

Jay Mooreland

Behavioral Economist

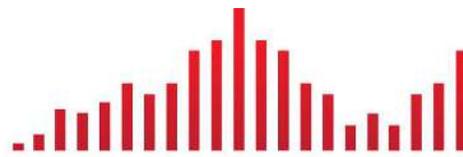
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PERSONAL QUALIFICATIONS

- Bachelor of Science in Business Finance
- Master of Science in Applied Economics
- CFP® Professional
- 12+ years Professional Experience



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Does the Risk Profile Instrument Accurately Describe Investors?

Risk Profile

The primary goal of current risk profile instruments is to recommend a portfolio of securities that is commensurate with the investor's desired level of risk. The risk profile tool, as with many other financial tools, assumes the investor is rational and remains rational throughout the investing continuum. The identified risk profile (i.e. conservative, aggressive) is like a balance sheet – it explains the desired level of risk for the investor at the present time only; it does not consider how or why that risk profile may change.

Empirical evidence demonstrates that investors' risk tolerance changes from time to time, such as over an economic cycle. As the economy and financial markets play out various cycles, investors are routinely influenced by emotions of anxiety, fear and greed which may alter their desired level of risk during periods of heightened emotions. The main problem with this issue is that a change in risk preference occurs with a lag - resulting in buying high and selling low. (Source: Dalbar, Inc.)

Improving the Investor Profile

Since the risk profile instrument assumes the investor is rational at all times, and that assumption is clearly mistaken, it may be of value to compliment the risk profile with a behavioral profile that identifies how investors are likely to act in situations when they are not "rational". Researchers have identified several behavioral traits (biases) that can influence individuals to make certain decisions when it comes to financial matters. Financial advisors could benefit greatly from this information as they recommend strategies and solutions that are tailored for investors, based upon their financial and behavioral profile.

A greater understanding of the client should translate into portfolio recommendations that meet both the financial and emotional needs of the client, resulting in a less-stressful, happier investment experience for both the investor and the advisor.

A Behavioral Profiler

The Emotional Investor has created a profiler that combines both a risk and behavioral profile into one questionnaire called *Understanding My Client*. The questionnaire is a total of 10 questions that will result in a risk profile and identify eight potential biases the investor may be influenced by.

The Emotional Investor offers seminars to educate financial advisors on how to use and implement the profiler. Seminars qualify for CE credits for CFP and CIMA designations. The Emotional Investor also provides a presentation for the public that illustrates several common behavioral biases in a fun and interactive way.

For more information, contact The Emotional Investor at 651-621-5712.