Stone age mechanisms that sensitised our ancestors to risk ensuring their survival have not kept up with our rapidly evolving world. As a consequence we can be bad risk managers – overly anxious about some small risks and neglectful of others. Science is only now catching up to what marketers and politicians have known for a while – risk sells.

This important work helps us understand our biases and blind spots. If we “think hard” and give time for the rational “head” to judge the immediate emotions sourced from our “gut” we might just feel better about life and make smarter decisions.

“We are the healthiest, wealthiest and longest-lived people in history. And we are increasingly afraid. This is one of the great paradoxes of our time”
Why do we get it wrong? – external factors

Firstly, we don’t understand our history. We forget live expectancies (LE) have improved remarkably over the last 100 years

- In 1900 an American’s LE was 48, by 2000 it was 80
- In 1900 almost 20% of children died before age 5, now its 0.8%

Then “there is the omnipresent marketing of fear. Politicians, corporations, activists and non-government organisations want votes, sales, donations, support, and memberships and they know making people worry about injury, disease and death is often the most effective way of obtaining their goals. And so we are bombarded daily with messages carefully crafted to make us worry. ... Fear is merely a tactic. And if twisted numbers, misleading language, emotional images, and unreasonable conclusions can more effectively deliver that goal – and they often can – so be it”

The media knows panic boosts circulation and ratings, however, it is also appeals to a simple human love of stories and storytelling. The tragic death of a single child will be reported around the world while a massive decline in child mortality rates hardly gets noticed. Then there’s the entertainment industry ...
Why do we get it wrong? – human factors

We have two independent systems of thought

1. System one / feelings / “gut” – works subconsciously, quickly
2. System two / rational / “head” – works slowly, examines, reasons, adjusts

If human evolution was a book 200 pages long, the story of the last century would only be one paragraph on the last page

We learned to survive for over a thousand years by …

• Reacting quickly to emotions about fear
• Learning from others’ mistakes in our small hunting/farming group

Problems when “stone age meets information age” include …

• Example rule (“we overestimate the likelihood of being killed by that which makes the evening news and underestimate those that don’t”, “How do you tell a story about the women who doesn’t get breast cancer? The ex-con who obeys the law? The postal worker satisfied with life?”)
• “Habituation” makes us less sensitive to low probability, catastrophes
• “Good-bad” rule (ie. mistaken simplification that good things are low risk and bad things are high risk) means no to nuclear power but yes to sunbathing (solar radiation); we also misjudge risks of natural Radon gas and Christmas!
... and the consequences are

We feel more anxious

- Before it was road rage, HIV, mad cows, herpes, satanic cults, school shootings, crack, nuclear Armageddon, Y2K, 70’s food crisis, SARS/Ebola/Avian flu, implants, crime ...
- Now it’s terrorism, toxic chemicals/organic foods, paedophiles, global warming, oil and protein shortages ...

We make wrong decisions

- Because of “probability blindness” 1,595 more Americans died during the one year following Sept 11 by shifting from less risky air to more risky car travel (6x the number who died on board the doomed flights) – “It is fear that stole those loved ones”
- “Older women may not bother getting screened believing breast cancer is a disease of the young, while younger women may worry unreasonably, which in itself might be considered a morbid condition”

We can be influenced by others

- Politicians who will protect us from exaggerated fears
- Pharmaceutical “disease mongers” (sexual dysfunction, hair loss, osteoporosis, cholesterol, restless leg syndrome…) using “get em sick, get em well” advertising
- Vendors of security equipment, hand sanitisers, disinfectant wipes, water filters, software ...

1 84% of media stories about breast cancer focus on women under 50 and only 2% focus on women over 60. Only 16% of diagnoses are for women under 50, while 2 out of 3 are for women over 60.
“So much about what we think and do about risk doesn’t make sense”

“Rare one-in-a-million events are guaranteed to happen every day making the wildly improbable perfectly routine”

If a virus kills 18 in a village of 100 be afraid, if it is 18 in a city of a million don’t worry [West Nile virus killed 18 in US in 2001, less than the 875 who choked to death on food that year]

Researcher Tetlock found the accuracy of 82,361 expert predictions made by 284 political scientists, economists, journalists and others over 20 years were worse than random guesses. Experts later recalled being more accurate and confident when re-interviewed.

“In the last 20 years, fewer than 20 terrorist attacks killed more than a 100 people. Sept 11 deaths were 1/5th the number murdered every year in the US... [The only WMD ever used killed 12 people in a Japanese subway]. Compare that to obesity, diabetes, heart disease, ... On average 36,000 Americans die of flu and obesity kills 100,000. Hundreds of thousands die annually simply because they don’t have access to preventative health services”

“Research studies now project 1 in 5 heterosexuals could be dead from AIDS at the end of the next three years” Oprah Winfrey 1987; “AIDS is the biggest threat to health this nation has ever faced” US Surgeon General C. Everett Koop; AIDS is “the greatest threat to society as we know it, ever faced by civilization – more serious than the plagues” President’s commission on AIDS.

... sound familiar?
So what can you do?

Recognise bias and exaggeration
- 61% believe they are not open to bias, but expect only 16% of others aren’t also\(^1\)
- “The head is a compulsive rationaliser” if it doesn’t know the answer it will make one up

Accept we are human and understand how “Gut” works and how it sometimes makes mistakes
- Be confident when “Gut” and “Head” agree
- Be cautious when they disagree
- And if they still don’t agree, go with “Head”
  - “Time pressure reduces Head’s ability to step in and modify Gut’s judgement”

Remember “how very lucky we are to be alive now”

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1 Ethics study of medical students on expected influence by drug companies
Know your risk sensitiser

We fear more and boost our estimates of riskiness *(rightly or wrongly)* if activities …

- Cause catastrophic, single event death vs. that via frequent small number
- Are unfamiliar to us or relate to things we don’t understood well
- We lack control (eg. flying as a passenger vs. driving)
- Forced on us (eg. weather vs. voluntary risk of skydiving)
- Harm children or future generations
- Lead to identifiable victims not statistics
- Are associated with institutions we don’t trust
- Receive more media attention
- If effects are irreversible
- If benefits of activity is unclear, or some benefit and others don’t
- Are man made rather than natural
- Endanger you not others!
- Are nearer in time than further away

Conversely we may under-estimate risks that have opposite characteristics (eg. driving, smoking, personal health, insufficient savings?)
### About Professional Wealth

We are an independently owned, personal wealth advisory and money management business serving clients in Sydney and Melbourne.

We focus on professionals and those who value professional service.

We strive to set a new level of professionalism, by:

- providing unbiased high quality advice
- being free to recommend a broad range of investment and insurance solutions
- being remunerated only by our clients, refusing all commissions and rebates
- making education an important part of our offer

### About our Executive Summaries

We regularly review interesting writing on wealth topics that we think our clients will find useful.

Our summaries are of the authors’ views and we encourage you to read their work to learn more.

These should not be considered personal advice as your needs and circumstances will vary.

Please contact us or your personal advisor to explore further how you can Make Work Optional™

*If you have received this from a friend and would like to receive future summaries directly, please send us your email address*