

Barry LaValley: Understanding your emotions around money **September 2012**

Barry LaValley, President of Right Brain Consulting, was invited to speak to an audience of Fairport clients and friends on September 27th, 2012. Barry is a Behavioral Finance specialist focusing on how the aging process affects our view of money. He graduated with a degree in Psychology and has over thirty years experience in working with advisors, their firms and the general public to help them understand human behavior. His clients are in the US, Canada, Europe, Australia and Mainland China.

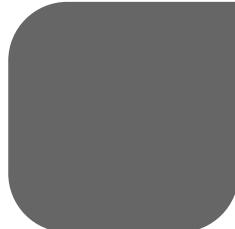
Fairport Asset Management is independent of, and not affiliated with, Barry LaValley of Right Brain Consulting. Right Brain Consulting helps financial advisors, their companies and their clients understand Behavioral finance and the role that psychology plays in their spending decisions. The following presentation is for general informational purposes only and represents the views of the speaker, but may not represent the views of Fairport. Nothing in this presentation should be considered as a solicitation or a recommendation by Fairport to buy, sell or continue to hold securities or other investments.



Barry LaValley

Understanding your emotions around 'money'

How to avoid the common mistakes people make



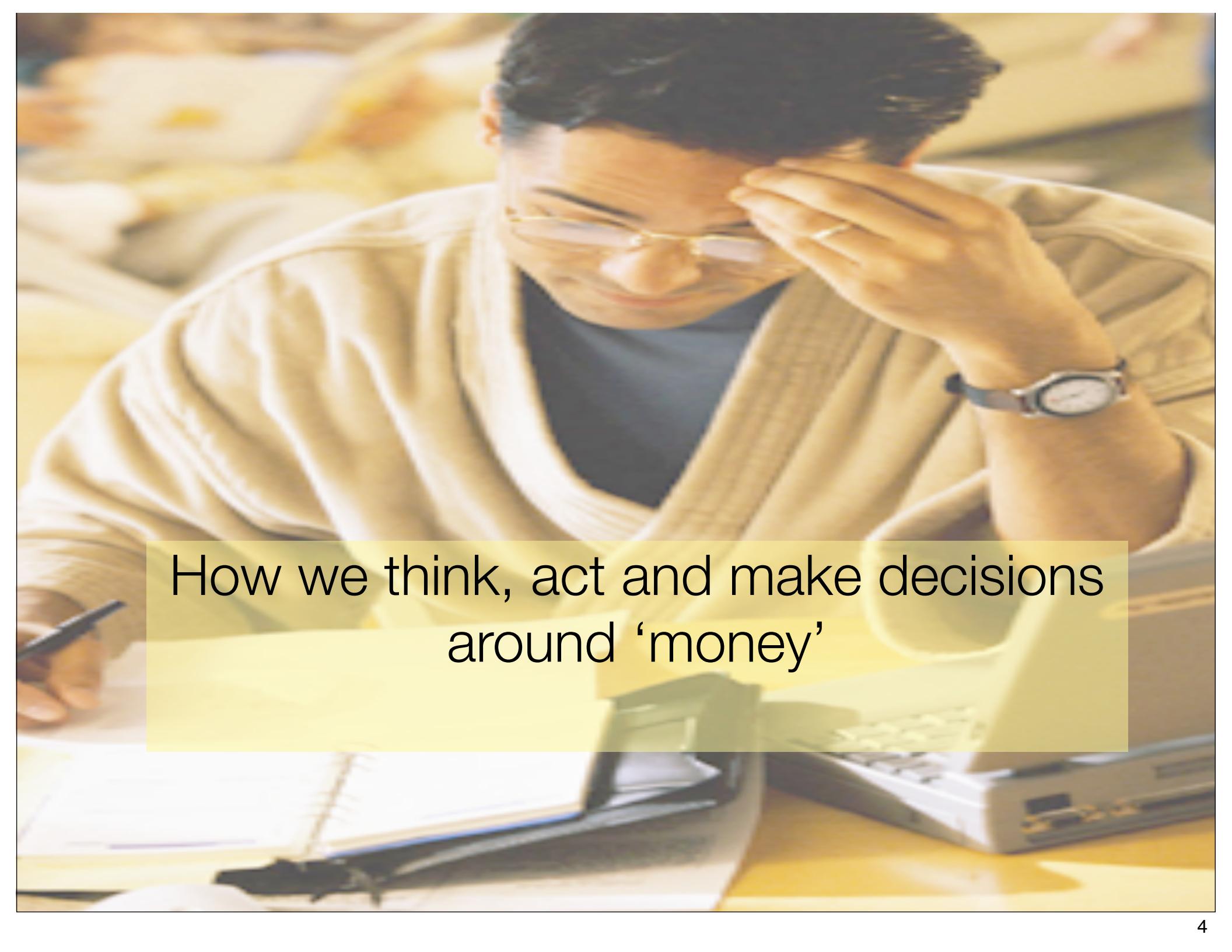
In our discussion tonight...

- Understanding how we think, act and make decisions around money
- Men are from Mars
- Money and retirement



Understanding Behavioral Finance



A photograph of a man with dark hair, wearing a light-colored, vertically striped long-sleeved shirt over a dark t-shirt. He is sitting at a desk, looking down with his hands clasped near his face in a gesture of stress or despair. A pair of glasses hangs from his shirt neckline. In the foreground, a calculator, a pen, and some papers are visible on the desk.

How we think, act and make decisions
around ‘money’

Your challenge....

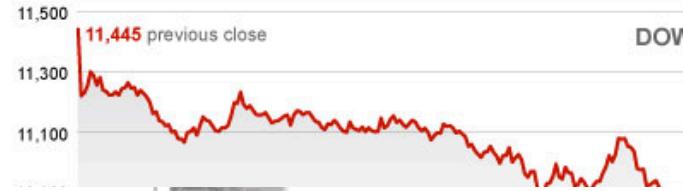
Updated 5:42 p.m. EDT, Mon August 8, 2011

Dow plunges 630 points

Stocks dive after S&P downgrades

Wall Street had its worst day since the 2008 financial crisis as fearful investors reacted to the United States losing its coveted AAA credit rating. [FULL STORY](#)

• Obama: 'Always a AAA country'
• Zelizer: Where are Democrats' idea
• Cafferty: How to change Washington
• Blitz: Horrendous day on Wall St
• Congress, S&P deserve each other
• Where do you stand on S&P down



11,500
11,445 previous close
11,300
11,100

DOW

GET A QUOTE: **GO**

DJIA 10,809.85 ▼ -634.76 | **NASDAQ** 2,357.6

Should I buy? Should I sell? What you should do now

By John Waggoner and Sandra Block, USA TODAY

Updated 1h 37m ago

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“The investor’s chief problem--even his worst enemy--is likely to be himself”

Benjamin Graham

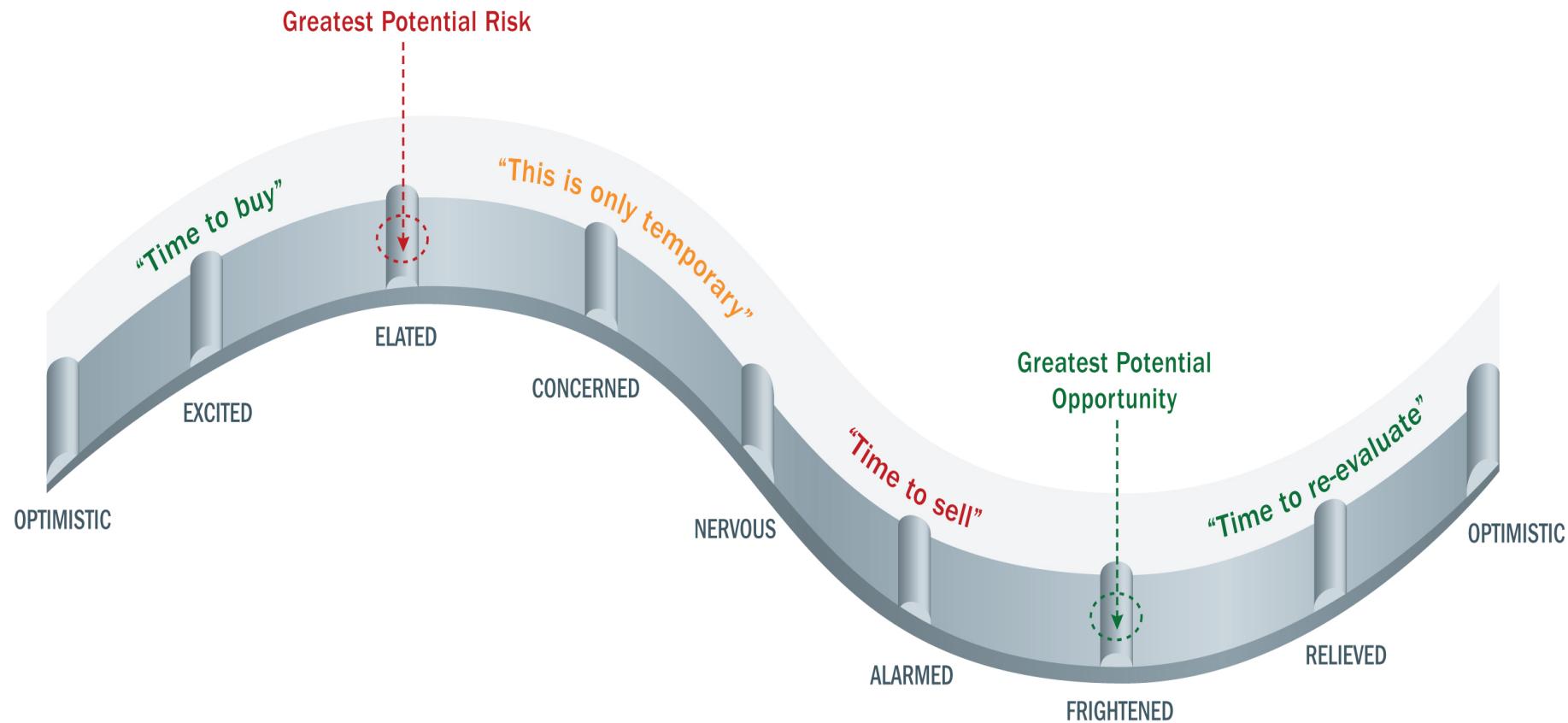


Fear and Greed

- Fear and greed are the driving forces of the market
- Advisors often have to protect clients from themselves
- Both fear and greed come from behavioral biases



The wild ride of the short-term investor



Three kinds of ‘bias’

Cognitive: decisions we make because of a lack of understanding

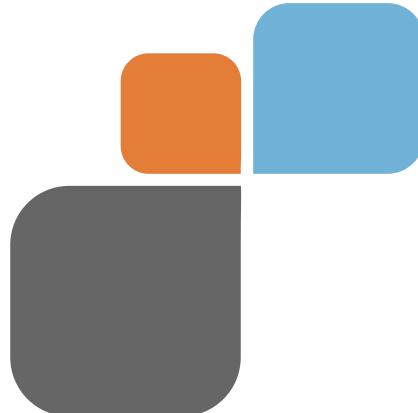
Emotional: decisions we make because of our emotional makeup

Social: decisions we make based on how we see ourselves in the world



Patterns of Investor Irrationality

- Hindsight bias
- Short-term focus
- Ambiguity aversion
- Mental accounting
- Hot-hand fallacy
- Overconfidence



Social bias and our decisions

Authority--respect for an expert

Reason--sounds “reasonable”

Rapport--“I like you, you understand me”

Efficiency--“Keep it simple”

Reciprocity--“You did something nice”

Continuity--“I’ve always done it like this”



Men are from mars...



“Women put financial services at the absolute bottom of a list of 32 industries in terms of responsiveness to the needs of women.”

Dalbar 2011



“But money doesn’t have a gender...”



- Women tend to live longer
- Women more likely to be caregivers for aging parents
- Women tend to have longer retirements
- Women more likely to live alone in retirement
- Women tend to be less confident in their investment knowledge and decision-making



Some key differences...

Differing Expectation	Men	Women
Money Represents	Status	Sense of security
Sense of self-purpose from	Work	Relationships
Social support from	Spouse	Friends, family, spouse
Buying decisions	They want it	They need it



Gender difference and Behavioral Finance



- Women more prone to emotional bias, men to cognitive
- Women tend to be more conservative and risk averse
- Women are more susceptible to “hot hand” fallacy
- Men tend to be more optimistic than women
- Women are more likely to “buy and hold” than men



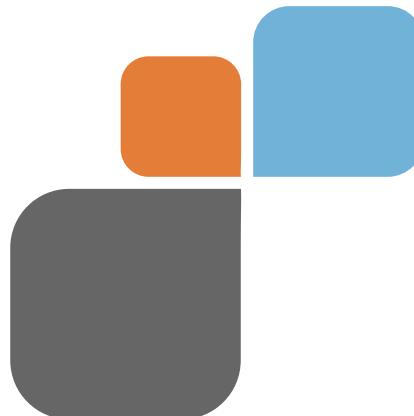
Men, Women and their biases

Men

- Overconfidence bias
- Loss aversion bias
- Availability bias
- Cognitive dissonance bias

Women

- Endowment bias
- Status quo bias
- Representativeness bias
- Regret aversion bias



Your money and retirement



Where Did Your Attitude About Money Come From?

- As we age we tend to fall back on lessons we previously learned
- Translates into behavioral biases on saving and spending money
- Biases can help pre-warn you of a propensity to overspend or become disorganized

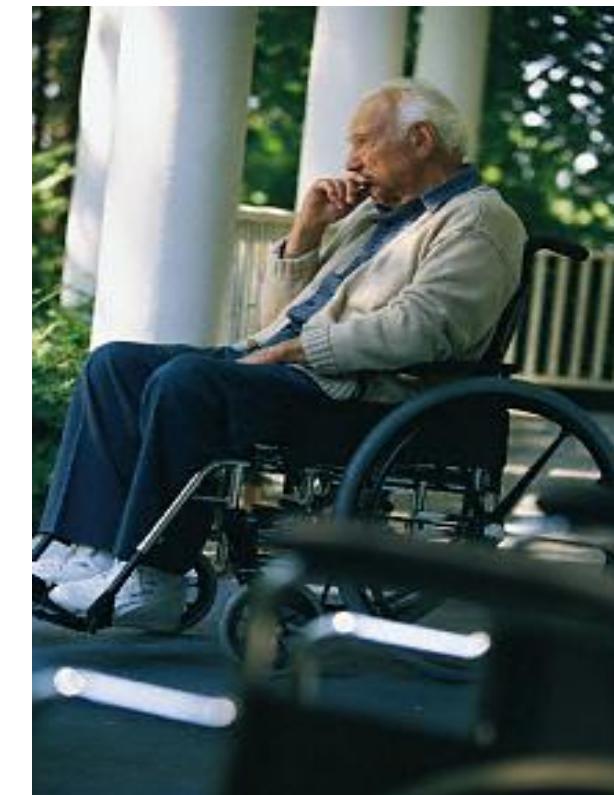


The role of money in retirement



- Money equals security
- Money dictates lifestyle
- Money creates independence
- Money helps family
- Money creates a legacy

Three Money Pots



The importance of a budget

How important is having a budget in retirement?

Not at all important 4%

Somewhat not important 9%

Somewhat important 42%

Very important 45%



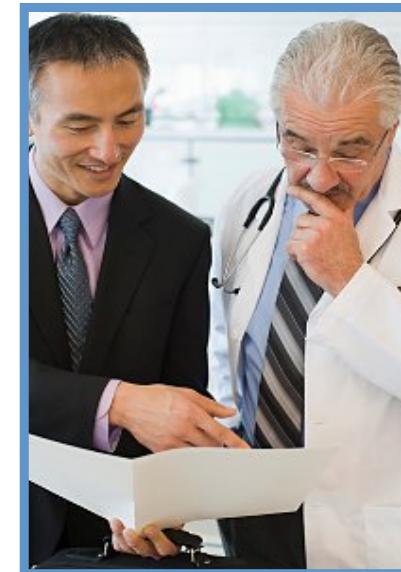
**Your Life Needs,
Opportunities, Goals**



Your Health



Your Work



Your Financial Comfort



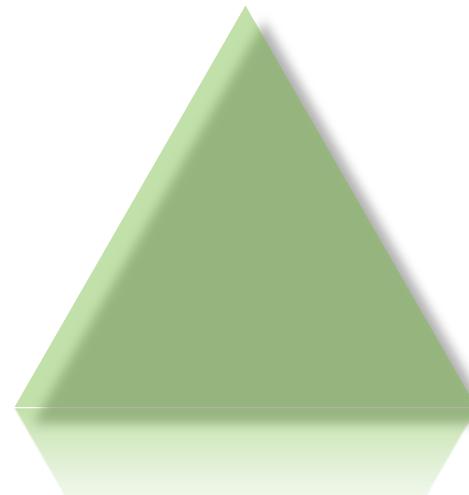
**Planning for the
future**

Your Family

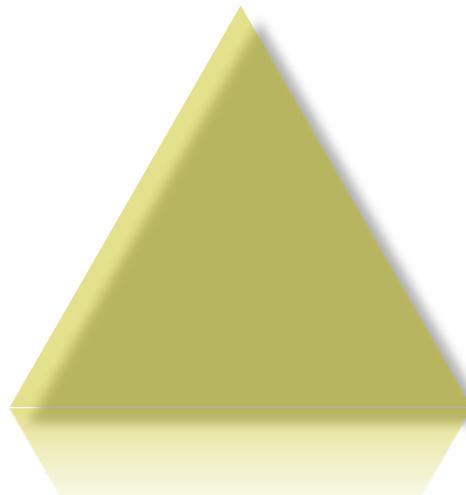


Your Lifestyle

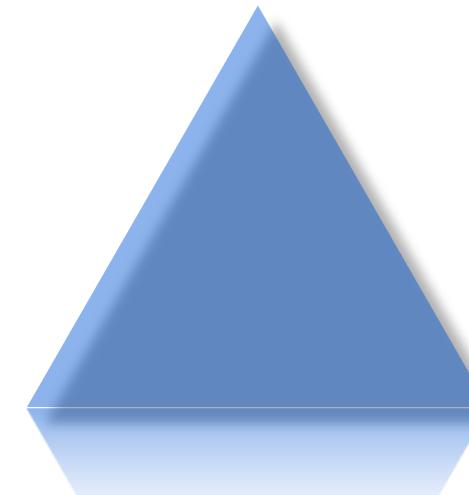
What do we do for our clients?



Clarity



Insight



Partnership

