

Dealing with losses

A new solution arrives to the world of private banking. To introduce it is Enrico De Giorgi from the University of Southern Switzerland and his two partners Thorsten Hens and Dieter Niggeler of BhFS. Their innovation is in the use of behavioural models for the management of risk profiles and in the choice of investment portfolios. “The use of prospect theory of Kahneman and Tversky turns out to be more effective than the preference model which is based on the portfolio theory of Markowitz (focusing on variance aversion) - De Giorgi continues -. We focus on the real perception of risk from the point of view of the customer, on potential losses and potential gains with respect to their own reference point and their risk ability”. The new approach is based on three fundamental ideas: 1) an interactive questionnaire calibrated on client’s expectations, 2) an evaluation model founded in the prospect theory and not an ad hoc scoring model; 3) immediate output able to give clear feedback to the client and an investment proposal. For further details please consult the website (www.bhfs.ch).

Published in “Il Sole 24 Ore”, October 27, 2007.