

2-Part Webinar Series:

Applying Behavioral Finance in Emotionally Charged Times

Part 1: Be the Calm in the Storm
with a Behavioral Practice



Introductions

Moderator:



John Harris
*Managing Director –
National Sales*
Envestnet

Guest Speakers:



C. Thomas Howard, PhD
CEO and Chief Investment Officer
AthenaInvest
Emeritus Professor of
Finance, University of Denver



Chris Hysten, CFP®
Practice Management
Consultant
Swan Global Investments



Lambert Bunker
Vice President
AthenaInvest



Today's Discussion

Be the Calm in the Storm with a Behavioral Practice Model

Section 1:

The Influence of Behavioral Finance on the Industry

Section 2:

Behavioral Practice Model: Building & Managing Client Relationships

Section 3:

Behavioral Practice Model: Portfolio Planning & Solutions

Section 1:

The Influence of Behavioral Finance in Today's Markets & Financial Services

C. Thomas Howard, PhD
CEO and Chief Investment Officer
AthenaInvest





Nobel Prize Recognizes Behavioral Researchers

KEY CONCLUSIONS

PEOPLE ARE NOT RATIONAL
MARKETS ARE NOT EFFICIENT

THESE BUILT THE FOUNDATION FOR
BEHAVIORAL
PORTFOLIO MANAGEMENT

**Daniel
Kahneman**
Prospect Theory

2002



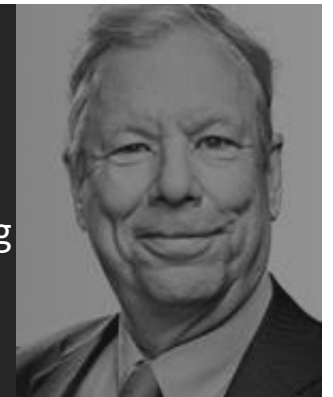
**Robert
Shiller**
Market Volatility

2013



**Richard
Thaler**
Behavioral Nudging

2017





The Human Brain

Old

Has not evolved in 150,000 years

Hungry

Consumes 20% of our daily energy but is only 3% of body

Impatient

Optimized to survive the threats faced 150,000 years ago



How Our Brain Works in Decision Making

Fast - System 1 Thinking

Slow - System 2 Thinking

Automatic and easy

Conscious effort

Emotional

Logical

Heuristics (mental short cuts)

Analytical methods



Humans make 95% of decisions with System 1 Thinking.

Daniel Kahneman, *Thinking, Fast and Slow*, 2011, Farrar, Straus and Giroux
Andrew Lo, *Adaptive Markets*, 2017, Princeton University Press



Investor Cognitive Errors

Myopic Loss Aversion

Social Validation

Availability Bias

Availability Cascade

Representativeness

Framing



WYSIATI

Anchoring

Fallacy of Information

Fallacy of Control

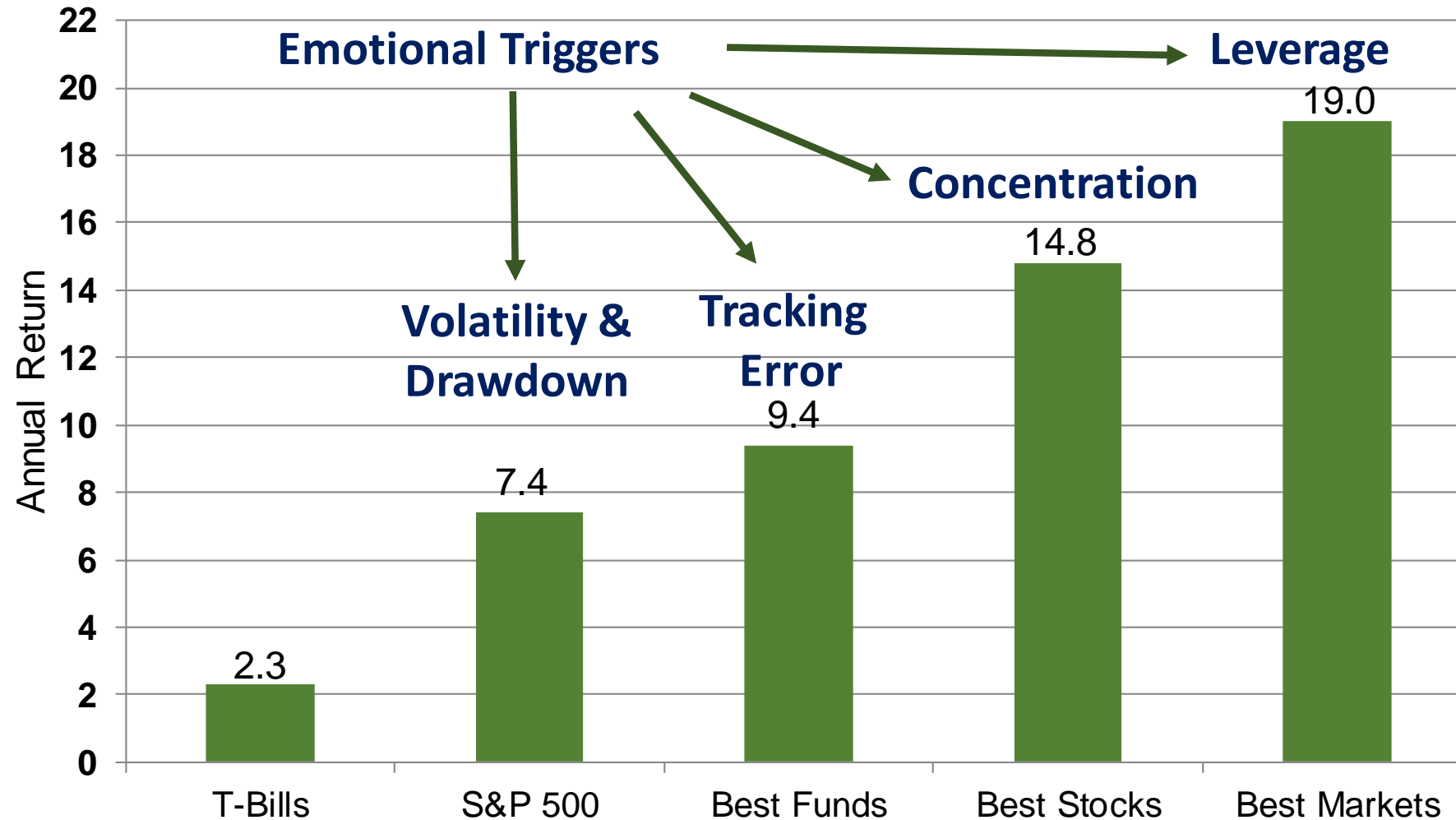
Peak-end Memories

Fooled by Randomness

Phantastic Objects



Emotional Triggers & Cost Of Emotions



For the period April 1997 through September 2016. For details regarding truly active funds (DR5 funds), Best Idea Stocks (DR5 stocks), and Best Markets, visit AthenaInvest.com. Data sources: AthenaInvest, Thomson Reuters Financial, and Lipper



Media and Industry Practices Inhibit Investor Success

Media's real-time market reports



Investor response/
need for action

Easy online access to account balances



Short-term investor focus

Easy access to online trading



More frequent trading

Performance reporting and benchmarking

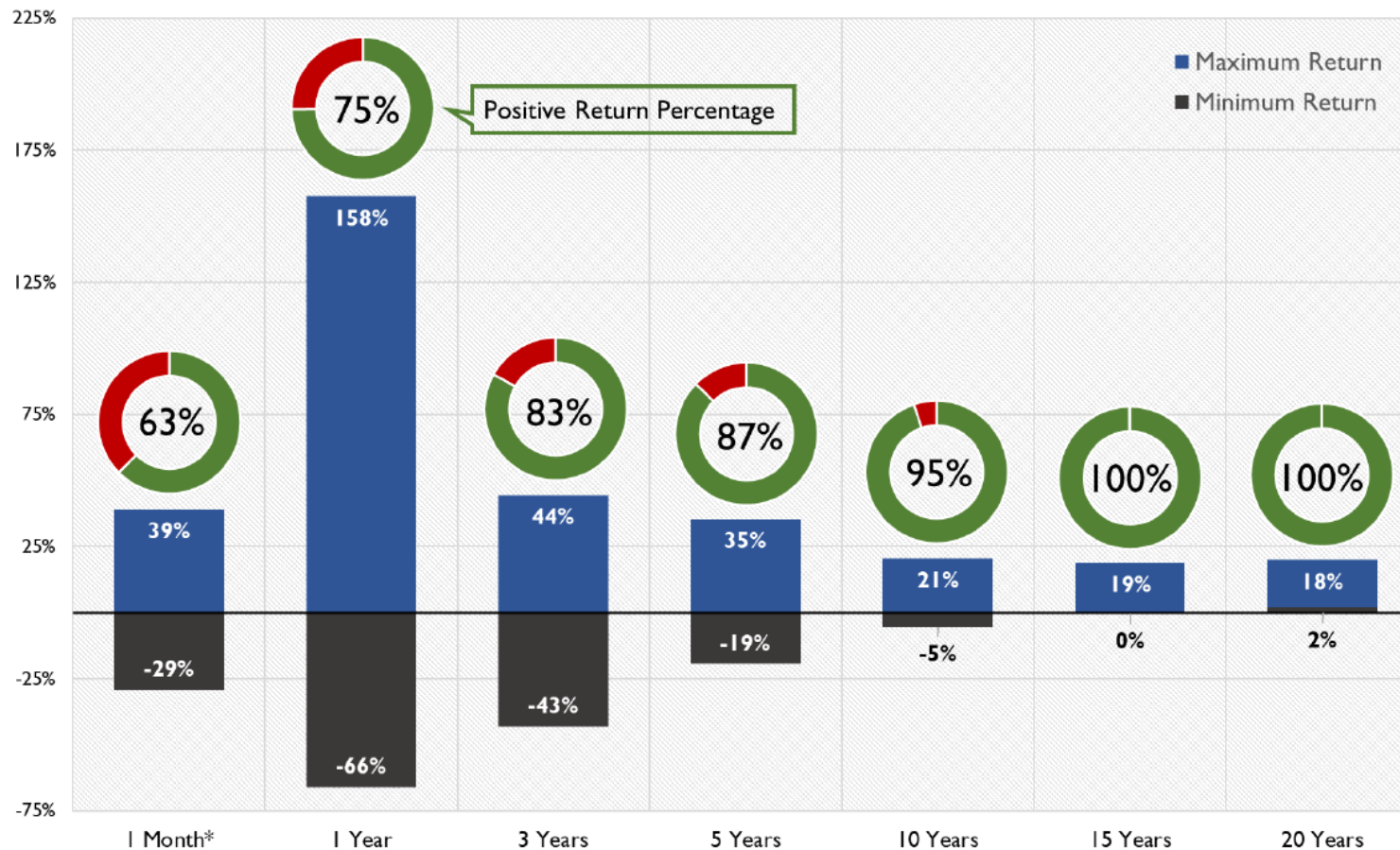


Performance chasing



Common Behavioral Mistakes – A Misunderstanding of Risk

US STOCK MARKET ANNUALIZED ROLLING PERIOD RETURNS (Jun 1926 – Dec 2017)



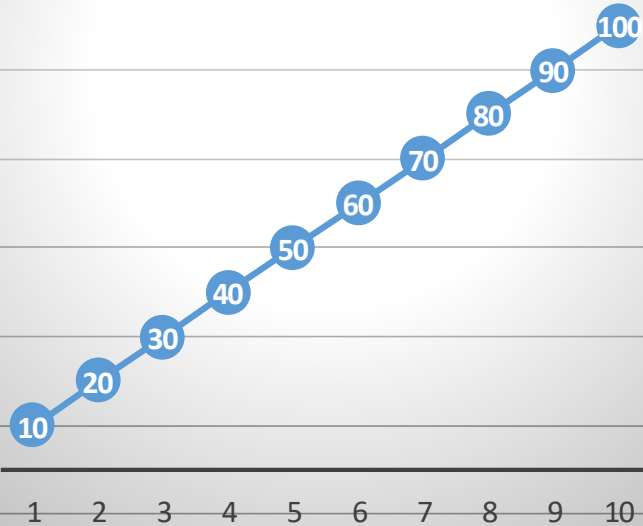
Volatility
is not
Risk!

* 1 Month returns are not annualized. Figures include dividends and are compounded by geometrically linking monthly returns. Source: Fama-French Market Return Series, June 1, 1926 – December 31, 2017.



Common Behavioral Mistakes – Under Allocation to Growth

What We Want Doesn't Exist



How It Really Works



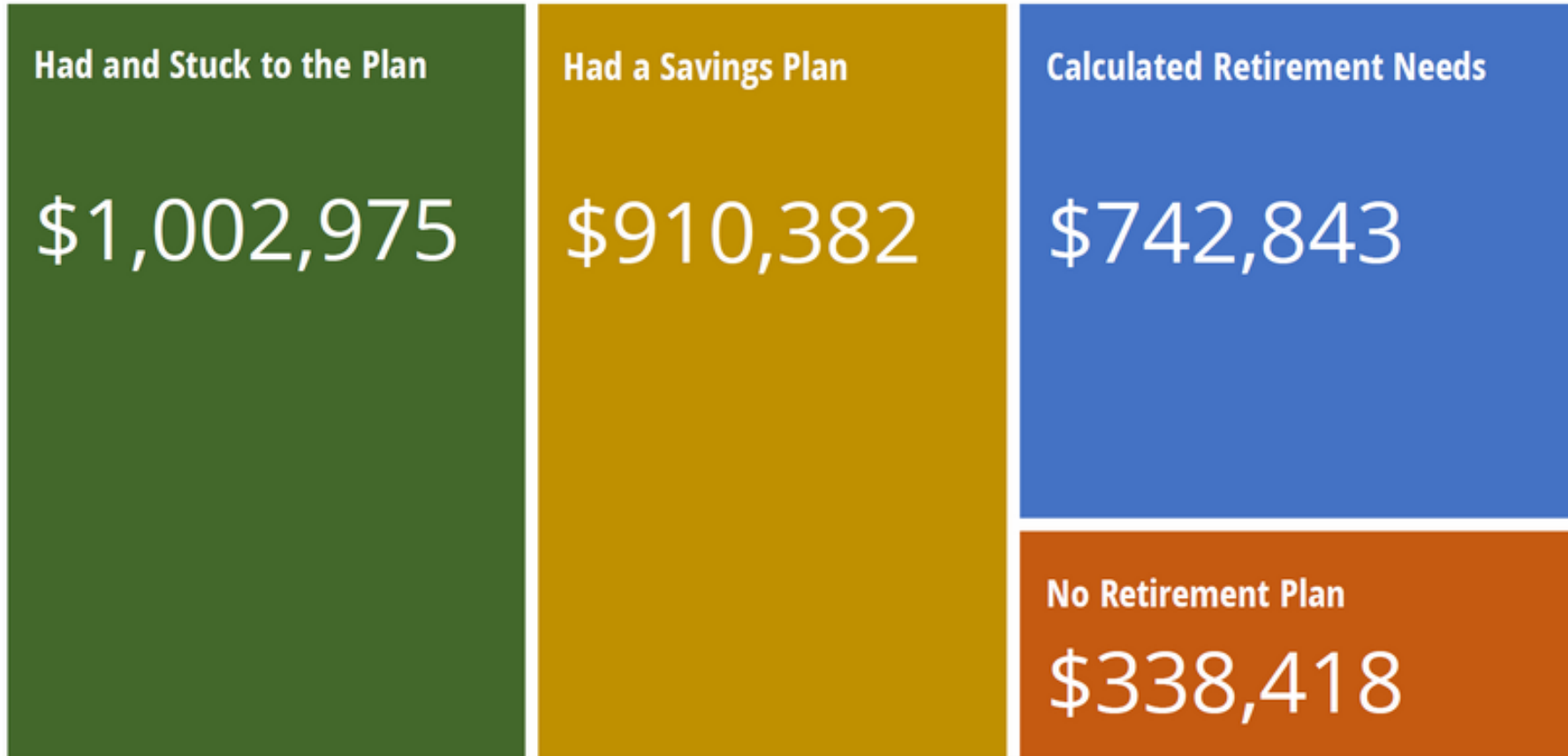
What We Do Over-Diversify





Common Behavioral Mistakes – Absence of Planning

TOTAL NET WORTH ACROSS DIFFERENT PLANNING TYPES



Source: Lusardi, Annamaria, and Mitchell, Olivia S., "Financial Literacy and Planning: Implications for Retirement Wellbeing," May 2011

Section 2:

Shaping a Practice to Mitigate Behavioral Mistakes

Chris Hysten, CFP®
Practice Management Consultant
Swan Global Investments





Anchoring Bias in Your Favor

Anchor Your Value

Differentiate & Build Value
with a Behavioral Practice Model

- Stock Market
- Long-Term Goals





On-Boarding & Profiling Clients Based on Goals



Loss Aversion vs. Zero Risk Bias

Risk Profile Questionnaires
Typically Focus on Markets not Goals

- Risk of Losing %
- Risk of Going Broke



On-Going Coaching & Communication

Mental Accounting

Frame Investor Mindset on Needs
vs Portfolio Returns

- Short-Term Needs
- Medium-Term Funds
- Long-Term Goals





On-Going Coaching & Communication



Confirmation Bias

Create Positive Feedback Loops
Within Client Service Model

- Reinforce Process,
Not Performance
- Focus on Each Step
- Repeat, Ask, Probe



Turn Clients into Advocates

Referrable Story

Tie YOUR Value to Your Process

- Repeatable
- Memorable
- Actionable





Tips & Insights – Avoiding Behavioral Pitfalls in Client Communications



On-Going Challenges:

1. Recency Bias
2. Availability Bias
3. Bandwagon Effect
4. Choice Supportive Bias
5. Cluster Illusions



Summary

Application in Each Step of Sales/Service Process

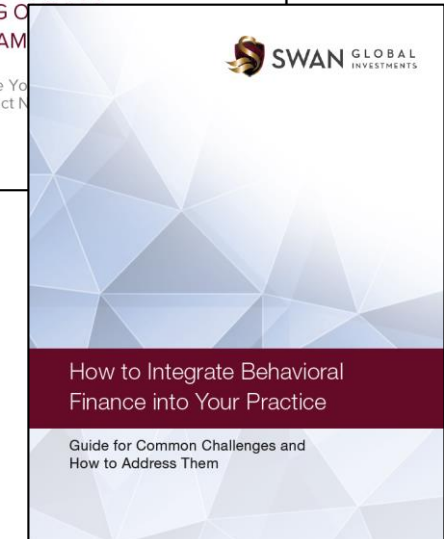
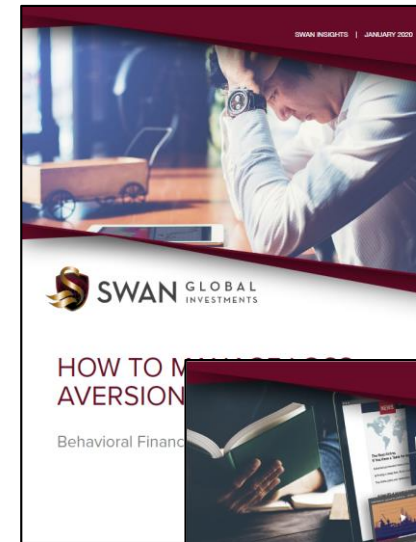
1. Anchor Your Value Immediately on Planning & Coaching
2. Identify and Address Biases and Needs Upfront
3. Incorporate Mental Accounting in Every Meeting
4. Create Needs-Based Confirmation Bias with Positive Feed Loop



More from Swan

Insights & Resources

- [How to Integrate Behavioral Finance into Your Practice](#)
- [How to Address Recency Bias with Clients](#)
- [How to Manage Loss Aversion with Clients](#)
- [Standing Out in a Sea of Sameness: How to Refine Your Unique Value to Attract New Clients](#)



Section 3:

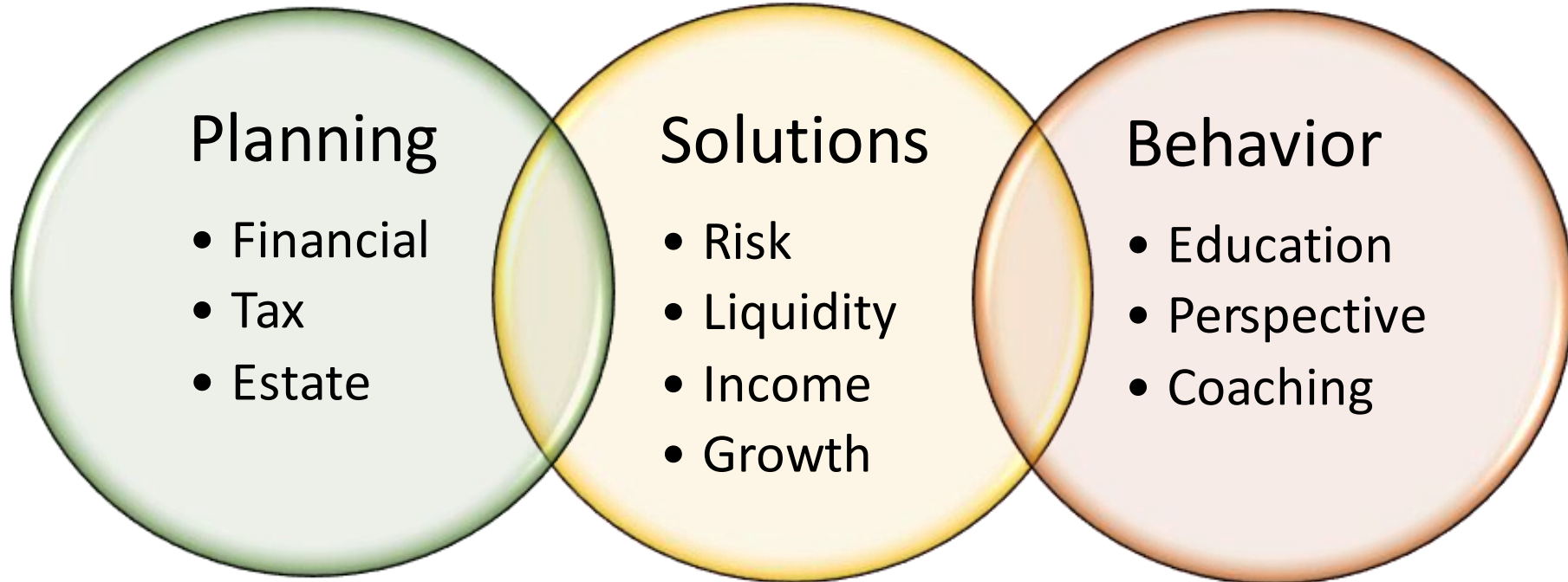
The Behavioral Wealth Advisor and Investment Planning

Lambert Bunker
Vice President
AthenaInvest





Behavioral Wealth Advisor

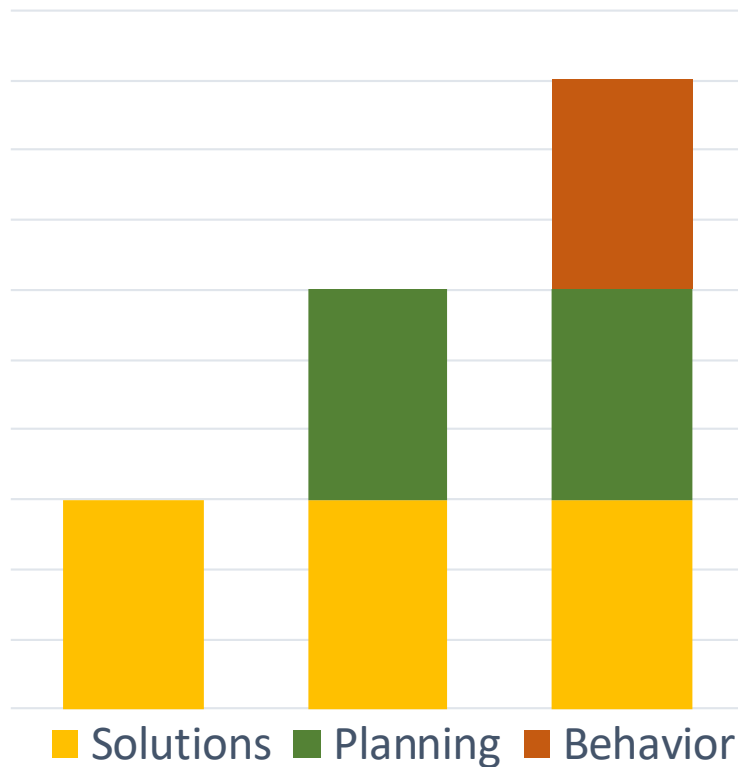


Behavioral Wealth Advising combines Planning, Solution Selection and Behavioral Guidance. When combined, they make a dramatic difference in the overall client experience and value proposition.



Advisor Value Proposition

Combined Value



Financial Value

3x-5x
Wealth
Over
10-20 Years

Emotional Value

Control
Confidence
Comfort



BWA Process Model



INVESTMENTS & WEALTH MONITOR

A reprinted article from July/August 2018

The Behavioral Wealth Advisor

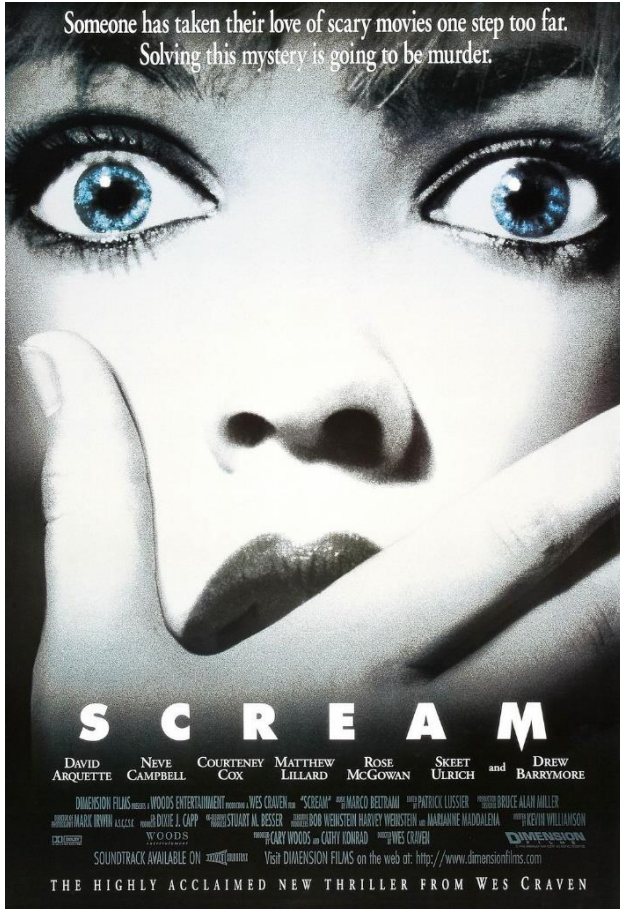
By C. Thomas Howard, PhD, and Lambert Bunker

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Addressing Fear and Anxiety



- How Scared Are You ?
- How Old Are You ?
- Volatility
 - Drawdown
 - Standard Deviation
 - Tracking Error



- Will I run out of money
- What if one of us dies
- What if I lose my job
- What if they leave me
- Can I maintain my income
- Will I have to downsize
- What about taxes
- What about
 - Dot.com, 08/09
 - Oil, election



Needs Based Planning

Catastrophic
Loss



Financial protection
for loss of property,
job, or life.

Known
Liquidity



Protection of
principal.

Regular
Income



Fullfilling ongoing
obligations.

Long-Term
Growth



Investment in the
highest expected
return portfolio.

Creating Client Confidence



Portfolio Planning Framework – Separating Concerns

LIQUIDITY

Stable Principal
GOAL

Loss of Value
BIGGEST RISK

INCOME

Fund Ongoing Needs
GOAL

Decrease in Payout
BIGGEST RISK

GROWTH

Accumulate Wealth
GOAL

Underperformance
BIGGEST RISK



Relationship Model – Matching Client Needs to Solutions





Focus on What you Can Control

Re-define Success

- Needs Met / Not Met
- Since Inception Results

Reinforce Key Behaviors

- Years on Plan
- Sticking to Plan
- Positive Personal Choices
- Contributions / Withdrawals

Checklists & Inventories

✓ Financial ✓ Plans	✓ Risk ✓ Assessment	✓ Account ✓ Inventories	Estate Documents
⑩ Liquidity	⑩ Life	⑩ Accounts	⑩ Document
⑩ Income	⑩ Liability	⑩ Titles	⑩ Location
⑩ Tax	⑩ Disability	⑩ Beneficiaries	⑩ Last Updated



A Consistent Market View

ATHENA MARKET VIEW

OCTOBER 2020

[Current](#) [Trends](#) [About](#)

Behavioral

NORMAL ↑

The Behavioral Market View is based on Athenainvest's patented Market Barometers.

US Large Cap MB	Caution
US Small Cap MB	Excellent
Intl Developed MB	Poor

[BEHAVIORAL DETAIL](#)

Economic

POSITIVE →

The Economic Market View is based on the current activity levels in two broad categories of the US economy.

Goods Activity	Positive
Services Activity	Positive

[ECONOMIC DETAIL](#)

Valuation

POOR ↓

The Valuation Market View is based on the forward price to earnings ratio of the S&P 500.

[VALUATION DETAIL](#)

Technical

POSITIVE ↓

The Technical Market View is based on short and medium-term momentum and market participation.

50-Day MA	Normal
200-Day MA	Positive
Market Breadth	Positive

[TECHNICAL DETAIL](#)



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MARKETS

Does the Economy Predict Stock Returns?

Written on 13 February 2019. Posted in Behavioral Advisor

Outlook for 2019 is No Mystery

Written on 15 January 2019. Posted in Behavioral Advisor

With the recent market decline, increased volatility and the

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Focused on Behaviors

- We take a behavioral view of the markets and financial advice.

- The Viewpoints section of our website is a valuable resource for unique behavioral perspectives.

- The AthenaInvest investment process is based entirely on behavioral factors.



Summary of Key Takeaways

- Markets are dominated by behavior and emotional crowds.
- Redefining risk beyond volatility is critical to making the transition to behavioral practice management.
- Behavioral coaching can help prevent client behaviors that destroy wealth.
- Needs-based planning increases client confidence and helps them stay on track.
- Focus on progress towards goals in client meetings to help avoid the ‘statement trap’ and performance chasing.
- Behavioral principles applied consistently to client interactions and communications reinforces the client’s role in achieving financial success.
- Anchoring your value to planning and behavioral coaching can differentiate and grow your practice.



Up Next... 2nd Webinar in Series

Applying Behavioral Finance in **Emotionally Charged Times**

Part 2: How to Build Wealth with a Behavioral
Approach to Portfolio Construction

Wednesday, Dec. 9th
3pm EST / 12pm PST



Let's Discuss

Questions from the Audience

THANK YOU



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