Human Factor: Narrative Fallacy

We tend to attribute cause-and-effect relationships based on whatever information is available, often relying on knowledge from the past.

To meet our need for consistency, we seek cause-and-effect relationships to organize and explain events, often disregarding contrary evidence.

How Does Narrative Fallacy Work?

We have an innate need to make sense of the world around around us, particularly high-impact events. Our desire for consistency can lead us to confuse unrelated facts (correlation) into a narrative of cause-and-effect (causality). The concept that "everything happens for a reason" reinforces the central idea of Narrative Fallacy. If everything happens for a reason, then we are motivated to figure out how one event was affected by a previous one.

What are Examples of Narrative Fallacy?

- Clients become convinced that markets move "because of" something instead of "along with" many things. Example: The Dow doesn't go down "because of" geopolitical volatility – it's multifactorial.
- Clients use hindsight to draw connections between things that may not be connected. Example: New housing starts and interest rates.
- We look back and see "signs" of things to come that weren't really signs at all.

Using Narrative Fallacy to Help Clients

- Help Clients separate what factors/criteria do and don't affect the success of a strategy.
- Show clients examples where the factors they believe caused an outcome actually led to different outcomes.
- Help Clients recognize the multifactorial nature of financial performance and avoid over-simplifying.
- Simplify the distractions meant to confuse Clients; help them focus on the underlying facts.
- Encourage Clients to take their time making important decisions, and to do further investigation when necessary.
- Remind Clients that marketing that depends on an emotional narrative could be tempting us to substitute Narrative Fallacy for reasoned decision-making.

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