

# Second-Order Thinking: What Smart People Use to Outperform

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The Great Mental Models Volumes One, Two and Three are out.

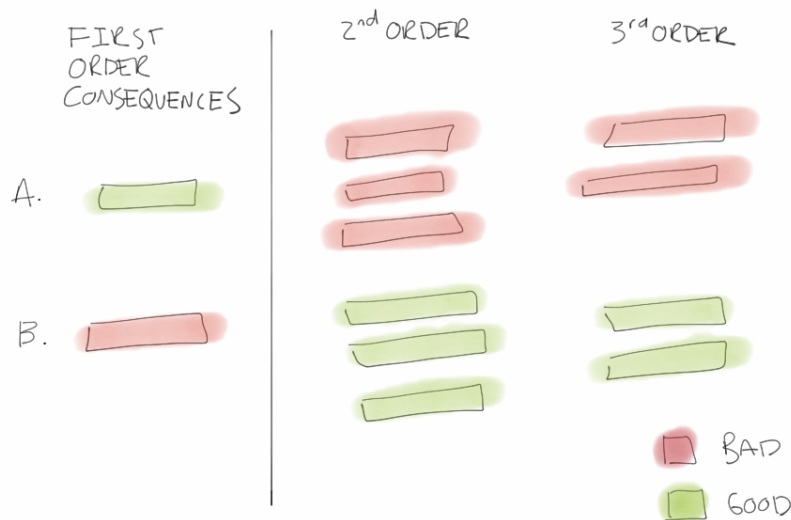
Things are not always as they appear. Often when we solve one problem, we end up unintentionally creating another one that's even worse. The best way to examine the long-term consequences of our decisions is to use second-order thinking.

It's often easier to identify when people didn't adequately consider the second and subsequent order impacts. For example, consider a country that, wanting to inspire regime change in another country, funds and provides weapons to a group of "moderate rebels." Only it turns out that those moderate rebels will become powerful and then go to war with the sponsoring country for decades. Whoops.

“Failing to consider second- and third-order consequences is the cause of a lot of painfully bad decisions, and it is especially deadly when the first inferior option confirms your own biases. Never seize on the first available option, no matter how good it seems, before you've asked questions and explored.”

—Ray Dalio

The ability to think through problems to the second, third, and nth order—or what we will call second-order thinking for short—is a powerful tool that supercharges your thinking.



## Second-Order Thinking

In his exceptional book, *The Most Important Thing*, **Howard Marks** explains the concept of **second-order thinking**, which he calls second-level thinking.

First-level thinking is simplistic and superficial, and just about everyone can do it (a bad sign for anything involving an attempt at superiority). All the first-level thinker needs is an opinion about the future, as in “The outlook for the company is favorable, meaning the stock will go up.” Second-level thinking is deep, complex and convoluted.

**First-order thinking is fast and easy.** It happens when we look for something that only solves the immediate problem without considering the consequences. For example, you can think of this as I’m hungry so let’s eat a chocolate bar.

**Second-order thinking is more deliberate.** It is thinking in terms of interactions and time, understanding that despite our intentions our interventions often cause harm. Second order thinkers ask themselves the question “And then what?” This means thinking about the consequences of repeatedly eating a chocolate bar when you are hungry and using that to inform your decision. If you do this you’re more likely to eat something healthy.

First-level thinking looks similar. Everyone reaches the same conclusions. This is where things get interesting. The road to out-thinking people can’t come from first-order thinking. It must come from second-order thinking. Extraordinary performance comes from seeing things that other people can’t see.



## Improving Your Ability To Think

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Here are three ways you can use to put second order thinking into practice today.

1. Always ask yourself “And then what?”
2. Think through time — What do the consequences look like in 10 minutes? 10 months? 10 Years? <sup>1</sup>
3. Create templates like the second image above with 1st, 2nd, and 3rd order consequences. Identify your decision and think through and write down the consequences. If you review these regularly you’ll be able to help calibrate your thinking.
4. (Bonus) If you’re using this to think about business decisions, ask yourself how important parts of the ecosystem are likely to respond. How will employees deal with this? What will my competitors likely do? What about my suppliers? What about the regulators? Often the answer will be little to no impact, but you want to understand the immediate and second-order consequences before you make the decision.

A lot of extraordinary things in life are the result of things that are first-order negative, second order positive. So just because things look like they have no immediate payoff, doesn’t mean that’s the case. All it means is that you’ll have less competition if the second and third order consequences are positive because everyone who thinks at the first order won’t think things through.

Second-order thinking takes a lot of work. It’s not easy to think in terms of systems, interactions, and time. However, doing so is a smart way to separate yourself from the masses.

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