

How to protect against the personal experience bias

Nothing beats irony. Take Daniel Kahneman. He received the Nobel Prize for Economics for his work on behavioral economy. Among others, he convincingly demonstrated:

- the rational consumer does not exist outside textbooks and theories of economy; humans rarely act rational.
- the human mind is a machine made for jumping to conclusions.

The urge to draw instant conclusions when exposed to data must have had evolutionary benefits, otherwise the human mind would have been wired differently by now. In today's world, however, being deceived by your own mind is rarely practical. Biases tend to be like snipers, they hit before you see them. It is hubris to think you can defy them.

Maybe being aware of biases helps to timely recognize and neutralize them. Not true. In his bestseller "Thinking fast and slow" Kahneman postulates that awareness of biases does not offer protection. The professor of psychology ironically concludes that *teaching psychology is mostly a waste of time*".

Being hit by biased thinking - when you discover it in the first place – remains a humbling experience. Yesterday it happened to me again, with the following results:

- a good number of working hours wasted
- an urge to write a blog as catharsis

My assignment was a typical analyst's job – I felt competent to do it. Let me explain. Consider a market where demand meets supply at an equilibrium price. In the dairy market as in many other markets, globalization happened on paper only. For reasons good or bad, geographical markets have been protected by import duties. Truly open markets usually exist within free-trade-zones such as the EU or Mercosur, but rarely extend beyond these zones. The result is that for some products the pricing within a trade zone has a dynamic of its own. Intra-trade-zone pricing for a product is not affected by what happens within other trade zones. From an EU perspective, the US dairy market could just as well have been on the moon. Put simply: pricing simply is an EU thing. Intra-EU prices for the cheese I looked at exceed those in markets outside the EU.

In the eighteen months that I had been in the job role when this happened to me, this has always been a firm truth. For pricing analysis, you look at the usual suspect actors and factors in the EU. You subsequently take all known perspectives and will certainly find a useful answer. But this time, things just didn't add up. How can this cheese made in the EU and offered in non-EU Obscuristan be sold there for € 200/metric ton more than within the EU? My colleague at that time who as sales director was responsible for Obscuristan is a rock star - but even she is not so good to justify this difference. She keeps selling at this price though where her EU colleagues moan about not being able to realize prices at a much lower level. Never in my lifetime had I seen the market being upside down.

Look further back, to see clearer ahead

Looking for a market-related clue indeed proved useless. It took me to think of Winston Churchill to solve the puzzle. The great man urges anyone to look further back, to see clearer ahead. Studying history does occasionally not seem to be a waste of time!

Long before I started my job, the market already existed. The market had absolutely been upside down in that dark past. The upside down market in the past resembled today's market. The fit was clear. The bias became clear as well. What you learn and vividly experience yourself is what constrains your thinking. When starting in a new job or exploring markets previously unknown to you, you build up a library of patterns on how the 'new' market behaves. It is not new though. What you see is not all there is. You have *so far* only learned and seen what happened during your tenure. You are not to blame though. It really is impossible to equally vividly experience how the market behaved before your tenure. But it is not impossible to realize that a market may have behaved differently prior to your tenure.

In conclusion, I believe that in spite of the compelling evidence that teaching (or studying) psychology is mostly a waste of time, I think that memorizing Churchill's phrase to avoid the 'not in my lifetime' bias is time well spent.

Kahneman, D. [2011], Thinking fast and slow, Penguin books, London, p. 170.