The Power of Negative Thinking

Why imagining failure is one of your best tools for achieving success

By Annie Duke

All decisions are predictions.

Whether you’re deciding what route you should take to work, or if you should turn down a slice of cake, or take a new job, you’re making a prediction that the thing you choose has a better chance of helping you achieve your goals than the things you don’t choose. Likewise, when it comes to making choices to help you achieve your long-term investment goals, prediction skills are especially important.

The good news is that, especially with the help of a good financial advisor, the information for figuring out appropriate strategies to help achieve your goals is readily available. A sound, long-term investment plan is within every investor’s reach.

The Bad News Is That Figuring Out a Great Strategy Isn’t Enough

You also need to stick to that strategy. Not sticking to a strategy is one of the main reasons individual investors often fall short of reaching their financial goals. There can always be reversals in the market. Certain sectors may boom. Certain sectors may bust. Stocks may tank. Bonds may tank. In the face of those natural ups and downs, it can be hard to resist second-guessing your strategy and changing it.

The result? Individual investors have underperformed the market. The S&P 500 Index\(^1\) returned an average of 5.62% annually between 1999 and 2018, while the average equity investor’s return has been just 3.88%\(^2\).

Imagining Both Success and Failure Can Improve Decision Making

If you only imagine success, it creates an incomplete view of the future, just like only imagining failure creates an equally incomplete view.
Embracing the Negative Space: Mental Contrasting

Positive thinking has become one of the most popular genres of self-help books. Norman Vincent Peale's The Power of Positive Thinking, first published in 1952, has sold more than five million copies worldwide and remains a favorite. A key ingredient these days takes positive thinking beyond goal-setting and general mindset to a promise: You're more likely to succeed and reach your goals if you vividly imagine yourself doing so. It’s an attractive concept: Who doesn't want to vividly imagine themselves experiencing phenomenal success?

But what goes along with this is the corollary: A type of magical thinking that you have to banish all thoughts of failure because even imagining failure will create failure. It’s uncomfortable to picture failure. It feels bad. Being told to avoid imagining failure has its own attractiveness.

In Fact, I Believe the Opposite Is True: Imagining Failure Is One of Your Best Tools for Achieving Success

Imagining failure helps you better foresee the obstacles that might get in the way of success. And the better you are at predicting the hazards in your path, the better your chances of avoiding them.

NYU psychology professor Gabriele Oettingen has spent more than 20 years researching mental contrasting, an alternative to positive thinking that includes visualizing obstacles that can interfere with reaching goals. She found, in domain after domain—with groups of subjects trying to lose weight, build social relationships, find jobs, improve work performance, and recover from surgery—that people who imagine barriers and impediments are more successful at reaching their goals than those engaging only in positive visualization.

The Road to Success Is Not a No-Speed-Limits Superhighway With Zero Traffic

If that were the case, investors wouldn’t invest in index funds and then underperform the indexes by making deposits and withdrawals at the worst times. The road to success is littered with obstacles, whether those obstacles are market movements outside of your control, or the results of your decisions in the face of those movements.

Identifying these obstacles in advance is what clears the path to success because then you can figure out how to address and avoid them.

Mental Time Travel—Thinking Backwards, From the Future

One of the best ways to identify the obstacles is by engaging in mental time travel by doing a pre-mortem—an exercise in which you imagine having failed to reach your goal. We’re all familiar with post-mortems, originally the term for examining a dead body to determine the cause of death, and now a way we generally think about deconstructing why something has gone wrong.

Pre-mortem—Looking Back From a Future Where You Don’t Achieve Your Goal

To do a pre-mortem, imagine a future where you don’t reach your financial goals. Make a sober assessment of what went wrong. What decisions did you make? What actions did you take? What role did chance play in the outcome? When we identify things that could go wrong, it becomes easier to anticipate those obstacles and overcome them.
Wouldn’t it be better if we could identify why something failed before it happens? That’s part of the pre-mortem’s power. As an investor, a pre-mortem on why you failed to achieve your goals may significantly increase your chances for success.

When We Imagine the Future, We Tend to Start With the Present and Think Forward

It’s natural: The future is inherently uncertain, and the further you project, the more uncertain everything seems. It definitely feels more comfortable starting on the solid ground of the present.

It turns out the better way of reaching your future goals is by imagining you’re in the distant future and failed to reach your goals, and think your way backwards to figure out how you got there. In other words, instead of imagining the reasons you might fail, you imagine the reasons that you have failed.

Professors Deborah Mitchell, J. Edward Russo, and Nancy Pennington called this process prospective hindsight. They found working backwards in this way was 30% more effective in identifying obstacles. ³

Why?

If you want to summit a mountain and you’re trying to plan the best route to the top, standing at the foot of the mountain doesn’t give you much of a view. You can see only what lies immediately ahead of you. But once you’ve gotten to the top of the mountain, you can see the entire landscape below. From the summit, you can see obstacles not visible from the base, as well as alternate routes that might have been safer or more efficient.

No One Plans to Panic

When we’re caught up in the emotions of the moment, say in the aftermath of some big upturn or downturn in our portfolio, that’s when our decisions will be at their worst. No one plans to sell in a temporary panic or cash out for a small gain and miss sustained market gains. But a pre-mortem makes it possible to identify these possible missteps and come up with strategies to avoid them.

The pre-mortem process is more effective if you work through it in collaboration with your financial advisor. Because advisors work with so many investors and have seen the obstacles that trip up even the best-intentioned client, they can offer a valuable outside perspective, helping you identify roadblocks that you might otherwise miss.

The Value of Positive Thinking

I’m not suggesting that it’s not useful to think about success. Rather, if you only imagine success, it creates an incomplete view of the future, just like only imagining failure creates an equally incomplete view. Setting positive goals and imagining yourself achieving them is necessary to create a complete picture.
“Backcasting” is the positive version of a pre-mortem: Imagining that you’ve achieved your goals and work backwards to figure out why. Backcasting will be the more fun and natural exercise. That’s partly why the positive thinking genre is so popular—because it feels really good to imagine success. Doing a pre-mortem doesn’t feel good, so we avoid it. We might even believe that imagining failure will actually create failure.

But when you engage in mental time-travel from both potential destinations, you get a much more complete view of the landscape that might lay ahead. That’s why the most successful investors are willing to explore the negative space by not just imagining success, but also imagining failure.

The Process I’m Describing Is Like Planning a Drive to a Destination

Why dig up a tattered old map for directions when you can use a top-tier navigation system—one that includes real-time updates that identifies areas with delays due to traffic or construction? If you can see those hazards more clearly, you can create the clearest road to success.

Next Steps

1. Do a pre-mortem exercise with your financial advisor. Together, imagine a future where you don’t reach your financial goals.
2. In this imaginary future, identify what went wrong. What decisions did you make? What actions did you take? What role did chance play in the outcome?
3. Discuss your decisions with your advisor. By imagining poor decisions and the role of chance, you’ll likely be better prepared to make rational, less-emotional decisions when real crises create turmoil in the markets.

Annie Duke is a World Series of Poker bracelet winner, the winner of the 2004 Tournament of Champions and the only woman to win the NBC National Poker Heads Up Championship. She has authored four books on poker and in 2018 released her first book for general audiences called “Thinking in Bets: Making Smarter Decisions When You Don’t Have All the Facts,” which is a national bestseller. As a professional speaker and decision strategist, she merges her poker expertise with her cognitive psychology graduate work at the University of Pennsylvania. She focuses on improving decision making and critical thinking skills, and developing individual and cultural supports to overcome cognitive bias.

1 S&P 500 Index is an unmanaged list of 500 widely held U.S. common stocks frequently used as a measure of U.S. stock market performance.
2 Data Source: DALBAR’s Annual Quantitative Analysis of Investor Behavior (QAIB), 2019. Performance data for indices represents a lump sum investment in January 1999 to December 2018 with no withdrawals. Stocks are represented by the S&P 500 Index. Indices are unmanaged, unavailable for direct investment, and do not reflect fees, expenses, or sales charges.

Dalbar’s Quantitative Analysis of Investor Behavior Methodology: Dalbar’s Quantitative Analysis of Investor Behavior uses data from the Investment Company Institute (ICI), Standard & Poor’s Index Products to compare mutual fund investor returns to an appropriate set of benchmarks. Covering the period from January 1, 1999, to December 31, 2018, the study utilizes mutual fund sales, redemptions and exchanges each month as the measure of investor behavior. These behaviors reflect the “average investor.” Based on this behavior, the analysis calculates the “average investor return” for various periods. These results are then compared to the returns of respective indices.

Average equity investor performance results are calculated using data supplied by the Investment Company Institute. Investor returns are represented by the change in total mutual fund assets after excluding sales, redemptions and exchanges. This method of calculation captures realized and unrealized capital gains, dividends, interest, trading costs, sales charges, fees, expenses and any other costs. After calculating investor returns in dollar terms, two percentages are calculated for the period examined: Total investor return rate and annualized investor return rate. Total investor return rate is determined by calculating the investor return dollars as a percentage of the net of the sales, redemptions, and exchanges for each period.

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