Emotions Series

Self-Control

BY MEIR STATMAN, Ph.D.

Editor’s note: This is the fifth in a series of articles about emotions and the lessons they hold for investment advisors and their clients.

Imagine yourself as a four-year old at a nursery school. A kindly man places a marshmallow in front of you and says that he must leave for a short errand. If you can refrain from eating the marshmallow until he returns, he will give you an extra marshmallow. But there would be no extra marshmallow if you eat the one he placed in front of you before he returns. Would you be able to resist eating the marshmallow during the 15-minute wait or would you grab the marshmallow and devour it as soon as the man left the room?

Children who resist the temptation of the marshmallow have better self-control than children who eat the marshmallow right away, and differences in self-control have profound consequences in life, including financial life.

Psychologists Shoda, Mischel, and Peake (1990) followed the four-year-old nursery-school children into adolescence and found that children who exercised sufficient self-control to resist the temptation of the marshmallow have better self-control than children who eat the marshmallow right away, and differences in self-control have profound consequences in life, including financial life.

Economists Ameriks, Caplin, Lea- hy, and Tyler (2002, 2004) studied a sample of college professors and other TIAA-CREF retirement plan participants and found that self-control affects their propensity to save and accumulate wealth as it affects the propensity of four-year-olds to wait for the second marshmallow.

TIAA-CREF participants are better educated and wealthier than the general population. More than a third of respondents have Ph.D. degrees and their median net worth in 2000 was about $500,000. The vast majority of respondents also have significant nonretirement financial assets and very few have high levels of personal debt. Ameriks et al. started their assessment of the subjects’ self-control by presenting to them the following situation:

Suppose that you win 10 certificates, each of which can be used (once) to receive a “dream restaurant night.” On each such night you and a companion will get the best table and an unlimited budget for food and drink at a restaurant of your choosing. There will be no cost to you; all payments including gratu- ities come as part of the prize. The certificates are available for immediate use, starting tonight, and there is an absolute guarantee that they will be honored by any restaurant you select if they are used within a two-year window. However if they are not used up within this two-year period, any that remain are valueless.

Next, Ameriks et al. asked respondents how many of the certificates they ideally would like to use in each year, how tempted they would be to depart from their ideal, and whether they expected to yield to temptation.

Nearly 60 percent of respondents indicated that their ideal allocation involves an even split of the tickets between the two periods. Most of those who chose an uneven split preferred to consume more during the first year.

Ameriks et al. measured the level of the self-control by the ideal-ex-pectation gap, the gap between the ideal split of meals between the two years and the expected split. Those with a zero gap have no self-control problem but among those with a gap there are respondents who overcon- sume and respondents who under- consume. For example, 7.4 percent of respondents expected to spend in the first year one more meal ticket than their ideal allocation, indicating overconsumption. But 9.3 percent of respondents expected to spend in the first year one less meal ticket than their ideal allocation, indicating underconsumption. For example, 7.4 percent of respondents expected to spend in the first year one more meal ticket than their ideal allocation, indicating overconsumption. But 9.3 percent of respondents expected to spend in the first year one less meal ticket than their ideal allocation, indicating underconsumption. 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In another study Ameriks et al. found that TIAA-CREF participants with a propensity to plan accumu-
tava (1999) wrote that:


- I never seem able to get organized.
- I often feel that I speak or act too quickly, without thinking about the consequences.
- I often am late for appointments.
- Ameriks et al. found that conscientiousness indeed is correlated with self-control. Participants with high levels of conscientiousness also had good levels of self-control.
- The Keirsey method classifies people into four groups: guardians, artisans, rationals, and idealists. Conscientiousness is plentiful among guardians but scarce among artisans. Guardians have natural talents in managing, and they use these talents to keep things running smoothly in families, communities, schools, churches, hospitals, and businesses. Guardians are cautious, loyal, and disciplined. They follow the rules and cooperate with others.
- Artisans have a natural ability to excel in any of the arts—fine arts, performing arts, athletics, the military, politics, mechanical and industrial arts, and the “art of the deal” in business. Artisans want to be where the action is; they are impulsive and competitive, and they believe that the next throw of the dice will be the lucky one. Above all, artisans resist being tied, confined, or obligated; they would rather not wait, or save, or live for tomorrow.

Wood and I (2004) explored the links between temperament and financial attitudes. The difference in conscientiousness between guardians and artisans is evident in their levels of agreement with the statement, “I like self-discipline.” More than half of guardians agreed with the statement, while less than a quarter of artisans did. Rationals’ and idealists’ levels of agreement were higher than those of artisans but lower than those of guardians.

Financial advisors promote self-control in their clients as parents promote self-control in their children. Some clients live for the moment, consume too much, and save too little. Professional athletes are notorious among them. Advisors can help such clients with programs that make savings automatic and limit consumption. But other clients have more wealth than can be consumed in a lifetime and yet live as if they are poor. One advisor told me of a man who left $3 million to his daughter when he died but lived in a trailer, consumed no more than his Social Security check would allow, and never bought a gift for his daughter and grandchildren. Advisors can help such people with programs that encourage consumption and giving, whether to family or to charity.

Meir Statman, Ph.D., is the Glenn Klinef Professor of Finance at the Leavey School of Business, Santa Clara University. He earned B.A. and M.B.A. degrees from the Hebrew University of Jerusalem and a Ph.D. from Columbia University. Contact him at mstatman@scu.edu.

References