



## INVESTING

## Putting It The Right Way

There's usually no second chance to make the most important investment decisions

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**P**eople need help for decisions that are difficult and rare, for which they don't get prompt feedback and have

trouble translating aspects of the situation into terms they can easily understand. The key point here is that for all their virtues, stockmarkets often give companies a strong incentive to cater to and profit from human frailties rather than to eradicate them, or minimise their effect.

Major problems arise when people need to make decisions that test their capacity for self control. Daily and simple tasks, such as choosing the color of the shirt to wear, or choosing between brown and black shoes lack important self-control elements

Such issues are most likely to arise when the choices and their consequences are separated in time. At one extreme, there are investment goods, where the costs are immediate, but benefits are delayed. Exercising or flossing teeth fall in to this category. At the other extreme are the sinful goods which give immediate pleasure, but bring harsh consequences later. Smoking, alcohol and eating junk food are among them.

Some things in life are easy to do, or cope with. If you are not a good chess player, a book can help you. We use spreadsheets and spellchecks to make our harder problems easier. But many problems in life are difficult and often there is no technology to solve them. We are more likely to need help in choosing the right investments rather than in buying bread.

Even harder problems become easier with regular practice. The more one practices the more one becomes perfect, or at least better. This is what day traders think.

However, life's most important decisions don't come with opportunities to practice. Most people choose a college once. Most people get married and have a spouse once, or maybe twice. Houses we buy once or twice in a lifetime. We get one chance to plan for our retirement and have few chances to make adjustments along the way. Generally, the higher the stakes, the less likely are we to get an opportunity to practice. This is especially true of money-related matters.

Practice, however, also does not make us perfect if we lack good opportunities for learning. Learning is possible if one gets immediate feedback after one try. Say you are putting on the golf green. With 10 tries you would be pretty confident of getting the ball nearer the hole. But what if you were blindfolded and then told to putt? Since there is no feedback on what is happening, there is no learning. Moreover, we get feedback on options we choose and not on the options we reject. Instant gratification leads us to short-term trading and lack of feedback on long-term investing makes people shun it.

Then again, in certain situations, it is particularly hard for people to make good decisions if they have trouble translating the choices into the experiences they will have. Would one choose a capital appreciation fund or a dynamic dividend fund? What the person really needs to know is how a particular choice affects his spending power later. This is something which even an expert backed by knowledge and computer software, will have trouble analysing. However, we have salesmen under the guise of investment experts selling such funds. This is also true of health and life covers in the market.

Consider the insurance products in the market: benefits are delayed; the probability of having to make a claim are hard to analyse; and consumers are unable to get feedback on whether they are getting good returns. Mapping for what they are buying and what they are getting can be ambiguous. They have all the fraught features discussed above. And despite all this, insurance agents do roaring business.

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**We get feedback on the options we choose, not the ones we reject. Without feedback, there's no learning**

