

# Less is more when it comes to investment choices, says new study

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The best investment portfolios are selected from the widest array of choices, right? Not so, says a new study authored by researchers at the University of Toronto's Rotman School of Management and the Bank of Canada. It says that a shorter "menu" of options is often better than a longer one. That's because "menu-setters" who develop shorter lists have superior selection skills, on average. The conclusion goes against findings in other research suggesting that more choices lead to better outcomes.

"Skilled menu-setters will put together a shorter menu because they will hit on the most important features, but less-skilled menu-setters, knowing that they're less-skilled, will put together a longer menu, just to cover all of their bases," says David Goldreich, a finance professor at the Rotman School who co-wrote the study with Hanna Halaburda of the Bank of Canada.

Previous research has already identified that people often prefer shorter menus. The two researchers decided to find out if there was an objective reason behind that.

Using mathematical models and analysis of U.S. pension plans in 2007 from 300 organizations, they found that shorter lists of available [investment](#) options proved to be of higher quality than longer ones. The researchers used a commonly-used measurement called the Sharpe ratio to evaluate the quality of the [investment choices](#) available to the organizations' employees.

Although the paper focuses on pension plans for its example, its findings can be applied to other situations where a "menu" of choices is offered, whether that's financial options or even a [restaurant menu](#).

"The larger lesson we want to give is, when you are evaluating menus, don't just think about the menu. Take a step back and think about the incentive of the person who put together the menu," says Prof. Goldreich.

The study will be published in a forthcoming issue of *Management Science*.

Provided by University of Toronto

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