



Jackson Square Book Talks

STEPHEN PINKER: RATIONALITY

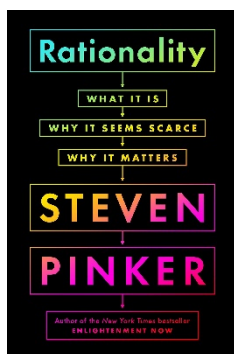
A Commonwealth Club Presentation sponsored by Jackson Square Partners

The rational pursuit of self-interest can add up to crippling irrationality in a society.

What are the implications for markets and investment decision-making?

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Stephen Pinker

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In Conversation with

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OUR KEY INVESTMENT TAKEAWAYS

The epidemic of irrationality reflects the fact we have "Paleolithic emotions, medieval institutions and godlike technology." – E.O. Wilson

- **Evolutionary Psychology** - Daniel Kahneman and others have highlighted the large number of heuristics and biases that stem from Paleolithic inclinations maladapted to modern society.
- **Confirmation Bias** - is among the most pernicious of investment biases and manifests as *"the seeking of evidence that ratifies a belief and being incurious about evidence that might falsify it."*
- **Disagreement is Necessary** - *"the more we disagree, the more chance there is that at least one of us is right."* A culture of debate and dissent is crucial for uncovering the truth.
- **Odyssean Self Control and the Marshmallow Test** - Walter Mischel highlighted the brain's hyperbolic discounting mechanism. In our former world of scarce resources, the brain evolved to live for today. Thus, it is hard for much of the market to resist the siren song of quarterly earnings and focus on the longer-term outlook of 3-5 years.
- **Odds** - *"Probability is the most important concept in modern science..."* – Bertrand Russell
- **Bayesian Reasoning:** Bayes' theorem is the law of probability governing the *strength of evidence* – the rule saying *how much* to review probabilities when we learn a new fact or observe new evidence.
- **Correlation and Causation:** *"One of the first things taught in introductory statistics textbooks is that correlation is not causation. It is also one of the first things forgotten."* – Thomas Sowell

Political Implications:

What's Wrong with People? (Chapter 10)

- **Myside Bias** – politically motivated and biased reasoning that leads to conclusions that enhance the nobility of one's political tribe.
- **Expressive Rationality** – *"reasoning that is driven by the goal of being valued by one's peer group."*

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