



12 August 2011

Safeguarding important decisions

Like it or not, realise it or not, emotions play a vital role in every decision you make.

Here are a few questions you can use to help mitigate the risks of unrecognised emotional impact.

1. How important is this decision? If it's really significant, there are likely to be a lot of emotions in play. Take special care!
2. What emotional factors are present to me? For example, a significant gain or loss from a similar context. These types of past experiences have more powerful emotions attached – so they can dominate.

The bigger the decision, the more carefully you should explore the emotional undercurrents that will be impact on your decision.

3. What outcome am I really wanting? Often when we're deciding, we have preferred outcomes. This triggers certain emotions and dampens others.

Be especially alert since your brain efficiently magnifies everything that seems to fit. It also dismisses evidence that seems to contradict your preferred option. It's often with hindsight and bad experience that people realise just how powerful this filtering can be.

MARKET VALUE ON AN EMOTIONAL ROLLER COASTER

Market Madness

At any other time, illuminating the drivers of recent market madness as a case study would risk being dismissed as far-fetched. "Not even in a B-Grade movie script", some would quip. "No rational person would believe that!", others might respond.

But who needs a case study when we're living one that will be used in the years to come? The turmoil in global financial markets has, literally, been stunning. It's close to home because the news, really, is about us! That sea of red on stock market boards is our super and investments plunging in value. And the wash of green, just hours later is, thankfully, also our super and investments restoring some value.

The chaos is another reminder that our global knowledge economy is an emerging order, barely in its infancy. And, it's shaping up to be very different from the industrial age we're rapidly exiting. Being on the cusp, we're in for a bumpy ride ahead.

Our travel into the knowledge economy is only the current leg of a much longer journey. One that began a long time ago. Fear of attack drove people to band together for safety. Then came benefits from settling down, farming and subsequently growing an economy. After that, continuing desire for a higher quality of life led to machines producing goods more cheaply and quickly than humans ever could. Now, necessary flux again as we continue our relentless journey forward. We're hunting the promise of an even better life offered by the knowledge economy.

How far have we really come?

The significant turmoil that we are currently experiencing is part of the price to be paid for change. Growing pains. However, who would trade places with ancestors living even 100 years ago? Anyone for 1000 years in the past? We think not!

In so many ways, living in advanced economies today is exponentially better than before. This is true even for many in emerging markets, who don't yet enjoy all its advantages. Yet, despite many material benefits, the primal instincts of fear and greed still dominate! In a sense then, we've travelled a great distance but don't seem to have moved too far.

Greed, it seems, served as the primer for the current wave of angst. It provided the energy to roll the heavy market up the hill. Greed probably also pushed it over the edge, sending it plummeting on a steep and destructive decline.

Then fear took hold. Like gravity, it pulled the market downhill, gathering breath-taking momentum along the way. Many irrational, extremely short-term decisions were made. According to David Gonski, Chairman of the ASX, the new trend of high frequency trading is resulting in investors holding

stock for an average of only 20 minutes! A very different context from longer horizons, like one day! And it's all about a desire for super-quick profits!

Some investment decisions had to be made immediately. People who borrowed money on margin, in anticipation of huge profits, were obligated to sell, no matter the price. Loans worth more than the stocks they had bought needed instant repayment. Greed foiled, but market value shed.

Some buying decisions even willed the market *down*! Shorting stocks, which routed markets during the GFC (and was suspended for a period), also contributed to market volatility. Our 'sophisticated' markets have been drenched in a potent, irrational and even perverse emotional cocktail of fear and greed.

Emotion trumps logic

These volatile times surface emotions from the primal circuits in our brain. They're always playing out subconsciously, but we tend not to notice them. Relative comfort means that the emotional signals are not all that strong.

However, since the GFC was such an emotionally-laden event, those memories linger very near the surface. It only takes a very small trigger to release an enormous amount of emotion and then action (or reaction). Connecting all this individual emotion, as we now do through the internet and other media, serves to magnify it. We know this happened during the GFC and it has definitely been in a play over the past few weeks.

The emotions of greed, fear and then panic have driven irrational stock market behaviour. Irrational because millions of companies, that only a day before are considered to be in good shape, are the next day deemed to be 5-10%+ worse off. A few hours later and they're judged as actually being worth 1-2% more than they were the day before.

Trouble is, we act first using our primal brain and only think more logically and rationally later. This presents us with a major challenge. How real is the threat from which we are fleeing? There are justified concerns about the health of the financial system. But, overall, there is no rational basis for its collapse. We need to be mindful that, as Franklin Roosevelt famously stated, "the only thing we have to fear is fear itself". Fear is a powerful, primal emotion.

Closer to home?

Does this relate to us personally, in our business? Actually, it highlights a number of potential hurdles that we can keep front of mind when making big decisions. We've included some questions in the side bar that you can use to scrutinise your decision making, particularly when there is a lot at stake.