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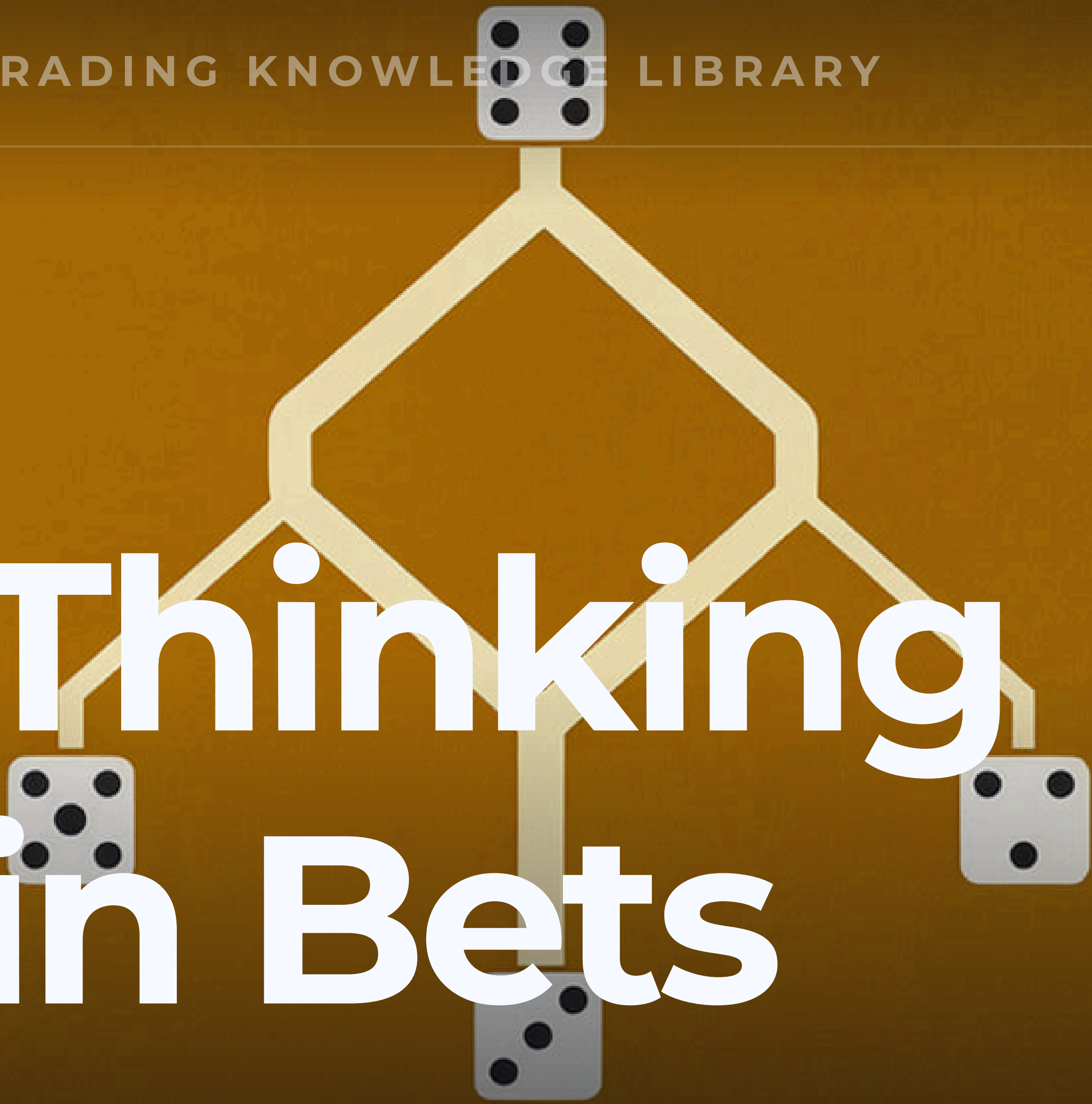

Thinking in Bets

Book Summaries

Trading Papers

Thinking in Bets

Annie Duke on deciding without the facts, read for traders

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Contents

A summary of Thinking in Bets by Annie Duke (Portfolio / Penguin, 2018), retold in our own words and applied to trading. The book is the source; the sentences, figures and examples here are ours

01

Why a poker player wrote this

Annie Duke played poker professionally for two decades after leaving a doctorate in cognitive psychology, and Thinking in Bets is the book that came out of holding both at once. Its argument is small enough to state in a sentence and awkward enough to spend a career on: most of what we call good and bad judgement is read off outcomes, and outcomes are a poor place to read it from.

	Chess	Poker
What you can see	Everything. Both players look at the same complete position.	A fraction. Cards are hidden and the deal is chance.
What a loss means	You were outplayed. The board is the evidence.	Almost nothing on its own. Good hands lose often.

The comparison the book opens with, and the reason a poker player had something to say about decisions. Traders are handed the right-hand column and are taught, almost everywhere, to reason as though they were in the left.

The comparison she opens with is between two games. Chess hides almost nothing — both players see the same board, and if you lose, you were outplayed. Poker hides most of it, and adds a deal you do not control, so a hand played perfectly loses regularly and a hand played badly wins often enough to be encouraged.

Trading sits on the poker side of that line and is almost always taught from the chess side. The chart is presented as a position to be read correctly, the loss as evidence of a misread, and the winning week as proof that something was understood. Take the comparison seriously for a moment and most of what a trading record seems to say about a trader quietly stops being reliable.

> This is a summary. The book is Thinking in Bets by Annie Duke (Portfolio / Penguin, 2018); the sentences, the figures and the trading examples in this document are ours, and section 12 says where to find the original.

02

Resulting

The book's most useful single word is resulting: judging the quality of a decision by the quality of what followed it. It is not a mistake anyone makes deliberately. It is the default, because the outcome is loud, immediate and countable, and the decision is none of those things.

	Good outcome	Bad outcome
Good decision	Deserved. Learn from it, and do not learn too much.	The one that hurts, and the one you must not change your process over.
Bad decision	Lucky. This is where bad habits are born, praised and repeated.	Deserved. The only cell that reliably teaches what it appears to.

Duke's term for the most expensive habit in this paper is resulting: reading the quality of a decision off the quality of its outcome. The two diagonal cells are the ones that teach you the wrong lesson, and they are the two you remember most vividly.

Two of those cells are honest teachers and two are liars, and the liars are the memorable ones. The trade taken against your own rules that ran to target teaches, in the only way experience teaches, that the rules are optional. The trade taken correctly that lost teaches that the process is broken, on a sample of one, at the moment you are least able to argue.

The correction the book offers is not to ignore outcomes — over a large enough sample they are the only evidence there is — but to stop treating a single one as a verdict. What a trader can do about it is concrete: record the decision before the result exists, so that the two are stored separately and can still be told apart in a month.

03

Every decision is a bet

The book's central move is to widen the word bet until it covers ordinary choices. A bet, in this sense, does not need a counterparty or a stake in cash. It needs only that several futures were possible, that you chose an action suited to one of them, and that something of yours rides on which arrives.

1. The future has several possible versions
2. You choose one action, knowing which version you prefer
3. The versions you did not choose are what the action costs
4. The world deals the outcome, partly by chance
5. The outcome is evidence about the bet, not a verdict on it

What the book means by calling every decision a bet. Nothing here requires a bookmaker: the wager is against the versions of the future you gave up by choosing, and it is placed whether or not you notice.

The step people skip is the third. Choosing an action is also refusing the alternatives, and the alternatives are the real cost. Standing aside is a bet on the futures in which nothing happened; holding through a release is a bet against every version in which the number came in badly; sizing up is a bet that this one resembles the others more than it differs from them.

The point of the reframe is not vocabulary. It is that a bet has a price, and asking what the price is forces the question of what would have to be true for it to be worth paying. That question can be answered before the outcome exists, which is the only time an answer to it is worth anything.

04

How beliefs get in

Duke spends a chapter on how badly the mind's intake process is built for uncertainty, and it explains more about trading forums than anything written specifically about trading forums.

first	You hear a claim.
then	You believe it, briefly and automatically, in order to understand it.
maybe	You check it — if you have time, and if it costs you nothing to be wrong.
after	Everything you meet next is read as support for what you already hold.

How a belief actually gets into your head, in the order the research Duke cites suggests it happens. Note where checking sits: not between hearing and believing, but afterwards, optionally, and usually not at all.

The order is the finding. We do not hear a claim, weigh it and then believe it; we believe it in the act of understanding it, and only afterwards — sometimes, if the cost of being wrong is visible — go back to check. Everything met later is then read in the light of the belief already held, which is the ordinary meaning of motivated reasoning.

For a trader this has a specific and expensive form. A method absorbed on a Sunday is believed by Monday, and every chart looked at on Tuesday is read as evidence for it, because charts are generous enough to support almost any claim if you approach them wanting to. The book's remedy is not to be more sceptical in general — nobody manages that — but to make the belief pay a price, which is the subject of the next section.

05

Say it as a number

The device the book is named for is a question you ask yourself or hear from someone else: would you bet on that? Not as a challenge, but as a request for a price. A belief that has to carry a number stops being a slogan and starts being a claim.

What is usually said	What it becomes when priced	What that buys
This level will hold.	I am about 65% on this level holding.	a number that can be wrong
The trend is up.	Seven in ten of these continue; this is one of them.	a base rate to check against
That setup always fails.	I have seen it fail four times out of five.	a sample size, and its size
I'm sure.	I'd put 90% on it and I'd hate to be shown the record.	an invitation to be corrected

The device the book is named for, applied to sentences a trader actually says. The left column ends conversations; the right column starts them, and can be scored against reality at the end of the month.

Read the middle column as sentences you could actually say. None of them is less confident than what it replaces; they are the same beliefs with a scale attached. That scale does three things at once: it admits the belief could be wrong, it says how wrong you would find surprising, and it leaves something behind that next month's record can grade.

The habit is unpleasant at first because it removes a comfort. It is easy to have been right about a level holding; it is much harder to have said sixty-five per cent and then find, over forty attempts, that the number was closer to forty. That discovery is the entire value of the exercise, and it is not available to anyone who only ever said the level would hold.

> A cheap version worth trying for a week: write a percentage beside every trade before entry, nothing else. At the end of the week sort the trades by the number you wrote. If the high-confidence group did not do better than the low-confidence one, the number was measuring your mood.

06

Who gets the credit

There is a bookkeeping error the book treats as universal rather than personal, and it runs without supervision in almost everyone.

	When it goes well	When it goes badly
Your own trade	Skill. The read was right, the plan worked.	Luck ran against it. The market was irrational.
Someone else's trade	They got lucky. Anyone could have taken that.	They were careless. It was obvious it would fail.

The self-serving pattern the book asks you to catch in yourself. It is not vanity; it is bookkeeping that runs by itself, and it produces a record in which nothing can ever be learned from a win or a loss.

Wins are filed under skill and losses under luck, and for other people the ledger runs the other way. The result is a record that cannot teach anything, because every entry has already been explained before it was written down. Duke's point is that this is not a character flaw to be confessed; it is a process to be interrupted, and it is interrupted by other people rather than by resolve.

The trading version is easy to catch once you know the shape of it. Notice how quickly a losing trade acquires a story about conditions, and how rarely a winning one does. Notice that both stories arrive before the trade is logged. The stories are not lies; they are just always available, which is precisely the problem with them as evidence.

07

A group that is actually useful

Since the correction is unlikely to come from inside, the book's second half is largely about other people: not mentors or signal providers, but a small group that has agreed in advance what it is for.

The agreement	What it means in a session	What replaces it by default
Accuracy first	the aim is what is true, not what is comfortable	encouragement
Accountability	you say what you predicted, before the result	narrating the winners
Openness to dissent	the disagreeing member is the useful one	agreement, quickly reached
Ideas, not owners	the trade is judged apart from who took it	status, defended

The book's proposal for getting better decisions out of other people: a small group with an explicit agreement about what it is for. The right-hand column is what most trading groups do instead, which is why they feel supportive and change nothing.

The right-hand column is what a trading group becomes without an agreement, and it is worth being honest that it is the more pleasant version. Encouragement feels like support; agreement feels like confirmation; the winners get narrated because they are the good stories. All three make the group nicer to belong to and remove its only reason to exist.

1. Say the setup, the plan and the confidence you had
2. Stop before the result
3. Let the group argue the decision on that information alone
4. Only then give the outcome
5. Record which of the two the group was judging

How to present a trade to such a group so the group can actually help. The order matters: every step that reveals the outcome early converts the room from analysts into an audience.

The rule that does the most work is the second: stop before the result. A group told the outcome first cannot judge the decision, because nobody in the room can unhear it — they will find reasons for what already happened. Present the setup, the plan and the confidence, take the argument, and only then say what the market did.

> Three people is enough, and two is not useless. What matters is that the disagreeing member is treated as the point of the exercise rather than as a problem with the group's mood.

08

Deciding across time

The last part of the book is about the fact that the person deciding and the person living with it are, in every way that matters, different people with opposed interests.

	Present You	Future You
Holds	The keyboard, the position, and the feeling.	The account, the record, and the consequences.
Wants	Relief now, and a reason that sounds good enough.	To have been protected from an argument nobody won.

The book's framing of self-control as a negotiation between people who never meet. Present You gets to act and holds none of the consequences; Future You holds all of them and is not in the room.

Present You holds the keyboard and none of the consequences. Future You holds the account and is not in the room. Almost every expensive trading decision is a transfer from the second to the first, dressed up as a judgement about the market — and it is worth noticing that the dressing-up is sincere. It does not feel like a transfer at the time.

Horizon	The question	What it usually says about revenge trading
Ten minutes	How will this feel almost immediately?	Excellent. Something is being done.
Ten months	How will this look in the record?	One of a cluster of days that explain the year.
Ten years	Will this have mattered?	Only as a habit, which is exactly how it will matter.

Three horizons, borrowed in the book from Suzy Welch, asked before acting rather than after. On a screen the first column is the one shouting; the other two are the ones with a claim on the account.

The three-horizon question is the cheapest tool in the book: how will this feel in ten minutes, ten months, ten years. Applied to a revenge trade the three answers separate immediately, and the separation is the point. The ten-minute answer is the one shouting; the other two are the ones with a claim on the account.

09

Planning from both endings

Duke recommends two planning exercises that are the same manoeuvre pointed in opposite directions, and they are worth running as a pair because each catches what the other cannot.

	Backcasting	Premortem
You assume	the plan worked	the plan failed
You produce	the steps that got you there	the reasons it fell apart
It is good at	sequencing and milestones	surfacing what nobody wants to say
Alone, it gives	a confident plan with no defences	a list of fears with no route

Backcasting and the premortem are the same manoeuvre pointed in opposite directions, and each finds things the other cannot. Running only the first is how a plan arrives full of steps and empty of defences.

Backcasting starts from the version of next year in which it worked and asks what must have happened along the way. It is good at sequencing and at making a vague ambition concrete. Its weakness is that it is a pleasant exercise, and pleasant exercises do not produce objections.

1. Fix a date six months out
2. State as a fact that the plan failed
3. Write the reasons it failed, in the past tense
4. Rank them by how cheap they are to prevent
5. Change the plan before it starts, not after

The premortem, which the book recommends alongside its more optimistic twin. It is the same planning exercise with the ending fixed in advance, and it produces objections that a hopeful discussion never reaches.

The premortem fixes that by asserting the failure as a fact and asking for the reasons. Stating it as done rather than possible is what makes it work: people who will not volunteer a doubt about a plan will readily explain a disaster that has, grammatically, already happened. For a trading plan the answers arrive fast and are usually the same three — the rules were loosened on quiet days, the size crept after wins, the record stopped being kept in the second month.

10

Tying yourself to the mast

The book's practical conclusion is that the moment of decision is the wrong place to be virtuous, and that the fix is to move decisions to moments when nothing is at stake. It borrows a name for this from Ulysses, who wanted to hear the sirens and arranged in advance not to be able to act on it.

The moment you fear	The contract written before it	Why it holds
A loss you want to make back	a daily loss limit that closes the platform	the rule acts, you do not
A winner you want to hold longer	the exit written on the ticket at entry	the price was chosen without a position
A setup that is nearly there	the checklist, printed, with no near-misses	nearly is a judgement; the list is not
A revision you will regret	no changes while a position is open	the ban is easier than the argument

Precommitment, which the book calls a Ulysses contract after the sailor who had himself tied to the mast. Each row moves a decision from the moment it is hardest to a moment when nothing is at stake.

Every row moves an act of will into a rule made earlier. That is not a trick for the weak-willed; it is the recognition that willpower is at its lowest precisely when it is most needed, and that a rule written on a calm Sunday is available on a bad Thursday in a way that resolve is not.

The strongest versions are the ones that do not require your cooperation at the moment of temptation: a platform that logs you out at the loss limit, an exit order placed at entry, a checklist that has to be filled in before an order can be sent. The weakest are the ones that only ask you to remember your intentions, which is the same thing as having none.

11

What it gives a trader, and what it does not

It is worth being exact about what this book is for, because it is frequently recommended in trading circles for the wrong reason and then found disappointing for the right one.

	What it gives you	What it does not
About deciding	A way to judge choices that survives a bad month.	Any means of knowing which future will arrive.
About trading	Habits that make a record worth reading later.	An edge. It contains no setups and claims none.

What a trader can take from this book, and what no book of this kind supplies. The right-hand column matters because the left one is easy to mistake for a method, and it is not one.

It contains no setups, no indicators and no market claims, and it does not pretend otherwise. What it offers is a way of evaluating decisions that does not collapse after a bad month, and a set of habits — the stated number, the group that stops before the result, the rule written in advance — that make a trading record worth reading later instead of merely long.

That is a real contribution and a limited one. A trader with excellent decision hygiene and no edge loses money slightly more slowly and with much better documentation. The book is a multiplier on a method rather than a substitute for one, and reading it as anything else is the surest way to be let down by it.

> Where it helps most is not the day of a large loss but the week afterwards, when the temptation is to rebuild the method around a single outcome. That is exactly the moment the distinction in section 02 is worth the price of the book.

12

The source

This document is a summary. It is short by design, it is written in our own words, and it leaves out most of the book — the research it cites, the poker hands it works through, and the case studies that carry a good deal of its argument.

Title	Thinking in Bets: Making Smarter Decisions When You Don't Have All the Facts
Author	Annie Duke
Publisher	Portfolio / Penguin
First published	2018
This document	Our summary, in our words, applied to trading
Not included	The book's own text, examples or figures

The source, stated plainly. This paper is a summary and an application; if the ideas are useful to you, the book is where they belong to, and it is worth the afternoon it takes.

If the ideas above were useful, they belong to the original, and the original is a couple of hundred pages of ordinary prose that most readers finish in an afternoon. Reading it will also correct whatever this summary has flattened: any retelling chooses an emphasis, and ours is deliberately turned towards the screen in a way the book itself is not.

Term	As used in this paper
Resulting (Duke's term)	Judging a decision by how it turned out.
Bet	A choice made among futures, with something at stake.
Calibration	Stating confidence as a number that can later be scored.
Motivated reasoning	Reading evidence in the way that protects a belief.
Decision group	A small group agreed to prize accuracy over comfort.
Backcasting	Planning backwards from an assumed success.
Premortem	Planning backwards from an assumed failure.
Ulysses contract	A rule set in a calm moment to bind a worse one.

The terms this paper uses in a fixed sense. Where a term is the book's own, it is marked as such; the definitions are written here rather than quoted.