

# Regret Minimization Framework

Jeff Bezos - Amazon's Founder

Everything about the investment process is a series of trade-offs. Investing itself is delaying current consumption for future consumption. Investing really comes down to regret minimization. Some investors will regret missing out on huge gains while others will regret taking part in huge losses. Which regret will wear worse on your emotions? Investors are constantly battling conflicting emotions and desires. We want higher expected returns in the long-run but we also want stability in the short-run. We want to take advantage of volatility, but not experience it in our portfolios. We want to earn higher yields on our investments, but accept none of the higher risks involved. We want all of the upside with none of the downside. Since these desires are conflicting, we're all forced to make trade-offs. This works beyond investing as well. Every big decision you make in life will involve some sort of give-and-take.

Amazon.com founder and CEO Jeff Bezos has a great take on this idea when it comes to making life-altering decisions. When he first considered starting Amazon, Bezos was actually working for D.E.

Shaw, one of the biggest, most well-respected investment businesses. It seems like a no-brainer in hindsight, but at the time it was not the safest career move to leave a well-paying hedge fund job to start an online bookstore. So how does someone like Jeff Bezos make this kind of lifealtering decision? Here's the story, as told by Brian Christian and Tom Griffiths:

Regret can also be highly motivating. Before he decided to start Amazon.com, Jeff Bezos had a secure and well-paid position at an investment company in New York. Starting an online bookstore in Seattle was going to be a big leap — something that his boss (that's D. E. Shaw) advised him to think about carefully. Says Bezos: "The framework I found, which made the decision incredibly easy, was what I called — which only a nerd would call — a "regret minimization framework." So I wanted to project myself forward to age 80 and say, "Okay, now I'm looking back on my life. I want to have minimized the number of regrets I have." I knew that when I was 80 I was not going to regret having tried this. I was not going to regret trying to participate in this thing called the Internet that I thought was going to be a really big deal. I knew that if I failed I wouldn't regret that, but I knew the one thing I might regret is not ever having tried. I knew that that would haunt me every day, and so, when I thought about it that way it was an incredibly easy decision."

People are constantly forced to make big decisions about their life in the face of uncertainty that is impossible to reduce. Should I take this job? Should I buy this house? Should I move to a new city? Should I go back to school and start all over again? Bezos makes an important distinction between a decision you can live with and the potential for failure based on that decision. There's a huge difference between experiencing regret and experiencing a poor outcome. Failure is part of life so you can't expect every risk to pay off for you. At times you have to accept small regrets in order to avoid large ones. As my colleague Tony Isola said recently, "too many people are experts at success, but amateurs at failure."

Here are a couple of questions to ask yourself based on this Jeff Bezos framework for making life-altering decisions:

Have I minimized the number of regrets I have in life?

Will I regret having tried this?