

# The Restraint Bias How much control do you really have.mp4

**Speaker1:** In an episode of the classic TV show Seinfeld, Jerry follows Georgia's hot stock tip and buys some shares. George tells Jerry to be patient. The ever confident Jerry is sure he can, but the stock is slow to develop. Jerry starts obsessively reading the daily stock market reports, wincing every time he sees the stock drop. Another point or two. Oh, come on, it's down again. Two and a half points. If it had been today, he would have been checking online every few minutes. I'm just telling you to get rid of that stock now. George, what's going on to some selling? Finally, in a panic, Jerry sells, losing more than half his money. A day or two later, George reports that the stock is soaring. I told you not to say hi. My name is Stan Clark. I'd like to talk about the restraint bias. How much control do you really have? Clearly, Jerry should have restrained his urge to sell. Perhaps that's not a perfect example of restraint bias, but it comes close, as you may recall, from reading previous issues of perspectives. We humans have a number of ingrained psychological biases. These biases lead to patterns of poor judgment. They can profoundly affect the way we behave in the stock market and in other areas of our lives. Confirmation bias leads us to search for or interpret data to confirm our preconceptions.

**Speaker1:** Anchoring causes us to rely too heavily on a single pieces of information when making choices. The money illusion causes us to put more emphasis on the face value of money than on its purchasing power. Now, as I've shown by the Seinfeld example, there's restraint bias leading us to overestimate our ability to withstand temptation. This is one of the key behaviors that makes it so hard for people to quit smoking, to stop overdrinking or any other addiction to lose weight. In short, to avoid any number of harmful behaviors, people trying to lose weight are sure they can restrain themselves. They continue buying their favorite snack foods like ice cream, thinking I'll just have one spoonful every now and then. Smokers may keep a few cigarettes in hand just in case something really stressful happens or continue to engage in behaviors closely associated with smoking, like going out for drinks with friends. Someone who needs to get out and exercise turns the TV on to the hockey game for a few minutes just to check the score and ends up sitting in front of the TV for the rest of the day. In one study, students arriving at or leaving a cafeteria were asked to rate a number of snacks

from least desirable to most. They were then asked to select one of the snacks, but not to eat it. They were told that if they brought the snacks back in two weeks, they would receive a desirable reward.

**Speaker1:** Hungry students entering the cafeteria tended to pick a less desirable snack to avoid the temptation to eat it right away. But students leaving the cafeteria after a meal felt they could easily resist any snack because they were no longer hungry. So they tended to confidently choose one of their favorite snacks. Guess which group resist the temptation best and exchange their snack for the promised rewards? That's right. The ones facing the least temptation at a personal financial level. Simply carrying your credit card increases the likelihood that you'll be tempted to buy something instead of saving your money. Listening to Hot Tips continue to make bad choices about buying or selling and following the news too closely. Continue to abandon a carefully thought out objective investment strategy in hopes of achieving a quick gain or avoiding a loss. It's a rare person who can resist temptation. Studies show the very people who believe they have the most willpower or self-control are the ones most likely to behave impulsively. With all the holiday goodies around this time of year, it's a good time to observe the effects of the restraint bias. Just remember, the same types of temptations also affect the financial and investment decisions you make year round. Have a wonderful holiday season.