

Deprivation Super-Reaction Syndrome

This article is part of a [multi-part series](#) on human misjudgment by Phil Ordway, managing principal of [Anabatic Investment Partners](#).

Deprivation super-reaction syndrome including bias caused by present or threatened scarcity, including threatened removal of something almost possessed, but never possessed.

“People are really crazy about minor decrements down...People do not react symmetrically to loss and gain. Well maybe a great bridge player like Zeckhauser does, but that’s a trained response. Ordinary people, subconsciously affected by their inborn tendencies...” –Charlie Munger

The Munger cites the family dog – a sweet, harmless dog that could only be induced to bite if you try to take something out of its mouth, and labor negotiations. He added the example of a homeowner whose “next-door neighbor put a little pine tree on it that was about three feet high, and it turned his 180-degree view of the harbor into 179 3/4. Well they had a blood feud like the Hatfields and McCoys, and it went on and on and on... I mean people are really crazy about minor decrements down. And then, if you act on them, then you get into reciprocation tendency, because you don’t just reciprocate affection, you reciprocate animosity, and the whole thing can escalate. And so huge insanities can come from just subconsciously over-weighting the importance of what you’re losing or almost getting and not getting.”

New Coke, of course, is another prime example. The Coca-Cola Company nearly torched its business – or at least handed a massive advantage to its rival – but underestimating deprivation super-reaction syndrome.

Update

Munger greatly expanded his remarks on this tendency in the revision to his original talk.

- “A man with \$10 million in his brokerage account will often be extremely irritated by the accidental loss of \$100 out of the \$300 in his wallet.”
- “Bureaucratic infighting over the threatened loss of dominated territory often cause immense damage to an institution as whole.” Jack Welch’s long fight against bureaucracy is business’s wisest-ever campaigns.
- DST often protects intense ideological or religious views by triggering hatred toward vocal nonbelievers, and that happens in part because the ideas of the nonbelievers would damage the influence of the believers if they spread.
- University liberal arts departments, law schools, and businesses all display ideology-based groupthink.
- Inconsistency-Avoidance Tendency combined with Deprivation-Superreaction Syndrome is an especially powerful duo.
- Antidotes include the deliberate maintenance of extreme courtesy, as on the Supreme Court, the inclusion of “able and articulate disbelievers of groupthink.”
- Labor negotiations often lead to the death of the company – it is more common for the entire company to die than to get a wage cut.
- Mis-gambling compulsion also comes into play, as losses create a passion to “just get back to

even.” Combined with the multiple “near misses” of some games this can lead to compulsive and ruinous gambling.

- Good poker skill is a good antidote to throwing good money after bad.