

Smart Money: How's your self-awareness?

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Jun 13, 2022 2:40 PM



Brad Brain: "Behavioural finance is weird. People coming to irrational conclusions. Making decisions that are not based on facts, but rather based on biases and emotional prejudices." | Getty Images

This past weekend, I golfed in the 58th annual Oilmen's Golf Tournament. The weather was great. I ran into some friends that I haven't seen in a while. I even played pretty well for my limited golf abilities. And – this is the important part – I won a big cash prize!

So why wasn't I happier?

I write about behavioural finance a lot, and there are two very good reasons for this. First, it's the single most important variable in what will determine your financial success. Second, it is something that you can do something about.

Behavioural finance is about why people do what they do with money. And it's not always rational.

So here is how this ties into my experience at the golf tournament. One of the things that I can attest to after spending half my life as a professional financial planner is that people will often not recognize their own behaviour.

And that includes myself. I know all about behavioural finance and still there are occasions where I don't recognize my own irrational behaviour in real time.

One of the elements of behavioural finance is loss aversion. Part of loss aversion is the pain of loss is felt more vividly than the pleasure of gain.

Here is how all this went down. On the first day of the golf tournament, I golfed just about as good as it gets for me. I was pleased with my game, and I was confident going into my next match that I should be able to win.

On the morning of the second day, before we started golfing, I found out that I won the 50/50! And it wasn't a small pot either: \$1750 cash money! Obviously, now I am really feeling good.

But then we started golfing. Now, an important part of this story is that I am golfing in the lowest bracket in a fun tournament. Whoever wins this will get a modest prize and even more modest bragging rights. That's it. There is no fame nor fortune at stake.

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Once we started golfing, I really didn't play that well. Sure, I had a couple of good shots, but I was inconsistent. As should be expected. After all, I am not a very good golfer.

So, here's the insight. What should have been a very good day – I am out in the sun, with friends, and \$1750 in my pocket – didn't feel like a good day.

The pain of loss is felt more vividly than the pleasure of gain. Even to the point where the pain of losing a golf game in the lowest bracket of a fun tournament made me forget that I was already a winner that day.

I expect that more than a few readers will read that last paragraph, and think, "This guy is weird. Winning \$1750 is way better than losing a meaningless golf game." And that is exactly the point of this article.

I concur that winning \$1750 is better. In fact, given the choice of cash or winning a golf game, I will take the cash 100 times out of 100. But it didn't feel like that at the time. Even though I have a full understanding of loss aversion, I didn't notice loss aversion chipping away at my mood on what should have been a great day. It's hard to recognize our own behaviour.

And I also concur that behavioural finance is weird. That's exactly the point. People coming to irrational conclusions. Making decisions that are not based on facts, but rather based on biases and emotional prejudices.

Now, in this case, there wasn't any financial implications of my loss aversion. But it isn't always that way, and here's the takeaway: Your lifelong mission is to strive to be self-aware when it comes to money decisions. Remember, it's hard to recognize our own behaviour.

Money is an emotional topic, and that can lead to bad decision making. Whenever you have an important money decision, ask yourself if you are being rational and making fact-based decisions. Or are you being swayed by emotions, and losing focus on what is actually important?

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