



the consilient observer

applying cross-discipline frameworks to investing

All I Really Need to Know I Learned at a Tupperware Party

What Tupperware Parties Teach You about Investing and Life

Anybody familiar with the workings of a Tupperware party will recognize the use of various weapons of influence . . .

Robert Cialdini

*Influence: The Psychology of Persuasion*¹

Tupperware . . . developed what I believe to be a corrupt system of psychological manipulation. But the practice . . . worked and had legs. Tupperware parties sold billions of dollars of merchandise for decades.

Charlie Munger

*Charlie Munger Speaks-Part 2*²

A Tip from Shining Shoes

Nearby our old office building, the window of a shoe store advertised the generous offer of a free shoeshine. I walked by this store dozens of times and thought nothing of it. One day, though, with my shoes looking a little scuffed and some time on my hands, I decided to avail myself of this small bounty.

After my shine, I offered the shoeshine man a tip. He refused. Free was free, he said. I climbed down from the chair feeling distinctly indebted. "How could this guy shine my shoes," I thought, "and expect *nothing*?"

So I did what I suspect most people who take the offer do—I looked around for something to buy. I had to even the score, somehow. Since I didn't need shoes, I found myself mindlessly perusing shoetrees, laces, and polish. Finally, I slinked out of the store empty-handed and uneasy. Even though I had managed to escape without pulling out my wallet, I was sure many others weren't so fortunate.

A topic that is fascinating in investing (and in life) is why humans act the way they do. A few months after my sweat-on-the-brow-inducing shine, I read Robert Cialdini's *Influence: The Psychology of Persuasion*, a book that provides many of the answers to this question.

Cialdini's work over the past three decades has concentrated on what induces a specific form of behavior change: compliance with a request. Cialdini argues that six tendencies of human behavior spur a positive response to a request.³ All these tendencies are important to understand for life, and a few of them are particularly important for investors.

As I read Cialdini I realized that the shoe store was preying on an essential rule of human conduct—the code of reciprocity. If someone gives you something, you feel that you must give something in return. If you want to use this innate tendency to your advantage, you give something small and ask for something large in return. A two-dollar shoeshine for two-hundred-dollar wing tips is a good trade.

We will take a brief look at each of the six tendencies, discuss how party sellers use them, and highlight the three tendencies most important for investors.

con · sil'i · ence, n. [con- + salire to leap]
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interlocking explanations of cause and effect between disciplines
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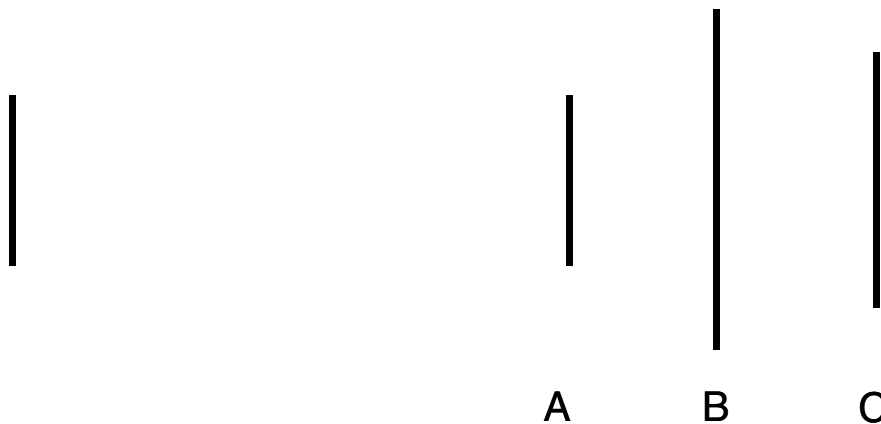
You Can Fool Mother Nature

Here are the six tendencies—reciprocity, consistency, social validation, liking, authority, and scarcity—along with brief descriptions. While Cialdini does not strongly stress the point, we believe these tendencies are deeply rooted in evolutionary psychology. Each behavior likely contributed to the reproductive success of our forebears.

- *Reciprocity.* We've already encountered reciprocity. Research shows that there is no human society that does not feel the obligation to reciprocate.⁴ Companies make ample use of this tendency, from charitable organizations sending free address labels to real estate firms offering free house appraisals.
- *Commitment and consistency.* Once we have made a decision, and especially if we've validated that decision through public affirmation, we're loath to change our view. Cialdini offers two deep-seated reasons for this. First, consistency allows us to stop thinking about the issue—it gives us a mental break. And second, consistency allows us to avoid the consequence of reason—namely, that we have to change. The first allows us to avoid thinking; the second allows us to avoid acting.
- *Social validation.* One of the main ways we make decisions is by observing the decisions of others.⁵ In a famous illustration of this point, psychologist Solomon Asch put a group of eight subjects in a room and showed them a series of slides with vertical lines of various lengths. He asked the group to identify which line on the right matched the length of the one on the left. (See Exhibit 1.) The answer was obvious, but Asch instructed every member of the group, save one, to give the same, wrong answer.

The subjects, bright college students, were clearly confused and one-third of them went with the majority view even though it was obviously incorrect. While extreme, Asch's experiment shows how we all rely to some degree on what others do.⁶

Exhibit 1: The Asch Experiment



Source: Duncan J. Watts, *Six Degrees: The Science of a Connected Age* (New York: W.W. Norton & Company, 2003), 207.

- *Liking.* We all prefer to say yes to people we like. We tend to like people who are similar to us, who compliment us, cooperate with us, and who are attractive.
- *Authority.* In one of the most enlightening and unsettling human experiments ever, social psychologist Stanley Milgram (of six degrees of separation fame) had subjects come in and play the role of "teacher" for a "learner." The subjects asked the learner questions, and were told by a stern, lab-coated supervisor to administer progressively stronger electric shocks in return for incorrect answers. The learners would scream in pain and beg for mercy to avoid the increasingly painful shocks. Even though they were never forced to do anything, nor were they subject to reprisal, many of the subjects ended up doling out lethal shocks.

The learners in this experiment were actors and the shocks fake, but Milgram's findings were real and chilling: People obey authority figures against their better judgment. Here again, the behavior generally makes sense—authorities often know more than others about their field—but such obedience can lead to inappropriate responses.⁷

- *Scarcity*. Evidence shows humans find items and information more attractive if they are either scarce, or perceived to be scarce. Companies routinely leverage this tendency by offering products or services for a limited time only.

These tendencies are singularly powerful. But when they are invoked in combinations, they are even more potent and create what Charlie Munger calls lollapalooza effects. (Yes, lollapalooza is in the dictionary.)

All I Really Need to Know . . .

The seemingly innocuous Tupperware party, which according to *The New York Times* is “back with a vengeance” in the affluent suburbs of New York City, captures such lollapalooza effects.⁸ The Tupperware party takes advantage of four of the six tendencies. This is big business: Tupperware generates annual sales of about \$1 billion from its in-home “consultants.”

First is reciprocity. Early in the party, there is a quiz game that allows participants to win play money that they can “spend” on giveaway items. Each participant is also encouraged to share with the group the uses of products she has already purchased—evidence of commitment. Once the buying starts, each transaction demonstrates that others want the product, providing social validation.

But perhaps the single most important facet of the Tupperware formula is the tendency to say yes to people you like. The purchase request comes not from a stranger, but rather a friend. Indeed the Tupperware handbook counsels the salespeople to use the “feel, felt, found” method, effectively encouraging similarity through empathy while still highlighting product features.

Combine these effects, and it’s not hard to see why many people try to avoid going to a Tupperware party in the first place, because they know that once they are there, they will buy something. For example, the *Times* reported that one attendee spent “far more than she had planned,” no doubt swept up by the lollapalooza effect.

The Psychology of Investing

Investors need to pay a great deal of attention to what influences their behavior. Three of Cialdini’s six tendencies are particularly relevant for investors: consistency and commitment, social validation, and scarcity.

Psychologists discovered that after bettors at a racetrack put down their money, they are more confident in the prospects of their horses winning than immediately before they placed their bets.⁹ After making a decision, we feel pressure (both internal and external) to remain consistent to that view, even if subsequent evidence questions the validity of the initial decision.

So an investor that has taken a position in a particular stock, recommended it publicly, or encouraged colleagues to participate, will feel the need to stick with the call. Related to this tendency is the confirmation trap, post-decision openness to confirming data coupled with disavowal or denial of disconfirming data. One useful technique to mitigate consistency is to think about the world in ranges of values with associated probabilities versus single points. Acknowledging multiple scenarios provides psychological shelter to change views when appropriate.

A large body of work about the role of social validation in investing exists. Investing is an inherently social activity, and investors periodically act in concert. Awareness of breakdowns in the diversity of opinion and respect for extreme valuations can help offset the deleterious impact of social validation.

Finally, scarcity has an important role in investing (and certainly plays a large role in the minds of corporate executives). Investors in particular seek informational scarcity. The challenge is to distinguish between what is truly scarce information and what is not. One means to do this is to reverse-engineer market expectations—in other words, figure out what the market already thinks.

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- ¹ Robert B. Cialdini, *Influence: The Psychology of Persuasion* (New York: William Morrow, 1993), 167.
- ² Whitney Tilson, "Charlie Munger Speaks—Part 2: Notes from the Wesco Annual Meeting," *The Motley Fool*, May 15, 2000. See <http://www.fool.com/boringport/2000/boringport00051500.htm>.
- ³ Robert B. Cialdini, "The Science of Persuasion," *Scientific American*, February 2001, 76-81.
- ⁴ Cialdini, *Influence*, 18.
- ⁵ Michael J. Mauboussin and Kristen Bartholdson, "Guppy Love: The Role of Imitation in Markets," *The Consilient Observer*, May 21, 2002.
- ⁶ For an interesting account of Asch's experiment, see Duncan J. Watts, *Six Degrees: The Science of a Connected Age* (New York: W.W. Norton & Company, 2003), 207-210.
- ⁷ Cialdini, 208-215. Also see <http://www.milgramreenactment.org/pages/section.xml?location=1>.
- ⁸ Lisa W. Foderaro, "If June Cleaver Joined 'Sex and the City': Tupperware Parties for the Cosmo Set," *The New York Times*, February 1, 2003.
- ⁹ Cialdini, 37.

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