Overcoming the Cost of Being Human

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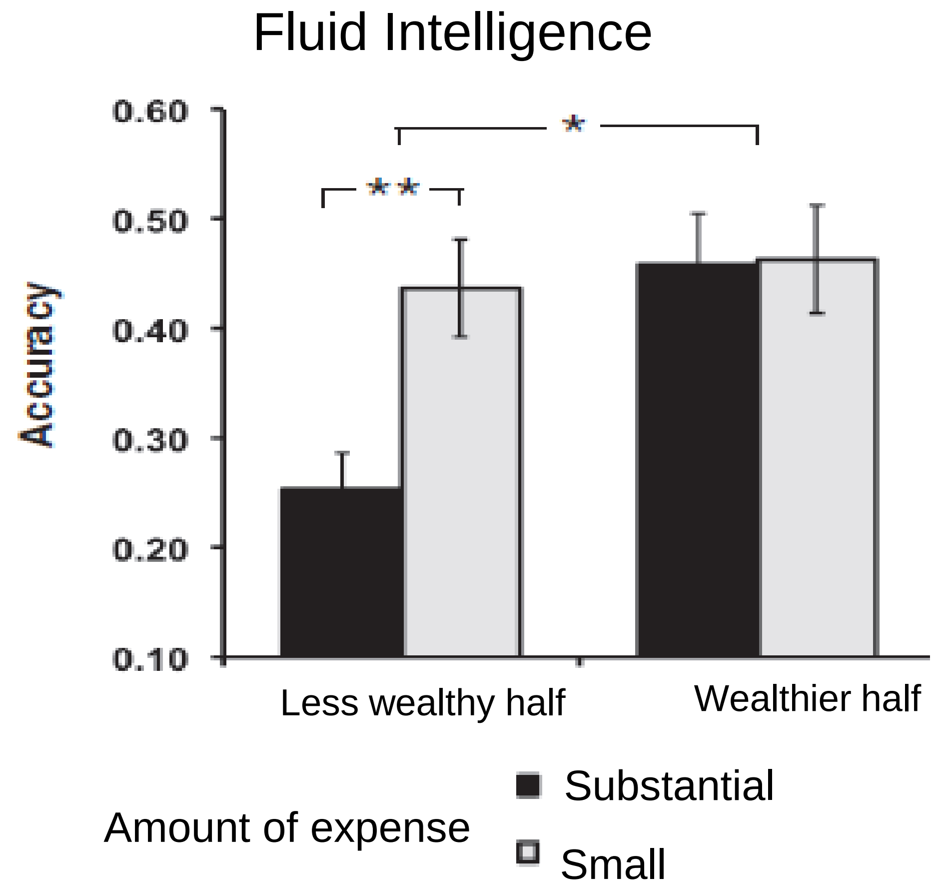
The cost of the "bandwidth tax"

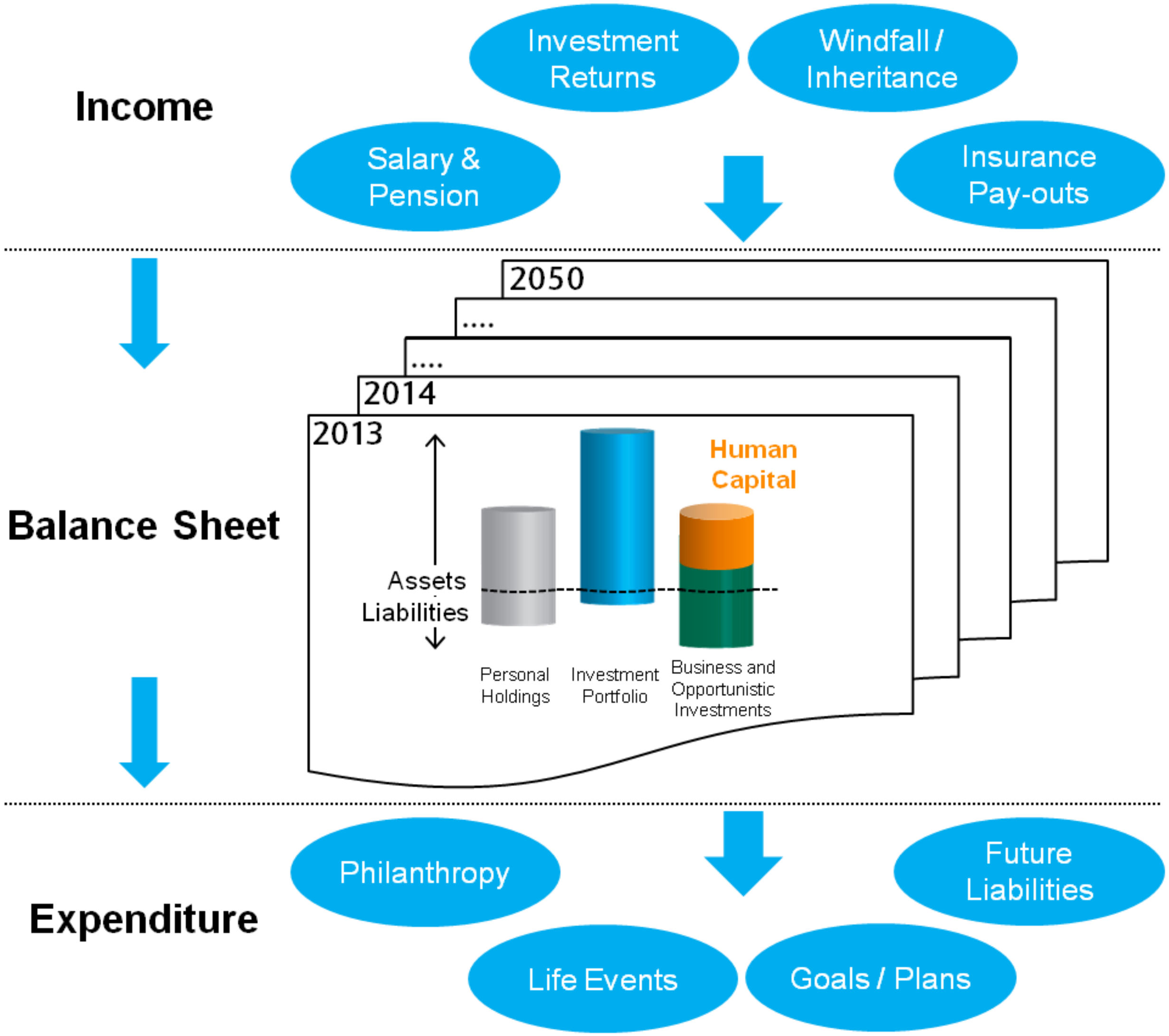


Your car is having some trouble and requires £X to be fixed

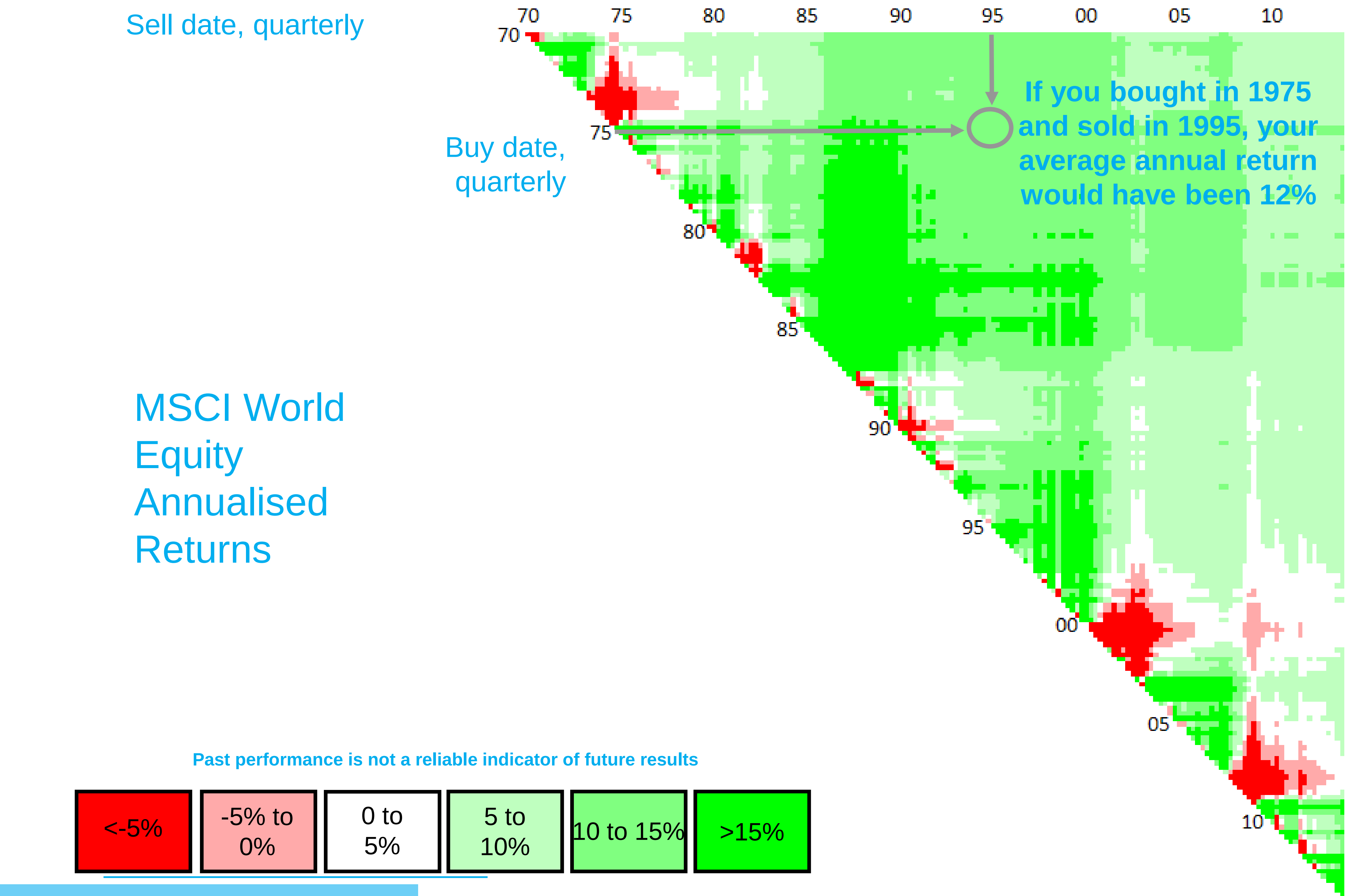
You can pay in full, take a loan, or take a chance and forego the service at the moment..."

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



MSCI World Equity Annualised Returns



Past performance is not a reliable indicator of future results

<-5%	-5% to 0%	0 to 5%	5 to 10%	10 to 15%	>15%

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

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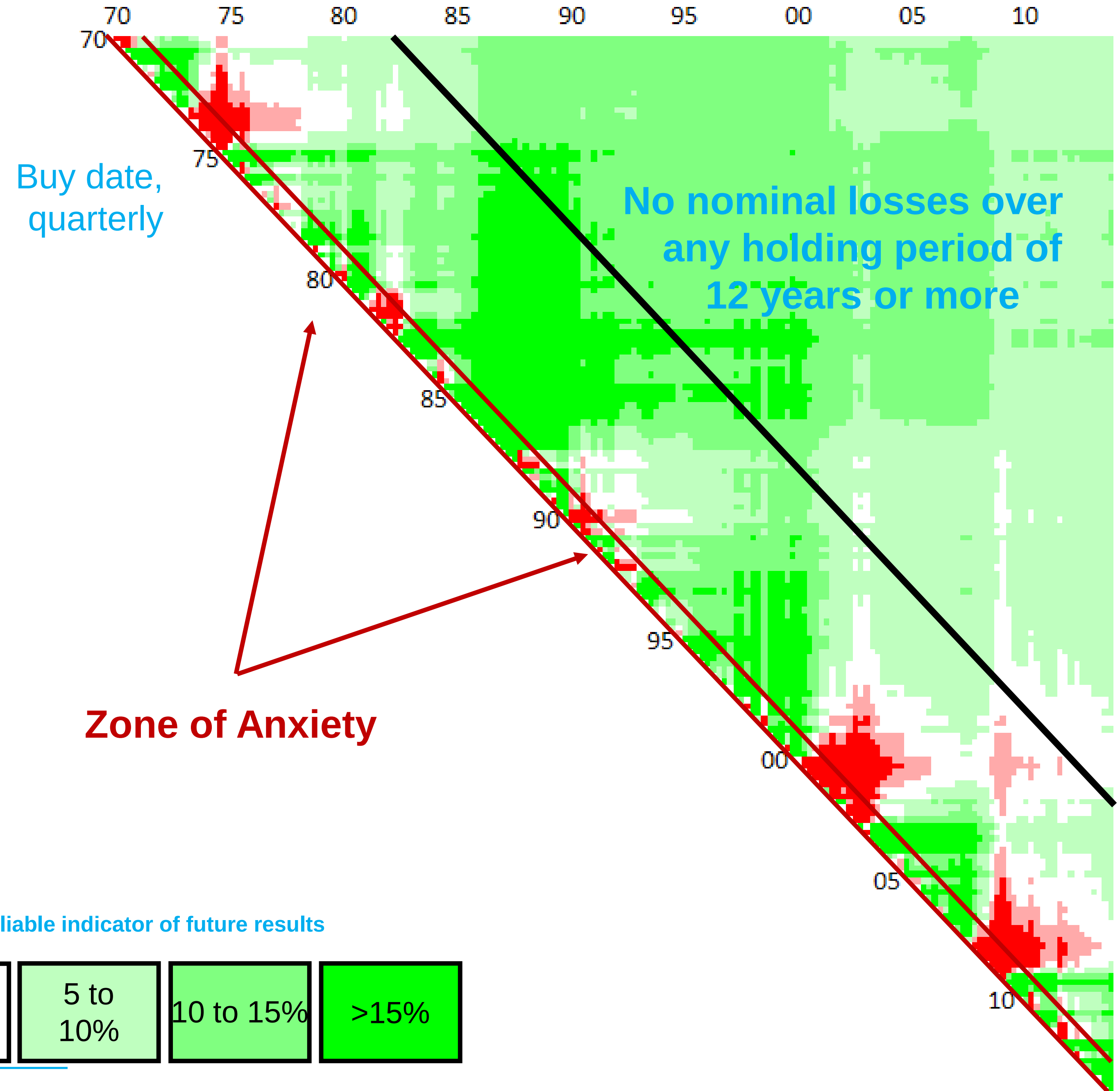
MSCI World Equity Annualised Returns

Sell date, quarterly



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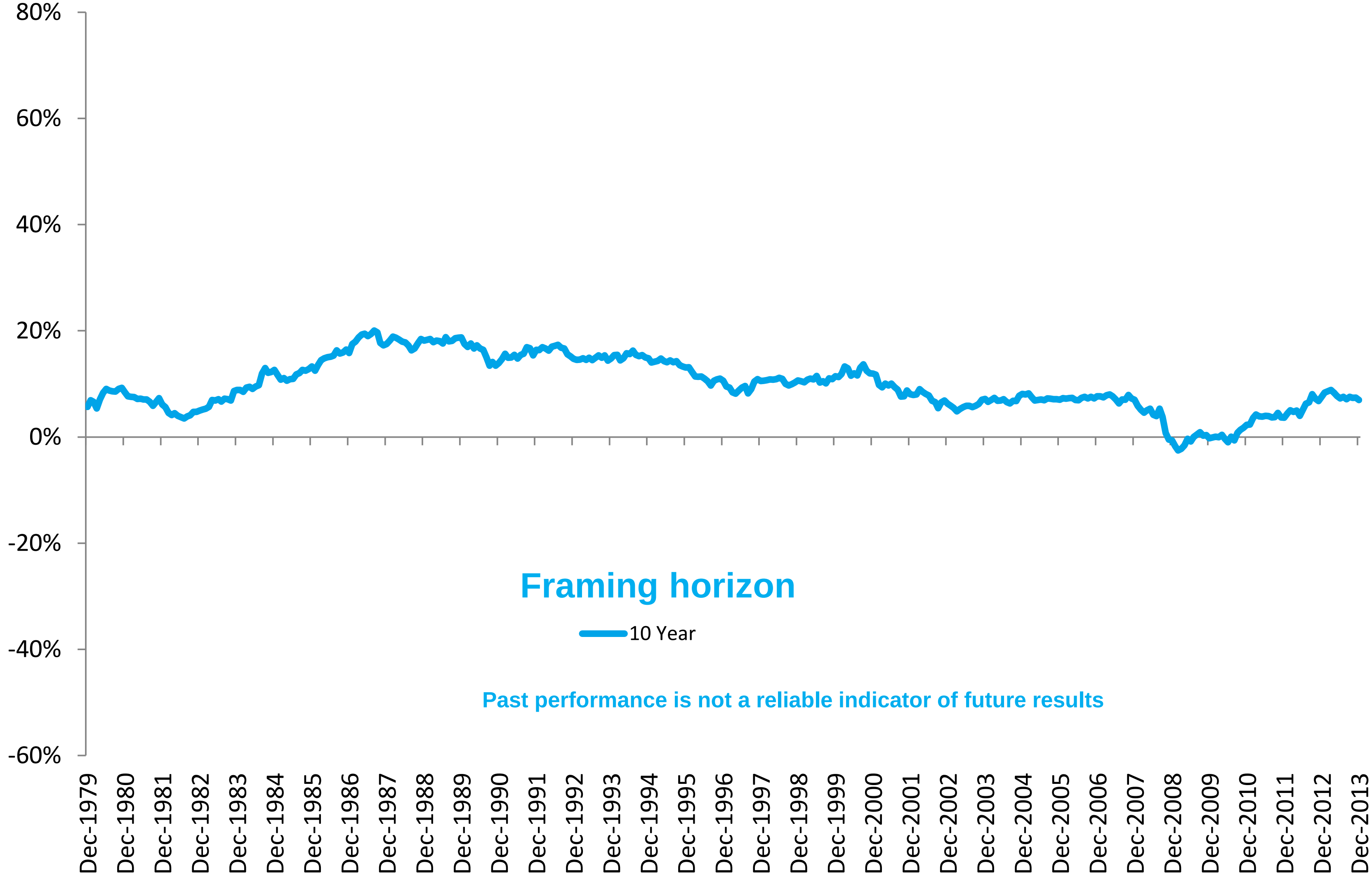
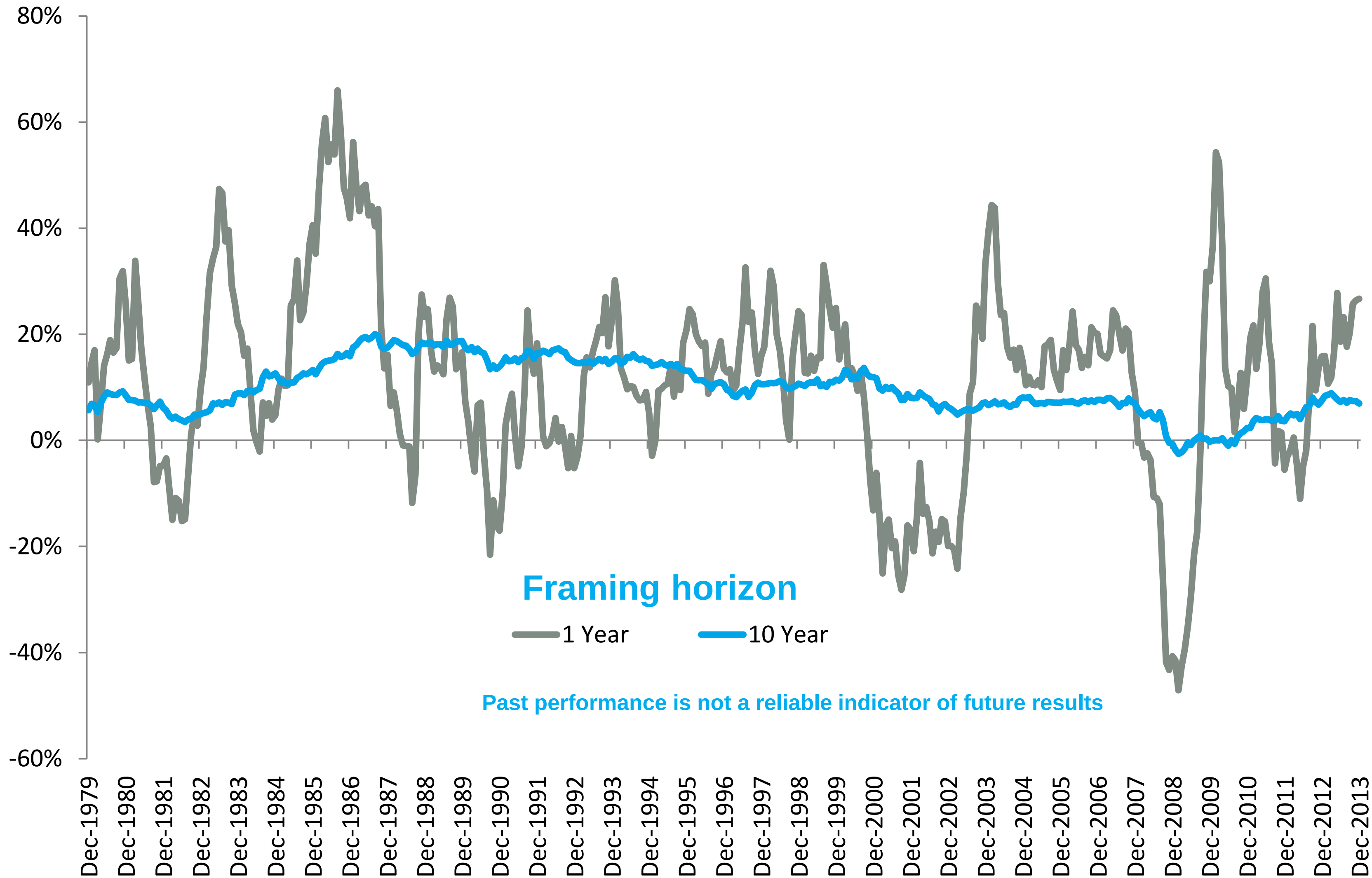
The experience we *should* base decisions on



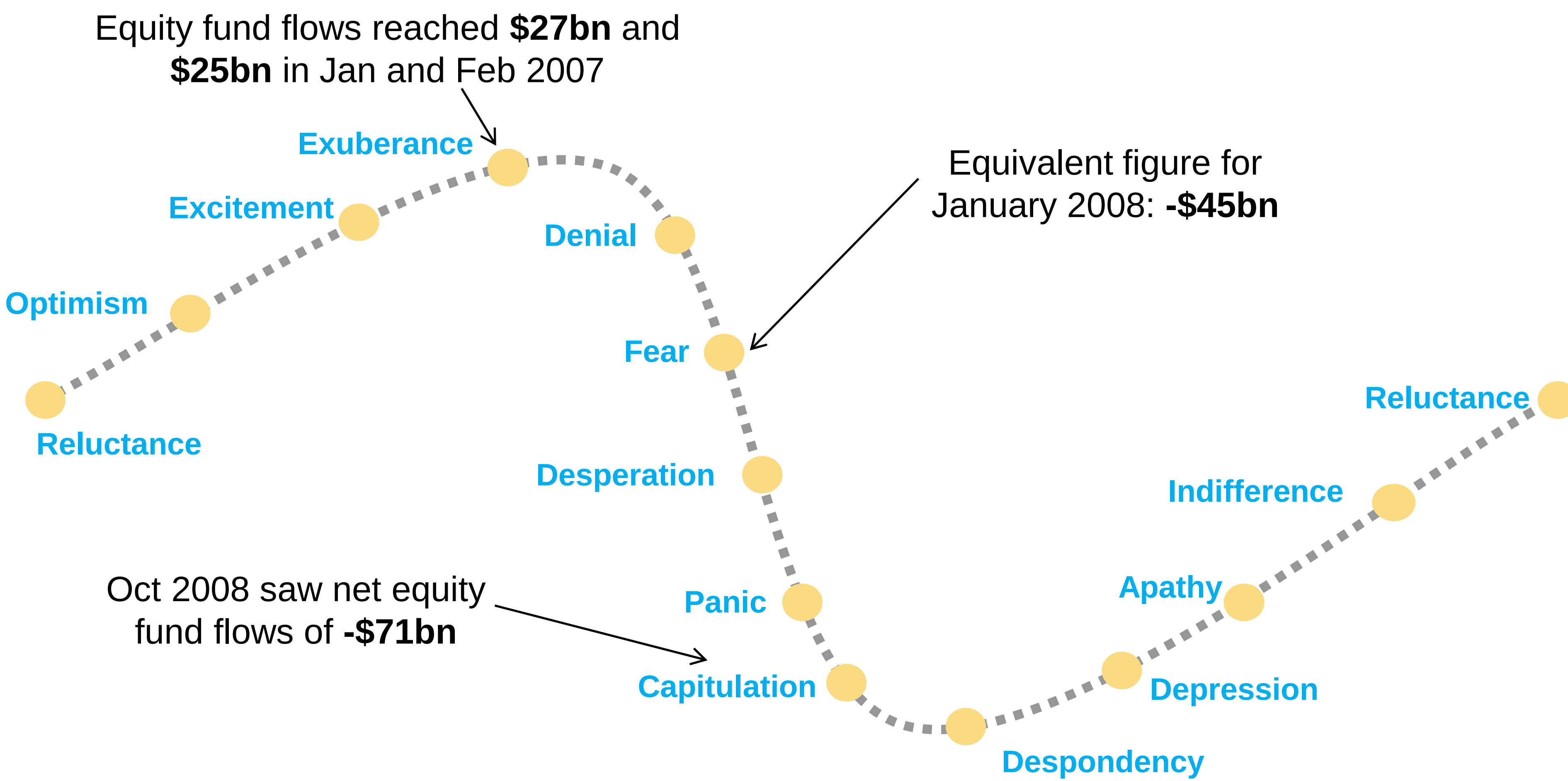
MSCI World Index, 1970 – Dec 2013, Barclays Wealth

The experience we *do* base decisions on



MSCI World Index, 1970 – Dec 2013, Barclays Wealth

Cycle of investment emotions

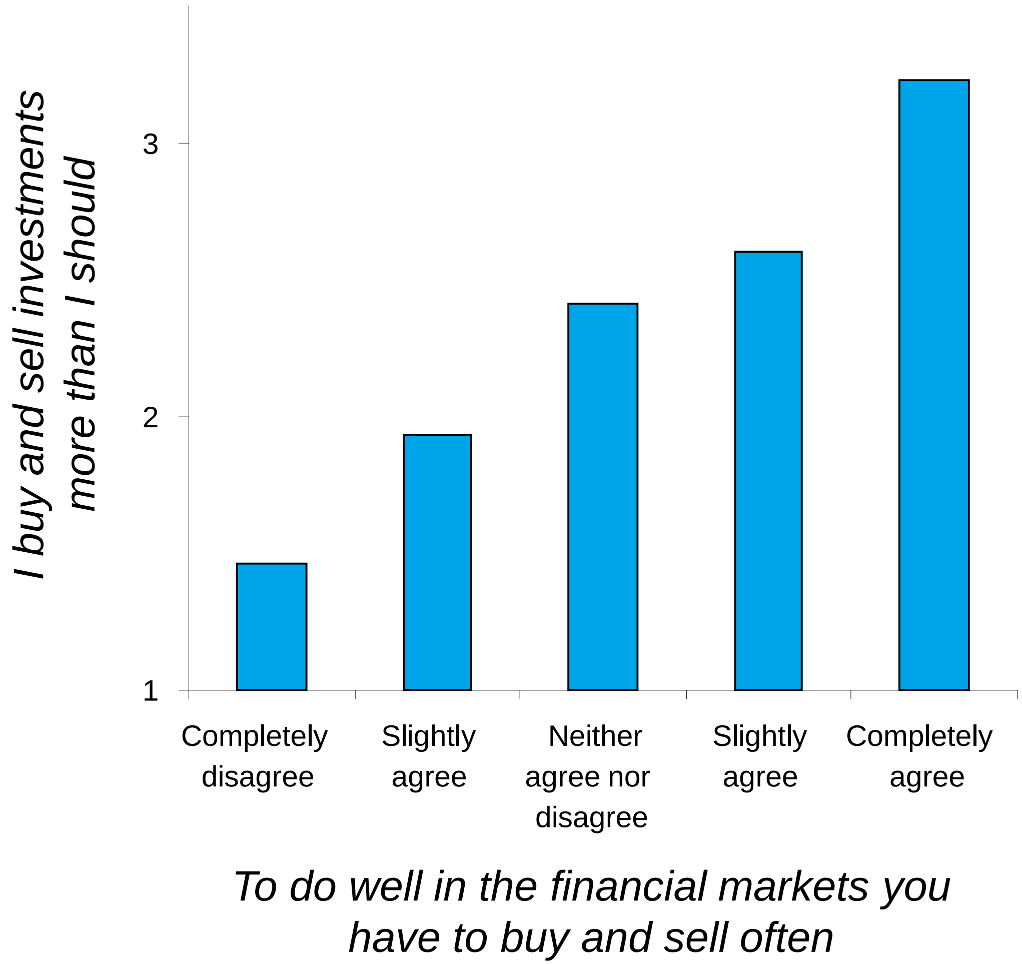


Panic selling in 2012 meant investors missed 2013 rally

Net US equity fund flows for 2012 stood at **-$94bn** – 2013 US Equity return: **35%**

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

Do less than you think you should



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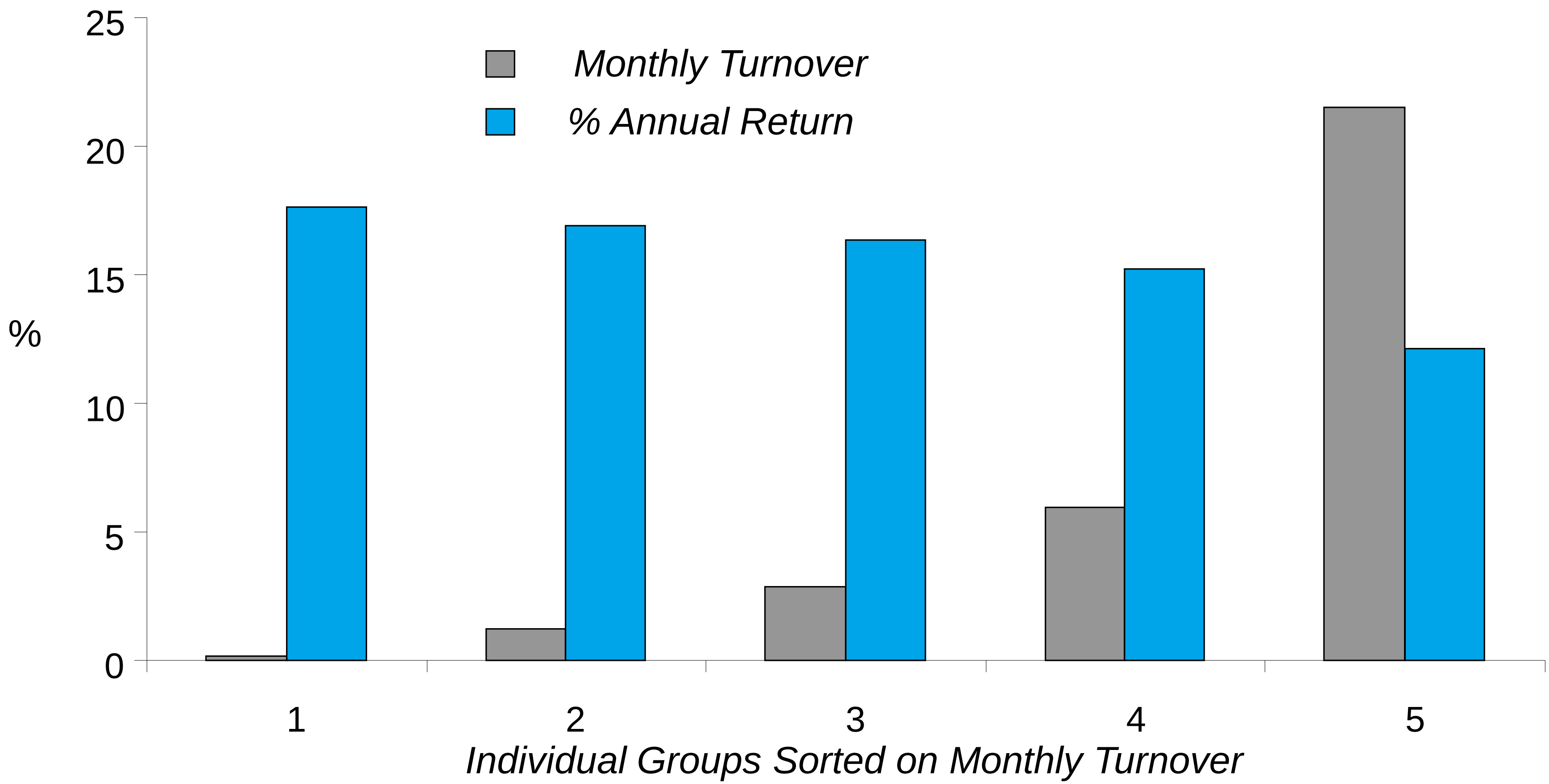
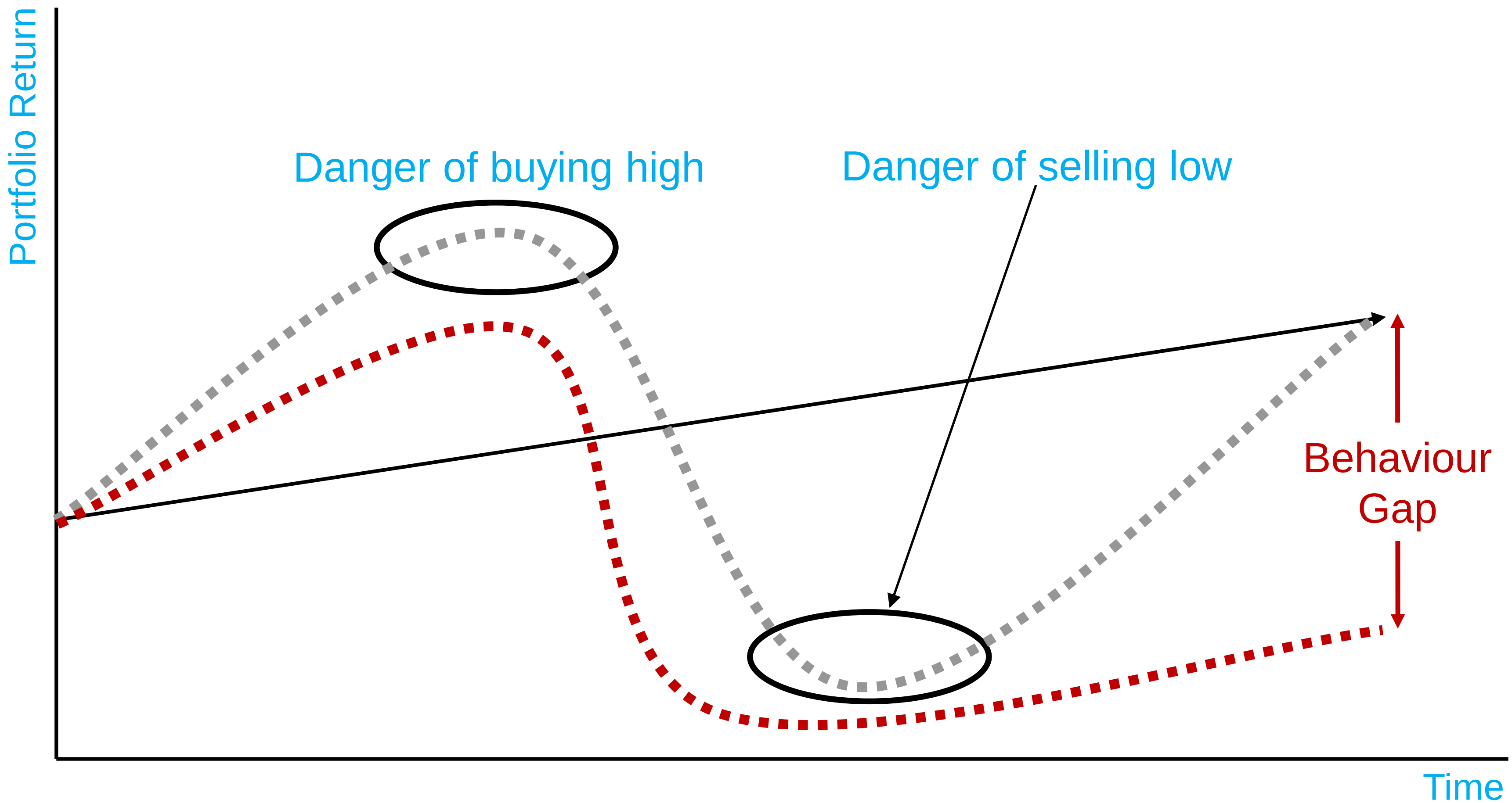
Trading can be hazardous to your wealth



Source: Barber & Odean 2000

The costs of being human



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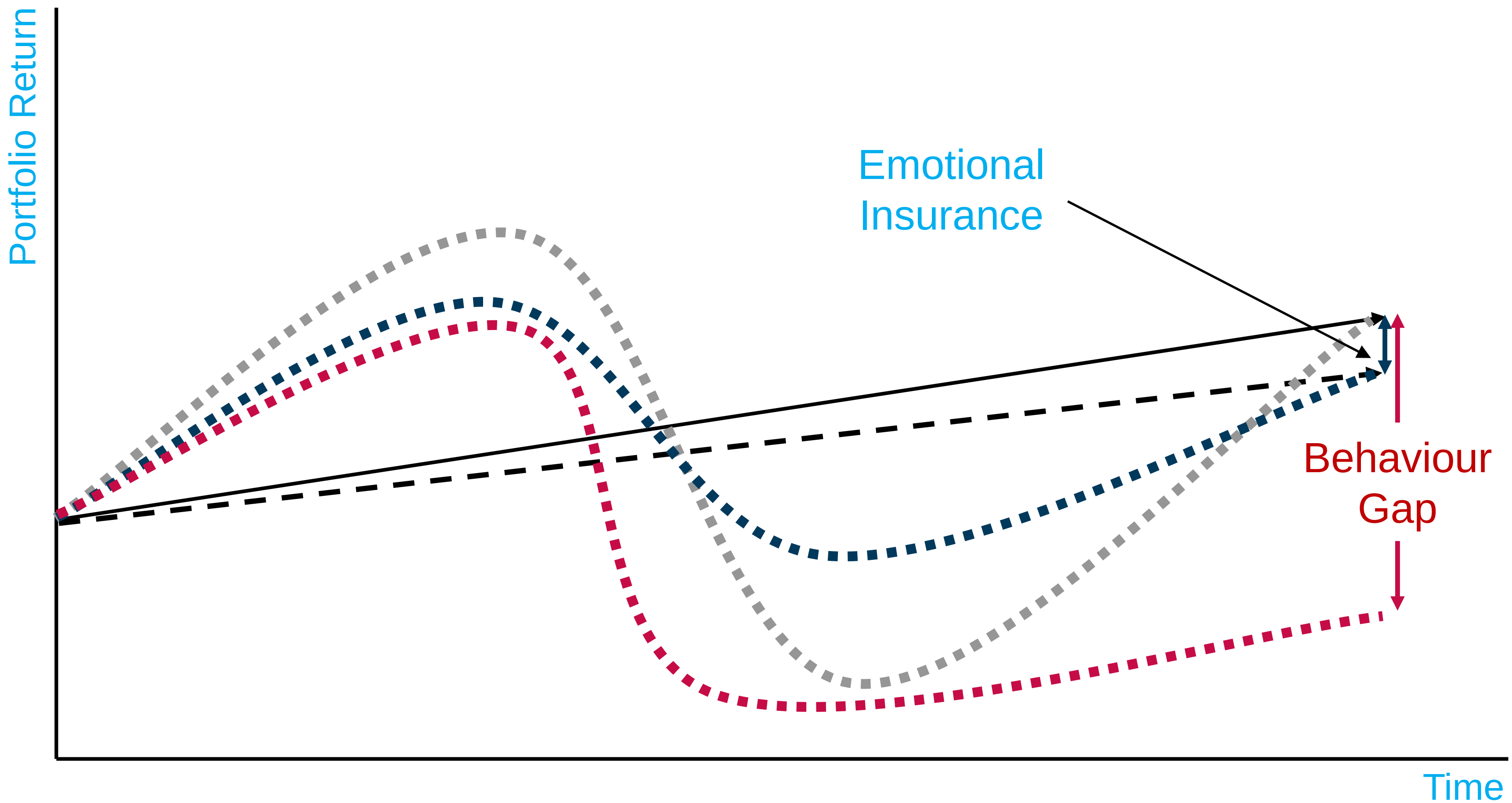
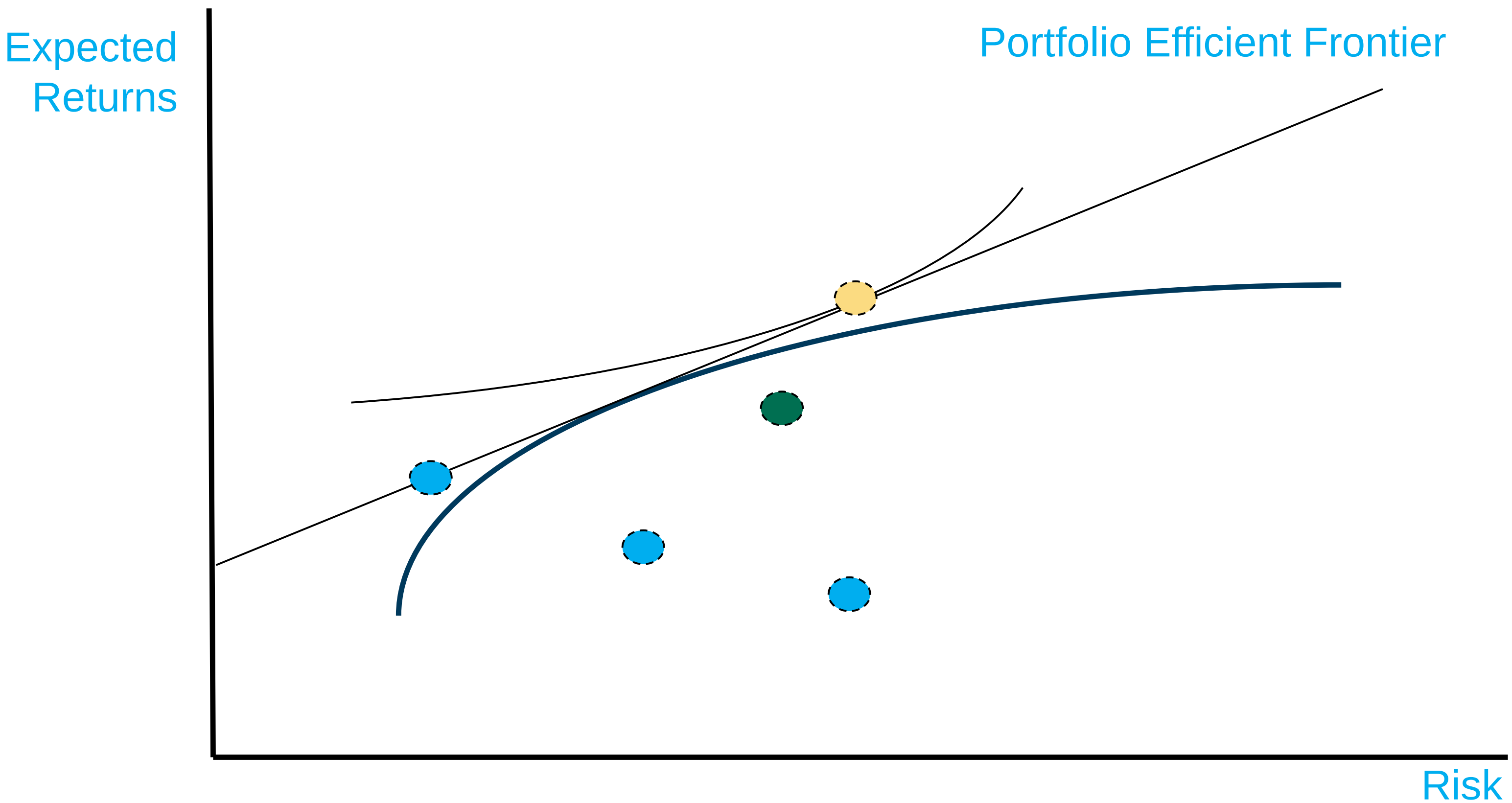
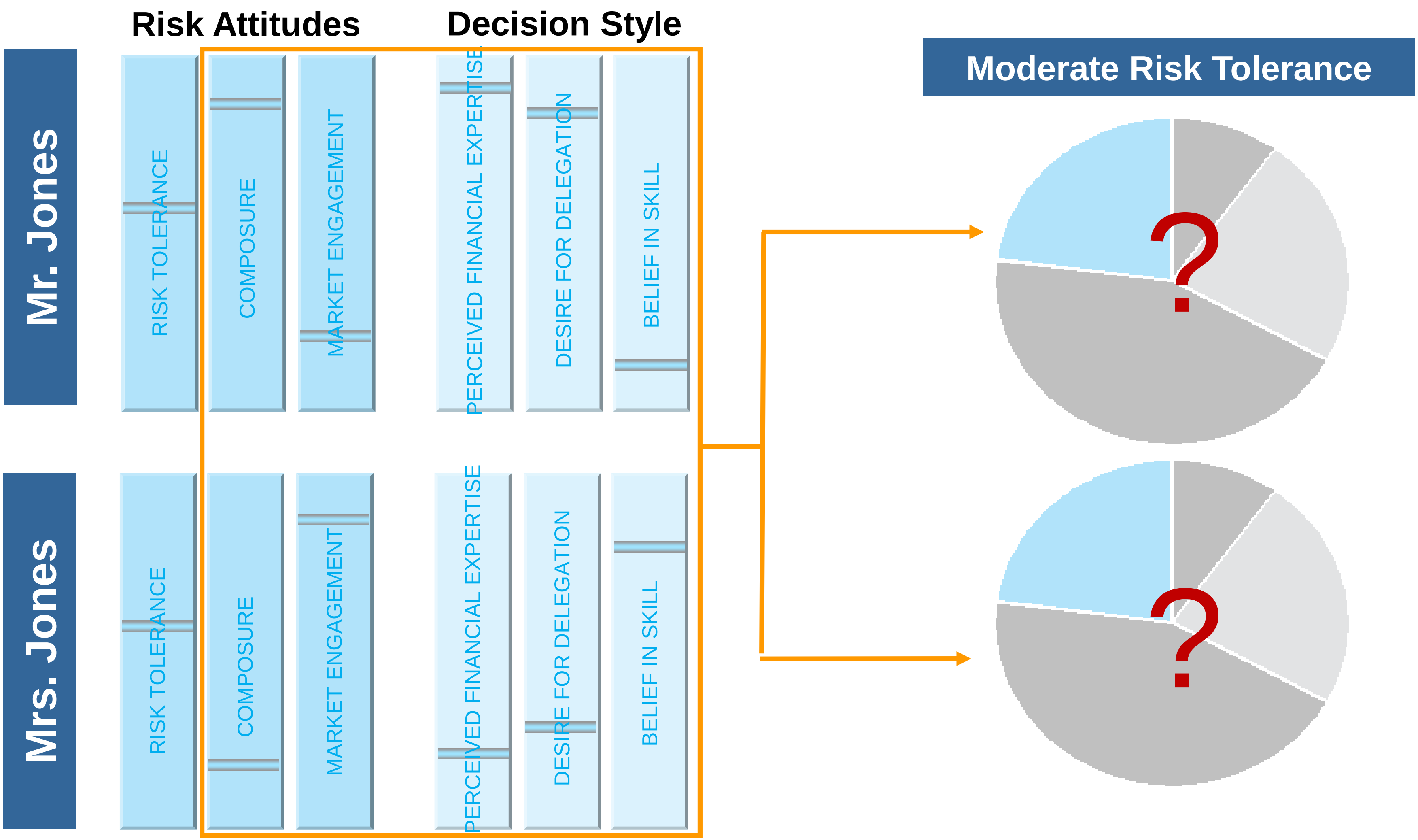
Buying emotional insurance through smoothing



Maximising *Anxiety Adjusted Returns*

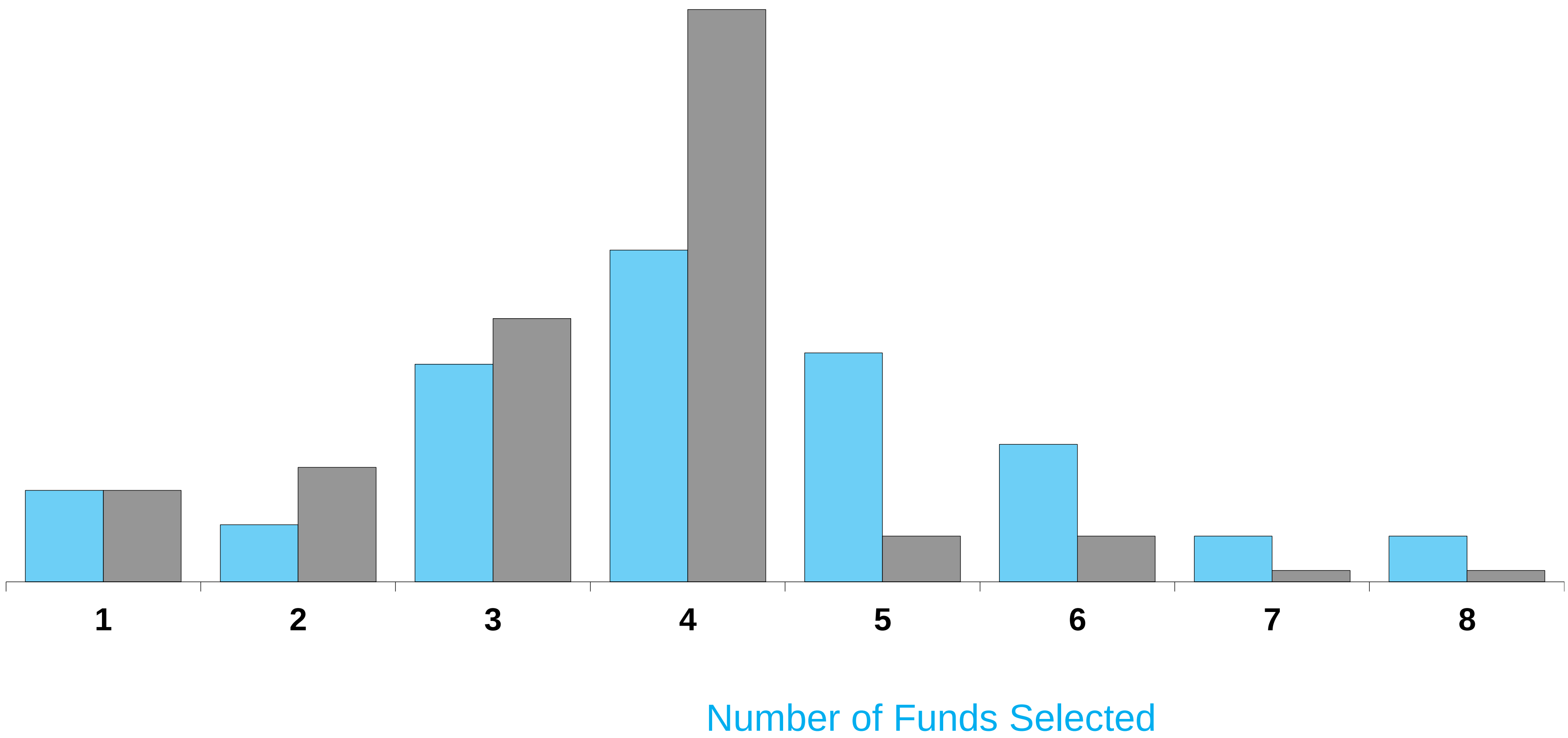


Measureable aspects of financial personality



Choice architecture matters!

Morningstar.com subscribers presented with 8 funds to construct portfolio



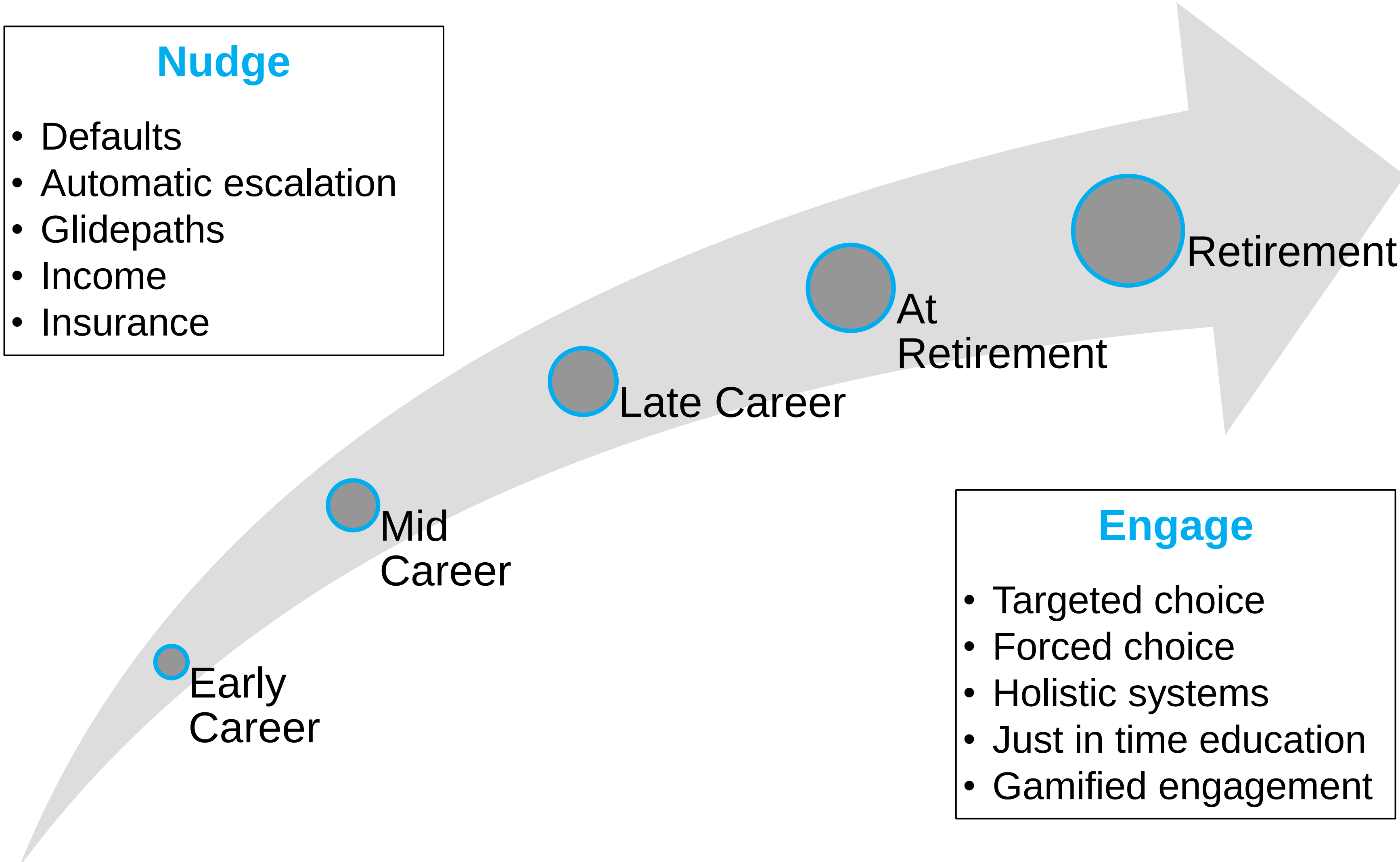
What does it take to be confident and informed?

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

What do investors need, and when?

Nudge

- Defaults
- Automatic escalation
- Glidepaths
- Income
- Insurance

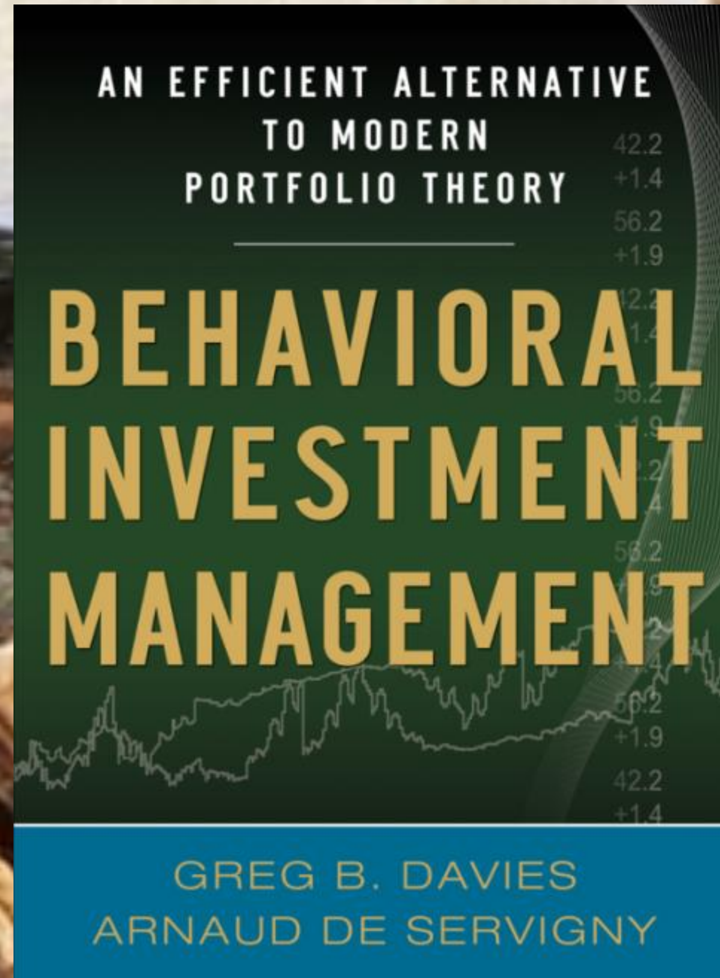


Engage

- 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



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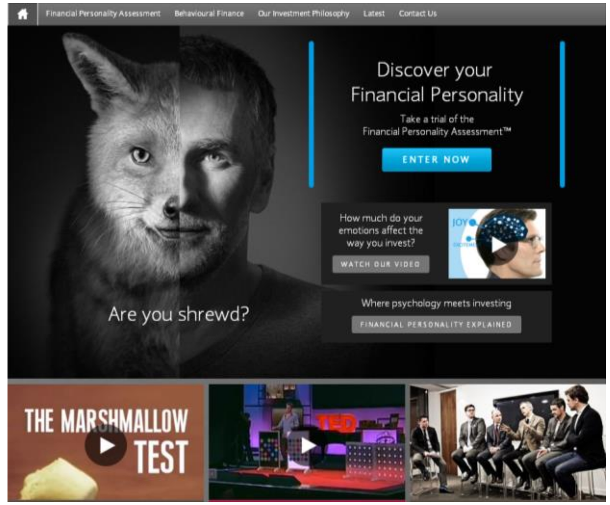
Wealth Briefing Awards 2014

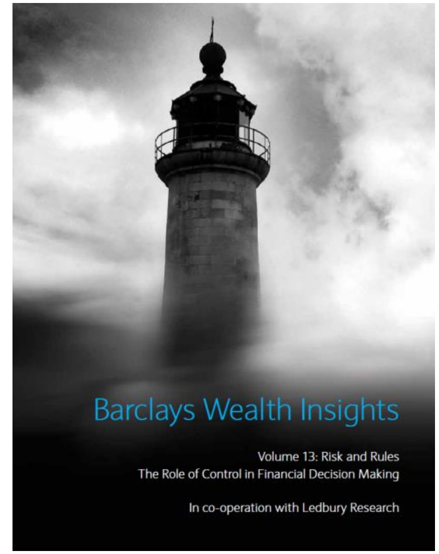
Winner: *Outstanding Contribution to Wealth Management Thought Leadership*

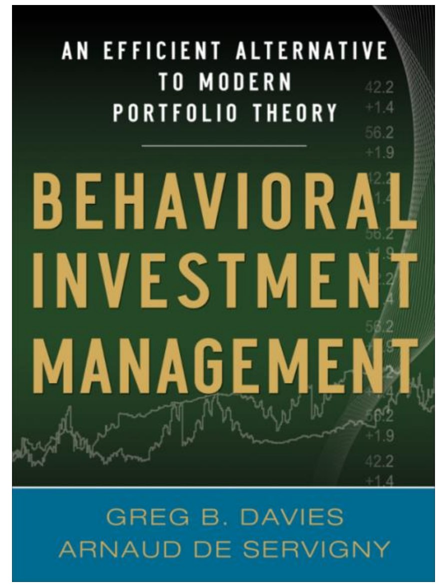


Martin Wheatley, Chief Executive, FCA

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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