cling to his beliefs, particularly if they are reinforced by recent experience—a flaw in our makeup that bears on what happens during secular bull markets and extended periods of stagnation.

There’s a lesson here for all of us—**to avoid making bad decisions** about investments, political candidates, and many other topics, we must do two things:

1. **Be aware of the danger of confirmation bias**, and acknowledge that our judgment can be clouded by it.

2. **Aggressively seek out and understand information that disagrees with our existing belief.**

The second step may involve talking to people who don’t share our opinion, and **listening to their reasoning** rather than arguing our own point. It could be as simple as reading some of these opposing views. Regardless, it’s important to **evaluate the information as rationally as possible** and avoid one’s impulse to explain why it’s wrong.

We may still retain our initial opinion—Kass didn’t convince Buffett to dump his shares in Berkshire Hathaway—but we’ll know that we’re making that decision **based on facts and analysis, not thinking tainted by confirmation bias.**

*Roger Dooley is the author of* Brainfluence: 100 Ways to Persuade and Convince Consumers with Neuromarketing (Wiley, 2011). Find Roger on Twitter as @rogerdooley and at his website, Neuromarketing.

**RECOMMENDED BY FORBES**

The Fastest, Easiest Way to Boost Creativity

A Brainy Tool to Boost Saving

The Easy Path to Persuasion

The NBA's Most Valuable Teams 2017
Sprint Event Announcement Indicates 'Pokémon GO' Gen 2 Could Launch At Any...