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How to Choose Smarter in a World of Choice

We all want options. But having too many of them can lead to bad decisions.

BY JEAN CHATZKY

The greengroceries that dot New York City, with their huge variety of offerings, are among my favorite places. You can find hundreds of fresh fruits and vegetables and almost every kind of flower grown. But invariably I walk away empty-handed. All the java combinations at my local Starbucks are similarly intriguing. Tall or venti? Whole or skim? One of 11 flavoring syrups? But I always end up ordering the same kind of coffee: a grande skim latte.

That's what choices are like for me. Having many options is exciting, whether I'm dining out, leasing a new car or selecting mutual funds for my 401(k). But when it's time to make the decision, all the possibilities overwhelm me – which is why I haven't changed my portfolio in years and can't remember eating at a restaurant where the menu wasn't etched in my brain, and why (despite being drawn to the Toyota Sienna) I'm pretty sure I'll end up with my fifth SUV when my car lease is up.

Thankfully, I'm not alone.

A bounty of recent academic research makes the case that having many choices sometimes does more harm than good, particularly in our financial lives. Too many options leads to inaction: We freeze when faced with what feels like too much information to process. And when we do act, we often make inferior choices or feel dissatisfied with our decisions.

Take those 401(k) offerings. In a recent study, Columbia University business school professors Sheena Iyengar and Wei Jiang looked at the relationship between number of fund choices that a company offers and retirement plan participation. They found that in plans with just two options, 75 percent of employees signed up. But for every additional 10 funds on the menu, overall participation declined 2 percent, while investments in stocks (usually the smartest long-term choice for retirement) dropped 8 percent. “Most of the 657 companies that we studied matched at least 50 percent of their employees' contributions,” notes Iyengar. “People were literally throwing away free money.”

In a separate study, Iyengar, working with Swarthmore psychology professor Barry Schwartz, author of *The Paradox of Choice*, found that the more energy you put into making a decision, the less likely you are to feel good about the outcome – even when the extra effort leads to demonstrable better results.

What's the Money Mastery Point?

Financial issues are emotional, involving risk, stress, and time. Living a principled financial life alleviates some of the strain associated with all the financial decisions we must make today and helps simplify the complexity of the financial games we must play. Having a system helps relieve some of the indecisiveness related to financial decision making and helps us feel more secure about the steps we are taking. Taking the time to know the rules that are important for you and discarding all the other excessive choice clutter in your life will lead you to make important changes when necessary rather than locking you into a place of fear and inaction.