

BEHAVIORAL FINANCE



Why is it relevant?

How can it affect investor decisions?

How can we limit its impact?

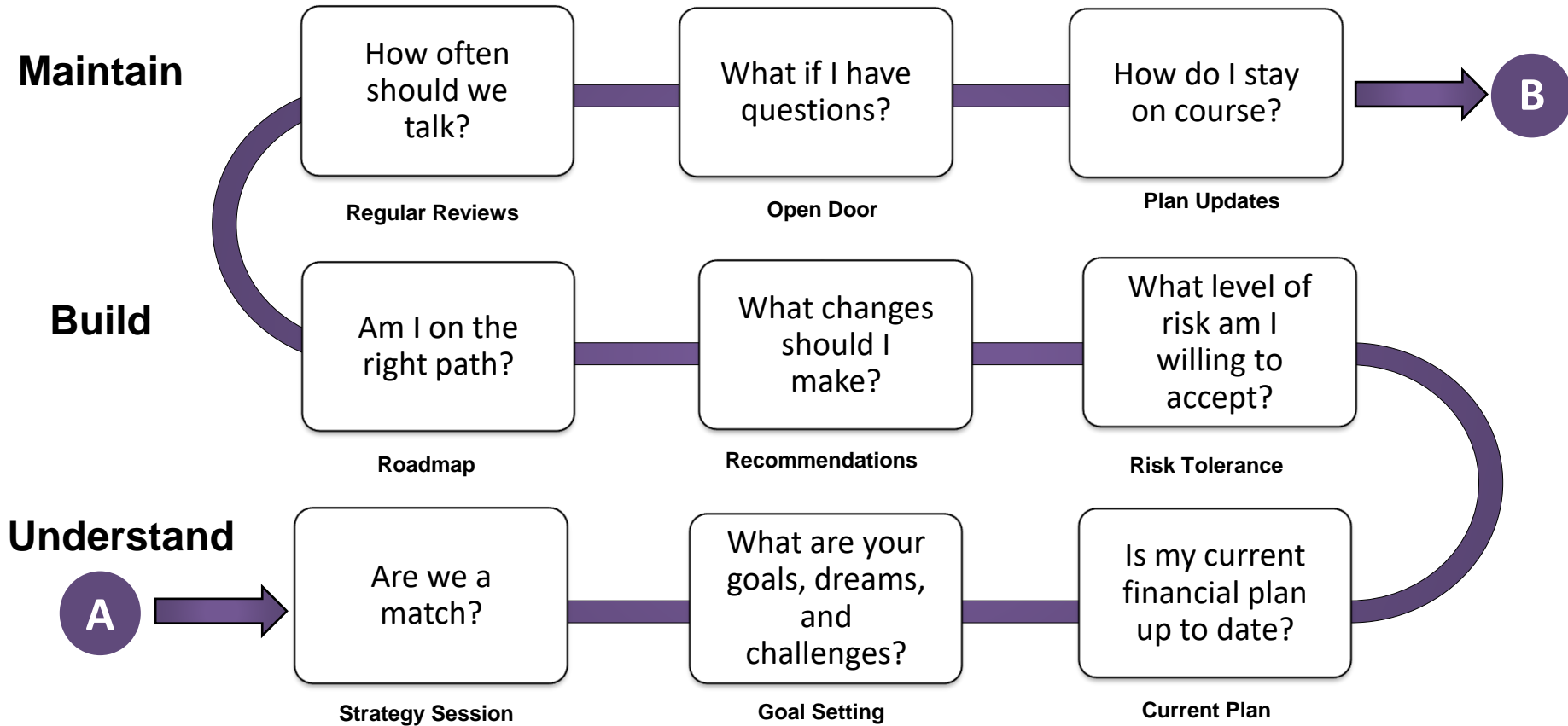


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<http://www.apprisewealth.com>

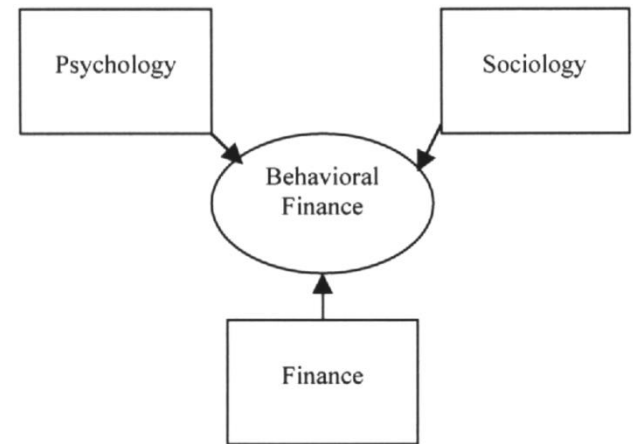
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The Pathway to an Informed Retirement



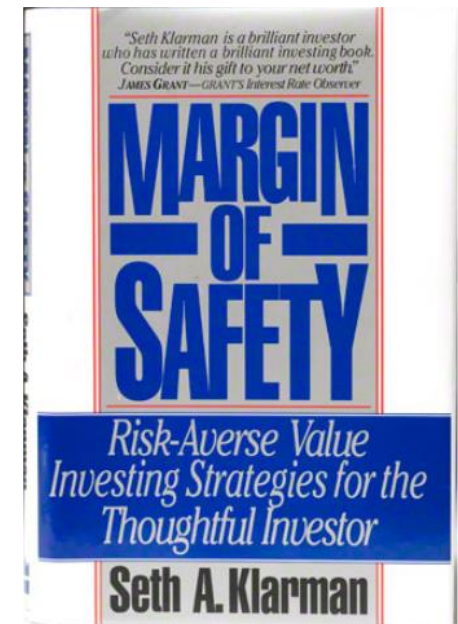
What is Behavioral Finance?

A relatively new field that seeks to combine **behavioral** and cognitive psychological theory with conventional economics and **finance** to provide explanations for why people make **irrational financial** decisions.



Investing & Psychology

- “Investing is the intersection of economics and psychology.”
– Seth Klarman



What Can Help Us Generate Better Investment Returns?



1. Have a plan
2. Eliminate emotion
3. Have a process
4. Follow the process

1. The Value of Having a Plan and Sticking to It

Carl Richards: Why Investor Behavior Needs to Change



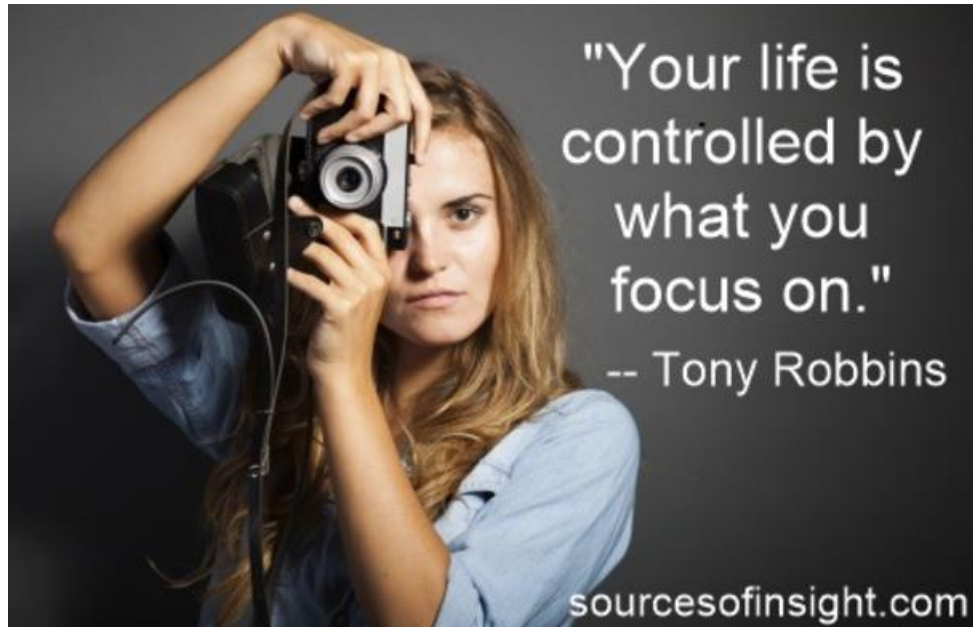
Carl Richards: Why Investor Behaviour Needs To Change



Selective Attention

Focusing on the task at hand

<https://www.youtube.com/watch?v=vJG698U2Mvo>



BLUE	GREEN
RED	BLACK
BLACK	RED
GREEN	BLUE

Confirmation Bias

- When we have a theory, we look for evidence that supports it. We try to support, rather than refute, our existing belief or hypothesis.
- If we want to buy a stock, we look for evidence supporting our reasons for buying it (our investment thesis).



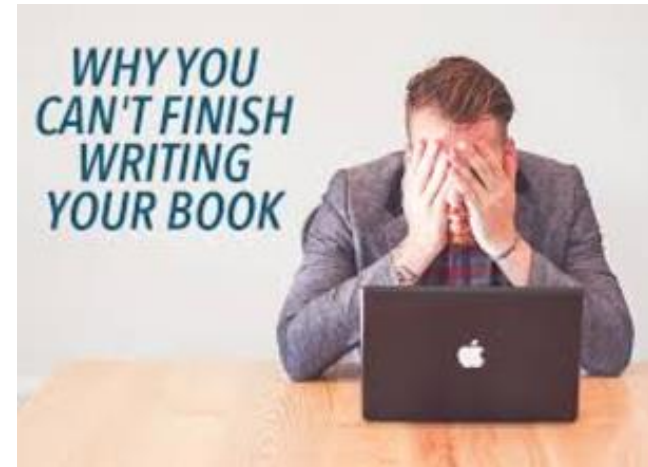


Forecasting Future Outcomes

- “Those who have knowledge don’t predict. Those who predict don’t have knowledge. Yet most of the investment industry obsesses with trying to guess the future. Don’t predict. Instead, be prepared.” – James Montier
- “I don’t know” is (almost) always the correct answer when someone asks you what’s going to happen in the markets today, tomorrow ... whenever.

Our Estimates Are Often Wrong

“A remarkable aspect of your mental life is that you are rarely stumped ... The normal state of your mind is that you have intuitive feelings and opinions about almost everything that comes your way. You like or dislike people long before you know much about them; you trust or distrust strangers without knowing why; you feel that an enterprise is bound to succeed without analyzing it.” – Thinking Fast & Slow, page 97



As counterintuitive as it may seem, when it comes to investing or trading (however you term it), forecasting is outright dangerous.

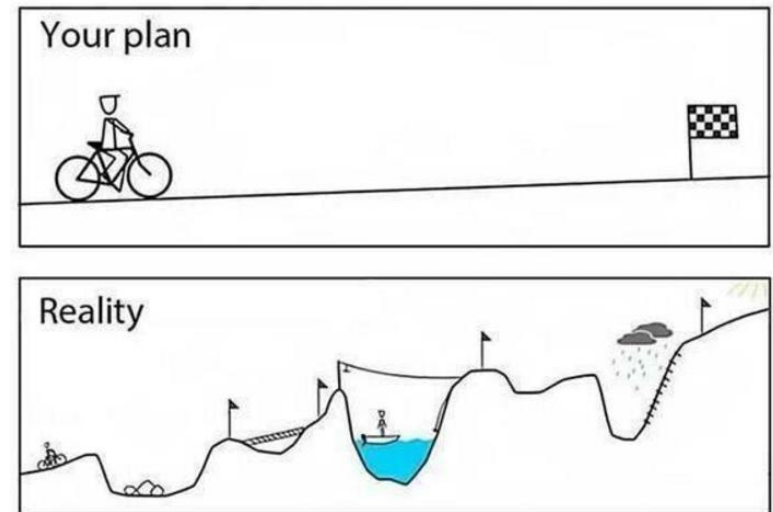


The Folly of Forecasting

- The consensus of economists has completely failed to predict any of the last four recessions (even once we were in them).
- In 1927, a year before the first talking motion picture, the head of Warner Brothers, said “Who the hell wants to hear actors talk?”
- In 1943, Thomas Watson, president of IBM, said “I think there is a world market for maybe five computers.”
- In 1981, Bill Gates, defending the capacity of the first-generation floppy disk, claimed that “640 kilobytes ought to be enough for anyone.”

The Planning Fallacy

- A phenomenon in which predictions about how much time will be needed to complete a future task display an optimism bias and underestimate the time needed.
 - We disregard historical data
 - We assume that we won't run into any complications that will cause delays.



How to Overcome the Planning Fallacy

- Make an effort to rely on more than your intuition
- Use an estimation technique
 - Historical data
 - Let someone else estimate
 - Estimate in ranges
 - Build In time for delays
 - Use Three-Point estimates
 - Calculate your fudge ratio
 - Estimate during the low Point of your day



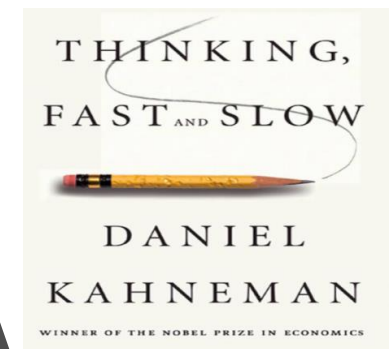
Planning Fallacy

We tend to underestimate how long it will take us to complete different tasks. This is because, when planning, we think of the future rather than our past experiences.



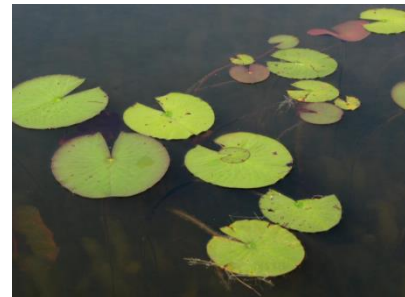
2. Eliminate Emotion

- Thinking Fast & Slow by Daniel Kahneman
 - System 1
 - Impulsive
 - Automatic
 - Intuitive
 - Emotional
- System 2
 - Calculates
 - Considers Thoughts
 - Deliberate
 - Logical



A Short Quiz

- A bat and a ball cost \$10.10 in total. The bat costs 10 dollars more than the ball. How much does the ball cost?
- If it takes 5 machines 5 minutes to make 5 widgets, how long would it take 100 machines to make 100 widgets?
- In a lake, there is a patch of lily pads. Every day, the patch doubles in size. It takes 48 days for the patch to cover the entire lake, how long would it take for the patch to cover half the lake?



Why We Often Use System 1 Instead of System 2

- When System 1 thinks it can get by without asking for help from System 2, it will do just that. Why? Asking System 2 for help takes more energy.
- Not the same for each of us.
- There are times using System 2 would result in harm or injury:

<http://www.mirror.co.uk/news/uk-news/heroic-rail-worker-risks-life-9084822>



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The Book's Main Message: WE ARE PART OF THE PROBLEM!!!

- We frequently self-sabotage our results due to erroneous biases or prejudices
- We incorrectly use examples to form broad conclusions on entire groups (or "populations")
- We can dramatically improve our ability to make correct predictions by using a group's "base rate"
- We act on emotion rather than deep thought



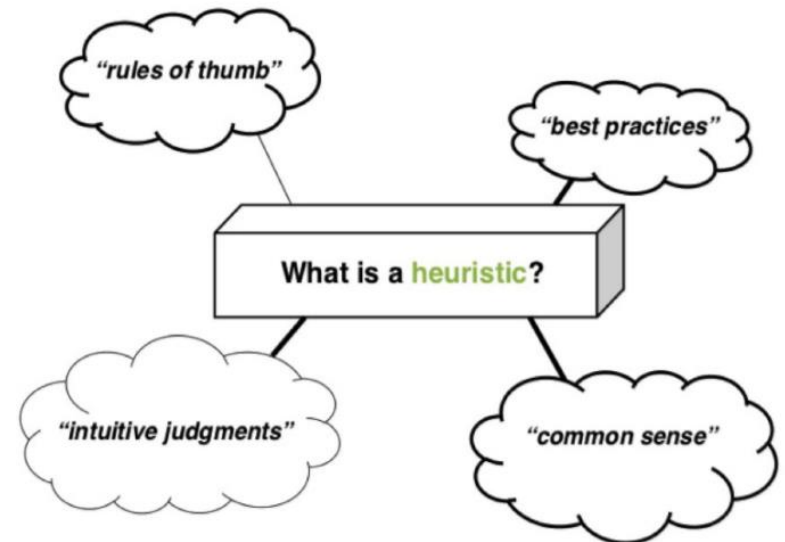
Some Key Insights

- We are often lazy
- Ego depletion (our minds get tired)
 - Frequent breaks
 - Media fasting
 - Reading quietly
- We use mental shortcuts

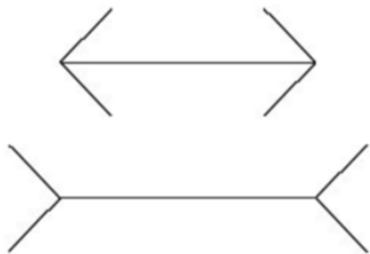


We Use Mental Shortcuts

Heuristics: Simple, efficient rules which people often use to form judgments and make decisions. They are mental shortcuts that usually involve focusing on one aspect of a complex problem and ignoring others.



ABC
1234



What You See Is All There Is?

- We are persistently too confident in our opinions.
- We ignore data outside our direct purview.
- System 1's tendency to consider only the information that is directly at hand.
- WYSIATI

The Linda Problem

- *Linda is 31 years old, single, outspoken, and very bright. She majored in philosophy. As a student, she was deeply concerned with issues of discrimination and social justice, and also participated in anti-nuclear demonstrations.*
 - Which is more probable?
 - Linda is a bank teller.
 - Linda is a bank teller and is active in the feminist movement.



Visual of the Linda Problem

Where's Linda?



Bank Tellers

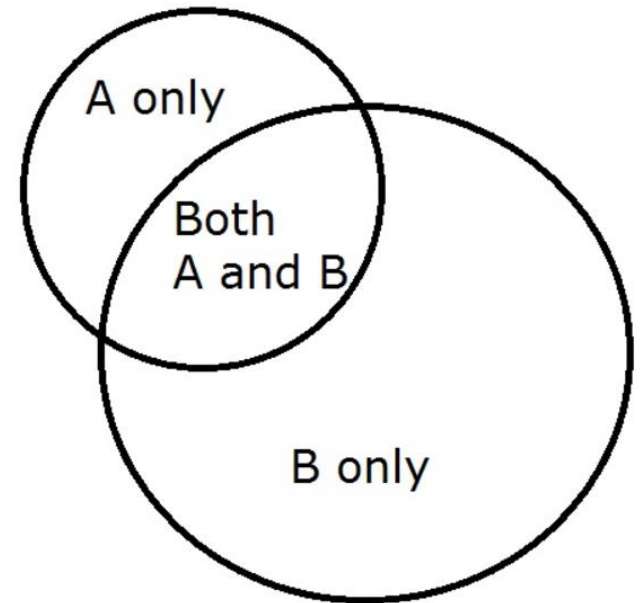
Feminist Activists



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Conjunction Fallacy

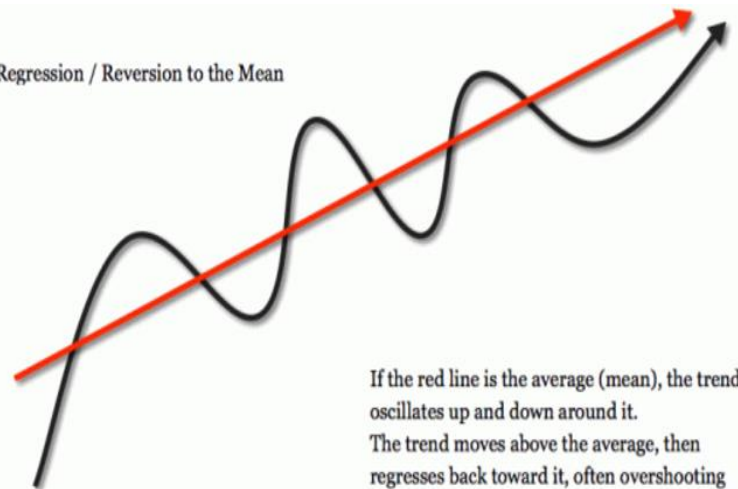
A formal **fallacy** (also known as the **Linda problem**) that occurs when it is assumed that specific conditions are more probable than a single general one.



Reversion to the Mean

A theory used in finance suggesting that asset prices and historical returns eventually return back to the long-run mean or average level of the entire data set.

Regression / Reversion to the Mean



If the red line is the average (mean), the trend oscillates up and down around it. The trend moves above the average, then regresses back toward it, often overshooting up and down.



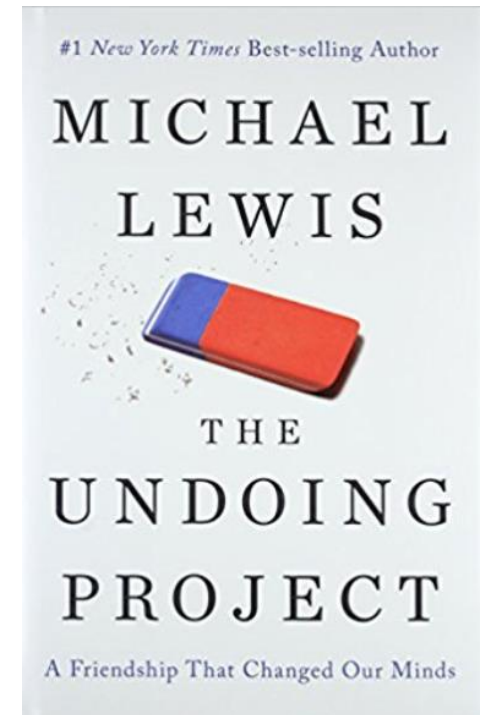
Mean Reversion: An Example

Punishment vs. Praise



Kahneman on Reversion to the Mean

- “Because we tend to reward others when they do well and punish them when they do badly, and because there is regression to the mean, it is part of the human condition that we are statistically punished for rewarding others and rewarded for punishing them.”
- Kahneman quote from the *Undoing Project* by Michael Lewis



Intuitive Faulty Predictions/Overconfidence

- Be warned: Your intuitions will deliver predictions that are too extreme and you will be inclined to put too much faith in them.
 - Julie is currently a senior in state university. She read fluently when she was four years old. What is her GPA?



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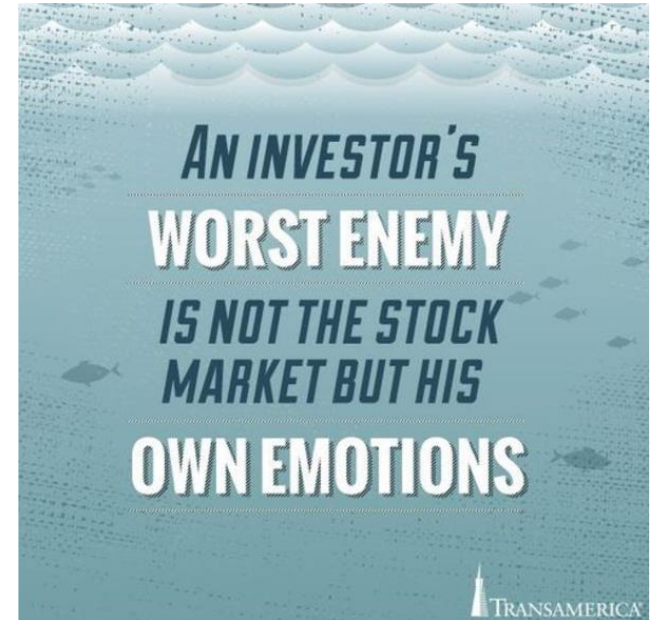
3. Why Do We Need an Investment Process?

- Lock in systems and processes for taking advantage of the worst markets before they come.
- We think we will act differently next time, but we probably won't.



Why Is This Important?

- Research without process can lead to:
 - Inability to assess performance
 - Failure
- Even if we have a good process, we still have to control our emotions



Process Vs. Outcome

“We have no control over outcomes, but we can control the process. Of course, outcomes matter, but by focusing our attention on process, we maximize our chances of good outcomes.” – Michael Mauboussin

	Good Outcome	Bad Outcome
Good Process	Deserved Success	Bad Break
Bad Process	Dumb Luck	Poetic Justice

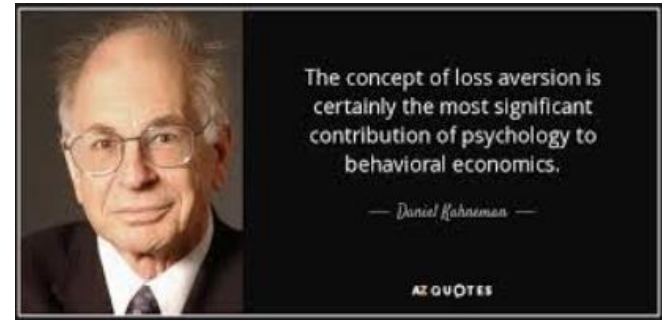
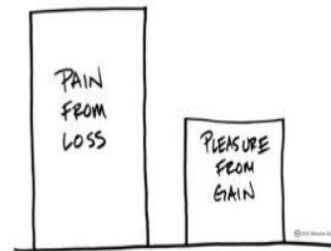
Self-Attribution Bias

Attributing good outcomes to our skill as investors, while blaming bad outcomes on something or somebody else.



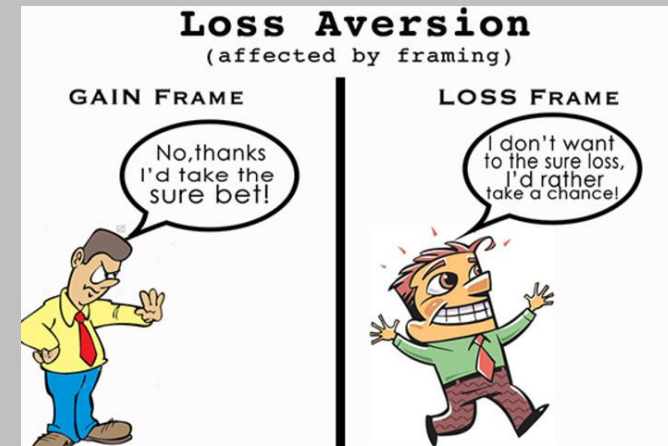
Loss Aversion

People's tendency to prefer avoiding **losses** to acquiring equivalent gains: It is better to not lose \$5 than to find \$5. Some studies have suggested that losses are twice as powerful, psychologically, as gains.



Loss Aversion: Example

- Choice #1:
 - A) Sure gain of \$240.
 - B) 25% chance to gain \$1,000 and 75% chance to gain nothing.
- Choice #2:
 - Sure loss of \$750.
 - 75% chance to lose \$1,000 and 25% chance to lose nothing.
- Choice #3:
 - 25% chance to win \$240 and 75% chance to lose \$760.
 - 25% chance to win \$250 and 75% chance to lose \$750.



The Fallacy of Loss Aversion

Consider the Following:

- a) A 100% chance of receiving \$3000.
b) An 80% chance of receiving \$4000, but a 20% chance of receiving nothing.
- About 80% of the subjects will choose option (a). Guaranteed gain is preferred over the potential to win more but possibly get nothing.

However, when given a very similar choice:

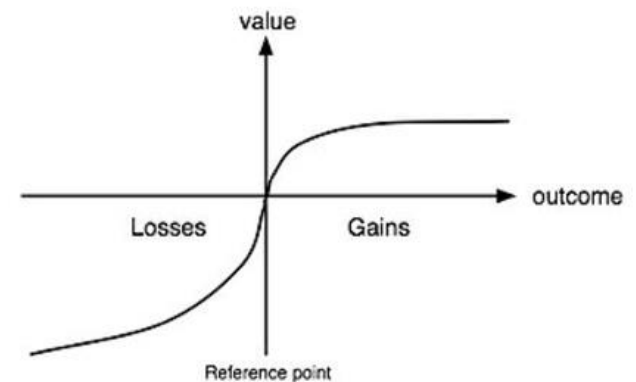
- a) A 100% chance of losing \$3000.
b) An 80% chance of losing \$4000, but a 20% chance of losing nothing.
- Some 92% of the subjects will choose option (b). We would rather risk losing more for the chance to lose nothing.

We are not logical. We struggle to evaluate risks and threats.



Prospect Theory

A behavioral economic theory that describes the way people choose between probabilistic alternatives that involve risk, where the probabilities of outcomes are known. ... The paper "**Prospect Theory: An Analysis of Decision under Risk**" (1979) has been called a "seminal paper in behavioral economics."



Prospect Theory

- People value gains and losses differently, and as such, will base decisions on perceived gains rather than perceived losses. Thus, if a person were given two equal choices, one expressed in terms of possible gains and the other in possible losses, people would choose the former.
- When choosing among several alternatives, people avoid losses and optimize for sure wins because the pain of losing is greater than the satisfaction of an equivalent gain.



We Take Risks to Avoid Losses

 <p>?! You have \$1,000 'I Choose Option B'</p>	Option A There is a 50% probability of gaining \$1,000 and a 50% probability of gaining zero dollars	Option B There is a 100% probability - a certainty - of gaining \$500
 <p>!? You have \$2,000 'I Choose Option A'</p>	Option A There is a 50% probability of losing \$1,000, and a 50% probability of losing nothing	Option B There is a 100% probability - a certainty - of losing \$500

Anchoring

Describes cases in which a person uses a specific target number or value as a starting point, known as an **anchor**, and subsequently adjusts that information until an acceptable value is reached over time.



Anchoring in Practice

- Estimate Gandhi's age at death using an anchoring question
- Consider how much you will pay for a house (what's the asking price)
- How much does an item cost?
- What was a stock's all-time high or low price?

SS NUMBER	WILLING TO PAY
00 - 19	\$16.09
20 - 39	\$26.82
40 - 59	\$29.27
60 - 79	\$34.55
80 - 99	\$55.64





"LOTS OF THINGS ARE INVISIBLE, BUT WE DON'T KNOW HOW MANY BECAUSE WE CAN'T SEE THEM."

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Base Rate Fallacy

A cognitive error whereby too little weight is placed on the **base** (original) **rate** of possibility (e.g., the probability of A given B); i.e., we tend to ignore prior probabilities and focus on expected similarities.

Which do we
fear more?



The Base Rate Fallacy

- Fear of flying vs. driving
- Anthrax vs. influenza
- SARS vs. viral encephalitis

Base Rate Neglect Fallacy

Happens when:

1. There is a low base rate of some condition.
2. We have a test for that condition.
3. Someone tests positive.
4. We assume that means they have the condition, ignoring the unreliability of tests for conditions with low base rates.



		Have Disease		Probability
		Yes	No	
Test Results	Positive	95	4,995	1.90%
	Negative	5	94,905	0.01%

Why Do We Neglect Base Rates?

- Representative Heuristics:
 - Events that are representative or typical of a class are assigned a high probability of occurrence.
 - This heuristic is used when people judge the probability that an object or event A belongs to a class or process B.
- Example:
 - You are given a description of an individual and are required to estimate the probability that he/she has a certain occupation.
 - Estimate will be influenced by the similarity between the individual's description and your stereotype of that occupation.



Example of Representative Heuristic Errors

- Below is Fred. He is muscle-bound, uses steroids, and enjoys getting into fights. Is he more likely to be a high school teacher or a wrestler from the WWE.





Availability Heuristic

A mental shortcut that relies on immediate examples that come to a given person's mind when evaluating a specific topic, concept, method, or decision.

Availability Heuristic in Action

- Are there more words that begin with “r” or that have “r” as their third letter?
- How long is the gestational period of the African elephant?”



Representativeness

An individual has been described by a neighbor as follows: "Steve is very shy and withdrawn, invariably helpful but with little interest in people or in the world of reality. A meek and tidy soul, he has a need for order and structure, and a passion for detail." Is Steve more likely to be a librarian or a farmer?



"I think it only fair to warn you that I am a librarian."



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Representativeness vs. Availability

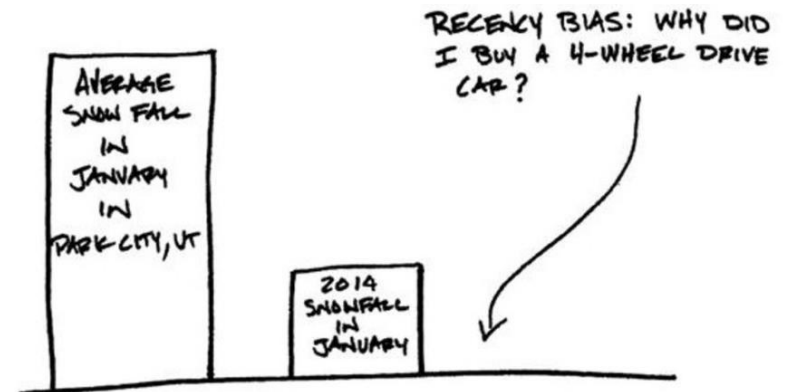
- While availability has more to do with memory of specific instances, representativeness has more to do with memory of a prototype, stereotype or average.
- 10 People a year are killed by sharks worldwide
- Other large predators:
 - Lions (100)
 - Elephants (100)
 - Hippos (500)
 - Crocodiles (1,000)
 - Snakes (50,000)
 - Dogs (25,000) almost all due to rabies.



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Recency Bias

Occurs when we evaluate information based on recent results or on our perspective of recent results and make incorrect conclusions that ultimately lead to incorrect decisions.



Substitution Effect

- The brain hates uncertainty—when confronted with difficult questions, it tends to search out easier ones instead in terms it can understand.
- Attribute substitution is a psychological process thought to underlie a number of cognitive biases and perceptual illusions. It occurs when an individual has to make a judgment (of a target attribute) that is computationally complex, and instead substitutes a more easily calculated heuristic attribute.
- If a satisfactory answer to a hard question is not found quickly, System 1 will find a related question that is easier and will answer it.



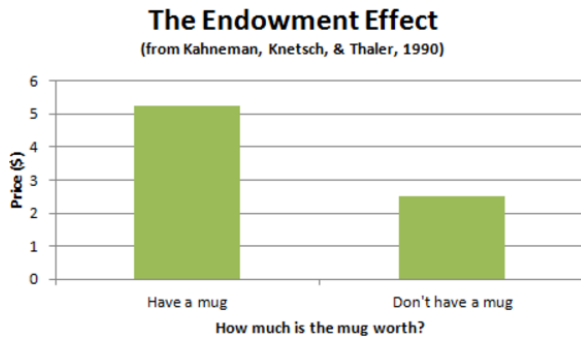
Less-is-better effect

- Evaluating things separately = lesser option
- Evaluating things together = greater option
- e.g. choose 7 oz of ice cream in an overflowing cup vs. 8 oz in a larger cup when considered apart
- Why? People focus on things that are easier to evaluate when judging separately (attribute substitution)

Some Examples

- How much would you contribute to save an endangered species? **becomes** How much emotion do I feel when I think of dying dolphins?
- How happy are you with your life these days? **becomes** What is my mood right now?
- How popular will the president be six months from now? **becomes** How popular is the president right now?
- How should financial advisors who prey on the elderly be punished? **becomes** How much anger do I feel when I think of financial predators?



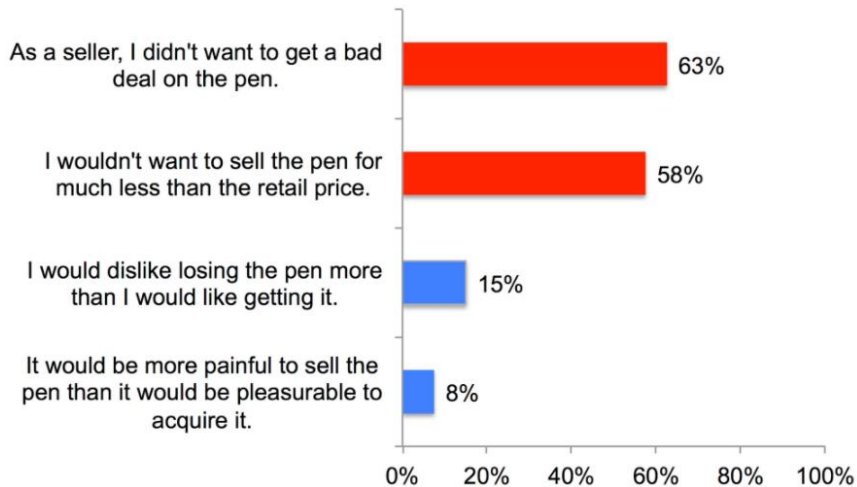


Endowment Effect

The hypothesis that people ascribe more value to things merely because they own them.

Endowment Effect

% Endorsing Reason For Why Their Selling Price Was Higher Than Their Buying Price



Priming

The implicit memory effect in which exposure to a stimulus influences response to a later stimulus. It is a technique in psychology used to train a person's memory both in positive and negative ways.

Fill in the missing word

1. Red
2. Blue
3. Orange
4. Yellow
5. Gr _ _ _

Now fill in the missing word

1. Plum
2. Nectarine
3. Pear
4. Apple
5. Gr _ _ _

Priming Alternative

So_p



So_p

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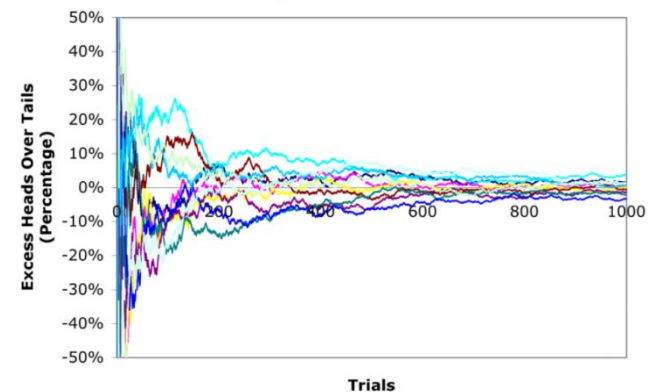
Law of small numbers

The tendency to generalize from small amounts of data.

About 50% of all babies are boys. In the larger hospital about 75 babies are born each day, and in the smaller hospital about 15 babies are born each day. Which is likely to have a greater percentage of boys?



The Law of Large Numbers: Ten Trials



Hindsight Bias

Hindsight bias, also known as the knew-it-all-along effect or creeping determinism, is the inclination, after an event has occurred, to see the event as having been predictable, despite there having been little or no objective basis for predicting it.



Sunk Cost Fallacy

The Misconception: You make rational decisions based on the future value of objects, investments and experiences.
The Truth: Your decisions are tainted by the emotional investments you accumulate, and the more you invest in something the harder it becomes to abandon it.

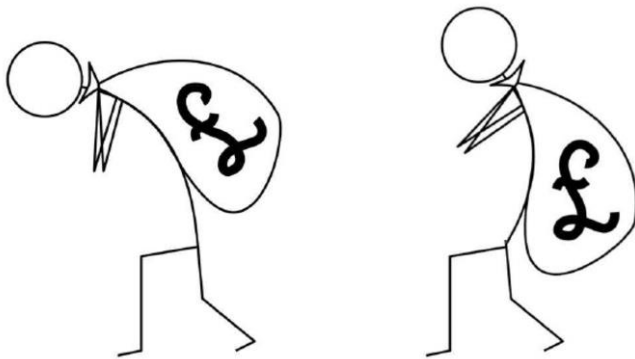
Why change now?

We've already wasted
so much money.



Mental Accounting

The tendency for people to separate their money into separate **accounts** based on a variety of subjective criteria, like the source of the money and intent for each account.



This is **mental** accounting.

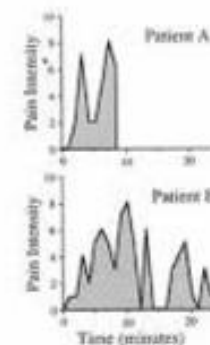
It occurs when **we** assign different **values** to equal **monetary** amounts due to **psychological** reasons.

Remembering Self Vs. Experiencing Self

- “The experiencing self lives in the moment; it is the one that answers the question, ‘Does it hurt?’ or ‘What were you thinking about just now?’ The remembering self is the one that answers questions about the overall evaluation of episodes or periods of one’s life, such as a stay in the hospital or the years since one left college.” (pg. 381)
- Cruise ship experience



Patients undergoing colonoscopy reported their pain every 60 sec.



How much did these Patients suffer?

Framing Effects

Different ways of presenting the same information often evoke different emotions:

Odds of surviving 1 month after surgery are 90%

vs.

Mortality within one month of surgery is 10%.

Only the framing changed

600 people expected to die...

600 people expected to die...

1/3 chance that nobody will die.

2/3 chance that 600 people will die.

=

1/3 chance that 600 people will be saved.

2/3 chance that no people will be saved.

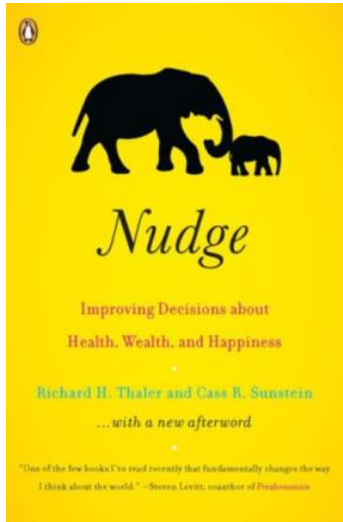
78%

≠

28%

We will take great risks to avoid a loss. Reframing the same option as a loss changes the choices.





4. Follow the Process: What Is a Nudge?

- A **nudge**, is any aspect of the choice architecture that alters people's behavior in a predictable way without forbidding any options or significantly changing their economic incentives.
- How people make choices and what processes and structures might lead to better choices.
- Strategies that do not force anyone to do anything, yet effectively promote good choices.

How Can Nudges Help?

- The false assumption is that almost all people, almost all of the time, make choices that are in their best interest or at the very least are better than the choices that would be made by someone else.
- Don't force anyone to do anything.
- Automatic enrollment often results in more than 90% of eligible workers being enrolled.
- The bottom line: Humans are easily nudged by other Humans. Why? One reason: we like to conform.



Principles Guiding the Use of Nudges

- All nudging should be transparent and never misleading.
- It should be as easy as possible to opt out of the nudge, preferably with as little as one mouse click.
- There should be good reason to believe the behavior being encouraged will improve the welfare of those being nudged.



GPS: Choice Architecture

A design that leads people to make more informed, deliberate decisions. Provides “default choices” that are in the person’s best interest given his or her educational goals



Choice Architecture

iNcentives

UUnderstand Mappings

DDefaults

GGive Feedback

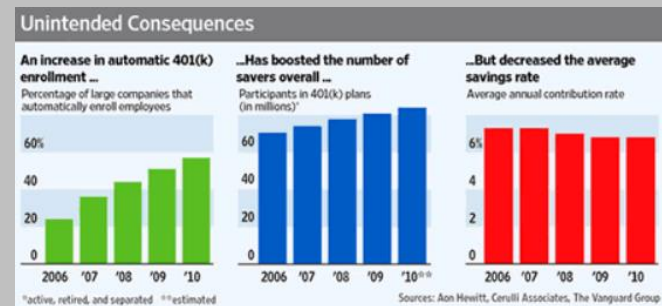
EExpect Error

SStructure Simple Choices



An Example

- Automatic Enrollment in company-sponsored 401(k) plans vs. opt in
- Participants join sooner
- More participants join eventually
- 20%/65% vs. 90%/98%



Organ Donation

“Would you like to be an organ donor?”

- Asking this question doubled the number of program participants in Illinois

What are the arguments for and against opt-out?

For

- It would increase the pool of donors
- Strong utilitarian arguments to save lives
- Takes pressure off families
- Increases autonomy of donor
- Same choice, just changes default position
- Actually fulfills many people's wishes

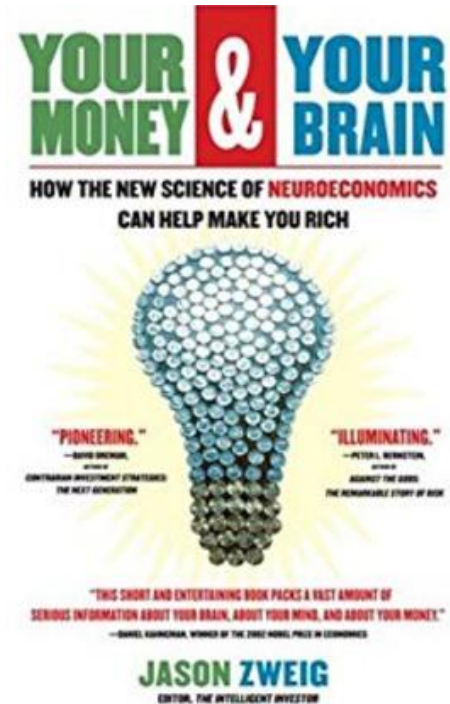
Against

- Reduces autonomy if don't actively opt-out
- Vulnerable people would not opt-out
- Changes nature of 'gift' of organ donation
- May induce backlash and reduce donations
- Mixed evidence about whether it would increase pool

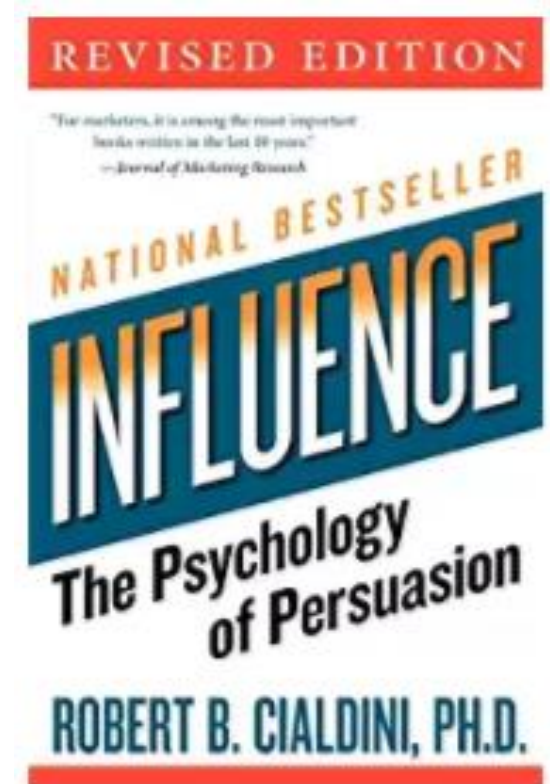


Your Money & Your Brain

- Your brain consumes 20% of your oxygen, and the calories you burn when you're resting. So, when you start to think heavily it can go into overdrive and wear you out.
- The brain activity of a person making money on their investments is indistinguishable from a person high on cocaine or morphine.
- Financial losses are processed in the same area of the brain that responds to mortal danger.
- Our brain automatically and unconsciously expects a third repetition after it sees 2 in-a-row.
- The anticipation of a gain evokes a much larger response than actually receiving the gain.
- The bigger the potential gain the greedier you feel (regardless of how poor the odds might be).



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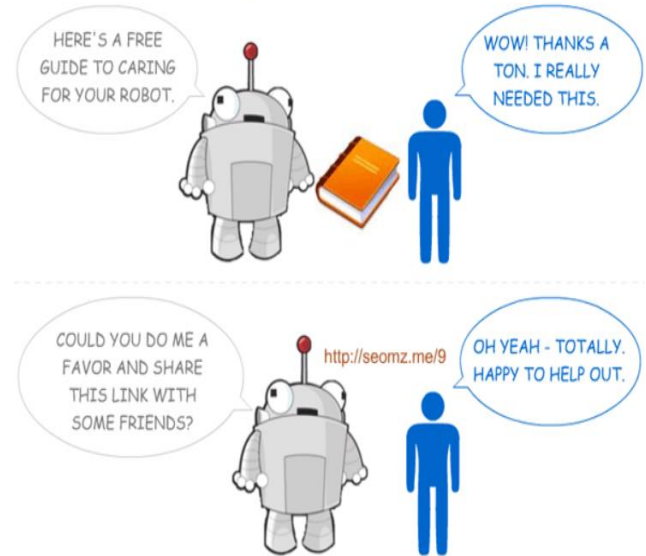


Influence: 6 Principles

Reciprocity

- The obligation to give back when you receive.
 - If you receive an invite, you feel an obligation to return the favor.
 - You are more likely to say yes to those that you owe.

Reciprocation in Action



Scarcity

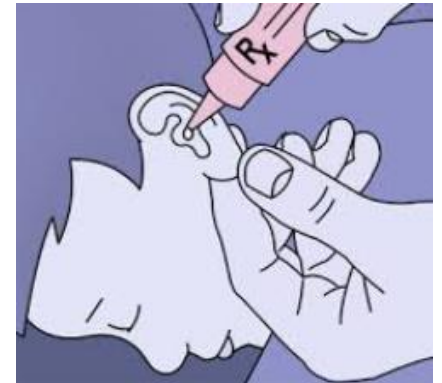
People want more of those things there are less of.



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Authority

- People tend to follow the lead of credible, knowledgeable experts.



Consistency

- People like to be consistent with the things they have said and done before.

Commitment & Consistency in Action

Question 1:

Do You Consider Yourself a Champion of Human Rights?

Yes

No



ABSOLUTELY! I BELIEVE BASIC FREEDOMS MUST BE PROTECTED.

Make a difference.

Donate today to support the human rights campaign.

Donate



I SHOULD REALLY MAKE A DONATION.

Liking

- People prefer to say yes to someone they know or like as a person.
 - We like people who are similar to us
 - We like people who give us compliments
 - We like people who cooperate with us

Liking: Similarity and Likable

We are more likely to be influenced by people we know and like.

Who do we like? We like people:

1. Who are similar to us (Similarity Principle)
2. Who like us.

“Like” = We like people who are positive, respectful, empathetic.

Are you liked? That is, do you like others?



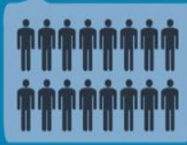



appreciative,

Social Proof / Consensus

- People will look to actions of others to determine their own.
- Laugh track
- Creating long lines outside a disco

Social Proof Influence

Social Proof tells consumers the reasonable and reliable facts without having to exert too much effort.		Google ranks you higher when you have more social proof such as tweets on Twitter	
The more people who perform the same behavior, the higher influence it can bring.		Having your content shared across social networks will bring you traffic	

Source: susangilbert.com

conv/ert

The Science of Persuasion

- <https://youtu.be/cFdCzN7RYbw>



What Can We Do?

We can all fall subject to behavioral biases. What can we do about it?

“Don't wait
until you
are ready
to take action.
Instead, take
action to be
ready.”

Jensen Siaw

1 Mar 2013 4:39 pm

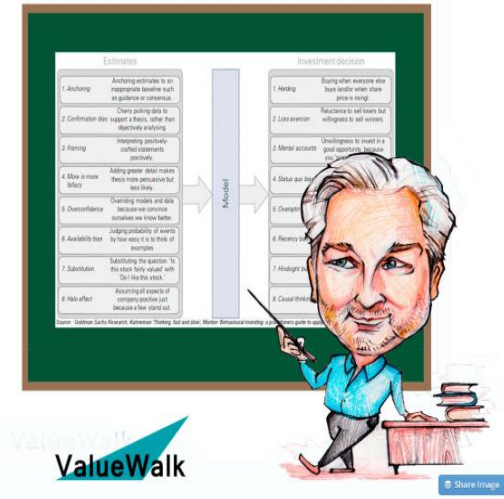


James Montier

- The Seven P's
 - Perfect planning and preparation prevent piss poor performance
 - Do your investment research when in a cold, rational state – and when nothing is happening in the markets –and then pre-commit to following our own analysis and prepared action steps.

It is far better to focus on what really matters, rather than succumbing to the siren call of Wall Street's many noise peddlers. We would be far better off analyzing the five things we really need to know about an investment, rather than trying to know absolutely everything about everything concerned with the investment

James Montier



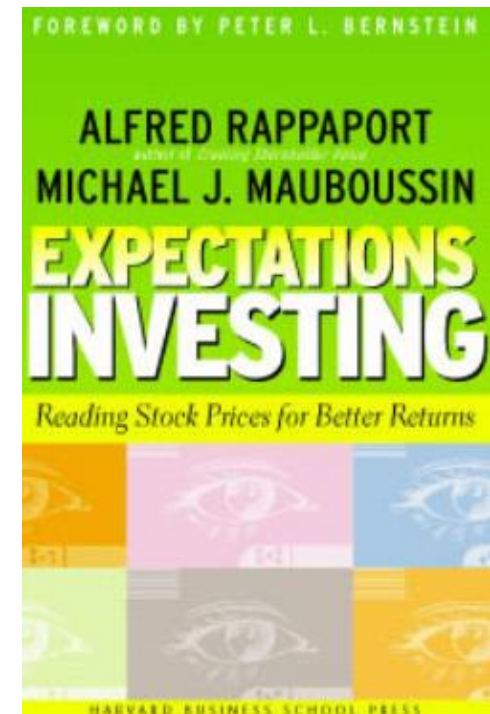
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Feb

James Montier: What's The Key Lesson Investors Can Learn From Templeton, Soros, Berkowitz And Steinhardt

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Expectations Investing

- All investors should devote themselves to understanding the nature of the business and its intrinsic worth, rather than wasting their time trying to guess the unknowable future.
- Try taking the current market price and backing out what it implies for future growth.



Pay Less Attention to Short-Term Events

“Closely following daily fluctuations is a losing proposition, because the pain of frequent small losses exceeds the pleasure of frequent small gains...in addition to improving the emotional quality of life, the deliberate avoidance of exposure to short-term outcomes improves the quality of both decisions and outcomes. The typical reaction to bad news is increased loss aversion. Investors who get aggregated feedback receive such news much less often and are likely to be less risk averse and end up richer.” (p. 339)

Which of the following most closely describes your investment objectives?

- **Build wealth considerably**
I want to build my wealth considerably; i.e., multiply my investment over the long run. For this I am willing to accept greater fluctuations (over 20%) in the value of my investment.
- **Build wealth moderately**
I want to build my wealth moderately and expect returns above regular interest rates. For this I am willing to accept fluctuations in my portfolio value of around 10-20%.
- **Preserve wealth**
I want to maintain my wealth and protect against inflation. For this, I am willing to bear single-digit fluctuations in the performance of my portfolio.
- **To build cash for short-term needs**
I want a secure return on my investment with no potential for losses, not even if they are only short term.



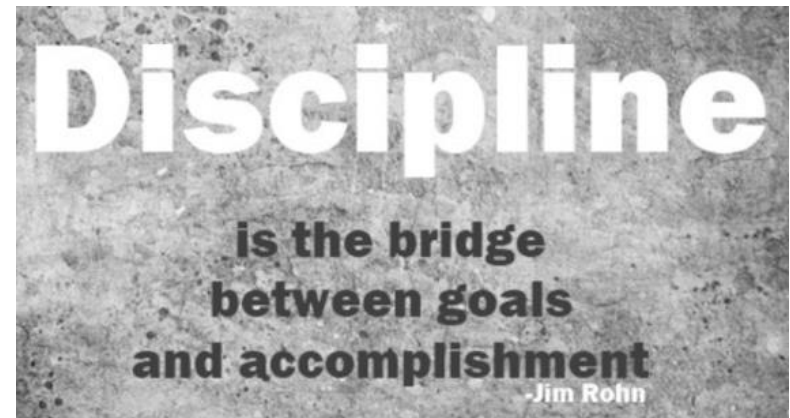
Helpful Tools

- Focus on making better decisions rather than looking for an informational advantage that will guarantee a sure thing.
- Create an investment thesis for each investment.
- Create a decision diary.
- Establish the metrics that matter.
- Look for support to both sides of the argument.
- Be data driven.
- Put on a frown.
- Prepare a pre-mortem.
- Slow down and ask for reinforcement from System 2.
- Take breaks, avoid media.
- Try to preoccupy yourself less with the topic (availability).



Some Tips

- Be disciplined.
- Don't trade – rebalance.
- Be humble.
- Stay with your strategy (avoid “style drift”).
- Don't make or rely on forecasts.
- Ignore the pundits.



Your Brain

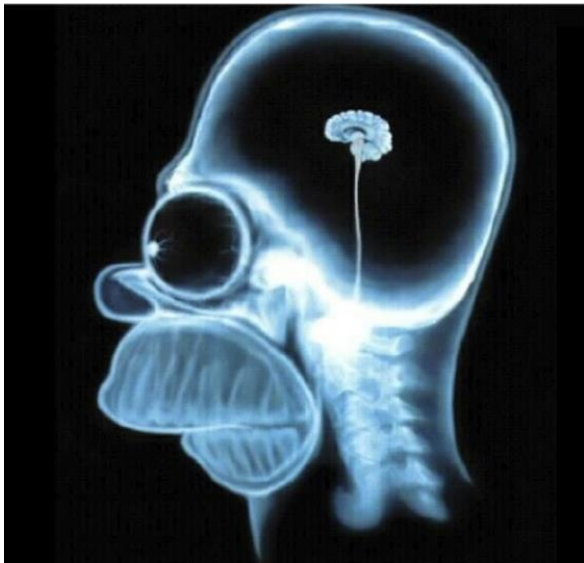
Your brain weighs three pounds and is 100,000 years old. It is a “dynamic, opportunistic, self-organizing system of systems. MRIs have revealed to neurologists what our brain looks like when making decisions. We can observe it 1) in real time; 2) under actual conditions; and 3) in reaction to financial risk/reward stimuli.





Your Brain on Stocks

Once we begin trading stocks, our brains begin to undergo subtle physical change that we can actually see in the MRIs of Traders...



How Can We Minimize the Effect of Emotions on Our Portfolio?

1. Have a plan
2. Eliminate emotion
3. Have a process
4. Follow the process



5. Hiring a Financial Advisor Can Help

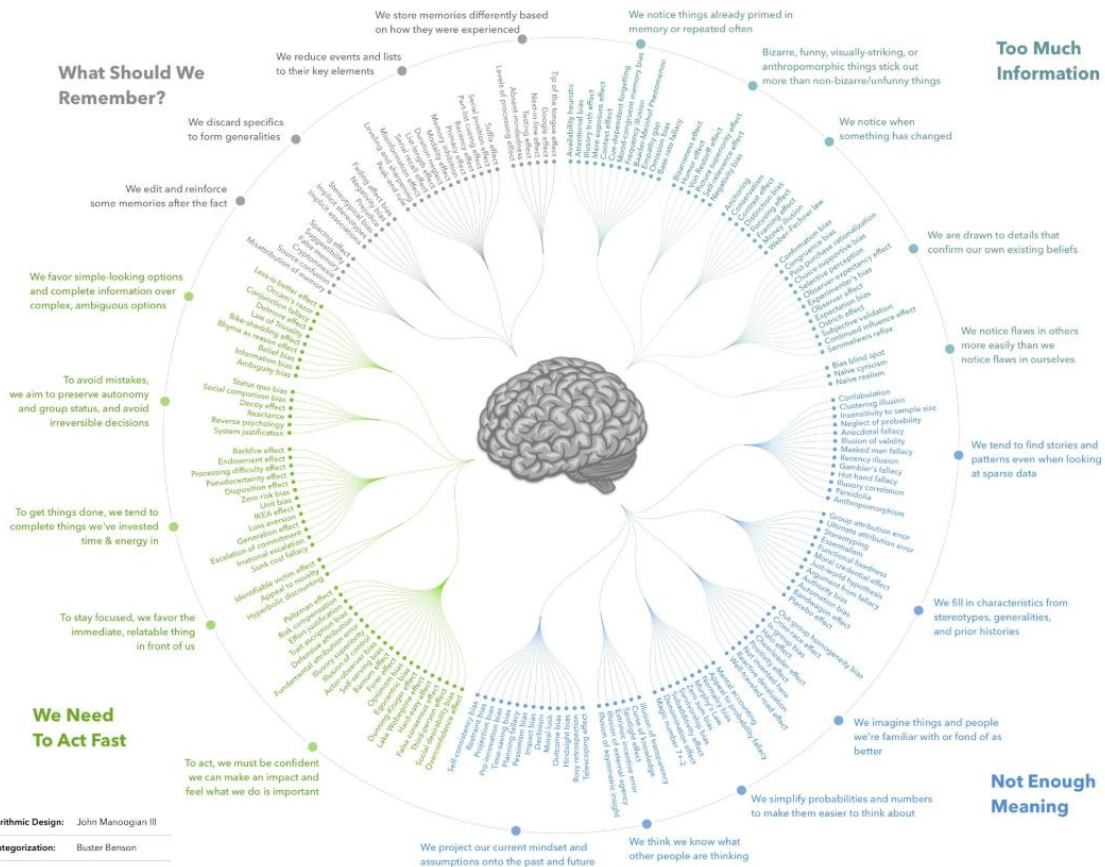


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188 Cognitive Biases

- <http://www.visualcapitalist.com/wp-content/uploads/2017/09/cognitive-bias.jpg>

COGNITIVE BIAS CODEX



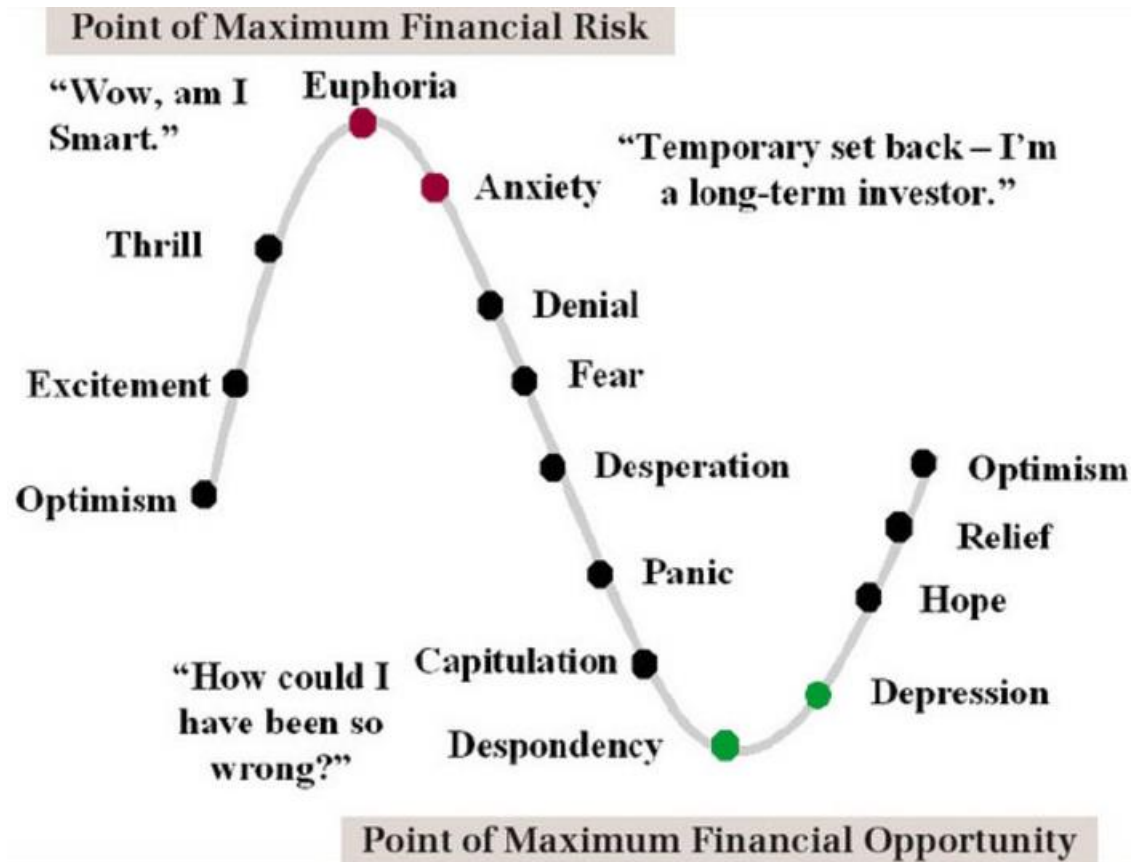
Visual & Algorithmic Design:	John Manoogian III
Concept & Categorization:	Buster Benson
List of 188 Cognitive Biases:	Wikipedia

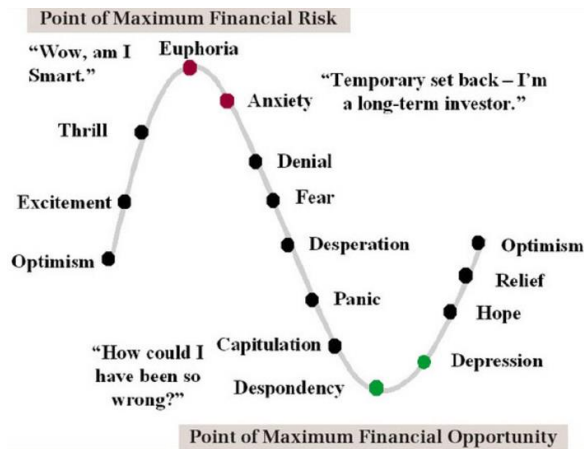
designhacks.co



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The Cycle of Market Emotions



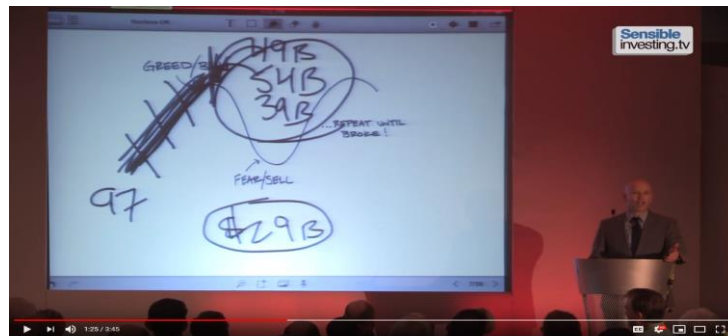


Financial Advising & Psychology

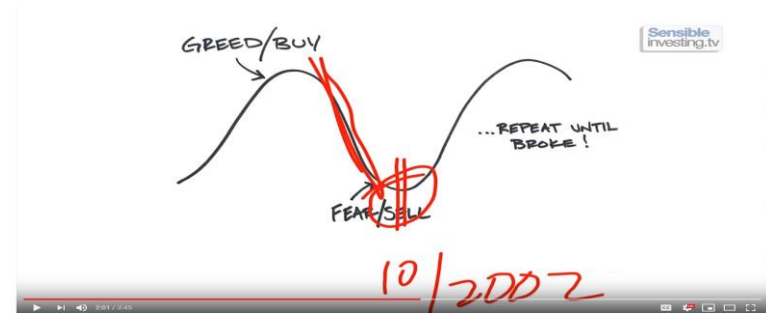
- Being a financial advisor is one part portfolio manager and one part clinical psychologist
- People aren't very good at anticipating how they're going to react to various market outcomes
- A financial advisor's real goal is to help each client understand what is possible and what isn't.

Cycle of Market Emotions at Work

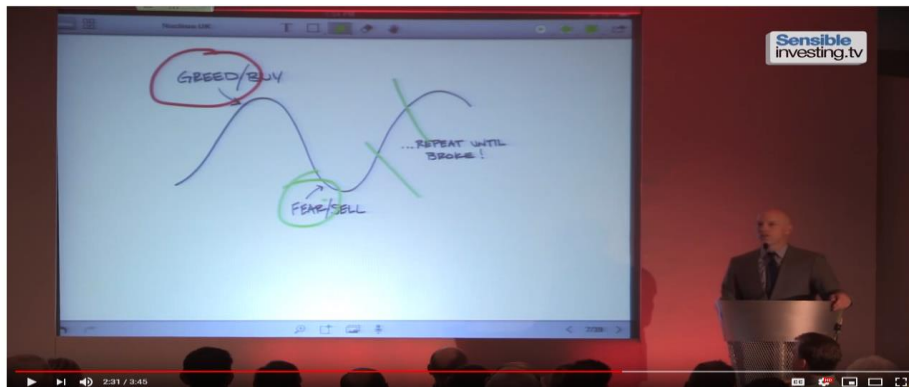
- We buy when stocks are marked up; we sell when they are on sale.



Carl Richards: Why Investor Behaviour Needs To Change
2,760 views



Carl Richards: Why Investor Behaviour Needs To Change



Carl Richards: Why Investor Behaviour Needs To Change

Why It Matters

- “As investors, emotions can be our own worst enemy, especially when markets are volatile, guidance from a behavioral coach can save us from panic selling and abandoning long-term financial plans.”
- Morningstar – “Making sound financial planning decisions can generate 29% more income on average for a retiree.”
- “Given the numerous research findings suggesting that behavioral coaching is the single most impactful service an advisor can offer, there’s obviously an opportunity for communication and education here.
- Vanguard – “Behavioral coaching is the single most impactful thing an advisor can do, adding, on average 150 basis points.”



Successful Investing

- “Truly successful investing is more about psychology, behavior and temperament than IQ or education. The ability to keep your cool and not go on a selling rampage during market downturns will serve you well.” – Millennial Investment World
- “Successful investing takes time, discipline, and patience. No matter how great the talent or effort, some things just take time: You can’t produce a baby in one month by getting nine women pregnant.” – Warren Buffett





Can You?

- Keep your emotions in check?
- Develop an investment process and stick to it?
- Refrain from emotionally selling in a down market and/or keep from enthusiastically buying in a rising market?

Helpful Blog Posts

<https://www.apprisewealth.com/news>

- Asset Location:
<https://www.apprisewealth.com/news/putting-the-pieces-together-an-often-overlooked-part-of-the-investing-puzzle>
- Health Savings Accounts:
<https://www.apprisewealth.com/news/health-savings-accounts-an-often-overlooked-tax-benefit>
- Financial Document Retention:
<https://www.apprisewealth.com/news/how-long-should-i-keep-financial-documents>
- A Look at Financial-Related Fees:
<https://www.apprisewealth.com/news/fee-transparency-you-may-be-paying-more-than-you-think>
- A Personal Credit Card Story:
<https://www.apprisewealth.com/news/overburdened-with-credit-card-debt-a-personal-story>
- Weekly Curated Content Blog:
<https://www.apprisewealth.com/news/apprise-wealth-managements-selected-readings-for-the-week-of-march-10-2019>



A Closing Thought



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Q&A

Thank you for coming.



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