

Oxford
Risk



**Behavioural Finance.
Applied.**

Empowering a lifetime of financial decisions.

How 'noisy' is your investment advice?

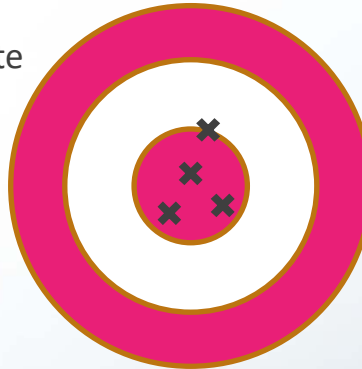


Advice is noisy

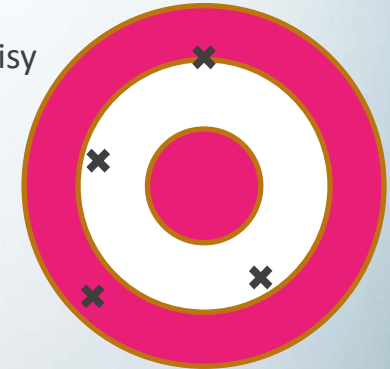
What is noise, and why should you care?

- Solution should depend on the investor, not adviser
- Consistency of advice is crucial for any firm
- Humans can struggle to produce reliable decisions with many moving parts and contextual factors

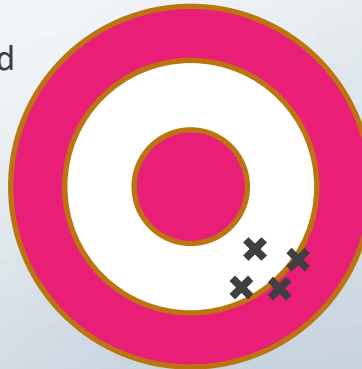
Accurate



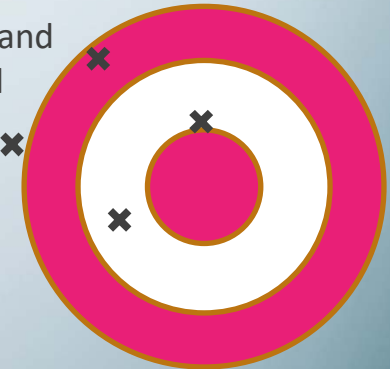
Noisy



Biased



Noisy and biased

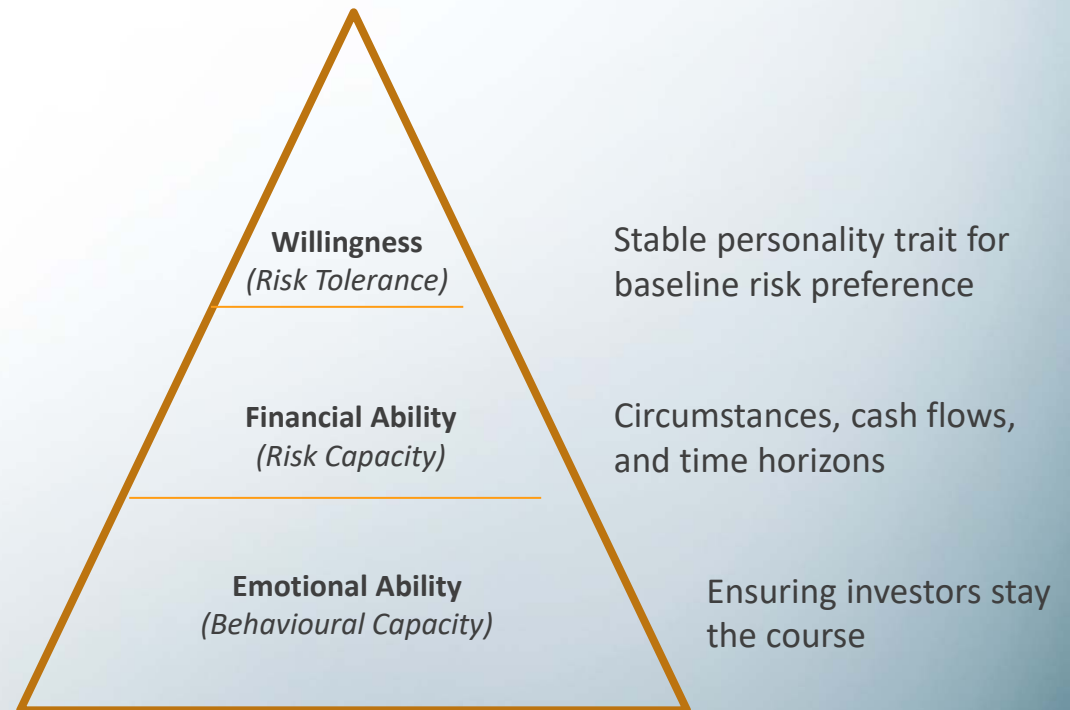


Adapted from Kahneman et al, HBR, 2016

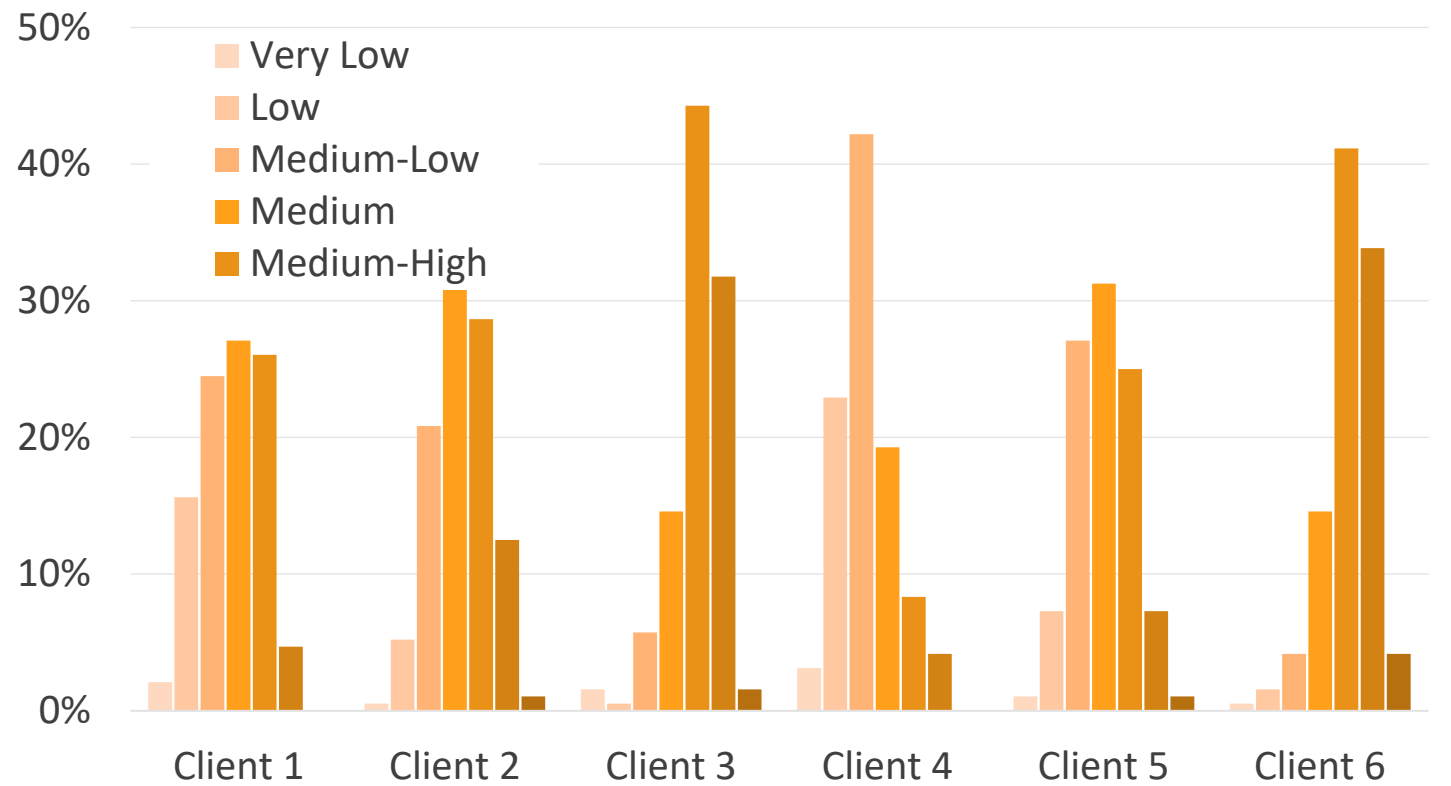
Understand investors

How much noise is there in financial advice?

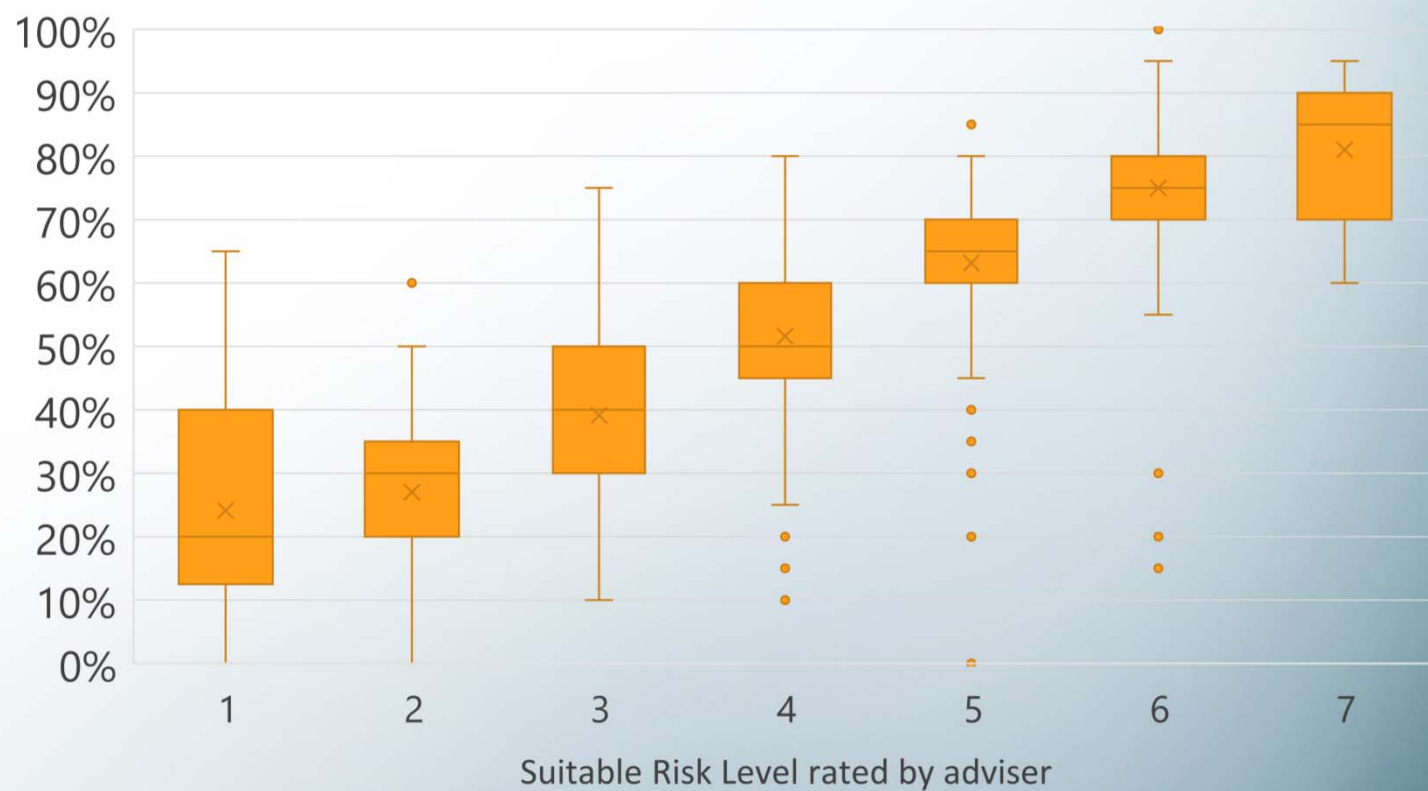
- Do advisers agree on the suitable risk level for a specific client?
- Which factors, relevant and irrelevant, most influence advice?
- How much variation in advice is due to 'noise' or inconsistency?



Judged Suitable Risk Level



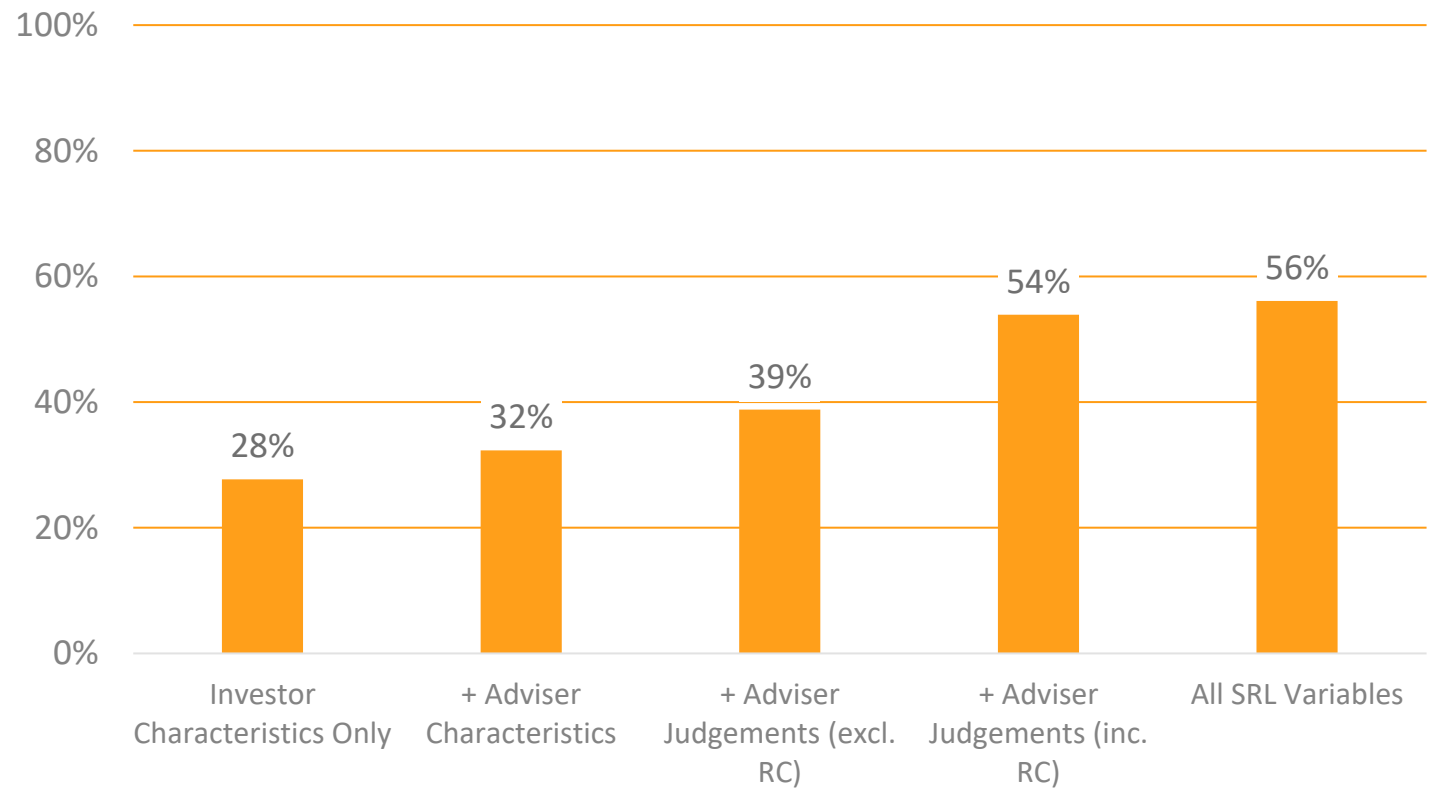
Judged Equity Allocation

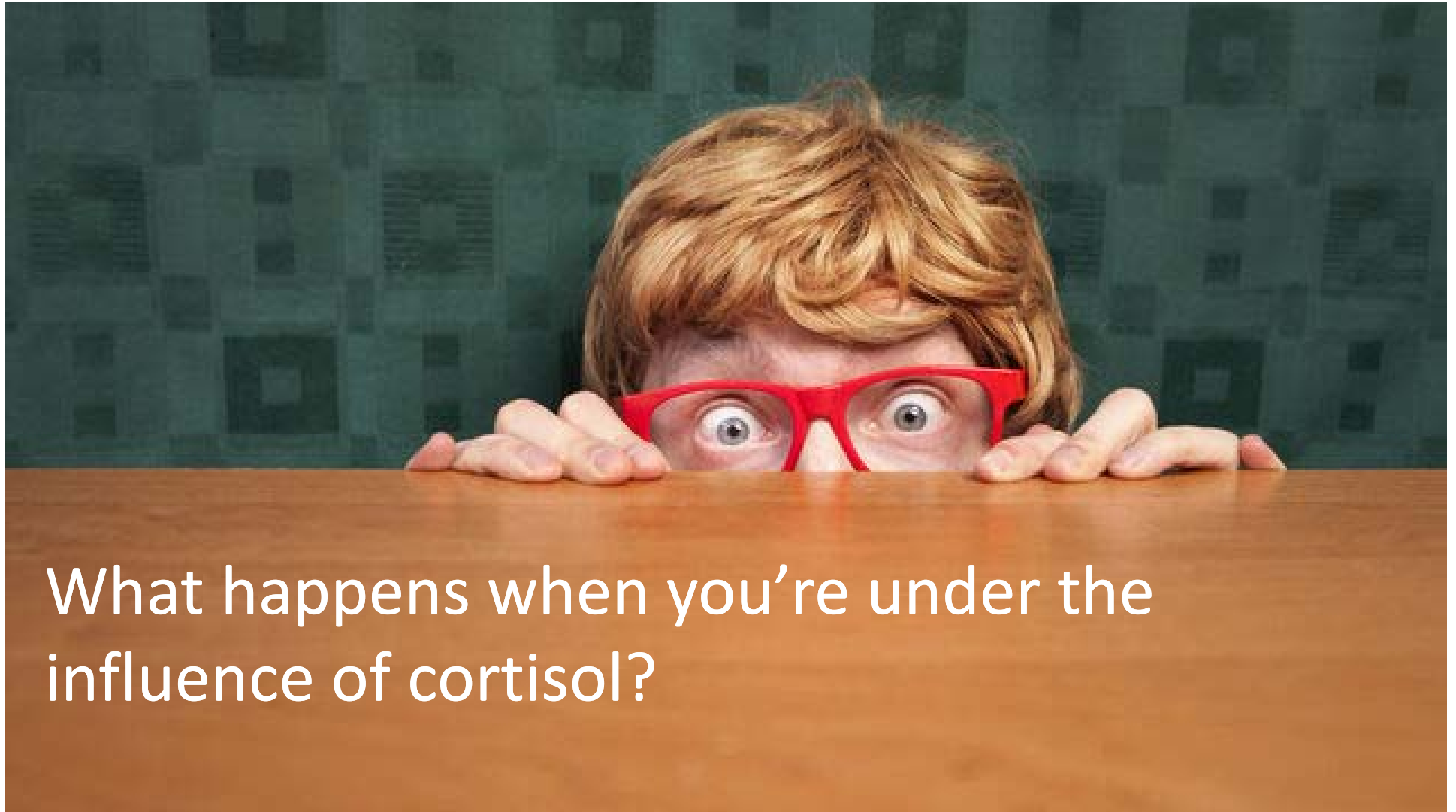


Judged Equity Allocation



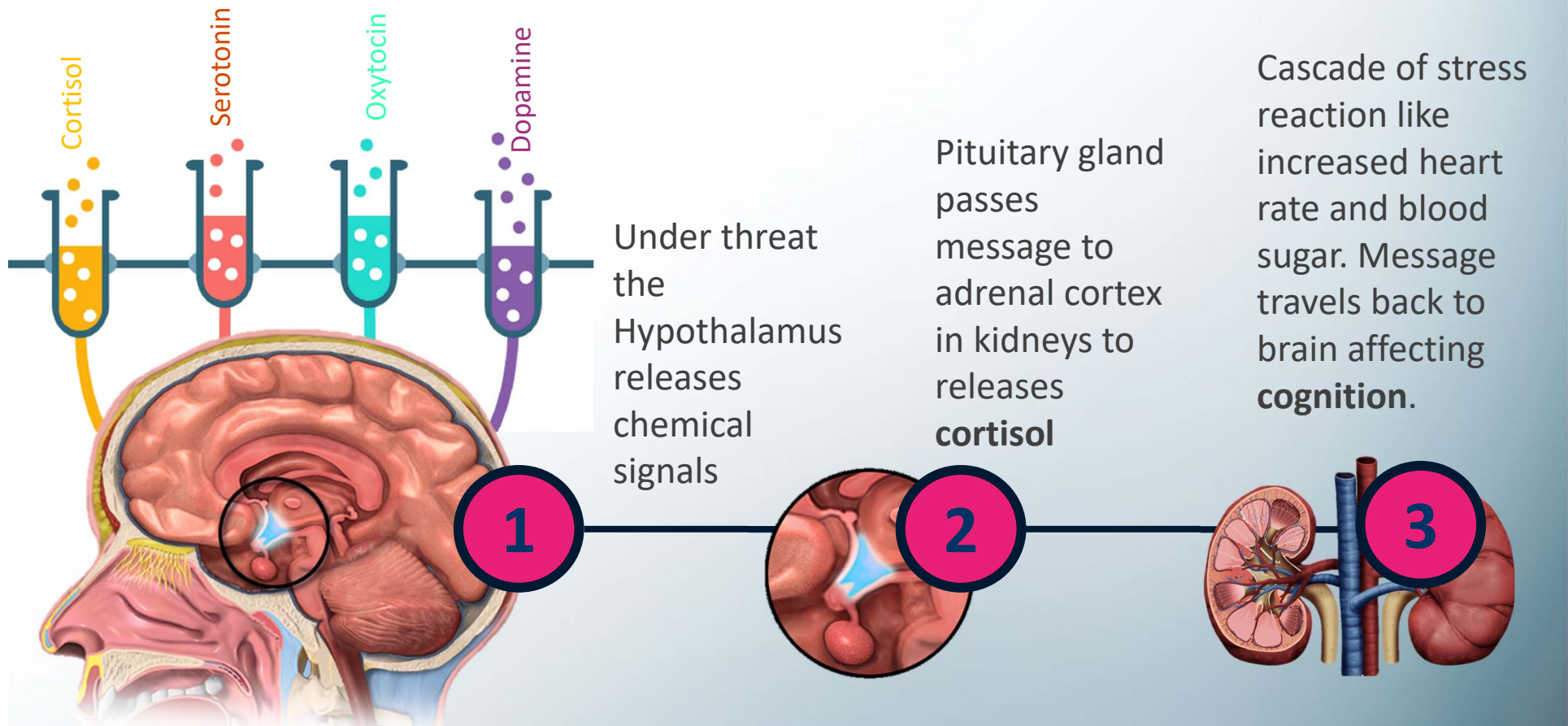
Factors influencing judged suitable risk level





What happens when you're under the influence of cortisol?

Your chemical romance







Should you and your clients
have different blind spots?



Client Archetypes

m

Assertive



Anxious



Contrarian



Avoider



**Market
timer**



Adviser Archetypes

m



Cautious

- Tend to recommend less risk
- Lower composure

27%



Unsure

- Lower composure, less confident
- Inconsistent responses

16%



Risk tolerance focused

- More focused on risk tolerance
- More likely to be a tied agent

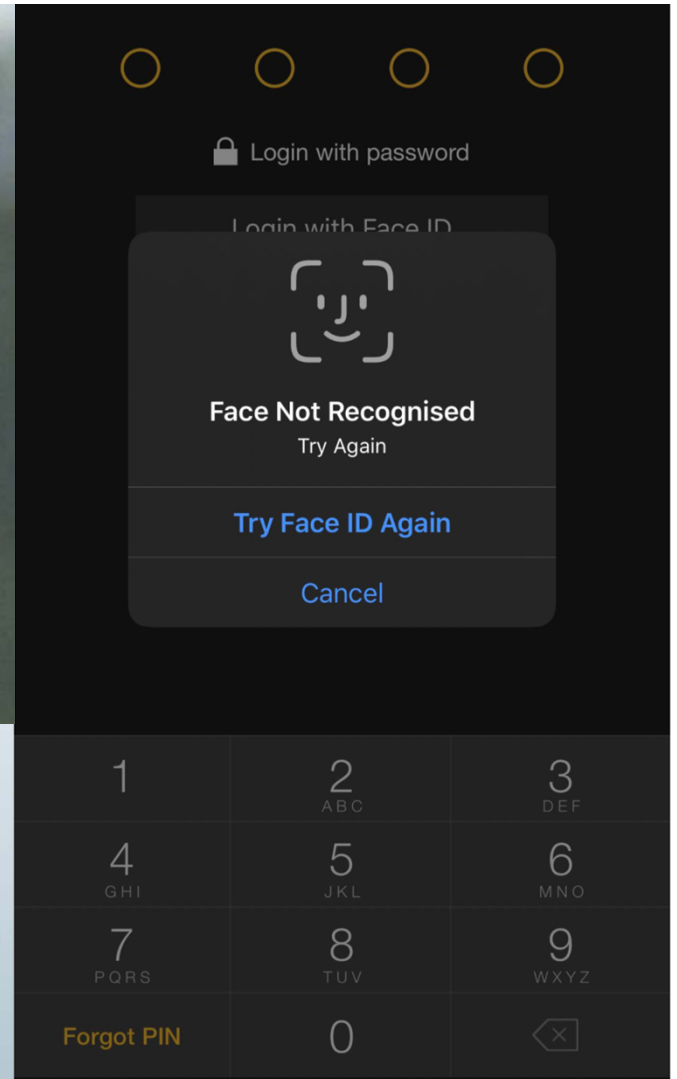
35%



Relaxed

- Likely to recommend higher risk
- Higher risk tolerance/composure projected

22%



The role of tools and tech?

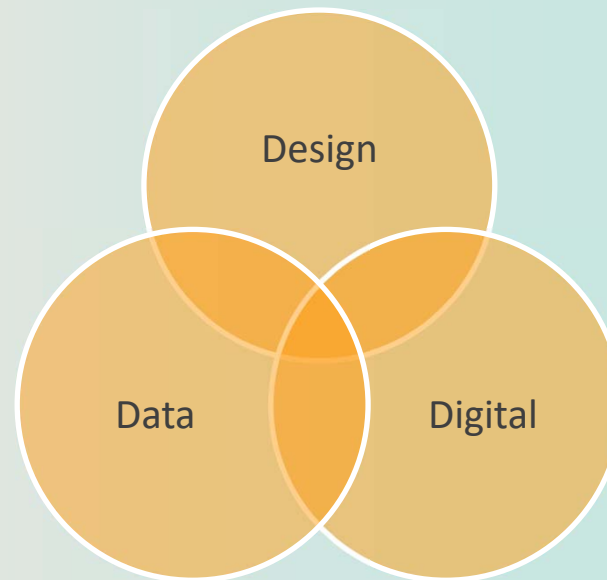
Behavioural sweet spot

Grant me:

*The serenity to accept what computers do
better than people,*

*The courage to let people do what they do
better than computers, and...*

...the wisdom to know the difference.



Oxford
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Thank you