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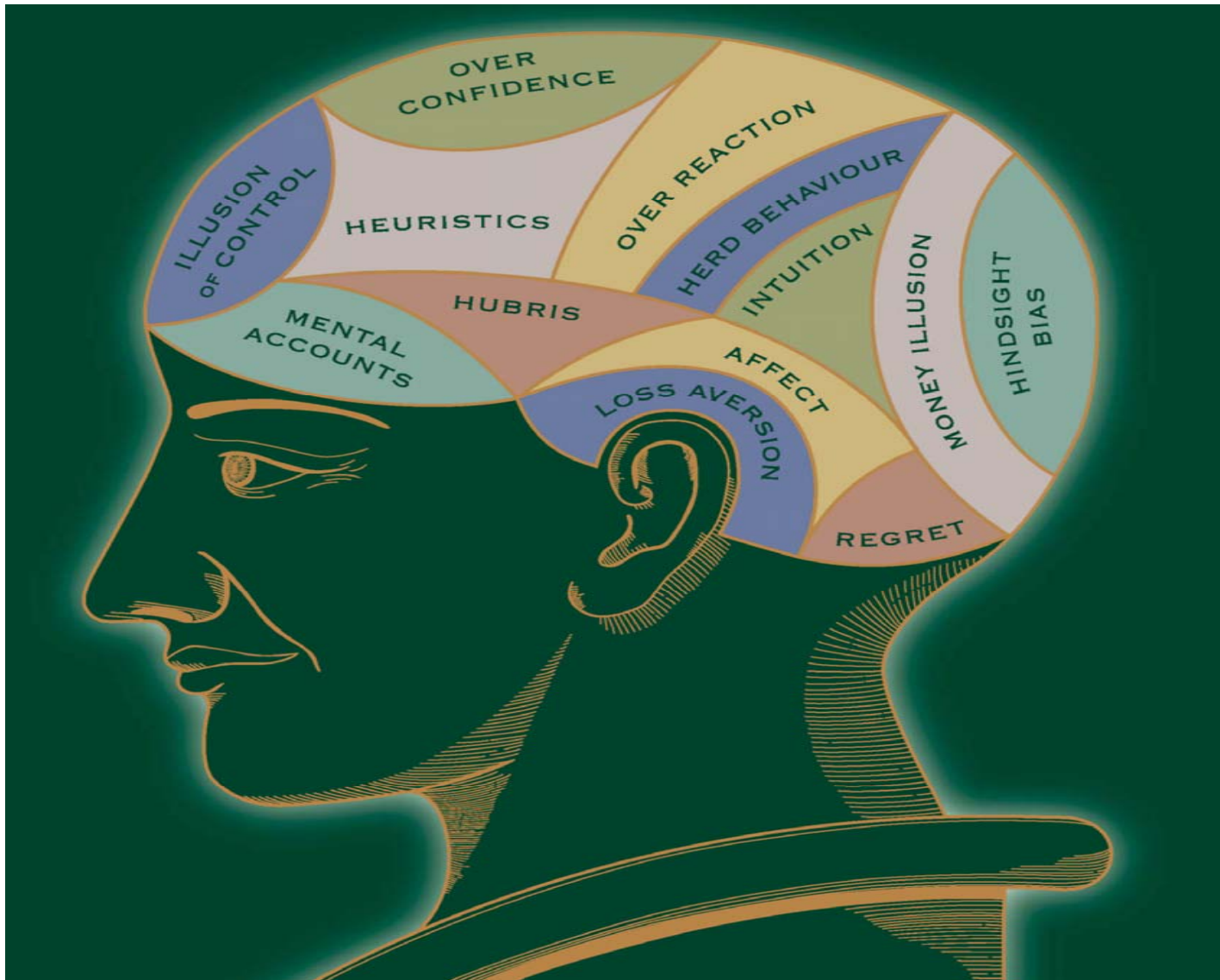
# Behavioral Finance: Today's Research, Tomorrow's Practice

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# Clues from Behavior, Solutions for Finance



# Illusion of Knowledge and Control

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*Confidence in games of skill and luck*

	<u>Card Shown</u>	<u>Card Touched</u>
Would you sell?	81%	62%
At what price?	\$1.81	\$6.41

The really Smart and Overconfident: **\$9.55**

# Behavioral Rosetta for Money Management

<div style="text-align: center;">TASKS</div> <div style="text-align: center;">CONDITIONS</div>	<b>Security Valuation</b>	<b>Portfolio Construction</b>	<b>Client Relations</b>
<b>Overconfidence</b> <i>(Predictions)</i>	<b>Extrapolation</b> <i>(past ↔ future)</i>	<b>Anchoring</b> <i>(benchmarking)</i>	<b>Dapper vs. Snook</b> <i>(confident appearance)</i>
<b>Conformity</b> <i>(Pressure)</i>	<b>Conformity</b> <i>(“dumb analyst”)</i>	<b>1/N heuristic</b> <i>(equal weighting)</i>	<b>Hot-Hand Effect</b> <i>(winners repeat)</i>
<b>Risk Perception</b> <i>(Preferences)</i>	<b>Regret</b> <i>(isolation)</i>	<b>Disposition Effect</b> <i>(holding losses)</i>	<b>Regret Avoidance</b> <i>(rebalancing)</i>
<b>Agency Theory</b> <i>(Principals)</i>	<b>Non-Intervention</b> <i>(social hierarchy)</i>	<b>Bounded Rationality</b> <i>(assimilating data)</i>	<b>Illusion of Control</b> <i>(skill vs. luck)</i>

# Behavioral Rosetta for Plan Sponsors

<div style="text-align: right; padding-right: 10px;"><b>TASKS</b></div> <div style="text-align: left; padding-left: 10px;"><b>CONDITIONS</b></div>	Setting Objectives	Asset Allocation	Manager Evaluation
<b>Overconfidence</b> <i>(Predictions)</i>	<b>Hindsight Bias</b> <i>(Performance Targets)</i>	<b>Status Quo Wisdom</b> <i>(Pricing Efficiency)</i>	<b>Extrapolation</b> <i>(Recent Results)</i>
<b>Conformity</b> <i>(Pressure)</i>	<b>Loss Aversion</b> <i>(Equity %)</i>	<b>Illusory Correlation</b> <i>(Style Drift)</i>	<b>Illusion of Control</b> <i>(Review Frequency)</i>
<b>Risk Perception</b> <i>(Preferences)</i>	<b>Regret</b> <i>(Policy Herding)</i>	<b>1/N Rule of Thumb</b> <i>(Equal Weighting)</i>	<b>Performance Myopia</b> <i>(Bad Dog/Good Dog)</i>
<b>Agency Theory</b> <i>(Principals)</i>	<b>Homogeneity</b> <i>(Like History)</i>	<b>Neighborhood Effect</b> <i>(Static Mix)</i>	<b>Abilene Syndrome</b> <i>(Loneliness)</i>

# Add these numbers out loud

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***1,000***

***40***

***1,000***

***30***

***1,000***

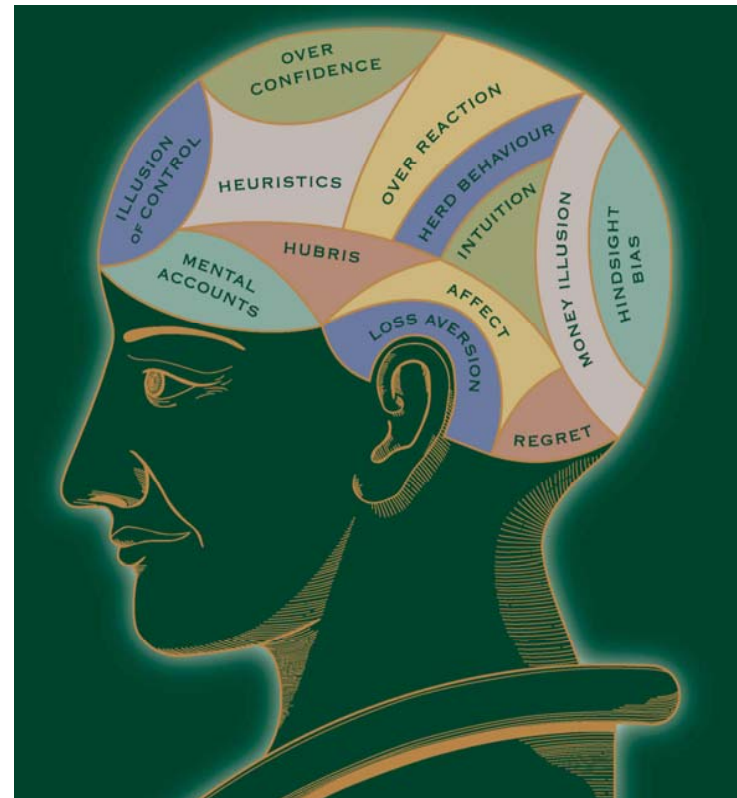
***20***

***1,000***

***10***

## And the Answer is:

- 5,000
- Nice try
- 4,100



# Thank You

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