

Our brains are ill-suited to investing

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Seinfeld Quotes
@seinlanguage

Elaine: "I don't know how you guys walk around with those things."

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Seinfeld fans will recognize that quote from the celebrated "**The Hamptons**" episode. That quote might make even more sense when talking about our brains, and not another piece of anatomy. If you still think that you, or anyone else you know, is some sort of unbiased, rational thinker. Think again.

Ed O'Brien in **HBR** recently recapped some research he and his colleagues did showing how quickly we make judgments. In short, we snap judgment making machines. He writes:

The information age certainly has the potential to improve our understanding. But new evidence suggests that access to information may work better in theory than in practice. People think they will rationally assess all available information before forming conclusions, but then, with so much information at their disposal, they actually form conclusions nearly right away. Minds are made up long before we make it through the evidence.

When your biggest risk is getting eaten by a lion or sabre-toothed tiger, then this ability to make quick decisions provides you with an evolutionary advantage. When it comes to investing. Not so much.

It's not just that we make quick decisions. We don't even consider evidence that may contradict our favored beliefs. **Robert Seawright** at [Above the Market](#) wrote another great post on the topic of confirmation bias. He writes:

We often encounter facts and arguments that are contrary to our favored beliefs. We'd like to think that these automatically test the boundaries of what is believable to us. Unfortunately, most often, our brains collect such information in meticulous psychological fashion, eventually bullying us into sustaining and empowering our prior beliefs. Favored or popular feelings about what ought to be frequently override facts that reflect the way things are.

He calls us "neuro-chemically confirmation bias addicts." None of this new or particularly surprising. We are particularly unsuited to be investors. **Daniel Crosby** in a [Q&A on Abnormal Returns](#) said:

I walked away from [The Behavioral Investor](#) with an increased measure of awe about our minds and bodies in general and an absolute understanding that they are ill-suited to investing in particular.

He's talking about you...and me. It's a minor miracle we get anything practical accomplished when it comes to investing. In short, "I don't know how you guys people walk around with those things."