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MARKET SIGHT LINES

Putting Behavioral Finance in the Palm of Your Hand: The Stifel Financial ID

By Michael O'Keeffe, *Chief Investment Officer*

Every investor knows that building an investment strategy, investing one's hard-earned wealth, and then watching that investment change and grow over time is an emotional journey. We celebrate the positive returns and growth of our investment, while worrying when returns turn negative and our investment balances decline. Each investor's journey is different. Some may consume market news with abandon, while others have no interest. Others may have great confidence in their investment knowledge, and many feel overwhelmed. Certain clients may want to be involved in every decision each step of the way, while others have confidence delegating to experts. In this week's Sight|Lines, we review the Stifel Financial ID, a behavioral finance model designed to help clients understand themselves and work more effectively with their Stifel Financial Advisor.

THE TAKEAWAY: BEHAVIORAL FINANCE CAN HELP INVESTORS NAVIGATE THE EMOTION OF INVESTING

The **Stifel Financial ID** can help us understand ourselves in six ways. In summary:

- **Risk Attitude** measures how you feel about the possibility of future losses.
- **Composure** gauges your emotional engagement with actual short-term gains or losses.
- **Market Involvement** reflects how much you track and engage in the financial markets.
- **Perceived Investment Expertise** reflects your confidence in your knowledge with financial and investment concepts.
- **Degree of Delegation** gauges your comfort letting go of day-to-day investment decisions.
- **Belief in Skill** captures your confidence that a capable professional investor can add value, like generating above-market returns.

IN-DEPTH: THE STIFEL FINANCIAL ID BEHAVIORAL FINANCE MODEL CAN HELP INVESTORS NAVIGATE THE COMPLEXITY AND EMOTION OF INVESTING

The **Stifel Financial ID** harnesses behavioral finance to help us understand ourselves as investors and work with our Stifel Financial Advisor, allowing us to be mindful of our behavioral traits. Going deeper:

- **Risk Attitude** gauges your comfort and how you feel about *the possibility* of future losses. Everyone has a different appetite for risk. If you have a low risk attitude, you may prefer a lower-risk, lower-return portfolio. With a higher risk attitude, you may take more risk to earn a higher long-term return, even if it means an increased chance of higher losses.
- **Composure** captures how emotionally engaged you are with actual short-term gains or losses. If you have high composure, you are unlikely to worry about fluctuations in the value of your investments and will focus on the long-term rewards. If you have low composure, you may become more anxious about short-term losses, averting your focus from your long-term strategy and goals.
- **Market Involvement** helps you understand how much you want to track and get involved in the financial markets. When you have a low market involvement score, you tend to stay clear of the financial news. With high market involvement, you may want to actively "talk investments" with your Stifel Financial Advisor or read everything we publish on stifelinsights.com.
- **Perceived Investment Expertise** relates to how familiar and informed you feel about your current financial situation and investments, corresponding to how relaxed and confident you are about making financial decisions. A high score means you're confident, while a low score can mean you may feel less confident, possibly shying away from more complex strategies.
- **Degree of Delegation** gauges your comfort with letting go of detailed investment decisions. A high degree of delegation score can mean you prefer that someone else make the day-to-day investment decisions, while a low score can mean you would rather take a hands-on role and be engaged in each decision.
- **Belief in Skill** measures your confidence that a capable professional investment manager can add to your portfolio through their ability to generate above-market returns. People with a low belief in skill may prefer passive investment options designed to track the performance of a market index, while those with high belief in skill will likely prefer to allocate investments to actively managed strategies designed to produce more significant above-market returns.

CONCLUSION

Investing can be exciting, nerve racking, and sometimes emotional. The complexity of the markets can be daunting and overwhelming. The **Stifel Financial ID** harnesses behavioral finance to help our clients understand themselves better and work more effectively with their Stifel Financial Advisor.

Michael P. O'Keeffe, CFA
Chief Investment Officer
michael.okeeffe@stifel.com
www.stifelinsights.com

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Asset allocation and diversification do not ensure a profit and may not protect against loss. There are special considerations associated with international investing, including the risk of currency fluctuations and political and economic events. Investing in emerging markets may involve greater risk and volatility than investing in more developed countries. Due to their narrow focus, sector-based investments typically exhibit greater volatility. Small company stocks are typically more volatile and carry additional risks, since smaller companies generally are not as well established as larger companies. Property values can fall due to environmental, economic, or other reasons, and changes in interest rates can negatively impact the performance of real estate companies. When investing in bonds, it is important to note that as interest rates rise, bond prices will fall. The Standard & Poor's 500 index is a capitalization-weighted index that is generally considered representative of the U.S. large capitalization market. The Dow Jones Industrial Average (DJIA) is a price-weighted average of 30 significant stocks traded on the New York Stock Exchange (NYSE) and the NASDAQ. The DJIA was invented by Charles Dow back in 1896. The MSCI EAFE index (Europe, Australasia, and the Far East) is a free float-adjusted market capitalization index that is designed to measure the equity market performance of developed markets, excluding the U.S. and Canada. VIX is a trademarked ticker symbol for the Chicago Board Options Exchange Market Volatility Index, a popular measure of the implied volatility of S&P 500 index options.

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