



Behavioral Economics and Q Wealth Partners

| Q WEALTH PARTNERS |
THE FUTURE OF PRIVATE WEALTH MANAGEMENT



Why?

Behavioral Economics at Q Wealth

Our Core, Fundamental Belief:

“The Financial Plan acts as the Linchpin of the Client/Advisor Relationship”





Why?

Behavioral Economics at Q Wealth

Our Core, Fundamental Belief of Financial Planning:

“We Know Our Clients
Better Than They Know Themselves”





Why?

Behavioral Economics at Q Wealth

To Accomplish That End:

“We Need to Know Why Our Clients Make The Decisions They Make”





Why?

Behavioral Economics at Q Wealth

Knowing the data is not enough.

We need to understand the underlying biases that drive the decisions they arrive at.





Starting Point

Expected Utility Theory



Expected Utility Theory

is a popular concept in **economics** that serves as a reference guide for decisions when the payoff is uncertain.





Expected Utility Theory

The theory recommends which option **rational** individuals should choose in a complex situation, based on their **risk appetite** and **preferences**.





In Other Words...

- When you are faced with a financial decision
- And you can't know which is the best option...
- **Expected Utility Theory** says you will think through it logically and arrive at the decision which brings you the most value or utility.





Expected Utility Theory

It has a **normative** interpretation which economists used to think applies in all situations to rational individuals.





In Other Words...

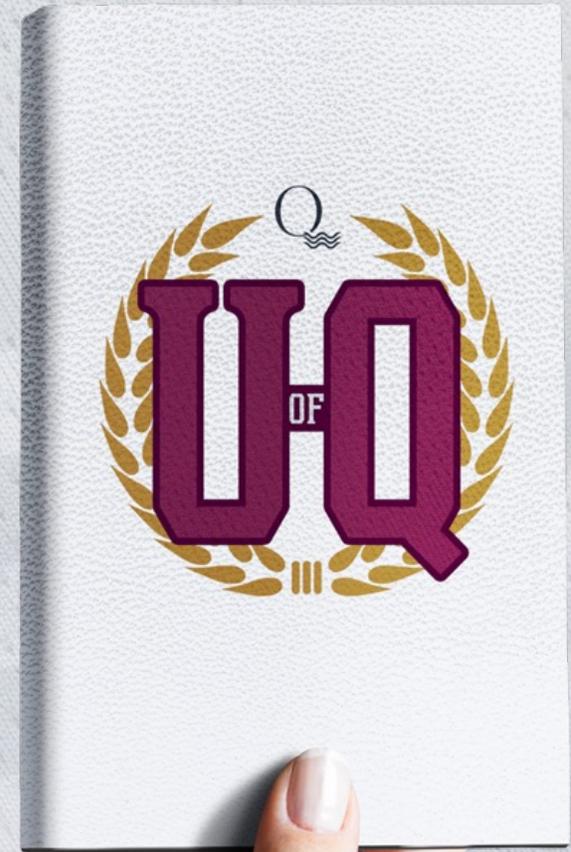
- Our logical thought process converts the possible outcomes into the probability of the amount of risk.
- We apply the same logical thought process for gains and losses
- We will apply an innate understanding of statistical analysis.





First Paper

Judgement Under Uncertainty: Heuristics and Biases





First Paper

Judgement Under Uncertainty: Heuristics and Biases

How do people assess the probability of an uncertain event or the value of an uncertain quantity?

They rely on a limited number of **heuristic principles (rules of thumb)** which reduce the complex tasks of assessing probabilities and predicting values.





First Paper

Judgement Under Uncertainty: Heuristics and Biases

How do people assess the probability of an uncertain event or the value of an uncertain quantity?

In general, these heuristics are quite useful, but sometimes they lead to severe and systematic errors.





How do we make decisions when the outcome is uncertain?

Not at all intended for Economics. The conclusion was we use **Three Specific Heuristics:**

Representativeness

How much one thing represents a similar event.

Availability

How easy it is to mentally retrieve information.

Adjustment and Anchoring

Starting from an initial value and then adjusting outward.

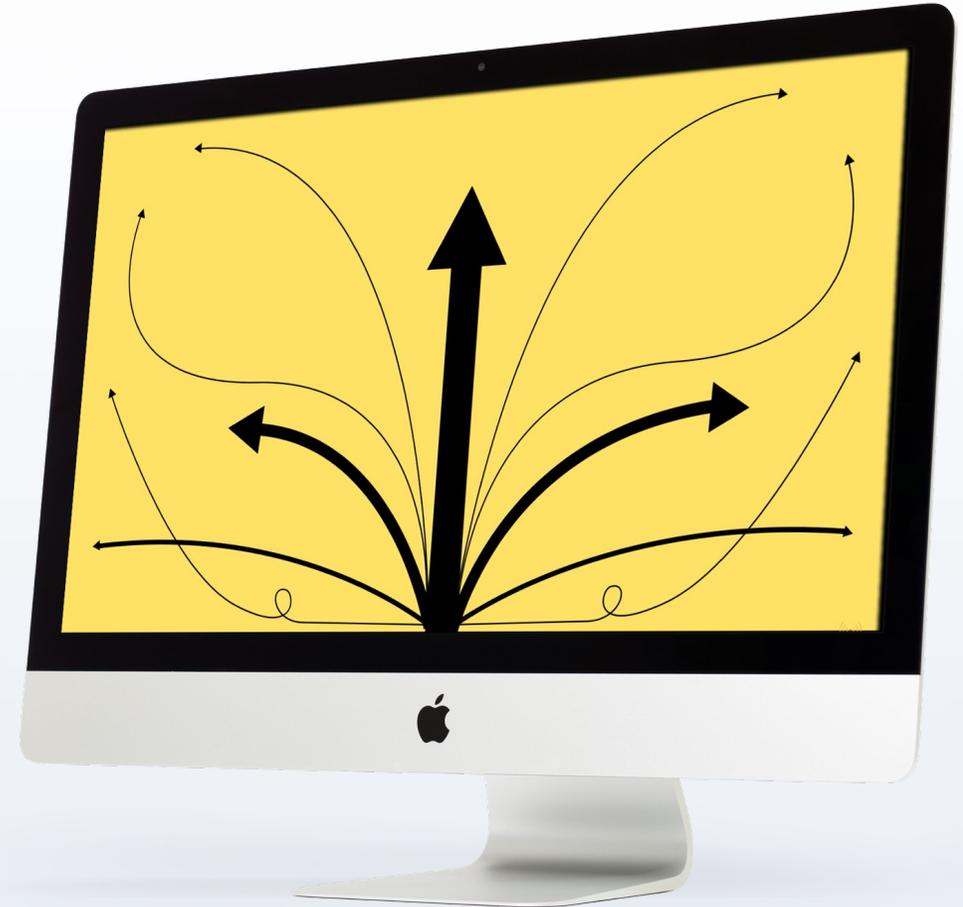




Learn More

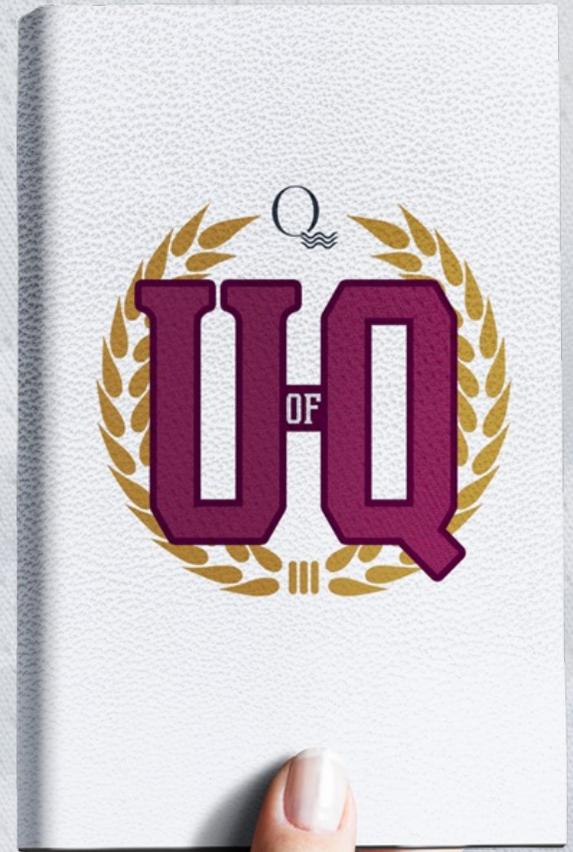
**Kahneman and Tversky:
How heuristics impact
our judgment**

WATCH ON





Second Paper
Prospect Theory





Second Paper Prospect Theory

The prospect theory says that investors value gains and losses differently.

We place more weight on perceived gains versus perceived losses.





Second Paper Prospect Theory

The prospect theory says that investors value gains and losses differently.

An investor presented with a choice, both equal, will choose the one presented in terms of potential gains.





Second Paper Prospect Theory

The prospect theory says that investors value gains and losses differently.

Prospect theory is also known as the loss-aversion theory.





Second Paper Prospect Theory

We constantly defy rational choice.

Faced with a risky choice leading to gains, individuals are risk-averse, preferring solutions that lead to a lower expected utility but with a higher certainty (concave value function).





Second Paper Prospect Theory

We constantly defy rational choice.

Faced with a risky choice leading to losses, individuals are risk-seeking, preferring solutions that lead to a lower expected utility if it has the potential to avoid losses (convex value function).





Second Paper Prospect Theory

We constantly defy rational choice.

People attribute excessive weight to events with low probabilities and insufficient weight to events with high probability.





We constantly defy rational choice.

For example, individuals may unconsciously treat an outcome with a probability of 99% as if its probability were 95%, and an outcome with probability of 1% as if it had a probability of 5%.

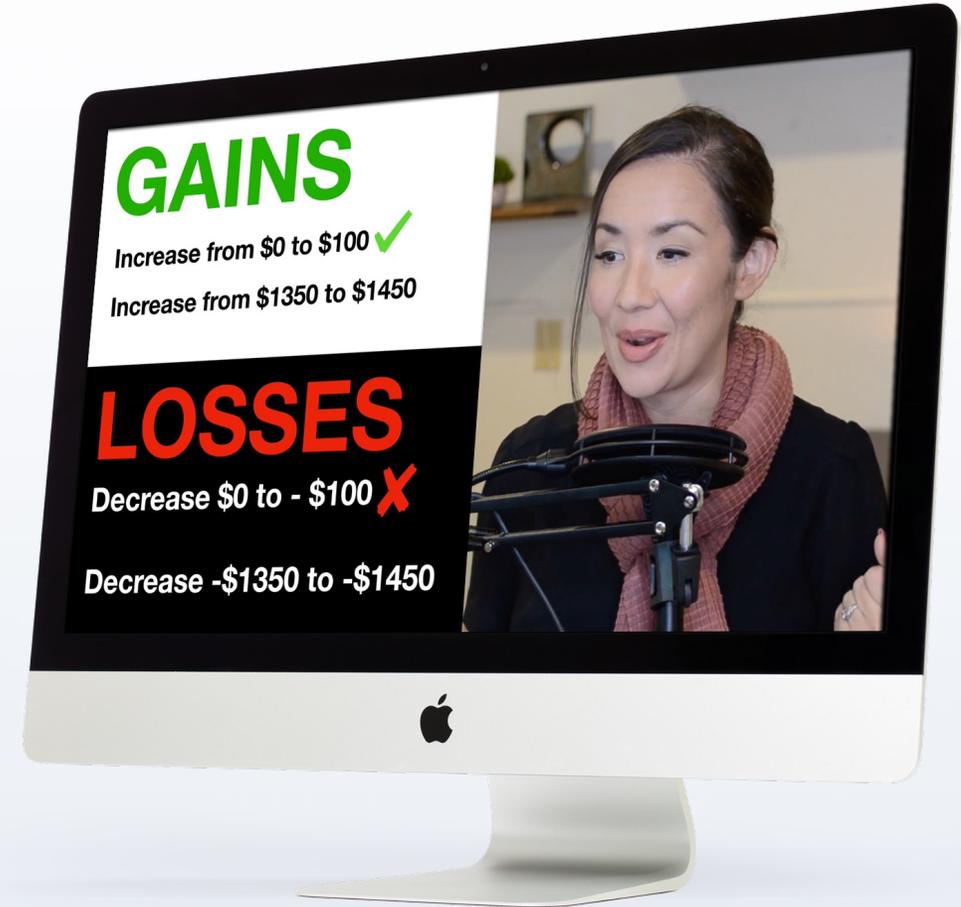




Learn More

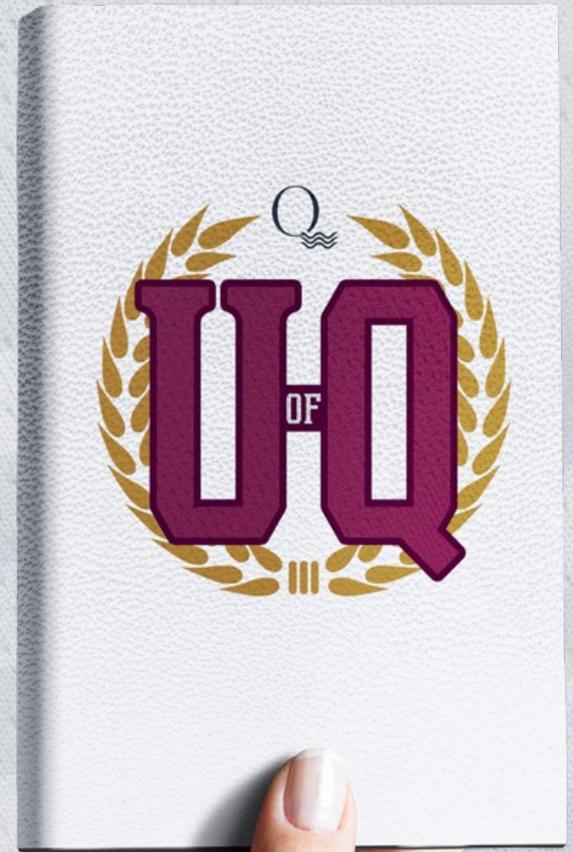
Lecture: Prospect Theory, Judgment and Decision Making

WATCH ON





Third Paper
Thinking:
Fast & Slow





Third Paper
Thinking: Fast and Slow

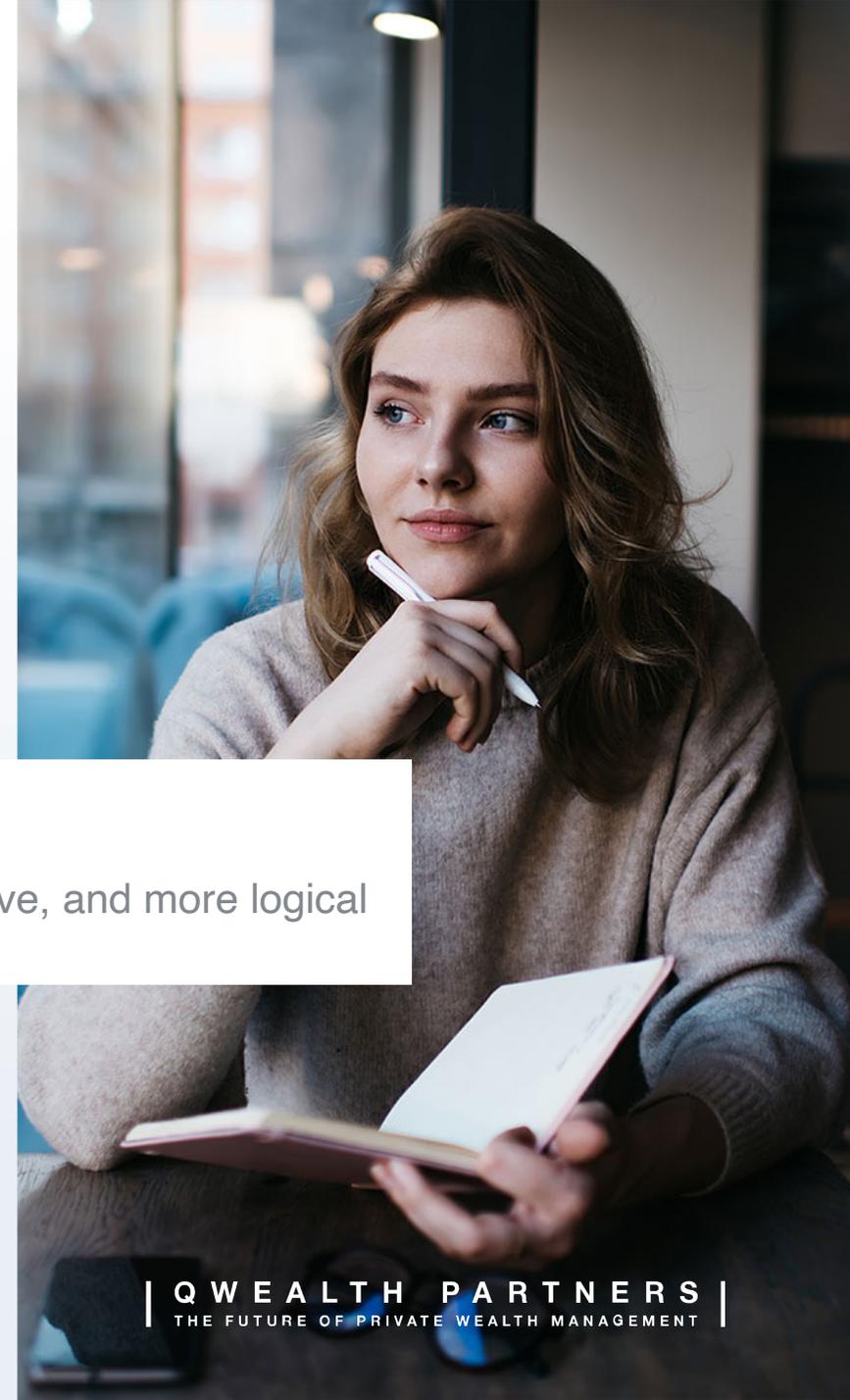
The main thesis is that of a dichotomy between two modes of thought...

"System 1"

is fast, instinctive and emotional;

"System 2"

is slower, more deliberative, and more logical





Anchoring:
A tendency to be influenced
by irrelevant numbers.

Shown greater/lesser numbers, experimental subjects gave greater/lesser responses.





Anchoring:
**A tendency to be influenced
by irrelevant numbers.**

As an example, most people, when asked whether Gandhi was more than 114 years old when he died, will provide a much greater estimate of his age at death than others who were asked whether Gandhi was more or less than 35 years old.





Anchoring:
**A tendency to be influenced
by irrelevant numbers.**

Experiments show that people's behavior is influenced, much more than they are aware, by irrelevant information. Which explains why humans struggle to think statistically.





Framing:
The context in which choices are presented.

Subjects were asked whether they would opt for surgery if the survival" rate is 90 percent, while others were told that the mortality rate is 10 percent.





Framing:
**The context in which
choices are presented.**

The first framing increased acceptance,
even though the situation was no different.





Learn More

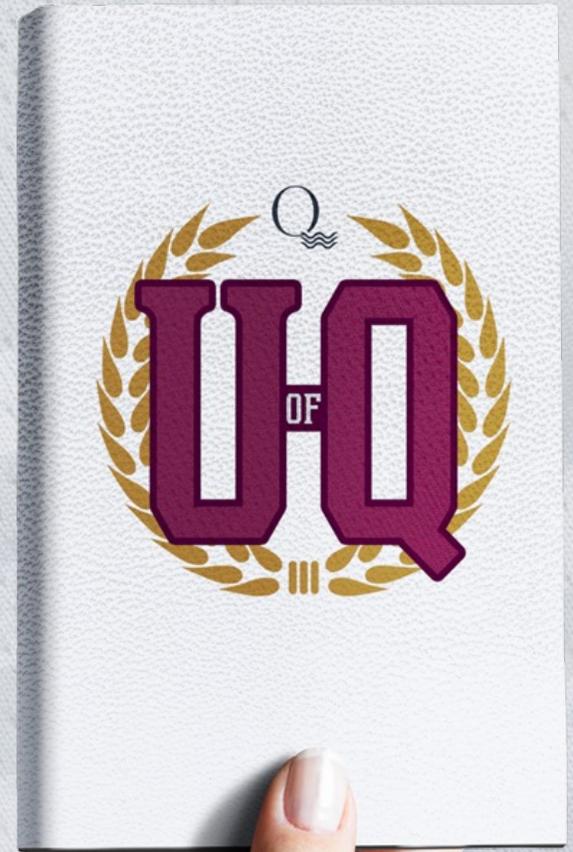
Thinking, Fast and Slow
by Daniel Kahneman

WATCH ON





Fourth Paper Nudge





Richard Thaler draws on research in psychology and behavioral economics to defend libertarian paternalism

Influencing someone's decision but not negating their freedom of choice.





Richard Thaler draws on research in psychology and behavioral economics to defend libertarian paternalism

Popularized the concept of **nudge theory**.





Richard Thaler draws on research in psychology and behavioral economics to defend libertarian paternalism

A nudge, according to Thaler and Sunstein, is any form of choice architecture that alters people's behavior in a predictable way without restricting options or significantly changing their economic incentives.





Richard Thaler draws on research in psychology and behavioral economics to defend libertarian paternalism

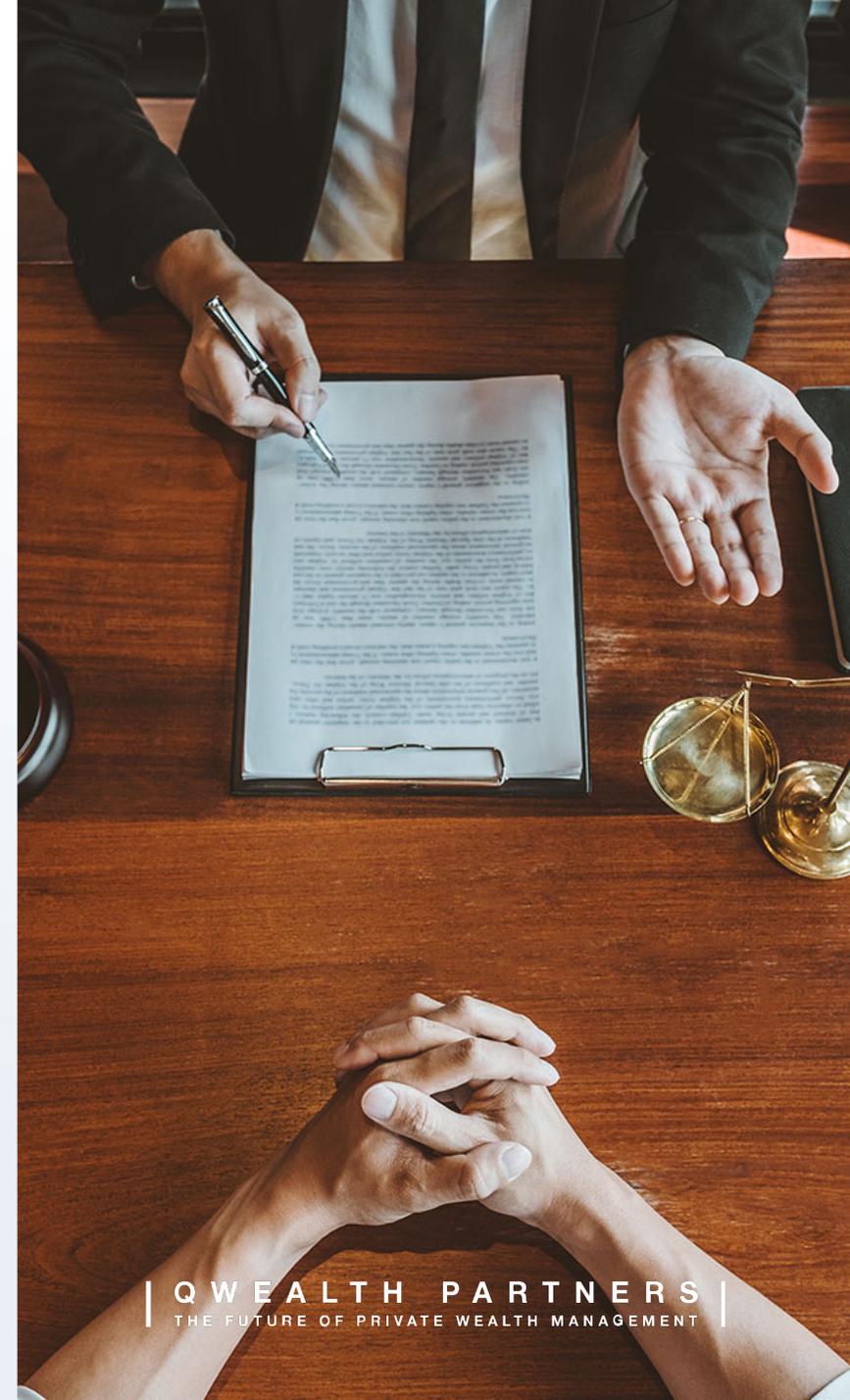
To count as a mere nudge, the intervention must require minimal intervention and must be cheap.





- **Policy Recommendations**
- Retirement Savings
- Health Care

In the areas of **finance, health, the environment, schools, and marriage**. They believe these problems can at least be partially addressed by improving the choice architecture.





Fourth Paper Nudge

- Policy Recommendations
- **Retirement Savings**
- Health Care

Creating better default plans for employees.

Employees would be able to adopt any plan they like, but, if no action is taken, they would automatically be enrolled in an expertly designed program [such as social security].

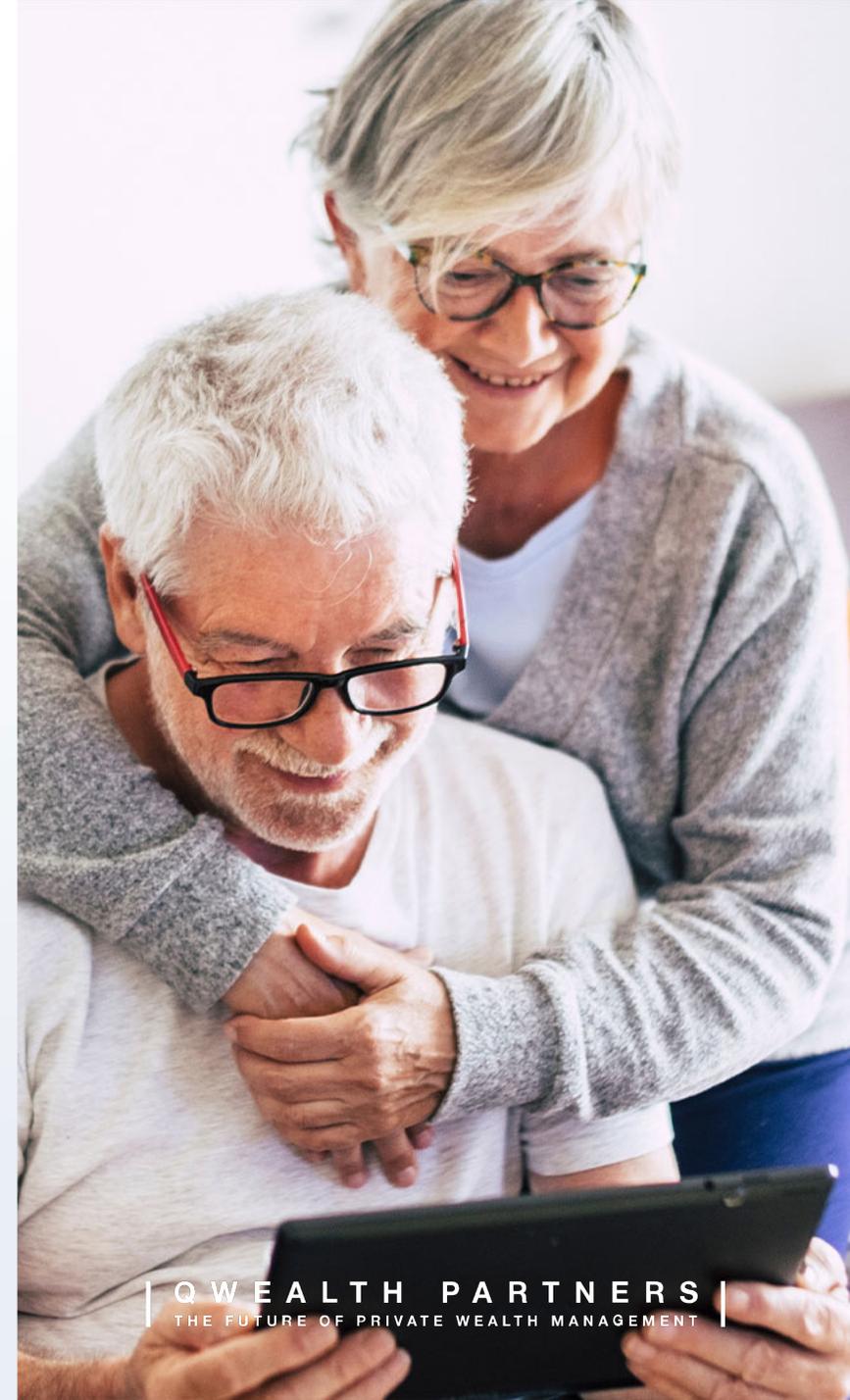




Fourth Paper Nudge

- Policy Recommendations
- **Retirement Savings**
- Health Care

They also propose what they refer to as the "Save More Tomorrow" plan. This program would invite "participants to commit themselves, in advance, to a series of contribution increases timed to coincide with pay raises.





Fourth Paper Nudge

- Policy Recommendations
- Retirement Savings
- **Health Care**

Propose a way to increase **organ donation** rates in the United States. They argue that a mandated choice program should be put in place, where, in order for someone to renew their driver's license, they must say whether or not they would like to be an organ donor.





How We Use Behavioral Economics at Q Wealth

| Q W E A L T H P A R T N E R S |
THE FUTURE OF PRIVATE WEALTH MANAGEMENT



How?

- **Step One**
- Step Two
- Step Three

Values Exercise:

Allow a client to identify their **“Ideal Life”**



How?

- Step One
- **Step Two**
- Step Three

Function of Assets Exercise:

Allow a client to identify
**“What They Want
Their Money to do for Them”**



How?

- Step One
- Step Two
- **Step Three**

QData Link:

Allow a client to provide the
“Numeric Data”



Now we have ALL the relevant information,
we need to create a **Financial Plan**.

This is the equivalent of
Expected Utility Theory or **System 2**.



How?

- **Step Four**
- Step Five
- Step Six

QBias Survey:

Allow our client to identify their
“Intrinsic Biases”



How?

- Step Four
- **Step Five**
- Step Six

Cross check their identified **“Intrinsic Biases”** against the stated **“Desired Outcomes”** of their **“Ideal Life”**



How?

- Step Four
- Step Five
- **Step Six**

“**Nudge**” them towards making decisions based on what they said they wanted from their life.



**This ensures
our clients live their
Journey Based Plan**