



The Danger of "Expert Advice" - Financial or Otherwise

By Kim Snider
December 22, 2009

Advisor Perspectives welcomes guest contributions. The views presented here do not necessarily represent those of Advisor Perspectives.

A study by three neuroscientists at Emory University finds that when given expert advice, the decision-making part of our brain shuts down. That's not a big deal if the advice we are receiving is good. But what if it isn't?

In the study, the results of which were published in March 2009, the scientists used a functional MRI to monitor the brain activity of 24 college students while they made decisions about swapping a guaranteed payment for a chance at a higher lottery payout. Sometimes the students made the decision on their own. At other times, they received written advice from Charles Noussair, an Emory University economist who advises the U.S. Federal Reserve.

Not surprisingly, the advice given by Noussair was followed by the students, even when it was bad. For example, at times his advice was to accept the tiny guaranteed payout rather than playing a lottery with great odds of winning and a high payout. And they did!

But perhaps more interesting was what was going on in the brain. It wasn't that the students ignored their own internal thought process when being given supposed expert advice.

When making decisions on their own, without any expert advice, students showed activity in their anterior cingulate cortex and dorsolateral prefrontal cortex - brain regions associated with making decisions and calculating probabilities. When given advice from Noussair, activity in those regions flatlined.

The implications are troubling, especially when coupled with the documented unreliability of experts. Take, for example, the track record of wine critics, political pundits and mutual fund managers.

In a study of wine critics done over four years, judges were given the same wine three different times, each time from the same bottle, and their ratings typically varied widely.

How about political prognosticators?



Philip Tetlock at UC Berkeley picked two hundred and eighty-four people who made their living "commenting or offering advice on political and economic trends" and asked them to make predictions about future events. He had a long list of pertinent questions. Would George Bush be re-elected? Would there be a peaceful end to apartheid in South Africa? Would Quebec secede from Canada? Would the dot-com bubble burst? In each case, the pundits were asked to rate the probability of several possible outcomes. Tetlock then interrogated the pundits about their thought process, so that he could better understand how they made up their minds. By the end of the study, Tetlock had quantified 82,361 different predictions.

After Tetlock tallied up the data, the predictive failures of the pundits became obvious. Although they were paid for their keen insights into world affairs, they tended to perform worse than random chance. Most of Tetlock's questions had three possible answers; the pundits, on average, selected the right answer less than 33 percent of the time. In other words, a dart-throwing chimp would have beaten the vast majority of professionals. Tetlock also found that the most famous pundits in his study tended to be the least accurate, consistently churning out overblown and overconfident forecasts. Eminence was a handicap.

And of course, we know that the majority of actively managed mutual funds underperform the market in any given year and that the ones that do vary from year-to-year.

If you would like an informative read, I highly recommend a book called [*The Fortune Sellers: The Big Business of Buying and Selling Predictions*](#), by William Sherden. He looks at seven different areas of forecasting: meteorology, economics, investments, technology assessment, demography, futurology, and organizational planning. He describes each field, examines its track record, and concludes that none can make accurate forecasts.

The danger with so-called expert advice is that it causes our own decision-making apparatus to shut down and it is often wrong. So what is the answer?

I have always believed the answer is to emphasize education over advice. Teach people how to be their own expert advisor. Teach the basis for making sound decisions. And failing that, teach them how to be really good at picking who they accept advice from!



SOURCES:

Engelmann JB, Capra CM, Noussair C, Berns GS (2009) [Expert Financial Advice Neurobiologically Offloads Financial Decision-Making under Risk](#). PLoS ONE 4(3): e4957. doi:10.1371/journal.pone.0004957

Lehrer, Jonah (2009) [Expertise](#). The Frontal Cortex.

Eugene Fama and Kenneth French (2009) [Luck versus Skill in Mutual Fund Performance](#). Fama/French Forum.

This article was originally published in Kim Snider's free electronic newsletter. Kim Snider is the Founder and CEO of Snider Advisors, which specializes in strategies for managing the financial risks around job loss, illness or disability, bear markets and funding 30 years of retirement. To subscribe to the Kimmunique or get more information, go to [SniderAdvisors.com](#). (©2009 Snider Advisors - All Rights Reserved)

www.advisorperspectives.com

For a free subscription to the Advisor Perspectives newsletter, visit:
<http://www.advisorperspectives.com/subscribers/subscribe.php>