

*Satisfying Life*, in which they, essentially, applied two things: thinking on the margin and the power of compound interest. People who want to get rich quickly are already thinking the wrong way, because to get rich quickly you have to either have an incredible breakthrough in your career, buy the next Microsoft stock early, or win the lottery. But if you're content to get rich slowly—which for the great majority of us is the only way to get rich—you need simply to save a substantial fraction (10 to 20 percent) of your earnings regularly, invest these earnings in a stock index fund such as Vanguard's Total Stock Market Index Fund (VTSMX), which, between its inception in 1992 and 2004, averaged an annual rate of return of over 10 percent, and keep doing that year after year, starting ideally before you are 35. A fund that has been around longer is Vanguard's Wellington Fund, which has had an average annual rate of return of 8.3% since July 1929, interestingly, just three months *before* the great stock market crash. If you invest \$2,000 a year and earn an 8 percent real (i.e., inflation-adjusted) rate of return, after 40 years, you will have \$477,882. Indeed, when I read McKenzie's and Lee's book, I realized that I had been following all 8 of their rules, starting at age 31, and I'm happy to report that by age 50, I had become a millionaire.

## **I Must?**

Another way many of us think unclearly is by going through life with a list of made-up obligations. We wake up in the morning with a long list of "must do" items. After a while, our feet start dragging and we feel a heavy burden on our shoulders. But we "must" press on. Such phony obligations get in the way of clear thinking.

There is very little in the world that we actually must do. Let's face it, unless we are in jail or otherwise detained, we have complete freedom about how to spend our day. The reason we don't just pack up and go sit on the beach every day is that our actions lead to outcomes—and many of our "have to's" give us the outcomes we want. Going to work, for example, provides camaraderie and a feeling of importance, as well as the money to buy the things we need and want. The "I must" person tells himself that he must go to work. The clear-thinking person says, "If I work at this job for another year, I'll be able to buy a house. I

could quit my job today, but if I want that house a lot, I'd better show up for work on Monday morning."

The "I must" attitude increases our burdens and lessens our humanity. When we have goals in mind, we should reframe the issue from "I must" to "I want." I *want* to go to work so that I can feed my kids, buy a car, buy a house, or change the world. If my goals don't seem to justify the effort, then maybe I should rethink my goals and my overall strategy. When we act with clarity of mind, we cease being a fake prisoner and realize our true freedom. For more on this, see David Kelley's powerful essay "*I Don't Have to*."<sup>6</sup>

## A Good Reason is Not Good Enough

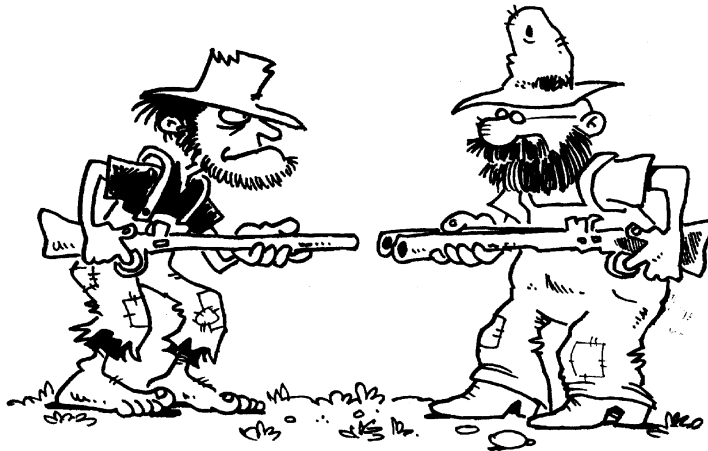
As we choose among alternatives (possible choices), reasons factor into our decisions. For most of our choices, there is not just one, but many reasons; some are important, while some are less significant. To use reasons properly, we would have to consider *all* the reasons and factor them by their importance. But even a casual examination of human behavior shows that the reasons we give for our choices are often as much a *result* of our choices as they are a factor in making them.

Years ago, I (CLH) was on a first date with a young woman I had met at a bar the weekend before. I seemed to have made a good impression in the bar while we were drinking, talking, and dancing. I must have seemed less exciting to her in the quiet light of day. On our way to the restaurant, she informed me that she had to get up early the next morning to go water skiing with some friends. Because of this, she said, she would need to get home early. She clearly had decided she wasn't very interested in me and gave this reason as justification for cutting the date short. Although the need for sleep appeared to drive her decision, in truth, she had decided that sleep would be better than a mediocre date. If she had been having a great time, she probably would have stayed out late and worried about sleep later. She gave me a reason because of her choice not to spend much time with me, but she stated it as if the reason led to her choice.

This kind of thing happens all the time. My (CLH's) wife Lisa used to tell men, back when she was single, that she had

plans and couldn't go out on Friday night. In reality, her plans were to have a quiet evening at home with her cats and a good book. We are conditioned to think of reasons and use them for our justification when we really should focus on our alternatives, as Lisa did, and decide to stay home because it is the preferable alternative.

For a classic case of letting good reasons lead you to bad decisions, consider the long, bloody feud between the Hatfields and the McCoys. "Four Hatfields were killed in West Virginia in a continuation of their feud with the McCoys," read *The Union* newspaper in March 1902.<sup>7</sup> A year later, the same newspaper reported that, "...Fred and Floyd McCoy of the infamous Hatfield-McCoy feud had a pitched battle with officers. Several men killed on both sides."<sup>8</sup> Both the Hatfields and the McCoys had good reasons to continue their feud and you can imagine their thinking process. "The Hatfields shot my pa. I'm gonna kill them." "The McCoys have been harassing us for years. It's time we taught them a lesson once and for all." However, good reasons are not enough. **A good reason is not a good reason to act.**

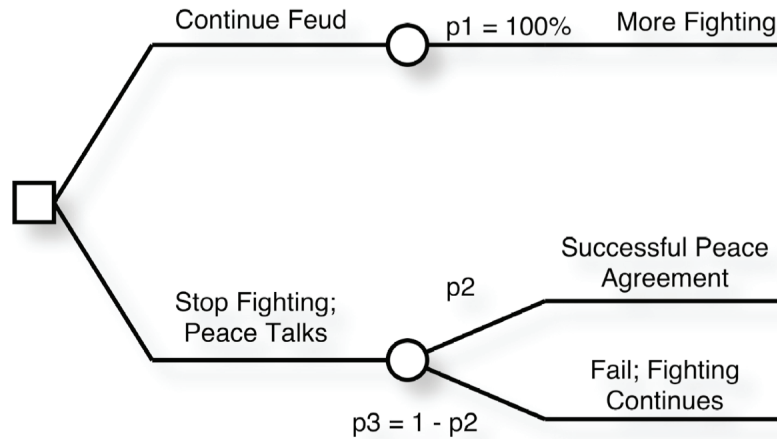


In the larger sense, the Hatfields and the McCoys were making a decision: continue the feud or end the feud. While the two families appeared to have good *reasons* for continuing the feud, an overall view would argue for termination. By ending it, both families could have prevented the high cost of the feud, in terms of lost work and death and destruction. The Hatfields and the McCoys were really just pursuing a policy of "I must." They

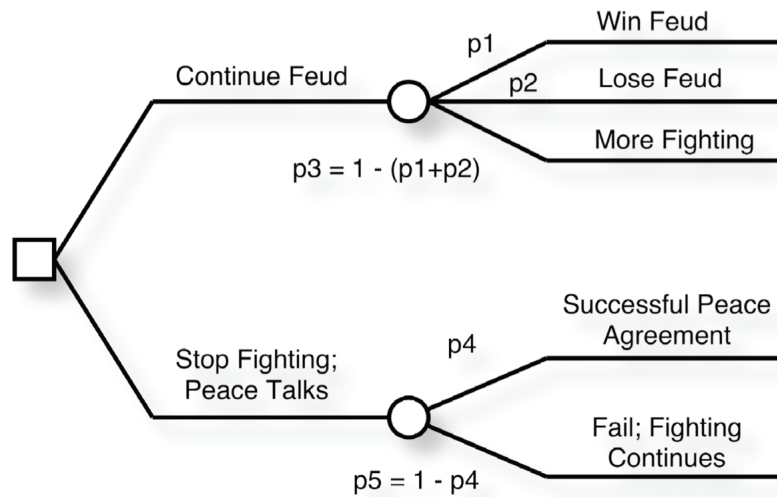
must have felt that there was no option but to avenge violence with violence. And that is what they did. The feud ended eventually, but not until two state governors, the National Guard, and the U.S. Supreme Court were called in. But, by then, both families were so decimated by bloodshed and incarceration that their ruffian days were over anyway.<sup>9</sup>

Those of us looking in from the outside see the vicious cycle that no normal person would want. Many of us think of reasons for our actions when we really should be making the best possible decisions. Below is the Hatfield-McCoy decision laid out in a decision tree, a common format for thinking about choices. We introduce decision trees here, even though this problem is relatively straightforward, to foster a useful way of thinking about the structure of decisions. This will help later in the book, and in real life, when the problems become more complicated. The square on the far left signifies a decision we have to make. The decision alternatives are shown as “Continue Feud” and “Stop Fighting and Enter Peace Talks.” The decision to continue the feud will have an outcome of more fighting and deaths with probability  $p_1$ , which equals one, or 100 percent. “More Fighting” is the outcome and the probability  $p_1$  is displayed near the circle. In this case, there is only one possible outcome, which is why there is only one branch leaving the circle and that branch has a probability of 100 percent.

If the alternative “Stop Fighting and Enter Peace Talks” is chosen, life isn’t always simple, and so we note that the decision to stop fighting may or may not result in peace. The two possibilities are shown as “Successful Peace Agreement” with a probability of  $p_2$  and “Fail” with a probability of  $p_3$ . Note that the probabilities for each decision alternative must add to 100 percent (i.e., all possibilities are taken into account), which is why  $p_1$  is 100 percent and  $p_2 + p_3 = 100$  percent. After the focus is lifted from reasons, the question becomes: Will my life be better with “Continue Feud” or “Stop Fighting?” That is the issue at hand.



The decision tree above perhaps oversimplifies the issue because each side really hopes that by continuing the feud it will eradicate the other side and "win." We ignored this possibility in the decision tree above. If we include the possibility of winning or losing the feud, we end up with the following decision tree.



Neither family may have realized that probability  $p_1$  is likely to be small. When has a feud between two families ever been won? It is hard to even imagine what sequence of events would cause a feud to be declared "won." Would the Hatfields say to the McCoys, "Gee, we guess you won. What would you like us to do? We could pay you some penalty or we could just move away." That's highly unlikely. The only realistic way we can see to win a feud is to kill all the members of the other side, but to do that would require more aggressive and concentrated fighting than either side practiced. If probability  $p_1$  is low, so is  $p_2$ , for exactly the same reasons. Therefore, by choosing Continue Feud, each family pretty much guaranteed continued fighting. Even if probability  $p_4$ , the probability of a successful peace agreement, is small, choosing Stop Fighting offers the only real hope for a better future. And even if the peace talks fail, the families are back where they started. In other words, peace talks carry little downside risk.

## **Making Distinctions**

Using distinctions is one of the easiest ways to dramatically increase our clarity of thinking. We can blow away the smoke surrounding an issue and actually see the problem for what it is.

Speaking of smoke, cigarette smoking is a contentious subject. Part of the issue is the addictive nature of cigarettes. Various groups debate whether and to what extent cigarettes are addictive; some say they are and some say they aren't. A number of things are at stake in our society: more and more governmental control of cigarettes; more taxes; more restrictions; more lawsuits; and the quality of our overall public health. Because these are important implications, the process of scientific fact finding is greatly complicated and compromised. In some situations, this pressure leads the side with the less defensible position to make silly or dishonest statements. It also creates a smokescreen, so to speak, because one or both sides might not want the truth known. Both sides might actually agree if they could get over their minor quibbling. They seem to follow the maxim that where you stand on an issue depends on what you stand to gain.

When people think only about the final outcome, an honest exchange of facts is much less likely to take place. A

participant in this exchange may reason that she doesn't want more government control of cigarettes, either because she believes in freedom or because she worries that increased government control would cause other problems; so she claims that cigarettes are not really addictive. "Based on the facts I have seen, cigarettes are certainly less addictive than some other substances, but they definitely have addictive characteristics. If I admit this, however, I may contribute to the banning of cigarettes," she may reason. However, if we use distinctions, we find that it is entirely reasonable to admit that cigarettes are somewhat addictive without advocating more government control. We use distinctions to separate the two issues to get to the root of the problem. The addictiveness of something can be separated from the usual response, which is to have the government control it more thoroughly or to ban it completely.

Many in the media like to put people into black and white camps, while the thinking person realizes that issues are generally subtler. Consider some controversial subjects. You may have strong feelings about each issue, but can you see the other side's position? If so, there may be some resolution to the issue that pleases both sides. Using distinctions helps peel away the layers to get to the core, from which a solution may emerge.

You may, for example, support the arts but disapprove of the National Endowment for the Arts (NEA). In other words, you can financially and otherwise support the arts and appreciate others who do so, yet not want the arts to be influenced by the NEA and funded with tax dollars. In the very same way, you can despise foreign dictators yet not support preemptively attacking them. Many of us make a distinction between what people say they will do and what they will actually do. We've learned, often the hard way, that there is such a distinction. Lastly, you can love your children yet still require them to do things they dislike.

Even forgiveness is a distinction. To forgive, you must make a distinction between the person and his action. Perhaps your carpool partner didn't pick you up after work yesterday. You may hate what the person did but still not hate the person. You have probably heard the phrase, "Hate the sin, love the sinner." This is a great example of a distinction. Your feelings are certainly important, but distinctions allow you to separate your feelings of hurt from your decision to forgive.