

New study gives insight into why some people diversify resources and others conserve

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Don't put all your eggs in one basket. Most of us have heard this old adage applied to many of life's decisions, from planting crops, to dating, to buying stock. If it's sound advice, why don't all people follow it? Credit: stock.xchng photo

(Medical Xpress)—Don't put all your eggs in one basket. Most of us have heard this old adage applied to many of life's decisions, from planting crops, to dating, to buying stock. Spread your resources to minimize risk and maximize reward. If it's sound advice, why don't all people follow it?

A new report, available online and soon to be published in the journal *Psychological Science*, suggests that, when facing adverse conditions, our childhood [socioeconomic status](#) can determine whether or not we diversify our resources across many options or funnel those resources into a more limited set of options.

The report, "Putting All Your Eggs in One Basket: Life-History Strategies, Bet hedging, and Diversification," was conducted by researchers at Arizona State University, working with collaborators at the University of Kansas and University of Minnesota,

"When people hear the word diversification, they often think about modern-day financial investment strategies," said Andrew White, lead author of the report and a doctoral student in psychology at ASU. "This research shows that the notion of 'diversification' runs much deeper than that, and that it is shaped by an ancestral logic to help people survive childhood adversity."

In a series of studies the researchers show that when faced with [tough times](#), people from poor backgrounds seek to increase diversification, essentially adopting a strategy of "throw it against the wall and see what sticks." In contrast, when faced with tough times, folks from wealthy backgrounds seek to minimize diversification in an effort to concentrate their resources into what has the best chance of succeeding.

Why do people play different strategies in life? To answer this, researchers have been examining [human behavior](#) from an [evolutionary perspective](#).

How much to diversify is a question that arises throughout the [animal kingdom](#), said ASU psychology professor Douglas Kenrick, the senior investigator on the team. Some creatures opt for high-diversification – they gather food from a variety of sources, or have lots of offspring with

different partners. Other animals play a more focused strategy – they rely on a single, high-energy food source, or produce a small number of offspring with a single partner. It's called "bet hedging," which is a way to minimize losses.

Which strategy is better? The answer depends on the environment in which the animals are living. In unstable, unpredictable environments, diversification usually wins. When it is uncertain what the future will bring, going for variety increases the odds of finding one good food source or producing one surviving offspring.

In a predictable and stable environment, on the other hand, it often pays to put all your eggs into the same basket. When you can prepare for the future, focusing on enhancing competitive abilities – by sticking with one high-energy food source, or investing more in a single offspring – is a better way to go.

"People typically associate 'diversification' with financial investment strategies," White said. "From that perspective, it may be surprising that in our studies, people from wealthy backgrounds (those who should be most familiar with these strategies) responded to tough times by seeking to minimize diversification. However, considering ancestral responses to resource threats, this response makes sense. When faced with tough times, the best strategy for those with resources is to concentrate that investment into what they know can succeed."

To test how current adversity affects diversification, the researchers had one group of participants read a story about increasing violence in today's society. Another group read a neutral story (about organizing a desk). Afterwards, the researchers asked them about their preferences for diversified bundles of products – for instance, a variety pack of cookies versus a pack containing a single type of cookie, or a pack of different colored shirts versus a pack with shirts of the same color.

When people were worried about increasing violence in the world, those from poor backgrounds preferred more variety and diversity, but those from wealthy backgrounds preferred less variety.

In another study, the researchers examined economic decisions, asking participants to make choices between stock packages that varied in diversification (100 shares of 8 different electric companies, for example, or 800 shares of a single electronic company). Faced with adversity, people from [poor backgrounds](#) preferred more diversified stock packages, but people from wealthy backgrounds preferred less.

According to Kenrick, these findings highlight the deeper evolutionary logic of economic decisions.

"From an early age, many of us are reluctant to put all our eggs in one basket," Kenrick said. "In the world of finance, investment advisors tout diversification as a winning strategy. As such, it can seem irrational when people opt not to diversify. But the study results show that humans are not irrational. Instead, they are functionally attuned to respond to environmental conditions in predictable and sensible ways."

"Almost every day we make important economic decisions and oftentimes we have 'instincts' or gut feelings to make one choice or another," White said. "These studies highlight one factor that contributes to those 'instincts,' and the more we know about them, the better informed we can be about our decisions."

These findings are part of a larger program of research exploring how human decision-making reflects the influence of our evolutionary past. Those findings are described in a forthcoming book by two of the coauthors of the new [diversification](#) studies. The book, by Kenrick and University of Minnesota marketing professor Vlad Griskevicius, is titled "The Rational Animal: How Evolution Made Us Smarter Than We

Think." It is scheduled for publication in September.

Provided by Arizona State University

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