Human Factor: Anchoring and Adjusting

When making a prediction, we tend to adjust our estimates from a given starting point (the anchor). This is particularly true in making numerical predictions.

How Does Anchoring and Adjusting Work?

Imagine two questions:
Group 1 hears, "Do you think there are more or less than a *million* stars in the Milky Way?"
Group 2 hears, "Do you think there are more or less than a *billion* stars in the Milky Way?"

On average, Group 2's guesses will be higher than Group 1's, simply by setting the anchor higher in the question. And in this case, the higher **anchor increases the accuracy** of the estimates – there are 150-250 *billion* stars in the Milky Way.

Most of us use the number imbedded inside the question as a *subconscious* anchor. We don't realize we're utilizing that value in calculating our guess, though research shows we are.

Why does 'Anchoring and Adjusting' happen?

Informational influence. People have a need to be correct,or at least feel we're correct. Because of this, we're very sensitive to cues that may be clues to help us be more accurate.

Heuristics (mental shortcuts). Humans are "cognitive misers." We only have so much attention to spare, so we use mental shortcuts when possible to help save cognitive space. Heuristics are important because the majority of the time, they help us arrive at the correct conclusion much more quickly then piecing together an understanding from scratch.

Using Anchoring and Adjusting to Help Clients

- Engage with Clients to understand anchors that affect how they view your advice. Who have they been listening to?
- Help clients set reasonable expectations for return by showing them a range of outcomes, not just the best case scenario. You're using anchors to avoid unpleasant surprises.
- Help clients form a clear picture of their needs by making effective use of tools like retirement calculators. You're using anchors to help clients set saving and investment goals.
- Help clients become more savvy consumers by providing them with price anchors for things like professional services and investment options. You're helping clients avoid being taken advantage of by less-ethical operators.

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