BhFS Behavioural Finance Solutions GmbH

Brochure 2016

Applying academic research to real-world financial decision-making

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Why Behavioural Finance?

Behavioural Finance builds on a deep understanding of risk preferences and psychological biases. Using Behavioural Finance concepts to design an advisory process allows financial advisors to identify clients' misperceptions and to characterize their investment profile.

This example illustrates the importance of Behavioural Finance to develop structured wealth management processes.

Christine Kuhn is 30 years old and lives in Zurich. She received an MBA and wants to start her own PR company after having gained experience in the field. She just got married and plans to buy a house together with her spouse. In order to finance her own business as well as the new house, Christine would like to safely invest 500,000 CHF to increase her capital to 650,000 CHF over the next three years. Christine knows very little about financial markets, but her friends told her that an annual return of 10% can be easily achieved. As the market has just recovered from a previous crash she is convinced to invest in stocks to benefit from this positive momentum. She has been dreaming of running her own business since she was 18 and started to make plans for a new house several years ago.

Christine considers not reaching both goals to be highly unsatisfactory. However, she misperceives the market opportunity and is excessively confident about the outcome of of an investment in stocks. Given her limited understanding of financial markets this misperception is probably generated by her tendency to project the current market condition into the future (representativeness bias) or by the high performance achieved by her friends (herding behaviour).

As a result, Christine will expose herself to risky investments which she cannot afford. This will lead her to immediately reconsider her investment decision based on emotional factors whenever the performance appears unsatisfactory. Her actual goals and risk preferences will become irrelevant although they should be the main determinants of investment strategies.

RESULT: Classical vs. Behavioural Finance

Classical Finance classifies Christine as an aggressive investor who wants to achieve high returns.

Behavioural Finance describes her as a loss averse, overconfident investor with two specific investment goals which are treated independently (narrowly framed) and are equally important to her.

Behavioural Finance helps determine and focus on Christine´s real investment goals. By taking into consideration her prior financial knowledge and possible psychological biases, behavioural finance ensures pursuing Christine's actual goals and risk preferences.

Why BhFS Behavioural Finance Solutions?

Our objective is to connect you to a plethora of financial knowledge and guide you towards optimal results.

Scientifically founded for real-world decision-making.

BhFS Behavioural Finance Solutions is a spin-off company of the Universities of St. Gallen and Zurich. BhFS Behavioural Finance Solutions applies academic research to the development of practical and innovative solutions for banks, financial advisers, asset managers and insurance companies.

We help our clients to implement behavioural finance when they consult individuals and institutions. We use a behavioural finance understanding of investors' risk perception and decision-making mistakes to increase investors' confidence in the proposed investment solutions.

Scientifically founded

We are a team of highly trained professionals specialised in behavioural finance. As academics we are at the forefront of developing new ideas and innovative solutions. We have published several scientific articles in academic journals and books, and regularly present our research at academic conferences and workshops.

Real-world decision-making

Behavioural finance applies psychological findings to the study of the behaviour of real-world investors and financial practitioners. We apply behavioural finance to the development of concepts and tools which allow our clients to improve their understanding of real-world decision-makers. This includes their risk perception and preferences, and also decision-making mistakes which cause the so-called behaviour gap*.

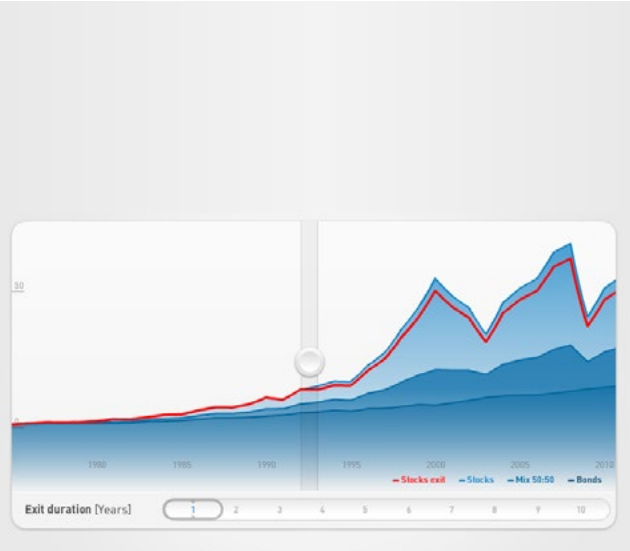
*behaviour gap creates the difference between what investors should get if they followed classical investment principles and what they actually get

We help you understand investors' decision-making process

BhFS Behavioural Finance Solutions applies cutting-edge research to develop innovative solutions for your investment and advisory process, customer relationship management, and reporting. Also digitalized.

We offer state of the art methodologies for your investment and advisory process. Our methodologies involve investor styles, client profiling and mapping clients' profiles against your investment universe. Our methodologies are available to be to be adapted to your specific needs, and to be appropriately integrated and implemented in your processes.

Our advisory model: **Diagnostics. Learning. Profiling.**



1 DIAGNOSTICS

Charactarise customer segmentation and investment style.

This process consists of diagnostic questions and interactive games (if digitalized) which measure your clients' emotionality, financial knowledge and investment style.

After the diagnostics you receive a classification of your clients based on behavioural finance criteria.

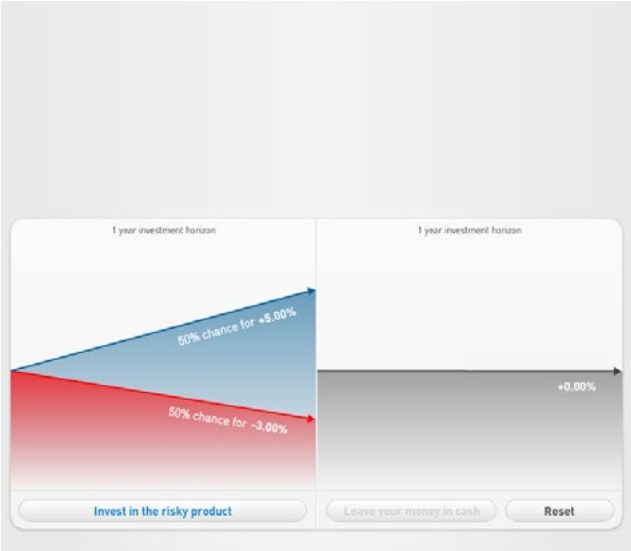
2 LEARNING

Align clients' expectations with market opportunities and correct misjudgements.

Well-informed investors have better investment discipline and more realistic expectations. Our learning concept consists of interactive questionnaires and learning games which address the key aspects of investing and typical investment mistakes.

These instruments can be used to support the advisory process and improve the profiling part.

Advisory Process



3 PROFILING

Understand clients' preferences and match them with your investment solutions.

We have developed behavioural decision-making models to describe clients' preferences and needs.

The Risk Profiling Module is conducted via an interactive questionnaire. It supports you in gaining concrete information on your clients' preferences, investment goals, and the corresponding asset allocation.

IDENTIFYING WHY AND HOW INVESTORS DEVIATE FROM THE RATIONAL DECISION-MAKING PROCESS IS OUR STRENGTH.

Key Benefits of Advisory

THE RESULT OF CLIENT PROFILING

1 *Goals*

What do your clients want to achieve with their investment? Only by specifying exactly what your clients' goals are, will you be able to tailor an asset allocation to their needs.

2 *Preferences*

How much risk are your clients willing to tolerate? By fully understanding your client's preferences you can optimally match the investment solutions.

3 *Investment*

What is the amount your clients want to invest? How high is their reserve? This helps you anticipate your clients' capability to handle losses and their change in behaviour in stressful times.

4 *Expectations*

When will your clients be disappointed with the portfolio performance? Assessing your clients' precise expectations enables you to anticipate their behaviour given particular market conditions.

5 *Knowledge*

How well do your clients know the differences of asset classes? By understanding their prior knowledge you can assist with learning and customize your advisory.

6 *Experience*

What experience do your clients have with investments? By considering their experience, you are able to assess how emotional they react in turbulent market situations.

Three behavioural factors contribute to your clients' perception of risk. By analysing them we help you better understand how your clients want to see their money invested.

Attitude towards losses

Attitude towards uncertainty

Investment temperament

OUR PROFILING DETERMINES WHAT YOUR CUSTOMERS' PREFERENCES ARE AND SHOWS HOW MUCH IMPACT THE THREE RISK FACTORS HAVE ON THEIR PROFILE.

IF WISHED, THE FULL ADVISORY PROCESS CAN BE DIGITALIZED.

Executive Training

BhFS offers workshops and seminars in behavioural finance to professionals in private banking. We present basic concepts of behavioural finance, especially in the context of their application to financial decision-making.

Basic seminars in behavioural finance:

CLASSIC AND BEHAVIOURAL PORTFOLIO SELECTION

Two fund separation, time diversification, buy-and-hold, rebalancing

Asset allocation puzzle, stock market non-participation puzzle, under-diversification, home bias

Mental accounting, goal-based investing, myopic loss aversion

BEHAVIOURAL BIASES AND INVESTMENT MISTAKES

Overconfidence, availability bias, mental accounting

Excessive trading, disposition effect, house money effect, home bias

DECISION THEORY

From normative to descriptive decision models

Behavioural risk preferences (loss aversion, uncertainty aversion, reference points, probability weighting)

Projects

Our versatility helps us address your specific needs.
Here you can find past projects and the ways we assist our customers.

"The key to investment success is the constant maintenance of asset allocation. Behavioural Finance is the instrument that helps customers to get to know themselves better as investors. Finance theory supports them to stick to their strategy even in the most turbulent market phases and to prevent mistakes. BhFS forms therefore an essential bridge between theory and practice for AGFIF International AG. Here the basics are developed which help customers to act rationally in all market situations."
Mojmir Hlinka, CEO, AGFIF International AG

"BhFS helped us improve the way we define our clients' preferences and risk profiles, which has led to higher clients' satisfaction."
Benno Giger, Head Private Banking, Acrevis Bank AG

IN COOPERATION WITH

In order to deliver optimal solutions to our customers we work in cooperation with bank software providers. BhFS brings the content expertise, namely behavioural finance insights and models, while the software providers enable us to include the concepts into a complete banking software. The result is individualized software solution for our customers, which can be directly integrated within their IT infrastructure.

For more holistic solutions, BhFS works together with complementary companies. As a result a more encompassing spectrum of topics can be covered and considered in creating solutions for companies.

Finally, BhFS works together with Bilanz for the annual ranking of Private Banks by contributing behavioural finance expertise to the evaluation of the banks.

The Team

Prof. Dr. Enrico De Giorgi
Mathematics, Beh. Finance

Professor of Mathematics at the University of St.Gallen and Head of the Profile Area "Quantitative Economics Methods". He holds a MSc in Mathematics from the Swiss Federal Institute of Technology, Zurich and a PhD in Economics from the University of Zurich. His research interests are decision analysis, Behavioural Finance and risk management. Currently, he is Associate Editor of "Management Science", "Mathematics and Financial Economics" and "Decisions in Economics and Finance".

Swiss Finance Institute Professor of Financial Economics. After his PhD studies at the University of Bonn he held positions in Bielefeld, Paris and Stanford. He is an adjunct Professor at the Finance Department of the Norwegian Business School in Bergen and the Scientific Coordinator of the National Centre of Competence in Research "Financial Valuation and Risk Management". Thorsten Hens is a CEPR Research Fellow and collaborates in the European Science Foundation project "Behavioural Models in Economics and Finance".

Prof. Dr. Thorsten Hens
Finance, Financial Economics

Dieter Niggeler
Software Engineering

Dieter Niggeler holds an MSc in Software Engineering from the University of Berne and an MA in Finance from the University of Zurich. From 1995 to 1998 he worked as a Software Engineer at the Union Bank of Switzerland (UBS). From 1999 to 2006 he worked on several projects in the banking business as a senior software engineer and architect at COMIT AG.

We give you answers to:

How to determine your clients' risk profiles?

How to determine your clients' best advisory model?

Which investment products are optimal from your clients' perspective?

How to determine clients' investment styles?

When do rules of thumb negatively affect investment decisions?

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