HOW YOUR SUBCONSCIOUS INFLUENCES FINANCIAL DECISIONS

Behavioral finance explores the reasons behind the decisions people make with their money. Oftentimes, those decisions are rooted in subconscious thought patterns, which you can think of as subconscious bad habits.

And, understanding these patterns is the first step to help keep you on track in making smart money moves.

FIVE BEHAVIORS TO CONSIDER:

OVERCONFIDENCE

Definition: The tendency to overestimate your ability or judgment

Scenario: You picked a stock that skyrocketed, so you conclude you have a natural instinct for choosing winning stocks.

Suggested approach:

Do your research instead of playing the market based on gut feeling, and get an expert point of view from a financial professional to keep you on the right course.

FRAMING

Definition: Viewing situations with bias or predetermined expectation

Scenario: Since you are worried about recent market news, you watch every slight move of the assets in your investment portfolio and panic as soon as you see a downward movement of any asset.

Suggested approach:

Look at the big picture. Focus on the overall goals of your long-term financial strategy and lean on good information in investment decision making.

HERD BEHAVIOR

Definition: Going along with what a larger group is doing, whether those actions are rational or not

Scenario: A number of shareholders start selling, so you sell. You see an uptick in stock purchases, so you start buying too.

Suggested approach:

Base your investment choices on a holistic, long-term strategy that weathers short-term trends in market behavior

MENTAL ACCOUNTING

Definition: Categorizing money and treating funds differently depending on their origin and intended use

Scenario: You save money in separate accounts for different goals (vacation, etc.) but won't use that money in the event it's truly needed on a more pressing expense, like paying down a credit card balance.

Suggested approach:

Loosen up your perspective on what funds go where and spend as necessary to keep you financially sound and out of unnecessary debt.

ANCHORING

Definition: A mental bias based on the first piece of information you receive about how things should be

Scenario: When you buy a bottle of wine, you think it has to cost a certain amount to be good.

Suggested approach:

Set an anchor based on what you can afford financially as well as caloric, sugar, and cholesterol intake in your diet based on healthy numbers.

117142

TRANSAMERICA®