MENTORPATH
MIND OVER MATTERS

The ABC's of Money Mistakes and Financial Fallacies

Affect (Emotional) Biases

- Nostalgia Bias: airbrushing memories by idealizing the past
- Invincibility Bias: a sense of invulnerability or immunity from usual problems
- Optimism Bias: search for a good story; miscalculating and underestimating risks
- Tilt: emotionality hijacks usual reason and holds judgment hostage
- Emotional Valuation: a personal emotional meaning causes loss of objectivity
- Loss Aversion: an emotional decision made to minimize future regret
- Probability Blindness: the brain predicts based on repeating events

Behavior Biases

- Transference Fallacy: using existing algorithms and coding based on previous mental models and patterns
- Spending Justification: creating a "just cause" to spend
- Spending Rationalization: creating a seemingly rational reason to spend
- Sunk Cost Fallacy: persisting in an unrewarding activity, because of what you've already spent/invested
- Pattern Bias: construct concurring facts into a single narrative; neurologically wired to look for patterns
- Status Quo Bias: comfort zone tenacity; inertia

Cognitive Biases

- Diagnosis Bias: label, then seek data to confirm; blind to refuting data
- Confirmation Bias: distortion of available data to support preexisting beliefs
- Money Equations: individual emotional meanings and attributions
- Anchoring: tied emotionally and conceptually to an initial frame of reference
- Framing Decisions: money is treated differently based on context (found money, salary, savings, retirement)
- Extrapolation Errors: predicting the future based on the past
- Internal Bargaining: a self-deception that equates plan with action

Social Biases

- Affinity Bias: underestimate the risk of the things we like
- Value Attribution: to imbue a person or thing with certain qualities based on initial perceived value
- Availability Bias: predict based on more emotionally recalled past similar situations
- Recency Effect: recent events overweighted because of more vivid recall
- Collective Tilt: herd mentality; group momentum

Excerpted from:
Your New Money Story: The Beliefs, Behaviors, and Brain Science to Rewire for Wealth by David Krueger MD (Rowman & Littlefield, New York / London)