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The Paradox of Choice

Jim Whiddon

Perhaps you have heard the sad story of this once minority owner of the largest company in the world as recounted from Steve Farrar in True Courage:

> "Ron Wayne tries to get by each month by stretching his Social Security check and playing video poker at a casino in Nevada. He's seventy-six years old, and like a lot of people these days, he's feeling the pinch financially.
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> It's somewhat ironic, however, that he of all people would feel anything approaching a pinch.
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> After all, he is one of the founders of Apple.
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> When Apple was formed on April 1, 1976, Wayne signed the legal papers along with Steve Jobs and Steve Wozniak. Jobs and Wozniak each held 45 percent of the stock, and Ron Wayne had the other ten. Eleven days later he sold his shares for $800. On an impulse, he decided to get out of the infant corporation. Personal computers? Well, they probably wouldn't catch on, anyway.
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> So Ron Wayne took the $800 sure money and got out. But if he had held on … his stock today would be worth $22 billion. It's like the saying goes: You gotta know when to hold 'em and know when to fold 'em.
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> Everyone had made a financial decision that he later regretted — so no one can fault Ron Wayne. In 1976, eight hundred bucks was a nice little chunk of change."

But unless his goal was to reduce his taxable liability at all costs, in perfect hindsight, Ron Wayne made a poor choice.

When I was young, my parents always told me, "You are the books you read, the friends you have and above all else — the choices you make."

But how do we make good choices?

In a world rife with increased opportunities, choices grow accordingly. Clearly, we would rather have choices than not have them because when people have no choice, life is insufferable. But the negatives can increase as choices grow and can actually cost us time and energy, bring dissatisfaction and even — paradoxically — limit our freedom.

In his best-selling book, The Paradox of Choice, Barry Schwartz found that having a large array of options forces greater effort in decision making and ultimately detracts from a choice's eventual enjoyment. This contributed to his thesis that most people want more control of life's details, while at the same time they want a simpler life. Thus, a paradox.

Schwartz breaks decision-makers into two categories: Maximizers who "need to be assured that every purchase or decision was the best that could be made." And satisficers who are "content with the merely excellent as opposed to the absolute best."

He explains how maximizing can actually make people miserable since there is such an over-abundance of data and options at our fingertips. Interestingly, we have all likely engaged in maximizing in various circumstances as we take too long to make a decision and then second-guess ourselves long after the choice has been made. It can be a deflating existence if we can never break free of it. Given the effort and time it takes to truly believe you have maximized your decision, Schwartz points out that satisficing — finding a very good option and going with it — is actually the maximizing strategy anyway. The irony is unambiguous.

There may be no realm of the Information Age in which we are more inundated with choices than investing. If one feels compelled to research every option before making a choice, it is a daunting task. Many investors will become frustrated and react to this difficulty by either looking for a guru on whom to offload the decision — this could be a hot stock picker, an eloquent TV commentator or a successful mutual fund manager. But this "bandwagon effect" — as described by Schwartz — is often created by a mistaken consensus with partial or inaccurate information.

The other option maximizers may turn to in order escape the tyranny of faultless decision-making is to simply enter into inaction inertia — also known as analysis paralysis. This conveniently allows the maximizer to avoid regret, which is his or her primary objective by the way. This option also maintains the hollow hope of "something better coming along later." Neither of these options portend well for a decision maker.

Among several suggestions Schwartz offers to help us make good decisions, these may be especially helpful:

• Reduce the number of options you consider and allow for serendipity or providence.

• Curtail social comparisons by focusing on your happiness and not what others may think.

• Reduce regret by adopting the standards of a satisficer — that is, "settling" for "merely excellent" and practicing gratitude rather than focusing on disappointments.

Ron Wayne is the quintessential example of someone who made a poor choice. But maybe we should cut him some slack. He probably just needed the money and therefore could not take advantage of the potential opportunity.

But we can apply Schwartz's advice and stop needlessly suffering regret in a culture that provides too many choices: "Though satisficers may often do less well than maximizers according to certain objective standards, nonetheless, by settling for 'good enough' even when the 'best' could be just around the corner, satisficers will usually feel better about the decisions they make."

About Jim Whiddon, Wealth Advisor and national thought leader for the BAM ALLIANCE

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Previously, James founded and served as CEO for JWA Financial Group, Inc. in Dallas. He is a financial writer and speaker. He is the author of Wealth Without Worry and The Investing Revolutionaries and has been the host of "The Investing Revolution," an investment radio talk show on CNN 1190 in Dallas.

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