



The Effective Organization

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Gut Power

If you're a fan of the *Daily Show*, you probably saw [Jon Stewart eviscerate Rick Santelli](#). This was extremely funny, and triggered quite the entertaining backlash from former hedge fund manager Jim Cramer. In one of the clips that Jon Stewart subsequently played, Cramer is shown talking about how his instincts for the market are telling him that Bear Stearns is doing fine. Of course, we all know what happened to Bear Stearns.

Now, my point here is not to bash Jim Cramer. The fact is, anyone who makes market predictions the way he does is going to be wrong a lot. That's the nature of the game. Rather, my point is that trusting one's gut is not always the best approach.

Gut instinct is not a magic power. The "gut instinct" for an untrained person being thrown in jujitsu is to reach out to protect themselves; that's a great way to get hurt. Instinct, or gut feel, or whatever you want to call it, is something that is built up through practice and experience: the jujitsu master not only knows how to take the fall safely, he can counter it a dozen different ways without even thinking hard. Sandy Pentland, in his book *Honest Signals*, has a couple interesting suggestions for how gut feel might work. The short form, though, is that gut feel comes

from rapidly, and often unconsciously, recognizing that the current situation is similar to other situations you've experienced, and, through this pattern matching process, developing an appropriate response.

Sounds good, right?

To a point, it is. The process is extremely rapid, which makes sense if it is to be of any use in times of danger and stress. Any successful athlete will tell you that you have to train until your responses become instinctive. In fencing, for example, you don't have time to think, you have to trust your intuition. That's great, except when intuition leads you down the wrong path.

In sports, that's relatively easy to fix. You go back to the drills and exercises you originally used, you go back to training with your coach, and you practice the correct response to the scenario. The tough part is when the trained response conflicts with the gut response. It's difficult to accept when our intuition is wrong and work to change it. However, if we want our intuition to deliver the correct answer under stress, that's what we have to do.

Unfortunately, the more complex the situation and the more hidden variables there are, the harder it is to pattern match correctly.

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Surface similarities will often fool our intuition into thinking its one situation when, in fact, it is another. Legendary stock trader Jesse Livermore once wrote that though he listened to his gut, he followed his rules. Why? Because when he just listened to his gut he went from having \$3,000,000 in the bank to being \$1,000,000 in debt. In business, as in the stock

market, there are a lot of variables. Many of them are not obvious until well after the fact: only after the market has already crashed or the public has lost interest in a particular product do the reasons become obvious. In such situations, it can be easy for our gut to be fooled.

When you just rely on your gut, you have nothing to fall back on when things don't work. Is this a temporary aberration or are you fundamentally wrong? If your gut told you to buy Bear Stearns at 50, well, your gut might be feeling a little bit unhappy right now. While you know you were wrong, you don't necessarily know *why* you were wrong. If you don't know why you were wrong; if, in other words, you don't know what was incorrectly triggering your intuition, how will you avoid making the same mistake in the future? A key part of learning from experience is being able to successfully analyze the experience, recognize what information we were missing or what incorrect conclusions we drew, and learn how to avoid repeating the mistake. Mistakes are only bad when we can't learn from them.

Bruce Lee famously said, "Learn the drill, master the drill, forget the drill."

If you started with the drill, you have something to fall back on when instinct or intuition isn't giving you the right answers. If

you're just relying on your gut and it stops working, what else do you do?

So what can you do to train your gut? The short answer is to practice in the situation or scenario that you are aiming for. Create a drill and practice it. Invest in training or participate in simulations. Take notes on your gut reactions to things that come up and see if you're right. If not, what do you need to change?

If you're consistently right, make sure you can figure out why. If you can't, you might just be lucky. In 1998 and 1999 there were a lot of people whose brilliantly honed instincts led them to pick some very hot stocks. Very few of them had the instincts to get out in March of 2000 when the market crashed. Picking winners in 1998 and 1999 was easy; that easy success fooled a lot of people into thinking they knew more than they did.

If you're consistently wrong, that's also telling you something. Either your training is wrong or the situation is too complex to trust to your gut. If following your rules gets you the right answer and your gut gets the wrong answer, it's probably the latter.

Intuition can be a powerful tool. Like any tool, it can be useful or it can get you into a lot of trouble. It all depends on whether or not you know how to use it.

About 7 Steps Ahead



Stephen R. Balzac is a consultant, professional speaker and president of 7 Steps Ahead, specializing in helping businesses increase revenue and grow their client base.

Steve has over twenty years of experience in the high tech industry and is the former Director of Operations for Silicon Genetics, in Redwood City, CA.

He serves on the boards of the New England Society of Applied Psychology (NESAP) and the Society of Professional Consultants (SPC). Steve is a member of the Operations Committee of the American Judo & Jujitsu Federation. No stranger to the challenges of achieving peak performance under competitive and stressful conditions, he holds a fourth degree black belt in jujitsu and is a former nationally ranked competitive fencer. Steve is an adjunct professor of Industrial/Organizational Psychology and has been a guest lecturer at MIT and WPI.

Building effective development organizations, improving team morale, focus, and enthusiasm, developing effective communications between team members, reducing employee turnover, helping businesses identify and attain strategic targets, and applying sport psychology techniques to business have been some of his most successful projects.

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