

## Jeopardy! Shows Humans Don't Maximize Profits



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One of the common behavioral biases is anchoring. Anchoring is basing expectations and viewpoints on previous, often recent, information. An example would be the yield on the 10-year Treasury note. The benchmark bond yielded 1.59% today. If it were to rise over the short term to, say, 2.0%, your opinion would likely be that rates have jumped even though a 2.0% yield would still be lower than it was a year ago. The human mind focuses more on the available information (e.g., today's yield) than on information requiring more cognitive effort to access (e.g., the yield from 12 months ago).

ANCHORING COSTS  
JEOPARDY!  
CONTESTANTS  
MONEY

\$1000

Anchoring has been long believed to influence many of our financial decisions. Though it can be replicated in experiments, its effect is harder to prove in real-world environments. Two researchers found a creative way to prove anchoring occurs when decisions have a direct monetary effect: They analyzed decisions made by contestants in the game show Jeopardy!

Jeopardy! primes contestants with actual dollar values. Every clue is preceded by a dollar amount. A contestant could choose to take "Sports" for \$800, for instance. A correct answer immediately increases a contestant's winnings by the specified dollar amount, while an incorrect answer decreases winnings. Hidden on the board are three special clues, called "Daily Doubles." Daily Doubles allow a contestant to choose to wager any amount up to his or her entire account balance or the largest dollar value on the board, whichever is bigger. A contestant does not know if a clue is a Daily Double until a category and wager amount is chosen (e.g., World History for \$600). This fact makes Daily Doubles interesting from the standpoint of behavioral economics.

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- **15 Short-Cuts and Biases That Lead to Bad Investment Decisions** - Anchoring is just one of several behaviors that can harm your portfolio.
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## Highlights from the *AAll Journal*

- **The Traits and Processes That Lead to Better Forecasts** - One characteristic the best forecasters share is the ability not to anchor their viewpoints, as Phil Tetlock explains in this month's *AAll Journal*.
- **The Sound of Silence: Speaking to the Heart of Money Management** - Sharing your views on money and investing with your family can lead to healthier relationships and a better lasting legacy.

## AAll Sentiment Survey

Neutral sentiment rose to its highest level in a month, while optimism stayed below 30% for a third consecutive week. [More about this week's results.](#)

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## The Week Ahead

AAll's senior financial analyst, Wayne Thorp, CFA, will share insights on how to create winning stock screens and analyze passing companies with our **Puget Sound chapter** next Saturday, September 17.

The only S&P 500 member scheduled to report earnings is Oracle Corp. (**ORCL**), on Thursday.

The week's first economic report of note will be August import and export prices, released on Wednesday. The Bureau of Labor Statistics' August Producer Price Index (PPI), August retail sales, the Philadelphia Fed's September business outlook survey, the September Empire State manufacturing survey, August industrial production and July business inventories will be released on Thursday. Friday will feature the August Consumer Price Index (CPI) and the University of Michigan's preliminary September consumer sentiment survey.

Two Federal Reserve officials will make public appearances: Atlanta president Dennis Lockhart and Minneapolis president Neel Kashkari. Both will speak on Monday.

The Treasury Department will auction \$24 billion of three-year notes and \$20 billion of 10-year notes on Monday and \$12 billion of 30-year bonds on Tuesday.

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