HOW TO WIN WHEN ONE'S MIND IS FOCUSED ON LOSING?

A QUALITATIVE STUDY ON WEALTH MANAGERS' PERCEPTIONS OF LOSS AVERSION AND HOW TO ADDRESS IT

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Abstract:

Though the finance industry being heavily data driven, it is still humans who make the final call on whether an investment in a particular asset should be made or not. Influencing these decisions are what is called cognitive biases, i.e. cognitive mechanisms that cause systematic deviations from rationality in judgment. One of the most prevalent and researched ones is what is called *loss aversion* (LA), the human tendency of being more emotionally impacted by losses than gains. Facing investment decisions, thus being impacted by LA, everyday in their professions are wealth managers (WMs). They are professionals who manage the wealth and investments of others. In this study, WMs' perceptions of LA and how it should be addressed in investment decisions, is learnt through in-depth interviews. The process of how LA is used in decisions is described using LA, built on this the WMs suggested strategies of how to address it are compared with LA theory in order to increase the knowledge of how LA should be addressed. It is discovered that WMs believe that the act of being loss averse takes place both subconsciously due the human tendency of being impacted heavily by losses, but also consciously due to a fear of external blame. Furthermore three strategies to address LA are identified to have some support in theory. Their common denominator is that they decrease the uncertainty associated with investment decisions and help WMs find clarity.

Keywords:

wealth manager, perception, loss aversion, investment decision, address

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Definitions

Concept	**Definition**
Cognitive bias	Cognitive mechanisms that cause systematic deviations from rationality in judgment (Kakinohana and Pilati, 2023).
Heuristics	A cognitive shortcut or rule of thumb that simplifies decision-making under uncertainty, often leading to systematic errors in judgment (Kahneman and Tversky, 1974)
LA	The inherent human tendency that causes individuals to experience the pain of losing something more intensely than the pleasure derived from gaining it. (Zahera and Bansal, 2017).
Retail investors	A member of the public who makes investments, not a large organization or business that makes investments (Cambridge dictionary, n.d)
Institutional investors	A company or organization that buys large amounts of shares, property, etc. using money from their customers or members (Cambridge dictionary, n.d)
WMs	Professionals who manage the wealth of a specific group of private clients, such as ultra-high-net-worth (UHNW) individuals, providing them with asset management and, in some cases, more personalized, advisory services (Gillberg, Siren 2024)
Rationality	Acting in accordance with goals given available information (Ellingsen, 2022)

Abbreviations

LA	Loss aversion
PT	Prospect theory
WMs	Wealth managers

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1. Introduction

1.1 Background

In a global economy rich with investment opportunities, where money flows effortlessly across borders and information circulates seamlessly between people, it is easy to assume informed investors consistently make the most economically optimal decisions. However, despite the algorithms and real-time data that support these decisions, it is ultimately humans who approve and execute investments, meaning human judgment continues to influence every choice.

Human judgment serves as the basis of decision-making, allowing for sound choices, but it is also prone to flaws, particularly *cognitive biases:* cognitive mechanisms that cause systematic deviations from rationality in judgment (Kakinohana and Pilati, 2023). In professional investing, these often result in deviating from rational or 'fundamental' analyses, which evaluate an asset's intrinsic value based on the company's financial health, the market, and economic factors (Almeida and Viera, 2023). Such deviations are caused by psychological factors, including emotions and cognitive errors (e.g., mental shortcuts) that affect how individuals perceive and respond to information (Kakinohana and Pilati, 2023).

Biased decision-making in professional investment contexts has intrigued scholars for decades (Zahera and Bansal, 2017). One of the most extensively studied biases in the social and economic sciences is *loss aversion (LA)*, which has laid the foundation for the convergence of these fields: behavioral finance (Brown et al, 2022). LA refers to the bias and inherent human trait that causes individuals to experience the pain of losing something more intensely than the pleasure derived from gaining it (Zahera and Bansal, 2017).

Despite extensive research on the effects of LA on investment decisions, few empirical studies explore practical strategies to address this bias. Most known strategies are very broad, published and discussed on investment firms blogs, which lack empirical support in their effectiveness and specificity around their practical application.

We seek to identify and share strategies that address LA for professional investment decision-makers. We focus on WMs (WMs), who manage the wealth of private persons rather than institutions. The selection of this focus was chosen primarily because we believed that WMs may exhibit more LA than investors managing institutional wealth as their decisions directly affect the financial well-being of other individuals.

The most effective strategies for addressing LA are likely those that align with the specific needs, goals, and decision-making contexts of WMs. To identify these strategies, we conduct interviews to understand their perceptions of LA and its impact on investment decisions in the industry. This approach will clarify how LA influences their choices and provide context for their suggestions. To our knowledge, no study has involved professional investors in developing strategies to address LA. We believe this involvement is crucial, as WMs are more likely to adopt strategies they believe in and find meaningful. In conclusion, in this thesis, we seek to identify and share strategies addressing WM's LA based on their perceptions of the bias.

1.2 Research Gap

As briefly mentioned in Background (1.1), there are two significant research gaps we address in this thesis. The first gap concerns how individuals perceive the influence of LA on their decision-making, which also applies to WMs. The second gap involves insufficient research on strategies to address cognitive biases, specifically LA, in investment decision-making.

1.3 Purpose & Research Question

In this thesis, we aim to address the existing research gaps on how to address LA in investment decisions. To effectively contribute to this area, we focused on the well-researched field of behavioral finance, specifically investment contexts. This choice made our data gathering and analysis easier due to the established theories in the field.

Furthermore, we decided to examine this issue within the context of wealth management, based on our hypothesis that WMs may be more susceptible to LA than other investors. Our reasons for this hypothesis are expanded upon in Methodology (4.). Given the lack of literature on addressing LA, we interviewed experienced WMs to gather insights on potential strategies for addressing it. We also inquired about their perceptions of LA in their decision-making processes. Understanding these perceptions is crucial, as they influence how WMs believe LA should be addressed in wealth management. Since WMs are the intended users of these strategies, their willingness to adopt them depends on finding them meaningful and relevant. Therefore, it is essential to grasp the underlying reasons behind their suggested strategies.

This inquiry led us to ask the following research questions:

How do WMs perceive LA in investment decisions?
Based on these perceptions, how can LA be addressed?

1.4 Scope

Firstly, this thesis focuses on the LA bias in particular. We should note, however, that we initially began our research and conducted our interviews using three cognitive biases, including LA. Further comments on this change of topic can be found in Methodology (4.).

As discussed, the sample considered in this thesis consists of WMs. By WMs, we refer to professionals who manage the wealth of a specific group of private clients, such as ultra-high-net-worth (UHNW) individuals, providing them with asset management and, in some cases, more personalized, advisory services. We intentionally limited the sample to WMs who engage in some form of interaction with their clients, as we believed that this might reveal valuable insights into how LA affects in WMs. Additionally, we focused on the Nordic region to mitigate the risk that perceptions of LA might vary by region (Wang et al, 2017), which would affect the accuracy of our study. However, due to challenges in acquiring a large sample, two individuals from other European countries were included. The choice of

the Nordic region is primarily based on our residency, which facilitates easier access to potential interviewees.

1.6 Underlying Assumptions

In this thesis, we make several key assumptions regarding our research topic and the study's investment context.

Firstly, we assume that LA is a biased tendency, not an inherent human trait, which makes individuals experience feelings of uncertainty. When we describe WMs or others as loss-averse, we mean that their behaviors can lead to changes in their initial ideas of their decisions, particularly when they experience feelings of uncertainty in their decision-making.

Additionally, we focus specifically on WMs' investment decisions related to financial securities, especially stocks, due to the wealth of existing literature in this area. Our analysis is limited to the binary choice of whether to invest or not, emphasizing the moment of decision-making rather than the broader investment management process.

Finally, when discussing rationality, we define a person as "rational if she takes actions that are consistent with her goals, given the information at her disposal; otherwise, she is irrational," (Ellingsen, 2022). Accordingly, we consider rational analyses to be those that align with the goals of WMs based on the information they have at their disposal.

2. Literature Review

2.1 Behavioural Finance

There are two main financial theories. The first is traditional financial theory, which assumes that investors are rational actors making decisions based on all available information (Zahera and Bansal, 2017). In contrast, behavioral finance posits that psychological factors can lead to systematic deviations from the rationality in decision-making (Shiller, 2003).

The psychological factors influencing decisions are known as *cognitive biases*. In the literature, a wide range of biases has been examined, many of which have been demonstrated to significantly impact decision-making processes. One such bias, which is the focus of this thesis, is LA (Zahera and Bansal, 2017).

2.2 Loss Aversion in Investment Decisions

LA is a well-documented psychological phenomenon that can significantly influence investor behavior and decisions. Most studies have focused on whether LA has an impact on investment decisions, and if so, how much (Badola et al., 2023). This also implies that most studies assume LA is not an inherent human trait but rather a biased tendency. Few studies find that LA is an inherent trait (Nagaya, 2023). These studies have generally come to the same conclusion, which is that the fear of losses leads investors to behave irrationally.

Research predominantly centers on everyday "retail" investors or professional institutional asset managers, who manage institutional wealth. (Zahera and Bansal, 2017; Brown et al., 2022), while WMs remain underexplored. We believe this oversight may stem for two main reasons: Firstly, WMs typically engage in long-term investments, maintaining and building personal wealth, making it harder to observe loss-averse behaviors, which would require longer time frames for valid conclusions. Secondly, market data on retail investors' decisions is more accessible than for private decisions made by WMs for their clients. Despite the limited research on WMs, understanding how both retail and professional investors make decisions and the impact of LA is still relevant, as these insights may also apply to WMs.

Studies on retail investors and institutional asset managers have identified consistent patterns of biased behavior among investors when they feel uncertain. For example, investors often hold losing stocks in hopes of recovery while selling winning stocks—a behavior known as the *disposition effect* (Zahera and Bansal, 2017). Additionally, during market uncertainty and significant short-term fluctuations, investors may *panic sell*, hastily liquidating stocks (Huynh and Xia, 2021). While panic selling occurs under extreme conditions, the disposition effect is more consistently observed (Zahera and Bansal, 2017). These behaviors—some of the most commonly observed in investment contexts—have not been specifically studied in WMs. This may also be due to the fact that WMs do not generally make short-term investments over which these biases can be more easily observed.

While the majority of studies suggest that LA significantly influences investment decisions, some challenge this view. For instance, Armansyah (2021) found no significant impact of LA on retail investors in the Indonesian stock market. However, this study's focus on a single

geographic context limits its representativeness and generalizability to broader investor groups. Additionally, a literature review by Gal and Rucker (2018) argues that LA's effects are highly contextual (depending on, e.g., cultural, economic, situational factors), indicating that LA is not an inherent human trait nor a universal tendency that determines the extent to which individuals are affected by losses.

Studies examining the presence of LA in investment decisions often employ quantitative methods, utilizing large data sets such as trading data or administering questionnaires and surveys (Badola et al 2023). Generally, questionnaires are most commonly used when directly observing behaviors indicative of LA, as seen in studies by Abideen et al. (2023) and Cao et al. (2021). On the other hand, the analysis of trading data is typically used to identify anomalies, such as excessive trading periods of high volatility, which may be explained by LA (Feng, Seasholes, 2005; Bouteska, Regaieg, 2018). Additionally, qualitative methods have occasionally been used to structure data in literature reviews on LA (Badola et al 2023).

2.3 Perceptions of Loss Aversion

To date, there is limited credible scientific research on perceptions of LA (LA) in finance and investments. One opinion piece included a small questionnaire of seventy-one individuals familiar with behavioral economics, revealing that 75% believed losses were more emotionally impactful than gains. However, the small sample size and the author's intent to support a specific viewpoint make it difficult to draw reliable conclusions about perceptions of LA (Mukherjee, 2019).

Some research indicates that people often believe cognitive biases exist but believe they are less biased than others, a phenomenon known as the "bias blind spot" (Pronin and Kugler, 2006). This term can be said to imply that it was assumed in the study that all test subjects were biased, only some did not see it. That study, tested on undergraduate students from Harvard and Princeton, may limit generalizability due to the specific demographic.

While no scientific studies have focused on WMs or other finance professionals' perceptions of LA, insights can be found from a transcribed panel discussion that involved industry experts, including professors and finance professionals (Filbeck et.al, 2017). The discussion participants generally agreed that finance professionals are susceptible to cognitive biases that exist in literature, despite a common belief that professionals are immune to them. This means that the finance professionals did not fall subject to the bias blind spot. While the discussion builds on the ideas from the book that the panel moderator, a respected finance processor and researcher, has co-authored (Baker et al., 2017). However, as this source is subjective rather than empirical, its insights should be drawn with caution, and the discussion's relevance may be limited as it occurred in 2016.

2.4 How to Address Loss Aversion

In considering how to address LA, it is important to reflect on whether it is inherently detrimental to investment outcomes or if it can otherwise be perfectly rational. Existing literature predominantly suggests that LA leads to irrational choices, resulting in suboptimal

investment decisions (Zahera, Bansal, 2017). In contrast, some researchers argue that LA can be rational in uncertain situations, as it may help individuals avoid significant losses (Gal, Rucker, 2018). This divergence in perspectives not only highlights conflicting views on the rationality of LA but also underscores the prevailing assumption in research that LA is inherently negative due to its association with irrationality.

Empirical research on addressing LA is limited, with Sokol-Hessner et al. (2009) being a notable exception. This study suggests that LA negatively impacts investment decisions and demonstrates through laboratory experiments that encouraging individuals to adopt a broader perspective of their choices—rather than fixating on individual decisions—can significantly reduce LA. This finding contrasts with the more general assumption in the literature that LA is a common bias among investors that should be minimized.

The previously mentioned panel discussion (Filbeck et.al, 2017) briefly touched on how to address biases. There seemed to be a general consensus among the participants that education on cognitive biases could help mitigate their effects. They argued that education fosters awareness, and when individuals are aware of a bias, they can take it into account in their decision-making processes. Interestingly, while education is often seen as a solution for retail investors, who tend to lack financial literacy, the participants also recommended it for professional investors. While no real conclusions can be made on a panel discussion, it does suggest that there is a more universal need for enhanced awareness of cognitive biases.

3. Theoretical Framework

In this section, we first outline our theoretical approach to analyzing our findings in this thesis. Next, we provide an overview of LA theory to give the reader a better understanding of the main issue of this thesis, LA. Finally, we introduce and discuss the theoretical framework that will explain our findings on strategies in the Analysis (6.).

3.1 Theoretical Approach

The purpose of this thesis is to share potential strategies for WMs to use in their investment decisions. We do so by evaluating their suggested strategies using theory. We employ two theories in this thesis: i) LA theory and ii) Dervin's Sensemaking Methodology theory.

This section provides context into how LA operates in theory which is essential since this theory is what will be used to evaluate the effectiveness of our interviewed WMs' suggested strategies from a theoretical perspective in our Analysis (6.). Specifically, we focus on seven key principles of Kahneman and Tversky's (1979) prospect theory that explain the cognitive mechanisms enabling LA to arise in decision-making. To effectively illustrate them, a gameshow analogy is used. We then relate LA to Kahneman's well-known fast-and-slow thought processes to explain how LA operates in the investment decision-making context.

Then, we use Dervin's Sensemaking Methodology (SMM) in two ways: first very briefly only to justify the relevance of/point in our study's approach of inquiring into WMs' perceptions of LA and use those to gather potential strategies to address LA, secondly and most importantly to provide a framework for understanding the process by which WMs' tend to become loss-averse in investment decision-making moments and how they can rather use strategies to address this LA in these moments.

3.2 Loss Aversion

3.2.2 Theoretical Background on Loss Aversion

LA refers to the tendency for individuals to perceive losses as more significant than equivalent gains. Specifically, the negative impact on utility (satisfaction) from losing an amount X is approximately twice as great as the positive impact on utility from gaining the same amount X (Kahneman, Tversky 1979; Brown et al., 2021). While quantifying the exact relationship between the pain of losing and the pleasure of winning is challenging, LA is widely recognized for this asymmetrical effect.

The concept of LA is based on Daniel Kahneman and Amos Tversky's prospect theory (1979), which challenges traditional notions of expected utility theory. Their research shows that individuals often deviate from expected utility predictions, particularly in uncertain and risky situations. This deviation is illustrated by the s-shaped value function in prospect theory, which is concave for gains and more convex for losses, indicating that individuals weigh losses more than equivalent gains. This is shown below:

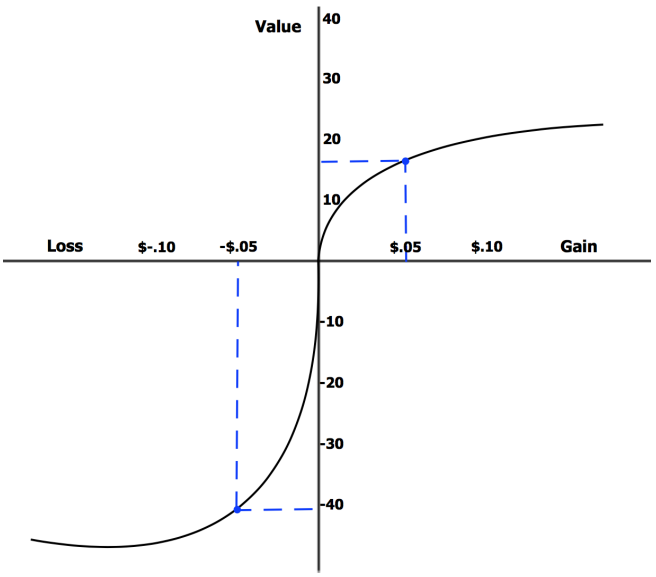

Figure 1. The S-shaped Value Function of Prospect Theory, Kahneman and Tversky (1979)

Prospect theory is based on utility mathematics that demonstrates the irrational and inconsistent nature of individuals' risk preferences. Although it can be explained in a complex manner through equations and various cognitive mechanisms, this thesis will focus only on the most relevant principles.

3.2.4 Loss-averse risk preferences: A Game Show Analogy

People love certainty and hate losing. These two ideas are central to understanding how LA affects decision-making. Imagine this scenario:

You are a contestant on the game show, "Who Wants to Be a Millionaire," where you answer questions from various categories, and each question can either increase or decrease your winnings. Through a combination of skill and luck, you have managed to reach $50,000. Now, you face a choice: the next question could either gain or lose you $5,000. Would you take that bet, or would you prefer to walk away with your current winnings?

Most people would most likely choose to take the bet, risking a $5,000 loss for the chance to increase their total. This decision is influenced by the fact that you view your money in relation to your starting point of $0. Losing $5,000 from your current total of $50,000 may not seem significant, leading you to think, "Why not try to make some more money?" However, if you were at $10,000 instead, the prospect of risking $5,000 might make you more hesitant. Losing that amount would mean losing half of your current winnings, which could prompt you to decide to end the night with your $10,000. If you take the question, the outcome of whether you will walk away with a significant gain is uncertain—you could end up with either $15,000 or $5,000. But if you choose to stop playing, you are guaranteed to leave at $10,000, and we love certainty. This line of thinking demonstrates the *certainty effect*, which explains that we are more risk-averse (than risk-seeking) when faced with potential gains. This also demonstrates our LA, which explains that the pain of losing (e.g., getting down to $5,000 from $10,000) would be felt more intensely than the pleasure of gaining an equivalent amount (getting $5,000 on top of the $10,000).

Why would you feel more loss-averse at $10,000 than at $50,000? This heightened sense of LA occurs because your feelings about potential losses intensify as you approach your *reference point*—the baseline from which you evaluate losses and gains. In this case, your reference point is $0, the starting amount in this game. You compare potential outcomes against this point, illustrating *reference dependence*. So, considering these concepts, the increased caution you would feel when considering a $5,000 question at $10,000, compared to $50,000, illustrates the principle of *diminishing sensitivity*. This principle suggests that individuals are more sensitive to potential outcomes that are closer to their reference point, as seen in the example where the risk of losing $5,000 feels much more significant when you have $10,000 compared to when you have $50,000.

Now, imagine you've had bad luck and are down to -$10,000. The next question is worth $20,000, which means that you could not only return to $0 but also have a positive upside! However, it also carries the risk of losing even more, potentially dropping you to -$30,000. Even though, in this game show, you can only win real money and won't owe anything, you still have a strong incentive to reach at least $0. Most people in this situation would opt for the larger bet, taking the bigger risk to avoid further losses because, as humans, we simply hate losing. With $0 as your reference point and feeling currently down, you become risk-seeking in an effort to improve your position. This behavior illustrates the *reflection effect*, where we are more willing to take risks when we perceive ourselves to be below our reference point. In this context, we embrace uncertain opportunities, oppositely reflecting the certainty effect, as we prefer uncertain options that offer a chance for recovery over the certainty of further loss.

In summary, when making decisions, people often rely on a **reference point**, which is the baseline or status quo against which we evaluate the potential outcomes of our choices in decision-making. This concept, **reference dependence**, suggests that our perceptions of losses and gains are not absolute but are instead influenced by this reference point. Naturally **loss-averse**, we tend to prioritize avoiding losses over obtaining equivalent gain, as the negative emotions associated with losses are typically much stronger than the positive emotions associated with equivalent gains. Therefore, when we find ourselves above our reference point, perceiving our situation as a gain, we are loss-averse and prefer the certainty of maintaining an optimal or positive position regarding potential outcomes, whether they involve losses or gain; this is known as the **certainty effect**. Conversely, when we are below our reference point, thus at a loss, we become more risk-seeking, driven by the desire to escape our unfavorable position, which demonstrates the **reflection effect**. In both scenarios, the closer we are to our reference point, the more we are affected by outcomes; however, as we move further from our reference point, we experience **diminishing sensitivity**, meaning our emotional responses to losses and gains become less intense.

As this all shows, people's risk preferences are inconsistent. This is primarily due to LA, and more specifically reference dependence. When individuals are above their reference point, they tend to be risk-averse, avoiding potential losses to protect their gains. Conversely, when they are below their reference point, they become risk-seeking, willing to take risks to recover losses. At the reference point—in this scenario, $0—whether you are risk-averse or risk-seeking can heavily depend on how the potential outcome is framed. If the question is framed as a potential gain, such as "Would you like a shot at winning $5,000?" you will be

more inclined to take the risk. On the other hand, if the question is framed as a potential loss, like "Are you ready to lose $5,000?" you would be most inclined to avoid the risk. This highlights the concept of *framing* (the final aspect of LA theory that we introduce in this thesis), which explains that the way information is presented can significantly influence perceptions of risk and reward and thus decisions made.

3.2.5 Relevance of Loss Aversion

Although decades old, prospect theory—and therefore LA—remains a cornerstone of behavioral science and finance, recognized as "one of the most influential theoretical frameworks across the social sciences" (Ruggeri et al., 2020) and the most cited paper in economics (Simonsohn, 2014). The earlier discussed global replication study (Ruggeri et al., 2020) also supports its ongoing significance, at least in certain regions of the world.

While studies have challenged the prominence of PT and LA in various contexts, they have failed to rule it out e.g. Wang and Satchell (2010); Hirshleifer and Itzhak (2012). One that still stands as a critic of the concept, however, is David Gal, who repeatedly argues that LA may not be a universal principle (Gal, 2006; Gal and Rucker, 2018). He contends that the concept does not apply across many contexts, even in investing sometimes, emphasizing contextual variability. Additionally, he suggests that behaviors attributed to LA can rather stem from other psychological processes.

In conclusion, while PT and LA remain widely recognized and relevant today, the primary criticism against them is their lack of contextual variability and thus universal applicability.

3.2.6 System 1 and 2 thinking

Rooted in prospect theory and later popularized in the book *Thinking, fast and slow* (Kahneman, 2011) is the concepts of system 1 and 2 thinking. System 1 thinking refers to the fast, unconscious type of thinking which often humans use to make decisions in situations of uncertainty. System 2 thinking refers to the slower, analytical type of thinking which operates consciously. Cognitive biases such as LA are associated with system 1 type of thinking and these biases are sometimes referred to as heuristics, i.e mental shortcuts (Voudouri et.al., 2024). System 2 thinking is referred to as being more rational with less room for heuristics (Morewedge and Kahneman, 2010).

3.3 Dervin's Sensemaking Methodology

Individuals often navigate uncertainty through mental heuristics, as discussed in 3.2.1. Uncertainty represents a state of not knowing. Dervin's Sensemaking Methodology (SMM) offers a framework for understanding how individuals construct meaning from their experiences and the information they encounter, which then influences their actions and decisions (Turner et al,. 2023).

In the context of WMs and their perceptions of LA in investment decisions, SMM explains why WMs exhibit loss-averse behavior when facing uncertainty, influenced by personal

experiences, needs, goals, and contextual factors. Additionally, SMM provides a framework for explaining how individuals can navigate uncertainty through more System 2 approaches, such as the strategies shared by WMs during interviews, which are likely to lead to more rational decision-making (Dervin 2015).

3.3.1 Sensemaking in Investment Decision-Making

Dervin (2015) defines sensemaking as an "active, dynamic process through which individuals interpret and construct meaning from their experiences" (Turner et al,. 2023). Her Sense-Making Methodology (SMM) contrasts with traditional views of information processing and sensemaking, where individuals are seen as passive recipients of information. Dervin's adaptation of sensemaking theory aims to address the needs of information-users by understanding their personal experiences, needs, and behaviors in relation to information seeking and use. In this framework, individuals engage with information, reflect on their experiences, and actively create understanding. This process is influenced by their context, prior knowledge, and specific needs, making it a personal and situational activity (Dervin 2015; 2016; Turner et al., 2023).

The central concept to Dervin's SMM is the notion of "gaps," which represent discontinuities or obstacles that individuals encounter in their information-seeking journeys. These gaps can arise from various factors, such as a lack of knowledge, uncertainty, or the need for clarification. The identification of these gaps is the first step in the sense-making process, as individuals recognize their information needs. For WMs, these gaps could be related not only to the lack of available data on certain companies, markets, or assets, for instance, but also the uncertainty involved with each investment decision. In this thesis, when we discuss gaps in relation to WMs, these refer to feelings of uncertainty (Dervin 2015; 2016; Turner et al., 2023).

Once a gap is identified, individuals engage in two primary activities, gap-defining and gap-bridging, which serve to help individuals overcome their feelings of uncertainty. Gap-defining comes first and involves the individual's interpretation and characterization of the nature of the gap based on their unique experiences and contexts. This means that individuals assess their specific information needs and articulate what they lack in order to make informed decisions. Then comes gap-bridging, which refers to the strategies and tactics employed to address the identified gap. This means that individuals actively seek out information, utilize resources, or develop new strategies to overcome the obstacles they face (Dervin 2015; 2016; Turner et al., 2023).

In the case of WMs during investment decision-making moments, defining a gap is not a linear process but rather consists of simply acknowledging that they are feeling uncertain about which course of action to take, and what to decide. This primary focus of this thesis is on how WMs practice gap-bridging, how they overcome their feelings of uncertainty to the point of feeling certain enough to comfortably make a decision, as this is frequently done by adopting loss-averse mindsets that make WMs certain enough to make their investment decisions. To illustrate the concept of WMs being loss-averse in the face of uncertainty in their decision-making, we have adapted these three principles—gaps, gap-defining, and gap-bridging—into our a visual framework:

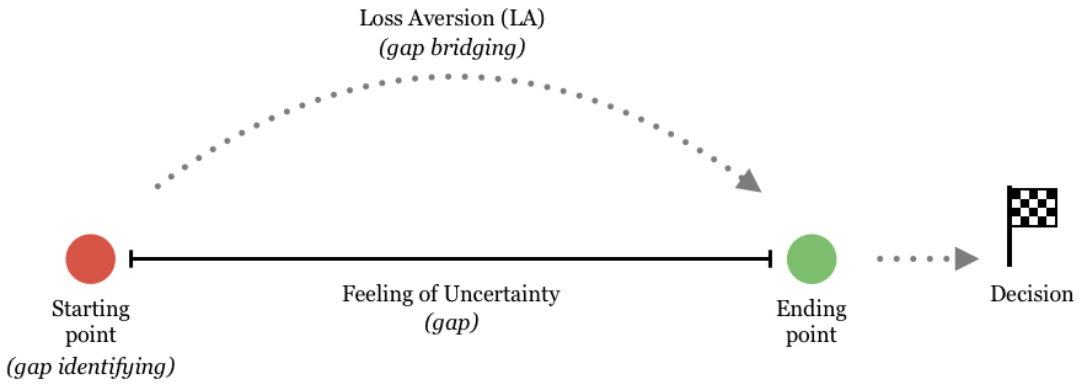

Figure 2, Dervin's SMM

In summary, while Dervin in her theory defines individuals as information-seekers who face information needs (gaps) and strive to fulfill them (bridging), we employ this framework by defining WMs as certainty-seekers who face feelings of uncertainty in decision-making moments and strive to fulfill them. We will use this framework as the basis for our Analysis (6.) and adapt it to our thesis to demonstrate the effectiveness of the suggested LA-addressing strategies.

3.3.2 Criticism of Sensemaking Methodology

A main criticism of SMM is that the theory's framework lacks a clear and systematic structure, making it difficult for researchers to apply it consistently across different contexts (Mei Chun Lam et al., 2016). We, too, experienced this ambiguity as an issue, and to the point that we were forced to design our own framework adapting it to the main principles of SMM since there was not a clear one to start with. The original SMM framework ironically prompts its reader's sensemaking to interpret what the specific ideas of SMM are and how they connect. It was initially difficult for us, too, to make sense of as Dervin's theory as there is little structure to it; her model is merely a visual image prompting sensemaking itself to be understood; and does not come to specific conclusions. Critics argue that this ambiguity can lead to varied interpretations of the methodology, which may undermine its reliability and validity as a research tool.

Furthermore, Sense-Making Methodology (SMM) has been criticized for focusing too much on individual experiences while neglecting broader social and institutional contexts (Odden and Russ, 2018). In wealth management, this means that while WMs (WMs) may engage in sense-making for investment decisions, high-pressure organizational cultures can hinder their ability to identify critical gaps. This external pressure can increase feelings of LA, leading WMs to make decisions based on immediate needs that may conflict with their organization's goals for optimal economic returns. As a result, WMs may prioritize personal risk tolerances, which can undermine organizational objectives. In conclusion, the

application of SMM by professionals is confusing as it carries with it inherent conflict between agency and structure (Dervin, 2007).

4. Methodology

4.1 Narrowing down topic

Initially, we planned to examine three biases: LA, herding and overconfidence. However, as we gathered data through interviews, we realized the scope was too broad for us to make a high quality bachelor thesis. Consequently, we decided to focus on LA, as it yielded the most compelling data. Additionally, LA is particularly interesting because it is one of the earliest cognitive biases studied in investment contexts and remains largely unproven as a universal tendency. While its impact can vary among individuals, it continues to be shown to significantly influence decision making.

Due to the late narrowing down of the topic, the methodology section will discuss all three initially chosen biases, reflecting our initial thoughts.

4.2 Methods Chosen

4.2.1 Research Paradigm

In our research, we recognize that the truth about how WMs perceive LA and the methods to address it is subjective—shaped by personal experiences, social contexts, and the perceptions of others—reflecting the qualitative nature of our research method. Therefore, we adopt a constructivist ontological perspective alongside an interpretivist epistemological approach:

Constructivism recognizes that reality is shaped by social interactions and understood objectively. Thus, our findings are influenced by personal experiences and perceived realities surrounding LA. This aligns with the interpretivist paradigm, which emphasizes that knowledge is constructed through social interactions and contextual factors. It is critical to acknowledge WMs' understanding of LA and how it can be addressed stems from social experiences in life within and outside their professional roles. For instance, a WM may recommend a method to address LA that they perceive has worked before due to the specific context of that situation.

While we embrace constructivism and interpretivism in this study, we also acknowledge the value of positivist studies, which often use quantitative methods to measure reality, such as assessing the existence and effects of LA. However, we believe that reality is too complex to be fully captured by these studies alone. Therefore, our research seeks to provide a more comprehensive understanding of how LA is perceived and thereby addressed.

4.2.2 Research Method

In this study we adopted a qualitative approach, as discussed in section 1.2, using semi-structured interviews to collect data. This involved conducting in-depth interviews guided by a set of predetermined questions, which allowed for a deeper understanding of WMs' perceptions of biases, including LA, and their views on how it should be addressed.

While we considered using a quantitative approach, since perception is shaped by individual experiences and emotions, it cannot be easily captured or understood through quantitative research methods or statistical measures, thus we opted for a qualitative approach that employs interviews as the data gathering mechanism.

Interviews provide participants the opportunity to express their views in their most authentic form, free from external constraints or expectations. The flexibility of semi-structured interviews allowed for more flexibility and thus made it possible for us, as interviewers, to subtly steer the conversation towards areas most relevant for the research questions. It also made spontaneous, relevant follow-up questions possible.

While semi-structured interviews allow for flexibility, they require attention from interviewees to keep a relevant conversation. Furthermore, it led to interviews taking different turns and thus ending up with interviewees talking about slightly different things, making the interviews less comparable with each other and thus insights being less generalizable. Another limit with this format is that it could allow for potential confirmation bias. That is, us asking questions to confirm what we already believe.

4.3 Choice of Sample

4.3.1 Sampling process

When selecting interviewees, careful consideration was given to the objective and scope of the thesis. Since the research question is focused on WMs' investment decisions, it was important that the interviewees selected have had direct experience with the wealth management investment process, and at least exposure to if not experience with the making of such decisions, in their professional work.

Additionally, interviewees were selected with the intention of including individuals who manage the wealth of individuals or smaller groups. In this case, selected interviewees include WMs that serve individuals that work at family offices or at privately owned investment firms, where private individuals are the majority. The selection of this group is due to them facing higher personal stakes than for example fund managers. This environment was thought to potentially reveal more dimensions as to why biases, including LA, occur and how to navigate them. Furthermore, we speculated that due to it being common to have personal relationships with clients, this could potentially make these WMs more susceptible for biases due to biases partly being shaped socially (Shanmughama and Ramyab, 2012).

A limiting factor of the sampling process was that some of the interviewees were referred to us by previous interviewees, this could potentially lead to a selection bias. That is, interviewees referred us to people that they thought would be good for discussing this topic with, potentially due to them having an interest in the areas we discuss.

4.3.2 Sample: WM Interviewees

The sample of interviewees is limited across a few dimensions. Firstly, the sample consists of only twelve interviewees which lowers the degree of generalizability across the industry. Secondly, the sample consists mostly of people from the Nordic region, however, a few people from other European countries as well. The degree of LA within people can vary across cultures (Wang et al., 2017), and this might influence how it is perceived by WMs. Thirdly, the sample is largely male-dominated, which could also influence the degree or LA (Wang et al., 2017), thus also perceptions.

4.4 Data Collection & Analysis

4.4.1 Interview process

All interviews were conducted anonymously to ensure confidentiality. They were held online via Microsoft Teams and typically lasted around thirty minutes. At the beginning of each interview, interviewees were informed about the recording procedure and the neutral approach of the study, as discussed in section 1.2, regarding biases being neither inherently good nor bad. The anonymity of the process was also reiterated, and, when asked, all participants granted consent to have their interview recorded. The recordings were made using an Apple iPhone.

Once consent to record was confirmed, the interview formally began, and we began to ask the predetermined questions. Based on the flow of the first two interviews, minor adjustments were made to the sequence of questions to improve the conversational quality for subsequent interviews.[1]

When asking questions about biases, we provided a predetermined definition established prior to the interviews to ensure that participants had a consistent understanding of it.

4.4.2 Analysis of empirics

We employed a thematic analysis to systematically identify and interpret patterns in the interview data. Interviews were transcribed using digital software for accuracy and efficiency, and the texts were converted into PDF format for ease of reading and highlighting.

The analysis process began with a thorough reading of each transcript, highlighting key phrases and statements to capture the participants' beliefs. These highlights were sorted into a categorical list of first-order concepts, reflecting initial themes such as comments on LA's existence, its perceived influence on WMs, and knowledge on methods of addressing LA. Next, these first-order concepts were sorted and grouped into second-order themes. This stage involved identifying overarching patterns and relationships among the first-order concepts. These themes concern the perceptions of LA and strategies to address it. It is these themes that are presented in the empirics.

[1] See Appendix 2.

After narrowing down our scope to focusing only on LA, we concentrated solely on the themes related to it. This was straightforward, as themes concerning LA were the most prevalent.

We should note that a thematic approach risks oversimplifying participant responses and may introduce confirmation bias, as we might unconsciously seek expected patterns. To mitigate this, the analysis was done by both of us independently, and our findings were then compared. This approach does not necessarily ensure that confirmation bias is entirely eliminated, but it might reduce its impact.

4.6 Ethical considerations

In this research, our ethical considerations emphasize a commitment to honesty and transparency throughout the thesis production process and good intention with the contributions of this thesis to the field of management and the financial services industry, and hopefully others, too.

We are honest and transparent in our study about the entire research process, from topic selection and reselection to submitting this thesis, while maintaining integrity within it. We prioritized the safety and privacy of our interviewees and all individuals involved in this thesis, whether formally or informally. In accordance with GDPR, interviewees signed consent forms and were informed that their responses would remain anonymous. At the start of each interview, we also asked for their permission to record the sessions. Ethical considerations were a central focus throughout the entire process, and participants received an email explaining the purpose of the interviews and the thesis. Furthermore, we maintain a critical perspective towards ourselves and the WMs as discussed in Analysis (6.). Rather than imposing our own frames of mind or those of existing research onto the data, we seek to present the reality of our findings.

Moreover, we intend to have the best interests of our interviewees in mind as we share our findings in this study on strategies addressing LA in WM. Our study seeks to fill the gap on such strategies, providing practical recommendations that do not require compromises. We hope to spark a conversation on optimizing economic returns for firms and clients while giving WMs peace of mind in investment decision-making to be satisfied and to help these two other goals.

5. Empirics

5.1 Context: Investment Decisions

WMs generally have a number of responsibilities. In this thesis, when we refer to WMs' "investment decisions," we specifically focus on the final choice of whether to sell or buy a certain asset. That means we do not focus on the process of analysis before that moment.

5.2 Perceptions of Loss Aversion

In the following section, the main themes identified regarding WMs' perceptions of LA in investment decision-making process will be presented. Their key observations and ideas will be explained with context from our conversations, accompanied by direct quotes of what the WMs said. The selected quotes are deemed to best represent the interviewees' thoughts.

5.2.1 Loss aversion exists

When asked about LA, most WMs said that it is an inherent human feature everyone falls subject to. The WMs described that they believe the fear of losses impacts people in their field, including themself. Some WMs said that it can lead to panic-selling in fear of a crash or to investors reluctantly holding onto losers in hope of a positive return in the future.

"They say that the pain of losing 100 million is twice as… —the emotion is twice as strong as gaining 100 million […]…I totally agree that the LA is strong, and also people stick to a loss-making deal forever." – Interviewee 4

5.2.2 Loss aversion exists, but it goes unnoticed in the moment, operating subconsciously

There was a perception among many interviewees that even though they know what LA is, and that it is a bias that they are affected by, it is still very hard to spot it at the moment it takes place. The common belief was that when one is in the midst of an important decision, one is short-sighted in that their judgment is clouded by emotions attached to their potential investment outcomes. Because of this it is hard to take a step back and in a more objective way evaluate the situation.

"*Even so, I will say this, you feel the LA, even though you know it is a bias you should avoid. You feel it no matter what.*" - Interviewee 2

5.2.3 Fear of being blamed for a mistake drives loss aversion

Many interviewees expressed that the fear of being held accountable for mistakes often discourages them from taking risks. The example that was given was the fear of possibly being blamed by clients for potential losses. WMs explained how a part of their job is to routinely check-in with their clients about their portfolios' performance. The WMs expressed

how knowing that they will eventually meet with clients is a constant 'thought in the background' as they consider investments. This thought can restrict the risk they are willing to take for their clients because they fear making losses and experiencing the stress associated with sharing this news with their clients. Thus, the WM's sense of LA can be exacerbated.

"*Very much so. That's something that our WMs, all the clients, representatives, investment managers, they always feel…It's a very difficult situation for them to have a meeting with the final client, emotional, when there are losses, the final clients are angry, they feel sorrow, and they tend to blame the investment manager.*" – Interviewee 10

5.2.1 Loss aversion is bad and should be avoided

All interviewees had a negative perception of the trait, which can make them exhibit loss-averse behavior in investment decision-making. Furthermore, most interviewees elaborated on this thought, emphasizing that LA should be avoided, with several providing specific ways of achieving this.

"*I probably have a bit of a negative stance on that, to be honest. I think you need to stay disciplined and follow the facts, if you will.*" – Interviewee 8

5.3 Addressing Loss Aversion: Mitigation Methods

This section explores the essence of how WMs believe LA can be addressed, and more specifically, its impact mitigated, as suggested by WMs. In suggesting their methods, the WMs implied that these be i) established, or ii) if already established, exist and account for the additional purpose of addressing biases.

5.3.1 Awareness

One recurring theme in the interviewee's suggested methods was the importance of being aware of LA. To be able to address a problem, one must first be aware of it, and then actively work with it.

"*I think a lot of it really just comes down to being aware and taking the time to really think it through because what you're fighting is your instincts, and your instincts will be there no matter what, and you can try to calm them down with rational thought.*" – Interviewee 2

5.3.2 Clarify thinking by externalizing thoughts

Some WMs described that during stressful moments in the decision-making process, when they feel the uncertainty of the situation, writing down or discussing their thoughts with someone, can help them uncover the underlying reasons for their uncertainty. They explained that this externalization of internal thoughts and confusion can create a clearer vision on the next steps to take, which might otherwise be overlooked when operating in a state of confusion.

"*You can evaluate it that way. I think for us, that means writing, at least putting something down on paper so six months later, you can actually revisit it and understand it. Obviously, it also helps to talk to other people. It's always helpful to have made the decision together and discuss it and have someone to talk to. I think if you get too much in your own head, it can spiral.*" – Interviewee 2

5.3.3 Scenario analysis

Some WMs explained that they conduct scenario analyses, which involve evaluating potential outcomes of various hypothetical situations, when considering making an investment. They noted that after making an investment, if they start to feel nervous when an investment has been made and they become nervous or stressed about current market conditions, they can refer back to these scenario analyses. This practice helps them avoid emotional reactions, such as stubbornly holding onto investments, or, in more extreme cases, panic-selling in response to short-term fluctuations. By revisiting the scenarios, they can regain a sense of certainty and comfort in their new decision-making process.

"*We build three or four scenarios where we look at, you know, what's it going to take for this to go bankrupt and what kind of probability do we put to that scenario?*" – Interviewee 12

"*There is a scenario where we're back in the financial crisis, so we usually stress test that in our cases to see how the company performed during the financial crisis, but if we have another one, how will it perform? It factors into our investment analysis.*" – Interviewee 3

5.3.4 Maintaining a fundamental approach

Many interviewees emphasized the importance of maintaining a fundamental approach to investing to mitigate LA. They explained that WMs can sometimes overlook fundamental principles (of investing) and succumb to market trends or 'instincts.' This can lead them to react emotionally to short-term market fluctuations whereas they should focus on the fundamental long-term investment horizon. They argued that WMs should evaluate companies primarily based on their intrinsic worth, determined by expected earnings and long-term competitive advantages. This approach, they argue, helps make clearer, more rational decisions and minimizes emotional reactions, thus reducing LA.

"*We typically value the companies that we look at using kind of earnings multiples, for instance, and we haven't set them in stone in a way, but we try to keep them kind of at reasonable level, because what you tend to see that if you have a kind of a, let's say a boring service company with the stable cash flows, etcetera, it might be kind of worth ten years of earnings. But if you have an Nvidia or something like it could be worth 100 years of earnings. So you want to have some sort of guidelines that basically limit your kind of exposure to bottles.*" – Interviewee 8

5.3.5 Maintaining a long-term perspective

Many interviewees expressed how them having a long-term perspective on their investments helps address LA. They also emphasized the importance of reminding themselves in times of uncertainty, about that it is the long-term that is important. By doing this one can feel more

calm in regards to investments that are not looking good at the moment. This could prevent emotions associated with LA to trigger panic selling, for example.

"*Buy something where you have a lot of conviction in, and hold it for the long term, regardless. So we're not trying to time things*" - Interviewee 2

6. Analysis

In this section, we first analyze our findings on *how* WMs perceive LA and its impact on their investment decisions using LA and Dervin's Sensemaking Methodology (SMM) theories. We then proceed to analyze these strategies, explaining *why* they may be effective based on the interviewed WMs' perceptions and theory. In doing so, we adapt the SMM framework to the investment decision-making context.

As described in the theory section, WMs bridge the gap of uncertainty with LA, illustrated in the figure below.

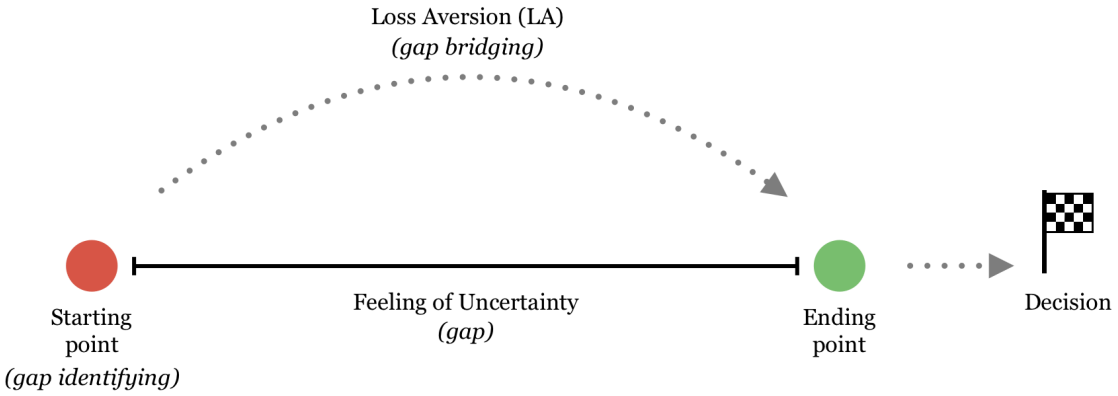

Figure 3, Dervins SMM repeat

6.1 Perceptions

6.1.1 Existence and judgement of Loss Aversion

In Empirics (5.), it was shown that WMs think LA affects decisions and that one should try to mitigate it. This will not be analyzed further since the main purpose of this paper is to provide a framework of how to potentially address LA. Thus, the reasons for why WMs thought they experienced LA and the strategies they suggested will be the focus of this analysis.

6.1.2 What causes Loss Aversion, according to WMs?

There were two main findings regarding why WMs think they are loss-averse except for humans just being loss-averse in general. The first one is not exactly a cause but it is the observation that it is really hard to notice LA in the moment when it is active. This reflects on LA being something that occurs subconsciously and is in line with the general notion of heuristics, i.e. that it is a part of what is referred to as system 1 thinking (Gigerenzer and Gaissmaier, 2011).

The second reason WM expressed for LA is the fear of being held responsible, and thus blamed for a loss. Either by a "client, a colleague or a manager." This resonates more with what Kahneman calls system 2 thinking. At first sight this can seem to contradict the general notion of LA, that it is an heuristic operating subconsciously in the form of system 1 thinking and not 2. However, when thinking about it more, it makes perfect sense. If the goal of avoiding blame is more important for a WM than an optimal outcome of the investment, then LA is a perfectly rational action. LA, then, is not a heuristic to bridge an uncertainty but rather just a logical action to avoid something that one wants to avoid. This also implies that conscious and rationally exercised LA by our definition is not a cognitive bias.

6.2 Addressing Loss Aversion

From strategies suggested by WMs, we have identified three main strategies that could help mitigate LA. These are: i) externalize and structure thoughts, ii) previous analyses, and iii) recall the time horizon. These all make the WMs' goals and path clearer, thus reducing uncertainty, which makes it easier to become more rational in the decision situation.

6.2.1 Sensemaking and strategies

As previously mentioned, the gap hindering decision making, uncertainty, is bridged by the heuristic that is LA. Simply put, it helps investors overcome uncertainty. Instead of bridging the gap of uncertainty using LA, WMs can partly bridge it with the strategies discussed in this section. By doing this, the effect of LA might decrease due to a heightened level of certainty in the individual. According to the three strategies mentioned, certainty is instead derived from rational analysis. Basing their decision more on their rational analysis also means reducing the amount of system 1 thinking in their decision and increasing the amount of rational system 2 thinking, which is not associated with the use of heuristics such as system 1 (Gigerenzer and Gaissmaier, 2011).

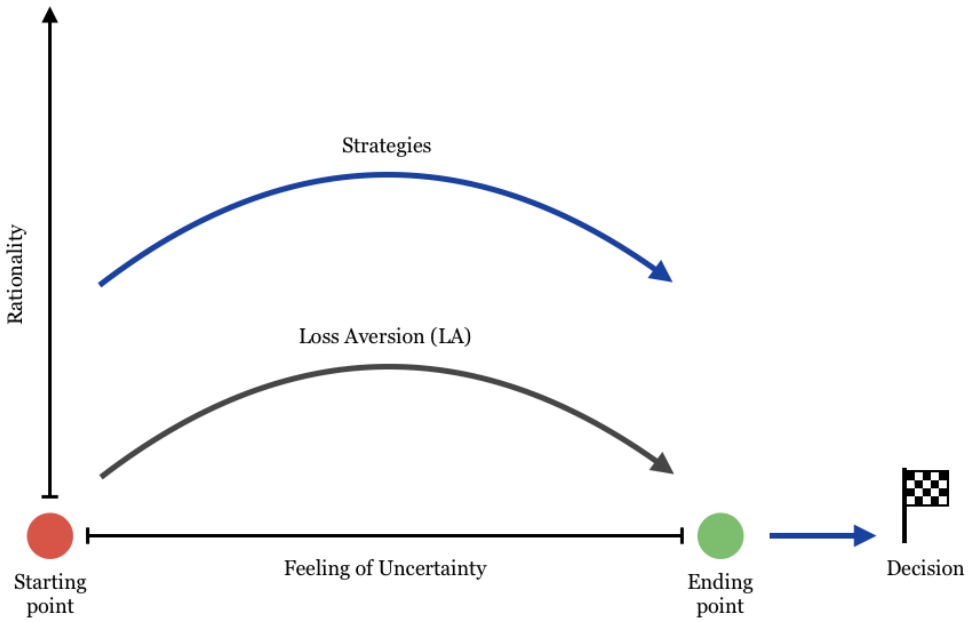

Figure 4, Dervins SMM with strategies

6.2.3 Strategies to Mitigate Loss Aversion

Externalize and structure thoughts

As shown in Empirics (5.), WMs suggested externalizing thoughts in order to see them more clearly. The mechanism we have identified in this strategy is the structuring of thoughts. Externalizing thoughts through writing them down or talking to someone is a way to get there. In the midst of a decision-making process lots of thoughts can be present in the mind. Structuring these and finding out the essence of each thought could serve two purposes. The first one is that by making one's mind clearer the amount of uncertainty felt can be reduced. Secondly, it could also possibly allow for one to spot thoughts that are more or less rational. This could help with maybe getting a hint of LA in the moment, which WMs said was very hard to do.

Using previous analyses

When faced with uncertainty, WMs said that one should refer to previous analyses, which acts as a guide through the uncertainty of the decision-making moment. Understanding again why the 'objectively' correct course of action says what it does helps reduce the feeling of uncertainty in the moment as it clarifies the initial rationale behind the decision.

The WMs suggested two main types of analyses: scenario analyses and fundamental approach (i.e., evaluating companies primarily based on their intrinsic worth).

Recall the time horizon

The interviewed WMs emphasized the importance of reminding oneself of the long-term investment horizon in the heat of the decision-making moment can reduce their inclination to be loss-averse. They all stated that they strive to employ this long-term mindset to their decision-making, but that they themselves and WMs overall might sometimes lose sight of it in the decision-making moment. This implies that WMs sometimes, in the face of uncertainty, are loss averse by adopting a short-term mindset (whether they notice or not), which illustrates WMs using a reference point in their decisions that is based on more recent performance levels rather than the level of accumulated wealth over time (i.e., the amount that the WM started managing), making their reference dependence more accurate.

Adopting a long-term approach would make the WMs' LA intense as they would measure outcomes of potential investments in the bigger picture. This makes the situation clearer for the WM in terms of what they should decide for the sake of their true economic goals for the client, not prioritizing their personal needs in the moment to feel comfortable such as to satisfy their client's risk tolerance.

Clarity

Overcoming uncertainty is a way of satisfying one's need of finding the clarity in the situation that makes one certain enough about how to act and what to decide in the moment. Uncertainty, as discussed, can be overcome by heuristics such as LA, which are System 1 Thinking) or strategies, as suggested by the WMs, which involve more conscious and controlled cognitive processes, or System 2 Thinking. While LA as a means of finding clarity creates an illusion of certainty, filling one's knowledge gap with a sense of comfort that does not yield optimal results, the strategies contribute to more objective clarity that is genuine, where the WM achieves a more objective understanding of what to do in the moment.

6.2.4 Overarching solution is awareness

In empirics, awareness was mentioned as a suggested strategy for mitigating LA. We have identified it as the common theme for being able to mitigate the effects of LA. Firsty, one has to be aware that the existence and presence of LA is the first step towards mitigating it. That is a prerequisite for all the strategies mentioned above.

7. Discussion & Conclusion

7.1 Answering our Research Questions

The aim with this thesis was to provide an answer to the following RQs:

How do WMs perceive LA in investment decisions?
Based on these perceptions, how can LA be addressed?

In the empirics section it was shown that WMs think LA exists and that it impacts investment decisions. WMs also think that LA is something bad that should be mitigated. Furthermore two reasons were discovered as to why they think LA exists even though they are aware of it: i) That they want to avoid the blame of a negative outcome, ii) that it is hard to spot LA in the moment.

A number of ways to mitigate LA was suggested by the WMs in the empirics section. These were then analyzed through the lens of Dervin's SMM together with theory on LA. In the analysis section three mechanisms were identified that possibly could help mitigating LA by mainly reducing the uncertainty in a decision-making moment. These were i) **Externalize and structure thoughts**, ii) use **Previous analyses**, and iii) **Recall the long-term time horizon.**

7.2 Contributions and Comparison with Previous Literature & Theory

This study makes two key contributions to existing research within the decision-making sciences and management literature: it explores how WMs perceive LA and how they believe this bias can be addressed.

Firstly, our research contributes to a gap in literature on how individuals perceive LA, particularly among WMs. The only study we found that somewhat fills this gap as well was conducted by Mukherjee (2019), indicating that people generally acknowledge the existence of LA. This study aligns with our findings, which suggest that WMs recognize LA as an inherent behavioral trait. Conversely, other studies, looking into how people perceive their own biases (not specifically LA), indicated that people do not believe biases are inherent traits, as the test subjects—random individuals—related themselves to various biases and generally concluded that biases are present in some people but that they themselves do not possess it to the same degree (Pronin et al., 2004; Proning and Kugler, 2006). The study referred to this finding as a "bias blind spot," implying that it was assumed in the study that all test subjects were biased, only some did not see it. Furthermore, the subjects suggesting they were not affected by biases could be understood to imply that they perceived biases in a negative light, and therefore, out of self-interest, concluded they are not affected by them. This was not investigated in the study, however, and is open for speculation. Our findings, however, do confirm that WMs, if not finance professionals at large, view LA negatively.

Furthermore, our findings reveal that WMs perceive LA as difficult, if not impossible, to recognize when it influences their decisions. Interviewees described LA as a subconscious influence on decisions that simplifies decision-making, making it more comfortable. They also explained how LA can be a conscious mechanism used to overcome feelings of uncertainty, driven by the fear of blame. This finding makes the insightful conclusion that LA and possibly other heuristics as well are not inherently forms of System 1 Thinking, and that they are not inherently irrational. Therefore, we conclude that whether LA is considered a bias depends on the purpose for which it is employed, a perspective which bring nuance to current assumptions.

Secondly, our findings contribute to a gap in research on methods addressing LA in investment decisions by deriving three key strategies from discussions with WMs to mitigate the bias. Existing research on how to address LA is scarce, and is almost nonexistent. The only study we have identified that discussed strategies for addressing LA emphasizes the importance of considering an overarching perspective, as noted in our literature review (Sokol-Hessner et al., 2009). The study found that evaluating investment choices by considering them together in a sequence based on their potential outcomes, rather than focusing on only one choice, can reduce LA. We have not found any other studies that identify or suggest strategies to address LA. Therefore, the two other strategies shared in this thesis represent new insights for optimizing decision-making in the context of LA, at least in WMs: externalize and organize thoughts, and use external support.

In summary, we show in this study that WMs are actually aware of LA as a concept and in themselves, generally perceive it negatively, as well as practical reasons for why they believe LA occurs. We also explore and share strategies suggested by WMs to address LA, and examine that there is support for these.

7.3 Conclusion

In conclusion this thesis aimed to provide an answer to the following research questions:
How do WMs perceive LA in investment decisions?
Based on these perceptions, how can LA be addressed?

The relevance of this research lies in the addressing of LA. This cognitive bias can affect decision-makers in all fields and thus we decided to learn more about this bias by targeting a quantifiable industry where most of the research on it has been done.

As mentioned in the discussion this study shows that WMs believe LA exists, impact their decision making and should be mitigated. Strategies to address these were also suggested by interviewed WMs, these were i) externalize and structure thoughts, ii) use previous analyses, and iii) recall the long-term time horizon, and the support for these in theory was examined.

7.4 Implications for Further Research

We suggest that further research continues to research on perception of biases, perhaps widening the scope to more industries. Furthermore we recommend further research on how to deal with LA, and cognitive biases in general. Perhaps the strategies discussed in this

thesis could be tested empirically in order to confirm their effectiveness. Additionally research recommending additional strategies is needed due to the lack of previous studies on this. Gaining more knowledge of how to mitigate LA, and other biases, will help decision makers in organizations to make decisions that, ultimately, can be more rational.

When conducting this study, additional knowledge was acquired that was outside the scope. Interviewed WM suggested three ways organizations can deal with LA and potentially other biases. These were i) Ensuring a speak-up culture ii) Having decision making distributed across several people iii) Having a diverse team. Future research should examine the effect of these structures on LA and other biases to learn about how organizations can increase rational decision-making, helping them reach their goals.

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9. Appendix

9.1 Interview Questions

green highlight: *Make sure to ask*
turquoise highlight: *Ask only if time allows*

1. **Position, where you work, and for how long?**

2. **Briefly describe your career so far (companies and respective position).**

3. **What does your work involve now?**
   a. What exactly do you do? (i.e., services)

   b. What kinds of clients/investors do you have (e.g., long vs. short term, any assets or sectors of focus)?

4. **Who impacts your decision making in your investment decisions for clients/investors?**
   If need be, give our definition of "investment decision."

   Unless they already mentioned, ask if their clients/investors have any impact on the investment decisions

(Biases in general)

5. **Do you think your clients/investors show tendencies towards the following biases for their client/investor profile's investment strategy? (After or when it suits ask) "Do WMs also?" If it hasn't come up yet**

   a. Value or are emotionally affected by losses more than (twice as much as) gains? (LA)
      - Clients/investors? How they could or should mitigate it?
      - WM? How they could or should mitigate it?

   b. Act based on what their peers in the industry are doing? (herding)
      - Clients/investors? How they could or should mitigate it?
      - WM? How they could or should mitigate it?

   c. Take more risk in most 'buckets' [in terms of mental accounting] as their wealth increasingly accumulates over the years? (mental accounting/house money effect)

During the above questions, when suitable, ask how they think it is possible to mitigate these biases.

6. **Do you perceive WMs in your industry to, realistically speaking, to have the tendency to…**

   a. Overestimate their own ability to make optimal investment decisions? (overconfidence bias)
      - Clients/investors? How they could or should mitigate it?
      - WM? How they could or should mitigate it?

   b. *If applicable:* Take more risk (in most buckets) as their clients'/investors' wealth or the returns they primarily helped generate increasingly accumulates over the years? (mental accounting/house money effect)
      - Clients/investors? How they could or should mitigate it?
      - WM? How they could or should mitigate it?

During the questions above, when suitable, ask how they think it is possible to mitigate these biases for WMs.

7. **Have you ever had any decisions made in the past that were affected by any of these biases (Herding, Overconfidence, LA) perhaps earlier in your career, for example, in the '08/'09 financial crisis?**

   a. Do you think you're still doing it sometimes?

8. **How do you regard these biases and why?**
   a. Positively or negatively?

      i. *If negatively, ask:* Have you done anything to mitigate it?
      ii.
      iii. *If positively, ask:* How do you take advantage of it?