The rock-and-roll star David Lee Roth devised a test using a bowl of M&Ms to ensure that he thoroughly prepared for concerts. He wanted every performance to be perfect, and the framework he used to accomplish that goal provides a decision-making process that is applicable to financial advisors.

I'll come back to the lessons to be learned from Van Halen’s Roth. First, let’s look at *Decisive: How to Make Better Choices in Life and Work*, by brothers and co-authors Chip and Dan Heath, which debuted at #1 on the *Wall Street Journal* business bestseller list.

Following the commercial successes of *Made to Stick: Why Some Ideas Survive and Others Die* (2007) and *Switch: How to Change Things When Change Is Hard* (2010), the Heaths’ newest book categorizes the villains of poor decision-making while providing a thoughtful process for making better choices. The book is extremely well researched and well written, providing useful and entertaining examples with workshop-style exercises to help readers improve their decision-making.

Advisor Perspectives recently hosted a webinar, *Be Decisive*, where *The Behavior Gap* author Carl Richards discussed the ideas in *Decisive* with Dan Heath. Carl applied Dan’s ideas in *Decisive* to challenges in the advisory space. They discussed applying the Heath’s ideas on setting up “tripwires” to prevent advisors and their clients from doing dumb things with money. Like a low-fuel warning in a car, a tripwire snaps us out of autopilot, grabbing our attention at exactly the right moment to reconsider a decision or to make a new one.

**How we make decisions**

The Heath brothers were strongly influenced by Daniel Kahneman’s *Thinking Fast and Slow* (2011), which provides a comprehensive overview of the psychology of decision-making. Kahneman describes the ease with which we draw conclusions:

> The normal state of your mind is that you have intuitive feelings and opinions about almost everything that comes your way. You like or dislike people long before you know much about them; you trust or distrust strangers without knowing why; you feel that an enterprise is bound to succeed without analyzing it.
The positive aspect of intuition is that it allows us to quickly process information and make decisions. The negative aspect of our automatic intuition is that we jump to conclusions.

The Heath brothers describe a normal decision as a four-step process:

1. You encounter a choice.
2. You analyze your options.
3. You make a choice.
4. You live with it.

They argue that our decisions are not as good as they could be. Their research shows that there is a villain that afflicts each of these stages:

1. You encounter a choice, but narrow framing makes you miss options.
2. You analyze your options, but confirmation bias leads you to gather self-serving information.
3. You make a choice, but short-term emotion will often tempt you to make the wrong one.
4. You live with the choice, but you’ll often be overconfident about how the future will unfold.

The WRAP process

The Heath brothers present a thoughtful process for overcoming those villains of poor decision-making. Applying their process slows down our intuition, causing us to second-guess and make better decisions. They offer their so-called WRAP process as a prescription to counter the negative aspects of intuitive decision-making:

1. Widen your options.
2. Reality-test your assumptions.
3. Attain distance before deciding.
4. Prepare to Be Wrong.

Narrow framing is the tendency to define our choices too closely – to see them in binary terms. It can be avoided by widening the available options. As an advisor, “whether or not” decisions should set off warning bells. Should I retire or not retire? Should I invest or not invest? These limited options can be widened by delving deeper to flesh out additional options. What else could a client do with the same time and money? Additionally, try the vanishing options test: Ask clients what they’d do if their current alternatives disappeared.

Confirmation bias is looking for information to support what we already believe. In hiring new employees “we try to predict success via interviews” according to the Heath brothers.
The authors suggest nixing the interview and offering a short-term consulting contract before hiring someone full-time.

Short-term emotions cloud the ability to see the long term. Advisors are required to make decisions for clients that will have impacts decades in the future, yet emotions are front-loaded for today rather than over a distant timeframe. Advisors already equalize this, by helping clients balance the now against the future.

Preparing to be wrong “stretches our sense of what the future might bring, considering many possibilities, both good and bad,” according to the Heath brothers.

**What is a tripwire?**

The authors provide a very entertaining description of a tripwire. David Lee Roth of the band Van Halen embedded a requirement in the band’s stage set-up contract requiring a bowl of M&Ms in their dressing room with all the brown ones removed. The idea sounds like a Hollywood prima donna stunt, but the Heath brothers contend it was intended to better manage risk when setting up for concerts in different cities with different crews. If the M&M bowl was not properly placed in their dressing room, Roth knew that the crew manager had not fully read through the set-up contract details. Chances would then be higher that some other requirement of the stage preparation was incorrect as well.

Annual rebalancing of a portfolio is a tripwire to help advisors maintain asset allocations. Another example of a tripwire is getting a client to agree that if they have not achieved a defined goal for their portfolio within a time period, they will make adjustments.

Tripwires help us make decisions by getting us off autopilot. Tripwires allow advisors to revisit decisions in an uncertain world where they cannot predict the future.

**A framework for better decisions**

The Heath brothers’ goal in *Decisive* is to inspire you to use a better process for making important decisions: Find more options, check your assumptions against reality, make tough choices based on your core priorities and prepare humbly for the times when you’ll be wrong.

“What a process provides, though, is more inspiring: the real confidence that comes from knowing you’ve made the best decision that you could,” according to the Heath brothers. “Our decisions will never be perfect, but they can be better. Bolder. Wiser. The right process can steer us toward the right choice. And the right choice, at the right moment, can make all the difference.”
Advisors are decision counselors. They help clients with some of the biggest decisions of their lives. The decisions an advisor must make to guide clients through ever-changing and uncertain market conditions are complicated, to say the least. The tools provided in Decisive will help advisors make better decisions for their clients while helping their clients make better decisions for themselves.

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