David Quinn

Same old bad habits skew good investment decisions

We love self-help books in Ireland. While living in the now or practising gratitude may not quite be the investor's first choice, finance has its own regular stream of bestsellers offering strategic and tactical advice.

Get-rich-quick trading strategies are popular, yet so too is the growing area of investor psychology, or "behavioural economics".

I couldn't believe my eyes, back in 2012, when Thinking, Fast and Slow, written by US economic professor Daniel Kahneman hit No 1 on the Hodges Figgis bestseller shelves.

Kahneman's analysis of decision making sells by the millions, and readers have applied his insights right across finance, business and even their personal lives. Still, in my experience, as much as we learn about behavioural economics, investors still tend to revert to old habits.

We appear hard-wired to fall into certain traps. I think we are particularly susceptible to these mistakes in Ireland, as we don't have generations of experience in managing money.

Ireland is the global equivalent of a teenager who suddenly came into some money. When we compare ourselves with the Swiss, for example, we still have an awful lot to learn. They have had wealth for hundreds of years, and experience has taught them to think long term, make rational decisions and invest well.

In comparison, Ireland was a relatively poor country, in developed economy terms, until the early 1990s. Our first taste of wealth came soon after. Even allowing for the 2008 crash, we are still a wealthy nation.

We have all made some of the classic investment mistakes set out by the behavioural economists. Apparently, there are now more than 100 recognised biases, or common errors in investing.

Availability bias is most common. We attach more value and weight to information that is readily available. In the mid-noughties, the success of the property market was heralded everywhere: television, newspapers, dinner party chatter. It seems we are more influenced by news or information that we have just heard, compared with information we heard a year ago. We can't help but allow this information to influence us.

We are more likely to invest in companies we know and recognise. I meet new clients working for US technology multinationals, with significant sums built up in their stock option schemes. They also have their pension invested in a "tech" fund. It is the same mistake made by senior bank staff in 2006, who had all of their savings in bank shares. If the company fails, they lose their job and their savings.

Anchoring is another very common bias, particularly among property investors. The purchase price becomes a hugely influential factor which frames decisions to sell an investment. Clients say they will sell when they get back to "breakeven". More important is the current value of the asset, and the original purchase price should have no real bearing on the investment decision, other than for tax reasons.

Many in Ireland still see property as the best investment option, even though equities have performed dramatically better over the past 20 years. The wealth of others – high-profile developers or some lucky neighbours – anchor these investment decisions, not rational decision making.

Confirmation bias is a constant risk. We seek out information that supports or backs up our decisions, and avoid information that goes against our preconceptions. Facebook, Google and Twitter use this bias to their advantage, by feeding our need for news and opinion that fits our profile and past searches. This just enhances our view and makes us more confident, perhaps over-confident. By seeking out alternative opinions, we can make a more objective assessment.

My clients who are sitting in cash love sending me articles about the upcoming crash and are automatically drawn to bearish commentary. Fully invested clients seek out bullish news, good economic stories, and anything that supports a rising market.

Yet can we realistically invest or trade bias-free? When I look at any investment decision, my pension or elsewhere, I always ask whether a completely random strange living in Boston would do th same thing. Would they buy the one-bed apartment in Ranelagh? Would they hold their savings in the compan I work for? Would they leav all their savings in An Post?

It's a great way to check your biases, and should ma for more cold and calculate decision making.

David Quinn is managing director of Investwise, a full service financial advisory fi and pension advisers