



## **PENNY RADIO**

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### **THE MONEY PODCAST**

#### **S01E11 - Behave Yourself Show Notes**

##### **Biases**

1. Overconfidence - We think we are better than we are, luckier than average and have more control than we do. This can lead us to making bad financial decisions because we think that normal logic doesn't apply to us!
2. Overreaction - This is where we react too much to movements in the value of our investments. This can lead to us trading too much, selling when the market is crashing, buying when it is sky-rocketing and often just missing out on general gradual increases in investments.
3. Loss Aversion - We hold on to poorly performing investments for too long as we don't want to make a loss real, only for it to keep getting worse. And we sell strongly performing investments too early just to make sure we make some profit, only for them to carry on going up and up and up.
4. Anchoring - This is where we focus on an irrelevant point, like what the share price was last year and can lead to loss aversion.
5. Confirmation Bias - We are all guilty of living in an echo chamber and only listening to news and views that support what we already think. We tend to filter out important information and clear warning signs against the financial decision we are just about to make. We often don't even know we are doing this!
6. Following The Herd - If we hear the good news stories we tend to jump on board. But usually we have either just missed the big move up, or eventually it creates a bubble which will then burst and leave us in a worse position later on.
7. Familiarity Bias - This is where we only invest in things we know, like the company that makes our favourite clothes or beer. Or even in the company we work for. This means that we do not hold a diversified portfolio of investments, meaning we are at risk of making large losses if the few companies we are invested in do badly.
8. Endowment Bias - People often hold on to investments they are given or inherit, even if they are not suitable for their financial goals and ultimately financial health. This is where sentimental value can actually be dangerous!

## 10 Quick Tips You Can Put Into Action Today To Help Develop Better Financial Behaviours!

1. Do **NOT** do nothing. Start sorting out your finances **NOW!**
2. Admit to yourself that you do not know everything, you are not luckier than the average person and you cannot control things beyond your remit
3. Focusing on the long-term will help prevent overreaction, anchoring and following the herd
4. Come up with your own investment rules **BEFORE** you start investing
5. Focus on your own internal measures and your own personal goals, not external benchmarks. Try putting a picture of your personal goals in your wallet so you see it every time you go to buy something
6. Only make financial decisions in a calm environment when you have plenty of time to think things through properly. Give yourself a natural cooling off period before you implement any decisions you have made
7. Talk through your financial decisions (before you implement them) with someone close to you. Especially if the decision impacts them!
8. Write down all the financial biases above and use them as a checklist when you are making a financial decision - how might they have impacted you when you made this financial decision. Be honest with yourself!
9. Do not check your investments too regularly! Once a month is more than enough and don't look to make any changes more often than every 3-6 months
10. Take responsibility! Take control of your own financial future!

### Exercises

Remember these exercises are entirely optional but by doing them it will help you get an understanding of how different parts of personal finance work and will help you get to know your own money better.

1. What are your own behavioural biases?
  - a. Are you naturally a saver or a spender?
  - b. What is your Debtitude?
  - c. What is the step-by-step process that you use to make financial decisions? Be honest?
  - d. Do you talk through your decisions with someone close to you? What about if it affects them?
  - e. Write down 3 times that you have made a good financial decision. If you haven't made many financial decisions in the past, try and do this with any major decisions you have made. Why were they good decisions? How did you make those decisions? How much was luck and how much was skill? Be honest with yourself!
  - f. Write down 3 bad financial decisions you have made in the past. Why were they bad? How did you make them?
  - g. When it came to the bad decisions, what would you change about the way you made the decisions? How would you change the decisions themselves, if you were faced with the same situation again and only had the information you had at the time?
  - h. What were the underlying reasons and causes for the decisions that you made?

2. Start your own Financial Decision Journal. You can use the template [here](#) to help you. When you come to review your financial decisions in the future, think how you would change things if you were faced with a similar situation again. This journal will help you understand how your own biases and behaviours affect your own personal financial decisions and ultimately financial health.

## References

1. Pete Matthews and the Meaningful Money Podcast, Season 3 - Behavioural Finance <https://meaningfulmoney.tv/category/podcast/season-3/>
2. Financial Wellbeing Podcast, Episode 25 - Behavioural Economics With Greg Davies <https://www.financialwell-being.co.uk/2017/10/19/episode-25-behavioural-economics-with-greg-davies/>
3. Andy Hart and the Money Maven Podcast <https://www.mavenadviser.com/podcast>