Behavioral Wealth Advisor

westwoodgroup.com/insight/behavioral-wealth-advisor/

We employ a comprehensive approach to managing wealth, where we consider quantitative details such as risk tolerance, investment returns and inflation expectations, as well as more qualitative details: the most efficient way to be charitable, how to create and sustain generational wealth, or how to avoid paying 40% of your estate to the IRS.

We use the qualitative and quantitative information ascertained during the exploration phase of the client relationship to model a financial plan that serves as a roadmap for our clients' long-term financial goal(s) — retirement, new home purchase, college tuition, testamentary bequest and so on. A comprehensive financial plan includes assumptions around income, expenses (including taxes) and investment returns, but the biggest, and arguably most important assumption, is that the client will be a rational long-term investor.

As such, one of our most important contributions to client relationships is acting as a behavioral coach to help manage investor biases.

Behavioral Finance tells us that people are prone to misjudgments and biases that can influence decision making. Relative to finance, these errors and biases can supersede rational thinking and lead to damaging behaviors that deviate from the agreed upon plan, increasing the likelihood of short-term information and emotions adversely affecting long-term goals.

Here are some of the most common biases displayed by investors:

- Loss aversion: Feeling twice as bad about a loss as we feel good about an equivalent gain
- Herding: The tendency to conform to group behavior, following the crowd
- Recency bias: Overemphasizing recent experiences when making a decision
- Availability bias: Overweighting information that comes most easily to mind or is readily available
- Heuristics: Cognitive shortcuts or rules of thumb that simplify decision making
- Overconfidence: When confidence in one's own judgement is greater than the objective accuracy of that judgement

Couple these biases with volatility in the markets, rising inflation and geopolitical factors and you create a situation that is prime for irrational decision making. And though instant access to information has its positives, it can also lead to more irrational decisions, more frequently.

A wealth advisor who helps identify and manage behavioral biases that are not conducive to long-term financial planning might be as important as the plan itself.