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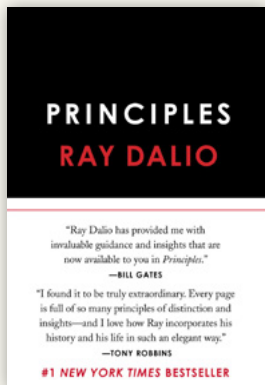


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# Principles

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Ray Dalio founded Bridgewater Associates in a two-bedroom New York City apartment, overseeing its growth from a staff of two to the world's biggest hedge fund company. In his extensive work, *Principles*, Dalio credits his success to the development of sound principles, or “fundamental truths that serve as the foundation for behavior that gets you what you want out of life.” He boils these many principles down to a five-step process: audacious goal setting, failure, learning, improving, and, finally, setting more audacious goals. He positions failure, both in the introduction and throughout the book, as central to learning as an independent thinker.

## Key Quote

“I believe that the key to success lies in knowing how to both strive for a lot and fail well. By failing well, I mean being able to experience painful failures that provide big learnings without failing badly enough to get knocked out of the game” (p. xii). — *Ray Dalio*

## Key Points

### INTRODUCTION

Three principles, which Dalio credits for his personal and business successes, lie at the heart of the many axioms offered throughout *Principles*:

- 1). Make believability-weighted decisions
- 2). Operate by clearly laid out principles
- 3). Systemize your decision making (pp. xiv-xv)

Believability weighting is a phrase indicating that people with more credibility – people with a strong track record – should have more influence in the decision making process. Openness is the expectation. People with believability are expected to speak up. Radical transparency is valued. “It just means much more transparency than is typical” (p. 331).

**Where I’m Coming From.** “Think for yourself to decide 1) what you want, 2) what is true, and 3) what you should do to achieve #1 in light of #2 ... and do that with humility and openness so that you can consider the best thinking available to you” (p. xi).

## LIFE PRINCIPLES

**Embrace Reality and Deal With It.** There is no place for wishful thinking. Face and understand the truth and understand how things really work in the world, be open and accountable, and be willing to change (pp. 132-167).

**Use the 5-Step Process to Get What You Want Out of Life.** “1) Have clear goals. 2) Identify and don’t tolerate the problems that stand in the way of your achieving those goals. 3) Accurately diagnose the problems to get at their root causes. 4) Design plans that will get you around them. 5) Do what’s necessary to push these designs through to results” (pp. 168-181).

**Be Radically Open-Minded.** Know yourself and your blind spots. Seek out other perspectives from credible people with whom you may even disagree. Be humble and aware of the “ego barrier” (pp. 182-203).

**Understand That People Are Wired Very Differently.** Take time to study and understand how the brain works, and how personality types are formed and operate. This can help you pull in the people who will best serve the goals you have set (pp. 204-233).

**Learn How to Make Decisions Effective.** Unhelpful emotions can derail decision making, which is a two-step process of “learning and then deciding” (p. 236). Logic and reason “are your best tools for synthesizing reality and understanding what to do about it” (p. 251). Once you make a decision, be bold to act (pp. 234-265).

## WORK PRINCIPLES

Seek out and nurture a great work culture and great people to work with, and establish a meritocracy of ideas. “To have an Idea Meritocracy: 1) Put your honest thoughts on the table. 2) Have thoughtful disagreement. 3) Abide by agreed-upon ways of getting past disagreement” (p. 321).

**Trust in Radical Truth and Radical Transparency.** Embrace transparency in seeking what is true, in what you expect to from others (including criticism), in how you share with others (responsibly and straightforwardly), and in evaluating other’s ideas (deny transparency to those who don’t earn it) – all with an eye toward meaning in work and relationships (pp. 322-337).

**Cultivate Meaningful Work and Meaningful Relationships.** The mission is the North Star, be “on the far side of fair” (p. 345). Embrace and preach being generous towards others, while being shrewd about others’ motives. The larger the organization, the harder it is to cultivate meaningful relationships (pp. 338-347).



*He boils these many principles down to a five-step process: audacious goal setting, failure, learning, improving, and, finally, setting more audacious goals. He positions failure, both in the introduction and throughout the book, as central to learning as an independent thinker.*



**Create a Culture in Which it is Okay to Make Mistakes and Unacceptable Not to Learn From Them.**

Mistakes and failures are a necessary part of growth and useful to the person or organization that is truly engaged in self-reflection. Use them to find and address weaknesses. Be clear about what kinds of mistakes are not tolerable (pp. 348-355).

**Get and Stay in Sync.** Understand that “conflicts are essential for great relationships” and learn how to disagree and discuss honestly and constructively. Encourage this type of discussion in meetings and groups (p. 360). “When you have alignment, cherish it” (p. 369, pp. 356-368).

**Believability Weight Your Decision Making.** “Believability” is the concept that some people’s ideas have more merit than others. Give weight to “the most believable people possible who disagree with you,” understand your role in any decision, expect and invite others with credibility to be involved in the process, and make fairness one goal of setting up decision making systems (p. 375, pp. 370-383).

**Recognize How to Get Beyond Disagreements.** While people are encouraged to weigh in, it is not the responsibility of everyone to make the final decision. However, it is the responsibility of everyone to get behind the decision and support the principles, or else your organization will suffer. Don’t tarry forever in disagreement: decide and act (pp. 384-397).

**Remember That the WHO Is More Important Than the What.** In decision making, identify who the responsible parties are, as they will deal with the consequences (pp. 398-403).

**Hire Right, Because the Penalties for Hiring Wrong are Huge.** “Match the person to the design.” Consider someone’s performance history as you seek the right person for the particular “values, skills, and abilities you are looking for (in that order).” Build a team with a variety of types of people to collectively bring about success (p. 407). Purpose to keep the ones who are great (pp. 404-419).

**Constantly Train, Test, Evaluate, and Sort People.** Seek to understand your people, provide fair and straightforward feedback, use evaluation tools, but “look at the whole picture” (p. 431). “Train, guardrail, or remove people,” thinking about what is good for your organization overall (p. 438, pp. 420-447).

**Manage as Someone Operating a Machine to Achieve a Goal.** “Look down on your machine and yourself within it from the higher level” (p. 289). With a mind to move closer to the goal and to “train and test your machine,” manage without micromanaging, understand and care for your people, make responsibilities and plans clear, and “hold both yourself and your people accountable” (pp. 448-470).

**Perceive and Don’t Tolerate Problems.** “Design and oversee a machine to perceive whether things are good enough or not good enough, or do it yourself” (p. 291, pp. 472-481).

**Diagnose Problems to Get to Their Root Causes.** Diagnose “continuously” and identify problems with a mind to bringing about different outcomes (pp. 482-495).



*Think for yourself to decide*

*1) what you want,*

*2) what is true, and*

*3) what you should do to achieve*

*#1 in light of #2 ... and do that*

*with humility and openness so*

*that you can consider the best*

*thinking available to you.”*



**Design Improvements to Your Machine to Get Around Your Problems.** “Systematize your principles and how they will be implemented” (p. 499). Make tactical changes, investigate issues, keep the “clearest possible” reporting lines and responsibilities – all the while maintaining your strategic vision (p. 514, pp. 496-517).

**Do What You Set Out to Do.** Choose goals that delight you and then create lists that work towards those goals. Truly enjoy your successes and “allow time for rest and renovation” (p. 294, pp. 518-523).

**Use Tools and Protocols to Shape How Work Is Done.** Your “tools and protocols” should both further your goals and reflect your principles (p. 524, pp. 524-529).

**And for Heaven’s Sake, Don’t Overlook Governance!** Every company needs “checks and balances” (p. 532, pp. 530-537).

### Key Concepts:

#### *Where I’m Coming From*

Dalio lived a middle-class childhood on Long Island and took up investing after hearing the golfers he caddied for talking about the stock market. He began ordering free annual reports for companies through **Fortune**, and thus began an investment library – probably the earliest foundation of his principles (pp. 1-9).

Watching Nixon miscommunicate the state of the U.S. Dollar, Dalio formulated the first of his many axioms: “You better make sense of what happened to other people in other times and other places because if you don’t you won’t know if these things can happen to you and, if they do, you won’t know how to deal with them” (p. 15).



*Manage as someone operating  
a machine to achieve a goal.*

*“Look down on your machine  
and yourself within it from  
the higher level.”*



#### **From Nixon’s mistakes, Dalio came to two conclusions:**

- 1) It’s best to assume that one is missing something because uncertainty exists in all situations;
- 2) Good discipline requires taking time to reflect every day.  
(This conclusion made Dalio decide to begin publishing his famous “Daily Observations.”)

The stock market volatility of the period 1979-82 taught Dalio that “timing is everything” (p. 29), especially as he watched very wealthy friends go bankrupt. Bridgewater, his fund, crashed during this period, forcing Dalio to reassess his own natural aggressiveness.

#### **He rebuilt Bridgewater as an “idea meritocracy” centered on two principles:**

- 1) “Successful people change in ways that allow them to continue to take advantage of their strengths while compensating for their weaknesses” (p. 37).
- 2) “There is almost always a good path that you just haven’t discovered yet, so look for it until you find it, rather than settle for the choice that is then apparent to you” (p. 38).

Throughout the 80s and early 90s, international experiences helped Dalio see the importance of viewing the world through the eyes of others. Creating genuine, meaningful relationships became the center of his project, and new disagreements helped him realize that these meaningful relationships develop from bad times coupled with good reflections. The new, reformed Bridgewater operated on the principle of creating new “mental maps” – the intuition to know what to do – then consulting historical data to re-inform these mental maps (pp. 40-65).

Bridgewater’s outstanding performance and growth from 1995-2010, including during the 2008 economic crisis, gave Dalio time to refine his principles. Dalio recognized that “it wasn’t enough to codify and teach our philosophy; we had to live it” (p. 73). He discerned that many of his professional and personal contacts had difficulty converting good ideas to actions because emotions often form a barrier to this actualization. He approached many of these contacts, which at this point included global leaders, as a doctor would approach a patient – always hoping to make the most positive impact. As maintaining these relationships became an important piece of Bridgewater’s success, Dalio formed another crucial axiom that, “the greatest success you can have as the person in charge is to orchestrate others to do things well without you” (p. 79).

After Bridgewater’s ascent, Dalio confronted the reality that success breeds the desire for further success. He became interested in articulating his own management style, which revolves far more around predicting human behavior than simply selecting the most qualified people for the job. He stresses the importance of creating “decision trees” for predicting how people will act, but also, more importantly, for looking at which obstacles may impede action.

He also calls managers who lead their subordinates effectively “heroes.” Dalio emphasizes the fact that the hero does not act alone, and he often becomes a helper in another’s story after completing his or her own journey (pp. 91-116).

In recent years, Dalio has become focused on transitioning the leadership of Bridgewater. His goal is to establish a system of governing that remains both flexible in its ambitions yet steadfast in its principles. The next two chapters of the book are dedicated to how “looking back from a higher level” will help him in his transition, but he hopes they will also help other leaders evolve (pp. 121-124).

What follows are selections of ideas from the next two sections: “Life Principles” and “Work Principles.” These sections together list a comprehensive and detailed series of “higher-level,” “mid-level,” and “sub-level” precepts to achieve success in the two spheres of life and work.

It would be impossible to include in a summary all of the principles Dalio espouses, but the center of the book (pages 272-295) contains an exhaustive list of all of Dalio’s precepts, in outline format.

### *Life Principles*

“Life Principles” encourages the reader to take nothing in life at face value, but to always delve deeper into series of cause-and-effect relationships that bring about particular circumstances.



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## The life principles Dalio espouses are divided into five sections:

- 1) Embrace Reality and Deal With It
- 2) Use the 5-Step Process to Get What You Want Out of Life
- 3) Be Radically Open-Minded
- 4) Understand That People Are Wired Very Differently
- 5) Learn How to Make Decisions Effectively

### “Embrace Reality and Deal With It.”

The “hyper-realistic” approach Dalio promotes exposes us to new criticisms, new rewards, and an effective workflow. These new exposures correspond with what he calls the “idea meritocracy.” Dalio believes that “nature optimizes for the whole, not for the individual, but most people judge good and bad based only on how it affects them” (p. 141).


Most people have not developed a hyper-realistic relationship with reality, but Bridgewater’s management style seeks to foster this relationship. Dalio succinctly puts this style, “fail, learn, and improve quickly” (p. 147), but elaborates that learning in accordance with evolution involves three kinds of learning: “memory-based (storing the information that comes in through one’s conscious mind so that we can recall it later),” “subconscious learning (the knowledge we take away from our experiences that never enters our conscious minds, though it affects our decision making),” and the type of natural learning that occurs in all creatures without thinking (one example would be species adaptation) (p. 148).

Deep learning inspires only deeper and deeper learning. Failure, however, can breed further failures, if one is not alert to the fact that pain is nature’s way of guiding our evolution.


Dalio comes to the conclusion that “Pain + Reflection = Progress” (p. 152). We can internalize this equation by constructing a mental framework that prizes secondary and tertiary outcomes over primary reactions and by taking responsibility for our decisions.

Dalio provides four options for dealing with intrinsic weaknesses: deny them, convert them to strengths, find ways around them, or change goals. We are left with five axioms, quoted below:

- 1) Don’t confuse what you wish were true with what is really true.
- 2) Don’t worry about looking good – worry instead about achieving your goals.
- 3) Don’t overweight first-order consequences relative to second- and third-order ones.
- 4) Don’t let pain stand in the way of progress.
- 5) Don’t blame bad outcomes on anyone but yourself (p. 162).



*We get the best “return on investment” for any effort or mission “when we discuss in an honest and direct way what we could have done better. True, honest, specific, and shared feedback is how we improve.”*



### **“Use a 5-Step Process to Get What You Want Out of Life.”**

- 1) Have clear goals.
- 2) Identify and don't tolerate the problems that stand in the way of you achieving those goals.
- 3) Accurately diagnose the problems to get at their root causes.
- 4) Design plans that will get you around them.
- 5) Do what's necessary to push these designs through to results (p. 169).

Dalio revisits the 5-step process concept from the introduction and situates learning and improving as a function of triangulating with people who know the things that we know we do not know. Realizing what one does not know means a willingness to objectively identify the cause-effect relationships at the root of our own actions and also a willingness to delegate the smaller tasks that add up to the big picture.

**“First and foremost, have humility so you can get what you need from others”** (p. 179).

### **“Be Radically Open-Minded.”**

What is true must trump our desire to be right. “Differences in thinking can be symbiotic and complementary instead of disruptive” (p. 187). As Dalio learned through his international experiences in the 80s and 90s, radical open-mindedness requires us to see the world through the eyes of others, in order to fully empathize and understand. Without this empathy, communication becomes governed by exclusively lower-order concerns and becomes an obstacle, as arguments cloud the open exploration of what is true.

Among many things, open-minded people “are more curious about why there is disagreement,” “are always more interested in listening than in speaking,” “assess their relative believability to determine whether their primary role should be as a student, a teacher, or a peer,” and “always feel compelled to see things through others' eyes” (pp. 196-197).

### **“Understand That People are Wired Very Differently.”**

At the outset of the Bridgewater project, Dalio hired the people who looked smartest on paper and found that their output did not match their résumés. “At the time, we chalked this up to ‘communication problems,’ but the differences were much deeper than that – and they were painful for all of us, particularly when we were trying to achieve big things together” (p. 206).

Dalio believes that while it is difficult to change our thinking, we can change our habits. He defines “habit” as “essentially inertia, the strong tendency to keep on doing what you have been doing” (p. 221). Learning how to override old habits and develop new ones – following Charles Duhigg's advice in his book **The Power of Habit** – can help us condition ourselves to develop new behaviors.

Dalio looks at introverts versus extroverts as the quintessential example of different modes of thought. “Whether it's in your private life or your work life, it is best for you to work with others in such a way that each person is matched up with other complementary people to create the best mix of attributes for their task” (pp. 231-232).

### **“Learn How to Make Decisions Effectively.”**

Threats to making effective decisions abound. “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” (p. 236). Effective decision making results when we learn to navigate these levels and synthesize them.

Deciding well can be objectively tracked by regarding each decision made as a bet that pays when we are right and loses when we are wrong. We should always place these bets on odds that pay out well rather than simply acceptably. Three steps can help us assess these odds:

- 1) Get rid of irrelevant details so that the essential things and the relationships between them stand out.
- 2) Use principles as a way of both simplifying and improving your decision making.
- 3) Believability weight your decision making (pp. 255-256).

The phrase "believability weight" means to make sure that credible people with solid track records get more influence in your decision making.

### *Work Principles*

Dalio's goal in this section is to promote alignment between the life principles offered in the previous chapter and the goals of an institution. "For any group or organization to function well, its work principles must be aligned with its members' life principles," begins this chapter.

**Achieving this alignment is also a 5-step process, expressed slightly differently for the workplace. He lists these steps as:**

- 1) Having clear goals
- 2) Identifying the problems preventing the goal from being achieved
- 3) Diagnosing what parts of the machine are not working well
- 4) Designing changes, and
- 5) Doing what is needed (p. 300).

**Dalio offers two axioms overall for implementing this strategy:**

- 1) "A believability-weighted idea meritocracy is the best system for making effective decisions" (p. 307).

Dalio has formulated an equation for creating this type of meritocracy:

**"Idea Meritocracy = Radical Truth + Radical Transparency + Believability-Weighted Decision Making"** (p. 309).

- 2) "Make your passion and your work one and the same and do it with people you want to be with" (p. 317).

### **"TO GET THE CULTURE RIGHT."**

Getting the right culture in an institution begins with radical truth and radical transparency, which, again, means "more [transparency] than normally expected." He stresses the importance of making mistakes in order to learn and gives six recommendations for effective culture building:

**"Trust in Radical Truth and Radical Transparency."**



*Dalio has formulated an equation for creating this type of meritocracy:*  
*"Idea Meritocracy = Radical Truth + Radical Transparency + Believability-Weighted Decision Making."*





Radical transparency helps constituent parts of the whole understand their roles in the overall process. Dalio cites Bridgewater's decision to be open with staff from the outset regarding forming an external company out of one of his backend development departments. Being upfront and honest early on and throughout the planning process was the responsible, truthful way to involve this team and also quell the rumor mill (pp. 325-326).

Three notions drove this decision: transparency helped the department understand its role moving forward; it was fairer to tell the truth rather than worry about how it made Bridgewater appear; and his employees were more comfortable living outside the fog of uncertainty. Most importantly, transparency in this situation helped the development of close relationships, as people saw they could trust the company to be open with them.

### **“Cultivate Meaningful Work and Meaningful Relationships.”**

When interactions within an institution are framed as for the benefit of the whole, meaningful relationships will form out of a commitment to the common good.

### **“Cultivate a Culture in Which It Is Okay to Make Mistakes and Unacceptable not to Learn from Them.”**

Dealing with mistakes or weaknesses in open and honest ways allows you to continue pursuing greater goals while learning from past experiences that caused pain. “Pain + Reflection = Progress” (p. 354), Dalio concludes.

### **“Get and Stay in Sync.”**

Just as your personal and institutional goals must align overall, so must the goals of the individuals within the institution. Dalio believes that open-minded, goal-oriented discussion (with clear protocols for resolving conflict) is the key to getting “in sync” within an institution. Both parties ought to enter these discussions assuming they are wrong and understanding there is always another side to their own story. The drive for action and decision lies at the heart of conversing in this manner, as “the main purpose of discussion is to achieve completion and get in sync, which leads to decisions and / or actions” (p. 367).

### **“Believability Weight Your Decision Making”.**

This means looking at both your own track record and expertise on a topic and assessing that of others before making institutional decisions.

### **“Recognize How to Get Beyond Disagreements.”**

Abide by the governing body of the idea meritocracy and “declare ‘martial law’ only in rare or extreme circumstances” (p. 391).

### **“TO GET THE PEOPLE RIGHT.”**

Dalio stresses the high costs of lackluster production combined with the necessity to retrain someone new when an employee needs to be removed. In the hiring process, search committees should look for candidates with no gap between the qualities needed and the prospective employee's principles. Getting the right people involves three steps:

### **“Remember That the WHO Is More Important Than the WHAT.”**

This means situating people in positions where they are not only capable of performing the work, but also capable of accepting responsibility for the mistakes that happen under their care.

### **“Hire Right, Because the Penalties for Hiring Wrong are Huge.”**

Again, a candidate’s principles must align with the principles of the institution generally. Once a person becomes part of the organization, their role should be viewed as a position on a sports team – either they excel or get cut. Dalio encourages us to think about employees as people who we want to share our lives with, and so keeping quality employees becomes of utmost importance.

### **“Constantly Train, Test, Evaluate and Sort People.”**

Dalio writes, “Radical truth doesn’t require you to be negative all the time. Point out examples of jobs done well and the causes of their success. This reinforces the actions that lead to the results and creates role models for those who are learning” (p. 427). We do not, however, have to rehabilitate people who have dishonesty embedded in their character. Rather, “train, guard-rail, or remove” employees whose characters come into question (p. 438).

### **“TO BUILD AND EVOLVE YOUR MACHINE.”**

Dalio considers an institution a machine because, with machines, we look at the output and we call in appropriate experts when parts of the machine function improperly. People running institutions sometimes get caught up in the minutia, but Dalio has seven strategies for focusing attention on larger goals and output:

### **“Manage as Someone Operating a Machine to Achieve a Goal.”**

A macro, or super perspective is required to see the diverse mechanisms that make an institution work effectively. “Great managers are not philosophers, entertainers, doers, or artists. They are engineers. They see their organizations as machines and work assiduously to maintain and improve them” (p. 451).

As a conductor at the front of an orchestra, managers clearly assign responsibilities and do not get derailed by small mistakes. Be “open-minded and assertive at the same time” (p. 465). Great managers open themselves to criticism and probing to establish a continuous feedback loop that ensures the institution works constantly toward its goals. Rather than “confess,” Dalio uses the term “escalate” for what managers must do when they recognize their mistakes – escalate to the surface of the situation rather than conceal.



*Dalio believes that open-minded, goal-oriented discussion (with clear protocols for resolving conflict) is the key to getting “in sync” within an institution.*



### **“Perceive and Don’t Tolerate Problems.”**

Managers who sacrifice greater goals for pats on the back risk falling into “Frog in the Boiling Water Syndrome” (p. 476), wherein the manager does not notice the problems that are arising because of the accolades.

“People have a strong tendency to slowly get used to unacceptable things that would shock them if they saw them with fresh eyes” (p. 476).

### **“Diagnose Problems to Get at Their Root Causes.”**

Dalio encourages us to do this by asking either “why” or yes / no questions until a root cause can be determined. Once it has, institutions should hold individual persons responsible for those problems.

**“Design Improvements to Your Machine to Get Around Problems.”**

Looking at institutions algorithmically should allow a manager to anticipate potential areas of concern. Again, failure should not be feared. Cleansing storms restore nature. “Bad times that force cutbacks so only the strongest and most essential employees (or companies) survive are inevitable and can be great, even though they seem terrible at the time” (p. 502). The weakest tend to be those focused on minutia, so the manager’s role becomes that of an auditor who confirms that small tasks always align with the greater goals of the institution.

**“Do What You Set Out to Do.”**

Keep the constituents of your institution excited about the goals at hand and celebrate when they are met.

**“Use Tools and Protocols to Shape How Work is Done.”**

“Words alone aren’t enough,” this section begins. It is not enough to have solid goals. The institution must work ever diligently to implement them, both for the sake of attaining them and learning how to cope with failures along the way. As Dalio writes, “Johannes Gutenberg’s printing press allowed easy dissemination of knowledge that helped people build on each other’s learnings. But experiential learning is so much more powerful” (p. 526).

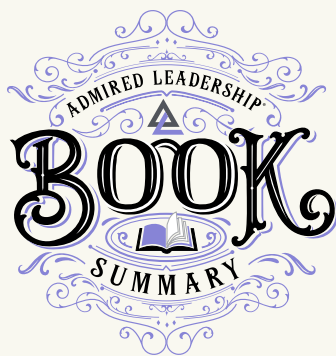
**“And for Heaven’s Sake, Don’t Overlook Governance!”**

Governing bodies alter or remove processes or people when they function improperly, so a principle-based model of governance is essential for the well being of the institution.

Dalio, Ray (2017). *Principles*. New York, NY: Simon and Schuster.



*We get the best “return on investment” for any effort or mission “when we discuss in an honest and direct way what we could have done better. True, honest, specific, and shared feedback is how we improve.”*



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