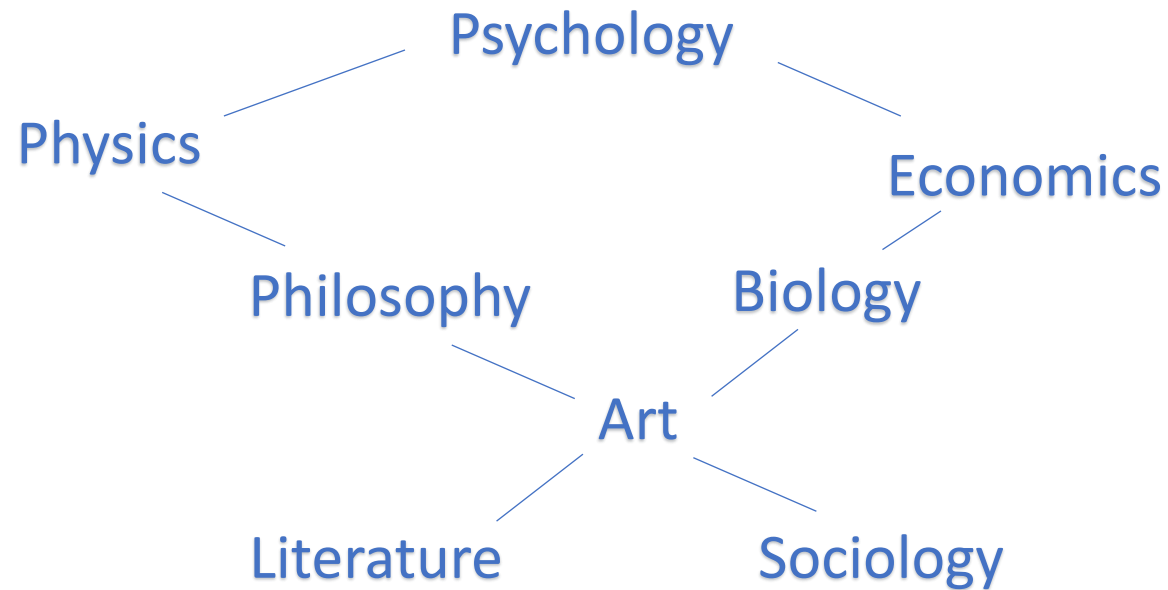


Disclaimer

- None of the research mentioned in this presentation is my own original research.
- I have no clients, so nothing said should be construed as professional advice.
- None of the statements reflect the opinion of the University of the Incarnate Word.
- You agree to hold harmless and indemnify the presenter from all failed attempts of humor and bad puns.
- By remaining in your seats you agree to the terms and conditions of this agreement as set forth.
- This agreement has been duly witnessed and attested to by your peers.
- If you are still reading at this point you absolutely chose the right profession!

Worldly wisdom

- Helps us become better leaders, citizens, parents, spouses and friends
- Latticework of models





What happens when you mix Psychology with Economics?

A Psychologist winning the Nobel Prize in Economics.
A bunch of very salty economists.

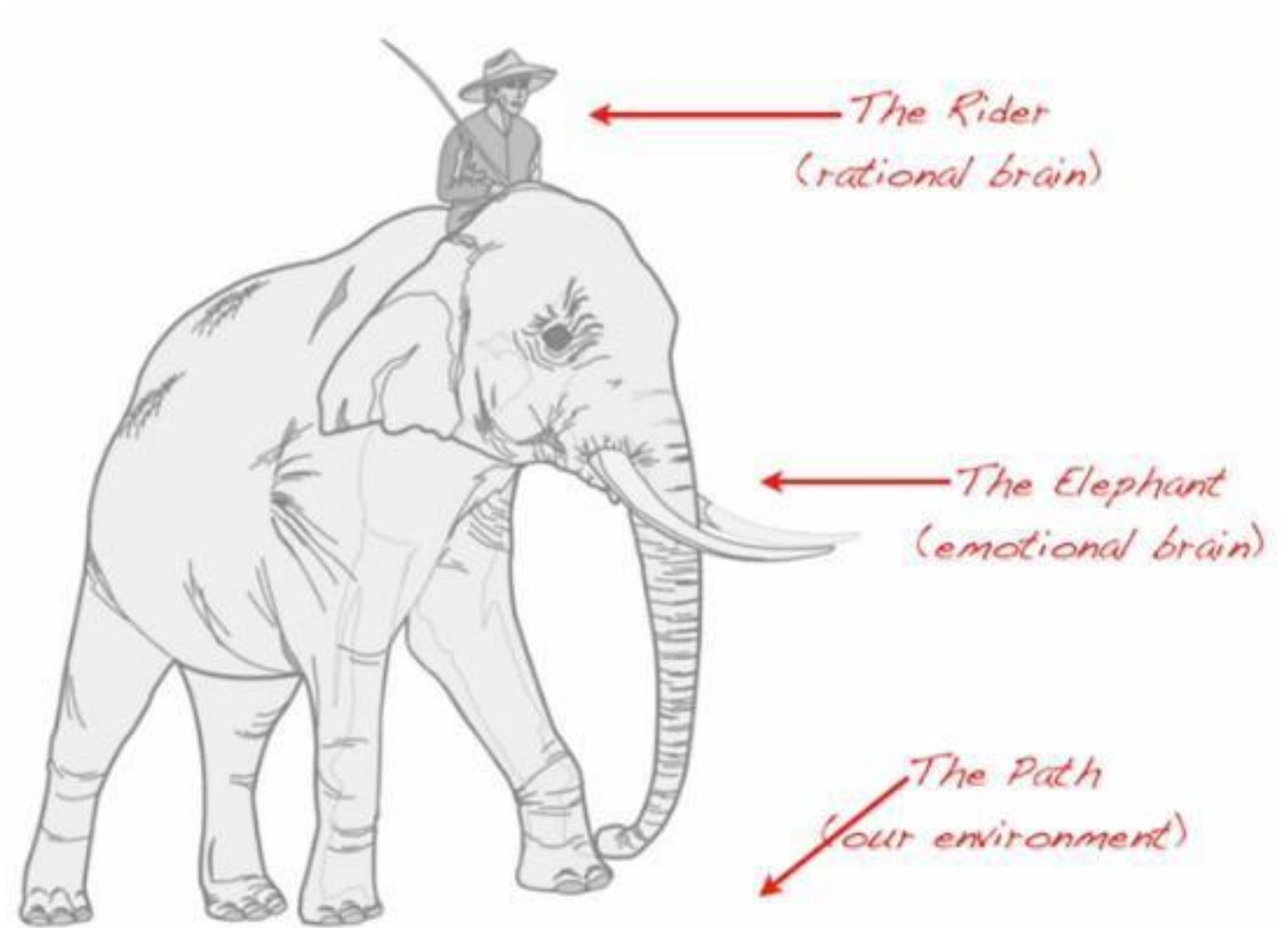
Test

A bat and ball cost \$1.10 in total. The bat costs \$1.00 more than the ball. How much does the ball cost? _____ cents

In a lake there is a patch of lily pads. Every day, the patch doubles in size. If it takes 48 days for the patch to cover the entire lake, how long would it take for the patch to cover half of the lake? _____ days

How confident are you with your answers?

Hueristics



A large, dark blue, irregularly shaped ink blot or watercolor splash serves as the background for the text. The splash has a textured, painterly appearance with some lighter blue and white areas visible around the edges. The text is centered within this splash.

Pink Elephant Exercise

What ever you do try NOT to think about a pink elephant
for the next 30 seconds.



- Now think of as many words that have PE in them as possible.
- Extra credit if the words are commonly used in Financial Planning.

Framing



Which Option would you Prefer?

Option 1

- 80% chance of a \$4,000 loss
- 20% chance of a \$0 loss

Option 2

- 100% chance of a \$3,000 loss

Loss Aversion

Option 1

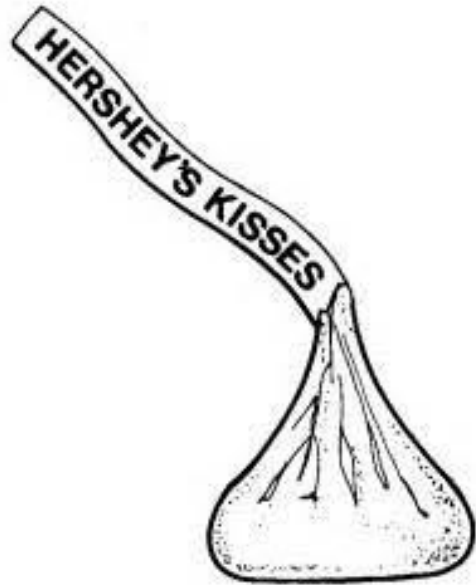
- 80% chance of a \$4,000 gain
- 20% chance of a \$0 gain

Option 2

- 100% chance of a \$3,000 gain

Irrational Behavior – The Power of Free

\$.01 then Free



\$.15 then \$.14



Lots more to
explore for
those
interested

- Anchoring bias
- Representative bias
- Status quo
- Default option
- Recency bias
- Path of least resistance
- Aspirational affect
- Positive and negative social proof
- Overconfidence
- Hyperbolic discounting
- Confirmation bias
- Prospect Theory
- Endowment effect
- Reciprocity
- Post-purchase rationalization
- Availability bias

Making money with Behavioral Economics

- Everyone is rational and acts in their own best economic self interest.



Auction Rules

- Bids must be in \$5 increments.
- Both the winning bid and the next highest bid must be paid.
- Only the winning bid gets the \$50 bill.





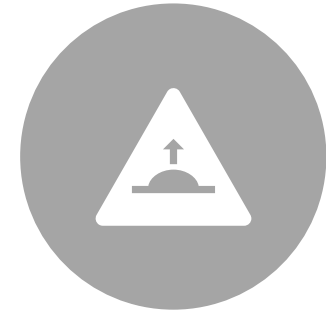
Greed & Fear

When you have a loss stop
digging!

Summary of Daniel Kahneman's Research



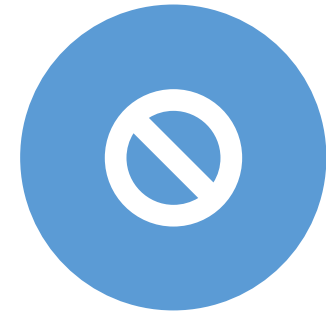
WE HAVE TWO WAYS OF
THINKING ONE FAST, ONE
SLOW



THE FAST THINKING LEADS
TO PREDICTABLE ERRORS



HOW WE FRAME
QUESTIONS WILL DICTATE
THE RESPONSE



PEOPLE WILL TRY TO
AVOID LOSSES WHENEVER
POSSIBLE

Save More Tomorrow

Retirement made simple

- Commit today to do something in the future.
- Auto enroll
- Auto escalate contributions

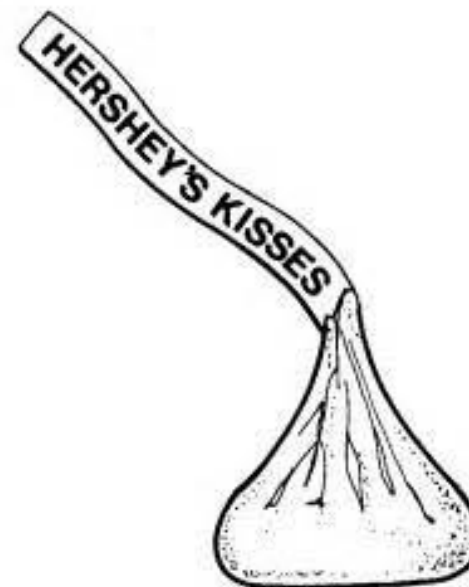
Richard Thaler



KISS



Keep
It
Simple
Stupid



Choice Architecture Examples

Economist Magazine Subscription Options

- Economist.com 1-year subscription \$59
- Printed magazine mailed to your home each month \$125 per year
- Printed copy and digital access combined \$125 per year

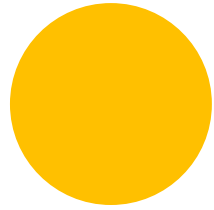
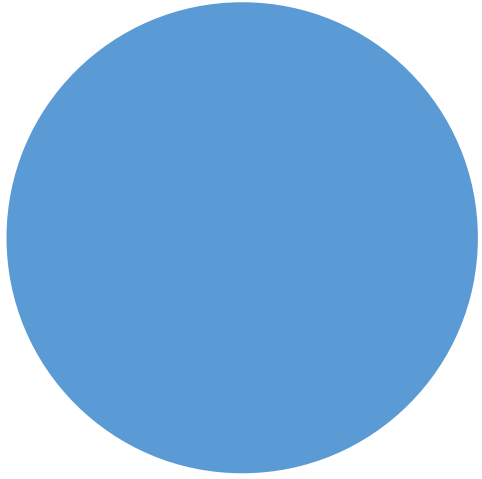
Predictably Irrational, Ariely 2010

Good, Better, Best Pricing Options

Auto insurance:

- 50/100/25 coverage limits for \$400 every six-months (good)
- 100/300/50 coverage limits for \$525 every six months (better)
- 250/500/100 coverage limits for \$650 every six months (best)

• <https://hbr.org/2018/09/the-good-better-best-approach-to-pricing>



Financial Planning Applications

99% of people don't have a financial planner.

Slow Down!

Widow with high concentration in company stock of deceased husband.

Traditional Approach

- We should diversify this investment.
- Reduce risk
- Increase returns

Behavioral Approach

- Your husband did an amazing job of taking care of you!
- It can be hard to let go of things that remind you of him.
- He would want me to continue to make sure you are provided for.
- The only way I know to do this is to diversify this investment.

A Tale of Two Brothers

Jim

- Small business owner.
- No succession plan.
- Didn't include spouse in running the business.
- Died suddenly at the age of 38.
- Business went bankrupt.

Pete

- Small business owner.
- No succession plan.
- Didn't include family members in running the business.
- Died suddenly at the age of 65.
- Adult child running the business.

What if ...

Collected Stories

- Tell me about your most valuable possession.
- What are you passionate about?
- What are you proud of?
- How can we let people know of your achievements?
- How do you want to be remembered?

Focus on Tasks

- Fill out this form prior to coming to the office
- What property do you own?
- How is it titled?
- What are the names and social security numbers of all your living children, grandchildren, etc.



Other crazy ideas

- FREE financial plan, charge AUM fee.
- Try to get clients to commit to an auto-escalation savings plan.
- Offer three choices (good, better, and best).
- Combine losses into one number, list out gains on statements.
- Have a default passive investing package.
- Donate \$ to a charity in their name when tasks are completed.
- Don't compare results to market benchmark, but the rate they need to accomplish their goals.

Other crazy ideas continued

- Donate \$ to an anti-charity if tasks are NOT completed. (stickk.com)
- Simplify the process (power of defaults)
- Meet them in their home
- Begin the meeting with a minute of deep breathing - mindfulness
- Have them bring pictures from 20 years ago (what would you say to this person?) Take current picture and age it digitally.
- Begin with the end in mind, what do you want to be remembered for?

Human Doing vs Human Being

Dyer, 2009

Parting Wisdom

A financial planner who manages his own money has a fool for a client.

- Biases exist
- Awareness not enough
- Need professional help
- Daniel Kahneman hired Evensky & Katz

Thank you!

Questions or comments?