



# Six biases that affect client behavior



# Are unconscious biases driving your clients?

Whether we're aware of them or not, certain "unconscious biases" drive people's decisions every day—including those of your clients. Despite your best efforts at client education, these biases can sometimes lead them to act against their own best interests. Here's a look at six common biases and how to address them with your clients.



## Anchoring & Adjustment

"Anchoring" to an initial idea and then adjusting beliefs to reach that conclusion—rather than accepting a different outcome.

### Client example

They might feel that equity markets are too volatile, and negative market events will create too many losses.

### To address it

- ✓ Challenge their assumptions with real market data.
- ✓ Use a systematic approach to guide complex decisions.
- ✓ Explain how diversification helps reduce volatility.



## Availability

Believing that easily remembered things must be a more important—and ignoring facts that could argue against it.

### Client example

They might only invest money in companies or strategies they have heard of.

### To address it

- ✓ Don't rush decisions.
- ✓ Provide a fundamental analysis that explains outside factors.
- ✓ Show how alternatives may be a better fit.



## Loss Aversion

Weighing the impact of loss more heavily than the possibility of gains.

### Client example

They may not understand an investment or strategy and can only view the downside—fear losing all their money in the stock market.

### To address it

- ✓ Simplify the complex.
- ✓ Consider generational experiences and cultural factors.
- ✓ Clearly explain market volatility and growth.
- ✓ Create well-defined plans and automate the process.



### Did you know?

When investors react to market events and make decisions without context, they can actually lower their long-term results.<sup>1</sup>

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## Representativeness

Overestimating the likelihood of an event based on what is already known.

### Client example

They might believe an industry, stock or strategy will always grow because it has for many years.

### To address it

- ✓ Discuss their assumptions in historical context.
- ✓ Back up your discussions with statistics.
- ✓ Help clients think logically, rather than emotionally.

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## Herd Behavior

Rationalizing a behavior or practice because “everyone else is doing it.”

### Client example

Buying or selling an investment based on headlines, not sound fundamental investment facts and logic.

### To address it

- ✓ Help clients formalize their own beliefs and opinions.
- ✓ Teach them to avoid decisions based on stress, market volatility or global events.
- ✓ Discuss investment decisions to ensure they align with their investment strategies.

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## Overconfidence

Overestimating one’s knowledge and ability.

### Client example

They might believe that in previous market cycles, they would have made “winning” decisions to buy or sell investments.

### To address it

- ✓ Provide sound research to support fact-based decisions.
- ✓ Offer realistic views on potential risks to their investment plans.
- ✓ Ask them to provide an opposing, “devil’s advocate” viewpoint to discuss how they could be wrong.

**Ready to learn more about how biases can affect the retirement plans of your clients?**

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<sup>1</sup> Dalbar QAIB 2023: Investors are Still Their Own Worst Enemies | Index Fund Advisors, Inc. (ifa.com) accessed 7/14/2023



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