

Brad Brain: Why do inept people think they are actually doing great?

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Smart Money



Brad Brain: "In my work, I see many people who think they know what is happening with the stock market. But they don't. They just don't. But they think they do. And that's dangerous."

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Why do incompetent people sometimes think that they have wonderful abilities? No, I'm not being outspoken here. This is a real thing. People who are not that good at some thing often will think they that they are amazing at it.

It's called the Dunning-Kruger effect. It is a cognitive bias where people with limited skills are prone to dramatically overestimate their own abilities.

You probably have seen something like this before. Here is a well-known example: 88% of drivers consider themselves to be above average. This is, of course, statistically impossible.

A different way of saying this is that only 12% of people recognize the limits of their driving ability. So let's put that in the context of the time of year it is, and our rapidly deteriorating winter road conditions. Do you see the potential danger of Dunning-Kruger now?

This is not simply a matter of big egos making us blind to our own weaknesses. The Dunning-Kruger effect is specific to people who are not very skilled at something.

You see, people who know a moderate amount about a topic will often understand the limits of their knowledge. They know enough to know that they don't know it all.

People with expert knowledge are not vulnerable to Dunning-Kruger either. They actually do have the skills and knowledge to make informed decisions.

This is not to say that moderately skilled and expert people are immune to cognitive biases. They have their own, different biases that shape their thinking.

But the Dunning-Kruger effect can be a tricky one because it is invisible to the people that are vulnerable to it. They are caught in a bubble of self-deception. They are oblivious to the extent that they do not know enough to know how bad they actually are.

Now some people will read this, and understand the words, but then they will assume I am talking about someone else. And that is the point. If Dunning-Kruger is invisible to the people it affects, how do you know if it affects you?

I will give some examples from my own life to show I'm not just pointing fingers at others. I have expert knowledge in financial planning. It's what I do for a living. On the other hand, I have virtually no knowledge at all about mechanical things.

So, I am not vulnerable to Dunning-Kruger in these two fields because I am not under any false illusions about my own abilities. In one area I know what I am talking about, and in the other I readily admit that I am a neophyte.

Now, lets talk about chainsaws. I really like firing up my chainsaw on the weekend. I will buck up deadfall for the fireplace, and I won't hesitate to knock down some trees if I need to. I think I am pretty handy with the saw, as a matter of fact.

But am I? Am I really that good with a chainsaw? Probably not. Probably I am just an enthusiastic amateur playing with a potentially dangerous situation. This is exactly the type of situation where Dunning-Kruger can kick in. I think I am skilled, but am I really?

So what's the point of all this? Very simple. In my work, I see many people who think they know what is happening with the stock market. But they don't. They just don't. But they think they do. And that's dangerous.

There are two strategies to help overcome the Dunning-Kruger effect. The first one is to ask for feedback from people who know what they are talking about, and to listen to that feedback. The second is to keep learning.

It's OK to be lousy at something. As long as you aren't deceiving yourself about it. That's the Dunning-Kruger effect.

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