

Why We're Lousy Predictors

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Smart Money:

Humans love predictions. We speculate for years about who will win the next presidential election. We fill out Final Four tournament brackets. We check the seven-day forecast even though the morning newscast is often wrong about the weather for that night. And, of course, we constantly try to guess whether an investment is on its way up or way down.

The problem with all this predicting: We're terrible at it. Studies routinely show that humans are generally worse at forecasting things like elections, basketball tournaments and stock-market moves than a chimp with a dartboard. But why are we so bad at it? (If we knew what we were doing wrong, after all, maybe we could stop or even improve). It's a question social scientists have been picking apart for a while now, and two new studies offer some potentially useful insights.

In a new working paper from INSEAD international business school, researchers Kriti Jain, J. Neal Bearden and Allan Filipowicz look at how depression affects the accuracy of one's forecasts. For their study, the researchers chose the 2010 World Cup, the men's soccer championship held in South Africa last summer.

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