

# A Guide to Behavioural Finance

Understanding your mind to make better  
financial decisions

This guide contains 14 pages and will take approximately 12 minutes to read



# Inside This Guide

Discover how your brain can work against your financial goals, and learn practical strategies to make better decisions with the support of professional advice.

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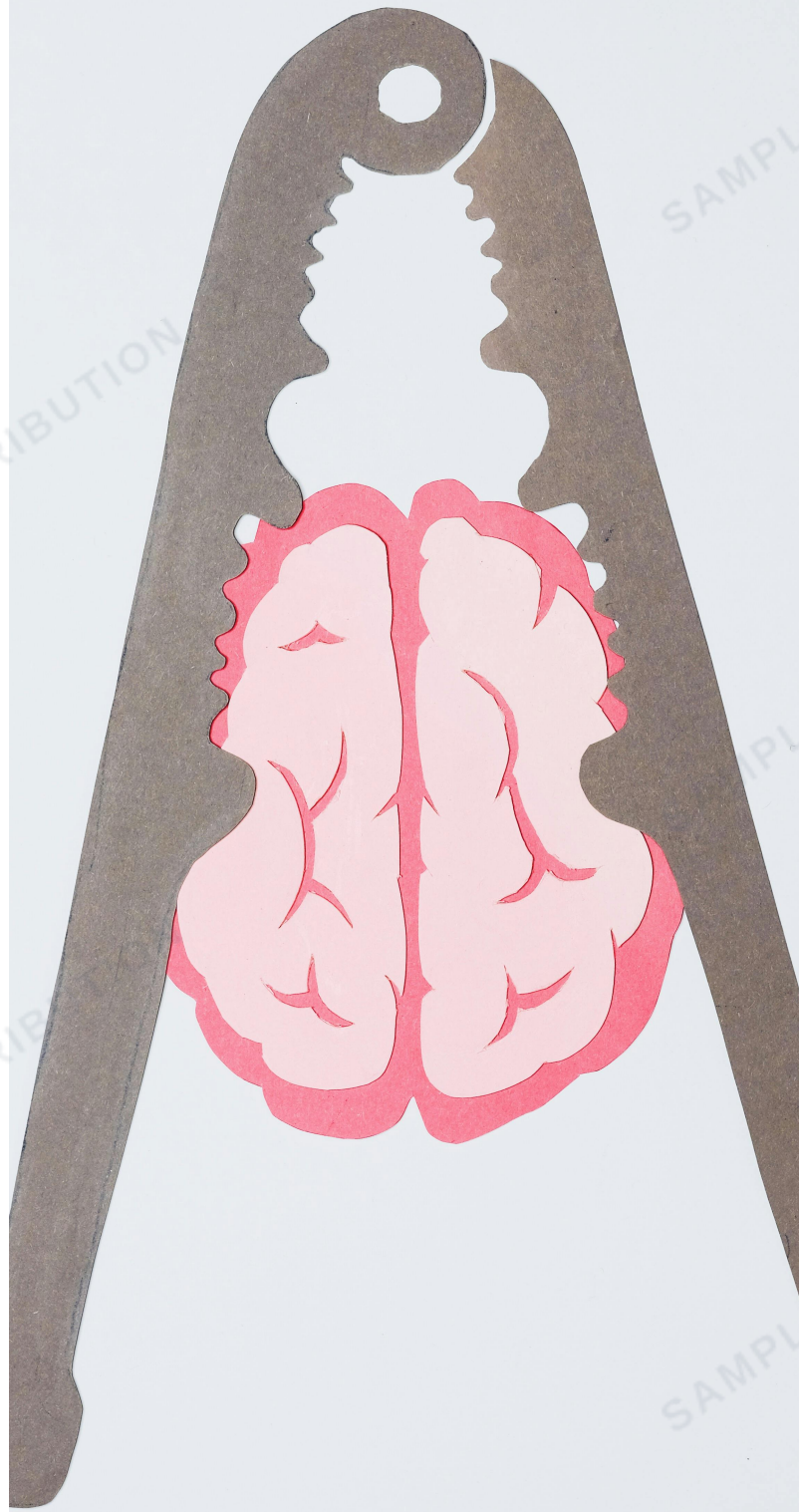
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# What is Behavioural Finance?

Behavioural finance is a branch of finance that studies the psychological factors that influence financial decisions. It combines insights from psychology, sociology, and economics to understand how people actually behave in financial markets, often deviating from the predictions of traditional economic theory.

Key concepts in behavioural finance include cognitive biases, emotions, and social influences. These factors can lead to systematic errors in judgment and decision-making, which can have significant implications for investors and financial institutions alike.

- The role of cognitive biases in financial decision-making
- The impact of emotions on investment behaviour
- The influence of social norms and herd behaviour on market movements
- The application of behavioural finance in asset pricing and portfolio management



# The Behaviour Gap: What It Costs You

The 'behaviour gap' refers to the difference between investment returns and trading returns. It occurs because investors buy high and sell low, often by accident rather than design.

**8.5pp**

Gap between average investor and market returns in 2024

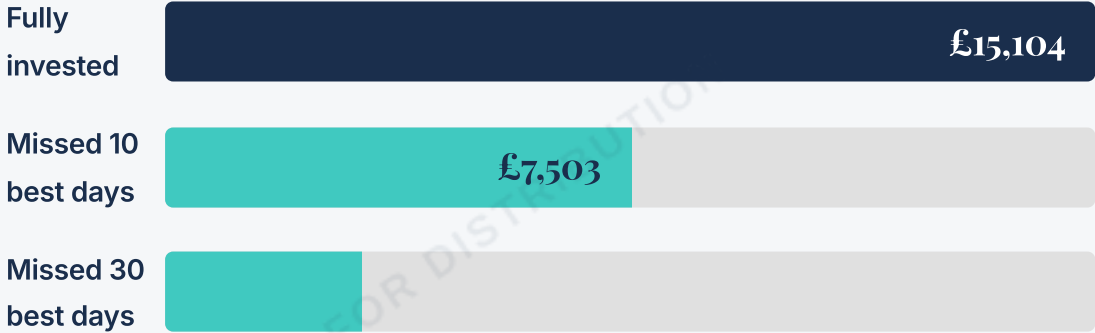
**29%**

Of UK investors who panic-sold during COVID never reinvested

**1.4m**

UK retail investors who sold over £10,000 during the 2020 lockdown

## The Cost of Missing the Best Days



## Time in the Market Beats Timing the Market

Missing just 10% of the best trading days over 10 years would have cost you nearly 50% of your returns. And 30% of the market's best days occurred during bear markets or within the first few months of a recovery.


# Six Biases That Affect Your Money

Understanding these common cognitive shortcuts is the first step to controlling them. Here are the six biases most likely to affect your financial decisions.




### Loss Aversion

Losses are felt more acutely than gains. The pain of losing \$100 is roughly twice as powerful as the pleasure of gaining \$100.




### Overconfidence

Overconfidence in your own abilities leads to overtrading and taking on more risk than is warranted.




### Information Bias

People often ignore their own information in favour of external information, leading to herd behaviour.




### Confirmation Bias

People search for, interpret, and recall information in a way that confirms their pre-existing beliefs.



### Money Bias

People often focus on the amount of money they have rather than the quality of their investments.



### Timing Bias

People often believe that the market is about to move in a certain direction, leading to poor timing of trades.

# When Emotions Take Over: UK Market Crises

History shows that markets are not immune to emotional volatility. The challenge is understanding how to navigate these periods of uncertainty.

Event	Market Fall	Recovery Time
Black Monday (1987)	FTSE 100: -33%	~2 years
Dotcom Crash (2000)	Multi-year decline	~7 years
Financial Crisis (2008)	FTSE 100: -41%	~6 years
Brexit Vote (2016)	FTSE 100: -8.7% intraday	5 trading days
COVID-19 (2020)	FTSE 100: -35%	~3 years
2022 Downturn	FTSE 100: -10%	Within 2023

## *Did you know?*

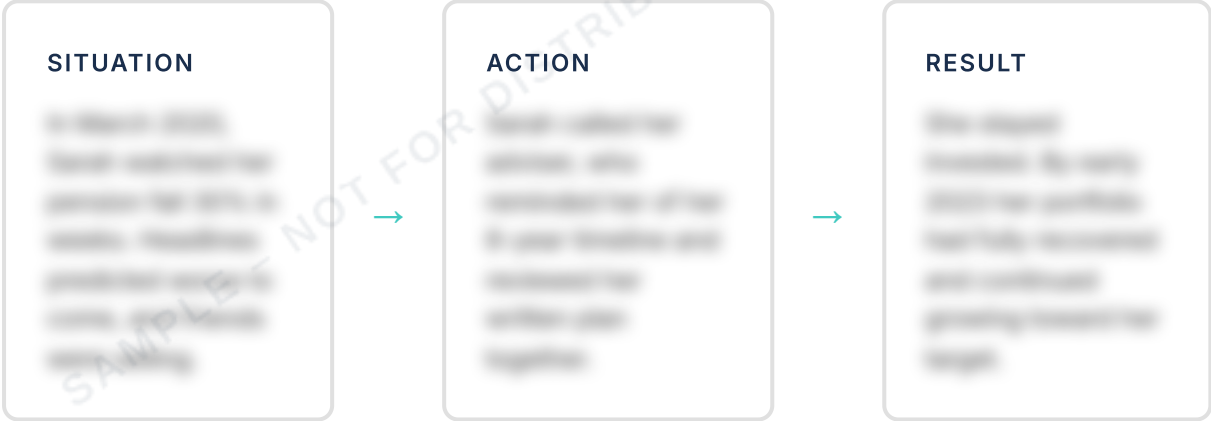
The 2022 downturn was the first time since the 2008 financial crisis that the FTSE 100 fell by more than 10% in a single year. This highlights the impact of global economic uncertainty and inflationary pressures on the UK market.

# The Real Cost of Panic Selling

When markets fall sharply, our instinct is to panic and sell. But selling at the bottom costs a fortune and can leave us with the wrong assets to meet our needs.

**SM** **£1,000,000** **Investment**

Retire at 60   Travel in retirement   Help children onto property ladder



**Key Takeaway**

When markets fall, it's tempting to panic and sell. But selling at the bottom costs a fortune and can leave us with the wrong assets to meet our needs. Instead, we should consider a more strategic approach to managing our investments during downturns.

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# Nudge Theory: The Power of Defaults

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## The Auto-Enrolment Success

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# The UK Investment Gap

Take control of your money and secure your financial future. Our experts offer advice on how to invest your money to help you reach your financial goals. Find out more about the UK investment gap and how to close it.

## Staying in Cash

- ✓ Capital loss risk
- ✓ High inflation risk
- ✗ Limited growth potential
- ✗ No capital growth
- ✗ No tax advantages

Get help  
Investing in cash can be a safe option, but it's not always the best choice for long-term goals.

## FOR LONG-TERM GOALS

## Investing with Advice

- ✓ Diversified portfolio
- ✓ Tax-efficient investment options
- ✓ Professional investment management
- ✓ Regular reviews and rebalancing

Get help  
Investing with advice can help you reach your long-term goals more effectively.

### Are you getting the most from your money?

80% of UK adults say they're not getting the most from their money. Our experts can help you explore whether some of your savings could be working harder for you.

# Building Your Defence Against Bias

The content within this document is for informational purposes only and should not be used as a substitute for professional advice. Please consult your advisor for more information.

1	<b>1. Identify your biases</b> List the biases you are most likely to experience and how they might affect your decisions.	2	<b>2. Educate yourself on cognitive biases</b> Read books, articles, and research papers on cognitive biases to understand how they work.
3	<b>3. Slow down your thinking</b> Take time to think through your decisions and avoid making impulsive choices.	4	<b>4. Use decision-making frameworks</b> Develop a structured approach to decision-making to help you stay objective.
5	<b>5. Seek diverse perspectives</b> Consult with others who have different viewpoints to challenge your own assumptions.	6	<b>6. Keep track of your decisions</b> Maintain a record of your decisions and the outcomes to help you learn from your mistakes.
7	<b>7. Practice mindfulness</b> Use mindfulness techniques to stay present and aware of your thoughts and emotions.	8	<b>8. Use decision trees</b> Break down complex decisions into smaller, manageable steps to reduce uncertainty.
9	<b>9. Review your decisions</b> Regularly reflect on your decisions and the results to identify patterns and areas for improvement.	10	<b>10. Stay open to new information</b> Be willing to change your mind when presented with new evidence or perspectives.

# How We Help You Stay on Track

A good financial adviser will help you understand your financial situation and help you set realistic goals. They will also help you understand the risks involved in investing and help you make informed decisions.

## Behavioural Coaching

When you work with us, we will help you understand your own behaviour and how it can affect your financial goals. We will help you understand the risks involved in investing and help you make informed decisions. This coaching is available at a cost of £100 per hour.

## Structured Decision-Making

We will help you understand the risks involved in investing and help you make informed decisions. This means you will have a clear understanding of the risks involved in your financial future.

## Accountability and Perspective

Research shows we are better at making decisions if others are involved. This means we will help you understand the risks involved in investing and help you make informed decisions. This means you will have a clear understanding of the risks involved in your financial future.

## Your Personal Safety Net

The Personal Safety Net is a service that helps you understand your financial situation and help you set realistic goals. It will help you understand the risks involved in investing and help you make informed decisions. This means you will have a clear understanding of the risks involved in your financial future.

## The Value of Advice

1.5%

Additional value  
from your  
investment strategy  
over 10 years

£47,000

The most value of  
advice comes in  
the first 10  
years

90%

10 years of  
advice is  
worth more  
than 10 years  
of no advice

# Your Next Steps

Understanding behavioural finance is the first step. Taking action is where the real value lies. Here's how to put what you've learned into practice.

**1** **Reflect on your own biases** **10 MINS**

Think about your past financial decisions. Have you ever sold an investment in a panic, or held on too long hoping it would recover? Recognising patterns is the first step to changing them.

**2** **Review your cash holdings** **15 MINS**

Check whether you have enough cash to meet your emergency fund but aren't working hard to get the most efficient wrapper such as an ISA or pension.

**3** **Write your investment rules** **20 MINS**

Write a simple set of personal rules, your goals, your time horizon, and what you will not do during a market downturn. We can help you formalise the rules of investment policy.

**4** **Book a review meeting** **5 MINS**

Book an hour to discuss your financial plan through a behavioural lens. We will review your goals, your portfolio and how your current strategy aligns with both.

**Ready to take control of your financial future?**

Get in touch with [info@behavioural.co.uk](mailto:info@behavioural.co.uk) to book your consultation.



Your Financial Adviser

# Your mind is powerful. Let us help you use it wisely.

Behavioural finance shows us that awareness is the first step to better decisions. With the right support and a clear plan, you can overcome the biases that hold most investors back.

## Book a consultation

Call 0800 XXX XXXX | [advice@example.com](mailto:advice@example.com) | [www.example.com](http://www.example.com)