Chapter Seven: *The Hedgehog and the Fox* *(still more how to think)*

by Nathan Polackwich

> There is a line among the fragments of the Greek poet Archilochus which says: "The fox knows many things, but the hedgehog knows one big thing"…Taken figuratively, the words can be made to yield a sense in which they mark one of the deepest differences which divide writers and thinkers, and, it may be, human beings in general. For there exists a great chasm between those, on one side, who relate everything to a single central vision, one system less or more coherent or articulate, in terms of which they understand, think and feel – a single, universal, organizing principle in terms of which alone all that they are and say has significance – and, on the other side, those who pursue many ends, often unrelated and even contradictory, connected, if at all, only in some *de facto* way, for some psychological or physiological cause, related by no moral or aesthetic principle…The first kind of intellectual and artistic personality belongs to the hedgehogs, the second to the foxes…
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> — Isaiah Berlin, "The Hedgehog and the Fox"

Hedgehogs, as the philosopher Isaiah Berlin explained, think one – or just a few – organizing principles direct the current of history. For them, life is black and white. The Internet "changed everything." The CIA or "big business" or the Illuminati is the puppeteer pulling the world's strings. "Peak" oil will destroy not just the global economy, but our way of life.

The false clarity with which hedgehogs see the world leads them to believe the future is predictable and the past clearly explainable with hindsight. Armed with such certainty, hedgehogs commonly have a penchant for high-risk, which they combine with a dangerous inability to admit a mistake. While hedgehogs can enjoy spectacular investment success in the short-run, their failures are often equally spectacular.

Foxes, by contrast, are realists. They see the world for all its complexity and nuance, the infinite shades of gray. They are skeptical that they, or anyone, can predict something as complex and opaque as the future. Thus, foxes tend to eschew risk. And their skepticism concerning the future's predictability means that foxes have less of their egos wrapped up in their decisions. Consequently, foxes aren't as susceptible as hedgehogs to *confirmation bias,* which is basically hearing only what you want to hear. Confirmation bias is why right-wingers religiously read the editorial page of the Wall Street Journal, and left-wingers the op-eds of the New York Times. With your ego at stake it can be very painful to entertain ideas at odds with your own.

Because they can tolerate the pain of information dissonant to their beliefs, foxes use the same powerful mechanism as the wisdom of crowds. That is, by assessing differing points of view and weighing them against one another, foxes essentially average everyone else's predictions (gathering the information and canceling out the errors). And because their information is more diverse, it's also more complete.

Say, for example, that you want to predict the result of an upcoming football game between the New York Giants and the Green Bay Packers. The average guess of 50 random football fans (some for the Giants, some for the Packers, and some for other teams) will contain far more information than the average guess of even 500 die-hard Cheeseheads. Why? Because most Cheeseheads will probably tell you the same thing – "The Packers are going to win big!" They may even go into great detail about the Packers' advantages. But they won't give you much information concerning the Giants' strengths (or the Packers' weaknesses). And you need both sides of a story to make an informed prediction.

Foxes excel at investing because of their flexibility, pragmatism, and ability to quickly change course when proven wrong. These traits are of immeasurable importance in the stock market, where opportunities are non-systematic in nature. George Goodman addressed the importance of pragmatism in *The Money Game* with one of the most startlingly honest and humble declarations ever made about investing.

> Most of what has been written about the market tells you the way it ought to be, and the successful investors I know do not hold to the way it ought to be, they simply go with what it is.

As an aside, the most successful *business*people do, paradoxically, tend to be hedgehogs. The self-made rich invariably display an unwavering willingness to put everything on the line (wealth, reputation, and in some cases personal relationships) to start a business and persevere through hard times when less confident, and perhaps wiser, people would have quit. To start a business from scratch requires a fervent belief in yourself and your ability to succeed where so many before have failed. In other words, you have to be a hedgehog.

Should everyone throw caution to the wind and approach business as a hedgehog? No. The successful hedgehogs you see are the survivors. For every hedgehog living high-on-the-hog, 99 are buried in debt, popping anti-depressants, and estranged from their families. So I don't advise starting a business unless, after a long and realistic appraisal of the difficulties you may face, you remain convinced of the opportunity *and* your ability to dedicate your life to its pursuit.