
Our Behavior Vs Our Wealth: Two Minds that Speak as one!

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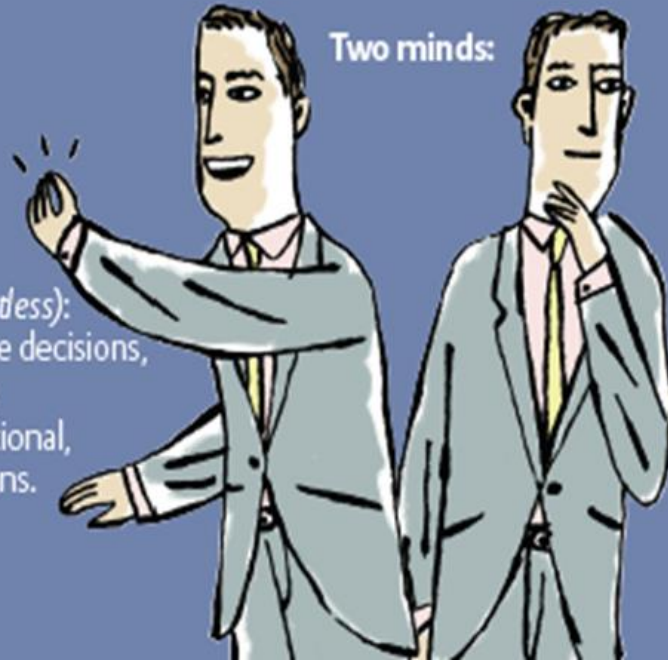
Two Minds – Underlie all our decisions!

BeFi-in-Action Framework

Two minds:

Intuitive mind

(fast, automatic, effortless):
Can often lead to wise decisions,
but sometimes leads
systematically to irrational,
poor financial decisions.



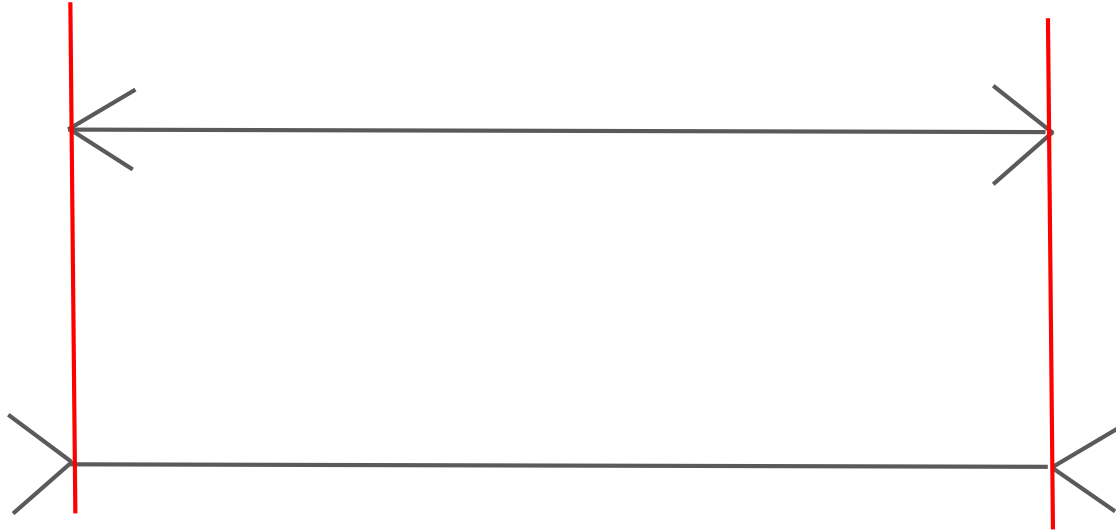
Reflective mind

(slow, conscious, effortful):
Can lead to more thoughtful,
rational decisions. Advisors can
engage their clients' reflective
minds to improve outcomes by
correcting the mistakes of the
intuitive mind.

Which of the two lines is longer?



The two lines are identical in length



Common Examples

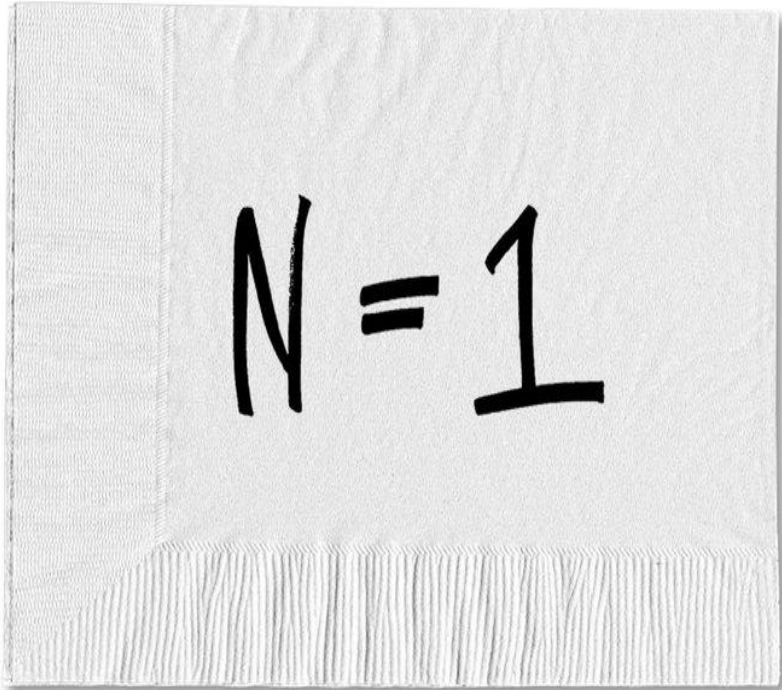
- Loaning money to family or friends - emotional biases plays a role?
 - Battles over Inheritance, - psychological and emotional, not about rationality?
 - Wedding budgets - How much does a wedding cost? One day vs a lifetime.
 - Assign a % between emotional biases and rationality in how they influenced your spending decisions on the following – car, home (size, location,), kids' school, wedding,
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Hence two minds that influence our decisions

- **The Reflective mind** - which is slow, analytical and requires conscious effort ... *discussions with a bank loan or mortgage officer regarding a loan may evoke this mind ...* the rational mind.
 - **The Intuitive mind** - one which forms rapid judgments with great ease and with no conscious input ... based on heuristics, and biases ... *the basis of rule of thumb guidelines.*
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Common Biases:

The Sample of 1 decision making



- + My friend told me 'kasooli' is where the money is?
 - Opinions on poultry farming, ...
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Common Heuristics/Biases:

Herding – Going after “hot” investments



- All went to Dubai, then they imported cars, then they went to China (Guangzhou), then oil was found in Hoima, and Mukono-Katosi/Kisoga-Njeru road happened.
- Business ventures i.e. copycat entrepreneurs. Why not differentiate? Where is the creativity/value addition?
- How many contemplate the wisdom of the venture?
- If you herd, always remember that “The early bird ...”



Common Heuristics:

Mental accounts/different money buckets

- Individuals unconsciously have mental accounts or “money buckets” to manage money decisions.
 - Job bonuses or casino winnings as “other money”.
 - People will have no problem walking next door to save 1,000/= on a 2,000/= soda, but will balk at the thought of walking a block to save 1,000/= on a 16,000/= lunch.
 - **Dual Income homes create marital buckets of wealth.**
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Common Heuristics: *Marital buckets of wealth suboptimal.*

Due to inadequacies associated with marital buckets, eliminate the lack of transparency AND take advantage of the synergies from unified income decisions.



Common Heuristics:

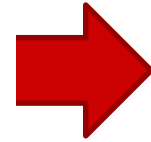
Once bitten twice shy (Hindsight bias)

- Myth: Loans are bad.
Leverage (a characteristic frequently used by the rich) scales up investment returns but scales the investment risk as well.
 - Investments gone bad or very good – Money manager's experience, loses on stocks, failure on a little upstart OR great real estate deal.
 - **Bias eliminates room for rational judgement – Every investment must be judged on its merits.**
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Understanding Our Money



CONSUME



Common Heuristics: *Savings Vs Consumption decisions*

Save mindlessly.
Spend consciously.

- Do you comprehend the tradeoff between current and future consumption?
- How many feel like NSSF will provide for this comfortable retirement? How many would like to retire comfortably?
- Have you planned your retirement?

“Because of procrastination, most people find it easier to imagine doing the right things in the future, similar to our New Year resolutions to start exercising and dieting next year”

Shlomo Benartzi, Ph.D. Professor, UCLA Anderson School of Management, Chief Behavioral Economist, Allianz Global Investors Center for Behavioral Finance: Befi.allianzgi.com

In Sum

- The Two Minds – Reflective vs Intuitive
 - Biases and Heuristics
 - *Following Individual Opinions*
 - *Following the Herd*
 - *Mental Accounts or Buckets*
 - *Hindsight Bias*
 - *Savings and Consumption Decisions*
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Concluding remarks

- Perform individual audit: Ask “*what are my behavioral biases? How do they undermine my ability to build/grow my wealth?*”
 - Read up: Articles on behavioral finance and economics are abundantly available.
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Thanks!

Any questions?
