PFL Academy

Chapter 67: Investment Technology and Behavioral Investing

Student Activity Packet

THE CHALLENGE

In March 2020, Marcus watched his $18,000 portfolio crash to $11,880—a 34% loss in weeks. His brain screamed "SELL!" as friends panic-sold and news predicted disaster. But Marcus had written a rule: "Never sell based on short-term movements." He kept investing $300/month at discounted prices. By August, his portfolio hit $24,000—higher than before the crash. Friends who panic-sold locked in losses and missed the recovery entirely.

How can understanding behavioral biases and choosing the right investment technology help you avoid emotional decisions that destroy wealth?

Learning Objectives

- Evaluate investment platforms (robo-advisors, brokerages, apps) and their appropriate use cases.
- Analyze how behavioral biases (loss aversion, recency bias, herd mentality) cause poor decisions.
- Apply strategies to counter emotional decision-making during market volatility.

CORE CONCEPTS

Term	Definition
Robo-Advisor	Automated platform that builds and manages portfolios based on your goals; handles rebalancing. (0.25-0.50% fee)
Loss Aversion	Losses feel 2x more painful than equivalent gains feel good—causes holding losers too long, selling winners too early.
Recency Bias	Overweighting recent events; assuming current trends continue forever. Buy high after rises, sell low after drops.
Confirmation Bias	Seeking information that confirms existing beliefs while ignoring contradictory evidence.
Herd Mentality	Following the crowd even when it contradicts rational analysis—drives bubbles and panic selling.

Background: Research shows the S&P 500 returned 10.7% annually from 1992-2021, but the **average investor earned only 7.1%**—a 3.6% gap caused almost entirely by behavioral biases. Investors buy high (after rallies) and sell low (after crashes). The right investment technology can help: **robo-advisors** automate discipline, preventing panic decisions. But technology alone isn't enough—you must understand your own biases and establish rules BEFORE market volatility hits. A pre-written rule like Marcus's can save you from decisions that feel right in the moment but destroy wealth long-term.

APPLY IT

PART A: PLATFORM COMPARISON

Platform Type	Annual Cost ($10k)	Best For	Watch Out For
Robo-Advisor	$35-$65	Hands-off investors	Less control
Online Brokerage	$5-$20 (fund fees)	DIY investors	Overtrading temptation
Investment App	$36-$144 (subscriptions)	Beginners, micro-investing	High % cost on small balances

Investor Profile: Keisha (Age 24)

Just started working, $5,000 to invest, can add $200/month. Doesn't enjoy research, susceptible to FOMO when friends discuss hot stocks.

Best platform: ____________________

Because: ____________________

Investor Profile: Derek (Age 35)

Enjoys investment research, wants full control, $50,000 portfolio, disciplined about not overtrading.

Best platform: ____________________

Because: ____________________

PART B: BEHAVIORAL BIAS IDENTIFICATION

1. Match each scenario to its primary bias: (A) Loss Aversion (B) Recency Bias (C) Confirmation Bias (D) Herd Mentality

_____ After markets rose 30% last year, investor assumes continued gains and goes all-in on stocks.
_____ Investor refuses to sell a stock down 40% because selling would "make the loss real."
_____ Everyone at work is buying cryptocurrency, so investor buys without research.
_____ Investor only reads positive news about their favorite stock, ignoring warning signs.

PART C: CREATING BEHAVIORAL RULES

2. Write THREE pre-commitment rules you would establish NOW (before experiencing market volatility) to prevent emotional decisions:

Example rules: *"Never check portfolio more than monthly." "Continue monthly investments regardless of market conditions." "Never sell based on news headlines."*

CHECK YOUR UNDERSTANDING

1. The behavioral bias where losses feel twice as painful as equivalent gains feel good is called:

- ☐ A. Recency bias
- ☐ B. Loss aversion
- ☐ C. Confirmation bias
- ☐ D. Herd mentality

2. Explain why the average investor (7.1% return) significantly underperforms the S&P 500 (10.7% return) over time, using behavioral bias concepts.

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3. Calculation: Jasmine's confirmation bias caused her to hold a declining stock. If she had sold at $38/share (when warning signs appeared) instead of $25/share (eventual bottom), how much did bias cost her on 100 shares?

Show your work:

Cost of confirmation bias: $__________

4. Why might a robo-advisor help prevent behavioral mistakes better than a self-directed brokerage account?

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5. Reflection: Which behavioral bias are you most susceptible to? What specific rule would you create to counter it? What investment platform seems best suited to your personality?
