"Storytelling, Technology and the Value of Human Relationships"

By Tommy Williams, CFP®

There's a new kid in town: narrative economics. Recently, Richard Thaler was awarded the Nobel Prize in economics. His work in behavioral economics and finance recognizes not all economic and financial decisions are made after rational reflection. In *Nudge*, he wrote:

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"The workings of the human brain are more than a bit befuddling. How can we be so ingenious at some tasks and so clueless at others?…Many psychologists and neuroscientists have been converging on a description of the brain's functioning that helps us make sense of these seeming contradictions. The approach involves a distinction between two kinds of thinking, one that is intuitive and automatic, and another that is reflective and rational."

Yale professor Robert Shiller, another Nobel laureate in economics, is exploring a field of study related to Thaler's. It's called narrative economics. Narratives are the stories we share with each other. They are fuel for conversation and popular narratives that often become viral. During a presentation at the University of Chicago, Schiller explained narrative economics is *"the study of the spread and dynamics of popular narratives, the stories, particularly those of human interest and emotion, and how these change through time, to understand economic fluctuations."*

Today, a popular narrative in financial circles focuses on Professor Shiller's cyclically-adjusted price-earnings (CAPE) ratio, which suggests the market may be overvalued. *Barron's* reported, "The CAPE, which is based on average inflation-adjusted earnings over the trailing 10 years, stands at 31, versus 32.5 in 1929 and 44 in late 1999."

If stocks are overvalued, why do investors keep buying shares? It's a question narrative economics hopes to help answer in the future. In the meantime, we know that there is a tendency to pile on – everyone wants to be on the winning team. Sometimes I think we, as Americans, do not want to relinquish our God given right to lose money. Always buying high and selling low. One of the most valuable roles a good trusted advisor can play is that of managing expectations. Often when we set a goal – a long-term plan, we simply need someone to remind us of that goal and the fact that though we may be experiencing short-term volatility – we are still on track with our long-term goal. A little handholding can go a long way – and all of us need it from time to time. Of course, that is a testimony to the value of human relationships.

It has been said that the most valuable jewel to emerge from a mine is the miner himself. This implies the significance of humanity (back to the value of relationships). However, the rapidly advancing

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world of technology may well improve our human capabilities. Could we make better investment decisions if we could control our moods (emotions)? Mood organs were among the human enhancements imagined by Philip Dick in *Do Androids Dream of Electric Sheep?* (The book upon which *Blade Runner* was based.) A recent *c/net.com* article explained:

"Dick doesn't describe the design of the mood organ or how it works, only specifying that it can stimulate or sedate the user's cerebral cortex. Users simply dial up the emotion they want, such as 481 (awareness of the manifold possibilities open in the future) or 594 (pleased acknowledgement of a spouse's superior wisdom)."

Neural implants are a reality already, although they're not used to control human emotion. Perhaps we are getting ahead of ourselves. So stay tuned for future developments. For now, I encourage you to stay close to a trusted advisor with a quality relationship.

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