

The cost of biases

Behavioral finance – the interaction between human psychology and money – has become a major component of current economic theory. Experts on behavioral finance love to study how greed and fear cause massive swings in the markets.

But behavioral finance doesn't just exist in academic theory and panicked stock crashes – it's part of everyday life. The human brain isn't a calculator and struggles to separate money from emotion. Every time we open our wallets, our financial biases and blind spots threaten to disrupt good decision-making.

Fortunately, biases become a much easier fight once we learn to recognize them. Here are a few of the most common financial biases people face:

Bandwagon effect

One of the strongest biases, the bandwagon effect, is the tendency for people to change their opinion or behavior to match that of those around them. Bandwagons often create social pressures and can push people to spend far too much “keeping up with the Joneses.” Always evaluate your financial decisions on what works best for you, not what works best for others.

Familiarity bias

Familiarity bias is when people show an irrational preference for something that they've used in the past. One common effect of this is default brand loyalty, which can hurt the efficiency of a budget or draw you into extra spending. How many times have you bought a familiar product brand even when there is evidence another option might be better or cheaper? Give something new a try.

Ego depletion

This bias is a kind of mental lapse. Self-discipline is difficult, and our brains can only do so much of it before taking a break. If we push ourselves too much, we often react strongly in the opposite direction. Ego depletion is what leads to shopping binges after you cut too much discretionary

spending from your budget. Remember: rewarding yourself for progress is an investment in your goals.

Recent/available information bias

When it comes to information, people are quick to embrace the new and forget the old. Information biases are responsible for many fads and false fears. For example, if you have two coworkers who were robbed in the past year, you may want to buy an expensive security system. Even if the thieves were caught and local crime rates are extremely low, your judgement is disproportionately affected by the information that is most recent and most available to you.

Survivorship bias

This bias is the tendency to misinterpret a situation by focusing on the quality examples. It can be paraphrased as, “you only hear about the ones that make it big.” This bias is most dangerous to entrepreneurs or investors because it causes them to underestimate difficulties and overestimate success. People should be brutally honest with themselves and consider the possibility of failure before investing their life savings in a business.

Zero-risk bias

Humans love certainty; it eliminates risks and makes planning for the future much easier. We love it so much we're often willing to pay more for extra peace of mind, even if it doesn't make complete sense. For instance, people happily pay a lot of money for the reliability of a new car and then also buy the dealership's short-term warranty to protect it against a breakdown. We know a new car is highly unlikely to have problems for a few years, but we still feel the need for added certainty.



the September market

at a glance



U.S. Large Cap
(Dow Jones Industrial Average)

16,284.70

(-1.47%)



U.S. Mid/Small
(Russell 2000)

1,100.69

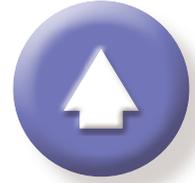
(-5.07%)



Foreign Large
(MSCI EAFE Index Fund)

57.32

(-4.42%)



Bond Market
(Barclays Aggregate Bond Fund)

109.58

(0.61%)

September 2015 market data

in action

- The U.S. Department of Labor announces that employers added 173,000 jobs in August, pushing national unemployment down to 5.1 percent—the lowest rate since April 2008.
- Japan's Nikkei Stock Average gains 1343.43 points on September 9, the largest one-day point increase for the average since 1994.
- Anheuser-Busch InBev opens discussions with SABMiller about the possibility of a corporate takeover. The conglomerates are already the two largest brewing companies in the world; the purchase, if allowed, would create a globally dominant beer company worth over \$250B.
- After failing to handle last year's holiday shipping rush, United Parcel Service Inc. (UPS) announces plans to hire up to 95,000 temporary workers to support package delivery during the 2015 holiday season.
- Hewlett-Packard Co. states it may cut as many as 33,000 jobs over the next few years as it works to restructure as two separate business entities.
- Volkswagen AG becomes the center of a criminal investigation when it is discovered thousands of its U.S. vehicles have computer systems that actively cheat on emissions tests. If found guilty of misconduct, the Environmental Protection Agency could levy a penalty of up to \$18B against the German automaker.
- Caterpillar Inc. makes drastic cuts to its 2015 revenue forecast and says it plans to terminate as many as 10,000 jobs by 2018.
- Energy Transfer Equity, LP (ETE) announces plans to buy fellow energy pipeline operator Williams Companies Inc. for \$37.7B. Williams had previously refused a June merger proposal from ETE for \$53B, suggesting that weakness in the energy sector has softened business prospects.

Flu outbreaks can happen as early as October

The Center for Disease Control (CDC) recommends that everyone 6 months and older should get an annual flu vaccine. It takes about two weeks after vaccination for your body to develop full protection against the flu, so you may want to get vaccinated early.

Shorter days and cooler evenings. It is fall—and often the time that we start seeing people get sick with flu. By getting a flu vaccine for yourself and your entire family every season, you can help prevent flu-related illness and missed days at school and work.

Influenza (flu) is a contagious respiratory illness that infects the nose, ears, throat and lungs and can lead to serious complications, hospitalization or even death. Pneumonia and bronchitis are examples of serious flu-related complications. The flu also can cause certain health conditions like asthma, heart and lung disease, to become worse. But even if you are one of the lucky ones who bounces back quickly from a bout with the flu, those around you might not be so lucky. Getting a flu vaccine is one of the best ways to protect yourself and your family from this illness.

Read more at cdc.gov

October is a great month to . . .

The season of giving is upon us and now is a great time to check out your charities of choice. While good intentions drive our desire to give, you work hard for your money and you want it put to good use.

With a little effort, you can research the charities of your choice and see how they spend their funds. The websites below will give you information that shows how the charities you choose to support stack up:

charitynavigator.org

nptrust.org

give.org

October is breast cancer awareness month

About 1 in 8 women born in the United States today will get breast cancer. That's a staggering statistic. However, there is good news. Early detection and treatment increases your risk of survival by 25-30%.

A mammogram, the screening test used to detect breast cancer, is the first line of defense. Women should begin having yearly mammograms at age 40, or earlier if they are at high risk. Talk with your doctor about how often you need to get a mammogram. Together, you and your doctor can decide what is best for you.

Learn how to lower your risk of getting breast cancer. Visit breastcancer.org



About Hooker & Holcombe Wealth Management

Contact:

Jonathan Gruber, AAMS®
Director, Wealth Management
860.856.2128
JGruber@hhconsultants.com

Katerina Nikolaou, CFP®
Financial Advisor
860.856.2067
KNikolaou@hhconsultants.com

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