SYNOPSIS

Embedding Behavioural Finance in an Investment Management Process
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Key words: Investment Behaviour Herding Crowding Extrapolation Recency Timing Equities Customer Returns

Purpose of your paper: Emphasising the importance of embedding an understanding of Investor Behaviour into an Investment Manager's Process, focusing on Time and Herding (Applied Behavioural Finance). Customer Outcomes will also be examined as they also suffer from biases.

Synopsis:
The purpose of the talk will be to give a clear insight as to why it is essential to embed an understanding of Behaviour into an Active Investment Process. Investment Managers must Think Differently in order to get an edge on the market, and on their competitors. This can be best described as Applied Behavioural Finance.

First will be a brief explanation of how one generates returns from an Active Global Equities portfolio, using historical evidence, based on:

- Long-term return drivers for the Asset Class as a whole.
- Awareness of major swings in Sentiment (Boom/ Bust) driven by collective emotion, and how to manage this.
- A simple framework to identify Cheap and Expensive stocks via Analysis of Company and Industry Drivers, with a particular focus on Change and Uncertainty

The main focus of the talk is around two key principles explored in relation to Behaviour. This relies on an understanding that stock markets function as an interaction between buyers and sellers of stocks, driven by different motivations, and who are all subject to the flaws of human behaviour.
The two key areas of focus are:

- Herding (or Crowding) – focusing on tribalism, social exclusion and "self-organised criticality"; the importance of conviction in driving superior return outcomes; Discuss Contrarian and Momentum approaches.
- Time – look at the challenges of forecasting; demonstrate why extrapolation is a problem faced by practitioners of finance; explore the recency/ availability bias and relate to Bayes Theorem; desire for instant gratification; Discuss so-called Value and Growth styles of investing.

Having explained how this knowledge is critical for building an investment process, the talk will also look at the Customer Experience, and hence has applicability to Retail Financial Services too.

- Agency issues will be raised, relating to obstacles many investment managers face in delivering optimal outcomes for Clients eg benchmarking, incentives.
- Finally, data will be presented on the behavior of real cohorts of retail clients from the speaker's company to demonstrate the second order challenge when customers of investment managers exhibit similar behavioural challenges and compound the issues raised in the talk to their own detriment.

Bio: Douglas initially joined Platinum in May 2003 as an investment analyst, having previously worked as an Investment Manager with Aegon UK and as an Actuary for CBA. Douglas left Platinum in October 2008 to work in Singapore where he helped build Standard Chartered Bank's equity broking business before re-joining Platinum in February 2013 as investment specialist and intermediary between Platinum's investment team and the financial advisory network. Douglas has an MA in Mathematics from Trinity College, Cambridge and is a Fellow of the Faculty of Actuaries.