Insights from *Thinking in Bets* by Annie Duke

"There are exactly two things that determine how our lives turn out: the quality of our decisions and luck. Learning to recognize the difference between the two is what thinking in bets is all about." – Annie Duke

Annie Duke was a professional poker player, and in her book "Thinking in Bets" she explains three poker principles we can apply to daily decision making. When applied, these three principles can significantly increase the quality of our decisions and thereby increase the quality of our lives.



Principle #1: Every Decision as a Bet

Think of a future prediction you're certain of.

- Are you certain the stock market will continue to go up or down?
- Are you certain you'll enjoy a book you've recently purchased?
- Are you certain your next project will be successful?

Now, imagine someone with an opposing point of view says, "Wanna bet?"

When you're asked to wager a significant sum of money on your beliefs, you naturally pause, vet your beliefs, and think: *"What information am I missing? What does this person know that I don't?"*

When you think of every decision as a bet, you begin to see a range of possible futures (favorable and unfavorable) and adjust your degree of certainty – instead of being 100% sure you're right, you may be 70% sure. As a result, you become less biased and more open to new information.

"The approach of thinking in bets moved me toward objectivity, accuracy, and open-mindedness. That movement compounds over time to create significant changes in our lives." – Annie Duke



Principle #2: Positive Expected Value

Despite any uncertainty about the future, we can make a confident bet if we know our bet has a positive expected value.

Expected value = Possible reward * Likelihood of reward (probability of success). If an expected value > personal cost (time, money & attention we need to commit), we have a *positive expected value.*

When a poker player determines that she has a 50% chance of winning a $200 pot, the expected value is $100 ($200*50%). If she only has to commit $50 to the pot to see if her hand is better than her opponents, she has a positive expected value ($100 > $50). Therefore, she should call the $50 bet. If she loses, she still made the right decision because if she makes the same bet enough times, she will make money.

In life, if a potential reward (happiness, money, opportunity, etc.) is worth the cost (time, money, attention, etc.) after adjusting for the probability of getting the potential reward, we should commit with confidence – if we don't get the desired result we still made a good decision.



Principle #3: Decision Evaluation (regardless of outcome)

Quality of Outcome =/= Quality of Decision.

In poker, I can completely misread my opponents' hand, make a terrible bet but get a lucky draw and still win the hand. If I don't take the time to critically assess and adjust my faulty judgment, I am likely to make the same mistake in the future and get a worse outcome.

In life, I can make a terrible decision and get a good result. I could buy a stock based on a hunch or start a business without doing market research and get lucky and make money. But if I use that same haphazard approach when making future decisions, I will undoubtedly lose money in the future.

That's why it's essential you and I develop the following habit: When we get a good result in life, we must find at least two mistakes we made and admit them to a friend, a coworker, or partner. Not only will this keep us level-headed, it will also help us make the shift from being results-focused to process-focused.

Admitting mistakes is hard, but admitting mistakes we've made on route to a victory is much easier than talking about mistakes that led to a loss.

"What makes a decision great is not that it has a great outcome. A great decision is the result of a good process." – Annie Duke