

# YOUR MIND WANTS YOU TO MAKE MENTAL MONEY MISTAKES

## KEY TAKEAWAYS:

- Anchoring, loss aversion and hindsight bias are just three types of behavioral potholes investors can easily fall into.
- Before you make investment decisions, gather up plenty of information—especially facts that might conflict with your current thinking.
- Track your investment decisions over time to help avoid becoming overconfident in your abilities.

Chances are, you've heard about behavioral finance at some point over the past few years. The study of people's biases about money and investing—and how those biases impact decision making—has become a hot topic in many circles. A pioneer in the field even was awarded the Nobel Memorial Prize in Economic Sciences for his work a few years ago.

You may not need academics and their research to convince you that investors often make mental mistakes with their wealth. But understanding some key aspects of behavioral finance can potentially help you make smarter decisions in multiple areas of your financial life. While it's often easy to understand behavioral biases in a general sense, it can be very difficult for us as human beings to recognize when we're actually making bad decisions due to those biases *in real life*. That's because many of these behaviors are unconscious—we make them without realizing it.

**The upshot:** By getting a handle on behavioral biases and how they influence our thinking—as well as developing some strategies to combat them—we can potentially hit “pause” or “stop” before we make errors that could prove to be costly.

## SOME COMMON MENTAL MONEY MISTAKES

Our brains are essentially hardwired to take mental shortcuts in all kinds of situations so we can reach conclusions, make decisions and take action quickly. Credit—or blame, depending on how you see it—can probably go to our ancient ancestors, as they were constantly looking for signs and patterns that showed they might imminently be a tiger's lunch.

Despite our current position at the top of the food chain, our brains still want us to decide things quickly without possessing all the information.

Mental shortcuts aren't necessarily bad. But they can spell trouble when it comes to evaluating situations involving our cash or investment capital and managing our emotions. Specifically, they can lead us to commit these types (among many others) of behavioral finance errors:

- **Anchoring.** This involves making decisions based on a particular starting point, or anchor. A typical example is when the price of a car or other big-ticket item is significantly reduced from its original asking price. Our brains want to judge the current price based on how much less it is than the original price. The problem occurs when that original price is irrational in the first place. With investing, anchoring can cause us to hold on to bad investments that have declined precipitously from the price at which we bought them—hoping that they'll return to their original, "real" value levels.
- **Loss aversion.** This concept reflects the brain's preference to avoid a loss rather than realize an equivalent gain—or, simply put, we'd rather avoid losing \$100 than gain \$100. Fear of loss can be a major driver of investing assets so conservatively that it becomes challenging (even impossible) to pursue one's long-term financial goals. Ultimately, loss aversion can cause investors to think about risk in a skewed manner that doesn't necessarily address bigger risks to their financial future than short-term losses in their portfolios.
- **Hindsight bias.** If you know the expression "hindsight is 20/20," you understand the idea of hindsight bias. It's our tendency to look back at an event whose outcome was uncertain and believe that outcome was easily predictable and obvious. This bias causes people to selectively ignore the various possible results they once considered and convince themselves that the actual outcome was the one they knew would come to pass. Ultimately, this can lead people to overestimate their judgment and decision-making abilities going forward—becoming overconfident in their ability to, for example, pick winning stocks or other investments.

## TIPS FOR AVOIDING COSTLY ERRORS

Simply knowing how our brains can work against us and hinder our ability to make sound financial decisions is helpful information. And there are numerous studies and books that delve much more deeply into the types of behavioral finance issues noted above, if you want to learn more.

That said, the key is to go beyond knowing about the problem and figure out what to do about it. Armed with action steps, we can potentially avoid or minimize these mistakes in our own lives so we don't damage our wealth.

Consider these actions and ideas that could potentially help you.

- **Examine alignment.** How well does an investment you're considering match up with your overall objectives? For example, it's extremely easy to get attracted to a red-hot stock, group of stocks or market sector. If your investment goals are to pursue the highest possible returns regardless of the risk, the investment could align with your approach. If, however, you are concerned with downside volatility and preserving wealth, you may find it appropriate to pass on that "opportunity" by reminding yourself why you're investing in the first place.
- **Practice gratitude.** Combating behavioral biases often requires "rewiring" your brain. If you focus each day on specific things you're grateful for and the good things you already have in your life, your brain (over time) can start to become less fearful of possible losses. When your brain starts scanning for the good things around you at least as much as it does for the threats, you can make decisions about money (and many other things) from a perspective of abundance rather than scarcity.
- **Shut down catastrophic thinking.** Loss aversion is often driven by our brains imagining the worst possible outcomes of our bad decisions—also known as catastrophic thinking. And while, yes, the most horrible result could come to be if we make a mistake, the *likelihood* of that result coming to be may be extremely low. Therefore, think critically about just how likely a catastrophic outcome might be—as well as the probability of other outcomes occurring that are only mildly bad or even (gasp!) positive.

- ***Gather more information than you think you need.*** Anchoring often happens when we have limited amounts of information or we focus too much on one piece of data. To help combat this bias, gather as much relevant information as you can to develop a fuller, clearer picture. That said, it's become more important than ever to vet the *quality* of the information out there. Social media has become an e-minefield of amateurs spouting their opinions—so you need to look into the expertise of your information sources as well as whether they have their own agendas behind their viewpoints.
- ***Look for views that challenge your own.*** Just as important as gathering lots of high-quality information is seeking out information from a variety of sources with multiple opinions—including opinions that may differ from your own and that challenge your assumptions. Anchoring yourself exclusively to viewpoints that confirm your existing beliefs or hopes can blind you to risks and other important considerations that should be factored into your decision making.
- ***Track and revisit your investment decisions over time.*** Hindsight bias can stop us from learning important lessons from the errors we've made in the past. To fight it, keep a log or journal of your investments that includes what you buy and why, and your expectations for the asset. Over time, compare the actual outcomes with your initial reasoning and predictions.

## FIGHT BACK

Let's face it: The fact that our brains are predisposed to making various mental money mistakes means that it can be pretty tough to fight back. But it's not impossible. Start by understanding some of the innate biases that can (and often do) trip up investors seeking to make smart decisions about their wealth. Then consider the steps and suggestions outlined above.

Perhaps most important, when an "opportunity" or a "risk" comes across your radar screen, slow down. Take a breath. The "caveman" part of our brain wants us to take action right away. Do your best to not let it override your good sense.



[www.oswegowealth.com](http://www.oswegowealth.com)

VFO Inner Circle Special Report  
By John J. Bowen Jr.

© Copyright 2025 by AES Nation, LLC. All rights reserved.

No part of this publication may be reproduced or retransmitted in any form or by any means, including but not limited to electronic, mechanical, photocopying, recording or any information storage retrieval system, without the prior written permission of the publisher. Unauthorized copying may subject violators to criminal penalties as well as liabilities for substantial monetary damages up to \$100,000 per infringement, costs and attorneys' fees.

This publication should not be utilized as a substitute for professional advice in specific situations. If legal, medical, accounting, financial, consulting, coaching or other professional advice is required, the services of the appropriate professional should be sought. Neither the author nor the publisher may be held liable in any way for any interpretation or use of the information in this publication.

The author will make recommendations for solutions for you to explore that are not his own. Any recommendation is always based on the author's research and experience.

The information contained herein is accurate to the best of the publisher's and author's knowledge; however, the publisher and author can accept no responsibility for the accuracy or completeness of such information or for loss or damage caused by any use thereof.