



Choice Overload - The Weight Of Too Much Choice

Picture this: It has been a long Monday, work ends late, and the thought of cooking seems like another tedious task. You take out your phone and decide that UberEats is the most hassle-free solution to sorting out dinner. Then the problem begins, what do you order?

The concept of choice is often associated with freedom, empowerment, and autonomy. These days, we live in a society that values choice as a fundamental right.

In this article Miguel Fialho, Seed Distribution Specialist explores ***The Concept of Choice.***

Does Having Too Many Choices Create More Problems Than It Solves?

This is the paradox of choice; while having choices is empowering, too much choice can be overwhelming, leading to decision fatigue, analysis paralysis, and ultimately, regret. This problem is not just philosophical, but also affects investments, where the choices that advisors and clients make have significant consequences for clients' financial well-being.

The paradox of choice was popularised by psychologist Barry Schwartz. In his book, *The Paradox of Choice: Why More is Less*, Schwartz argues that the abundance of choice in modern society has led to a culture of debilitating perfectionism, where people are constantly searching for the best possible option. The problem, however, is that with so many options available, it's nearly impossible to know what the best option is. This leads to analysis paralysis, where people spend an excessive amount of time researching options, often to the point of exhaustion, without ever making decisions, or realising in hindsight that it was the wrong decision.

In investments, choice overload can be detrimental to both advisors and clients. Advisors face a daunting task of selecting from thousands of investment options, each with their own set of benefits and risks. Making the right decision can mean the difference between a successful investment strategy and a failed one. However, with so many options available, it is challenging to know where to start.

A client wants to make the right decisions on investment strategy, as it can have a significant impact on their financial future. Their judgement can be clouded by a barrage of newsfeeds, opinion pieces and their advisor's recommendations. This pressure can lead to anxiety, regret and blame if the investment does not perform as expected.

In the case where an investment doesn't yield the best results, it is easy for a client to imagine "what may have been", had they made a different choice (even if the portfolio was a good one).

Regret Subtracts From Satisfaction

Furthermore, the problem with choice is intensified by the fact that humans are not always rational decision-makers. Behavioural finance has shown that our emotions, biases, and heuristics influence our investment decisions. This means that even with all the available information and advice, it's still possible to make the wrong choice.

So, what can be done to address the problem of choice in the investment space? One approach is to simplify the investment options available to clients. The Seed Shortlist and DFM solutions reduce the overwhelming number of choices, to a few quality options. By narrowing the options, clients, and advisors alike, can feel more confident in their decision-making and avoid decision fatigue.

Another approach is to help clients understand the emotional and cognitive factors that influence their investment decisions. By educating clients, advisors can help them make more informed decisions that are less likely to be influenced by emotional factors. A key point to stress here is the importance of explaining risk to the client, to properly gauge their willingness and ability to take it on.

In conclusion, while having choice is empowering, too much choice can be overwhelming. In the investment space, the problem of choice overload is particularly problematic, as the choices that advisors and clients make have significant consequences for their financial well-being. By simplifying investment options and educating clients about their biases and common heuristics, advisors can help their clients make more informed decisions and avoid the pitfalls of choice overload.



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