



JENNI RUSSELL

Why we should all beware the optimism trap

The spectacular collapse of a crypto empire is a lesson in the human tendency to expect good things without evidence

[Jenni Russell](#)

Monday November 28 2022, 12.01am, The Times

Share



Save



The overnight collapse of Sam Bankman-Fried's empire, multibillion-dollar fortune and reputation has left spectators goggle-eyed at his apparent idiocy and at the gullibility of those who invested in his fairy gold.

SBF's own explanations, in a public mea culpa, are the most remarkable part of it. He now admits he ran one of the most successful, lauded and respectable crypto businesses in the world on the basis of nothing more than reckless assumptions, improper accounting, wild gambling and hope. When his bets went wrong it all crashed. How far fraud was part of the mix is for investigators to find.

Bankman-Fried's spectacular failure is a fascinating morality tale; how could he imagine his run of crazed luck would last, and how could people be so deceived? It's because he and his

investors are just the latest and extreme demonstration of a common human characteristic: our optimism bias.

From David Cameron's belief that he couldn't lose a Brexit referendum to Boris Johnson's assertion that Brexit would deliver all the EU's benefits with none of the costs, or Liz Truss's faith that markets would give Britain a magic money tree, we've been plagued in recent years by politicians falling for it. Their misjudgments can be devastating for millions. But on a smaller scale, most of us are wired to make just the same kinds of error. Human beings have a tendency to assume, against the evidence, that they in particular will succeed or flourish where others would be brought down.

Eighty per cent of us consistently overestimate the chances of good things happening to us and underrate the bad, whether we are predicting the immediate future or decades away. We think we're less likely than others to have accidents, get ill or be divorced. As [Tali Sharot](#), a cognitive neuroscientist and one of the key researchers in this field, says: "We also expect to live longer than objective measures would warrant, overestimate our success in the job market, and believe our children will be especially talented." Such a phenomenon "is one of the most consistent, prevalent and robust biases documented in psychology and behavioural economics".

In many ways this is a vital adaptation. Without it nobody would start new businesses, take risks on new partners or spend years writing books that are rejected 25 times before becoming eternal bestsellers. It makes us curious, cheerful about what lies ahead, good company, open to novelty and change. Optimists do live longer than pessimists — women live 15 per cent longer and men 11 per cent longer than their gloomier peers. And our overoptimistic assumptions about daily life, like how much we're going to enjoy holidays, parties or meals out, may not matter at all. Pleasurable anticipation may outweigh reality. But in other parts of our lives, in the serious long-term decisions about who we have children with, where to live, the jobs we do, how we save and how we care for our health, the optimism bias can lead to grave mistakes.

ADVERTISEMENT



in response to negative news so we don't even encode it properly, but lighting up with activity when we're given arguments that bolster our hopes.

Perhaps the most startling fact about our bias is it suggests we're at our most optimistic when we know least about a topic. Faced with a complex situation involving detail we can't quite grasp — financial markets, [crypto investments](#), foreign cultures — you might expect our instinct would be to find out more or to back away. Instead, distance or ignorance lend a rosy glow to these situations, in which we imagine simple solutions will lead to good outcomes. So Tony Blair convinces himself foreign invasions will turn Iraq and Afghanistan into benign democracies, my friend loses his house after moving to the country and turning it into a restaurant nobody eats at, or we're persuaded to get an investment mortgage that fails to pay off our debt 20 years later.

Research shows we're particularly likely to be led into false optimism at times of uncertainty. When nobody can be certain of the facts or the future, it is those who sound most confident, such as [Bankman-Fried](#) and other false prophets of the tech age, from [Elizabeth Holmes](#) of Theranos to [Adam Neumann](#) of WeWork, who frequently win out.

We need leadership, after all, and we want hope. Life is dismal without it. Millions, for example, were charmed by Johnson promising sunlit uplands and denouncing “doomsters and gloomsters”; it was a more attractive proposition than all those warning that Britain's problems couldn't be solved with magic beans. The truth is we crave a little magic. We will soon long for more than the flat realism that both Rishi Sunak and Sir Keir Starmer are at present understandably offering us. But we are dangerously liable to confuse bluster with justified confidence.

SPONSORED



Do you know



Uncover Mad

It's easily done because the possessors of both present themselves with strong opinions and easy self-assurance. In our evolutionary past, when humans lived in smaller societies and were less mobile, the overconfident were held in check by others knowing who was to be trusted and who was not. As the researcher Richard Ronay explains, exuberant claims could be quickly tested. In modern societies, full of strangers, we find it far harder to distinguish between the expert and the swaggerer. We have never been more prey to hucksters.

We fall for optimism because some leaders are indeed geniuses, some mavericks have brilliant insights, some tremendous risks do pay off. When gambles work they can be immensely rewarding. Some people do indeed found Apple, invent the internet, stand alone against the Nazis. But our optimism bias and selective history means we forget or never knew of the myriad failures when others tried similar bets.

The trick for us, living in an impossibly intricate society, is to distinguish between those with cause for genuine confidence and those [charismatics](#) who are just whistling in the wind. Whether we're voting, investing or making one of life's big decisions, we have to be on guard against wishful thinking and our evolutionary tendency to be swept up by fashion or enthusiasm. We should confine certainties to what we know and understand, recognising that our decisions in any other areas are no more than gambles, just as much as betting our futures on the Ponzi schemes of tech bros.

Brexit

Related articles

TECH TALK

Has the Bankman saga fried crypto?

November 27 2022, 12.01am

Kathryn Parsons

Founder ran FTX ‘as his own fiefdom’

November 23 2022, 12.01am

Katie Prescott, Lily Russell-Jones

Thought: the 13 best books of 2022

November 27 2022, 12.01am

James Marriott | Bryan Appleyard

Paid promotional links

Promoted by **Dianomi**



Trade tax-free with spread betting. 75% of retail investors lose money
City Index



When To Retire: An Easy Planning Guide and Ongoing Insights
Fisher



Learn from world-renowned faculty, in person or in a virtual program.
Harvard



The Password Manager Employees Will Actually Use
Dashlane



Climate change investing demands intelligence
J.P. Morgan Asset Management

Comments (314)

Comments are subject to our community standards and participation guidelines policy, which can be viewed [here](#). By joining the conversation you are accepting our community rules and terms. Update your commenting notification settings [here](#).

Moshe Glickman



Add to the conversation...

Sort by **Recommended** ▾



Peter Jenkins

28 NOVEMBER, 2022



"Perhaps the most startling fact about our bias is it suggests we're at our most optimistic when we know least about a topic."

This reflects the difference between the Commons and the Lords. Quite a lot of those in the Lords actually have a lot of relevant experience on the topics being discussed.

Unfortunately, the same cannot be said of those in the Commons. Many have a classics or law education, or have come up through working in politics while at University and then as special advisers eventually grabbing a seat as an MP. They know a lot about manipulating political pressure points but little about the fundamental technical stuff that they have to make vital decisions about.

We ought to have a rule that stops people going from University, via internships to think tanks to becoming an MP. We should insist that those who are thinking of becoming an MP should have

spent at least 10 years earning a living in the real world before being considered to be on the short-list for the next MP.

[Reply](#) · [☆ Recommend \(161\)](#) · [Share](#)

J JCP ⋮

28 NOVEMBER, 2022

Some good stuff there - but in a free country your thought for a rule would be problematic - would I want people who had worked 10 years as lawyers and accountants? I have nothing against either, but we need to be careful what we mean by the “real world” - could I be an unpaid carer or stay at home parent and qualify under your rule?

I favour a more robust process for getting candidates to be MPs where 2-3 candidates with different backgrounds is expected by party members so they don't feel there is a “stitch up”

So, I agree with the diagnosis, just not sure about the medicine!

[Reply](#) · [☆ Recommend \(23\)](#) · [Share](#)

↪ 4 replies

S Stephen Parkinson ⋮

28 NOVEMBER, 2022

I agree, and unfortunately something similar is the case with those at the top of the civil service. Most of them have got there through working in the private offices of Ministers. They develop good political antennae and can be useful sounding boards on tricky handling issues, but have little experience in actually running things.

[Reply](#) · [☆ Recommend \(12\)](#) · [Share](#)

↪ Show 7 more replies

M Mencius ⋮

28 NOVEMBER, 2022

'But on a smaller scale, most of us are wired to make just the same kinds of error'

Indeed. For example, I have every hope that this Christmas I shall have a relaxed and loving time with my relatives.

[Reply](#) · [☆ Recommend \(82\)](#) · [Share](#)

R R Smith ⋮

28 NOVEMBER, 2022

Hope indeed 😊

[Reply](#) · [☆ Recommend \(10\)](#) · [Share](#)

J ⋮

28 NOVEMBER, 2022

JCP

If at first you don't succeed...

But you are right - sometimes it's a matter of being civil but keeping it "short and sweet" ..

[Reply](#) · [☆ Recommend \(4\)](#) · [Share](#)

[↪ Show 1 more reply](#)

T**The Last Ian Hislop Impersonator**

...

28 NOVEMBER, 2022

Bankman Fried didn't fail because he was an optimist, but because he was a crook. He created a fake currency and borrowed real money against it. Then he stole the real money - quite a lot of it.

Put some reading in and spare us the neurobabble please.

[Reply](#) · [☆ Recommend \(54\)](#) · [Share](#)

M**Michael Tuckerson**

...

28 NOVEMBER, 2022

The unfounded optimism in this case was illustrated by his investors, surely?

[Reply](#) · [☆ Recommend \(51\)](#) · [Share](#)

[↪ 2 replies](#)

A**Ali Wood**

...

28 NOVEMBER, 2022

You've missed the point, silly boy, It's the optimism of the investors.

[Reply](#) · [☆ Recommend \(10\)](#) · [Share](#)

[↪ Show 7 more replies](#)

W**William Stewart**

...

28 NOVEMBER, 2022

The history of finance has involved people believing there is a way to make supernormal profits with no effort. These people are also known as mugs. I am an accountant with an MBA. I worked for a large American multinational and I had to evaluate lots of get-rich-quick schemes, frequently brought to us by reputable investment banks. It is often about timing. During the dot-com bubble, the smart money got out before the market peaked. You don't believe the hype coming from the media. You have to understand that you are really playing snakes and ladders.

(Edited)

[Reply](#) · [☆ Recommend \(34\)](#) · [Share](#)

R

...

**robin leggate**

The private investor does not have the skill to get out of bubbles, like the dotcom boom or crypto before they burst. The successful private investor has the sense not to be drawn in in the first place.

[Reply](#) · [☆ Recommend \(8\)](#) · [Share](#)

P**Peter Hobday**

28 NOVEMBER, 2022

Whenever there is a great Ponzi scheme, speculators get in quick because speculators know it won't last. They whip up enthusiasm fast and then get out. That is how they always work. It's not optimism, it's short-term gambling.

[Reply](#) · [☆ Recommend \(31\)](#) · [Share](#)

B**Bryan Stark**

28 NOVEMBER, 2022

Everybody should read up on the Great South Sea Bubble. The first & greatest (possibly) Ponzi scheme. Government-sponsored (in days when the Government REALLY was corrupt), too. Or the Dutch had something very similar with tulip bulbs.

[Reply](#) · [☆ Recommend \(9\)](#) · [Share](#)

J**JCP**

28 NOVEMBER, 2022

It's a timely topic and the interplay between politicians who promote their narratives and some/many voters who buy them is well made

The evolutionary background and historical observation that overly optimistic folk would be reigned in - are also useful

The problem of an absence of knowledge fuelling optimism is correct but many people "don't know what they don't know" - so from, their perspective, they think they do know what's going on

This leaves us with the question of how we communicate "health warnings" (whether in investments or in other domains) - generic statements may not be enough ..

I would also add that optimism bias applies to many apparent solutions to problems where the shadow/downside of the solution is ignored

Electric cars - but what about infrastructure and sources of lithium?

Immigration controls - but what about labour shortages?

Windfall taxes - but what about driving away investment (latest news from Shell)?

Constraints over public spending - but then more fragile public services/staff defections!?

Proponents of quick fix solutions - and the public listening to them - need to be more forensic about pros and cons and trade-offs and not be so prone to accepting magic bullets..

How we persuade one another to do this - and get the right mindset in the general public - is another matter entirely..!

(Edited)

[Reply](#) · [☆ Recommend \(20\)](#) · [Share](#)

B **BlueShirt Guy** ...

28 NOVEMBER, 2022

I've worked in and around finance, markets and investment for over 25 years and this "they don't know how much they don't know" diagnosis is highly apposite and familiar to my own observations. Particularly dangerous in inexperienced younger colleagues.

Also look up the Dunning-Kruger effect if you haven't come across it. One we could apply to many of our politicians, eg our recent and short lived Chancellor & PM.

[Reply](#) · [☆ Recommend \(10\)](#) · [Share](#)

↳ 2 replies

A **analyst** ...

28 NOVEMBER, 2022

Crypto investors are almost realists compared to England football fans.

[Reply](#) · [☆ Recommend \(10\)](#) · [Share](#)

C **Chris Rodda** ...

28 NOVEMBER, 2022

This family considered carefully the advantages and disadvantages di our due-diligence, then bought a pizza and watched anyway.

[Reply](#) · [☆ Recommend \(6\)](#) · [Share](#)

K **Keith G Thomas** ...

28 NOVEMBER, 2022

The FTX affair had precious little to do with crypto currencies. It was a Ponzi scheme that just happened to be based in the crypto bubble. Any bubble will do for a Ponzi operation.

[Reply](#) · [☆ Recommend \(4\)](#) · [Share](#)

- I Ivan Hudecek** 28 NOVEMBER, 2022 ...
- The optimist will read this article whole.
- The pessimist will give up half way through.
- [Reply](#) · [☆ Recommend \(10\)](#) · [Share](#)
- G Gravitas Deficit** 28 NOVEMBER, 2022 ...
- The realist, straight to comments.
- [Reply](#) · [☆ Recommend \(50\)](#) · [Share](#)
- A Antidisestablishmentarianism** 28 NOVEMBER, 2022 ...
- It did, like so many pieces, say the same basic point around a dozen times.
- [Reply](#) · [☆ Recommend \(7\)](#) · [Share](#)
-
- P Phil Marshall** 28 NOVEMBER, 2022 ...
- Excellent article.
- [Reply](#) · [☆ Recommend \(9\)](#) · [Share](#)
- N Nic Marks** 28 NOVEMBER, 2022 ...
- It is actually pretty selective with the neuroscience evidence it presents .. we have asymmetric relationships to risk - our optimism bias does overestimate the probability of large gains (hence lotteries) but we also have a loss aversion (fear of making relatively small losses) .. so most are actually risk averse in practice with an occasional bet on a long shot
- Optimism in love is a completely different mechanism - and generally works out (as in we pair bond with imperfect people - but that's fair because so have they !)
- [Reply](#) · [☆ Recommend \(3\)](#) · [Share](#)
-
- J Jerry Carroll** 28 NOVEMBER, 2022 ...
- Shorter version: Hindsight is always 20-20. It's the future that's tricky.
- [Reply](#) · [☆ Recommend \(8\)](#) · [Share](#)
- J JCP** 28 NOVEMBER, 2022 ...
- If only hindsight was 20-20 !

How many lessons from the past have not been properly understood/learned ?!

Biases (eg self justification) affect our ability to look at even recent decisions clearly (Brexit anyone?) .. very easy to rationalise away the reasons things aren't going to plan.

[Reply](#) • [☆ Recommend \(12\)](#) • [Share](#)

[↩ 1 reply](#)

[View more comments](#)

 OpenWeb

[Feedback](#)

[^ BACK TO TOP](#)

THE TIMES AND THE SUNDAY TIMES

GET IN TOUCH

[About us](#)

[Contact us](#)

[Help](#)

[The Times Editor](#)

[The Sunday Times Editorial Complaints](#)

[Place an announce](#)

[Classified advertising](#)

[Display advertisin](#)

[The Times corrections](#)

[The Sunday Time:](#)

[Careers](#)

MORE FROM THE TIMES AND THE SUNDAY TIMES

[The Times e-paper](#)

[Times Currency Services](#)

[Times Print Gallery](#)

[Times Crossword Club](#)

[Times+](#)

[Times Expert Traveller](#)

[Schools Guide](#)

[Best Places to Live](#)

[Times Appointments](#)

[Times Money Mentor](#)

[Sportswomen of the Year Awards](#)

© Times Media Limited 2022.

Registered in England No. 894646.

Registered office: 1 London Bridge Street, SE1 9GF.

[Privacy & cookie policy](#)

[Licensing](#)

[Cookie settings](#)

[Site map](#)

[Topics](#)

[Authors](#)

[Commissioning terms](#)

[Terms and conditions](#)