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The High Financial Price of Our Short Attention Spans

Information overload is giving us little time to focus on any of it—and leading us to make bad choices about our money

By Shlomo Benartzi

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Digital devices are potentially damaging your wallet—but not in the way you might think.

Smartphones and other gadgets allow us to follow our friends, read the news, watch a football game and even track our investments anytime, and nearly anywhere. We're always multitasking, or moving from one bit of information to the next, and rarely looking at one piece of information long enough to fully digest it.

All this has one crucial side effect: It creates a shortage of attention, which can lead to poor financial choices.

When it comes to our money, effective decision-making typically requires information, concentration and reflection. Not so long ago, the main scarcity was information—we lacked the data to make informed financial decisions. But now we are drowning in data. What we lack, instead, is the ability to properly process it. The price we pay for that may be subtle, but it's hardly insignificant.

Fortunately, it doesn't have to be this way—in part because while the digital world takes away our ability to concentrate, it also gives us tools to mitigate the damage. Here are five ways we can counteract the financial pain inflicted by our increasingly short attention spans.

Avoid multitasking

You probably know that multitasking is bad for your concentration, but you also probably underestimate how bad it is, and how much it affects your ability to make effective decisions.

This is especially true when it comes to financial decisions, which often require navigating difficult trade-offs. Is the additional investment risk worth the potential reward? How does this investment fit with our overall portfolio? Is now the best time to sell a successful startup? Such questions benefit from careful reflection, but multitasking interferes with our ability to do just that.

For instance, research by Baba Shiv and Alexander Fedorikhin has shown that asking people to remember a few extra numbers can short-circuit their self-control, making them much more likely to choose a slice of chocolate cake instead of a fruit salad.

Why is that? One likely possibility is that we run out of mental bandwidth when we try to remember several numbers and resist immediate gratification at the same time. As a result, we choose the cake, even if we're supposed to be on a diet. More to the point in this discussion, we end up spending rather than saving.

In other words, trying to multitask makes us worse at most tasks.

The lesson of this research is that the complexity of financial decisions benefits from a reflective thought process, so that we can marshal all our cognitive resources on navigating the necessary trade-offs. Unfortunately, smartphones and mobile gadgets encourage the opposite kind of thinking, as we are constantly distracted by incoming emails, texts and alerts. If you have to make major financial decisions on a screen, you should at least do it in airplane mode or "don't disturb" mode.

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Pick the right time of day

Investors need to become more aware of fluctuations in the amount of attention we have at different times of the day.

Research by the Behavioral Insights Team in Britain, a public-private company devoted to applying behavioral economics, has found that people are significantly less likely to successfully navigate complex websites in the morning. One possible explanation involves our lack of attention, as the morning is full of tasks that take up precious bandwidth, from getting the children to school to catching up on email.

If this sounds familiar, then you might want to postpone your financial decisions until later in the day. Of course, you might have calm mornings and hectic afternoons. As a rule of thumb, consider using an app, such as Apple's new Screen Time feature, that tracks and displays your device usage throughout the day, which could be a good proxy for your bandwidth.

The point is to reflect on your available attention and ensure you are making your hardest choices —especially financial ones—during the lulls in your day, when you are best able to handle complexity. If you're considering selling an investment, for instance, don't hit send on the email instructions to your adviser when you're rushing between dropping the children at school and meeting with your boss. Wait for a breather.

Focus on the most relevant information, not the most available

When we focus on the latest alert or the numbers on a single screen, we become subject to what Nobel Laureate Daniel Kahneman refers to as the "what you see is all there is" error.

This means that people typically make decisions based upon the immediately available information—what we see at first glance—and forget that there might be more relevant information that isn't visible.

Consider, for instance, the impact of the minimum-payment information on credit-card repayment screens. Studies show that including the information leads people to make smaller payments, with the minimum serving as an anchor, biasing the amount downward. Over time, this leads to higher levels of debt and more money squandered on interest payments. By taking away the minimum-payment information, we can make it easier for people to make better decisions about how and when to pay off their credit cards.

In the domain of investing, the error often leads us to focus on short-term results, as we fixate on the recent performance of a stock or investment. To mitigate this bias, we should ensure that the time horizons on our financial websites—the duration of performance that's automatically displayed—matches our actual investment time horizons. If we're not retiring for several decades, there's no reason to pay attention to the daily fluctuations of a stock or fund. Research by Maya Shaton shows that after the Israeli government prohibited retirement funds from displaying returns for periods shorter than 12 months, investors reacted by trading less and taking smarter risks with their savings.

We should also delete the stock app on our phones and think carefully about which financial apps are allowed to send us notifications. If you are properly diversified, and you're not retiring for a while, there's virtually no need to stay up-to-date on market news. Your biggest mistakes will come from overreacting to the latest stock swings, not underreacting.

Force yourself to see the big picture

Some tools on our smartphones can actually help us preserve some of our precious bandwidth. Many of us struggle to monitor all of our credit cards, or remember how much we've saved, but aggregators allow us to see all of this information. They also make it easy to track trends and spot patterns, so we can notice when our spending spikes, or when we're falling short of our retirement goals. In short, they help compensate for the "what you see is all there is" error, since they make it easy for us to quickly notice our most important financial facts.

Similarly, there are apps that automatically monitor our finances, pay our bills and set aside money into our saving accounts. Just as your phone remembers the numbers of friends so you don't have to, these gadgets can also perform routine financial tasks, letting us focus on the bigger picture.

The typical American probably spends more time choosing a restaurant for date night than choosing a savings rate for their retirement plan. By taking care of these routine financial chores, the apps can free up some mental bandwidth for better investments of time and attention, such as long-term financial planning.

Keep away from the phone

This may be the hardest piece of advice given our smartphone-obsessed culture. But the evidence is mounting that if we make financial decisions on our mobile device—or within earshot of our mobile device—the decisions could very well be bad ones.

My own preliminary research, conducted with John Payne of Duke University, shows that people tend to perform worse on a test of financial literacy when given the questions on a mobile device, at least compared with those subjects taking the same test on paper.

One likely explanation involves the tendency of people to think and read faster on their smartphones, as we continually scroll down the screen for more stimulation. And the news gets even worse. Recent work by Adrian Ward, Kristen Duke, Ayelet Gneezy and Maarten Bos shows that just having your smartphone next to you—even if it isn't turned on—can diminish your cognitive capacity.

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According to the research, subjects with a phone nearby perform significantly worse on measures of attention, working memory and fluid intelligence than those whose phones were in another room. The researchers speculate that the effect exists because the mere proximity of a smartphone causes us to monitor it—we're waiting for those alerts and interruptions—and that monitoring takes up attentional resources. This suggests that we should try to avoid using our smartphones, or even being close to them, when making financial decisions.

Here's where a financial adviser can help: During your next meeting, perhaps your adviser should suggest that you leave your phone behind at a "charging station" with the receptionist. That way, if you get any urgent calls, you can still be notified. Given the impact many financial decisions have on our future, and the fact that they are not easily undone, it's worth being disconnected for an hour or so if it can improve the quality of our choices.

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