Defining An Investment Strategy
For Irrational Investors

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@EmotionalInvest

Ambiguity

- IPS & Financial Plans Can Be Ambiguous
  - Goals may be specific
  - Pathway

Ambiguous (adj)
  - Open to more than one interpretation; unclear
Basics of a Strategy

For What Purpose Are You Investing?

1. Discussion of Goals
2. Identify Time Horizon
3. How Much is Needed

Defined Objectives

<table>
<thead>
<tr>
<th>Goal</th>
<th>Time</th>
<th>Need</th>
</tr>
</thead>
<tbody>
<tr>
<td>2nd Home</td>
<td>3 Years</td>
<td>$100k</td>
</tr>
<tr>
<td>Retirement</td>
<td>8 Years</td>
<td>$140k</td>
</tr>
<tr>
<td>Legacy</td>
<td>28 Years</td>
<td>$2M</td>
</tr>
</tbody>
</table>
Behavioral Finance within the Plan

Mental Accounting

- Don’t Treat All Money Equally
  - Bonus vs. Salary
  - Lottery Winning vs. Earned Income

Another Way…

- Time Horizon Approach

<table>
<thead>
<tr>
<th>Short Term</th>
<th>Med Term</th>
<th>Long Term</th>
</tr>
</thead>
<tbody>
<tr>
<td>0 – 4 years</td>
<td>4 – 8 years</td>
<td>8+ years</td>
</tr>
<tr>
<td>Cap. Preservation</td>
<td>Balanced</td>
<td>Growth</td>
</tr>
</tbody>
</table>

THESE ARE JUST EXAMPLES. CHOOSE YOUR OWN FIGURES
Investment Expectations

- What do you expect the market will do in the next…?
  - Week
  - Month
  - Year
  - Decade

- How will the financial media act during Bull/Bear mkts?
  - How can it help you?
  - How can it hurt you?
Investment Expectations

- Concentrated or diversified approach?
  - When will it do well?

Investment Expectations

- What can you control/not control?
Investor Expectations

Investment Constraints

- **Buy Discipline**
  - Assets OK to Buy
  - Assets to Avoid

Common IPS Points

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Investor Expectations

Investment Constraints

- **Sell Discipline**
Investor (Behavior) Expectations

- Prior Investor Decisions
  - Strong Bull Market (1999)
  - Big Bear Market (2009)
  - Your Portfolio Underperforms

Calculating Risk

- Risk Profilers are Poor Predictors
  - Bull Market vs. Bear Market
  - Thesis Findings
Calculating Risk

FINRA RISK PROFILE:
Financial Capacity + *Perceived* Willingness

Source: Nerds Eye View, Apr 23, 2016

What is your risk attitude?
Calculating Risk

- Which term below do you associate with “risk”?

Cognitive Reflection Test

- A different "risk profile"
- Measures analysis vs. intuition

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Cognitive Reflection Test

1. A bat and a ball cost $1.10 in total.

Cognitive Reflection Test

2. It takes five machines, five minutes to make five widgets.

3. In a lake, there is a patch of lily pads. Every day, the patch doubles in size. It takes 48 days for the patch to cover the entire lake.
Review of Risk Preference

**Situation #1**
- Risk Profile says Moderately Aggressive
- Risk Attitude is “Loss”
- CRT Score is “0”

**Situation #2**
- Risk Profile is Moderate
- Risk Attitude is Uncertain
- CRT Score is 1 or 2
Risk of Loss

- Your Assets Will Lose Value At Some Point

![Chart showing market downturns from 1800 to 2015.](chart.png)

Source: A Wealth of Common Sense  Apr 25, 2016

- Conditions When Prices are Low?
- Difficulty of Buying Low
- Plan to Buy Low
## Pre-Commitment Plan

- Systematic Way to Buy Low & Sell High
- Must Be Specific
- Discretionary – signals your intention
- Non-Discretionary – improves adherence

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### Buying Low

Based on Broad Market changes

- If the market is down _____% from its highs, we will move _____% from cash/bonds to stocks.
- If the market is down _____% from its highs, we will move _____% from cash/bonds to stocks.
- If the market is down _____% from its highs, we will move _____% from cash/bonds to stocks.

These are just examples. Choose your own figures.
Buying Low

Based on Account Value Change: $2,150,000

- If your portfolio falls to $1.8M, add $55k to stocks.
- If your portfolio falls to $1.5M, add $60k to stocks.
- If your portfolio falls to $1.2M, add $60k to stocks.

These are just examples. Choose your own figures.

Selling High

Based on Broad Market changes

- If the market is up _____% from its lows, we will move _____% from stocks to cash/bonds.
- If the market is up _____% from its lows, we will move _____% from stocks to cash/bonds.
- If the market is up _____% from its lows, we will move _____% from stocks to cash/bonds.

These are just examples. Choose your own figures.
Behavioral Coaching

Coach During the Planning

Making it Easy

Mind Games
- Video & Blog content for your website
- Digital Marketing + Behavioral Coaching

www.theEmotionalinvestor.org/mg

SCHEDULE CALL: jay@theEmotionalinvestor.org
Q & A

What are you doing today to help your clients make better financial decisions tomorrow?

Why Behavioral Coaching:

1. RoboAdvisors/RoboPlanners
   Investors are focused on low fees and new an advisor's primary role is offer fall, allocation and financial projections. These are now available at next to no cost. Behavioral coaching is a differentiator, both from a RoboOffering and from advisors that don't offer it.

2. Progression – A Better You
   This is about becoming a better investor and improving your client's ability to make better decisions. Regardless of past mistakes, we can make better future decisions, so long as we improve our decision-making process. That's what behavioral coaching is all about.

3. Value You Can Measure
   Vanguard found that behavioral coaching can increase the average return on an average investor. This study concluded that behavioral coaching increase the average return by $200 million a year compared with investors that don't practice it.

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