

A LINE ON LIFE

6/27/99

Why Are We Overconfident? *

David A. Gershaw, Ph.D.

To the question in the title, most of us would think, "*But I'm not overconfident.*" However, psychological evidence indicates otherwise. An **overconfidence bias** is an accepted fact of psychology. Why is it so?

One reason is that we are unlikely to look for information that would indicate we are wrong. To test this, a 1960 psychological study gave people a series of three numbers — 2, 4, 6 — and asked them to give a series of three numbers that might follow to find out the rule being used to generate the numbers. (In reality, the rule was *only* that each number must be larger than the preceding one.) With each new set of three numbers, each person was told whether the set conformed to the rule or not. When they were *sure* that they had discovered the rule, they were supposed to tell what it was. The subjects were seldom right, but they were *never* in doubt. Of 29 subjects, 23 convinced themselves of the wrong rule! Of course, the most often used rule was "*counting by twos.*" In their attempts, subjects typically searched for **confirming** evidence (for example, 8, 10, 12.) rather than trying to **contradict** their hunches.

"There is no doubt in my mind."

We tend to have a **confirmation bias**. Essentially, "*it is hard for us to discard our ideas.*" We are eager to seek evidence that supports what we believe, but we are unlikely to look for evidence that might contradict our beliefs.

Each day, we are more likely to notice what *actually* happens than what does *not* happen. Although — on the surface — it seems to be a stupid statement, it contributes to our confirmation bias. Personnel managers may feel confident in their ability to select good employees. Looking over their current employees, they may feel good about how well most of their employees are doing. Unfortunately, these managers cannot view employees they did not hire — which might reduce their confidence in their hiring ability. (Do you have any record of good employees you may have rejected?)

In the same way, stock experts, with the latest information over computer lines, sell their services with great confidence that they can do better than the stock market average. However, as unbelievable as it may seem, a 1985 study by an economist revealed that mutual fund portfolios selected by reputable investment analysts did not earn more money than stocks selected on a *pure chance* basis!

Editors are just as overconfident in judging the work of writers. In 1979, writer Chuck Ross (under a false name) mailed a typewritten manuscript of Jerry Kosinski's novel, *Steps*, to 28 major publishers and literary agencies. (The novel had been published in 1968 by Random House, sold 400,000 copies, and won the *National Book Award*.) It was rejected by everyone — even Random House! Houghton Mifflin publishers — who had published three other Kosinski novels — came closest to accepting it.

"Several of us read your untitled novel here with admiration for writing and style. Jerry Kosinski comes to mind as a point of comparison.... The drawback to the manuscript, as it stands, is that it doesn't add up to a satisfactory whole."

Overconfident decisions can cause disastrous results. President Lyndon Johnson was confident that more U.S. soldiers and weapons could save democracy in Vietnam. President Reagan was confident that selling weapons to Iran would balance power in the Mid-East and help free hostages in Lebanon. It was confident NASA managers that launched the space shuttle *Challenger*, even though engineers were worried about its

safety. Currently, are NATO forces overconfident that their bombing will stop the forces of President Milosevic of Yugoslavia?

How can we remedy this overconfidence? One way might be to reduce our estimates of others' cocksure statements. If these people say that they are *absolutely* sure they are right, we might reduce their estimate of correctness — in our minds — to about 85%.

Two other methods have helped to reduce overconfidence bias. If people are given immediate **knowledge of results** about the accuracy of their decisions, it seems to help. In real life, both weather forecasters and those who set odds on horse races get clear, daily feedback about their decisions. In a 1982 psychological study, experts in both of these areas did well in predicting the accuracy of their predictions.

There is still another way to reduce overconfidence. Try to get people to give one good reason why they **might be wrong** in their judgment. This forces them to consider *contradictory* information. To reduce overconfidence in various proposals, decision makers might be wise to insist that proposals include reasons why they might *not* work.

On the other hand, don't over-analyze your self-confidence to the point where you can't make any decisions. When decisions need to be made, those lacking in self-confidence will hesitate to speak up or make any stand. Overconfidence is costly — but realistic self-confidence can help us to make the best decision for the situation.

* Adapted from David G. Myers' *Social Psychology*, McGraw-Hill Publishing, 1990, pages 113-116.