

Background Briefing: Dr. Erik Davidson, former Wells Fargo Chief Investment Officer of the private bank, joins the Economic War Room to discuss behavioral finance and why we instinctively invest the way we do. Learn how you can overcome natural instincts we often have and avoid big mistakes that can cost you a lot of money.

"In the Economic War Room, we help people weaponize their money so that they can preserve the culture, pass inheritance and values on to their kids, and strengthen America. **A major enemy that we face may not be just the Chinese or other geopolitical threats we talk about. It may not be people on the opposite side of the political spectrum. Sometimes the enemy is us.**"

Your Mission: To better understand how you can overcome bias in your investment strategy. Also, to consider where impact investing fits within your portfolio.

"I've certainly come from an efficient market view of the world. But at the same time, while I believe the market's efficient, the economic agents, the individuals may not be. I've seen such irrationality of behavior taking place." –Dr. Erik Davidson



Ep. 2.64 (OSINT) Open Sourced Intelligence Briefing with highlights. This includes quotes and summaries of conversations in the *Economic War Room* with Kevin Freeman and Dr. Erik Davidson. Dr. Davidson recently completed his Doctorate in Behavioral Finance and is currently the chief economic adviser for Inspire Investing. Previously he was Chief Investment Officer for Wells Fargo's private bank.

1. We are wired to be short-term thinkers; we are not wired to be good investors.

- » We herd into investments that are doing well and will flee because of our survival instinct from things that seem to be going wrong. Yet, there are times when that may be the exact opposite of what we should be doing.
- » It's not necessarily our fault. It's just it's how we've adapted over generations. We're just not wired to be good investors.
- » There's a lot of talk these days that we're not really wired physically for the 21st century. Today, we have jobs that don't require a lot of physical work effort. Food is readily available and as a result of that we're dealing with issues like obesity. Whereas our ancestors seldom had those problems. The scarcity of food and hard labor and such precluded them from that.
- » Likewise, because of what's been passed down from generations we are to some extent fighting the last battle that our ancestors fought. Our herding instinct, our survival instinct is so very, very strong that it really doesn't necessarily apply to the investing world of today.



Ancestral biases

"100 years ago, 200 years ago, when there wasn't abundant food, you couldn't go to the local 7-Eleven or fast-food restaurants. When you found food, you would eat it, store it, or hoard it because you would need it. But now, we find food every day. We find food at breakfast, lunch, dinner, snacks and so forth. And so, our bodies were geared to store whatever food was available because we would need it. Then, you never knew when the next meal would come. Today, people still eat just as much when they find food. But food is readily available at all times. That leads to obesity." –Kevin Freeman

- » Think about our ancestors, you know, our ancestors' generations, decades, centuries, millennia before us. **They dealt with life and death decisions every single day.**
- » **If they made a bad decision, the consequence could be death.** That was true whether dealing with sabertooth tigers, or woolly mammoths, or the evil tribe next door.

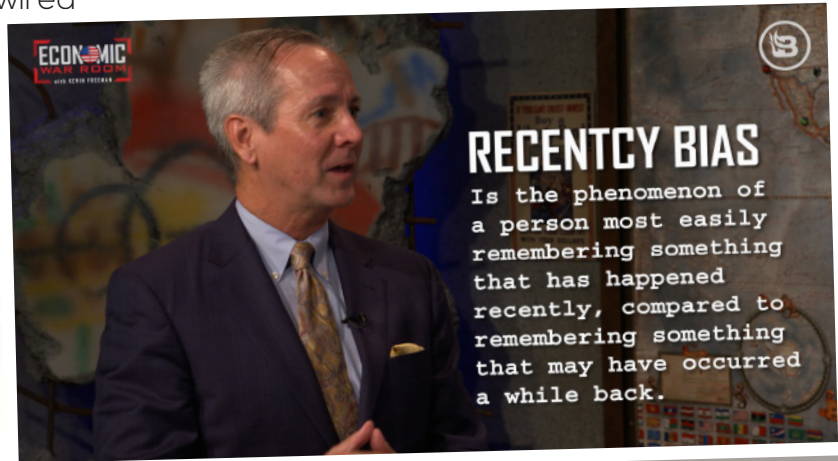
"We've seen that life expectancies have almost tripled over the past thousand years, but we still have that habits are ingrained. Sometimes we feel that we're making life and death kind of decisions every day. As a result, people are very short-term oriented. They will herd into investments that are doing well and will flee because of a survival instinct from things that are going wrong even if only temporarily. That's probably the exact opposite of what we should be doing."

–Dr. Erik Davidson

Recency Bias – We extrapolate out what is happening at the moment, believing it will continue into the future. The greed and the fear, the despondency, the exuberance just take over, we're wired for that.

Recency Bias creates bubbles.

- » Internet stock bubble.
- » Housing bubble.
- » Bitcoin bubble.
- » Gold bubble.
- » Oil bubble.



Recency Bias happens on the fear side as well.

- » Panic sets in when the Dow drops.

"I remember in early 2009, the panic level spiked when the Dow hit 6,500. People said that stocks will never be a good investment again. Of course, we've gone up over 20,000 points in the Dow Jones Industrial Average since then. It's like my old, our old boss (Sir John Templeton) used to say, 'To buy when others are despondently selling, and to sell when others are greedily buying, requires fortitude but pays the greatest potential reward.'" –Kevin Freeman

2. Investors need to come up with certain habits and tricks to overcome that which is ingrained in our personalities.

- » First, understanding the Biases- Recency bias, extrapolation bias, familiarity bias, and even home country bias

- » Next, develop a plan to recognize and overcome biases. You can use this to your advantage with ways to overcome that behavior and even profit from it.
- » Approach it like you would your health. Maybe eat out of smaller packages, a smaller plate, or commit to exercising each day
- » **Knowledge in and of itself is not enough.** Investors need to put in place these interventions or plans.

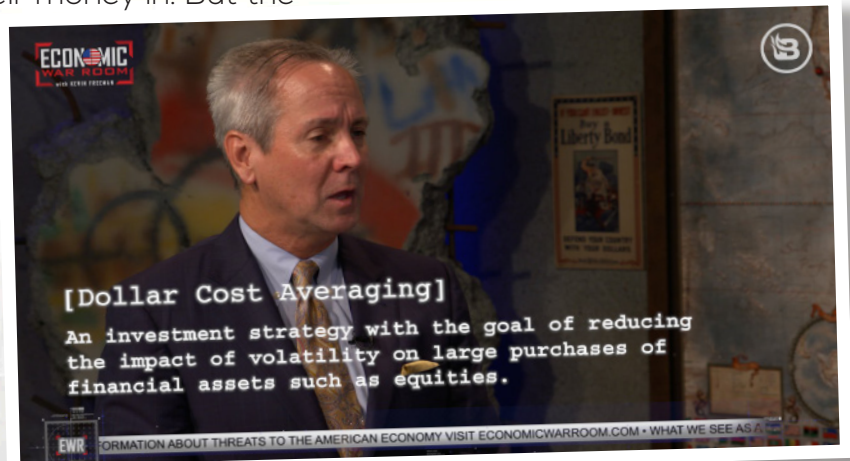
3. Ideas to counter biases in your investing:

- a. **Dollar cost averaging** – Think of dollar cost averaging as regret minimization. Regret is a big driver for us humans.

“For example, we are at all-time highs despite the long litany of worries that so many people have. These are understandable worries, whether trade related, or Brexit, or the fact that our economy has been expanding for so long or the duration of the stock market rally. A lot of people been caught on the sidelines. They’ve been waiting to put their money in. But the

market just keeps going up. When you dollar cost average, you commit to putting your money in on a pre-scheduled basis. Whether the market’s up or the market’s down, you commit. If you have a certain amount of money, maybe you divided into four equal parts and you put it in over the next year, you know, once every

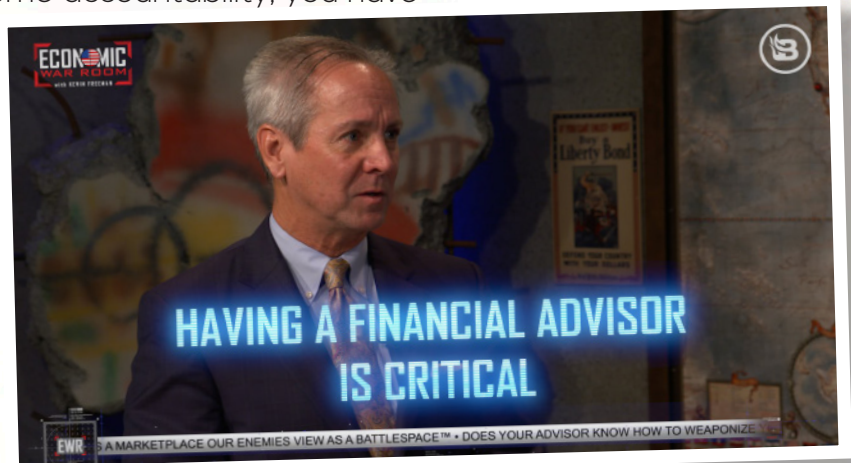
three months. If the market goes up, well, you know, then you’re happy that, you know, hey, a little bit is going up, but if it goes down, you get to buy at a lower price. But committing to that in advance is the key. So many people say, ‘Oh, I want to buy on a dip,’ and then the market dips. And there’s always a reason for the decline. So, they say, ‘I don’t want to buy now because it’s too scary.’ You’ve got to automate it, and trick yourself a little bit.”



- b. **Write things down and have goals** – Your plan should be long term and have accountability.

“As simple as it sounds, having a plan is really helpful. And we find that not just in our financial lives, but other parts of our lives as well. Writing things down, like goals, is really important. So, having that plan in place, having your financial plan, having your long-term goals is essential. For most investors, goals should not be measured in days or weeks or months. They should be measured in years and decades, and in some cases generations. To the extent that you can put that plan in place and have some accountability, you have greater odds for success.”

- c. **Use a Financial Advisor for accountability** – You want someone that can provide objectivity. Someone that is like a personal trainer. When you say, “Oh, I don’t want to really work out today or I want to have the Twinkie, you have someone to encourage you to stick with the plan.”



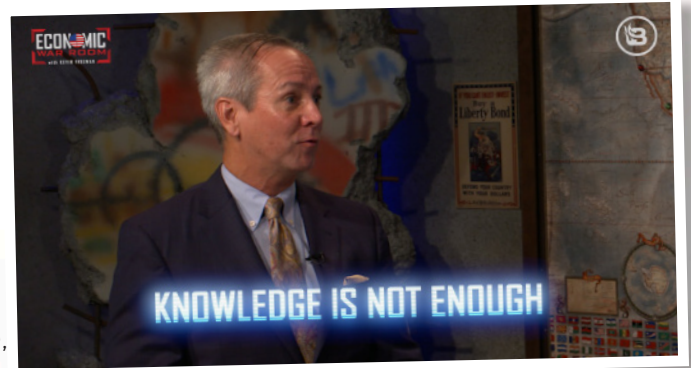
- d. **Put in place Automation** – 401K plans allow you to put aside money with every paycheck or every month.
- e. **Apply Systematic Rebalancing**

You know that the best way to make money in the markets is to buy low and to sell high. Or if you want to get really tricky, you can sell high and buy low.

The best way to do the above is through systematic rebalancing where you trim back your winners, you don’t get rid of them entirely, but you trim them back to your target levels and you redeploy those assets into those investments that haven’t been doing that well. That is a systematic way to ensure that you’re buying low and selling high. This requires some expertise to do it right.

How often to rebalance:

"A lot of people say, well, turn off the TV, never look at your portfolio, commit to not doing anything in your portfolio except every 90 days, once a quarter. So really, take a look at your portfolio. Once a quarter, I think makes good sense. Now, if your goals change or your circumstances change, then you're going to want to adjust your portfolio. But beyond that, maybe look at it with an eye towards making a change maybe once every 90 days." -Erik Davidson



- ✓ You get out of that that echo chamber and it's very helpful. And to really focus on the priorities of life and what's important.
- ✓ Remember that money is a tool to achieve goals and objectives in your life.
- ✓ You want to set your money towards those goals, towards those objectives. It shouldn't be a source of worry on a day-to-day basis regardless of what the markets are doing.

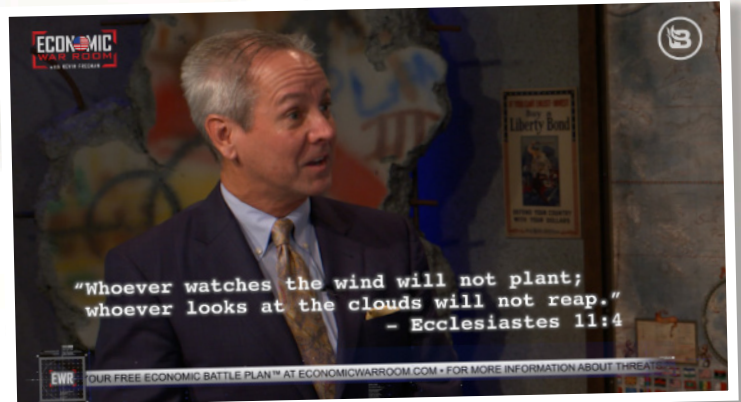
Case Study: Kevin Freeman reflects on insights from Sir John Templeton

"But I remember him telling me that when he moved out of Wall Street, out of New York, and to the Bahamas that he couldn't get information flow. In the Bahamas, there was no wire. He didn't have a Bloomberg terminal. He didn't have Internet. He didn't have any of that. And he said he had better investment results because he wasn't making decisions nearly as frequently and he wasn't responding to what he saw on the news as much." -Kevin Freeman

4. What the Bible teaches about investing.

"The Bible cautions us against greed, but it also cautions us against fear as well. There's a passage in Ecclesiastes that is an incredible verse for investors. I think it's Ecclesiastes 11. Paraphrased it says, 'If you're always looking at the at the wind and the clouds, you'll never you'll never plant your crops.' The parable of the talents is also a very important lesson. The master's wrath was towards the servant that was fearful and refused to take any risk. I think is really important for us to remember the importance of being willing to take risk. Certainly, it has to be prudent risk. **But so oftentimes as humans, it's easy to cower and to go into our caves because the world looks so scary. We are called to take risks.**" -Erik Davidson

The Bible even talks about diversification in – spreading investment to over seven or eight places.
(Ecclesiastes 11:2).



"It's interesting that the parable of the talents also has this anti-socialist aspect to it. Few people really grasp or see it. People think, 'Oh, Jesus wants to make everything even.' And they want to spread everything evenly. Actually, it's the opposite. He said, 'Take from the one who's not productive and give it to the one who is productive.' That was two thousand years ago and it's a pretty strong anti-socialist message." -Kevin Freeman

5. Biblically Responsible investing (BRI)

Biblically Responsible Investing Defined:

A methodology in which companies are first scored on positive attributes in terms of what they're contributing to society and the good that they're doing for their customers, for their employees, for society, for their shareholders.

And then there's also negative screens as well that address many of the issues that many times evangelical Christians are concerned about, whether it's alcohol and tobacco, abortion, pornography, gambling and anti-family companies.

"You know, you want to do well as an investor. But do I want to be owning these companies? When you're a shareholder, you're owning these companies. Do I want to profit from some of these activities? I know I'm willing to forego those profits. That's fine by me. And if you're a Christian, you realize that this life is only part of your whole life. And so, you can get as much money as you want in this life, but it doesn't go to the next level." -Dr. Erik Davidson



Being a values investor helps counter some bias tendencies:

- » Trying as much as possible to align one's values with one's portfolio, is a very noble path.
- » Studies have found is that when you add in this social aspect to your financial goals, it helps to counter some these behavioral tendencies as well.
- » When the market's plunging, you're not necessarily going to panic because you also know that your investments are doing some good things as well. You're not going to get excessively greedy either.
- » The holding periods of socially responsible investors are generally much longer than for the typical investor.

Why you should care?

- » Understanding your biases and having a plan will help you in your investing.
- » Impact/values investing can help overcome why we instinctively invest the way we do.
- » Owning companies that align with your values may have a place in your portfolio.



In the Economic War Room, we encourage Americans to be the “small ships that make the difference.” You cannot rely on the government or the president to solve your problems. You have to make a difference. It is up to you to help take our country back and create a voice for economic liberty.

Action Steps:

Share this battle plan with your friends your US representatives. Without free speech, or with new proposed limited free speech America is in trouble.

1. **Write down your plan now** and get with your financial advisor on how you can start applying the the principles Erik Davidson shared on how to overcome your biases. (Point 3 above, Ideas to counter biases in your investing)
2. **Consider impact investing within your portfolio**, The Timothy Plan and Inspire Investing are two groups leading in the BRI space.
3. **Some of the Nobel Prize winners are behavioral economists.** To learn more check out these books:



Misbehaving, author Richard Thaler

Nudge, author Richard Thaler

Thinking Fast and Slow, author Daniel Kahneman

4. **Send our battle plans to friends and help them understand what is really at risk!** Look at the data and footnotes.
5. **Weaponize your money toward impact investing that strengthens America.**

We need more Economic Patriots on the team! Consider what you can do now to help strengthen America or even help someone in need. Keep in touch with your congressional representatives. Choose from the list or set your own goals:

- Get others to sign up on our website (<https://www.economicwarroom.com>) and review our free weekly Economic Battle Plans™. Each of these will address critical solutions to the threats highlighted in this briefing.
- Subscribe to [BlazeTV](#) and view current and past full episodes.
- Follow, like, comment, and share on [FB](#) and [Twitter](#). Look for short video segments on [FB](#) and make sure those are shared. (We recognize these tools may be compromised at times, but if they are not filtered, they are the major platforms available to reach out to the public. (Alternatives social platforms above are under EWR consideration))
- Check out [XOTV.me](#), a new free speech video platform Economic War Room is proud to partner with. It is free, but consider making a donation to help with Economic War Room's research and production.
- Share this battle plan and our short video segments on [FB](#) or [YouTube](#) with friends. We set up the Economic War Room to be your resource for information, preparation, and mobilization.

- Do this now! Have a financial action plan based on multiple geopolitical scenarios developed now. Advanced preparation is key. Trying to figure what to do when an economic event happens is usually too late.
- Talk with your financial advisor as it relates to your savings/investments. Ensure your advisor understand the potential impact economic/geo-political scenarios could have on your portfolio. [LOOK FOR ECONOMIC WAR ROOM'S ADVISOR AND INVESTOR ONLINE TRAINING COURSES LAUNCHING SOON.](#)

Shareable Quote:

Invest in Many Ventures

Ship your grain across the sea; after many days you may receive a return. Invest in seven ventures, yes, in eight; you do not know what disaster may come upon the land. If clouds are full of water, they pour rain on the earth. Whether a tree falls to the south or to the north, in the place where it falls, there it will lie. Whoever watches the wind will not plant; whoever looks at the clouds will not reap. As you do not know the path of the wind, or how the body is formed[a] in a mother's womb, so you cannot understand the work of God, the Maker of all things. Sow your seed in the morning, and at evening let your hands not be idle, for you do not know which will succeed, whether this or that, or whether both will do equally well.

—Ecclesiastes 11 New International Version (NIV)

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The EWR Collection Deck – From Kevin Freeman

(List of resources and external links for more information)

Quick Access Links

[About Dr. Erik Davidson](#)

[Overcoming Bad Habits](#)

[Recency Bias](#)

[Home Country Bias](#)

[Biblically Responsible Investing](#)

[Dollar Cost Averaging, Rebalancing, and Other Investor Hacks](#)

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Where to Access Economic War Room

On BlazeTV

<https://get.blazetv.com/economic-war-room/>

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Our Twitter page

<https://twitter.com/economicwarroom>

Our YouTube page

https://www.youtube.com/channel/UCfsphUgquqFcp7D_NDe6J_A/videos

Our XOTV Channel

<https://xotv.me/channels/233-economic-war-room>

Link to all Battle Plans

<https://www.economicwarroom.com/battleplans>

About Dr. Erik Davidson

[] Former Wells Fargo CIO, Dr. Erik Davidson, Joins Inspire Investing To Advance Biblically Responsible Investing Movement

<https://www.inspireinvesting.com/2019/08/28/former-wells-fargo-cio-dr-erik-davidson-joins-inspire-investing-to-advance-biblically-responsible-investing-movement/>

Erik Davidson Named Chief Investment Officer for Wells Fargo Private Bank

<https://www.businesswire.com/news/home/20141215006286/en/Erik-Davidson-Named-Chief-Investment-Officer-Wells>

Q&A: Wells Fargo Wealth Manager Erik Davidson

<https://www.thestreet.com/story/10796187/1/qa-wells-fargo-wealth-manager-erik-davidson.html>

Overcoming Bad Habits

[] 9 reasons most investors lack the discipline to succeed <http://proactiveadvisormagazine.com/the-not-so-indomitable-investor/>

Does behavioral finance present undiscovered opportunity for active managers?

<http://proactiveadvisormagazine.com/does-behavioral-finance-present-undiscovered-opportunity-for-active-managers/>

“Smart Money” Shows It’s Stupidity Again

<https://www.iris.xyz/research/behavioral-intelligence/smart-money-shows-stupidity-again>

[] Behavioral Finance

<https://www.behavioralfinance.com/>

Top 10 Best Behavioral Finance Books

<https://www.wallstreetmojo.com/behavioral-finance-books/>

Recency Bias

What is Recency Bias? And How to overcome it?

<https://tradebrains.in/recency-bias/>

[] Recency Bias is Everywhere

<https://mullooly.net/recency-bias-is-everywhere/8236>

Recency Bias: A Better Way to Predict a Stock's Future

<https://investorplace.com/2019/10/recency-bias-a-better-way-to-predict-a-stocks-future/>

Is Recency Bias Influencing Your Investing Decisions?

<https://www.schwab.com/resource-center/insights/content/is-recency-bias-influencing-your-investing-decisions>

[] Tomorrow's Market Probably Won't Look Anything Like Today

<https://bucks.blogs.nytimes.com/2012/02/13/tomorrows-market-probably-wont-look-anything-like-today/>

Home Country Bias

[] Are You Overweighting International? (Download white paper by Dr. Davidson)

http://go.pardot.com/e/378322/download-9058-/2ybv62/594013997?h=G2mF9ujnoJvOUEzqIM-nH2QK7GW__DDmqqlDyxDqtrM

[] Go Ye Into All the World

<https://www.inspireinvesting.com/2019/10/22/go-ye-into-all-the-world/>

Avoid Home Country Bias

<https://am.jpmorgan.com/us/en/asset-management/gim/adv/themes/ins/home-country-bias>

An Investor's Guide To Home Country Bias

<https://www.franklintempleton.com/investor/tools-and-resources/investor-education/investor-behavior/what-is-home-country-bias>

Biblically Responsible Investing

[] Introduction to Biblically Responsible Investing

<https://www.inspireinvesting.com/2017/10/06/get-started-biblically-responsible-investing/>

Understanding BRI

<https://christianinvestmentforum.org/biblically-responsible-investing/>

Biblical Stewardship Course

<http://www.biblicalstewardship.org/>

[] Know Your Investments

[https://www.timothyplan.com/download/literature/Flyer_Know-Your-Investments_\(formerly-Hall-of-Shame\).pdf](https://www.timothyplan.com/download/literature/Flyer_Know-Your-Investments_(formerly-Hall-of-Shame).pdf)

Dollar Cost Averaging, Rebalancing, and Other Investor Hacks

What Is Dollar-Cost Averaging and When Should You Use It?

<https://www.nerdwallet.com/blog/investing/dollar-cost-averaging-2/>

[] What Is Dollar-Cost Averaging?

<https://money.usnews.com/investing/investing-101/articles/what-is-dollar-cost-averaging>

Motley Fool: What Is Dollar Cost Averaging?

<https://www.fool.com/knowledge-center/what-is-dollar-cost-averaging.aspx>

4 Benefits of Portfolio Rebalancing

<https://thechicagofinancialplanner.com/4-benefits-portfolio-rebalancing/>

How and When You Should Rebalance Your Portfolio

<https://www.fool.com/investing/how-and-when-you-should-rebalance-your-portfolio.aspx>

4 Ways to Rebalance Your Portfolio

<https://www.nerdwallet.com/blog/investing/rebalance-portfolio-strategies/>

Portfolio Rebalancing: Why, When, and How

<https://www.wallstreetphysician.com/portfolio-rebalancing-why-when-and-how/>

13 Money Hacks to Turbocharge Your Investments

<https://money.usnews.com/investing/slideshows/13-money-hacks-to-turbocharge-your-investments>

[] 6 Tips for Investors to Overcome Behavioral Bias

<https://money.usnews.com/money/blogs/the-smarter-mutual-fund-investor/articles/2017-04-19/6-tips-for-investors-to-overcome-behavioral-bias>

How to Overcome Biases When Making Decisions

<https://www.schwab.com/resource-center/insights/content/how-to-overcome-biases-when-making-investment-decisions>

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