

When choice becomes a burden

In an experiment summarized by Gary Belsky and Thomas Gilovich in *Why Smart People Make Big Money Mistakes* (Simon and Shuster, 1999), shoppers in a grocery store were offered free samples of fancy jellies and a \$1.00 coupon good for buying the jar of their choice. During some hours the samplers had six kinds of jelly from which to choose, and at other times they were offered 24 different varieties. The coupons were bar coded to enable tabulation of the buying response of the two groups. The results were somewhat surprising.

Increasing the number of choices to 24 led to a dramatic increase in traffic to the sample table, as 50% more shoppers tasted the jellies and accepted the coupon. However, with all those choices, many more people could not make up their minds. Of those who were exposed to six choices, 30% used their coupon to make a purchase, but in the group with an array of 24 flavors, only 3% took the purchasing step. Too many choices, it would seem, can lead to indecision.

The role of emotion

Recently, a different sort of experiment about making choices was discussed during National Public Radio's RadioLab. Two groups each were given a number to memorize. They were told that once they were confident of the number, they would proceed to another room and recite the number for a researcher. Participants in one group were given two-digit numbers, the others seven-digit numbers (like a telephone number without the area code).

As each participant walked to the second room for the recitation, he or she was interrupted and offered a choice of snack by another researcher. The choice was between a piece of chocolate cake and a cup of fruit salad. By a statistically significant amount, those who were remembering two digits favored the fruit, and those with the longer strings of digits chose the cake.

The researchers assumed that because the fruit salad was healthier, it would be the rational choice, all things being equal. The cake, on the other hand, would be a less rational, more emotional preference. The study concluded that when one is working with larger amounts of data—such as remembering seven digits instead of only two—one is more likely to rely upon emotions in decision-making.

An investor's context

Whether research such as this has meaning for investors is a provocative question. For sponsors of 401(k) plans, accepting the notion that having a substantially larger universe of choices may result in delays of investment decisions by plan participants might reasonably lead to a cap on the number of investment alternatives to evaluate, for example.

One can quarrel with the idea that chocolate cake is bad and, therefore, an emotional choice, while fruit salad is inherently a better and more rational choice. But the larger, clearer point is that the subjects

who were under minor stress—the need to remember more numbers with no penalty for failure—made different choices than those who had even less stress.

It goes without saying that these are stressful times for investors, and that investors are deluged with more and more economic and investment data on a daily basis. That is why we believe that professional investment advice has become more valuable than ever.

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