

Blind Faith – Wilful Blindness

This was the title of an article by Catherine Fox in AFR Boss magazine in June 2011. She was reporting on the book Wilful Blindness by Margaret Heffernan, who first came across the concept of wilful blindness in the Enron court case when the judge told the jury about the concept:

Everyone was saying [that] no one could have seen [the GFC] coming. That's ridiculous. Everyone could see [that] what was happening was not sustainable. Nobody wanted to attend to it, but it wasn't unseeable.

So, what is this wilful blindness exactly? Heffernan describes it as a manner of thinking that tries to reconcile events that do not, at first sight, have any direct and clear relationship. She ascribes the root of this phenomenon as mankind's quest for innate comfort by associating with people who are like they are in their thinking, philosophy and even their appearance and manner of dressing. This proclivity to be part of a herd means that we often have to ignore or reinterpret information that is out of line with the beliefs of our group, as we struggle to maintain the integrity of the group's belief system.

I have played a little game (without disclosing that it was a game for my safety) with a group of people who I knew was composed of some with a liberal, left-leaning philosophy and the others with a deeply conservative, right-leaning philosophy. I gave them all a copy of a purely factual short article. In the ensuing discussion the two groups articulated diametrically opposed interpretations of the same facts in the article. Of course, they drew on many more facts outside of the article that they felt supported their view. This is wilful blindness in action, though at the time, I did not know of this term for it.

This has direct application to investing. One of the things I teach in assessing a company as a possible investment is to draw up a list of pros and cons. This is to try to address a problem that I see often in myself and others around me. We can only see pros or we can only see cons. Clearly this is not a balanced view. In order to form a balanced view, we have to find the cons that exist alongside our pros or the reverse, if we only see cons. If we cannot force our own minds to come up with them, we need to seek out someone, who is not emotionally attached to, or disenchanted with the company, and ask them to help us complete the table of pros and cons. They will also query some of our cons in the process.

One of the problems is that mankind often creates systems or organisations that are too complex to clearly understand and to manage. The result of this is often that a problem is recognised, but the system or organisation it resides in is so complex that it is almost impossible to fix the problem until there is a crisis. If the organisation survives the crisis, there may then be the will to fix the problem. As evidence of this Heffernan refers to the so-called global financial crisis in which many people saw the problems developing in the financial system. Dealing with the problems fell into two baskets: it was felt that the financial institutions and banks were too large to fail (but they did) and these organisations were too complex to understand. Of course, most people who saw it developing did not understand that it would lead to a crisis. If they had, there may just have been a chance that action to avert financial meltdown of the financial system may have been attempted.

Another aspect of wilful blindness arises out of the hubris of success and power. In booming conditions, many people from individual investors to the heads of giant corporations develop a totally unreal belief in their ability to make money easily and to deal quickly and simply with any problems that arise.

At the individual investor level, the participants are often blissfully unaware of the economic and market bubble that is developing and will burst sooner or later. Either that or they have forgotten what has already happened many times in their lifetime. Many may not have even been paying attention, so were oblivious to what was crashing around them earlier in their adult lives. They also tend to be so confident now that they do not continue their investment education and in the end the market teaches them at a very high price.

At the giant corporation level, the top executives become cut off from what is happening at the coal-face of the business. What information they get comes through self-serving subordinates. The top executives become used to being able to give snap orders and things get fixed. However, this does not work in complex situations because they do not have all the facts and therefore they do not understand their own complex business and its systems. Giving simple orders in this situation is usually counter-productive and does not avert the crisis.

The general solutions to wilful blindness, which affects us all to some extent, lies in some simple ideas that can be difficult to implement:

1. Try to become a “contrary thinker”. Whenever we encounter a widely held view, we should try to cultivate the habit of examining it critically as would a true sceptic. This is very close to the pros and cons list that I mentioned earlier. Now we should try to write down all the arguments that support the widely held view. Next, we try to write down as many counter arguments as we can. We seek help from the small number of disbelievers if we can find some. Then we test each for and against argument and try to form a more balanced view.
2. Develop the mindset that there is more than one way to do something in almost any situation. When we have a situation that we need to do something about and we can see only one option, or have someone trying to force only one option onto us, we should step back. We should then try to list the full range of options. If we cannot see a range of options we need to seek out help from someone with the knowledge and skills to do so. Once we have a list of options, we assemble all the pros and cons for each option. With luck one option will stand out. It may be the first one we thought of, in which case we will now be able to act more confidently that we have the best solution, or the “least-worst” option, if all options are very difficult. It will also be surprising how often a better option emerges from this exercise than the only option we could see at the beginning.

Both strategies put a premium on dissenting views. We are all wired to feel safe and secure if people agree with us. However, this is where we are always most vulnerable. It is the time to seek out those who see things differently and consider their arguments. In most group decisions, the biggest mistakes occur when everyone sees no other possible or sensible alternatives. Heffernan says that we should not mistake the silence for safety. We should make it a habit never to reach an important decision until there is someone who disagrees and we have heard them out and weighed up the arguments for and against.

These two strategies should be carried out rigorously in important situations. However, life is too short to do it formally in every case. Sometimes a quick “back of the envelope” exercise will be all that is warranted. However, when we are faced with important decisions and there is only one widely held view, or we can see only one option open to us, then that is the time to be concerned, in fact very concerned, because we are being wilfully blind. This should be a red light flashing in our minds and is the time to stop and put the two strategies into action. If it helps to motivate us, keep in mind that decisions of this kind that are taken in haste usually allow plenty of time to reflect on our own laziness and stupidity after it has all gone pear-shaped and we have lost a great deal.

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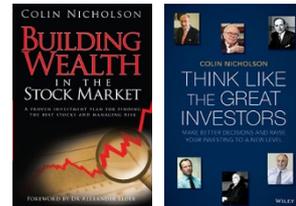
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