

How to use Circle of Competence

What it is

Know the edges of what you actually understand from real experience, and be honest when a decision falls outside them.

Warren Buffett's rule: it's not how big your circle of competence is, it's how honestly you know its edges.

When to use it

Before a decision that depends on knowledge or skill you might not really have.

Steps

1. **Name the decision.** What are you about to decide or commit to?
2. **Separate knowing from guessing.** What do you actually know from real experience, and what are you just guessing at?

Common mistake

Confusing 'I've heard about this' with 'I actually understand this.'

Pairs with

First Principles Thinking and Inversion.

Example: investing in a friend's startup

Date: Sun, Jul 20

The decision

Putting savings into a friend's new startup

Knowing versus guessing

What I know <i>I understand budgeting and basic investing from managing my own savings.</i>	What I'm guessing at <i>Whether their business model can actually turn a profit. No real industry experience there.</i>
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Inside my circle? No, I'll wait and learn more first

Circle of Competence Decision Check

Date: _____

The decision

Knowing versus guessing

What I know	What I'm guessing at

Inside my circle? _____