



## Behavioural Finance for Private Banking

*By Thorsten Hens, Kremena Bachmann*

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### **Behavioural Finance for Private Banking** By Thorsten Hens, Kremena Bachmann

A complete framework for applications of behavioral finance in private banking, Behavioural Finance for Private Banking considers client needs specific to private banking like personal circumstances, objectives, and attitude to risk. This book includes the theoretical foundations of investment decision-making, an introduction to behavioral biases, an explanation of cultural differences in global business, a guide to asset allocation over the life cycle of the investment, and several case studies to illustrate how can be applied. A must-read for anyone in private banking, this book demonstrates how to satisfy client needs.

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## **Behavioural Finance for Private Banking** By Thorsten Hens, Kremena Bachmann Bibliography

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## **Editorial Review**

From the Inside Flap

"*Behavioural Finance for Private Banking* is true to its title. The book contains a wealth of practical advice to help private bankers make effective use of behavioural finance. After providing a rigorous introduction to key psychological concepts, the book offers a series of concrete steps private bankers can follow to help their clients make sensible investment decisions--decisions which reflect clients' individual psychological traits. The impact of this book on private banking will be significant and long-lasting."

—**Hersh Shefrin, author of *Beyond Greed and Fear* and *A Behavioral Approach to Asset Pricing***

From the Back Cover

*Behavioural Finance for Private Banking* provides advisors of private clients with both the appropriate framework for their task as well as a collection of practical tools to support their work.

The book begins with a brief introduction to the current challenges of the private banking industry before identifying the foundations of behavioural finance - decision theory. The book addresses the many psychological traps (behavioural biases) that are commonly observed along a typical decision-making process and in particular, how these biases differ across different cultures, something which is of vital importance for any bank offering private banking services worldwide. The authors then show how to integrate these insights into a tool of highly practical relevance - a risk profiler. The book also covers structured products - and how to evaluate them both from an expected utility theory perspective and from a prospect theory point of view. Moreover, the authors explain how to design structured, tailor-made products for private clients. The dynamics of investing are then explored by demonstrating which investor will rebalance their portfolio during the course of investments and which one will take their profits or increase risks providing a foundation for common investment advice like the age rule. The book concludes with wealth management showing how a typical advisory process should be structured to make the best use of the services the bank can offer, integrating personal asset-liability management, life cycle aspects, a risk profiler, a strategy implementation, and a well-suited documentation.

In particular, readers will learn:

- How to assess the client's risk profile;
- How to find an optimal asset allocation according to client's risk profile;
- Which investment products are optimal from client's perspective;
- When it is wise to rebalance the portfolio during the course of investments, and when it is better to take the profits or to increase the risks;
- The foundation of some commonly used rules of thumb and when are they wrong;
- How to adjust the asset allocation over the life cycle

A balance is made throughout the book between written explanations, examples, and case studies, with the use of some mathematics to deepen understanding. With a unique focus on client advisory as opposed to asset pricing, *Behavioural Finance for Private Banking* provides valuable insights and will enable practitioners to improve service quality at every step along the wealth management process.

About the Author

**Thorsten Hens**, born in Germany 1961, is SFI Professor of Financial Economics at the University of

Zurich's Swiss Banking Institute, a Fellow of CEPR and Adjunct Professor of Finance at the Norwegian Business School in Bergen. He studied at Bonn and Paris and held professorships in Stanford, Bielefeld and Zurich. Since 2007 he is the Director of the Swiss Banking Institute and since 2003 the scientific coordinator of NCCR-Finrisk. His research areas are -- among others -- behavioural and evolutionary finance. Thorsten Hens is ranked among the top 10 economics professors in the German spoken area (Germany, Switzerland and Austria). In researching how investors make their decisions, Professor Hens draws on work in psychology and applies insights from biology in order to understand the dynamics of financial markets. His consulting experience includes application of behavioural finance for private banking and evolutionary finance for asset management.

**Kremena Bachmann**, born in Bulgaria in 1976, currently holds a postdoctoral position at the University of Zurich's Swiss Banking Institute. She received an MS in Finance from the University of St. Gallen (HSG) and a PhD in Finance from the University of Zurich, where she held a research position at the Institute for Empirical Research in Economics. Her research interests are behavioural finance and investment management. Mrs. Bachmann worked on different projects for Credit Suisse Asset Management and Bank Wegelin. Her teaching experience includes lectures on behavioural finance and wealth management at the University of Zurich and the Swiss Training Centre for Investment Professionals (AZEK).

## **Users Review**

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