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Overconfidence

Overconfidence is a very serious problem, but you probably think it doesn't affect you. That's the tricky thing with overconfidence: the people who are most overconfident are the ones least likely to recognize it. We tend to think of it as someone else's problem.

When it comes to investing, however, we all have a problem.

So the next time you're about to make an investment decision because you know you're right, take the time to have what I call the Overconfidence Conversation. Find a friend, spouse, partner or anyone you trust and walk them through your answers to the following questions:

- 1) If I make this change and I'm right, what impact will it have on my life?
- 2) If I make this change and I'm wrong, what impact will it have on my life?

Considering the consequences of being wrong might lead you to make more careful decisions and to a greater appreciation of the enormous potential costs.