THE MONEY GAME

HOW TO MAKE SMART FINANCIAL DECISIONS

A New Approach To Finance

Traditional financial theory states that market efficient is composed of rational agents with the view of maximising their wealth.

But, is that always the case in reality?

There has been an increasing focus of the field of behavioural finance and how investor psychology plays a role on investment markets and our relationship with money. The reality is that this is not the case as psychological factors such as emotions, biases and experiences influence financial decision making.

Becoming financially astute involves a degree of self-awareness and identifying any gaps in how we make decisions. Nobody is perfect, we all have gifts that make us unique, and we all have blind spots that affect our ability to make investment decisions.

Money is a game, and in this e-book, we're going to uncover the rules at play to help you make smart investment decisions ...

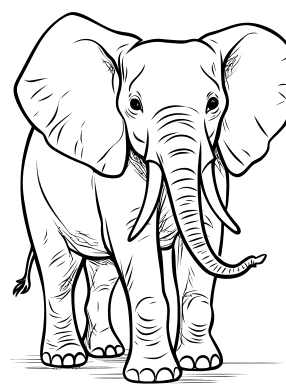
Understanding Our Systems of Thinking

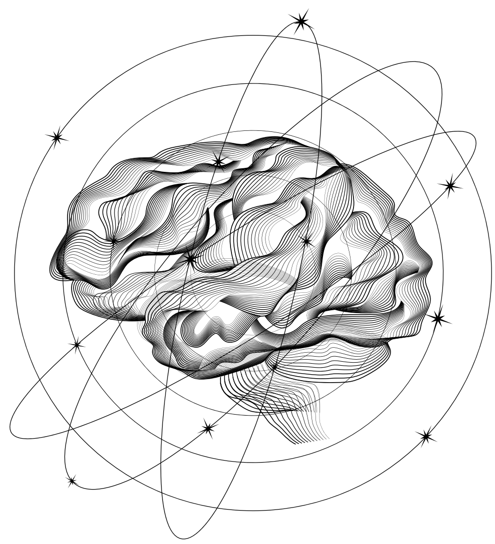
There are two systems of thinking for human decision making. A fitting analogy as to how humans thinking is the fast brain (the flea) and the slow, deliberate brain (the elephant). In Daniel Kahneman's 2012 book, Thinking, Fast and Slow, he describes two modes of thinking:

- **System 1:** Quick, intuitive, and subconscious, but susceptible to errors and biases.

- **System 2:** Slow, deliberate, and logical, reserved for complex decisions.

While both systems have their pitfalls, System 1 is especially prone to cognitive biases such as overconfidence, loss aversion, and framing. Kahneman highlights that these biases can severely impact investment decisions, as echoed by Benjamin Graham's insight that an investor's greatest enemy is often their own behaviour.





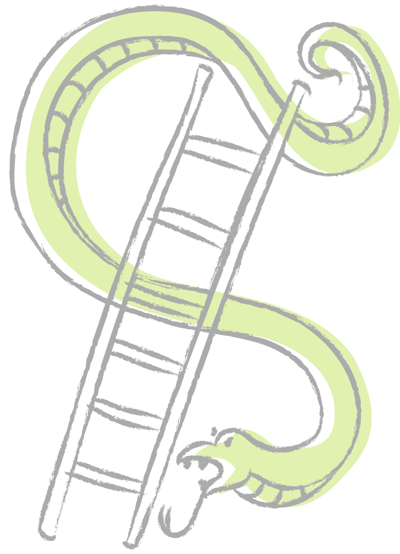
Cognitive and Emotional Biases

There is a difference between the brains hemispheres and people are considered left or right brain in their thinking. Just as your brain has its conscious upper part and its subconscious lower part, it also has two halves (hemispheres). According to Roger Sperry, a Nobel Prize winner in medicine, the left hemispheres reasons sequentially, analyses details and excels at linear analysis. Left brained thinkers are analytically strong and are very prone to cognitive biases. Right brained hemisphere thinks across categories, recognizes themes and synthesizes the big picture. Right brained are lateral thinkers, often rely on their intuition, prone to emotional biases.

Cognitive biases are often errors in thinking that can lead to irrational decision making.

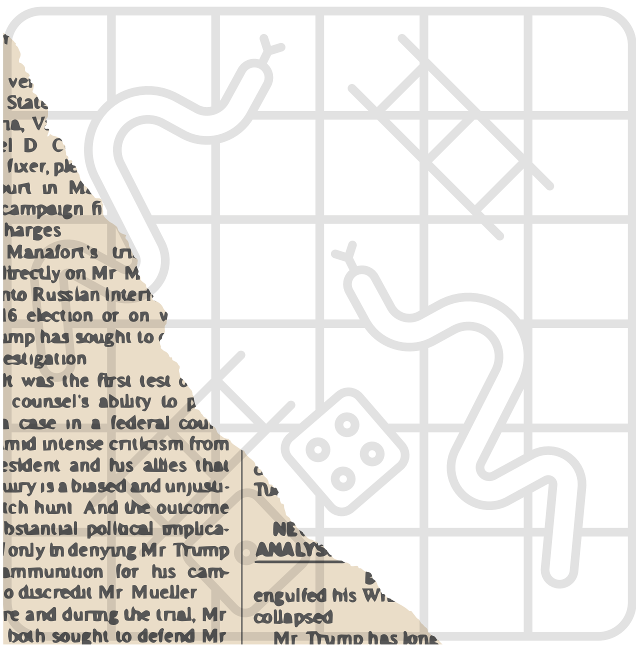
Emotional biases are biases that arise from emotions or experiences rather than rational thinking.

So Why The Disconnect With Investing?



Investing is much like the game of Snakes and Ladders and how external forces are intertwined between rational thinking and emotional impulses. As individuals, we are constantly influenced by the people and forces around us—we're bombarded by a nonstop news cycle, our past financial experiences, and ingrained decision-making habits. This environment often pits fear against greed, which in turn affects our investment choices.

Although external forces such as economic shifts or global crises can impact our luck, strategic and disciplined decision-making helps navigate risk and maximize long-term gains.



Are You Leaving hundreds and thousands of dollars in lost opportunity?

Why Acting with A Financial Advisor Today can create a better tomorrow!

Investing can be complex and emotionally charged, which is why partnering with a financial advisor is invaluable. Advisors provide the perspective, mentoring, and objectivity needed to navigate investment trade-offs, helping you avoid common behavioral pitfalls. They work with you to create a financial roadmap that is truly G.R.E.A.T. -

- **G**oal Aligned,
- **R**isk Assessed,
- **E**ntities to Invest in identified,
- **A**sset Allocation Agreed upon, and
- **T**ime Horizon

Advisors help you select the right investment opportunities and design a diversified portfolio that evolves with your life stages. Their guidance transforms a potentially overwhelming process into a clear, actionable strategy, empowering you to make smart, confident decisions.

What’s Your Investor Profile?

Carved into the Temple of Apollo at Delphi is an Ancient Greek Maximum ‘Know Thyself’. The anaology is fitting for the concept of investing and how we make decisions - do any of the following investor profiles resonate with you?

Preserver

Preserver investors prioritize capital preservation over high returns. They are risk-averse, favoring stability and security in their portfolios. They typically invest in low-risk, income-generating assets to maintain their wealth. Their cautious approach focuses on minimizing losses, ensuring consistent, albeit modest, growth while avoiding market volatility and excessive risk exposure effectively.

Follower

Follower investors rely on market trends and expert opinions rather than independent research. They often mimic peers or media recommendations, driven by a fear of missing out, which can result in herd behavior. While this approach offers comfort, it may ultimately limit long-term growth, preventing them from achieving optimal returns.

Independent

Independent investors pride themselves on self-reliance and conducting thorough research. They prefer making their own decisions rather than relying on external advice. Valuing autonomy, they analyze market trends, fundamentals, and diverse perspectives to craft unique strategies. While this independence fosters personalized plans, it may also expose them to potential bias.

Accumulator

Accumulator investors focus on wealth-building and growth, actively seeking opportunities to expand their financial portfolios. They embrace higher risks for the potential of significant rewards, investing in dynamic growth-oriented assets. With a long-term vision, accumulators consistently reinvest earnings to compound wealth, aiming to achieve financial freedom and a prosperous future.

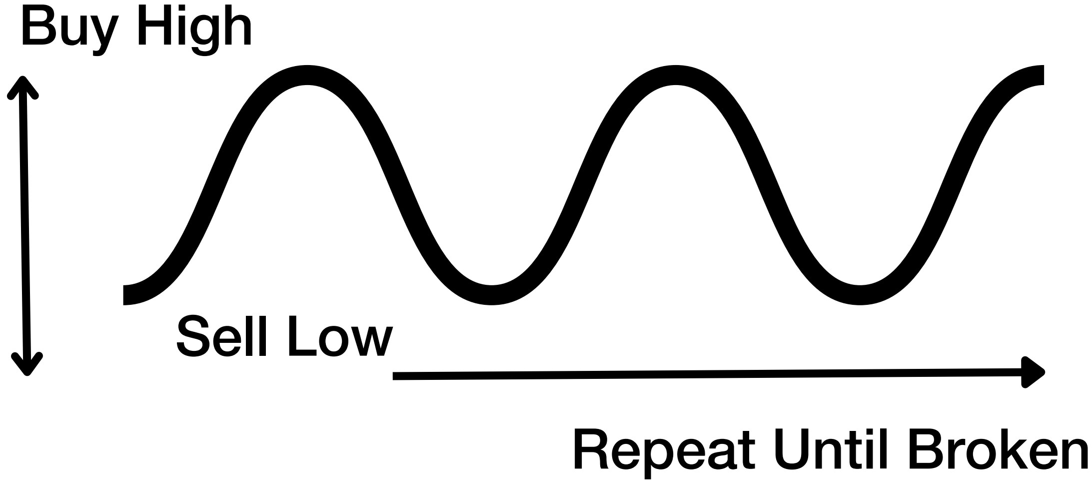
Each investor profile has their distinct biases which can either enhance or detract their ability to make prudent financial decisions. The role of an advisor is to be a sounding board and objective third party that can offer a unique perspective as to what financial, economic and strategic (i.e. tax planning and superannuation) insights are available to assist making the correct decision.

Prospect Theory & The Disposition Affect

Prospect theory, developed by Kahneman and Tversky, reveals that individuals evaluate gains and losses relative to a reference point, resulting in loss aversion and risk-seeking behavior when facing losses. This means people are more sensitive to losses than equivalent gains, which often leads to irrational decision-making.

The disposition effect describes investors' tendency to sell winning investments too early while holding onto losing ones in hopes of recovery.

Both biases are costly because they lock in small gains and allow losses to accumulate, undermining portfolio growth. These behaviors derail long-term financial objectives and significantly preclude individuals from achieving their wealth-building and retirement goals.

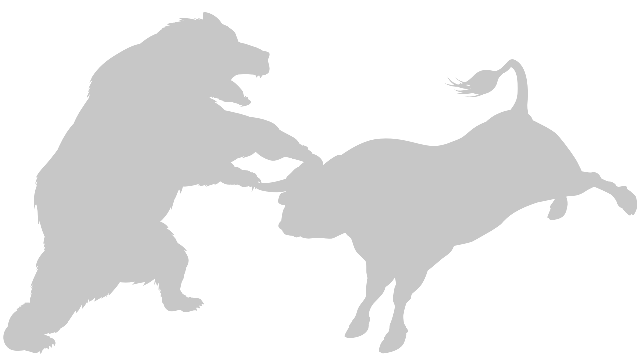


Where We Go Wrong - Animal Spirits & ‘Homo-Mistakus’

Herding is the tendency for investors to follow the crowd rather than relying on independent analysis. In times of market exuberance, people invest in assets they may not fully understand, simply because others are buying them, leading to inflated prices and the formation of investment bubbles.

As investors chase high returns, the collective enthusiasm turns into irrational exuberance, where the mania of the crowd fuels further price surges without regard to underlying fundamentals.

A historical example is the South Sea Bubble of 1720, when speculative investments in the South Sea Company led to a dramatic rise in prices followed by a catastrophic crash, wiping out fortunes. Similar patterns appear today in events like the dot-com bubble and cryptocurrency frenzies, where hype and herd behavior drive prices far beyond intrinsic value, ultimately resulting in painful corrections. These cycles harm long-term investors.



5 Quick Wins in Your Money Game

Here are five quick tips for investing while overcoming your own biases:

1. **Acknowledge Your Biases:** Regularly reflect on your decision-making process. Identify tendencies like overconfidence, loss aversion, or confirmation bias, and consciously work to counteract them.
2. **Stick to a Plan:** Develop and follow a disciplined investment strategy based on clear, long-term goals. A well-defined plan helps reduce emotional, impulsive decisions.
3. **Diversify Your Portfolio:** A diversified mix of assets not only manages risk but also minimizes the impact of any one bias affecting your overall performance.
4. **Automate Everything:** Set up automatic contributions, investments, and savings for consistent growth. for a few seconds
5. **Seek Objective Advice:** Partner with a financial advisor or use third-party research. An external perspective can challenge your assumptions and provide a balanced, data-driven approach to investing.

Time In The Market

Not ‘Timing The Market’

"Time in the market" matters more than "timing the market" because long-term investing captures compound growth and minimizes the impact of short-term volatility. Predicting market movements is unreliable, but staying invested allows for recovery from downturns and participation in uptrends. History shows that missing just a few strong days can significantly reduce returns.

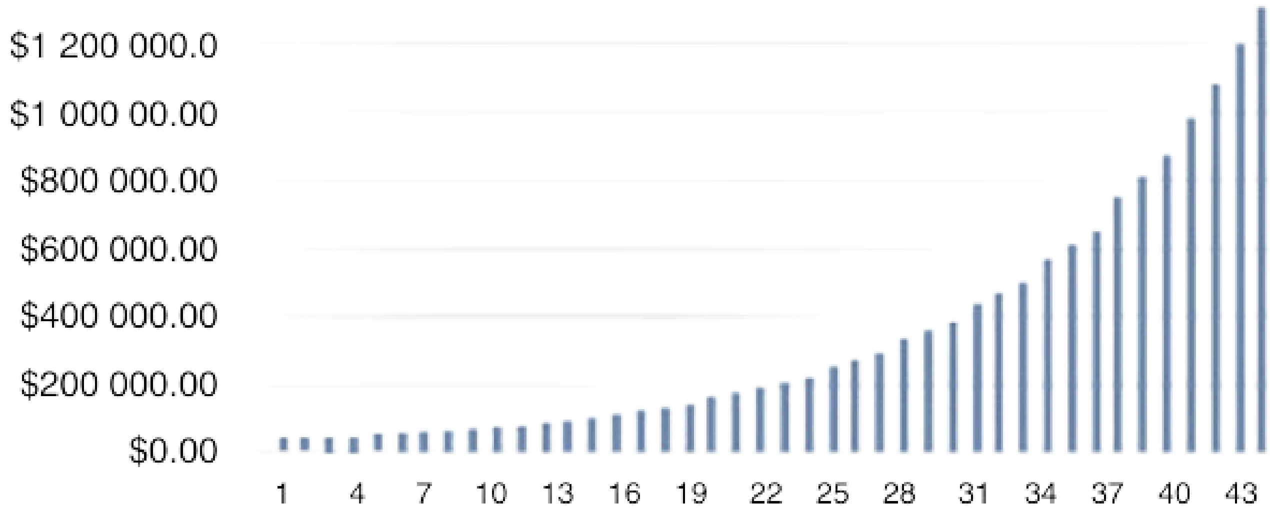
It’s important to be mindful of the benefits of compound interest and how time invested works. Consider the following portfolio’s as an example:

Initial Balance	$10,000	$30,000
Payments per month from employer	$1,200	$1,500
Number of Years Invested	**45**	**35**
Average Return	9%	9%
Total at retirement	$1,114,303.34	$935,985.17

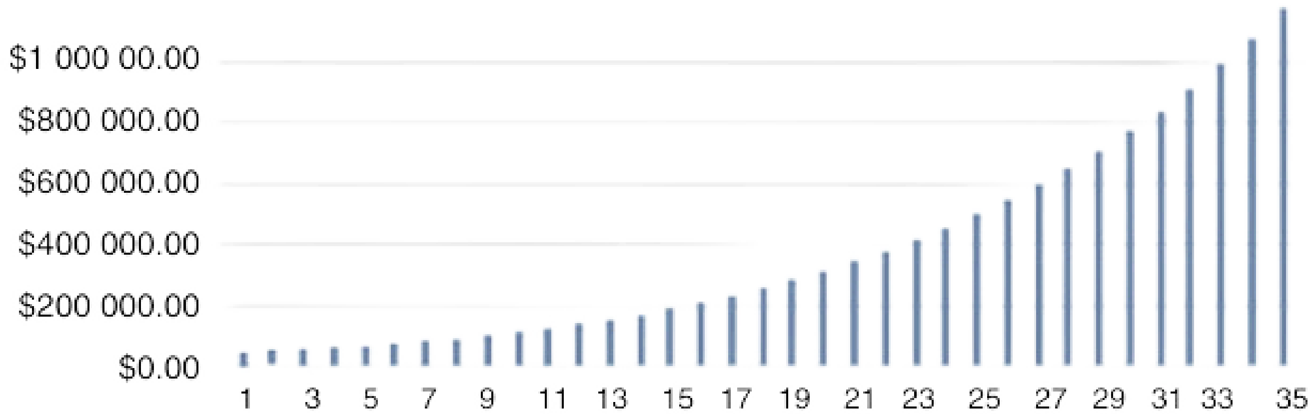
Year	Portfolio A	Portfolio B
1	$12,100.00	$34,200.00
2	$14,389.00	$38,778.00
4	$16,884.01	$43,768.02
5	$19,603.57	$49,207.14
6	$22,567.89	$55,135.78
7	$25,799.00	$61,598.01
8	$29,320.91	$68,641.83
9	$33,159.79	$76,319.59
10	$41,905.15	$93,810.30
15	$71,657.92	$153,315.85
20	$117,436.25	$244,872.50
25	$187,871.88	$385,743.76
30	$296,245.83	$602,491.66
35	$462,992.58	**$935,985.17**
40	$719,553.13	
45	**$1,114,303.34**	

From the table illustrating the previous example, we can see that Portfolio A doubled in value in the 10 years where Portfolio B had stopped investing. From a simple compounding example, we can that investments gain in value exponentially the longer the investments have to mature.

Portfolio A Over Time



Portfolio B Over Time



Why Seek Financial Advice?

A trusted financial advisor provides more than just investment tips—they serve as a strategic partner who understands your unique values and goals.

We've coined the phrase 'The 5 C's of Financial Planning' as listed below:

1. Clarify your objectives,
2. Calibrate your risk tolerance,
3. Construct a portfolio,
4. Create a financial plan and,
5. Continue to monitor for any changes in your situation.

By partnering with a seasoned financial advisor, you gain a trusted ally dedicated to helping you achieve your goals and live a more secure investment strategy and fulfilling life.

Contact

Ready to have a conversation?

Rivkin Wealth Advisors is committed to guiding you with the utmost professionalism and dedicated service as you navigate your financial journey. We look forward to partnering with you on this exciting path towards financial growth and stability.

Jock Evans, Financial Advisor

Jock Evans is a key member of our Wealth Advisor team. With over seven years of experience in the financial services industry, Jock specialises in creating tailored wealth management strategies and investment plans. Holding a Bachelor of Commerce and having studied Financial Planning and Economics at the postgraduate level, he is dedicated to helping clients understand the intricacies of their investments, empowering them to make well informed financial decisions.

Alex Galvin, Financial Advisor

Alex Gavin is a Senior Financial Advisor at Rivkin Wealth Advisors. He has over ten years of experience with focus on helping clients create and preserve their wealth. Alex adopts a client-first approach in crafting prudent financial strategies that ensure that his clients achieve their financial and lifestyle goals. He holds Certified Financial Planner status and an Investment Management Analyst Certificate, while also possesses a Bachelor of Commerce and a holds Master of Financial Planning.

Contact Us

T +61 2 8302 3620

E wealthadvisors@rivkin.com.au

W www.rivkinwealthadvisors.com.au


EUSTON
ROAD
₦100