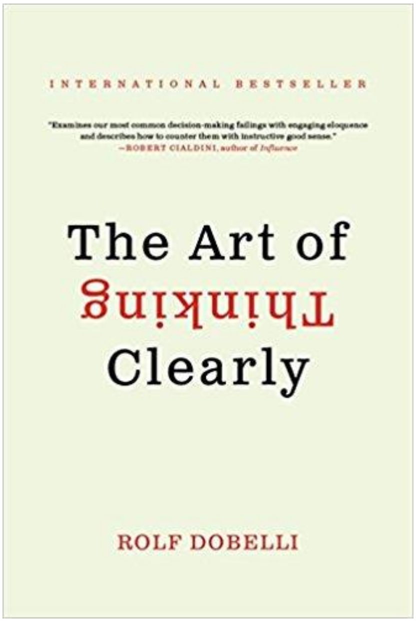
The Art of Thinking Clearly

By Rod Fraser



My wife suggested I read *The Art of Thinking Clearly*, a book written a few years ago by Rolf Dobelli. The author lives in Switzerland, has written two novels in years' past and possesses a MBA from a well-regarded business school in Europe.

Dobelli's educational background (and interest in writing) dovetails with my own life story, so I decided to have a look. It didn’t hurt that the book’s cover was attractively laid out, the writing simple and straightforward and the subject matter compelling.

This is the type of book that business writers (usually academics) love to write. It makes a splash, imparts useful knowledge and creates opportunities for the author to enjoy highly-paid speaking engagements at conferences, universities and conventions.

This is not a criticism. A good book is still a good book, even if the author is able to do well financially in the aftermath of its publication.

Mark Twain (who is frequently quoted in Dobelli’s book) was a master at this. His books enjoyed a popular success to be sure. But his real talent was as a speaker. Using his books as a prop, he would regale audiences around the country with his stories, wit and political commentary. He was a very popular (and successful) man in his time.

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‘*The Art of Thinking Clearly*’ was initially published in German in 2012. It enjoyed popular success in Europe, was translated into English by Nicky Griffin and reprinted in the United States in 2013 by Harper Collins. It is an interesting book and well worth the time to read it.

One question occurred to me in the course of reading this book. I wondered if Dobelli spent too much effort dwelling on the negatives of life. In an interesting YouTube presentation, Dobelli answered this question as follows.

> *"Let's be honest. We don't know exactly what makes us successful … [or] happy in life. The world is too complex for us to know these things."*
>
> *"On the other hand, we have a very good understanding what might destroy our success or happiness. So negative knowledge (what not to do) is often more useful than positive knowledge (what to do)."*

Quite so. I was happy with Dobelli's explanation and it enabled me to appreciate his discussion of the 99 ways people do not think clearly, show poor judgement or make mistakes, over and over again.

I don't intend to list all of Dobelli's "cognitive traps," but I shall describe a few and leave you to buy his book (if you wish) and consider the others at your leisure.

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One of the easiest for me to recognize was the "*sunk cost fallacy*," since it is regularly taught at business school. It goes something like this: A young couple have placed a $10,000 deposit on a new home. They are expecting to obtain a mortgage at the prevailing interest rate of 4% per annum.

Unfortunately, after the offer was signed, but before the house closed, interest rates increased to 10% per annum, making the carrying costs on the new home unaffordable. The couple ask to cancel their offer and the vendor agrees to this, provided they forego their deposit.

During their subsequent discussion of the matter, the wife confirms she wants to complete the purchase, arguing they will lose the $10,000 deposit if they cancel the deal. This is the fallacy of "*sunk costs*."

The $10,000 has been spent. It is no longer relevant to their decision. It is only future costs that count. If they complete the purchase, the higher interest rates will cause them to lose their home in future months and they will become bankrupt. If they are thinking clearly, they will cancel the contract and get on with their lives.

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In another chapter, Dobelli urges his readers to be aware of the risks of their choices in life. An example will illustrate his concerns.

Consider the case of two successful stock market investors. Over the years, Investor One saves half his income (after tax) and invests in GICs, blue-chip stocks and quality bonds. Over twenty years, he accumulates $4 million in savings and retires.

Investor Two also saves half his income (which is less than Investor One) and invests in junk bonds, credit default swaps, and commodity options. At the end of twenty years, he also accumulates $4 million in savings and retires.

Are their circumstances similar? Well no. Although they have ended up with the same amount of wealth at the end of twenty years, this is an unlikely coincidence. The risk that Investor One assumed was modest. It is unlikely that anything (other than health issues or disability) would have prevented his life plan from coming to fruition.

This is not true for Investor Two. At every stage of his life, he faced two “alternative paths,” with one leading to financial ruin (the most likely path) and the other leading to success. It was only due to the rarest of luck (one in a million) that he ended up in the same position as Investor One.

Dobelli argues we should carefully consider what risks there are with every decision we make in life. Success that comes from tossing the dice and reaping the consequence is — to a rational mind —

of little value. Better to concentrate on honest work, frugality and economic achievement. These are values of a higher order.

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One of the interesting questions the author considers is the effectiveness of bonuses and penalties. In many circumstances, Dobelli argues, "people do things for well-meaning, nonmonetary reasons." Introducing bonuses (or penalties) can be counterproductive to these employees and their organizations.

For example, one of the problems at day care centres is that parents often come late to pick up their children. This is annoying to staff since they have no option but to wait for the parents to arrive.

It doesn't take long before the day care concludes they should charge a financial penalty to discourage this behavior. Unfortunately, this doesn't always work. Studies show — that when penalties are charged — more parents come late to pick up their children.

The payment of a monetary penalty seems to legitimize bad behavior. Introducing a financial penalty has changed the relationship with the day care from "interpersonal to monetary."

In a similar way, small, start-up businesses may have a strong ‘esprit de corps.’ The employees (including those who started the business) are loyal, feel a sense of pride in its success and expect promotions in the years ahead as the business grows and prospers.

If bonuses are introduced into such a corporate culture, the results might be unfortunate. The focus of staff will change to activities that improve their incomes. Tasks that “bring no extra reward” will be ignored. Their overall enthusiasm — responsible for building the business in years’ past — may diminish. This is not a good result.

Dobelli finishes this chapter with a caution to parents. He suggests children be given a weekly allowance. Parents who reach for their wallet every time they want their lawn cut or the snow shovelled are likely to be disappointed.

Or as my daughter (mother of three) assures me, “paying them just gives them a choice: ‘nah, I don’t need the money.’” She agrees an allowance is the way to go, with the clear understanding that everyone in the family has chores to do.

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The author confesses in an epilogue to his book that he doesn’t strive to achieve “an error–free life”. Some decisions have little consequence and he makes them accordingly — usually based on how he feels at the moment. It is the larger decisions, where the consequences of error could be significant — where he tries to be “rational as possible when choosing.”

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