

# Principles: Life and Work

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In his book “Principles: Life and Work”, Ray Dalio puts together more than forty years of experience to create a set of principles that can help those who adopt them achieve success, in both life and business. In the book, he postulates that life, management, economics and investing can all be systemized into rules and understood like machines. He also lays out the most effective ways for individuals and organizations to make decisions, approach challenges and build strong teams.

## Key takeaways

- Everything in life follows patterns – these patterns can help you better understand why things happen in a certain way
- To be successful in life you need to be a hyperrealist
- It is okay to make mistakes. However, it is not okay to not learn from them
- It is important to be radically open minded and pay attention to other people's perspectives as well
- Effective decision making is contingent upon your ability to learn and then incorporate those learnings to make better decisions
- Cultivate an organisation where people value trust and transparency
- Understand that hiring the right people is integral to the success of the organisation
- Treat your people with respect and encourage an environment of open communication
- Institute a robust governance structure to ensure that all the cogs in the organisational wheel are functioning smoothly

## LIFE PRINCIPLES

Most people want to be successful in life. They want to be successful at work and at home. They also want to have successful relationships. In order to be successful, you need to be a hyperrealist. Being a hyperrealist basically means having big dreams but also being realistic about your situation and having the determination to pursue your dreams.

### Dreams + Reality + Determination = A Successful Life

Being truthful to yourself, or basically having an accurate understanding of reality is the essential foundation for any good outcome. You also need to be radically open-minded and radically transparent so that you are not only aware of the changes around you but are also agile enough to effectively adopt these changes. Instead of focusing on how you think that things “should be” focus on learning from how they really are. Embracing radical truth and radical transparency will bring more meaningful work and more meaningful relationships in your life. It will also help you evolve in a changing environment so that you can maximise your output and leverage on your full potential.

### Always remember, “No pain, no gain”.

It is a fundamental law of nature that in order to gain strength one has to push one's limits, which can be painful.

### Pain + Reflection = Progress

It is always better to go through the pain than to avoid it. The process of change can be painful and can offer many learnings. You should learn to embrace these learnings. In order to optimise the outcome, you should ensure that the individual's incentives are aligned with the group's goals. Success comes when you optimise for the whole and not just for the individual.

Machine is the bedrock on which we build our success, therefore, you need to look at the machine from a higher level. Think of yourself as a machine that is operating within the larger organisational machinery. Understand that you have the ability to alter your machines to produce better outcomes. By comparing your outcomes with your goals, you can determine how to modify your machine. Learn to evaluate the second and third order consequences as well and take ownership of your own outcomes.

The biggest mistake most people make is to not see themselves and others objectively, which leads them to repeatedly make the same mistakes. Successful people are those who can go above themselves to see things objectively and manage those things in order to bring about change. Asking others who are strong in areas where you are weak to help you is a great skill that you should develop no matter what, as it will help you develop guardrails that will prevent you from doing what you shouldn't be doing. However, it can be challenging to see oneself objectively. Hence, it is imperative that you seek inputs from others. If you are open-minded enough and determined enough, you can get virtually anything you want.

Use the 5-Step Process to Get What You Want Out of Life

1. Have clear goals
2. Identify and don't tolerate problems
3. Diagnose problems to get at their root causes
4. Design a plan
5. Push through to completion

Always remember that weaknesses don't matter if you are able to find the solutions. Look at the patterns of your mistakes and identify at which step in the 5-Step Process you typically fail. Once you identify your biggest weakness then find a way to deal with it.

### **Be Radically Open-Minded**

All humans have two barriers that stand in the way of their success.

- a) Your ego barrier
- b) Your two "yous" that fight to control you

The first step in overcoming these barriers is to practice radical open-mindedness. You might not always know the best possible path or have the most optimal solution. Your ability to deal well with "not knowing" is more important than whatever it is you do know. Optimal decision making is a two-step process that first requires you to glean all the relevant information and then make the decision. In order to gain the perspective that comes from seeing things through another's eyes, you must suspend judgment for a time and honestly evaluate another viewpoint. Always remember that you are looking for the best possible answer and not simply the best answer that you can come up with yourself.

### **Understand That People Are Wired Very Differently**

Understand the power that comes from knowing how you and others are wired. We are all born with attributes that can both help us and hurt us, depending on their application. Understanding these attributes and then leveraging it for the greater good is integral to achieving success in life. Reconcile your feelings and your thinking and be cognisant of the differences between right-brained and left-brained thinking. Understand how much the brain can and cannot change.

### **Learn How to Make Decisions Effectively**

The biggest threat to good decision making is harmful emotions. Treat decision making as a two-step process that involves:

Step 1: Learning

Step 2: Then deciding

One of the most important decisions you can make is to assess the situation and determine who to ask questions. You must inculcate an ability to distil information and be wary of everything that you hear. Make your decisions as expected value calculations. This entails understanding the probability of being right and then taking steps to increase this probability. Knowing when not to bet is as important as knowing what bets are probably worth making. The best choices are usually the ones that have more pros than cons, not those that don't have any cons at all. At the end of the day, use simple principles to guide you through your life.

## **WORK PRINCIPLES**

An organization is a machine consisting of two major parts: its culture and its people. A great organization has both, great people and a great culture. In turn, great people tend to have great character and great capabilities. Irrespective of how great the culture and people of an organisation are, there will always be problems and disagreements that come to the surface from time to time. Great companies solve these problems well, and they love imagining and building great things that haven't been built before. Make your passion and your work one and the same and do it with people you want to be with.

### **TO GET THE CULTURE RIGHT**

#### **Trust in Radical Truth and Radical Transparency**

Realize that the truth is your strongest armour and integrity your biggest weapon. Create an environment in which every participant has the right to speak and understand what makes sense and what does not make sense. However, ensure that no one has the right to hold a critical opinion without speaking up. Be radically transparent in your dealings with your people and ensure that the people in the organisation are equally transparent in their dealings with each other. Provide transparency to people who handle it well and either deny it to people who don't handle it well or remove those people from the organization. Meaningful relationships and meaningful work are mutually reinforcing, especially when supported by radical truth and radical transparency.

#### **Cultivate Meaningful Work and Meaningful Relationships**

Have a larger organisational goal and be loyal to the common mission and not to anyone who is not operating consistently with it. Make sure that people give more consideration to others than they demand for themselves and that they clearly understand the difference between fairness and generosity. Know where the line is and always be on the far side of fair. Recognize that the

size of the organization can pose a threat to meaningful relationships and that most people will pretend to operate in your interest while operating in their own. Treasure honourable people who are capable and who will treat you well even when you're not looking.

### **Create a culture in which it is okay to make mistakes and unacceptable not to learn from them**

Mistakes are a natural part of the evolutionary process. People fail all the time, however, that does not make them failures. It is important to fail well and to learn from your mistakes rather than feeling bad about them. Don't worry about looking good—worry about achieving your goals. Do not make the environment toxic with a “blame” and “credit” culture. Instead, adopt an “accurate” and “inaccurate” culture. However, know what types of mistakes are acceptable and what types are unacceptable, and don't allow the people who work for you to make the unacceptable ones.

### **Get and Stay in Sync**

Recognize that conflicts are essential for great relationships because conflicts help people determine whether their principles are aligned and nudges them to resolve their differences. Dedicate a large proportion of your time and energy to getting in sync, because it's the best investment you can make. Have the ability to distinguish between idle complaints and complaints that can lead to improvement. Remember that every story has another side. Be open-minded and assertive at the same time. Also ensure that those in charge are open-minded about the questions and comments of others. Making suggestions and questioning are not the same as criticizing, so don't treat them as if they are.

### **Believability Weigh Your Decision Making**

An effective idea meritocracy system requires that you understand the merit in each person's ideas. If you can't successfully do something, don't think you can tell others how it should be done. Remember that everyone has opinions and they are often bad. Find the most believable people possible who disagree with you and then try to understand their reasoning for disagreeing with you. Remember that believable opinions are most likely to come from people 1) who have successfully accomplished the thing in question at least three times, and 2) who have great explanations of the cause-effect relationships that lead them to their conclusions. If someone hasn't done something but has a theory that seems logical and can be stress-tested, then by all means test it. However, don't pay as much attention to people's conclusions as to the reasoning that led them to their conclusions. Inexperienced people can have great ideas too, sometimes far better ones than more experienced people. Pay more attention to whether the decision-making system is fair than whether you get your way.

### **Recognize How to Get Beyond Disagreements**

While you need to create an environment that encourages communication, make sure that people do not confuse the right to complain, give advice, and openly debate with the right to make decisions. Don't leave important conflicts unresolved. Don't let the little things divide you when your agreement on the big things should bind you. Once a decision has been made, it is imperative that everyone should stand behind it, even though individuals may still disagree. Remember that if the idea meritocracy comes into conflict with the well-being of the organization, it will inevitably suffer.

## **TO GET THE PEOPLE RIGHT**

### **Remember that the WHO Is More Important than the WHAT**

The important decision for you to make is who you choose as your Responsible Parties (RPs). The most important RPs are those responsible for the goals, outcomes, and machines at the highest levels. Know that the ultimate Responsible Party will be the person who bears the consequences of what is done.

### **Hire Right, Because the Penalties for Hiring Wrong Are Huge**

People make the organisation and thus hiring the right person is integral to the success of the organisation. Match the person to the design and not the other way round. Ruminates over the values, abilities, and skills you are looking for (in that order) and those that fit the job at hand. Then, find the right fit person between the job and the role. People are built very differently and they have different ways of seeing and thinking which makes them suitable for different jobs.

Make finding the right people systematic and scientific. Understand how to use and interpret personality assessments. Remember that people tend to pick people like themselves, so choose interviewers who can identify what you are looking for and look for people who are willing to look at themselves objectively. Also remember that people typically don't change all that much. Thus, it is important to pay attention to people's track records and check references. While it is always great to hire

conceptual thinkers, do understand that there is no replacement for experience and track record. When considering compensation, provide both stability and opportunity. Remember that in great partnerships, consideration and generosity are more important than money. Be generous and expect generosity from others.

### **Constantly Train, Test, Evaluate, and Sort People**

Just as organisations go through an evolution so do the people you manage. Personal evolution helps people understand their own strengths and weaknesses - hence, career paths should not be planned at the outset. Instead, they should be amorphous and take the shape of an individual's personal evolution. Understand that training guides the process of personal evolution. Teach your people to fish rather than give them fish, even if that means letting them make some mistakes. Make the process of learning open, evolutionary, and iterative. Recognize that experience creates internalized learnings that book learning can't replace. Provide constant feedback and evaluate accurately, not kindly. Don't lower the bar.

### **WORK PRINCIPLES TO BUILD AND EVOLVE YOUR MACHINE**

**Manage as Someone Operating a Machine to Achieve a Goal:** look down on your machine and yourself within it from the higher level. Constantly compare your outcomes to your goals. Understand that a great manager is essentially an organizational engineer who needs to pay attention to what people are like and what makes them tick. Always remember that your people are your most important resource.

**Perceive and Don't Tolerate Problems:** design and oversee a machine to perceive whether things are good enough or not good enough. Understand that problems with good, planned solutions in place are completely different from those without such solutions. Think of the problems you perceive in a machine like way.

*If you're not worried, you need to worry—and if you're worried, you don't need to worry.*

**Diagnose Problems to Get to Their Root Causes:** to diagnose well, ask the following questions: 1. Is the outcome good or bad? 2. Who is responsible for the outcome? 3. If the outcome is bad, is the Responsible Party incapable and/or is the design bad? Always remember that almost everything will take more time and cost more money than you expect.

**Do What You Set Out to Do:** work for goals that you and your organization are excited about and think about how your tasks connect to those goals. Be coordinated and consistent in motivating others.

**Use Tools and Protocols to Shape How Work Is Done:** having systemized principles embedded in tools is especially valuable for an idea meritocracy. Use tools to collect data and process it into conclusions and actions. Foster an environment of confidence and fairness by having clearly-stated principles that are implemented in tools and protocols so that the conclusions reached can be assessed by tracking the logic and data behind them.

### **Don't Overlook Governance!**

To be successful, all organizations must have checks and balances in place. Even in an idea meritocracy, merit cannot be the sole determining factor in assigning responsibility and authority. Ensure that no one is more powerful than the system or so important that they become indispensable. The organization's structure and rules should be designed in such a way that it complements the checks-and-balances system that is put in place. Make sure that the people doing the assessing 1) have the time to be fully informed about how the person they are checking on is doing, 2) have the ability to make the assessments, and 3) are not in a conflict of interest that stands in the way of carrying out oversight effectively. Integral to decision making is the right to access all the necessary information and an ability to make unbiased decisions. Remember that in an idea meritocracy a single CEO is not as good as a great group of leaders. No governance system of principles, rules, and checks and balances can substitute for a great partnership.

The 5-step process mentioned in the book to get virtually anything that you want can also apply to your financial planning journey. The process says that you must have clear goals, you must identify and not tolerate problems, try to find out the root cause of your problems, design a plan, and then stick to that plan. Sounds a lot like financial planning, doesn't it? There is only one thing that you need to add to it, and that is financial planning with mutual funds. Why mutual funds, you ask. That is because mutual funds can help you in your financial planning journey. Let's see how. Let's say that you set a goal and realise that your biggest problem is that you don't know how to achieve that goal. So, you first identify basic things like what kind of returns you require, how much risk you can take, and what is the time period after which you want to achieve this goal. Once you have identified these factors, the next step is to look for a solution in mutual funds. You can look at equity funds if you require high returns, are highly tolerant to risk, and have a long-term investment time period. You can look at debt funds if you are highly risk averse and don't have high return requirements. Or, you can simply look at hybrid funds like Balanced Advantage Funds that invest in a mix of equity and debt instruments and dynamically shift between the two depending on equity market

opportunities. This way, you can strike a great balance between risk and return. However, this is not it. We all know how difficult it is to stick to a plan. To do this, you can invest via the Systematic Investment Plan (SIP) route that enables you to invest a fixed amount of money in a mutual fund scheme of your choice at time intervals that suit you best.

