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Wealth Advisors,
Investment Managers

**Behavioral Economics – Common Investor
Mistakes to Avoid (*that could cost you and
your trusts thousands*)**

Jason Ware, MBA
Partner & Chief Investment Officer

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*“Investing is not really the study of finance.
It’s the study of how people behave with
money.”*


~Morgan Housel

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Behavioral *what-a-nomics*?



SIM Economics Society

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Welcome Remarks: What Is Wealth/Stack?



Josh Brown
CEO, Ritholtz Wealth Management

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The 'Big Three'

- Cognitive (
- Emotional
- Social (how

Image: 'The Simpsons' Image: 'The Fox Side'

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<p>Shared Information Bias</p> <p>When we're in groups, we discuss common, shared information with more time and energy. In other words, we like to talk about topics everybody is familiar with and therefore avoid new information. Consensus feels good. The result is that everybody is less informed, leading to worse decisions. For example, we may prefer that other people like us and agree with us. In turn, we only bring up agreeable topics.</p> <p>How To Avoid It</p> <p>There are several strategies to avoid this bias. Actively bring up new, unusual ideas. Introduce controversial ideas as a question. Take more time discussing topics to leave room for all points of view.</p>	<p>Self-Serving Bias</p> <p>This is our tendency to claim responsibility for successes while doing the opposite for failures. It's a distortion caused by our brain's preference to maintain and enhance self-esteem. Success is our achievement, failure is caused by external factors. It's very human and understandable. For example, students may attribute a good grade to their studying while a bad one was caused by unfair test conditions.</p> <p>How To Avoid It</p> <p>This bias pops up all the time, for example in the workplace and in relationships. Try to take your ego out of the equation to evaluate what actually caused the outcome. You will grow a lot as a person.</p>
<p>Naïve Realism</p> <p>You always see reality exactly for what it is, objectively and without bias, right? Well, that's not really true, and this is where Naïve Realism starts. It's the incorrect assumption that facts are always plain for us to see. All rational people agree with us, and that people who disagree are uninformed, irrational, or less intelligent. For example, if your cousin votes for a different party, does that really prove that he is misinformed?</p> <p>How To Avoid It</p> <p>Opinions that are different from ours don't have to be the result of irrational thinking or being less informed. Subjective experiences and the fact that reality isn't black and white play a role.</p>	<p>Actor-Observer Bias</p> <p>We always look for explanations behind our and other people's behavior. But when judging ourselves, we tend to attribute results to the situation, rather than our character. For others, we do the opposite, underestimating the influence the situation had on their behavior. For example, if something negative happens to us, we blame outside influences. If the same thing happens to strangers, we tend to blame their choices.</p> <p>How To Avoid It</p> <p>Research shows that we succumb to the actor-observer bias less with people we know. So ask yourself how you would judge the behavior if a loved one did it. Could external forces have played a role?</p>

Source: geekwrapped.com

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TO ERR IS HUMAN

Your Brain on Money

The brain activity of a person making \$ 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 brains automatically & unconsciously expect a 3rd 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)

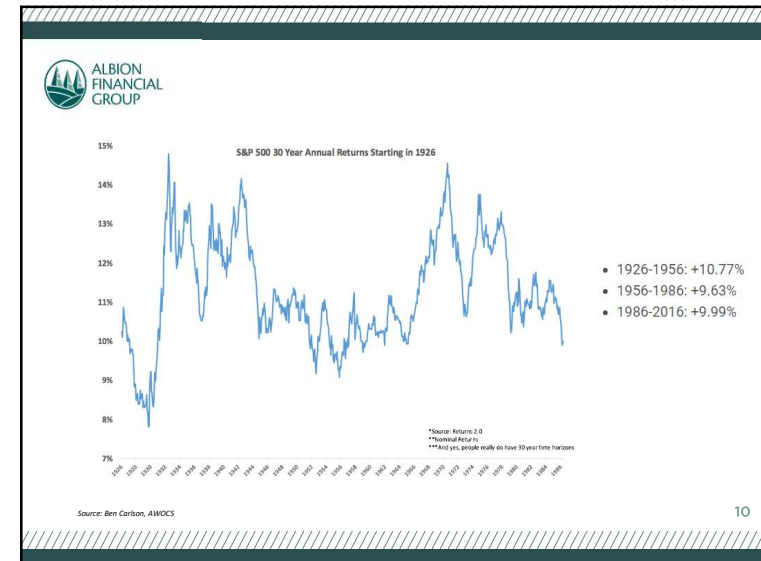
RITHOLTZ

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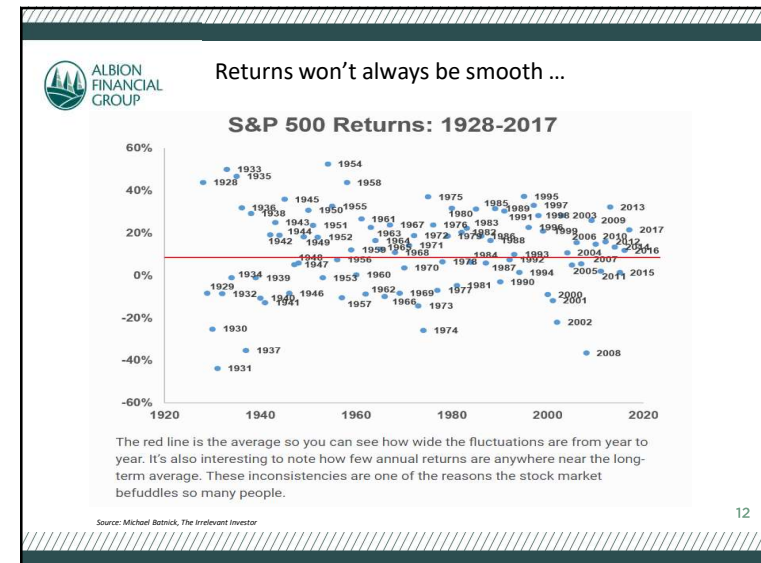
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1926-1956: The Great Depression, a stock market crash of more than 80%, World War II, The Korean War and four recessions.

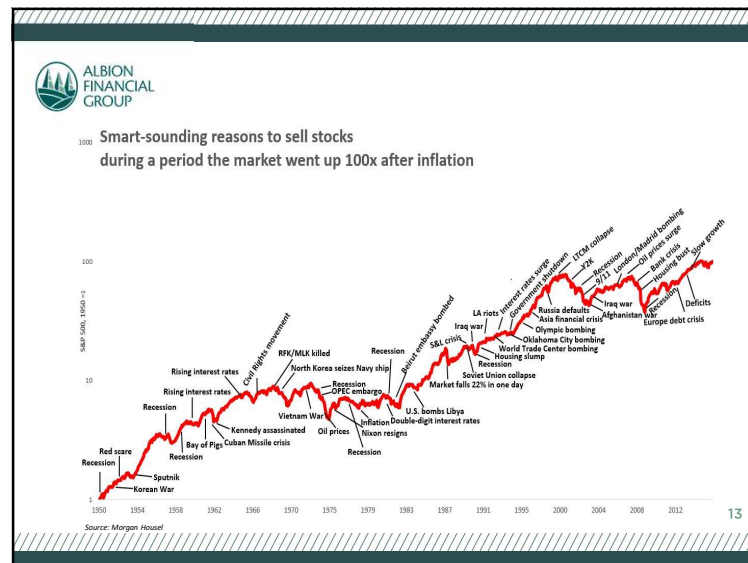
1956-1986: The Civil Rights Movement, the Vietnam War, a president was assassinated and another forced to resign, an oil price shock from the OPEC embargo, double digit inflation and interest rates and six recessions.

1986-2016: Black Monday in 1987, the Savings & Loan crisis, Desert Storm, 9/11, wars in Iraq and Afghanistan and three recessions.

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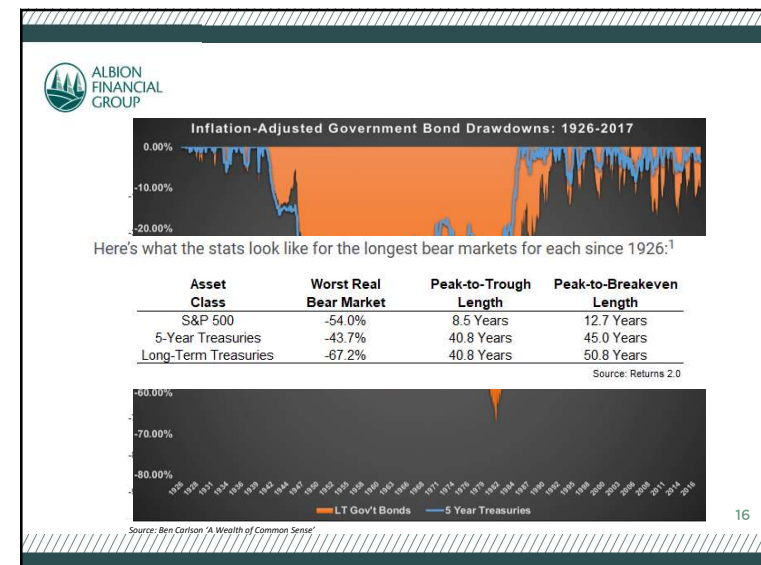
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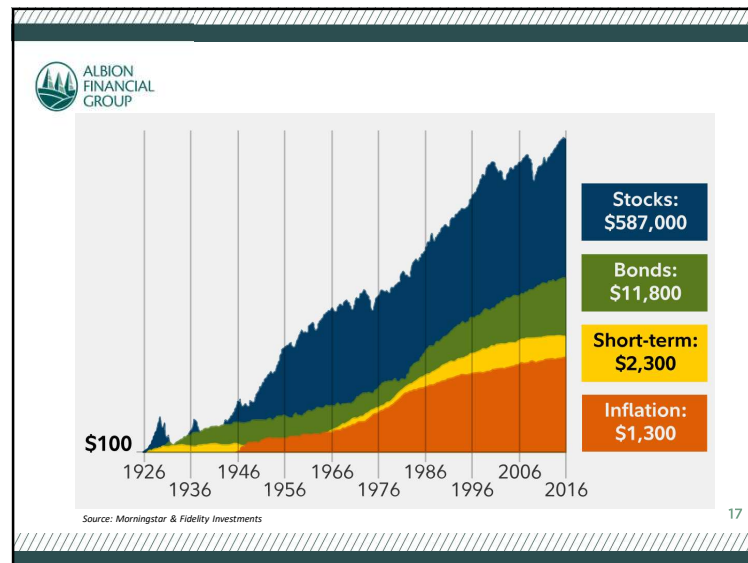
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Have a dialogue about what you will / won't do

What we will do	What we won't do
✓ Get to know you – your goals, desires and passions	✗ Do all the talking
✓ Set proper expectations about how we will work together; markets; and various scenarios for your wealth	✗ Try to avoid every drawdown
✓ Determine an appropriate asset allocation and financial plan for you	✗ Try to time the bottom
✓ Build portfolios in service to that plan	✗ Put you in a black box or “rule of thumb” asset allocation model
✓ Ensure goals are on track with periodic reviews	✗ Overcomplicate it for the sake of appearances
	✗ Set it and forget it

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**“Pain is inevitable.
Suffering is optional.”**


- Haruki Murakami,
What I Talk About When I Talk About Running

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info@albionfinancial.com

812 E 2100 S, Salt Lake City, UT 84106

albionfinancial.com



Compliance Disclosure

Investing in securities is subject to a number of risks and is not suitable for all investors. Investors should carefully consider their investment objectives, risk tolerance, financial situation, and other information before investing. Additionally, the financial planning process is a great tool for providing clarity regarding your financial life, however this process cannot provide certainty.