



Unconscious Deliberation

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Introduction

“The idea that conscious deliberation before making a decision is always good is simply one of those illusions consciousness creates for us.”

- Ap Dijksterhuis, WSJ (6/27/08)

Awareness is a double-edged concept. Conscious thinking is essential to successful decision making, up to a point. Strategy, discipline, and process are devices that professional investors use to consciously hone their decisions. Objective research, analytic stock scoring and back testing are some of the tools that strengthen these efforts. But more is going into your buys and sells than you think.

Much of our thinking happens before it hits our consciousness, driving most of our decisions, from the inconsequential to the highly important. And while it may be easier to dismiss the idea of thoughts erupting from the unconscious, we do so at peril to performance. By understanding the relationship between conscious and unconscious thinking, we can harness the latter to strengthen the former.

In this essay we examine the relationship between conscious and unconscious thinking and consider how harnessing the latter can strengthen the former.

Jurassic Market

Cognitive science tells us that ninety five percent of all decisions are made by our autopilot, our unconscious. The unconscious brain is so dominant because there are too many stimuli in the world and too many decisions to make consciously. When early man was threatened by a giant raptor, he did not make a conscious plan to survive, he just ran. Those who ran fastest from the raptor became our ancestors. The others became dinner. We commonly call such decisions instinct, though they are really part of our unconscious thinking.

Today, the unconscious still makes decisions automatically. Only instead of reacting to a giant raptor it reacts to market volatility, company news and other investment information. Heuristics, Over Confidence and Premature Dismissal are just a few manifestations of unconscious thinking that may lurk among portfolio management instincts. Unmeasured and unmanaged, modern instinctive decisions can lead to being eaten alive by the market — without our understanding what creature ate us.

Of Two Minds

The unconscious brain is very powerful and extremely fast. A recent study led by Professor John-Dylan Haynes at the Max Planck Institute for Human Cognitive and Brain Sciences (Leipzig, Germany) using Functional Magnetic Resonance Imaging (fMRI) found that the unconscious brain arrives at decisions 7 to 10 seconds before we are consciously aware that a decision is even needed. Even more striking, the study showed that participants' conscious decisions could be predicted with 70 percent accuracy by studying their unconscious brain activity. Both findings underscore the power and persistence of unconscious thinking.

Yet the idea of decisions being made or influenced by the unconscious is new to professional investing. Our industry's traditional dogma includes concepts like, "totally objective," "completely by the numbers," and "facts, not emotion." Nonetheless, companies such as Goldman Sachs, Morgan Stanley and Fidelity Management & Research have behavioral economists on staff today. These leaders are making conscious decisions to manage unconscious decisions.

Sometimes Less Thinking Is Smarter

Intuitively, people might assume that simple choices are best left to autopilot while more complex decisions require more sophisticated thought. Not so. Scientists in The Netherlands have shown that we are generally satisfied with consciously deliberated decisions about simple or very familiar choices. But when it comes to complicated decisions – those with many criteria or that we make infrequently – we are better off following our gut.

An interesting example regards purchasing a house. We often elevate living space or square footage to a top house hunting criterion. Yet, research shows that our lives are rarely affected by a few square feet one way or the other. A terrible commute, on the other hand, can make life hell. We often do not even consider this factor carefully when purchasing a house. The researchers believe that our conscious efforts nudge us towards emphasizing square footage because it is familiar and easily measured. Commuting difficulty is, by comparison, less accessible to our conscious deliberation and also harder to quantify. They suggest we might be better off buying the house that feels right over the one that scores highest in our decision matrix.

Decision satisfaction is not the same as portfolio return. But this research does point out that our unconscious brain can be a powerful ally in helping us arrive at our best decisions.

Recognizing the Unconscious

Evolution has refined the potent and aggressive unconscious that frequently guides our judgment – even when we don't "think" we are using judgment. Consider this: When 10 stocks are on the buy list, how do you get down to the 4 or 6 you will buy? If you need liquidity to finance a purchase, which stocks do you sell? We all rely on judgment to make professional decisions. That's no judgment on you... just a fact.

Endnotes

1. [The Emotional Brain](#), Simon & Schuster, 1996, by Joseph Ledoux.
2. "Unconscious determinants of free decisions in the human brain", *Nature Neuroscience*, April 13, 2008, by Chun Siong Soon, Marcel Brass, Hans-Jochen Heinze, and John-Dylan Haynes.
3. "Deliberation Without Attention", *Science*, Vol. 311. no. 5763, February 17, 2006, by Ap Dijksterhuis, Maarten W. Bos, Loran F. Nordgren, and Rick B. van Baaren.
4. "Get Out of Your Own Way", *Wall Street Journal*, June 27, 2008.

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