



Overcoming the Cost of Being Human

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The cost of the “bandwidth tax”

Your car is having some trouble and requires £X to be fixed

You can pay in full, take a loan, or take a chance and forego the service at the moment...”

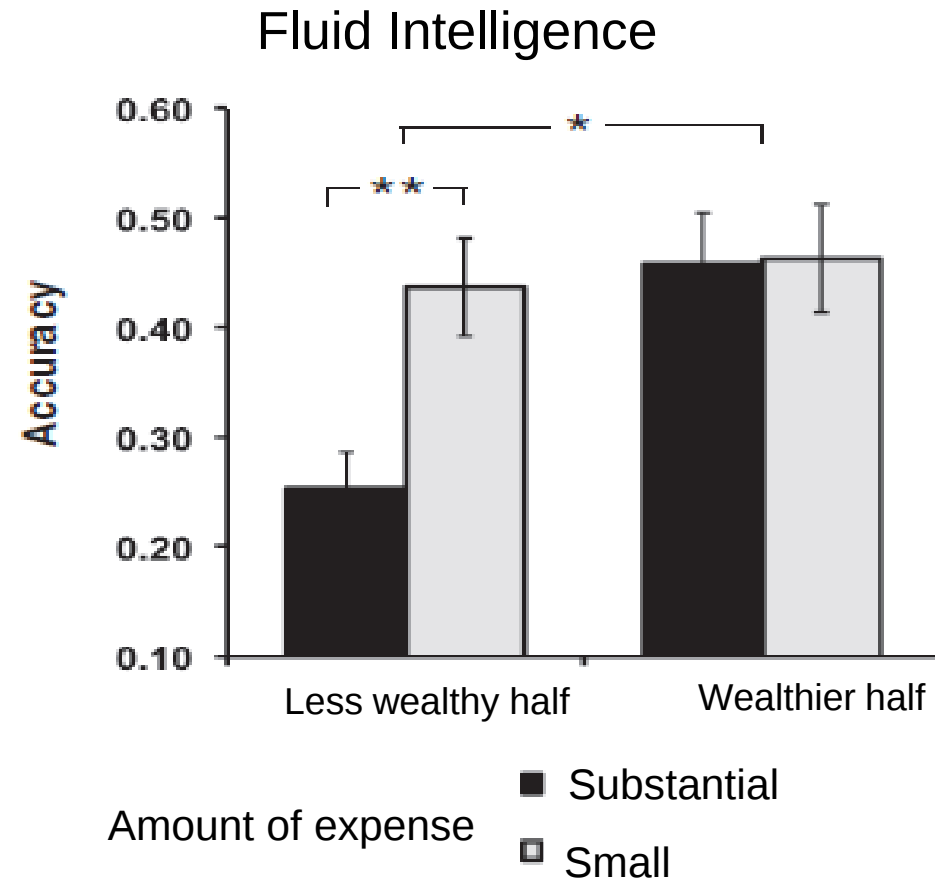
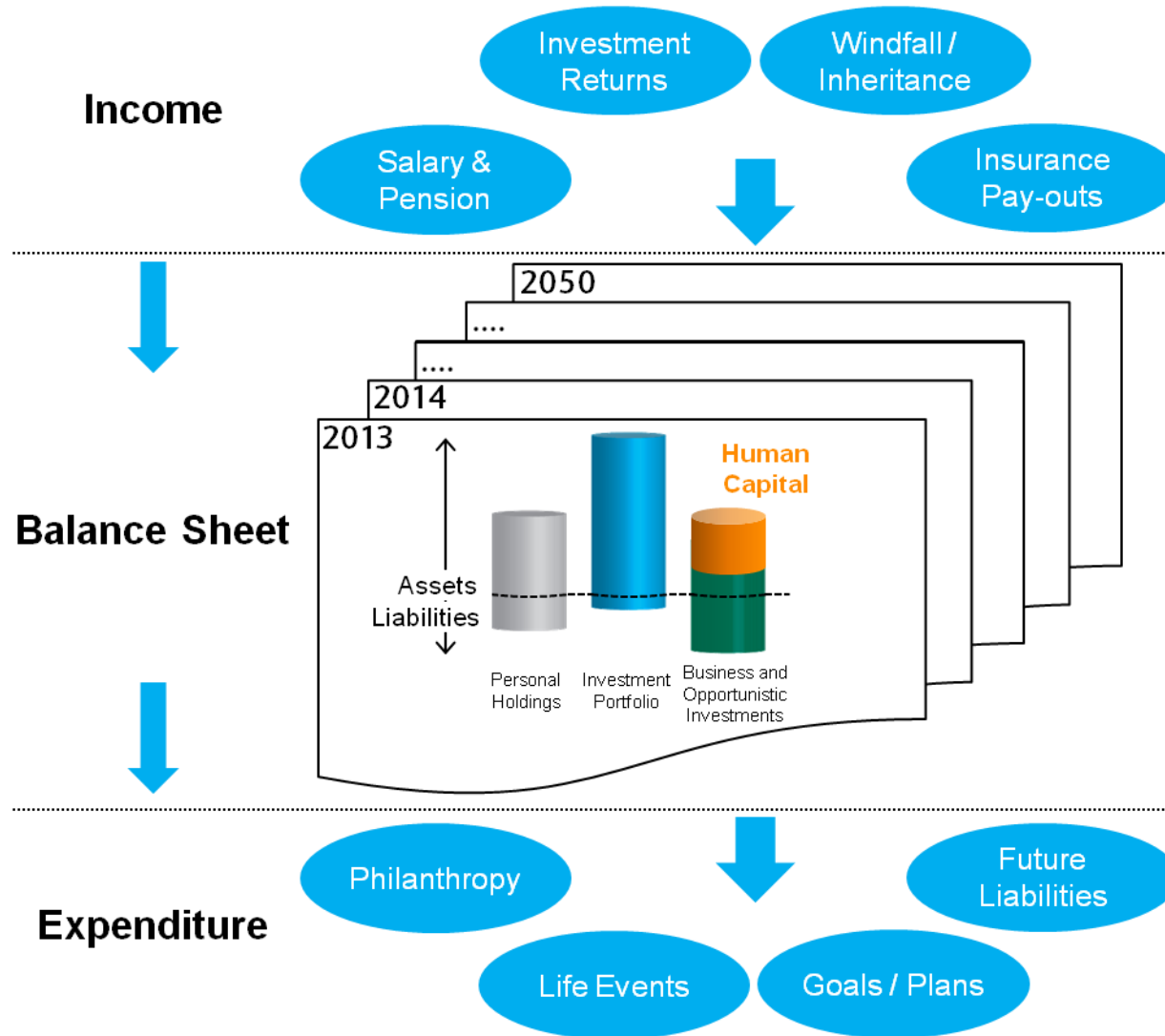
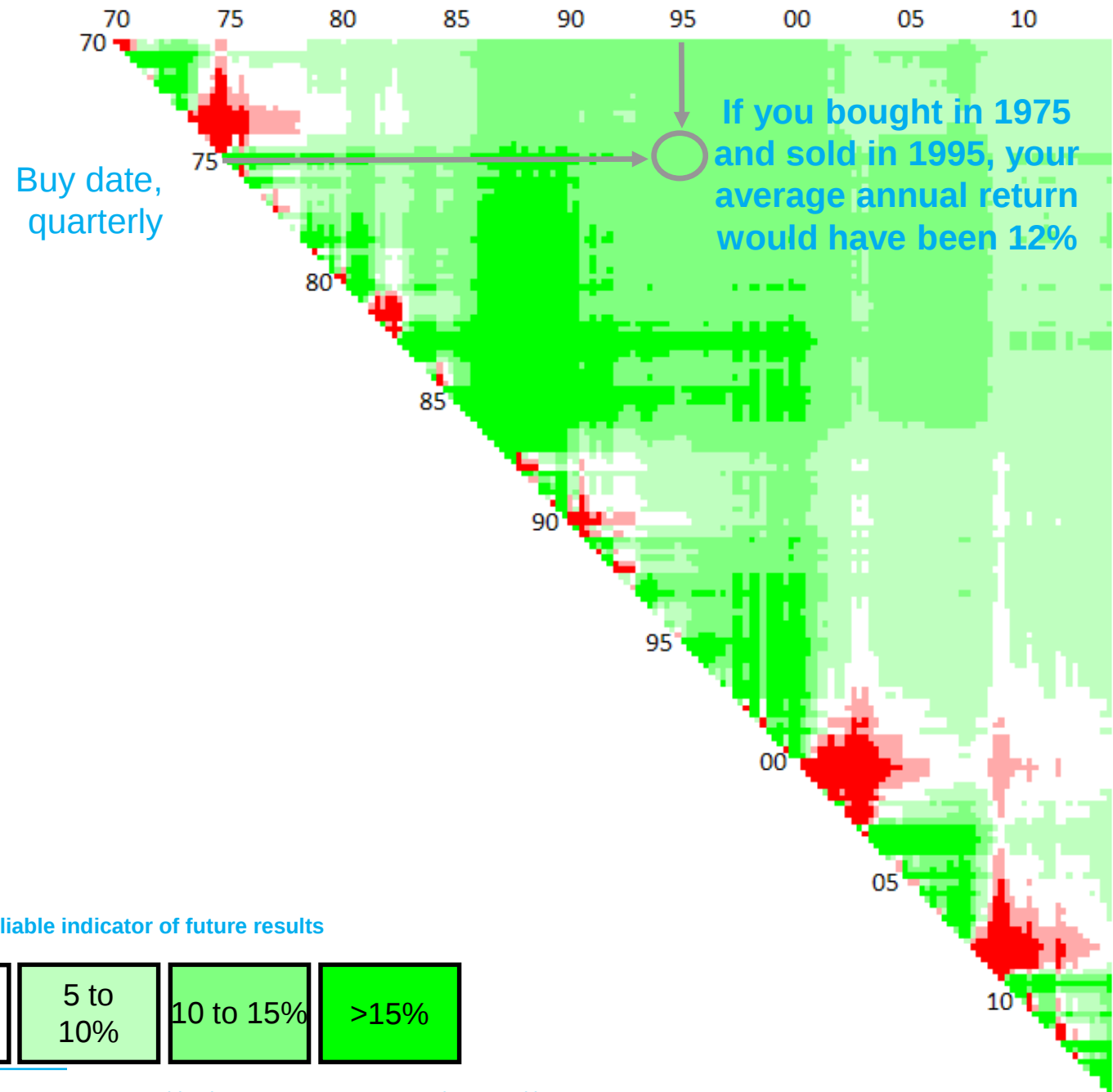


Chart adopted from Anandi Mani, Sendhil Mullainathan, Eldar Shafir, Jiaying Zhao (2013). Poverty Impedes Cognitive Function. *Science*. Vol(341): 976-980.

Problem: even simple financial choices are complex

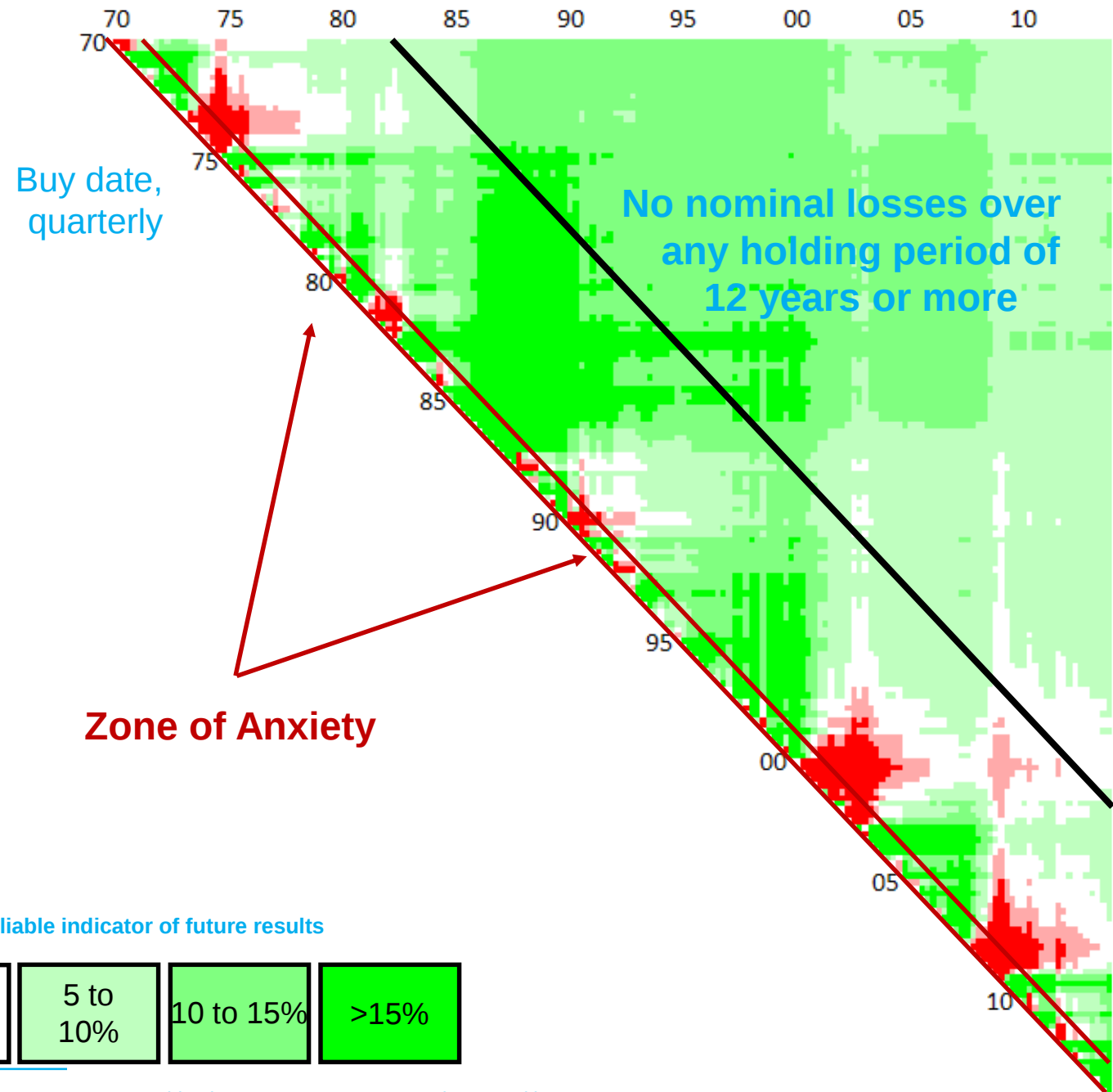


Sell date, quarterly

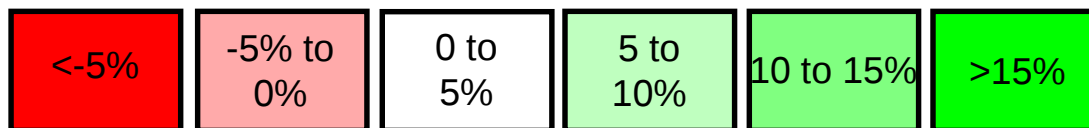


Source: MSCI World Index, 1970 - Dec 2013, Barclays Wealth

Sell date, quarterly

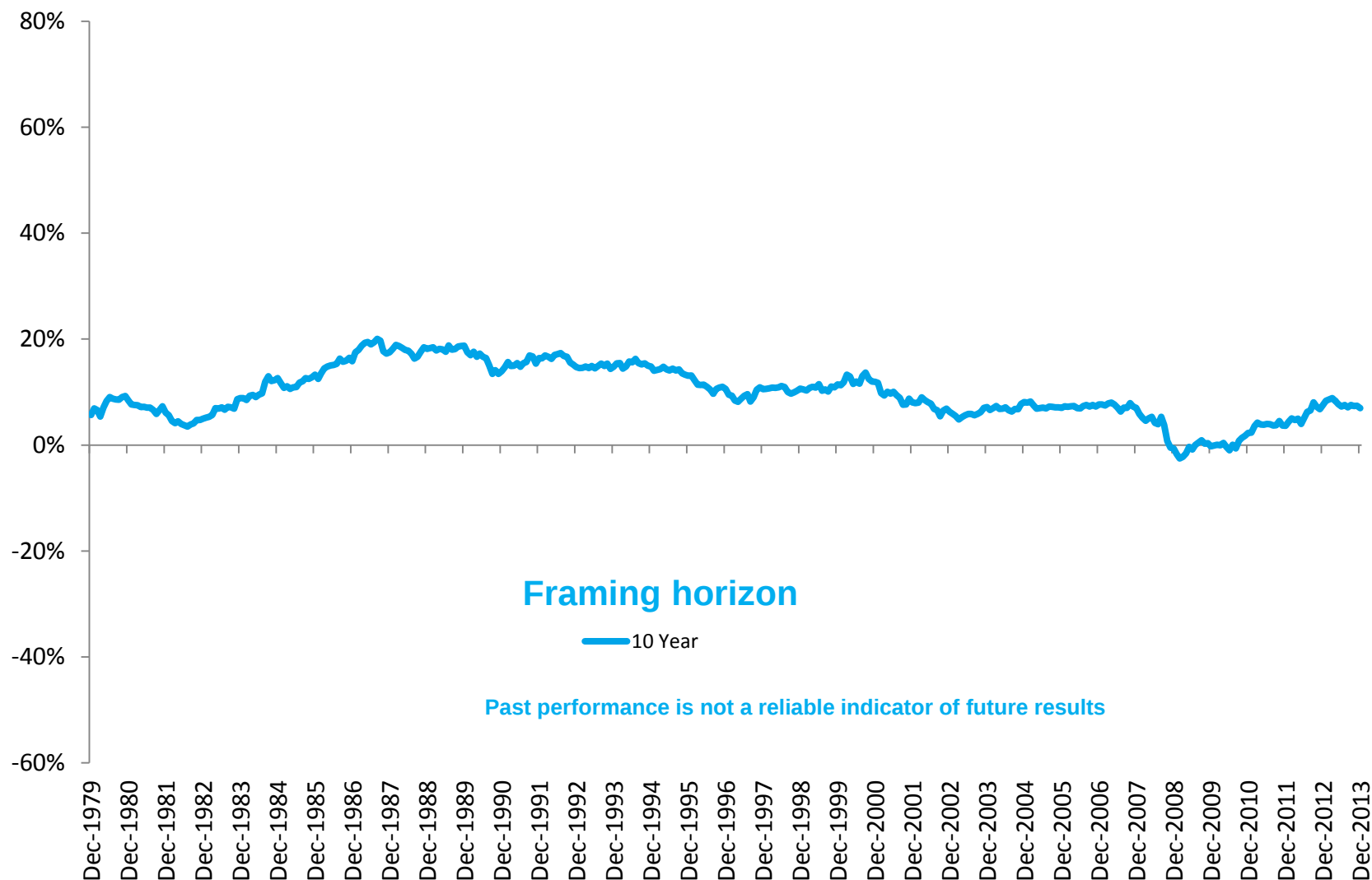


Past performance is not a reliable indicator of future results

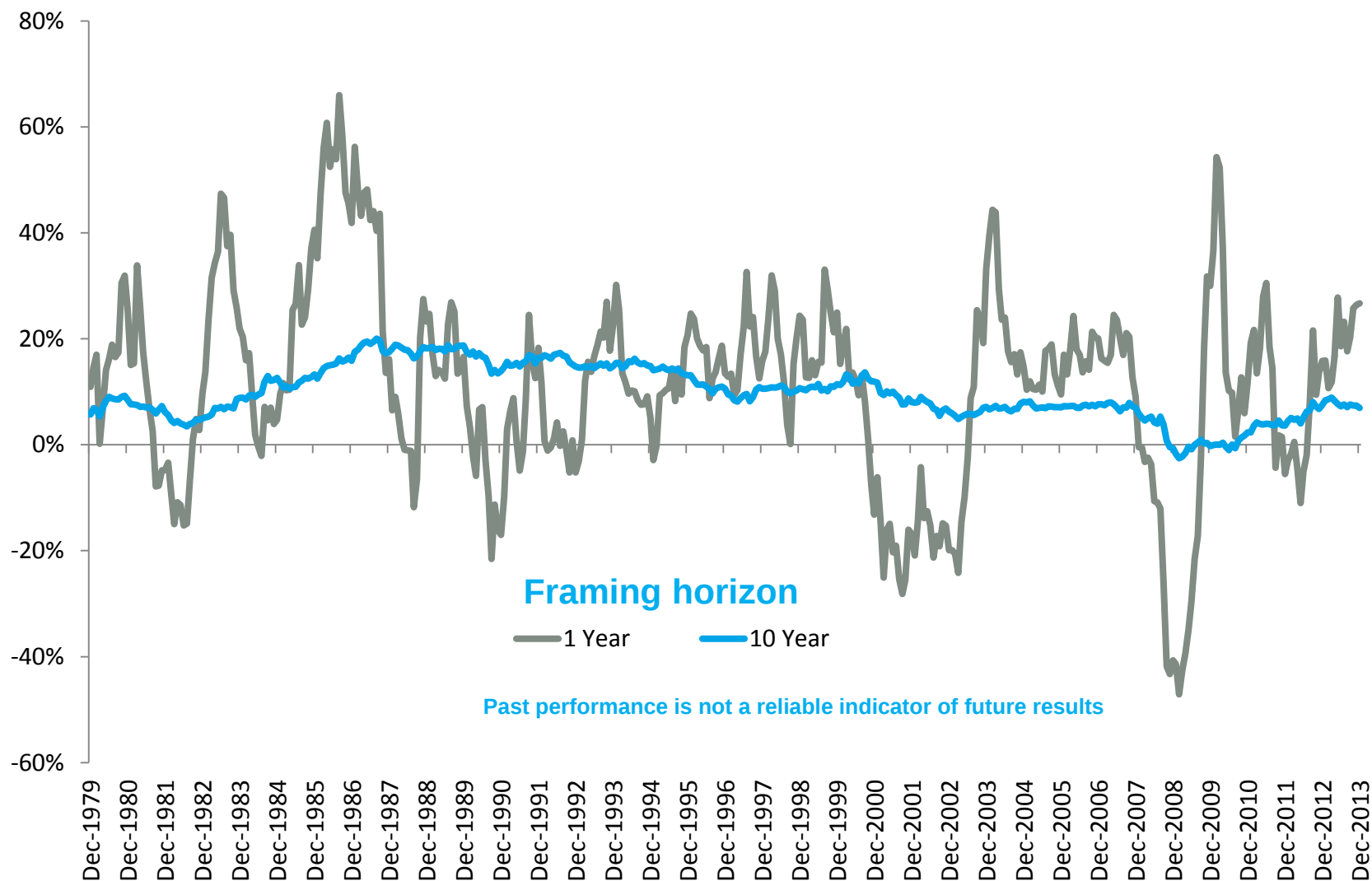


Source: MSCI World Index, 1970 - Dec 2013, Barclays Wealth

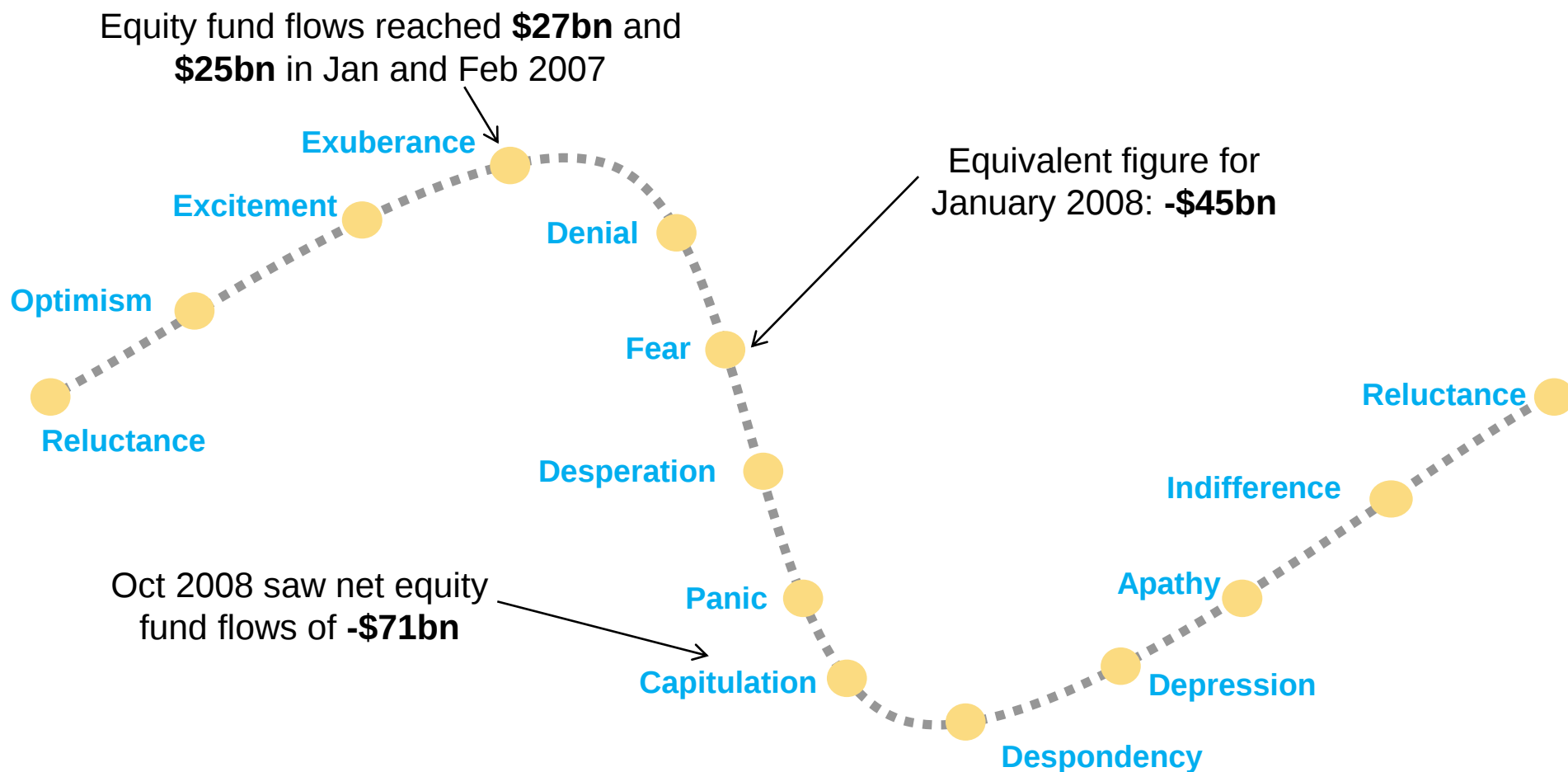
The experience we *should* base decisions on



The experience we *do* base decisions on

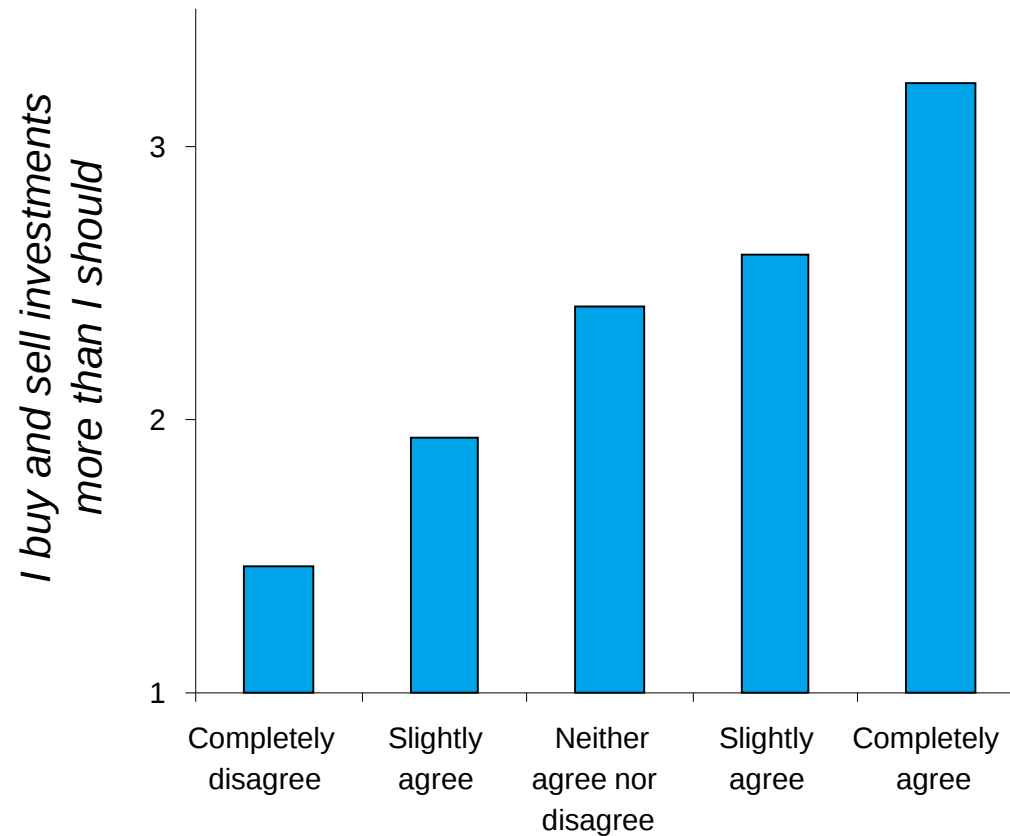


Cycle of investment emotions



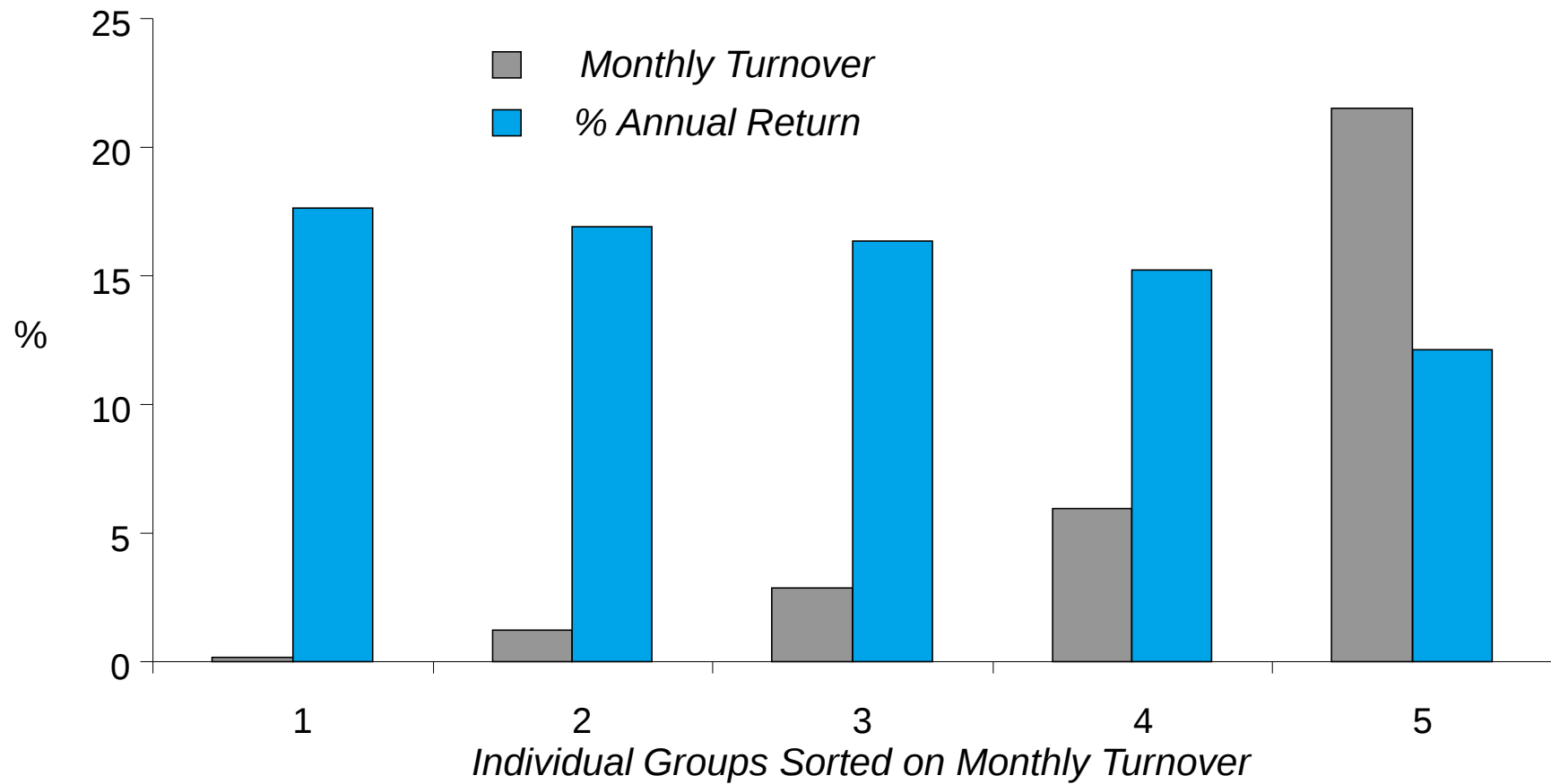
Flow data source: *Mind the Gap* 2014, Morningstar.

Do less than you think you should



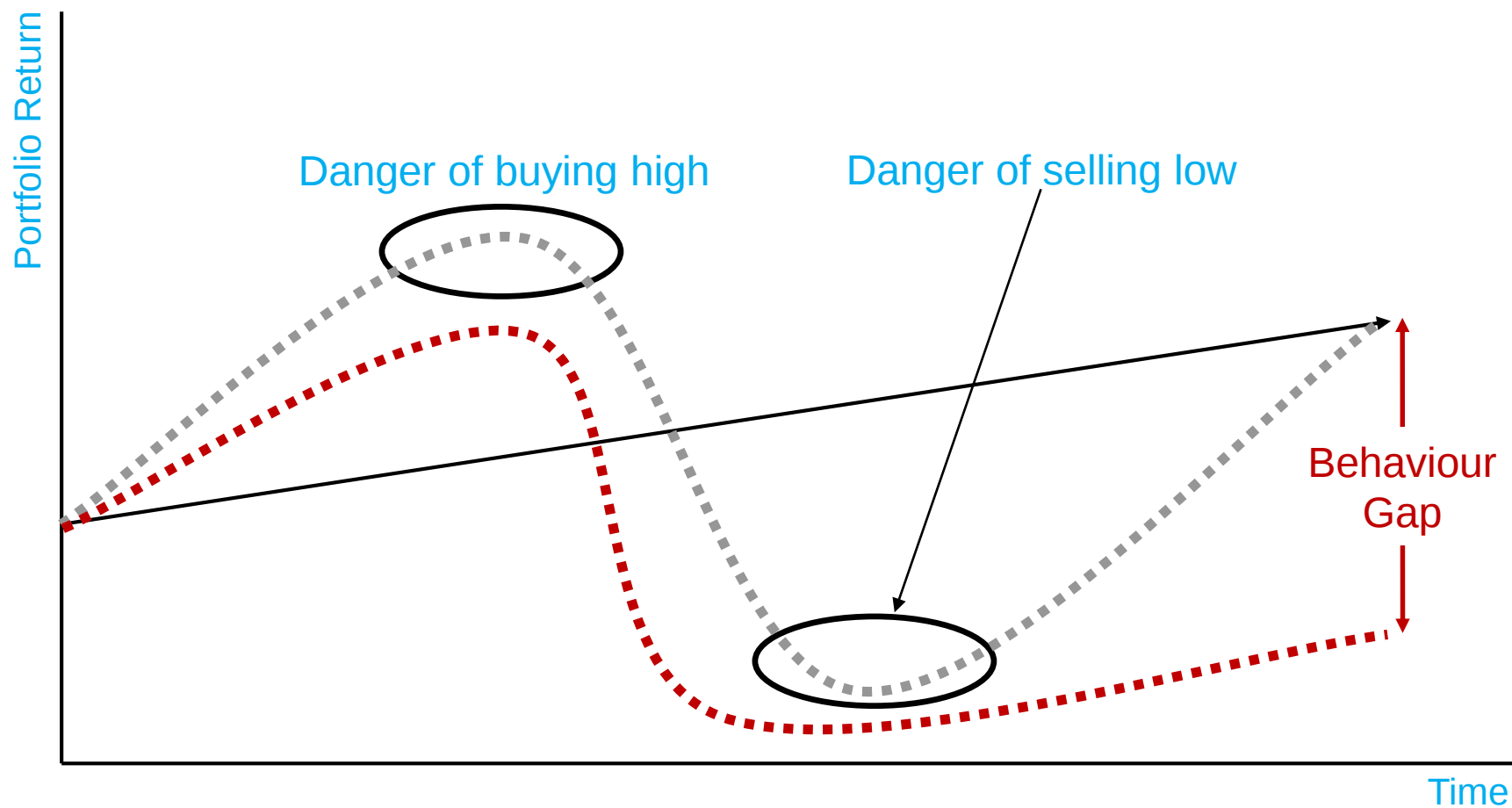
*To do well in the financial markets you
have to buy and sell often*

Trading can be hazardous to your wealth

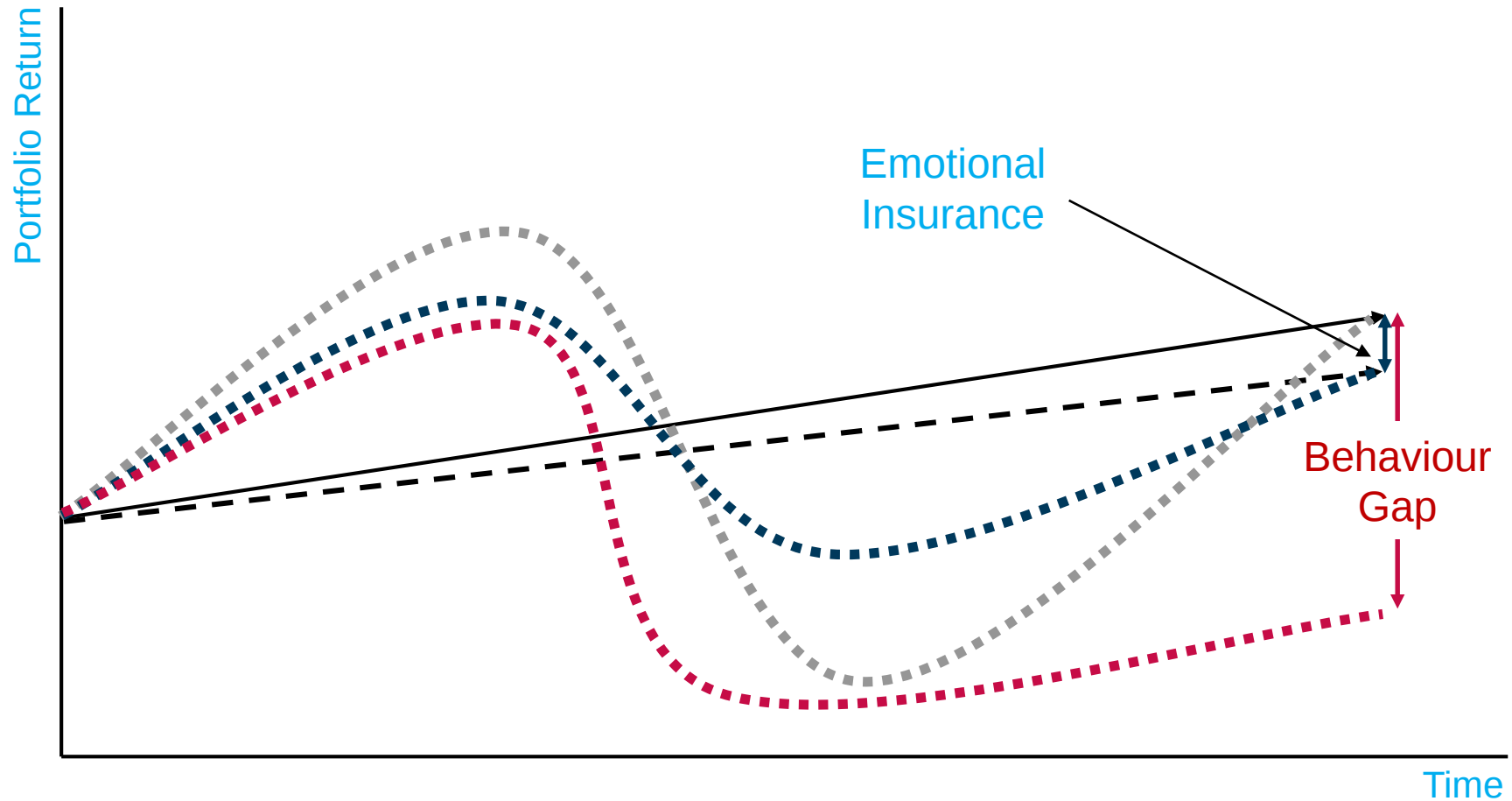


Source: Barber & Odean 2000

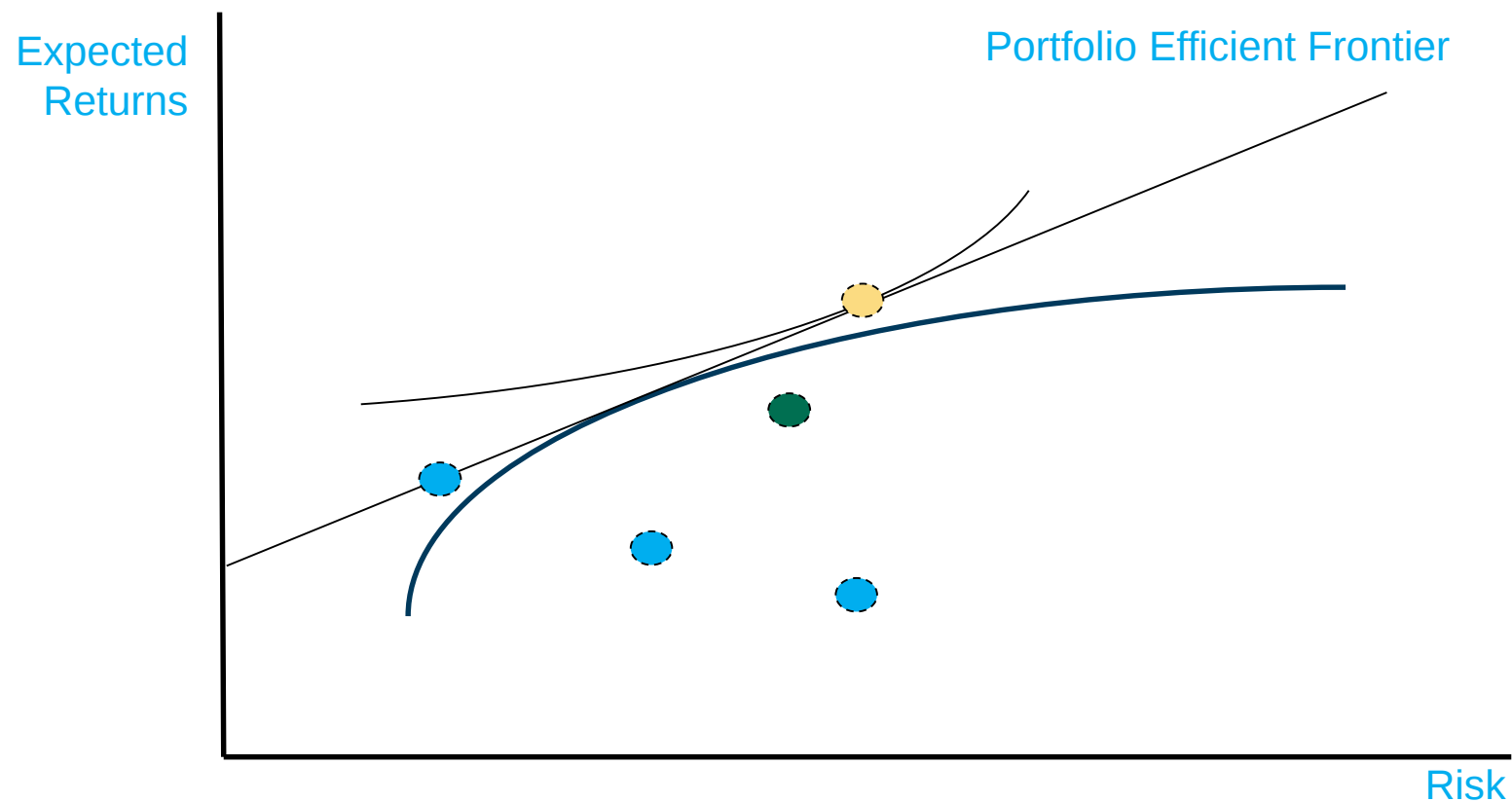
The costs of being human



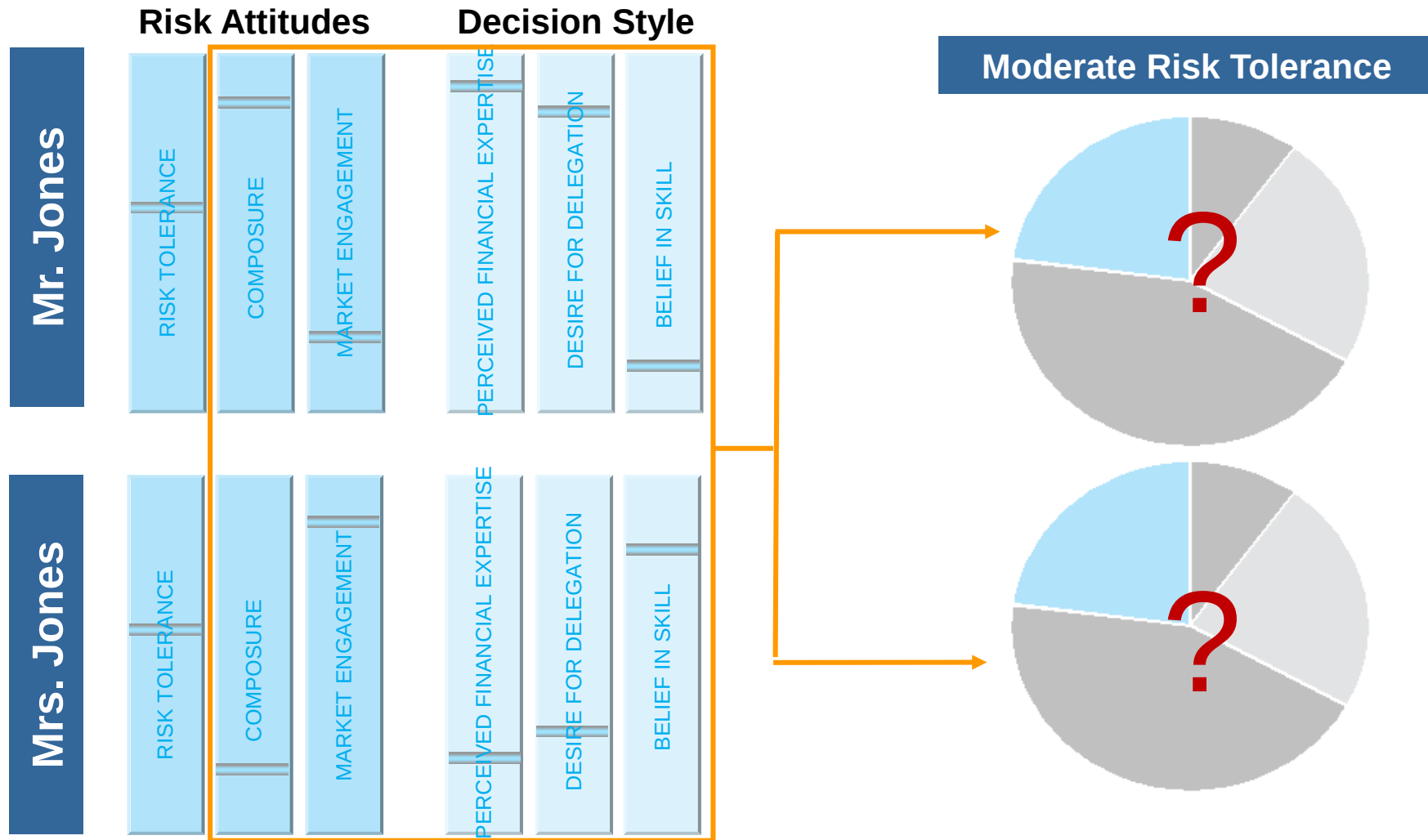
Buying emotional insurance through smoothing



Maximising *Anxiety Adjusted Returns*

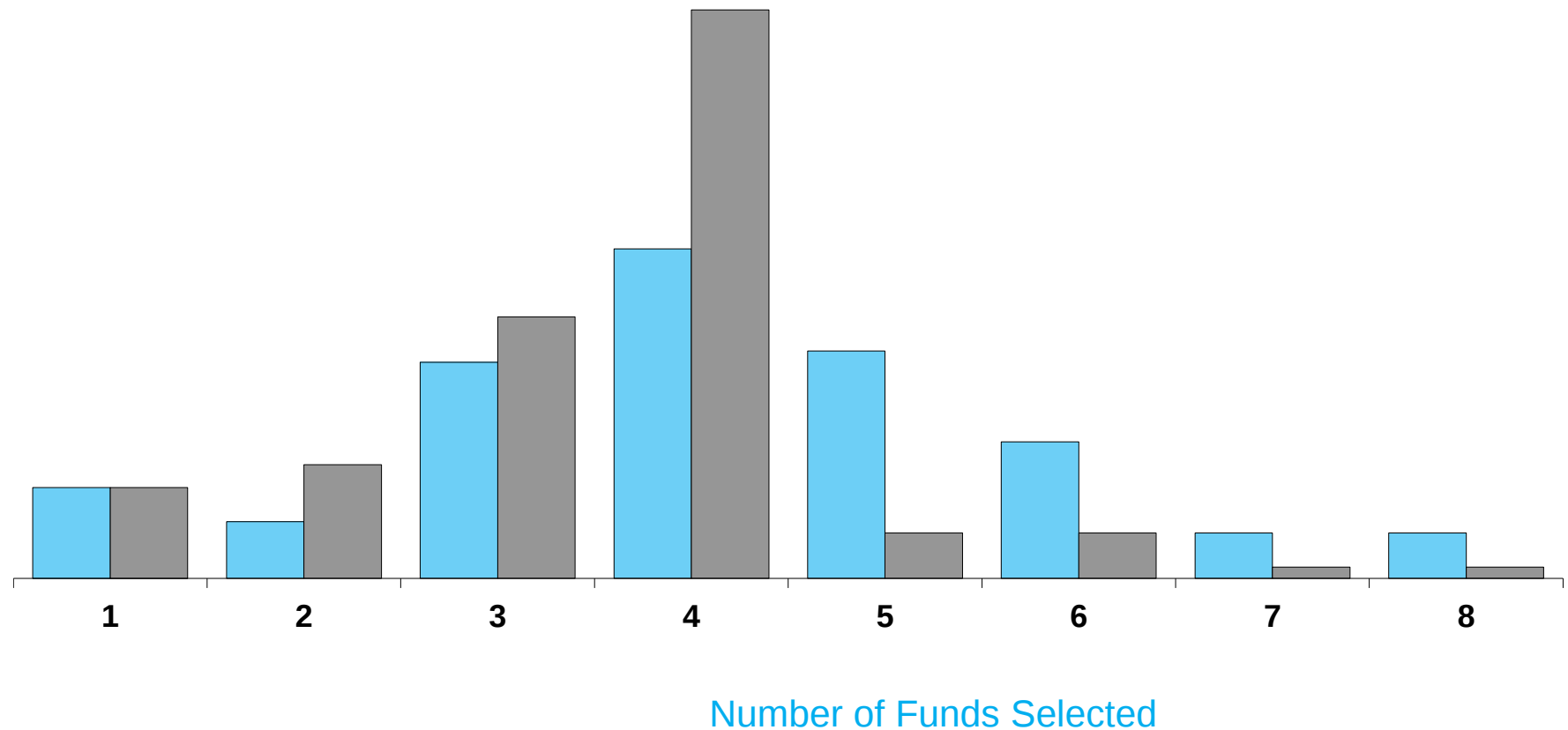


Measureable aspects of financial personality



Choice architecture matters!

Morningstar.com subscribers presented with 8 funds to construct portfolio



What does it take to be confident and informed?

	<i>Examples</i>	1. Education	2. Engagement	3. Emotional Comfort
Disclosure	<i>Information</i> <i>Caveat emptor</i>	Little, or none	None	None
Defaults	<i>Auto-enrollment</i> <i>Opt-out</i>	None, or negative	None, or negative	Some
Nudges	<i>Save More Tomorrow</i> <i>Impulse Savings</i>	None, or negative	None, or negative	Some
Engaged Choice	<i>Just in time education</i> <i>Social Norms</i> <i>Gamification</i>	Yes	Yes	Yes

What do investors need, and when?

Nudge

- Defaults
- Automatic escalation
- Glidepaths
- Income
- Insurance

Early
Career

Mid
Career

Late Career

At
Retirement

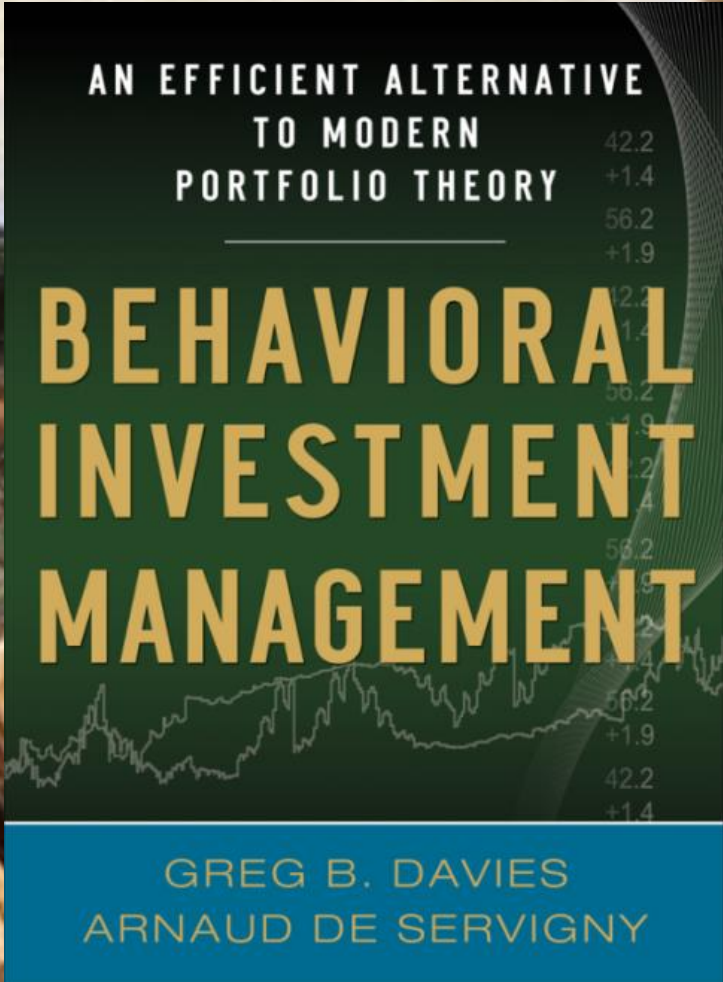
Retirement

Engage

- Targeted choice
- Forced choice
- Holistic systems
- Just in time education
- Gamified engagement

A toolkit for behavioural change

1. **Educate** – targeted ‘just in time’ education
2. **Provide** – giving access to the tools/account features that make it easier
3. **Encourage** – incentives, up front awards, matching, lottery approaches
4. **Nudge** – make saving easier, withdrawing harder; communication
5. **Engage** – help people make better decisions; gamify/engagement
6. **Shove** – changing cultural norms
7. **Experiment** – field testing; randomised control trials



AN EFFICIENT ALTERNATIVE
TO MODERN
PORTFOLIO THEORY

BEHAVIORAL INVESTMENT MANAGEMENT

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White Paper
Overcoming the cost of being human
(or, The pursuit of anxiety-adjusted returns)



Wealth and Investment Management
Global Research & Investments



February 2013

White Paper
Asset allocation at Barclays

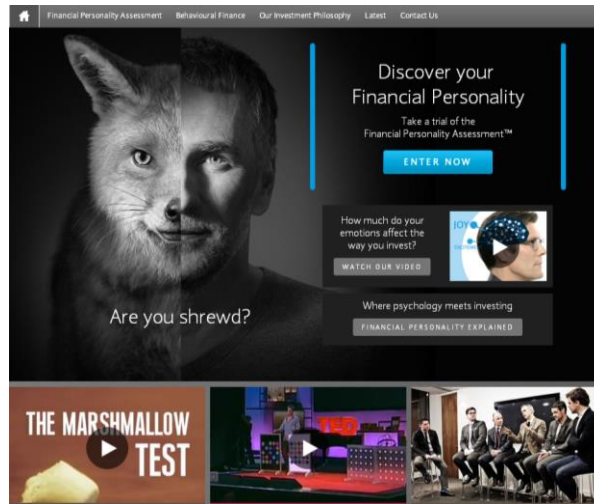


Wealth and Investment Management
Global Research & Investments



Wealth Briefing Awards 2014

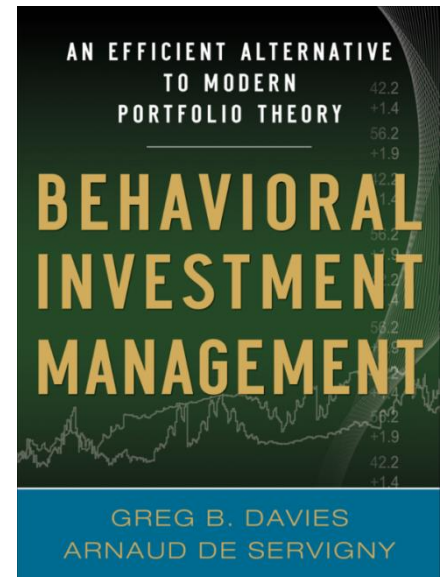
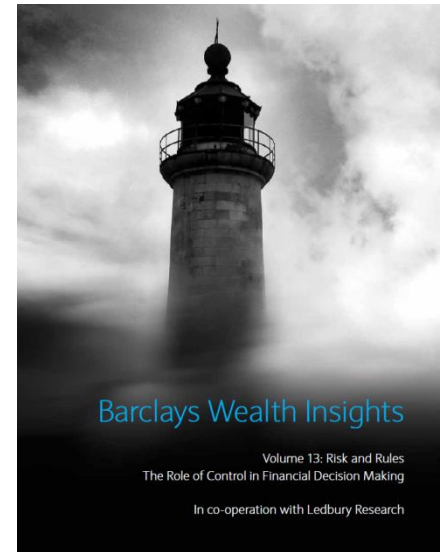
Winner: *Outstanding Contribution to Wealth Management
Thought Leadership*



Martin Wheatley, Chief Executive, FCA

The best financial service companies, the most consumer-focused, go to considerable pains to make sure their customers are steered towards the best products and the most suitable. We should applaud these firms and learn from them:

[Firstly] Greg Davies at Barclays Wealth, who is now doing pioneering work to both help investors understand their preferences and behavioural tendencies, as well as to use this knowledge to achieve better investment performance



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