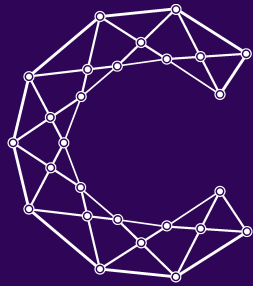


Investing with Ulysses

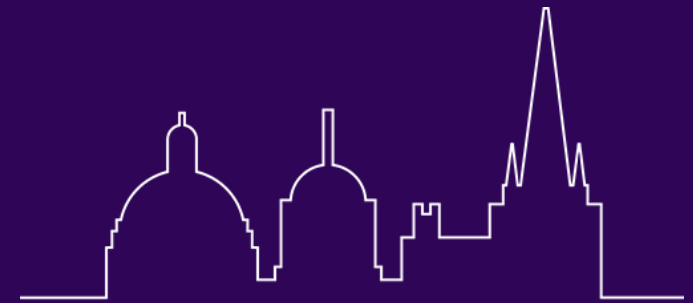
Overcoming the Cost of Being Human



centapse

Greg B Davies, PhD

@GregBDavies

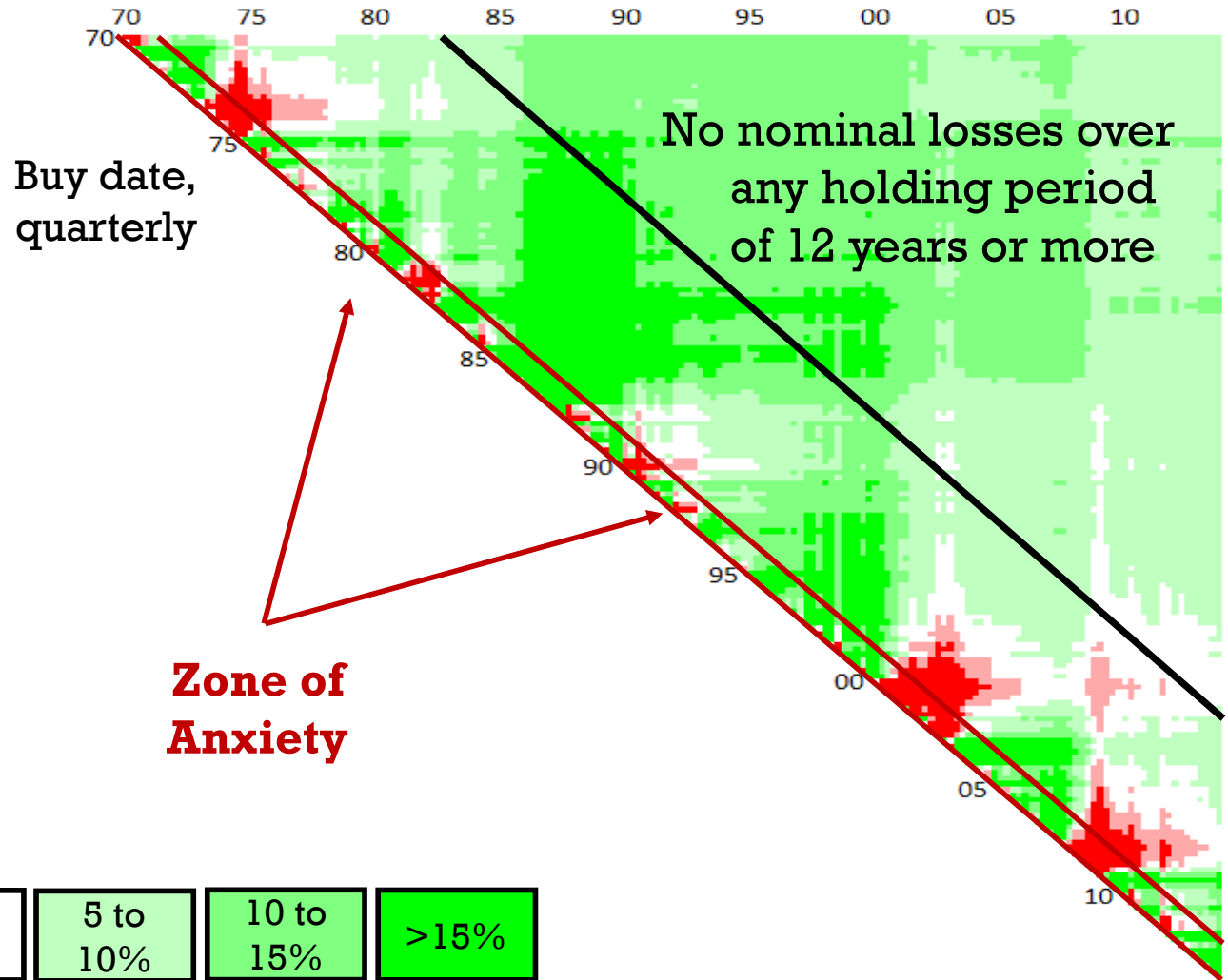


OXFORDRisk





Sell date, quarterly



MSCI World
Equity
Annualised
Returns



Source: Barclays Wealth

OXFORDRisk

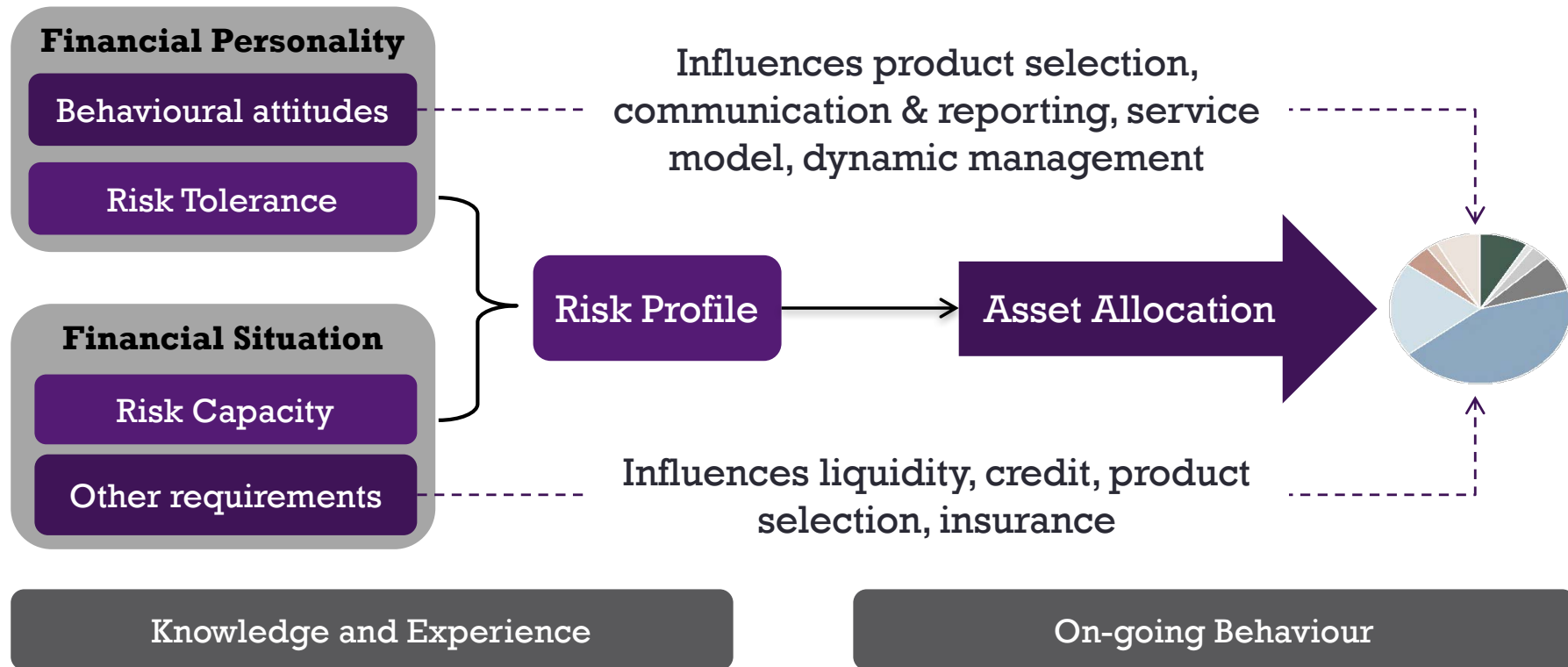


Paying too much for emotional comfort



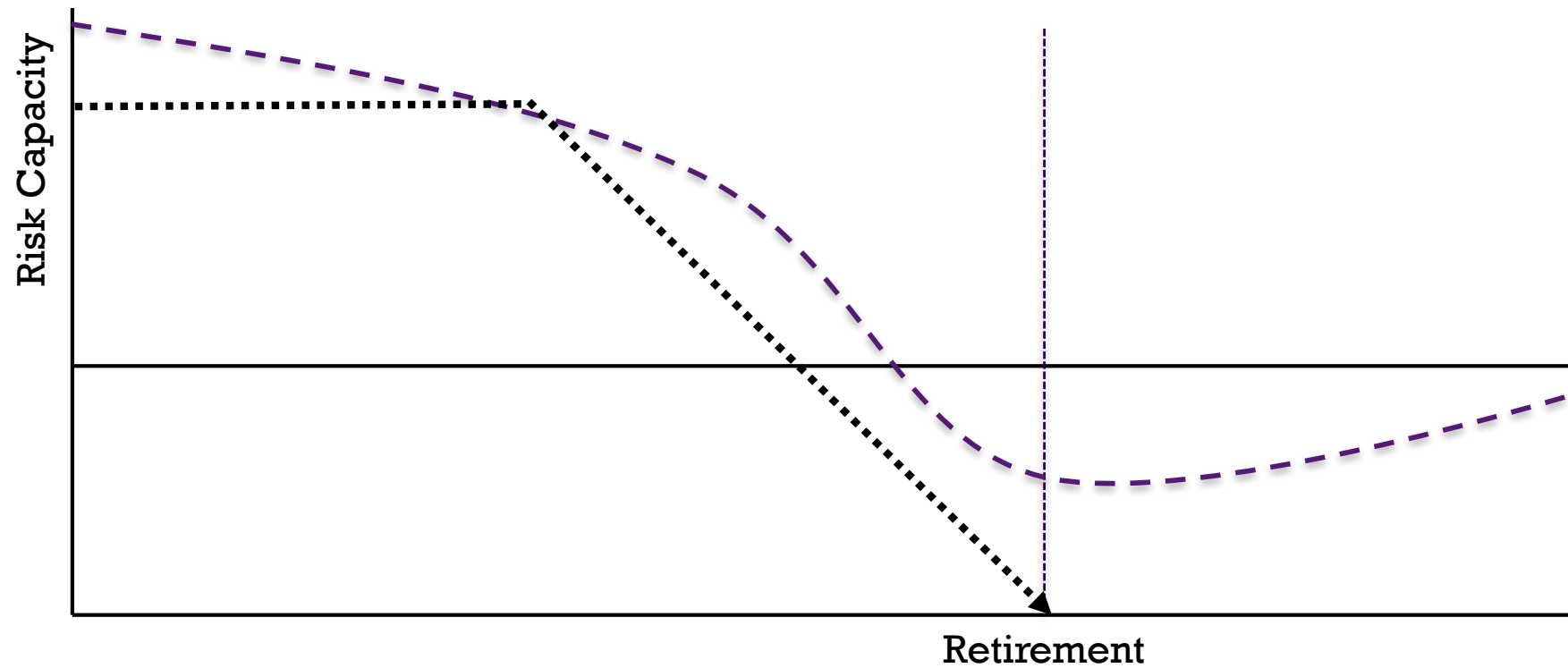


Information required for suitability





Dynamic Risk Capacity





Do investors know their Risk Tolerance?

Imagine you bought \$6,000 worth of stock from a now bankrupt company

There are two alternatives to recover money...

Would you choose A or B?

Alternative A

- Recover \$2,000

Alternative B

- 1/3 chance \$6,000 recovered
- 2/3 nothing recovered

92% go for A

Would you choose X or Y?

Alternative X

- Lose \$4,000

Alternative Y

- 1/3 chance nothing lost
- 2/3 chance \$6,000 lost

67% go for X



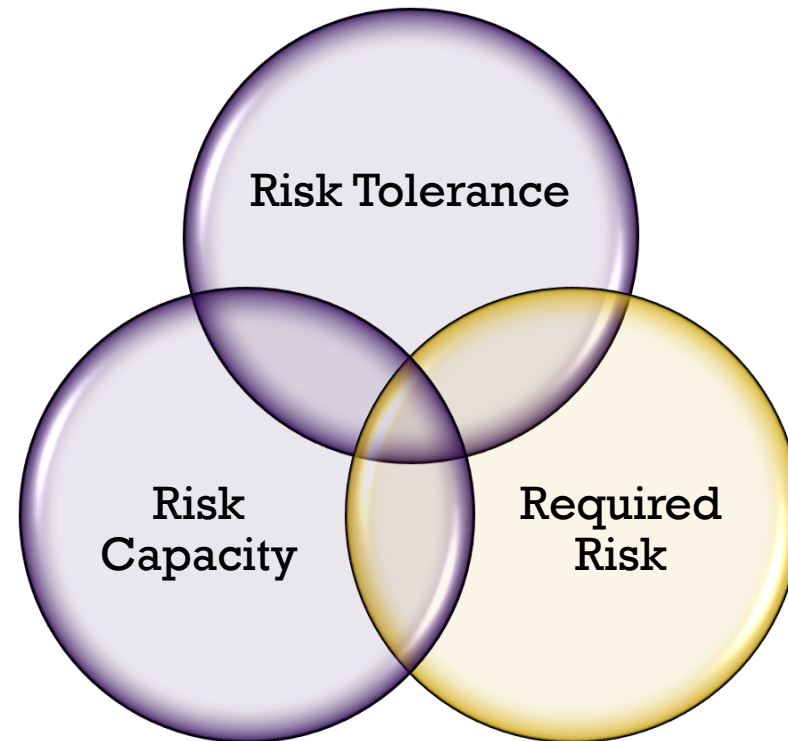
How not to measure Risk Tolerance

1. *Don't require finance, investing, or market knowledge*
2. *Don't require numerical computation or probabilistic reasoning*
3. *Don't confuse with other risk attitudes, behaviour, or investment objectives*
4. *Don't confuse past behaviours with optimal actions*
5. *Don't rely on future beliefs or expectations*

Don't guess – use rigorous statistical and psychometric techniques

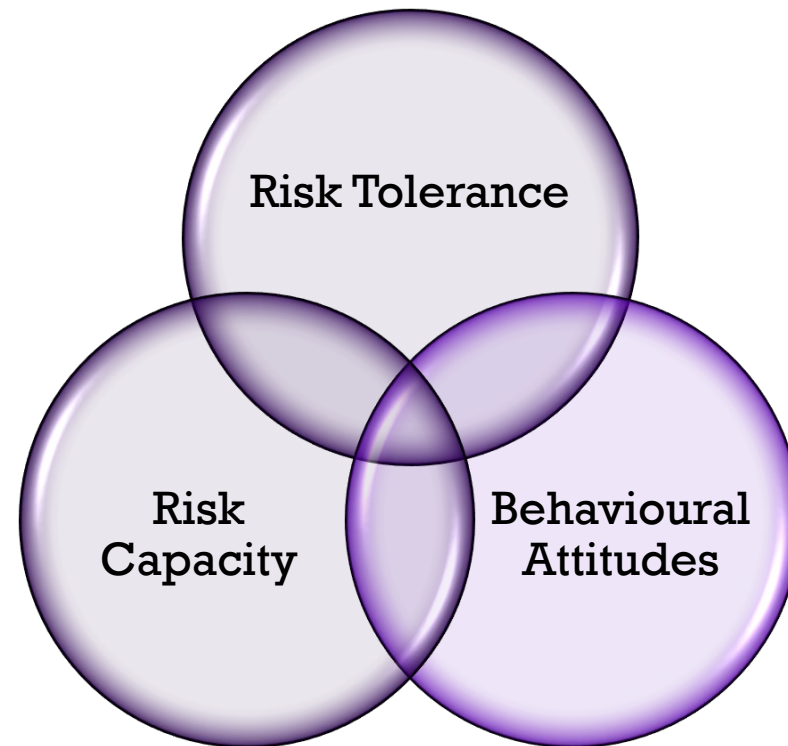


Determining suitable risk



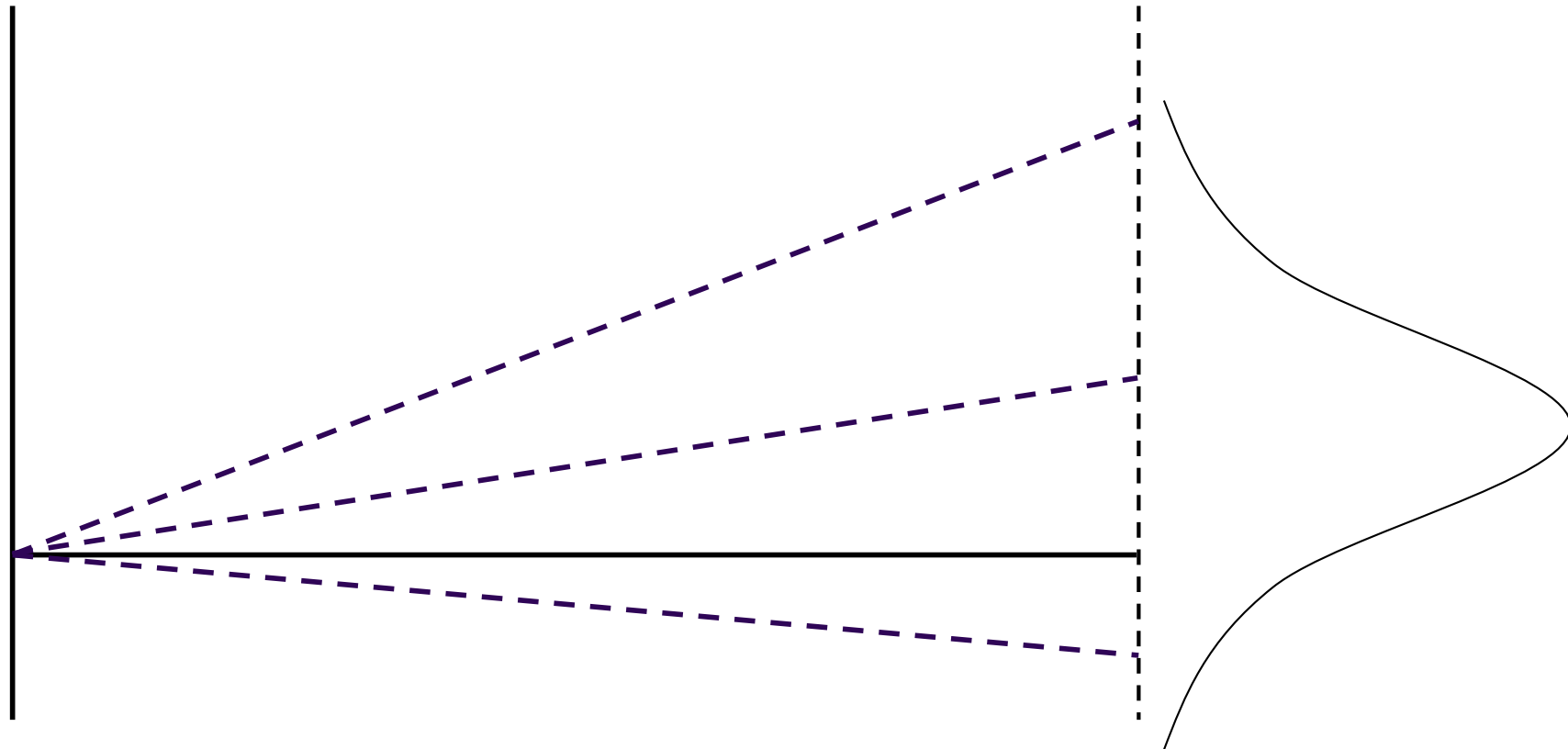


Determining suitable risk



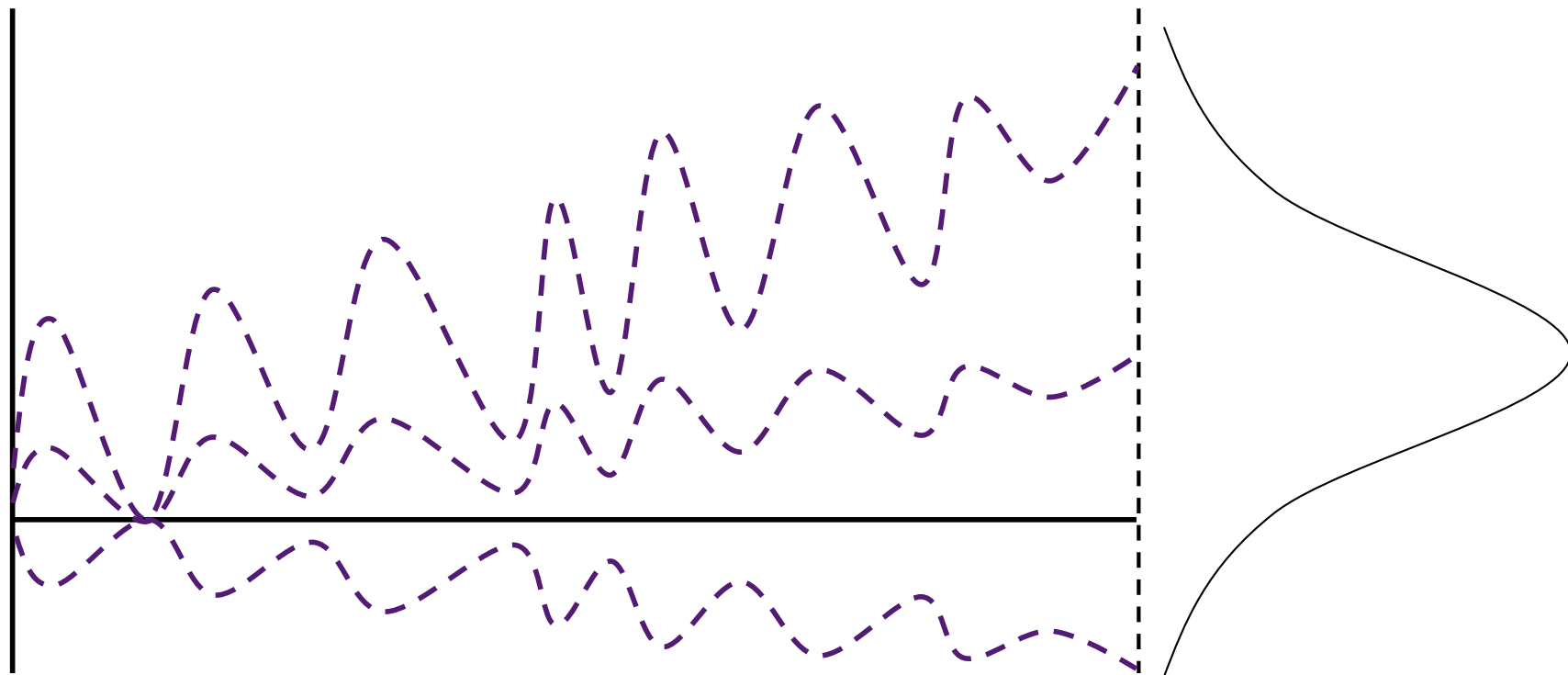


Risk attitudes are broader than Risk Tolerance



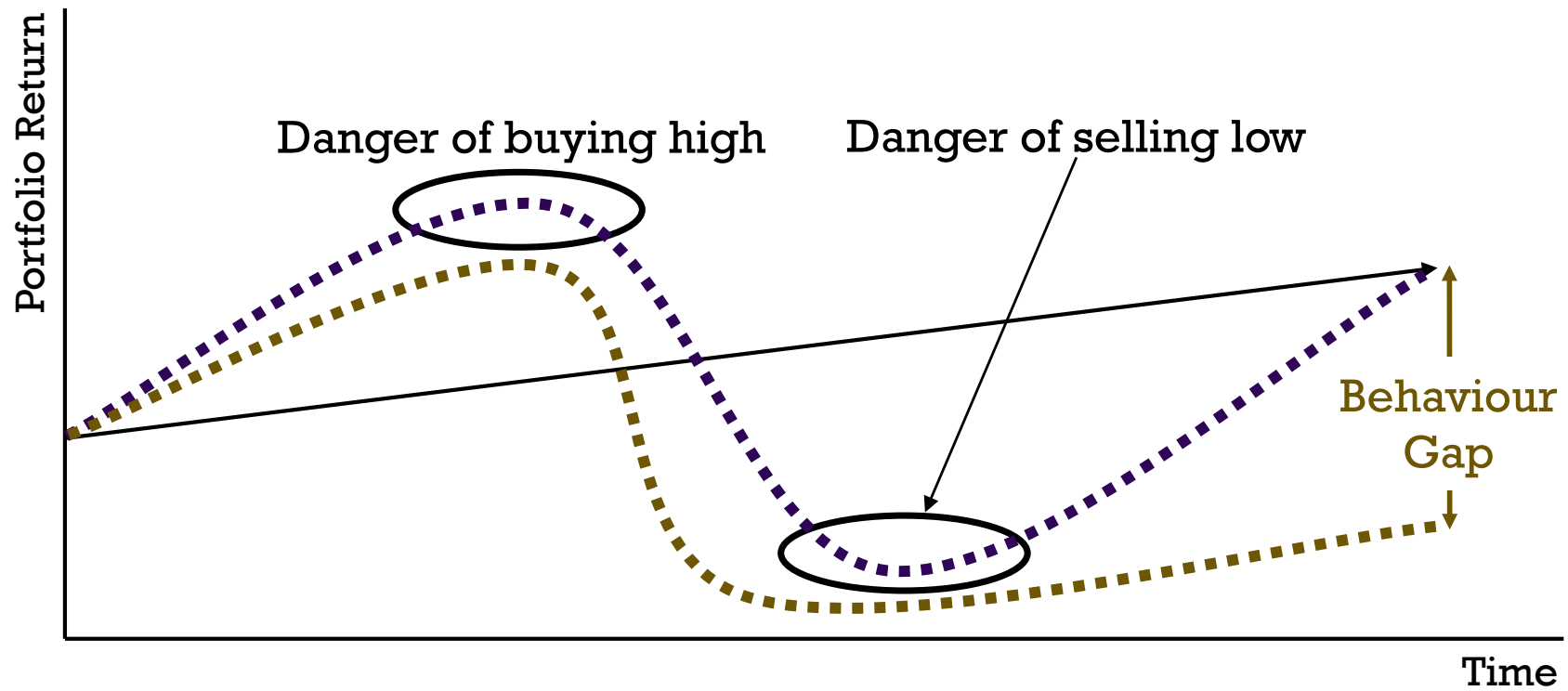


Risk attitudes are broader than Risk Tolerance



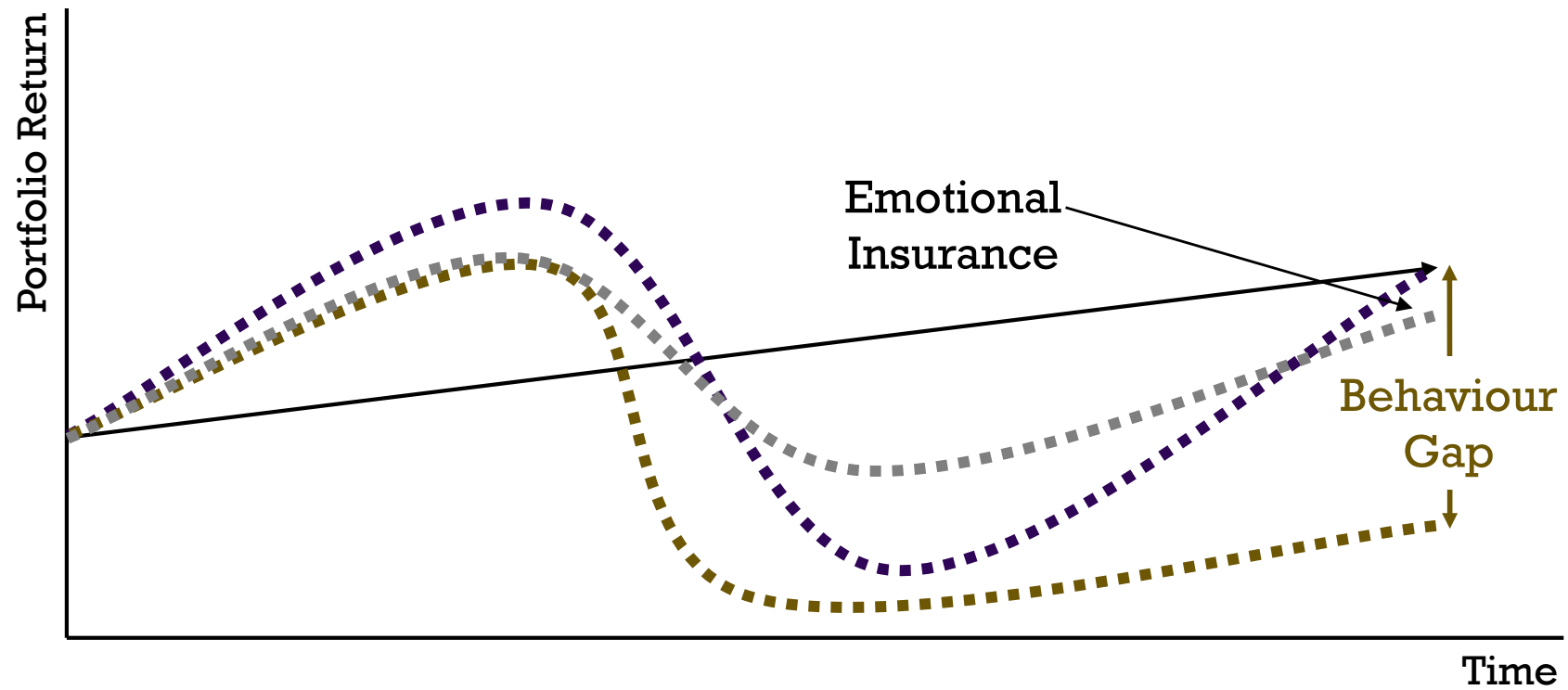


The costs of being human



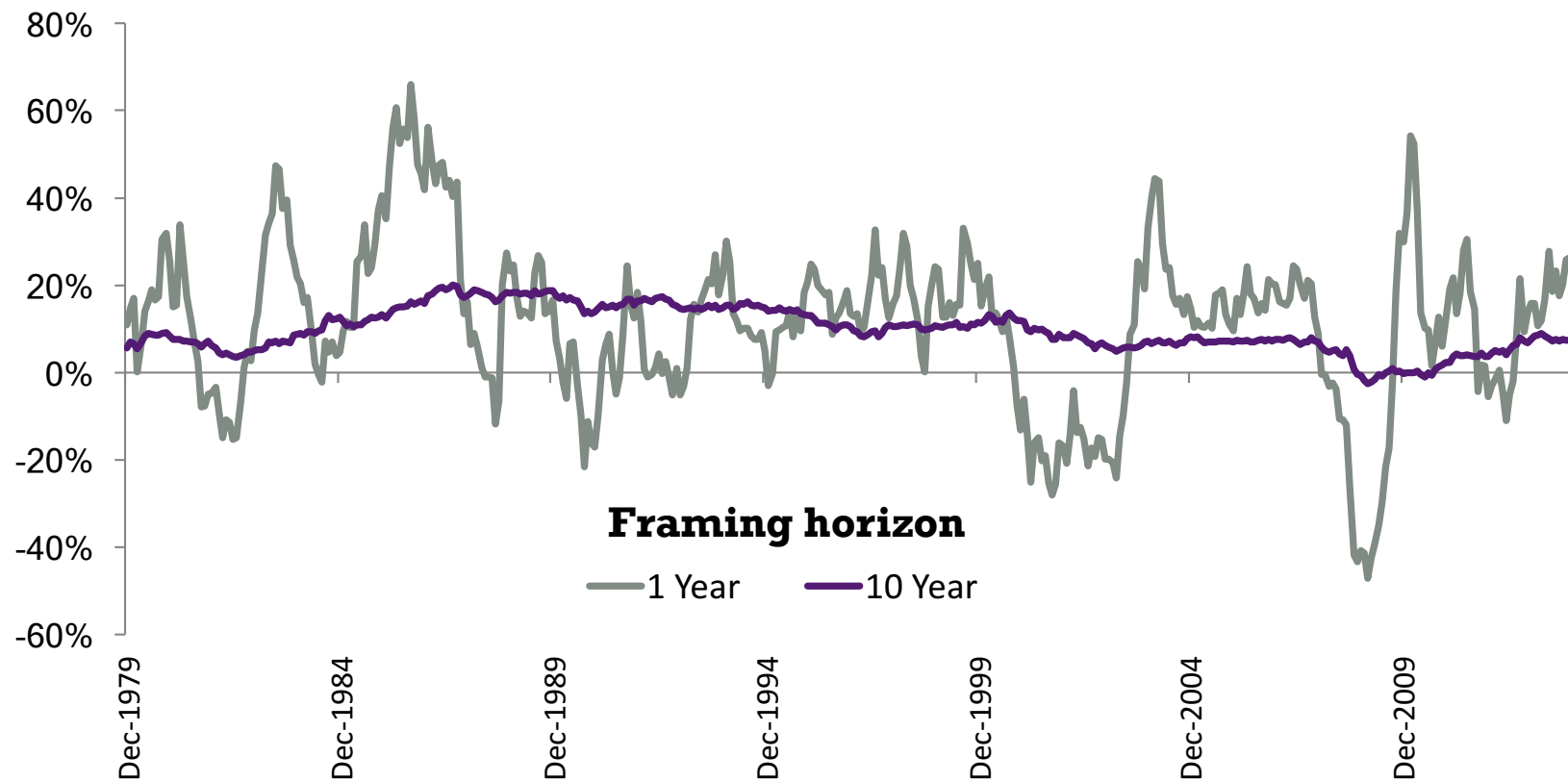


The costs of being human



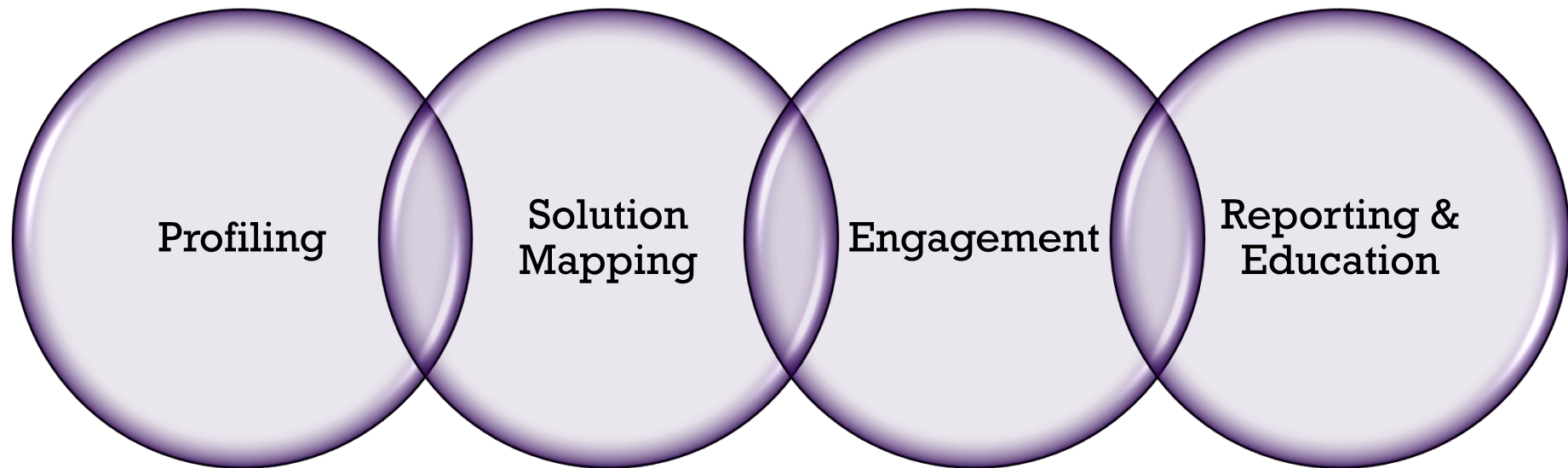


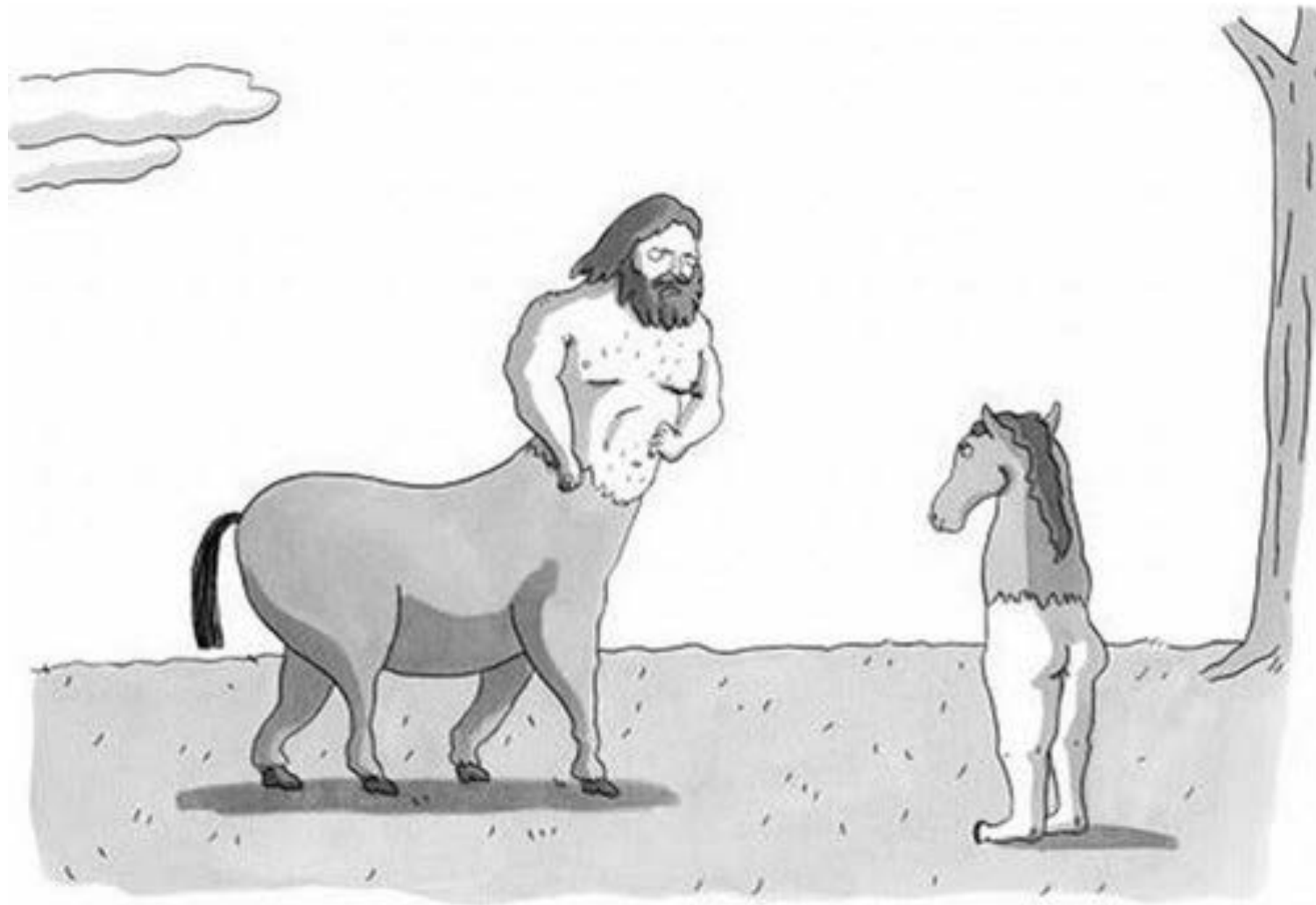
The information we *do* base decisions on





Engagement and Dynamic Profiling







Publications and Research

Applied behavioural science

- On using a full behavioural toolbox to improve complex savings and investment decisions: [Beyond Nudge](#) (And [video](#) of related talk for 5 year anniversary of London Behavioural Economics Network)
- [Practical Challenges of Implementing Behavioural Finance](#) from [Financial Behavior](#) (OUP)

Suitability and profiling

- [New Vistas in Risk Profiling](#) (CFA Research Institute) - on future of risk profiling, including how we could effectively build a model of *Risk Capacity* as well as importance of considering the other behavioural attitudes/dimensions
- On *dynamic suitability* - [Why it's time for dynamic Suitability](#)
- [Risk tolerance: Essential, behavioural, and misunderstood](#)
- [How not to measure Risk Tolerance](#)

Behavioural investment attitudes

- [Overcoming the cost of being human](#) (Barclays) - main white paper from Barclays days outlining how to use dimensions of behavioural profiling to improve client outcomes (developed substantially since)

Goals based investing

- [A behavioural perspective on goals-based investing](#)

Technology and AI

- On role of AI and technology in wealth advice - [Does Wealth Management Need AI?](#)

Behavioural Portfolio Theory

- Book: [Behavioral Investment Management](#) (McGraw-Hill)
- On using the distinction between risk and composure (or *anxiety*) in portfolio optimisation: [Don't let the best be the enemy of the achievable](#)

Behavioural Design

- On behavioural information presentation and performance reporting: [Rules for behavioural information design](#)

Investor Behaviour

- [What makes investors happy?](#)

Spending/savings behaviour

- [The realities of spending](#)

Impact investing and philanthropy

- [The value of being human](#)

Art investing

- [Why buy art?](#)



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