



Barclays Wealth Insights

Volume 13: Risk and Rules
The Role of Control in Financial Decision Making

In co-operation with Ledbury Research

About Barclays Wealth

Barclays Wealth is a leading global wealth manager, and the U.K.'s largest, with total client assets of \$266bn (£166bn) as of March 2011. With offices in over 20 countries, Barclays Wealth focuses on private and intermediary clients worldwide, providing international and private banking, investment management, fiduciary services and brokerage.

Barclays Wealth is the wealth management division of Barclays.

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About this report

Researched by Ledbury Research and written in conjunction with Barclays Wealth, this 13th volume of *Barclays Wealth Insights* looks at investment personalities among global, high net worth individuals and what rules and strategies are used to control these personality traits.

It is based on two main strands of research. Firstly, Ledbury Research conducted a survey of more than 2,000 high net worth individuals, all of whom had over \$1.5million/£1 million (or equivalent) in investable assets and 200 with more than \$15million/£10 million. Respondents were drawn from 20 countries around the world, across Europe, North America, South America, the Middle East and Asia-Pacific. The interviews took place during January and February 2011.

Secondly, Ledbury Research conducted a series of interviews with academics, entrepreneurs and other experts from around the world. Our thanks are due to the interviewees for their time and insight.

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Foreword

Understanding how and why we make decisions is a fascinating and complex area — irrationality and bias often lead us to make decisions which, with hindsight, we might struggle to explain.

While behavioral economics has been studied at an academic level for some time, the last few years have seen an explosion of interest in the subject. Decision making in the context of finance is no longer a niche topic, it has become a mainstream point of discussion for businesses, and in many cases, consumers.

As an extension of this trend, companies, governments and other organizations are investing more in trying to understand what makes people behave in the way they do, and how this can be influenced or adjusted. Bookshelves are healthily stocked with the latest thinking on the topic.

At Barclays Wealth, we place tremendous importance on working to understand our clients and their investment personalities. Three years ago, we established a behavioral finance team in order to ensure that engagement with clients in this space was market-leading. We believe that their blend of academic understanding and investment credentials set us apart in the wealth management industry.

Risk and Rules: The Role of Control in Financial Decision Making, the thirteenth in our series of Wealth Insights studies builds on our research in this field. Not only does it seek to understand investment personalities, it also looks at what rules and strategies individuals use to control them.

Working once again in partnership with Ledbury Research, we have surveyed more than 2,000 wealthy individuals across the globe and interviewed a series of experts who have provided their views on psychology and finance.

From this intelligence, we have produced a report that helps us create a vivid picture of investment personalities, how they can navigate the investment landscape, and how they can challenge, and perhaps change, their investment processes.

I hope that you find this latest volume of Insights thought-provoking and engaging.



Thomas L. Kalaris
Chief Executive
Barclays Wealth

Our Insights Panel

We are extremely grateful for the time and help from the experts on the Insights Panel

Dr. Ian Ayres, Professor of Law and Economics at Yale University and Co-Founder of stickK

Peter Ayton, Professor of Psychology at City University

Dr. Greg B. Davies, Head of Behavioral Finance and Quantitative Finance, Barclays Wealth

Dr. Barbara Fasolo, Lecturer in Decision Sciences at London School of Economics

Professor Thorsten Hens, Head of the Banking and Finance Department at Zurich University

Dr. Sheena Iyengar, Professor of Business in the Management Division at Columbia University and Research Director at the Jerome A. Chazen Institute of International Business

Dr. Annie Koh, Associate Professor of Finance and Dean of Office of Executive and Professional Education at Singapore Management University

Dr. Neil Stewart, Professor of Psychology at Warwick University

Rory Sutherland, Executive Creative Director and Vice Chairman at Ogilvy Group U.K.; President of the Institute of Practitioners in Advertising

Dr. Chun Xia, Assistant Professor of Finance in the Faculty of Business and Economics at The University of Hong Kong

Introduction

We all know we are fallible. But do we have a clear idea why, or what to do about it?

Decision making can be challenging as we are influenced by biases, emotions and irrational behavior that we may not be aware of; and even if we are aware of them, we may not be able to easily control them. Financial decision making can be particularly tricky. Not only is it hard to construct an optimal financial plan, but once you have one, you need self-control to adhere to it. For many people, such self-control may be difficult to maintain. The classical example of resisting temptations in order to meet long term goals is illustrated in Homer's story of Ulysses, who had to tie himself to the mast of his ship to resist the Sirens' songs in order to continue his long journey home. Ulysses' brilliance lay in having the foresight to recognize his inability to resist temptation and to take steps to counteract it.

Financial self-control is a burgeoning research area in behavioral finance, which combines the disciplines of psychology and finance. A number of studies exist on the topic, though little has been done to understand how rules and strategies are used to remedy failures of self-control. Equally, existing studies tend to be partial to certain demographic groups and often limited to one country. Little has been done to understand how strategies can be used to remedy failures of self-control, particularly those that apply to the wealthy. In a global investment environment, having a clear idea of the differences and similarities across geographies can be particularly useful to investors and financial services firms.

As a result, this Barclays Wealth study undertook ground-breaking research to help better understand how to improve decision making. For this report, we surveyed over 2,000 wealthy individuals, asking them questions about their approach to investing.

The study was structured to enable us to explore further the issue of self-control:

- First, we wanted to investigate and understand better how individuals' self-assessments of their investment style relates to aspects of their financial personality, such as "risk tolerance," "composure" and "desire for financial discipline," thereby highlighting certain financial personality traits that run across different types of investors.
- Second, we wanted to examine how investors cope with these traits — and any associated perceived shortcomings in their investment approach — through the use of investment rules and strategies (in other words, attempts to impose some degree of self-control).
- Third, we conducted a number of interviews with finance sector professionals, psychologists and other academics, to shed more light on the survey's findings.

“Classical finance does not take into account the emotions involved in decision making. It assumes we are all rational, but we aren’t. Understanding our personalities and how they shape our financial decision making is fundamentally important if as investors we are going to achieve good returns.”

Greg Davies, Head of Behavioral and Quantitative Finance, Barclays Wealth

Executive summary

Desire for discipline: Despite being wealthy, nearly half of the investors polled in this report acknowledged that they wanted more self-control of their financial behavior. Women were more likely than men to have a greater desire for self-control. Desire for discipline also changes with source of wealth. Those whose wealth has come from earned or investment income are less likely to want more control. However, where wealth is derived from inheritance, high net worth individuals are aware of a need for discipline, perhaps due to their need to be accountable for the legacy they are managing. Similarly, entrepreneurs and those whose wealth comes from property or large bonuses are more likely to have a high need for discipline.

The trading paradox: The survey exposes an interesting contradiction on the theme of overtrading. Previous research has shown that excess trading can compromise returns; however, many high net worth individuals believe that you must trade frequently to do well in the markets. These same individuals suspect that they over do it because they are over three times more likely to believe they trade too much. In fact, almost 50% of traders who believe you have to trade often to do well think they overdo it. This overtrading is associated with a desire for a more disciplined approach to their finances. In addition, low composure, concern about preventing bad things from happening and a high appetite for risk increase the likelihood of trading too much.

The gender difference: While the research finds differences between individuals within all the groups, there are several robust personality differences between men and women when looking at these groups in aggregate. Men tend to have a higher risk tolerance as they are more likely to label themselves “financial risk takers” and have a greater openness to choosing high risk investments. Men have more positive views on the benefits of frequent trading and timing the market, yet — consistent with the trading paradox — they are more likely to believe they trade too much. Men have higher composure than women; that is, they are less likely to believe they are easily stressed. Women tend to have lower composure and a greater desire for financial self-control, which is associated with a desire to use self-control strategies. Women are also more likely to believe that these strategies are effective.

Age really does make you wiser: The adage that we mellow with age rings true in this report. Overall, age is characterized by calm, acceptance and satisfaction. The data suggests the idea of happiness in old age also transfers to the way we approach our finances. In fact, even if wealth levels do not change, with increasing age the wealthy gained a calmness and confidence in their approach to financial management.

High stakes: A significant difference emerges when we look at the relationship between net worth and financial personality traits. Those with greater income and wealth have higher risk tolerance levels. The pattern behind this observation is extremely robust. Having a risk-seeking personality also has its own challenges, and is clearly related to a higher desire for financial self-control.

Rules rule: The report shows that investors use many types of decision making strategies to control their decision making process. The most popular strategies include setting deadlines to avoid procrastination and using cooling-off periods to reflect on decisions. Respondents believe that rules are more effective in their financial lives rather than in life more generally.



Classical Versus Rock 'n' Control

Classical finance assumes people are rational and that once an individual works out their optimum investment solution, they can both implement it and also persevere with their strategy. Hence the idea of a “rational” portfolio, that optimally trades-off taking on more risk for the prospect of a higher return. Typically investors are advised to build a rational portfolio — which means including a selection of asset classes to achieve the best possible returns over the long term — while taking an amount of risk appropriate to the investor.

From a behavioral finance point of view, the classical approach to finance has some major flaws. The central argument of behavioral finance is that we are not perfectly rational, and we do not have perfect control even over our own behavior. Instead, our decisions are shaped by our

context, emotions and a number of psychological biases that we are unavoidably prone to. It is quite daunting to think that there are so many variables that can interfere with our ability to implement and stick to our investment strategies over the market cycle.

Rationality Fails Us...

One of the difficulties we have as investors is what we might call “failures of rationality,” which makes it very difficult for investors to do the right thing as prescribed by classical finance. Failures of rationality can perhaps be best divided into four categories, as follows.

Failing to see the big picture.

We are all subject to what psychologists call “narrow framing” — we consider decisions in isolation, without looking at the big picture. We therefore tend to focus on investment decisions one by one, without considering the impact on our overall portfolio. This could mean we miss out on diversification opportunities, make new investments that cancel out existing investments, or decline opportunities that look too risky on their own but would be a good addition to the overall portfolio.

Using a short-term decision horizon.

We also consider and make decisions narrowly based in time. We base our decisions on anticipated performance over short time periods, when what matters is growing our wealth in the long term. To put this in perspective, the MSCI world index historically¹ posts losses about 40% of the time over any given one-month period. However, over a one-year period the probability of a loss drops to 25%, then down to 19% over a five-year period, 7% of the time over a 10-year period and almost never over 20-year time frames. When we focus on the short term, which we are prone to doing, we are potentially misleading ourselves. As **Greg Davies**, Head of Behavioral and Quantitative Finance at Barclays Wealth explains, “All humans are prone to loss aversion — the tendency to feel the pain of a loss about twice as strongly as we feel pleasure from an equivalent gain. Since the proportion of losses we observe increases when we use shorter time periods, loss aversion means our willingness to accept risk is much lower when we focus on the short term than it should be. This common feature of investor behavior is known as ‘myopic loss aversion.’”

Buying high, selling low.

The issue here is comfort, we all tend to take more risks when we are comfortable, and fewer when we are not. The problem is that we tend to be comfortable when markets have been rising for a while and when we have been surrounded by good news. We are uncomfortable when we have been through times of stress and chaos. Unfortunately, this means we are likely to take on more risk when markets are high and less when they are low. In fact, we would be better off to buy and hold.

Action bias (trading too frequently).

Several of the biases discussed above lead to an action bias. Our failure to focus on the big picture leads us to make small, frequent decisions. If market conditions are volatile, we will trade to feel like we are doing something about the market deviations (buying high and selling low, and focusing on the short term). The more you trade, the higher your costs, and the higher the chance of making decisions that are emotionally driven or based on market noise. Most of the time, the best advice is simply to do less than you are inclined to.

¹ Analysis over the past 20 years, completed by Barclays Wealth.

...and Emotions Confuse Us

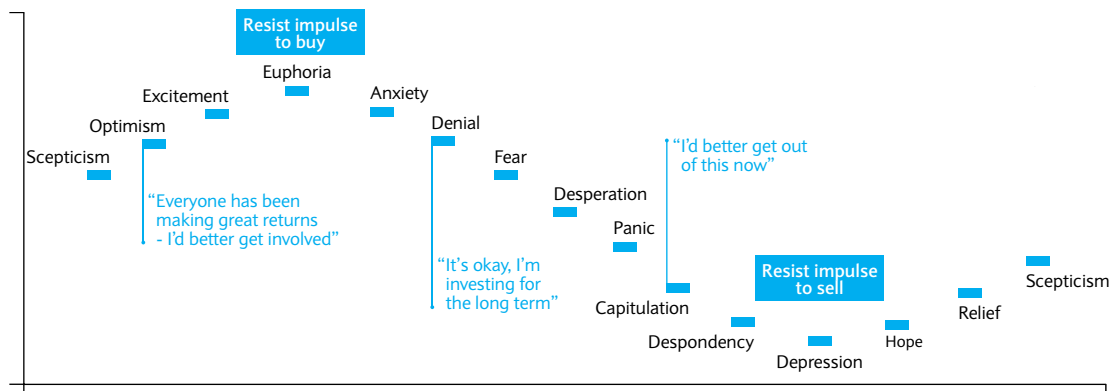
These failures of rationality are not the only ways our behavior can be shaped. Our emotions, combined with a tendency to act on short-term preferences, can also lead us to act in a way that in hindsight might seem irrational or illogical.

Short-term preferences and emotions can also lead to a number of more specific investment failures. Some examples of the ways this can manifest itself in an investment context include:

- Anxiety about potential short-term losses without recognizing that if you take a long-term view of your portfolio, there is an increasing probability of investment gains. This may prevent people from entering or staying in the market during times of poor market conditions.

- Trying to strategically time the market and ending up paying for it. Instead of buying low and selling high, our emotions tempt us to do exactly the reverse.
- A tendency to buy asset classes that we feel more familiar with. Emotions make us feel safer in asset classes we are more comfortable with; for example, many have a preference to invest in their home markets even though we thereby lose many benefits of diversification.²
- After losses people often stay out of the market for too long — being burned in the past leads us to be more cautious in the future.

Chart 1 — Mistiming and the Investment Cycle



Source: Adapted from Westcore Funds / Denver Investment Advisors LLC.

Supporting the disruption caused by these emotions, **Professor Thorsten Hens**, Head of the Banking and Finance Department at Zurich University, comments on the wisdom of sticking to a long-term investment strategy, such as rebalancing, rather than allowing short-term emotions to guide our portfolio management: "A rebalancing³ strategy keeps the proportions of assets in the asset allocation, e.g. 60% stocks, 25% bonds and 15% commodities — balanced over time. Rebalancing is good since in the long run, markets are mean reverting — what goes up must come down. Hence, when one rebalances, one buys when cheap and sells when markets are expensive."

However, he warns that emotions can sabotage well-laid plans. He suggests that recording emotions can help investors deal with them without reacting to them: "Emotions are fundamental in investing: greed, fear, regret, surprise and anger are all triggered while investing. The investor should accept these emotions because they help us to learn faster."

The result of these distortions is, as **Dr. Neil Stewart**, Professor of Psychology at Warwick University points out, that "Homo Economicus, the rational decision making man, does not exist." As a result, we do not naturally have the skills to make sensible decisions, in finance and elsewhere: "The brain is mainly set up for wandering around on the savannah picking up berries; we're stuck with that sort of Stone Age brain, trying to do modern financial decision making with it. Basically your brain is doomed."

² Diversification does not protect against loss.

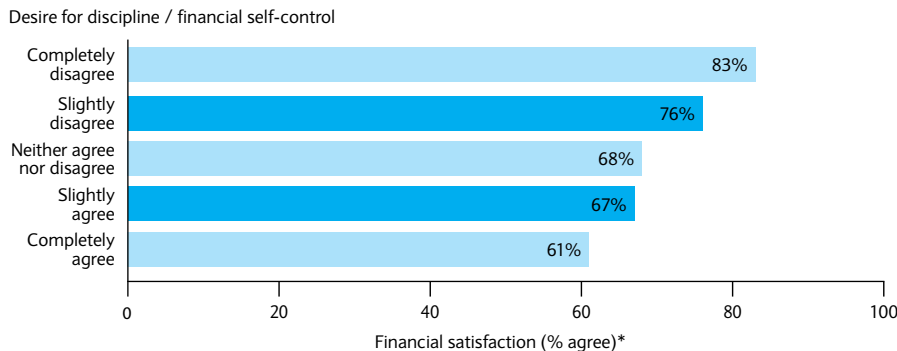
³ Rebalancing does not guarantee an investor's goals and objectives will be met.

Intangible Complications Have Tangible Effects

This lack of control over our emotions is not an abstract problem; in fact, it can have tangible, detrimental effects on both investor satisfaction and performance. A recent Dalbar study into investor behavior found that over 20 years ending December 31, 2010, the average equity investor earned 3.8% a year, while the S&P 500 index returned 9.1% annually — a considerable difference. This effect was also found in a study commissioned by Barclays Wealth at the Cass Business School from 1992 to 2009, though the results were more conservative: The total return of U.K. equity funds was 6.5% but the average investor earned only 5.3%. Compounded over 10 years this difference is significant — it is a sacrifice of nearly 20% of one's return.

Similarly, a lack of self-control is linked to lower financial satisfaction. Our global study of 2,000 high net worth individuals asked investors whether they wanted greater self-control in their financial management. Those who did want self-control were less likely to be satisfied with their financial situation, as we can see in Chart 2 below. Note that this relationship is not simply because those that have financial discipline are wealthier. Those who wish they were more disciplined are less satisfied, even when income and net worth are taken into account.

Chart 2 — Financial Satisfaction by Desire for Financial Self-Control



* % "completely agree" or "slightly agree" with the statement "I am satisfied with my financial situation." E.g. % of those who rate themselves as financially satisfied in each category of desire for discipline/financial self-control.
Source: Ledbury Research

The Trading Paradox

A particularly damaging failure of financial discipline is overtrading, or trading too frequently. Many studies have confirmed how this can cut into returns. The annual returns of the most active traders (top quintile) are 7% lower compared to the least active traders (bottom quintile) — an effect attributed to overconfident trading and neglecting transaction costs.⁴

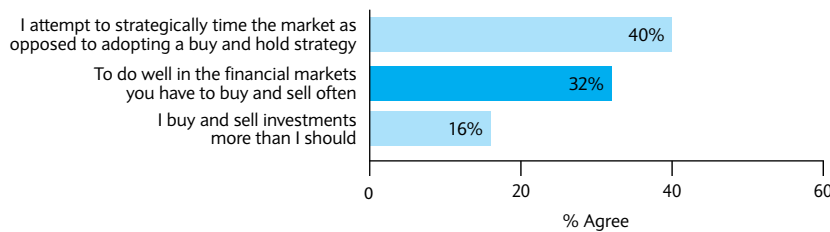
The data also reveals an interesting pitfall on the theme of "emotional trading," which can tempt investors to buy high and sell low, which can cost nearly 20% in lost returns over a 10-year period.⁵ This tendency leads to the trading paradox. A third of those polled (32%) say that trading frequently is necessary to get a high return, however these

respondents are over three times more likely to believe that they trade too much. In total, almost half (46%) of respondents who believe you have to trade often to do well think that emotions force them to do this.

Our survey asked the following three questions about trading behavior to understand the extent to which investors trade too much:

- To do well in the financial markets, you have to buy and sell often (trade often).
- I buy and sell investments more than I should (trade too much).
- I try to strategically time the market rather than adopting a buy and hold strategy (attempt to strategically time the market).

Chart 3 — Trading Behavior*



* % "completely agree" or "slightly agree" with each statement.
Source: Ledbury Research

Chart 3 shows that 32% of respondents believe that frequent trading will result in better performance. The chart also shows that 40% actually do this, either because they believe they have to or because they believe even if you do not have to, it is nonetheless beneficial.

The paradox starts to emerge when we asked about trading too much. On average only 16% of respondents believe they overtrade. However, those who believe that trading frequently is an effective strategy are over three times more likely to believe they trade too much and nearly 50% of traders who are sure you have to trade often to do well think they over do it!

⁴ "Boys will be boys: Gender, overconfidence, and common stock investment." Brad Barber and Terrance Odean, *The Quarterly Journal of Economics* (2001).

⁵ This effect was found in a study commissioned by Barclays Wealth at the Cass Business School from 1992 to 2009. The total return of U.K. equity funds was 6.5% but the average investor earned only 5.3%. Compounded over 10 years this difference is quite significant – it is a sacrifice of nearly 20% of one's return. Many other studies have shown similar results.

So why do so many of us believe that frequent trading is beneficial in the first place? On the face of it, you might think that those who were trading more actively would be more experienced, sophisticated and able to control themselves, but that seems not to be the case — trading becomes addictive. So one basic problem is that investors feel they need to engage in active trading, but they cannot then control how much they do it.

Overconfident trading was highlighted earlier in this report as one potential reason for trading too much. **Dr. Chun Xia**, Assistant Professor of Finance in the Faculty of Business and Economics at The University of Hong Kong, explains overconfidence and its affect on trading in more detail:

“Overconfidence basically says that most believe their ability is above the average or their information is more precise than the average, which are simply impossible. For example, if I ask my students, ‘Do you believe your score on the final exam will be above the average?’ more than 80% of students would say, ‘Yes,’ which is impossible, because only 50% of students can outperform the average.

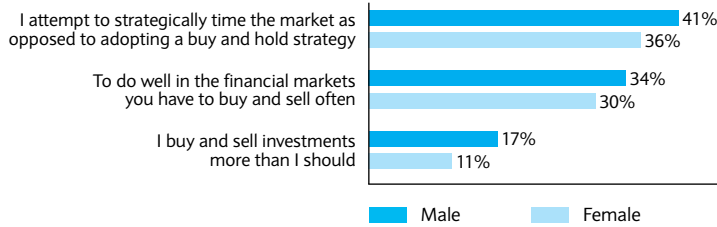
When people believe they have a higher ability than the average, or more precise information, or more accurate interpretation, then what they will do is to buy or sell with a larger amount than optimal. Basically, they trade too much. However, if they trade too much, then they pay more commission, and they push the price to a level against their interest, so the return will be reduced. This is a very simple, well-established fact: Investors trade too much.”

Dr. Xia proposes a number of explanations for this overconfidence. One is “self-attribution bias” — the willingness to attribute good investment decisions to yourself, but bad investment decisions to others. Another problem is that because the feedback from the markets can be very cluttered, it is difficult to tell whether you have made a good investment or a bad one in a short period. Overconfidence can also make investors reluctant to hire investment professionals.

Interestingly, **Dr. Xia’s** research also confirms previous findings that women trade less — but could earn more than men. Ironically, a lack of financial confidence can prove an advantage (see next chapter for gender differences in investor personality). We also observe this pattern in our global survey of wealthy men and women. Chart 4 shows men are more likely than women to try and strategically time the market instead of simply buying and holding. Yet men must have some indication that this is not an effective strategy — or at least that it is one that they take too far. They also are more likely to admit that they trade more than they should.

“Overconfidence basically says that most believe their ability is above the average or their information is more precise than the average, which are simply impossible.”

Chart 4 — Trading Behavior, by Gender*

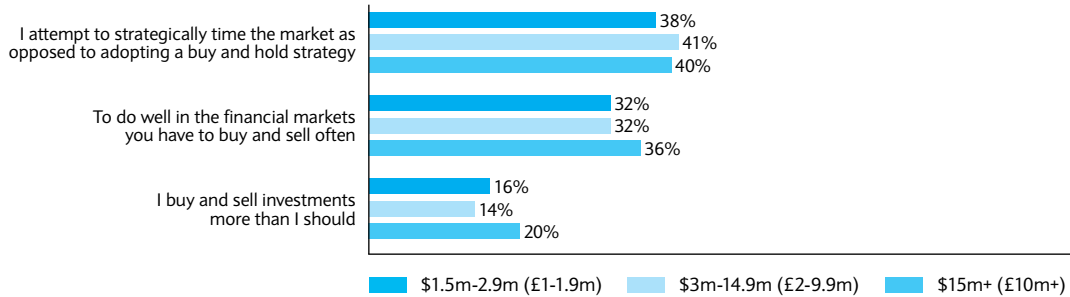


* % "completely agree" or "slightly agree" with each statement.
Source: Ledbury Research

Men are not the only demographic group that admits to buying and selling investments more than they should. Our survey also found that having more money to trade with leads one to trade too much,

as 20% of those in the highest net worth category \$15+ million/£10+ million say they trade more than they should compared to 14% in the next category \$3-14 million/£2-9.9 million.

Chart 5 — Trading Behavior, by Wealth Level*



* % "completely" or "slightly agree" with each statement.
Source: Ledbury Research

The Desire for Discipline

If we attempt to follow a fully “rational” path without the use of self-control strategies, the effects are clear: We will overtrade and we will buy high and sell low. As a result, we will be both less effective investors and we will be less satisfied investors.

In order to prevent this, we need to take steps to facilitate our efforts to exert self-control — as Ulysses tied himself to the mast or his crew filled their ears with beeswax, we need to find ways of constraining our own future behavior in times of stress or uncertainty. **Greg Davies** at Barclays Wealth explains that, “This can only happen if we give something up — this could be our ability to respond with knee-jerk reactions, or it may mean sacrificing a small amount of the performance of the “rational” portfolio in order to ensure that we have a portfolio with which we are emotionally comfortable in the short term. These sacrifices would be unnecessary if we were rational robots — but as humans these small constraints or sacrifices can help prevent much larger costs to our performance or satisfaction.”

This self-control is made harder due to the pervasive nature of familiarity in investment decisions. **Dr. Barbara Fasolo**, Lecturer in Decision Sciences at the London School of Economics believes familiarity plays a big role in investment decisions in general. The hypothesis being that familiarity leads to overconfidence, which in turn fuels a perception of expertise in a particular investment area.

Dr. Annie Koh, Associate Professor of Finance and Dean of Office of Executive and Professional Education at Singapore Management University, further illustrates that familiarity bias plays a fundamental role for some investors, whose comfort in one asset class is such that they avoid diversification of their portfolio.

“There are people whose comfort level is so strong with one asset class, such as property (real estate) or currencies, that they do not practice the diversification rule. We have a very rational rule in diversification: Every business school professor will tell you to diversify and yet I have seen many investors and even wonderful colleagues who are investing only in a particular asset class because that’s where they feel they make the best decisions.”

Barclays Wealth’s **Greg Davies** discusses how familiarity with one’s own country can lead to “home bias” — a reluctance to diversify out of local markets and engage in the global economy. “This tendency can actually increase risk exposure, even though investing in one’s home country may feel safer. Ironically, sometimes a degree of self-discipline is needed to move out of one’s subjective comfort zone in order to move to a more objectively secure position.”

“I think familiarity plays a big role in investment decisions in general, because you tend to be more confident. The problem with overconfidence is that it’s fuelled by familiarity. So, the more familiar you are with things, the more overconfident you are that those things will go well.”

Dr. Barbara Fasolo, Lecturer in Decision Sciences at London School of Economics

Thus far, we have focused on the need for self-control to stop investors from doing something — e.g., excess trading or panicked selling during market downturns. However, this point also reveals that sometimes it takes self-control to force investors to do something that feels uncomfortable — e.g., diversifying into markets or asset classes that feel unfamiliar.

Self-assessment of behavior begins with an awareness of the need for greater self-control. Our survey asked investors whether they agreed with the proposition: “I wish I could take a more disciplined approach to my finances” and found that a substantial proportion (41%) agreed with this desire for more discipline. Closer inspection shows that some parts of the high net worth population are more likely to desire greater self-control than others (Chart 6).

Chart 6 — Desire for Discipline*

By net worth	
\$1.5-2.9m (£1-1.9m)	42%
\$3-14.9m (£2-9.9m)	38%
\$15m+ (£10m+)	45%

By age	
<45	53%
45-64	48%
55-65	36%
>65	25%

By source of wealth	
Real Estate	51%
Entrepreneur	48%
Inheritance	47%
Earnings	43%
Investment gains	43%

By region	
Asia-Pacific	57%
Rest of World	41%
Latin America	34%
Europe	33%
U.S.	28%

Decision making responsibility	
Sole	41%
Joint	37%

By gender	
Female	45%
Male	39%

* % "completely agree" or "slightly agree" with the statement "I wish I could take a more disciplined approach to my finances."
 Source: Ledbury Research

Women reported a greater desire for self-control in their approach to financial management. This relationship can be explained in part by lower composure in women (see next chapter for gender differences in investor personality); women are likely to get stressed more easily; and their awareness partially accounts for their greater desire for financial discipline. However, it is men who actually have a greater need for discipline when it comes to investment management, as they tend to be overconfident in investing, leading to lower returns, as explained by **Dr. Xia** on page 12.

Age also influences our desire for self-control. Within our group of high net worth individuals, increasing age brought with it a reduced desire for discipline. Age was a factor that showed many differences in the need and desire for self-control and also investor personality types. In fact, with increasing age the wealthy gained calmness and satisfaction in their approach to financial management. This is discussed in more detail on page 23 — The Zen of Ageing.

Involving others also leads us to believe no greater level of discipline is required. Those who make joint decisions think they need less discipline as their joint involvement itself acts as a means of adding discipline — two minds provide two perspectives, increasing the chance of detecting potentially irrational decisions before they are carried out.

Desire for discipline also changes with source of wealth. Those whose wealth has come from inheritance are aware of a need for discipline, perhaps due to their need to be accountable for the legacy they are managing. Similarly, entrepreneurs and those whose wealth comes from real estate or large bonuses are more likely to have a high need for discipline, compared to those whose wealth was amassed more steadily through saving income or accumulated investment returns.

⁴ "Boys will be boys: Gender, overconfidence, and common stock investment." Brad Barber and Terrance Odean, *The Quarterly Journal of Economics* (2001).

⁵ This effect was found in a study commissioned by Barclays Wealth at the Cass Business School from 1992 to 2009. The total return of U.K. equity funds was 6.5% but the average investor earned only 5.3%. Compounded over 10 years this difference is quite significant — it is a sacrifice of nearly 20% of one's return. Many other studies have shown similar results.



Life Would Be Dull if We Were All the Same

The issue of self-control is important and potentially extremely beneficial if investors are aware of both the pitfalls they are prone to through irrational decision making and the requirement for greater self-control.

In the previous chapter, we saw that some demographic groups are more likely to desire financial discipline and control than others. Our survey also looked at whether certain personality traits, in particular traits that are known to have an effect on our investment behavior, also help to identify those who need and desire greater financial discipline.

Understanding Our Personalities

Through this study and our previous work, we have found three elements of our personalities (personality dimensions) that are particularly relevant for assessing individuals' needs and desires for self-control over their financial behavior:

Financial Risk Tolerance

This is a standard personality dimension that helps to determine the appropriate trade-off between risk and return for the individual investor. In our survey, we measure risk tolerance with the following statements:

- “In order to achieve high returns I am willing to choose high risk investments.”
- “I am a financial risk taker.”

(Note that a thorough measure of financial risk tolerance requires us to use more questions than used in this survey; the Barclays Wealth measure uses a further six questions.)

Composure

This second personality trait is based on the tendency toward stress and heightened emotions. The composure scale (part of our Financial Personality Assessment)⁶ is based on one of the five main dimensions of personality psychology and was assessed in this survey with the strongest predictor of this statement: “I get stressed easily.”

Promotion versus Prevention

This third personality trait is based on psychological research into two distinct motivations for doing things. People tend to either be motivated to make good things happen (promotion focus) or to prevent bad things from happening (prevention focus). A promotion focus is concerned with advancement, approach and accomplishment, whereas a prevention focus is concerned with security, safety and responsibility. We measured this motivation with the statement:

- “I am more concerned with preventing bad things happening than ensuring good things happen.”

Survey questions asked high net worth individuals worldwide to state their agreement with each statement in order to group respondents based on their openness to risk, level of composure and promotion versus prevention focus. Chart 7 shows levels of agreement with each statement.

The survey data in Chart 7 shows that there is roughly an equal number of people with high and low agreement with each of our personality statements, revealing the wide range of personality types around the world.

Chart 7 — Personality Traits

	Disagree (% slightly or completely disagreeing with proposition)	% Neither agree nor disagree	Agree (% completely or slightly agreeing with proposition)
Financial Risk Tolerance			
In order to achieve high returns I am willing to choose high risk investments.	37%	15%	41%
I am a financial risk taker.	41%	18%	44%
Composure			
I get stressed easily.	37%	17%	45%
Promotion versus Prevention			
I am more concerned with preventing bad things happening than ensuring good things happen.	27%	25%	47%

Source: Ledbury Research

⁶ Barclays Wealth's Financial Personality Assessment is a proprietary tool that measures six dimensions to determine how an individual's emotional responses and attitudes shape his or her investment decisions.

Individual Personality Differences

Analysis of personality traits starts to become particularly useful when we look at their relationship with some of the trading behaviors discussed in the previous chapter and the respondents' desire for greater financial discipline. As **Dr. Peter Ayton**, Professor of Psychology at City University, confirms: "Emotions interacting with (personality) traits could be quite a significant cause of apparent instability in what people do with their money."

Our findings show that some personality types are more prone to failures of control than others. Using the trading paradox example as a failure of control we see that the presence of some personality traits leave individuals prone to frequent trading. This was particularly the case for those who:

- Have low composure (i.e. are stressed easily).
- Have a prevention focus (i.e. are more concerned with preventing bad things from happening).
- Have a high appetite for risk.

Each of these personality traits is associated with the likelihood of trading too much, as can be seen in Chart 8. The profile of the frequent trader is that of a risk taker that is stressed easily, yet wary that he or she may be doing something wrong.

“Emotions interacting with (personality) traits could be quite a significant cause of apparent instability in what people do with their money.”

Chart 8 — Trading Too Much by Personality Type*

	Completely disagree	Slightly disagree	Neither agree nor disagree	Slightly agree	Completely agree
% with high composure (disagree with the statement "I get stressed easily").	56%	55%	46%	43%	33%
% with a prevention focus (agree with the statement "I am more concerned with preventing bad things happening than ensuring good things happen").	41%	47%	49%	60%	65%
% with a high appetite for risk (agree with the statements "I am a financial risk taker/In order to achieve high returns I am willing to choose high risk investments").	34%	44%	52%	68%	72%

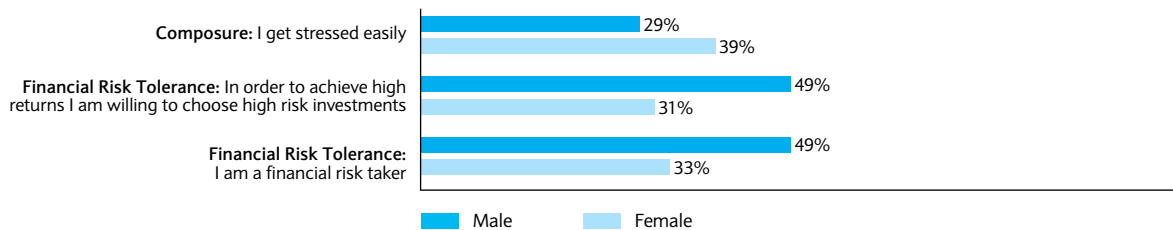
* % with high composure, prevention focus or high appetite for risk at each level of agreement for the statement "I buy and sell investments more than I should".
Source: Ledbury Research

The People Behind the Personalities

Understanding how personality is linked with failures of control is only useful if we can identify those people most likely to hold personality traits that make them more susceptible to a lack of self-control and therefore have the most to gain from financial advice that

addresses this issue. Within our survey data we looked for ways that personality traits differed among various demographic groups. We found important differences in many areas including gender, net worth, financial decision making responsibility and source of wealth.

Chart 9 — Personality Traits by Gender*

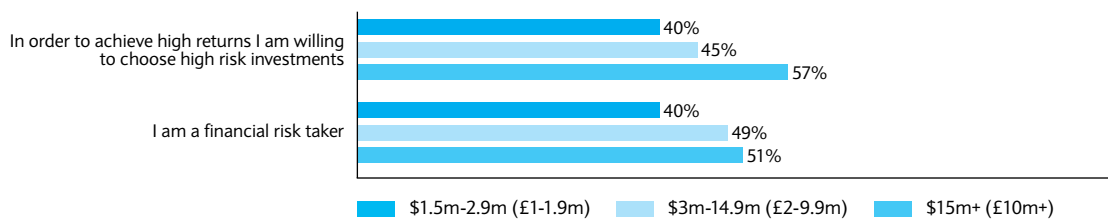


* % "completely agree" or "slightly agree" with each proposition.
Source: Ledbury Research

Chart 9 shows there are several robust personality differences between men and women. Consistent with previous studies, men tend to have a higher risk tolerance, are more likely to label themselves "financial

risk takers" and have a greater tolerance to choose high risk investments. Men also have higher composure as women are more likely to believe they are easily stressed.

Chart 10 — Financial Risk Tolerance by Net Worth*

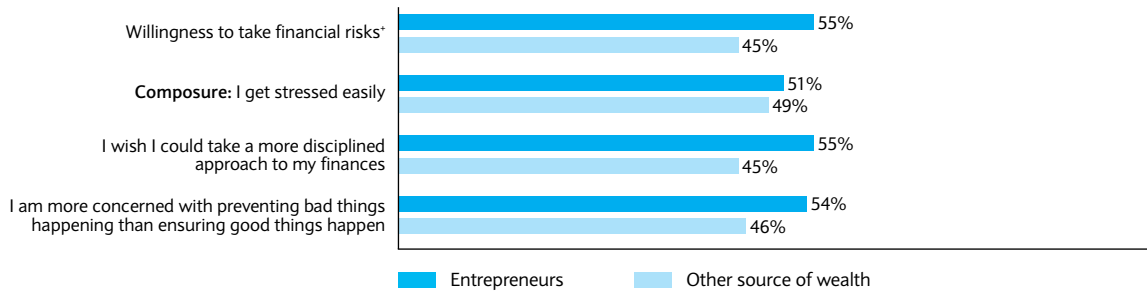


* % "completely agree" or "slightly agree" with each proposition.
Source: Ledbury Research

Interestingly there is only one difference to emerge when we consider the impact of net worth on financial personality traits: risk tolerance (Chart 10). This increase in risk tolerance is also observed with growing income as well as wealth. The cause behind these relationships would seem to be that greater risk-taking leads to greater opportunities for wealth. However, a word of caution: our survey of high net worth individuals has picked those

who risked and won; there are plenty of risk takers who have not been as astute or fortunate. In addition, for others, it may be that having a greater reserve of wealth or income creates a safety buffer which encourages risk taking. Though there is no relationship between the other personality traits and wealth, we do see that those with higher risk tolerance have a greater need for financial discipline.

Chart 11 — Personality Traits by Source of Wealth*



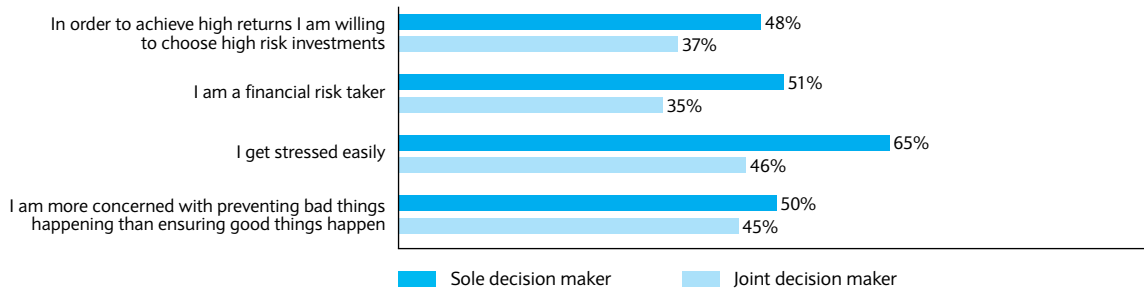
* % "completely agree" or "slightly agree" with each proposition.

+A combination of agreement scores for the statements "I am a financial risk taker" and "In order to achieve high returns I am willing to choose high risk investments".
Source: Ledbury Research

When we look at the source of wealth, there are no differences in composure. However, we do see differences in risk tolerance and prevention versus promotion focus according to how wealth was created (Chart 11). Entrepreneurs are likely to have a higher risk tolerance and greater vigilance about what could go wrong

(higher prevention focus). Presumably, a higher risk appetite is required in order to be entrepreneurial in the first place and constant attention to potential pitfalls may be needed to be successful in minimizing the multitude of risks an entrepreneur faces.

Chart 12 — Personality Traits by Financial Decision-Making Responsibility*



* % "completely agree" or "slightly agree" with each proposition.
 Source: Ledbury Research

Personality traits also differ with financial decision making responsibility. Chart 12 shows those with sole financial decision-making responsibility are likely to have a higher risk tolerance compared to those who make decisions jointly. As before, it is difficult to differentiate cause and effect here. Sole decision makers may appoint themselves for the role because they feel confident making financial decisions and this confidence may lend

itself to a greater appetite for risk. Alternatively, sole decision makers' appetite for risk may be a result of not having another person involved to sense check and question potentially risky decisions and actions. However, given that joint decision makers experience lower levels of stress and are also less concerned with things that could go wrong, joint decision making does appear to have its benefits.

The Zen of Ageing

Chart 13 — Personality and Trading Behavior by Age*

	Under 45	45-54	55-65	Over 65
Personality				
I get stressed easily.	36%	34%	30%	28%
I am more concerned with preventing bad things happening than ensuring good things happen.	50%	49%	46%	44%
In order to achieve high returns I am willing to choose high risk investments.	47%	50%	42%	34%
I am a financial risk taker.	49%	50%	43%	38%
Satisfaction				
I am satisfied with my financial situation.	64%	67%	73%	83%
Desire for discipline				
I wish I could take a more disciplined approach to my finances.	53%	48%	36%	26%
Trading Behavior				
To do well in the financial markets, you have to buy and sell often.	45%	40%	26%	22%
I attempt to strategically time the market as opposed to adopting a buy and hold strategy.	47%	43%	37%	31%
I buy and sell investments more than I should.	29%	18%	11%	6%

* % "completely agree" or "slightly agree" with each proposition.
Source: Ledbury Research

Overall, age tends to be characterized by calm, acceptance and satisfaction. Our survey data suggests the idea of happiness in old age also transfers to the way we approach our finances.

Respondents in our survey showed a marked change in personality with age. As age increases (and holding all other things equal):

- Composure increases (they are less stressed).
- People become less concerned with preventing bad things from happening.
- Risk tolerance decreases — a pattern that has been indicated by other research studies.

Older respondents were also less likely to endorse frequent trading and less likely to overtrade. With age and the associated calming of personality, investors appear to be more willing and confident to endorse and adopt a buy and hold strategy, which as discussed in Chapter 1, results in higher return on average.

Together with an increasingly calm investor personality and a lower susceptibility to sub-optimal trading behavior, older investors are also more satisfied with their financial situation (see Chart 13 for the dramatic rise in satisfaction that comes with age). It is tempting to think that a lack of financial resources explains the low financial satisfaction observed in the younger age groups. However, financial satisfaction is not simply explained by the balance of one's bank account: as Barclays Wealth deliberately sampled wealthy individuals, net worth is constant over all of the age groups.

This high level of satisfaction can also create a virtuous circle. As **Greg Davies** at Barclays Wealth points out, "The fact that we see greater satisfaction in older people may drive a great deal of other things: if one starts from a naturally higher level of satisfaction, you will be less anxious, less likely to trade emotionally, less likely to harm your performance over time and less likely to need assistance with self-control."

Strategies:

The Answer That Lies Within

While we may be prone to being irrational at times, there are steps that can be taken to control our future investment decisions and ensure we stick to the plans we create for managing our portfolios.

A Case Study From Ancient History

Self-control strategies are characterized by the use of techniques such as checks, barriers and rules that aim to moderate and guide behavior. We have previously referred to a particularly compelling example of self-control strategies in action: Homer's story of Ulysses. During his journey back from the Trojan wars, Ulysses had been warned about the Sirens by the enchantress Circe. But, determined to experience their songs for himself,

he stuffed his crew's ears with wax and, ordered them beforehand to bind him to the mast of the ship. The crew was also ordered not, under any circumstances, to change course or untie their captain. Ulysses was indeed beguiled by the Sirens' song; if he had not been bound to the mast, he would have jumped into the sea and drowned.

Strategies Available to Us

Individuals use these self-control strategies in many scenarios including decisions that relate to managing finances. Ulysses himself delegated decisions, used specific rules, deliberately limited his options and

involved others to help him. There are seven broad strategies to help us control ourselves in both general and financial decision making.

“One key reason why individual investors systematically underperform professional investors is not that they're inherently worse investors... but simply that professional investors are aided by a strong set of institutional rules that ensure greater control of their knee-jerk reactions.”

Greg Davies, Head of Behavioral and Quantitative Finance, Barclays Wealth

Chart 14 — Self-Control Strategies

Type	Financial Strategy Description	General Strategy Description	Every Day Examples
Limiting options	Purchasing illiquid investments in order to avoid the urge to sell investments when the market is falling.	Purposefully limiting your options.	Avoid keeping unhealthy food at home by shopping once at the start of the week and only buying healthy food.
Avoidance	Avoiding information about how the market or your portfolio is performing in order to stick to your long-term investment strategy.	Avoiding people or situations that tempt you to do things that you may later regret.	Avoiding friends who insist on only drinking champagne and eating at the most expensive restaurants.
Rules	The use of rules to help you make better financial decisions (e.g., only spending out of income and never out of capital).	The use of rules.	Only checking emails in the first 10 minutes of every hour in order to be more productive.
Deadlines	Setting financial deadlines for yourself (e.g., aiming to save a certain amount of money by the end of the year).	Setting deadlines for yourself in order to overcome procrastination.	Responding to all emails within 24 hours to avoid a big backlog accumulating.
Cooling-off	Waiting a few days after making a big financial decision before executing it.	Using cooling-off periods.	After viewing a property you like, waiting 24 hours before making any offer.
Delegation	Delegating financial decisions to others (for example, allowing an investment advisor to manage your portfolio).	Delegating decisions to others (e.g., your spouse, or a professional).	Enforcing a rule whereby your partner is the only one who can purchase items over a certain value.
Other people	Using other people to help you reach your financial goals (e.g., meeting with a financial advisor forces you to spend time planning for your financial future).	Using other people to help you reach your goals.	Taking on a personal trainer encouraging you to exercise regularly.

Source: Barclays Wealth

Another great example of using a self-control strategy in both financial and general life comes from **Professor Thorsten Hens**, who advocates the use of diary keeping:

“A good idea is to monitor one’s investment decisions by an investment diary. Write down why you have chosen which strategy and also keep track of the gains and the losses and the emotions they trigger, but do not act on these emotions! With some hindsight you will see that your diary swallows a lot of your emotions and helps you to stay to your strategy. This has parallels in more general situations. My wife writes in her diary once a week. I guess if she didn’t we would have split up some 30 years ago — soon after we first met!”

Barclays Wealth’s **Greg Davies** also advocates the use of a more structured approach to investment decisions, taking time to sit down and draft your own investing rules and frameworks:

“One key reason why individual investors systematically underperform professional investors is not that they’re inherently worse investors... but simply that professional investors are aided by a strong set of institutional rules that ensure greater control of their knee-jerk reactions: Nick Leeson and Jérôme Kerviel⁷, two rogue European traders, are exceptions that prove this rule by showing how destructive professional traders can be when they find ways around these checks and balances.”

Strategies in Use Today

To understand the extent to which high net worth individuals currently employ self-control strategies, we asked our respondents whether they used these

strategies in their lives generally and in their financial decision making, and then whether they considered them effective. The results are included in Chart 15.

Chart 15 — Use of decision making strategies*

	Use strategy in general Decision-Making	Use strategy in financial Decision-Making
Limiting options and avoidance		
Purposefully limiting your options.	92%	66%
Avoiding people or situations that tempt you to do things that you may later regret.	87%	76%
Rules, deadlines and cooling-off periods		
The use of rules.	73%	89%
Setting deadlines for yourself in order to overcome procrastination.	93%	90%
Using cooling-off periods.	93%	92%
Delegation and using other people		
Delegating decisions to others.	80%	73%
Using other people to help you reach your goals.	79%	87%

* % Using strategy.
Source: Ledbury Research

⁷ Nick Leeson’s unchecked risk-taking caused the collapse of Barings Bank (U.K.) and Jérôme Kerviel’s fraud and unauthorized trading cost Société Générale (France) €4.9 billion.

The results show that the use of general decision making strategies is widespread: even the least used strategies are used by three quarters of the sample (73%). The most popular strategies include setting deadlines to avoid procrastination and using cooling-off periods to reflect on decisions (both used by 93% of high net worth individuals).

When making financial decisions, the self-control strategies that are used the most by our respondents include:

- Deadlines
- Cooling-off periods
- Other people
- Rules

We also see that some strategies seem to be more suited for financial decision making than general decision making. Rules and people are more likely to be used in financial decision making compared to general decision making. Conversely, delegation, avoidance and limiting options are less likely to be used in financial decision making.

Greg Davies at Barclays Wealth highlights the relatively low use of “limiting your options” for financial decision making: “This is really interesting and bears out something we observed in client behavior over the financial crisis. You might intuitively think that the approach of simply excluding some options from your future choices would be a great way of controlling your behavior — but people are very reluctant to sign up for it. It seems we place a great deal of importance on flexibility, even if this flexibility could be harmful to us. So, rather than the extreme Ulysses option of tying yourself to the mast but exposing yourself fully to the temptation of the Siren’s song, most people seem to prefer the softer option of plugging their ears with beeswax and lessening the temptation itself of constraining their own options. After all, in the words of writer and poet Oscar Wilde, ‘the only way to get rid of a temptation is to yield to it.’”

Dr. Barbara Fasolo, Lecturer in Decision Sciences at the London School of Economics, notes that regret is one of the most dominant emotions influencing investment decisions and may explain some of these strategies. Individuals are driven to avoid a situation where, despite being satisfied with the process undertaken to make an investment decision, the outcome of that decision is unsatisfactory. This desire to avoid anticipated regret leads to using others.

“One of the emotions that seems to be most dominant in investment decisions is regret. For some, one strategy for less regret is to leave the decision to somebody else because you really don’t want to face having made the wrong decision.”

Dr. Barbara Fasolo, Lecturer in Decision Sciences at the London School of Economics

Dr. Sheena Iyengar, Professor of Business in the Management Division at Columbia University and Research Director at the Jerome A. Chazen Institute of International Business, suggests a cooling-off strategy as pausing to understand and visualize the consequences. Money is often looked upon in an abstract context and assessing the concrete ramifications of financial decisions helps individuals to employ greater self-control.

“People need to see consequences. It is very easy for money to look abstract, whether it is for a trade or numbers on a screen, or whether it is getting a mortgage loan or deciding to invest for retirement. People have to be given the consequences in ways that are not abstract, but in understandable and concrete terms.”

Strategies in Combination

There are also patterns in the combinations of strategies used. Strategy use tends to occur in groups where high use of one strategy was often seen together with high use of others. Some strategies that are used together in groups are as follows:

1. Delegation and using other people
2. Rules, deadlines and cooling-off periods
3. Limiting options and avoidance

This suggests that multiple strategies can be used to achieve a certain objective whether it is the involvement of others (group 1), being more structured (group 2) or removing temptation (group 3). **Greg Davies** comments how these strategies can be used by different individuals: “The evidence in the data suggests that individual investors may have natural preferences toward using strategies in one of these groups over others. For example, it may be easier for naturally gregarious individuals to control their behavior through the involvement of others (group 1 strategies); those

who are naturally organized and systematic might prefer group 2 strategies; while some might simply prefer not being tempted in the first place (group 3).”

Dr. Barbara Fasolo illustrates this use of multiple strategies through the example of investors who aim to avoid regret. They may seek to limit the amount of information and choice they expose themselves to as a rule of thumb for coping with an overwhelming amount of information and uncertainty: “The more you look (at investment returns) the more you feel regret. You could invest in that one, that one, or that one...”

As discussed in Chapter 1, investment returns become less volatile in the long run. Limiting the frequency of your exposure to market information and your portfolio’s performance can help prevent counterproductive behaviors, such as excess trading. And as **Dr. Barbara Fasolo** points out, it can also increase your satisfaction.

Identifying the Use of Strategies

In Chapter 1 we saw that some parts of the high net worth population were more likely to want self-control than others. Those with the highest use of self-control strategies are those with a high desire for discipline.

It appears that those who want self-control in both their financial and non-financial lives are achieving this through the use of self-control strategies.

Chart 16 — Strategy Use and Desire for Discipline*

	% use financial strategies	% use general strategies
Completely disagree	40%	45%
Slightly disagree	45%	49%
Neither agree nor disagree	54%	54%
Slightly agree	55%	61%
Completely agree	61%	64%

* % using financial and general decision-making strategies at each level of agreement with the statement “I wish I could take a more disciplined approach to my finances.”
Source: Ledbury Research

When looking at the use of strategies, we revisited three groups to see if their use of self-control strategies

also differed. Strategy use by age and wealth level are summarised in Charts 17-19.

Chart 17 — Strategy Use by Age*

	Under 45	45-54	55-65	Over 65
Limiting options and avoidance				
Purchasing illiquid investments.	81%	72%	61%	53%
Avoiding information about the market in order to stick to a long-term strategy.	82%	81%	73%	68%
Rules, deadlines and cooling-off periods				
The use of rules to help you make better financial decisions.	94%	91%	89%	82%
Setting financial deadlines.	94%	92%	90%	83%
Waiting a few days after making a big financial decision before executing it.	93%	92%	92%	91%
Delegation and using other people				
Delegating financial decisions to others.	81%	79%	69%	64%
Using other people to help you reach your financial goals.	91%	89%	86%	83%

* % Using strategy.
Source: Ledbury Research

An analysis of older investors' personality and desire for financial discipline showed a "Zen of Ageing" effect where older investors gained more composure, were less prevention focused and had a lower desire for self-control. We see this translate into a reduced use of self-control strategies in general as we get older. Older investors are less likely to use all self control strategies with the exception of using other people to help them reach their investment goals.

Looking at the differences arising from an individual's wealth (Chart 18), other differences in strategy approach are noticeable. Those with only inherited wealth are more likely to delegate (both financial and general decision making) and use avoidance in financial decision making.

Chart 18 — Strategy Use by Source of Wealth*

	Inheritance	Entrepreneur	Earnings	Property	Investment gains
Limiting options and avoidance					
Purchasing illiquid investments.	11%	9%	5%	7%	6%
Avoiding information about the market in order to stick to a long-term strategy.	14%	12%	10%	14%	12%
Rules, deadlines and cooling-off periods					
The use of rules to help you make better financial decisions.	30%	35%	29%	32%	34%
Setting financial deadlines.	26%	29%	27%	30%	29%
Waiting a few days after making a big financial decision before executing it.	22%	24%	21%	22%	21%
Delegation and using other people					
Delegating financial decisions to others.	20%	22%	15%	14%	15%
Using other people to help you reach your financial goals.	24%	29%	20%	20%	22%

* % Using each strategy frequently.
Source: Ledbury Research

Strategy Use Summarised

Strategies tend to be used by those who seek greater discipline in their approach to financial management, as discussed above.

However, other trends are clear from our study as well. In particular, the use of strategies tends to be:

- Decreasing with age.
- Higher among women⁸, who also believe that strategies are more effective.
- Lower with joint financial decision making.
- Higher for those who inherit wealth.

⁸ Women show higher use of general and financial strategies; however their use of financial strategies is not significantly higher than that of men.

Strategies in Action

Strategies that can help us to moderate behavior are not limited to those tested in our research. In fact, strategy use is widespread and can take many forms depending on the context. There are plenty of examples of strategies in action, which often reveal some unexpected results.

One recent study by Daniel Richards of the Open University Business School looked at whether the ability to place stop loss rules in advance of trading online has helped individuals to overcome a costly bias — the reluctance to realize losses. It turns out the answer was a clear “yes.” In fact, 20% of investors in the study actively used such rules. Even more interesting was that when this 20% of investors did not use a stop loss rule to control their behavior, they showed this bias to a greater extent than the other 80%. In other words, those who used the rules were more prone to behavioral biases when the strategies were not adopted, suggesting that they were deliberately using them to control their own usual lack of control — a conclusion made in our study above.

Another example of complexities surrounding self-control strategies is provided by the website stickK.com, which helps everyday people commit to and achieve their financial and non-financial goals through the use of incentive-compatible contracts. **Dr. Ian Ayres**, Professor of Law and Economics at Yale University and Co-Founder of stickK describes stickK as the following:

“stickK is a commitment store, a commitment service, where we offer people layers of accountability. They get to choose what types of mechanisms that will keep them on the path toward their goals. If a user wants we’ll nag them, we’ll inform friends whether or not they succeed, or whatever they choose. A referee can decide whether or not they succeed, and most uniquely, the site allows them to put money at risk that is forfeited if they fail to meet their commitment.”

To give an example of the contracts on stickK.com, you could put \$100 on the line to achieve a goal of losing a specific amount of weight. You would need to designate a referee to monitor your progress and

validate your weight loss, and you would also specify a charity for the \$100 to be donated to in case you miss your goal. Users are also encouraged to increase the incentive to meet their goals by specifying an anti-charity, which is a charity or group they detest. In the U.K., this is often a rival football club and in the U.S. it is often a contribution to a politician with opposing views.

Another example of a commitment device is Save More Tomorrow, a savings plan designed by behavioral finance experts Richard Thaler and Shlomo Benartzi. This plan enables people to allocate a portion of their future salary increases toward their retirement savings. **Rory Sutherland**, Executive Creative Director and Vice Chairman at Ogilvy Group U.K.; President of the Institute of Practitioners in Advertising and an expert in behavioral marketing, noted on Save More Tomorrow:

“It’s extraordinary that billions have been spent in pension marketing over the last twenty years and no one actually thought about what — when it comes to putting your name on the dotted line — is keeping you from signing up for that pension.”

There are a number of hindrances to signing up for pension savings. Loss aversion means that we dislike experiencing a loss, in this case our spending money, to build up our pension savings. We also find it easy to commit to self-sacrifice in the future but when the moment arrives we strongly prefer consumption now. Finally, we prefer the status quo and people are generally reluctant to expend effort to change this.

Save More Tomorrow is designed to deal with each of these three issues. Firstly, it plays on our tendency to procrastinate — to put off things until tomorrow — by asking us to save more in the future, not now. Secondly, at no point do you experience a loss in income — instead you commit to building up your savings rate out of future pay increases. Thirdly, the contribution rate increases are automatic once you sign-up for them and the increase becomes the status quo option that you would have to actively opt out of.

The Visible Benefits Strategies Bring

There are two ways to understand what benefits these strategies bring. The first is to ask the direct question of high net worth individuals about how effective they think strategies are. The second is to see how the use of strategies is associated with other factors such as financial satisfaction.

As Charts 19-21 show, investors do believe that strategies are effective and that their effectiveness appears to be linked to how often they are used — it is the strategies that are used most that are considered the most effective. This is the case for both general and financial decision making.

Closer inspection of this data shows that high net worth individuals believe that setting deadlines is the most effective strategy in both a financial and broader context. However, they believe that rules are more effective in their financial lives rather than more generally. On the other hand, they also believe that limiting and avoiding options are much more effective in their general life rather than when dealing with their finances.

Chart 19 — Effectiveness for Maintaining Self-Control*

	Effective for general decision making	Effective for financial decision making
Limiting options and avoidance		
Purposefully limiting your options.	48%	29%
Avoiding people or situations that tempt you to do things that you may later regret.	47%	27%
Rules, deadlines and cooling-off periods		
The use of rules.	38%	54%
Setting deadlines for yourself in order to overcome procrastination.	61%	58%
Using cooling-off periods.	50%	47%
Delegation and using other people		
Delegating decisions to others.	28%	34%
Using other people to help you reach your goals.	43%	46%

* % Rating each strategy as "effective" or "highly effective."
Source: Ledbury Research

There are also some interesting variations across demographic groups. Older high net worth individuals

(Chart 20), for example, are less likely to judge many strategies as being effective.

Chart 20 — Effectiveness of Strategies by Age Group*

	Under 45	45-54	55-65	Over 65
Limiting options and avoidance				
Purchasing illiquid investments.	39%	33%	25%	18%
Avoiding information about the market in order to stick to a long-term strategy.	36%	31%	24%	19%
Rules deadlines and cooling off periods				
The use of rules to help you make better financial decisions.	63%	59%	50%	44%
Setting financial deadlines.	66%	63%	55%	47%
Waiting a few days after making a big financial decision before executing it.	50%	52%	45%	40%
Delegation and using other people				
Delegating financial decisions to others.	33%	33%	33%	32%
Using other people to help you reach your financial goals.	46%	46%	47%	43%

* % Rating each strategy as “effective” or “highly effective.”
Source: Ledbury Research

Men and women also show differences in the use of strategies. Women think general strategies outside of the domain of finances are more effective and they are more likely to use them compared to men. Women are also more likely to think that financial strategies are

more effective relative to men — including using deadlines, cooling-off periods, liquidity lock ups and other people — however they are not likely to use these strategies more at a significant level.

Chart 21 — Effectiveness of Strategies by Gender*

	Male	Female
Limiting options and avoidance		
Purchasing illiquid investments.	28%	40%
Avoiding information about the market in order to stick to a long-term strategy.	37%	28%
Rules, deadlines and cooling-off periods		
The use of rules to help you make better financial decisions.	53%	56%
Setting financial deadlines.	57%	61%
Waiting a few days after making a big financial decision before executing it.	45%	51%
Delegation and using other people		
Delegating financial decisions to others.	35%	30%
Using other people to help you reach your financial goals.	42%	46%

* % Rating each strategy as “effective” or “highly effective.”
Source: Ledbury Research

The Hidden Benefits of Strategies

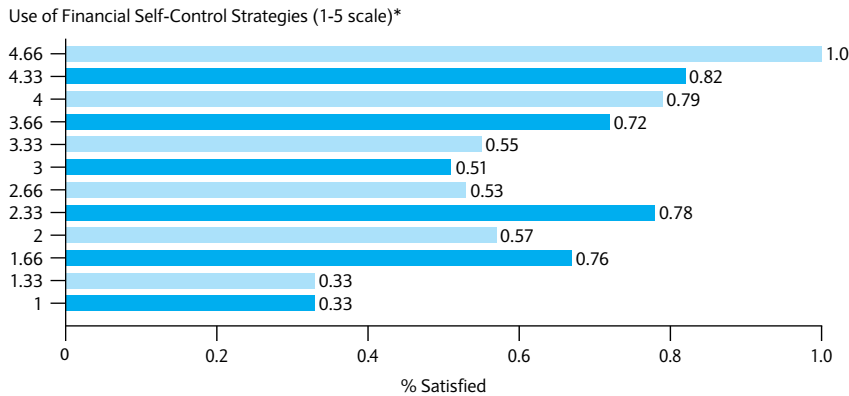
While the many high net worth individuals in this study are able to identify that financial strategies are effective, another one of our key findings is that for particular personality types, these strategies are associated with increased financial satisfaction. Not only do strategies bring this hidden benefit emotionally, but our study also found strategies were associated with higher wealth levels.

These positive relationships associated with the financial strategies hold true only for those who have a high desire for financial discipline — they tend to fit the personality profile of risk takers who become stressed easily and have a prevention-focused mind-set. These strategies may add benefits for those that are prone to risky or

impulsive behavior, particularly if they tend to make emotional decisions when feeling stressed. Moreover, research shows that those with a prevention mind-set thrive when they approach their goals in a way that fits their mind-set.⁹ Prevention-focused individuals are vigilant about what could go wrong in the pursuit of their goals, so it makes sense that strategies that help them guard against themselves are both appealing and effective.

Chart 22 shows the positive relationship between use of strategies and higher levels of satisfaction, for those who want greater discipline in their lives. Comparing the group with the lowest strategy usage to the highest strategy usage, we see a 13% boost in financial satisfaction.¹⁰

Chart 22 — Relationship Between the Desire for Discipline, the Use of Self-Control Strategies and Financial Satisfaction

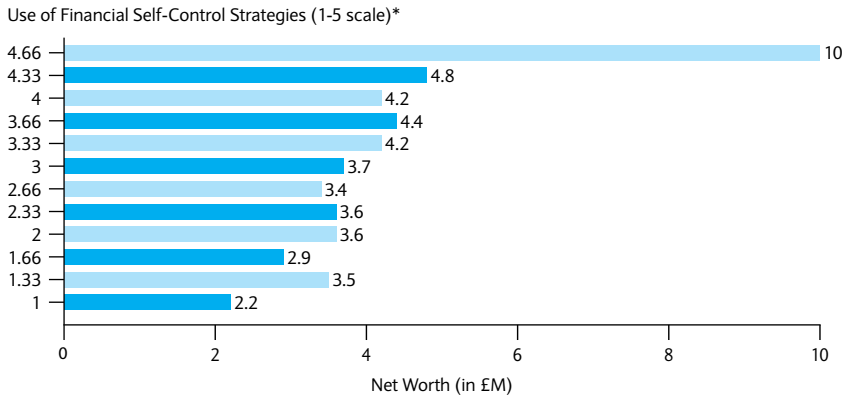


* Average usage across seven financial self-control strategies described in Chart 14 on page 27. Each strategy usage was reported on a 1 (never) to 5 (frequently) scale. Source: Ledbury Research

⁹ For more information on this research read: "Value From Regulatory Fit" by E. Tory Higgins, *Current Directions in Psychological Science* (2004).

¹⁰ The lowest strategy usage group is the bottom 10% compared to the top 10% most frequent strategy users.

Chart 23 — Relationship Between the Desire for Discipline, the Use of Self-Control Strategies and Net Worth



* Average usage across seven financial self-control strategies described in Chart 14 on page 27. Each strategy usage was reported on a 1 (never) to 5 (frequently) scale. Source: Ledbury Research

Not only does strategy use make people feel more satisfied with their financial situation, but it also has a link to one's total net worth. For those looking for control, use of these strategies is associated with higher net worth — see Chart 23. The group with the highest strategy usage has a net worth 12% higher than the group with the lowest strategy usage.

Those who say they wish they had a more discipline approach to their finances may actually need it or may simply value an ordered and structured existence. Either way, for these people, self-control strategies can

be helpful both in terms of increasing contentment and the size of one's wallet. If anything, there is a negative relationship between use of strategies and positive outcomes for those who do not desire financial discipline or self-control and may simply prefer a more unstructured approach to finances that emphasizes choice and freedom. This is a lesson for financial advisors on the importance of understanding the financial personalities and objectives of their clients in order to best advise them both on how to tackle market challenges, and the challenges that lie within.



An International Picture

So far our analysis of the data has been based on our global sample of investors and while it is interesting to see that many trends are consistent globally, the aggregate data mask some interesting variations in personality, desire for financial discipline and strategy use from country to country. The tables below show the top and bottom five countries across these measures.

Note that these rankings take into account control variables when assigning relative positions to each country. For example, we know from our survey that men are much more risk seeking than women. When we rank Hong Kong as no.1 in risk taking, this is not a result of having more men than women in our sample. Rather, this ranking reflects an underlying perspective on risk taking.

Asia illustrates the major themes in this report. Across the rankings, we see that respondents from Asia tend to have the personality profile of individuals with a higher desire for discipline: high risk taking, easily stressed and prevention-focused. This plays out in their attitudes toward trading which exemplify the trading paradox (believing that frequent trading is positive, but believing one trades too frequently) and attempts to strategically time the market. This personality profile also plays out in their willingness to use financial self-control strategies to impose discipline on themselves.

Chart 24 — Top and Bottom Five Countries for Desire for Discipline, Financial Satisfaction and Use of Financial Strategies

Desire for Discipline	Financial Satisfaction	Financial Strategy Use
Top 5 (Highest to lowest)		
Taiwan	Switzerland	India
Hong Kong	Qatar	Malaysia
Korea	Saudi	Qatar
Qatar	Singapore	Latin America
Japan	U.S.	Saudi
Bottom 5 (Highest to lowest)		
U.K.	Latin America	U.K.
South Africa	Japan	U.A.E.
U.S.	Hong Kong	South Africa
Australia	Korea	Australia
Spain	Ireland	Switzerland

Source: Ledbury Research

The Trading Paradox

Chart 25 — Top and Bottom Five Countries for Trading Behavior

Trading often: To do well in markets you have to buy and sell often” to “Belief in trading: To do well in markets you have to buy and sell often.	Trying to time the market: I attempt to strategically time the market as opposed to adopting a buy & hold strategy.	Trading too much: I buy and sell investments more than I should.
Top 5 (Highest to lowest)		
Malaysia	Malaysia	India
India	Latin	Taiwan
Ireland	Qatar	Hong Kong
Qatar	Spain	Qatar
Hong Kong	Taiwan	Malaysia
Bottom 5 (Highest to lowest)		
Latin	Australia	U.K.
U.K.	U.A.E.	U.S.
U.A.E.	Ireland	Latin
U.S.	Monaco	U.A.E.
South Africa	U.S.	South Africa

Source: Ledbury Research

Personality Traits

Chart 26 — Top and Bottom Five Countries for Personality Types

Lack of Composure: I get stressed easily.	Prevention Focus: I am more concerned with preventing bad things happening than ensuring good things happen.	Risk Tolerance: In order to achieve high returns I am willing to undertake high risk investments or I am a financial risk taker.
Top 5 (Highest to lowest)		
Malaysia	India	Hong Kong
Korea	Taiwan	Spain
Hong Kong	Hong Kong	Qatar
Latin America	Qatar	Taiwan
Qatar	Singapore	U.S.
Bottom 5 (Highest to lowest)		
Switzerland	U.S.	Japan
South Africa	Australia	Latin America
Monaco	Monaco	South Africa
Saudi	Switzerland	Ireland
Spain	Latin America	Monaco

Source: Ledbury Research

Conclusion

We have seen in this study how even the best intentions to behave in a rational way are rarely enough. Rational behavior fails us and emotions further confuse us, especially when applied to finance. This irrationality can be seen in a range of scenarios, from our focus on the short term, through narrow frames of reference, to a tendency to take more action than needed.

The research found this action-bias most detrimental in the trading paradox. A substantial proportion of high net worth individuals believe that active trading is the key to financial success, despite evidence to the contrary. Paradoxically, the belief that frequent buying and selling is beneficial is held by those who, at the same time, admit they trade too much for their own benefit.

These hidden influences can result in both financial loss, as in the trading paradox, but also emotional loss. We found that even those high net worth individuals who were aware of these biases and wanted to control them with a more disciplined approach, were actually less financially satisfied.

The unparalleled spectrum of wealthy individuals that we spoke to for this project allowed us to uncover a range of personality types. We found that those who were most susceptible to failing to control their financial biases were those with a low level of financial composure, those who were focussed on preventing negative events, or those who had a large appetite for risk.

Across the countries covered, we found one common trait among the high net worth individuals — the Zen of Ageing: This suggests that as the wealthy get older, they develop an attitude of calm, acceptance and satisfaction to their financial lives.

For those who struggle to find this calm, there are a number of strategies that can be used to mitigate some of the hidden biases in our lives. These strategies are often used in combination; most common among the world's wealthy are the involvement of other people, removing temptation and becoming more structured with self-imposed rules and deadlines.

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