Wade & Robertsons Advisory Services Case Scenario

Wade & Robertsons Advisory Services (W&R) is a wealth management firm promising better returns on investments than any other investment management firm. Andrew Wade, President, and Ty Robertsons, chief investment officer are the founding members of the company. Both Wade and Robertsons encourage the use of fundamental analysis and the behavioral process of analyzing its clients for active management of their accounts. Sarah Baker is the Research Head at the firm and meets with Robertsons to discuss some of the other tools that can be applied to their research approaches. Baker remarks, "I am hesitant about using investor type classification models due to their many limitations." She believes that technical analysis would complement their fundamental analysis approach.

Robertsons receives an email from one of his clients – Donna Rice, investment head of Agean Industries Employees' Pension Fund, (AIEP) who states her dissatisfaction over the international diversification of the pension fund's asset allocations. She would like to retain higher concentration in domestic assets because the local markets, according to her are easy to comprehend. Robertsons speaks to the portfolio manager of the pension fund and discovers that the client has also been excessively trading. He quickly schedules a meeting with Rice to evaluate different options based on the pension fund's IPS.

Robertsons next meets with Farah, a portfolio manager at the firm to discuss a high-net-worth client Gary Tylor who is dissatisfied with the investment results of his portfolio.
Gary Tylor founded a catering business two decades ago. He has worked single-mindedly to make his business a success. Tylor manages his investment portfolio and remains very "hands-on" about the asset allocations he would like to maintain. "This has led to his portfolio being less diversified portfolio than it otherwise should have been," explains Farah. Lately Tylor has been asking Farah about which securities to buy and sell. Farah tells Robertsons that Tylor prefers high-risk investments and is known to be a quick decision-maker; as a result, his portfolio has a high turnover rate relative to other investors.

Farah has another client – a university endowment fund (UEF) who would like to add HUW Technologies to the investment portfolio. The investment committee head, Sunny Bedi expects the stocks to earn higher returns and asks Farah to advise them on when to buy the stock. Farah believes that HUW's stock will continue to rise in the next six months, after which there will be a correction that will reduce the increase to the long-term average. Her advice is to wait until the anticipated correction occurs. Farah also tells Bedi that deferring the investment is important because she has checked with the analysts covering the HUW stock and they share her opinion.

1. Is Baker's statement *most* likely correct about using behavioral classifications for individual investors?
    A. Yes, because individuals require a general treatment as they age.
    B. Yes, because individual investors primarily have emotional biases and not cognitive.
    C. Yes, because individuals are unpredictable and act irrationally at times.

2. Rice *most* likely displays which behavioral biases?

    A. Home bias and overconfidence.
    B. Gambler's fallacy and social proof.
    C. Loss aversion and representativeness.

3. Given Tylor's behavioral investor characteristics, the most effective way to advise him will include:
    A. educating the client because of predominant cognitive biases.
    B. providing a "big picture" advice without details such as standard deviations and Sharpe. ratios.
    C. taking control of the situation.

4. Given Farah's behavioral biases, the *best* way to address them will include:
    A. asking other market participants about the stock's future prospects and observing past trends.
    B. seeking non-contrary opinions and using supportive data to project the stock's future growth.
    C. using consistent data, evaluating previous forecasts, taking a systematic approach, and seeking contrary facts.