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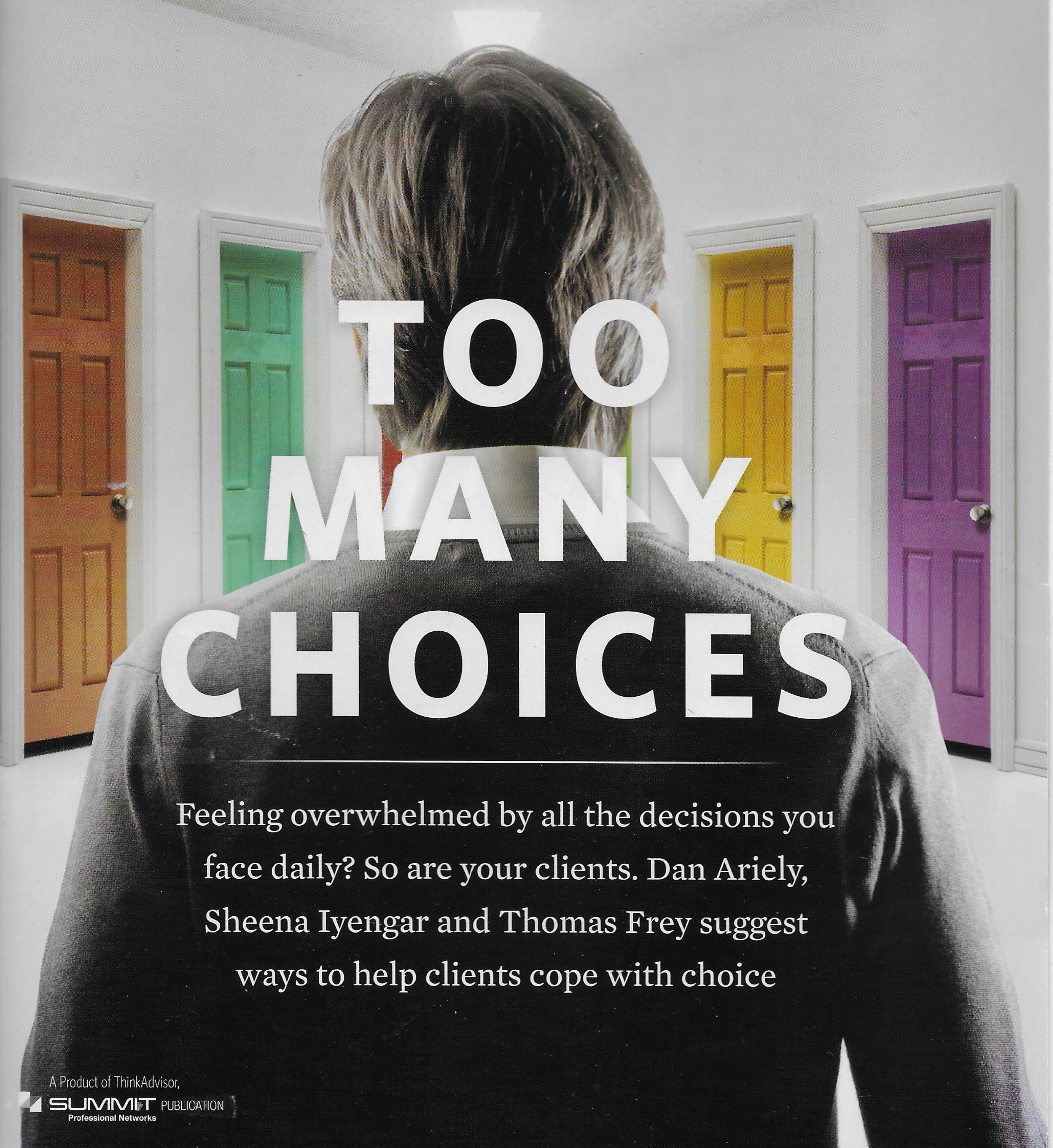

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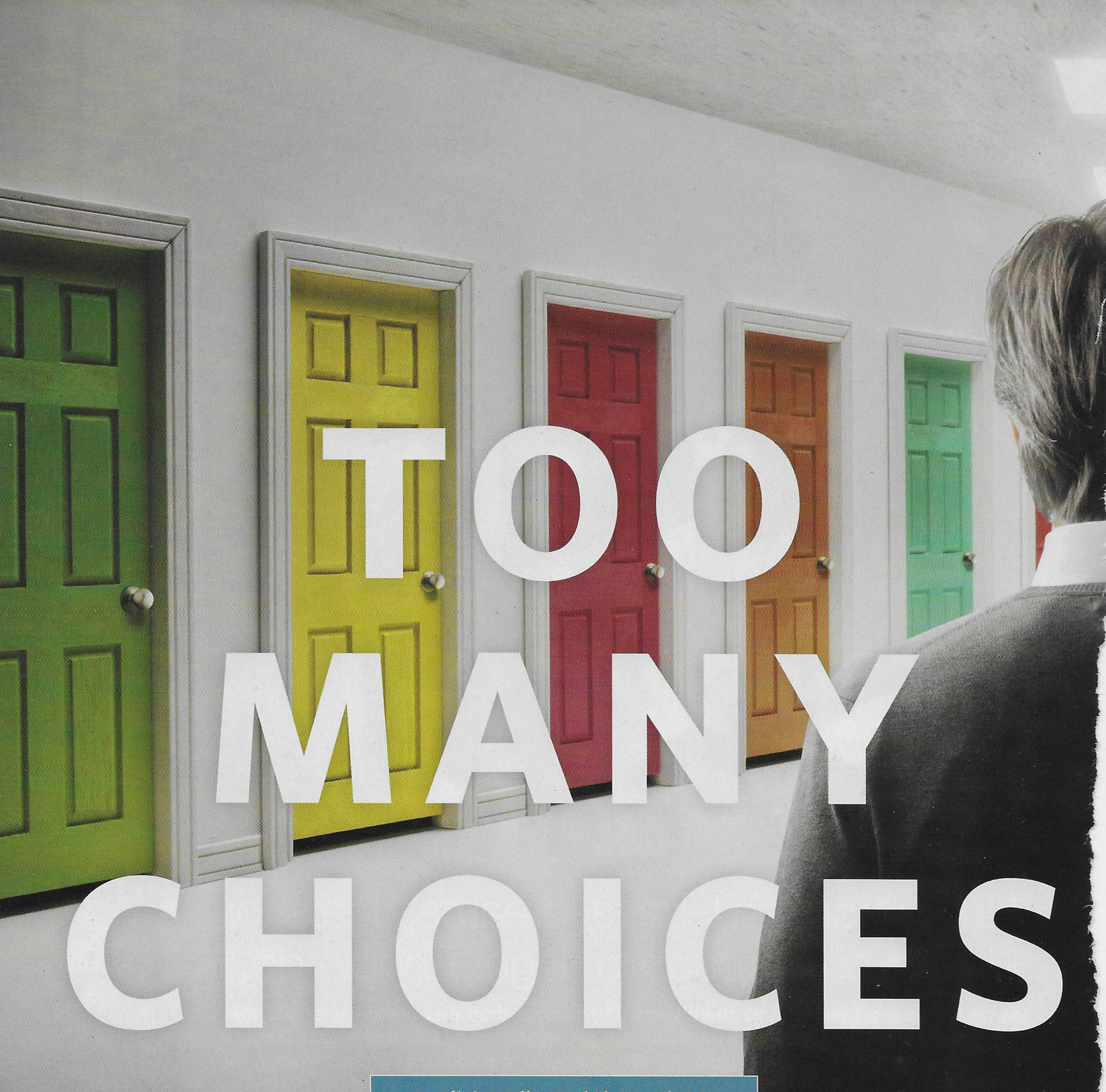

TOO MANY CHOICES

By Olivia Mellan and Sherry Christie

Feeling overwhelmed by all the decisions you face daily? So are your clients. Dan Ariely, Sheena Iyengar and Thomas Frey suggest ways to help clients cope with choice

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When Sheena Iyengar was a doctoral student at Stanford, she conducted a now-famous experiment in which her research assistants went into a supermarket, put out different flavors of jam on tables and offered samples to shoppers. One table had six different jams and the other had 24.

Several shoppers who stopped at the table with the smaller sampling ended up buying a jar of jam, while only a few who visited the table with the larger selection made a purchase. The startling conclusion: Having more choices made the decision to buy harder, not easier.

Now a professor at Columbia Business School and director of its Global Leadership Program, Dr. Iyengar wrote in her 2010 book, "The Art of Choosing," that seven seems to be the maximum number of options that permit good decision-making.

Sifting through choices is a growing challenge, not just for supermarket shoppers but for financial advisors charged with recommending the best of more than 7,000 mutual funds and 1,200 ETFs. Does having more choice really make us better off? Can we improve the process of choosing? What lies ahead as we're faced with more, not fewer, decisions?

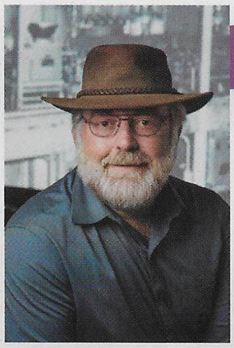
For insight we turned to three experts: Dr. Dan Ariely, professor of psychology and behavioral economics at Duke University and author of "Predictably Irrational: The Hidden Forces That Shape Our Decisions"; Thomas Frey, executive director and senior futurist at The DaVinci Institute and author of "Communicating with the Future: How Re-engineering Intentions Will Alter the Master Code of Our Future," and Iyengar herself.

MORE CHOICES: GOOD OR BAD?

Thanks to the information revolution and the Internet in particular, it's now possible for every one of us to have more choices 24 hours a day. Does this help or hinder decision-making?

All three experts agree that too many undifferentiated choices can be disabling. "It depends on if you know what you want," Iyengar told us. "If you know a lot about the domain in which you're choosing, it's fine. It might even help you. If you don't know about that domain or what you want, then it's going to cause you difficulty."

"Choice is generally a good thing, but too many choices make us become paralyzed with indecision," Thomas Frey pointed out. "I think there's a limit that we're butting up against about how many decisions we can make in a day."



"When societies get more and more sophisticated, I think it is easier to choose badly."

—Thomas Frey

That's precisely the case, as Dan Ariely confirmed in an interesting and disturbing remark: "There's something called depletion; when people are facing [too many] decisions, their ability to make decisions and to resist temptation actually drops."

He explained that our ability to resist temptation is like a muscle. "Basic research suggests that you resist temptation once, and then you resist it again, and your muscle fires but it gets tired. So your ability to resist temptation later on gets weaker."

As a recovering overspender and a chocoholic, we both knew exactly what he was talking about. "This is common in daily life," Ariely said. "You've resisted donuts, then Facebook, then saying something nasty to your boss; and then, very quickly, you are depleted and unable to make decisions in a good, reasonable way." This probably explains why clients who are pressed to make important decisions too close together may either vacillate or make choices that are not in their own long-term best interest.

IS LESS MORE?

So should advisors try to protect clients from having to deal with today's myriad of options? Would we be happier if we had fewer choices?

"Most people have the experience of sometimes being happy with a lot of choice and sometimes being miserable," Iyengar observed. Generally, she believes people with fewer choices are happier. "But the key to their happiness isn't just that they have fewer choices," she emphasized. "It's that they feel they have the most meaningful choices."

She provided an example. "Let's say I give you six chocolates. You know that there are 100 available, but you'll be happy with the six as long as you feel they are a meaningful six. If you think they were just randomly thrown in there, you're not going to be happy about that."

In other words, the six chocolates need to be meaningful for our personal needs and preferences.

Frey framed the question of too much choice differently. "Does being smarter, more informed and more intelligent make us happier?" he asked. "We tend to feel more in control, but that doesn't make us happier."

Is it true, then, that ignorance is bliss? "But as an investor, you need to be informed to make money," he countered.

AVOIDING THE WRONG CHOICE

The more numerous our choices, the more it complicates the decision-making process. Frey sees this as a side effect of 21st-century progress. "When societies get more and more sophisticated, I think it is easier to choose badly," he said. "We're getting blindsided by choices we never realized we had in the past."

Ariely agreed. "When people have more choices, they're likely to be tempted to a higher degree," he said. "So if there are more choices and more temptation, then they might make more mistakes."

He sees the central issue not as the number of choices, but the complexity of choosing. "The things that help are things that limit this complexity," he observed. "One example is rules. If you have strict rules, maybe even religious rules, now you're not thinking about each decision. You have rules about what to do."

Some of the most effective personal finance programs rely on this quirk in human behavior: dollar cost averaging, 401(k) deductions, Christmas Club. By contrast, when we try to decide every month how much to put into savings, we flub it.

If advisors can educate and persuade clients to follow specific steps to improve their financial well-being (whether you call them rules or policies or whatever), it will do them a tremendous service. Anything you establish as a standard becomes something that a client doesn't have to make a decision about.

The Coming Data Tsunami

"Today's data clouds are swirling violently on the leading edge of a modern-day storm front that is on the verge of exploding around us with cluster-bomb-like data grenades bursting their way onto the scene. While many are still reeling from the past decade of exponential information growth, the coming years will see billion- and trillion-fold increases, the likes of which are destined to overload every system currently on the drawing board."—**Futurist Thomas Frey**

HOW DO WE CHOOSE?

Remembering from Iyengar's "The Art of Choosing" that decision-making suffers when people are offered more than seven options, we asked how we weigh multiple possibilities in order to make a choice.

"I don't think choosing is about just winnowing out the bad choices," Iyengar said. "That's what we think it is, but it's an act of creating. It's about figuring out what's going to be an improvement over your status quo."

Ariely leaned more closely toward the desirability of a limited number of options. "When you have two choices, they have one set of differences between them," he said. "If you have three choices, you have two sets of differences. If you have four choices, you have six differences. So as the choices become larger, the complexity grows much faster."

This suggests that decision-making works in a similar way: We weigh two of the possible choices against each other, match the winner against a third choice, and so on until the two best choices are left head to head. Ariely agreed. "Binary choices are the simplest way to decide, so that's what we strive to do. We run away from complexity." (This is the pattern for our national elections, proving that good judgment at every choice point is critical.)

But how do we evaluate choices to pick the best one? Is it a matter of habit? Do we undertake a logical analysis of the pros and cons? Or are we driven by emotional motives?

The answer is usually emotion, Ariely said, while Iyengar's opinion was more divided. "It depends on the domain," she said. "If it's chocolate, you'll use the emotional domain; if it's career, it might be a mix. And it depends on the individual as well. Some people always use emotion; others always use data." Most of us have what she called a "toolkit of ways" to decide. However, "it's usually a small set."

Ariely's research has shown him that to a large degree, people follow repeatable patterns in decision-making. "Of course, there are some differences having to do with habits and history," he said. "But there's a good chance we'll do it the same way we've done before."

At this point, we threw a personal question into the interview: Why would I always have an easy time making decisions, while my son and his father find decision-making difficult and painful?

To Iyengar, it's a matter of self-knowledge. "You're probably better at knowing your goals, knowing what you want to get out of it," she said, adding that people experience conflict because they don't know what they want and don't know how to figure out what they want. Once they do figure that out, decision-making is easier.

"I don't think choosing is about just winnowing out the bad choices [...]. It's about figuring out what's going to be an improvement over your status quo."

—Sheena Iyengar

Thinning Out the Choices

In an interview, Dr. Sheena Iyengar suggested a way to pare down a number of choices with a process she calls the "Four Cs":

1. **Cut.** Get rid of the irrelevant choices and the ones that look similar.
2. **Categorize.** Break it up into categories of small numbers of choices.
3. **Condition for Complexity.** Make it easier to understand and learn about the choices.
4. **Concretize.** Make the consequences tangible. In a financial context, if you give me tables of risk, it's only meaningful to me if you tell me how it will affect my life in concrete ways. Then it's helpful.

REGRETS: I'VE HAD A FEW

So you make a choice, but it turns out to be wrong. Many people who shop online have been in that situation. "The Internet makes post-decision regret possible," as Ariely explained. "If you buy something online, you can always figure out that the price has changed. This regret can depress you." Or anger you, we might add. Post-decision regret, or just fear of regret, may also be incapacitating.

Thanks to real-time market reports, it's easy for investors to be devastated by the consequences of their decisions. If someone makes a bad choice, such as following the herd and buying just before a bubble bursts, how can an advisor mitigate that client's feelings of depression and self-blame?

"I think feeling bad is actually a good thing," Ariely offered. "If you feel bad about your decision you might learn from your mistakes, and that's a good thing." Research has shown that people who don't feel pain die at a very young age because they put themselves into risky situations. "Feeling pain can be good if you learn from it," he observed.

Of course, he added, it's not good if you feel so bad that it paralyzes you about making choices in the future. As a psychotherapist, Olivia concurs. There's no point in self-flagellation, which tends to lead to depression and paralysis in future decision-making. After a bad (or badly timed) choice, it's better to switch to market-matching index funds than to give up trying to invest.

THE FUTURE OF DECISION-MAKING

Considering Frey's apocalyptic view of a future overloaded with information *(see sidebar, "The Coming Data Tsunami," page 28)*, how will the average person make decisions?

"With the number of decisions increasing so fast, it's hard to discriminate between the important ones and the unimportant ones," Frey said. "Some of these decisions are as trivial as which emails to save. That's where we need smart devices, smart programs, smart systems, to help us make these decisions."

He cited the example of a self-driving car, which Google and others are experimenting with. "It eliminates all the driving decisions and frees up our minds for more productive work. But it will be implemented in baby steps: for example, a driverless valet service. So if you drive up in front of a crowded restaurant, you can tell the car to go park itself. Then when you come out you just whistle, like the Lone Ranger, and the car will come back to you."

"I think feeling bad is actually a good thing. If you feel bad about your decision you might learn from your mistakes, and that's a good thing."

—Dan Ariely

We're all for smart cars. We would also like smart suitcases that pack themselves, and smarter smartphones that sift emails, texts, blog posts and tweets to deliver only the ones we're interested in.

Frey is passionate about the need for smarter tools and pieces of equipment. "The world has moved into hyperdrive; information is flowing real-time constantly, and so we're essentially always 'on,'" he said. "In a globally competitive environment, we have to be willing to do whatever it takes to compete. We [need to make] decisions far faster than ever in the past."

That sounded to us like all-out pressure. How would people find time to sleep and take care of their health and well-being?

"We can automate some of these decisions based on an algorithm," Frey said. "People can set up alerts to notify them of what's happening that's critically important right now. If something doesn't happen according to plan, that's when an alert goes off."

WHAT WILL THE ADVISOR'S ROLE BE?

Will an advisor's primary value come from reducing the number of choices the client has to make?

Iyengar didn't buy it. "The advisor's most important job is to help you understand what it is you want," she said. "They often think it's their job to tell you what your choices are so that you can pick; but really, they should be thinking of their job as helping you determine what you really want." Curating the choices is simply part of this process.

As she put it, advisors should "start by explaining the categories and why they're important. Once we agree on a category, there are categories within categories. And the advisor is paring them down and organizing them, based on what the

Aging and Decision Making

While exploring issues connected with today's abundance of choices, we wondered whether there are generational differences in how easily we deal with a great number of options. As the brain ages, does our competence to choose from multiple alternatives diminish?

"Older people typically don't go for a lot of choice because it's cognitively harder for them to [decide] when there's too much choice," said Dr. Sheena Iyengar, a professor at Columbia Business School. "They get more overwhelmed by complexity."

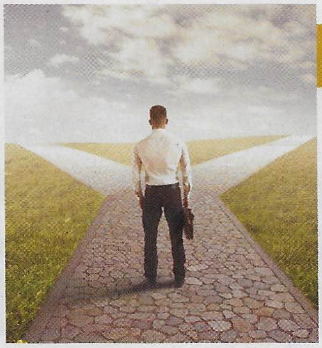
Dr. Dan Ariely, professor of psychology and behavioral economics at Duke University, had a contrarian take on age and decision-making. "We don't have any evidence for differences in the brain," he asserted. "The most interesting age difference in dealing with choices is that young people pay attention to both positive and negative information, but older people pay particular attention to the positive information and less to the negative information."

In an experiment, researchers showed younger and older subjects a variety of images chosen to be either beautiful or disgusting. Brain imaging showed the younger people reacting strongly to both beautiful and disgusting images, while the older people reacted strongly to the beautiful ones but weakly to the disgusting ones. Ariely speculated that older people may be more predisposed to "think positive" and are therefore more easily conned. A tendency to focus on the positive might also lead them to take on more investment risk.

But younger generations need to watch out, too. Thomas Frey, executive director and senior futurist at The DaVinci Institute, offered a caution to those who pride themselves on juggling information with ease: "We're moving to a society where people are always connected, so there's less and less downtime. Every vacation becomes a working vacation. This will take a toll as we age. In the future, the decision-making [ability] will decline over time as our always-on generation begins to wear out."

client has said about what they really want."

To Ariely as well, sorting through ETFs or long-term care policies is not an advisor's highest purpose. "The value of a financial advisor in choosing the right investments is much more minimal than in helping people save," he said. "Imagine that you spend two hours a week optimizing one particular client's portfolio versus spending the same two hours helping them figure out how they could be saving more. Which is better for the client? If you help people understand where they're spending too much, where they could be saving, you're really helping them substantially."



Both Iyengar and Ariely make excellent points. A good advisor's chief value is in determining what clients really want and need—be it retiring without money worries, affording a good education for a child, or supporting favorite causes—and helping them achieve it. No matter how many more ways they must evaluate to get there, that fundamental role is unlikely to change.

10 Tips to Help Make Decisions Easier

1. It's hard for people to decide among more than seven choices.
2. Space out important decisions that you want clients to consider carefully. Having to make too many decisions too quickly can deplete their ability to resist the pull of emotions.
3. Fewer choices aren't better unless a client has the information to make them meaningful.
4. Find ways for clients to buy into policies, plans or rules that encourage a good outcome without requiring repeated decisions.
5. In weighing choices, consider which one offers the greatest improvement over the status quo.
6. Clients who have difficulty choosing may need help deciding what they really want.
7. Learn from bad choices, but don't dwell on them.
8. Consider simplifying your own decision-making by screening out the noise.
9. Remember that an advisor's most important job is to help clients understand what they really want and need, not to sort through investment choices for them.
10. Even with smarter tools and systems, we still need to know clients' fears, hopes, dreams and desires in order to guide them through decisions.

THE FUTURE OF ADVICE

So what do financial advisors need to think about in order to survive and thrive in a decision-flooded future?

Frey said, "We've gone from a period of time when information was scarce and only the advice-givers tended to have access to it, to today, where everybody has access to the information. But the advice-givers have to know what information to pay attention to. This is a radical transition we've gone through. Not everybody is qualified to give advice, so even the advice-givers will have to have help to sort out all the information that's out there."

Will they have to staff up to do it? Frey said no. "They don't need to hire people; they have the tools to do it themselves. We've automated researchers and similar experts out of existence. It's a matter of the advice-givers becoming experts in tools that they can leverage."

But tools and devices won't be enough. Although some investors may be happy dealing online with what have been termed "robo-advisors," how will human advisors sustain the part of the client relationship that's face to face and personal?

"We'll still need to cultivate good relationships with people," Frey predicted. "But we'll be able to automate our understanding of people by automating the analysis of their online presence."

Imagining advisors knowing where their clients like to shop, what they've Googled lately and who they connect with on Facebook struck us as a little creepy. "A lot of things are going to get creepy," Frey agreed. "As transparency increases, the debate between transparency and privacy will not go away any time soon."

But this accomplished futurist has a strongly positive view of how advisors will help clients overcome decision shock. He thinks financial planning will become a much more sophisticated profession because of the need to understand all the applicable tools, interfaces and programs. It's not just about technology, though. It's about trust. "If somebody has a lot of money to work with, they still need that trusted relationship to guide them through their decisions," Frey told us.

We couldn't agree more. Even with all our smart tools and smart systems, we will still need to understand what's going on in people's lives, what they worry about, hope for, dream about and long for. After all, we're only human—which means, as Dan Ariely would say, we're completely and predictably irrational. **IA**

Olivia Mellan, a speaker, coach, and business consultant, is the author with Sherry Christie of The Client Connection: How Advisors Can Build Bridges That Last, *and a new revised edition of* Money Harmony. *She also offers money psychology teleclasses and facilitates intergenerational retreats for wealthy families. Email Olivia at moneyharmony@cs.com.*