

# WHY WE PREDICTABLY MAKE IRRATIONAL ECONOMIC DECISIONS



While the most influential document of 1776 for Americans is certainly the *Declaration of Independence*, for the rest of the world it may very well be Adam Smith's book *The Wealth of Nations*.<sup>1</sup>

In it Smith laid down the major principles that today are responsible for the free flow of capital in our vibrant global economy. One of those is that, in general, people will naturally act with "enlightened self interest" when making economic decisions.

This seems self-evident. Everybody wants to get the best deal. And for many decades this assumption was built into classical economic models.

But the more economists studied how people *actually* behave with their money the more they saw that, given the right circumstances, people often act *against* their own self-interest. In the 1960s this led to an entirely new field of study called behavioral economics.<sup>2</sup>

It's not that people are likely to abandon their self-interest out of altruism, but they tend to let their emotions outweigh logic and fool themselves into thinking they're getting a better deal than they actually are. Author Michael Lewis points out that used car salesmen knew about this long before the behavioral economists.

## Showing How We're Predictably Irrational

Last year Chicago University professor Richard Thaler won the Nobel Prize in Economics for his work showing that not only do people regularly make irrational decisions about money, but they do it for predictable reasons.<sup>3</sup>

Three of the factors he found that tend to skew our decision-making are ownership, confidence, and a sense of fairness.

Ownership: We assign a higher value to something if we happen to own it. Therefore, being told that something we own (i.e., an investment) has lost value is emotionally painful.

Confidence: The more information we have about a decision, the more overconfident we become. Given enough data, we persuade ourselves believe we can accurately predict essentially unpredictable events like future market movements or the trend of a particular investment.

Fairness: We often set the value of things based on a strong sense of fairness, even though we don't have a specific definition of what is fair. So, for example, if the price for something goes up because demand has gone up, we think, "That's not fair. That's gouging." But it's really just the market at work.

### **Prudence and Discipline vs. Irrationality**

The fact that we're quite capable of convincing ourselves to behave against our own economic interest doesn't mean that we should stop investing altogether. It just means that we should be keenly aware of those potential urges in advance and plan ahead to counteract them with prudence and discipline.

So when there's market volatility and we feel the need to "do something," even though that may lead to long-term losses, we should have already decided what we're going to do (or *NOT* do). This helps prevent us from acting purely on emotion.

One of the most important roles we can play is that of an experienced, dispassionate counselor--somebody who can help you see what's in your best interest when you can't. After helping you determine the long-term plan that will give you the best chance of retirement success, we can help hold you accountable to stick with it for the long haul when your gut is trying to tell you otherwise in the short run.

Have a great weekend!

Source: Efficient Advisors

---

## Golf Tip of the Week



### What Do the Pros Do Before Going to the Course?

You watch the pros and the top players to discover the secrets of their success. But what about what they do before they head to the course?

Here is what some of the pros say they do before heading out the door:

- **Bubba Watson:** “I like to watch golf on TV before. I like to see what everybody’s doing, and sometimes I can pick up little things about the course that could help me.”
- **Zach Johnson:** “Stretch. I have a whole routine that I do with my trainer before I get to the course to make sure my muscles are all activated and firing like I want them to.”
- **Hunter Mahan:** “I like to look up inspirational quotes so I can find one to meditate on for the rest of the day.”
- **Russell Henley:** “I always eat a big breakfast. Something with eggs. Gotta get my protein for the day.”
- **D.J. Trahan:** “I like to visualize some of the key holes I’ll be playing, some of the shots I might hit.”
- **Ernie Els:** “Talk to my family. It’s tough being on the road away from them all the time, so I like hearing from them.”

Tip adapted from Golf Digest<sup>17</sup>

---

## Recipe of the Week



### Citrus and Mint Berries

Serves 1

#### Ingredients:

1 cup blueberries  
½ cup raspberries  
½ cup blackberries  
2 tablespoons lemon juice  
1 tablespoon chopped mint  
¼ teaspoon pure vanilla extract  
Pinch of coarse salt

#### Directions:

1. Mix together blueberries, raspberries, and blackberries in a bowl with lemon juice, chopped mint, pure vanilla extract, and a pinch of coarse salt.
2. Put contents in a container and chill.

Recipe adapted from Good Housekeeping<sup>15</sup>

---

## Health Tip of the Week



### Arresting the Silent Killer

About 75 million Americans (29%) suffer from high blood pressure (hypertension), according to the Centers for Disease Control and Prevention.

High blood pressure raises the risks of heart disease and stroke. Leading risk factors include obesity, excessive alcohol consumption, smoking, and heredity.

Here are some tips to reducing hypertension:

- Exercise helps lower blood pressure and improves the effectiveness of hypertension medication.
- Do fun exercises. It could be hiking, gardening, or bicycling. Try to get in 30 minutes per day.
- Get with an exercise trainer to help you tailor your activities to your goals.
- Strength training is good. Lifting weights help you lose fat, build muscle, and raise your metabolic rate.
- Aerobic exercise helps lower your blood pressure. Swimming is a gentle and fun way to get in some cardio.
- Don't go gung ho. Moderate intensity exercising for at least 30 minutes a day is key.
- Start slowly. Jumping into intense exercise too quickly may lead to injuries. Take a walk around the block or go 10-15 minutes on the treadmill.
- Make workouts convenient. You can fit exercising into your children's sports practices, during lunch breaks, or before or after work.
- Go short and sweet. Short, 10-minute workouts can be more easily fit into your busy schedules. You may jog in place, do a few pushups, or go for a short walk. Add up the short ones to 30 minutes per day, and you're well on your way.

Tip adapted from WebMD<sup>18</sup>

---

Copyright (C) 2018. Ballentine Capital Advisors. All rights reserved.

**Our mailing address is:**

Ballentine Capital Advisors  
23 Buena Vista Way, Suite B  
Greenville, SC 29615

[unsubscribe from this list](#)   [update subscription preferences](#)

Sources:

1. <http://go.efficientadvisors.com/e/91522/-adam-smith-wealth-of-nations-/58dz99/371249240>
2. <http://go.efficientadvisors.com/e/91522/-who-realized-how-crazy-we-are/58dz9c/371249240>
3. <http://go.efficientadvisors.com/e/91522/thaler-nobel-economics-542400-/58dz9f/371249240>

**Disclosure:**

*The articles and opinions expressed in this newsletter were gathered from a variety of sources, but are reviewed by Ballentine Capital Advisors prior to its dissemination. All sources are believed to be reliable but do not constitute specific investment advice. In all cases, please contact your investment professional before making any investment choices.*

*Securities through Triad Advisors, LLC, Member FINRA/SIPC. Advisory services through Ballentine Capital Advisors, Inc. Triad Advisors, LLC and Ballentine Capital Advisors are not affiliated entities.*

---

<sup>17</sup> [https://www.golfdigest.com/gallery/9-things-pros-do-photos?mbid=synd\\_zergnet&utm\\_campaign=zergnet\\_2358298&utm\\_medium=referral&utm\\_source=zergnet.com-1](https://www.golfdigest.com/gallery/9-things-pros-do-photos?mbid=synd_zergnet&utm_campaign=zergnet_2358298&utm_medium=referral&utm_source=zergnet.com-1)

<sup>15</sup> <http://www.goodhousekeeping.com/food-recipes/healthy/a47218/citrus-and-mint-berries-recipe/>

<sup>18</sup> <https://www.webmd.com/hypertension-high-blood-pressure/ss/slideshow-lowering-bp-tips>