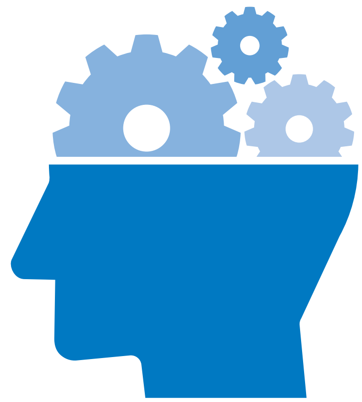
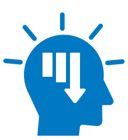
Better conversations.
Better outcomes.

Understanding your clients' behavioral biases



Traditional economic theory tells us that humans are generally rational beings, and make decisions from an optimal perspective. However, even the most experienced investors can let emotions get in the way of their decision making. So how do you minimize the impact of emotions? A good place to start is becoming familiar with the common behavioral biases. Let's take a look at how to identify the biases that may impact your clients' investment decisions and how to help clients overcome them.



Loss aversion

Some investors focus more on losing money even if the rest of their portfolio is up. This can result in your clients either taking on too much risk to recover losses or seeking an overly conservative investment strategy.

Solution: It's tough to change the ways of an emotional client. The best approach is to understand and adapt to the client's behavior before a crisis erupts. Risk tolerance questionnaires can help you gather information about your client's tendencies to deal with losses. Focusing on your client's investment goals can help manage risk without succumbing to the fear of loss.

Game theory

How do your clients make decisions about their financial future? Game theory is thinking strategically about what matters to you, and what matters to the other party; what can you ask for, and what you can likely get; what move you can make next, what their response will be, and how you can counter. At the core, it's best to understand your client's negotiation tactics in order to achieve the best outcome.

Solution: It's important to understand the benchmarks your clients consider for their financial well-being. The more information you possess, the greater your strategic advantage. This will help you understand where your clients are coming from and how you can have that conversation, for example, when discussing fees and any price changes.

Helping you engage in better conversations that drive better outcomes is at the very heart of who we are at BMO Global Asset Management. And we do that by providing you with ideas, access and ease.

- **Ideas** — Unique insights into wealth planning and financial decision making.
- **Access** — To our investment teams and industry experts.
- **Ease** — Making it easy to put ideas and access into action.

Let's start better conversations!

Decision framing

How you frame questions to your clients can impact their decision based on how information is presented rather than at face value. How the question is presented, the language used and amount of information can cause an investor to change their decision.

1. **Choice architecture:** The order or layout of the options presented influences decision making. Simplify the presentation of options to make it easy for your clients to understand—for example: Arrange options from lowest to highest risk.
2. **Discussion framing:** Investment products can be complex and difficult to understand. Framing the conversation with easy and simple language can help you gain your client's trust.
3. **Overload:** Providing too much information can have an impact on the decision-making process, as your clients might have a difficult time discerning the most important elements. To the extent possible, limit the number of decisions the client needs to make in a single meeting. This means thorough preparation and prioritization of issues to ensure the client is responding to the most critical before reaching a point where they may feel overwhelmed or mentally fatigued.

Anchoring

First impressions are hard to shake, especially for investors who rely on the first piece of information they receive to make future decisions.

Solution: Anchoring bias does not have to be a bad thing. Use anchoring to your advantage by helping your clients set an anchor based on their financial goals. For example, this can be useful when trying to determine how much they will spend in retirement. A good approach is to set an anchor based on how much they are spending today and adjust the anchor based on how their lifestyle may change in retirement.

Hyperbolic discounting

It may be hard for many clients to focus on their future needs—especially when saving for retirement—because they value a smaller reward today over a larger reward tomorrow.

Solution: Saving can be easier when it's scheduled for the future. Signing up for automatic contributions and increases to a savings plan can help you get your clients to prioritize their future financial needs.

One of the biggest challenges advisors face is dealing with a variety of money mindsets. Understanding the roles that emotions and biases play in investment decision making can help generate stronger relationships with your clients.

Continue the conversation

BMO Global Asset Management's Better Conversation Guides provide insights into some of the biggest challenges to your success.

Visit **bmogamviewpoints.com** for additional resources and information to help make your next client conversation a better conversation.

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