## Acadia Money Managers Case Scenario

**QUESTION HAS THREE PARTS (A, B, C) FOR A TOTAL OF 19 MINUTES.**

Acadia Money Managers, Inc. (AMM) is a boutique investment management firm founded in 1980, with over $2.0 billion in assets under management. The firm is a registered investment advisor with the SEC. Marcus Cole, an investment advisor with the company, classifies all investors into one of four Behavioral Investor Types (BITs). Cole is meeting with two new clients – Alisha Boe and Justin Foley. Boe 45, together with a college classmate, set up a successful, fast-growing business of developing interactive content for digital publishers some years ago. She is strong-willed and a fierce competitor who claims her employees are not "another brick in the wall."

During the meeting, Boe discloses that she manages her portfolio without seeking investment advice from financial advisors. She "trusts her gut" when making investment decisions and does her own research. Boe has managed to hold on to positions even when the market changed. However, as losses have accumulated, Boe has decided to meet with Cole after seeking advice from a few close friends. After administrating a risk tolerance questionnaire, Cole ranks her from medium to high on the risk tolerance scale. Cole discusses with Boe her return and risk objectives, along with constraints, and suggests an asset allocation suitable for her. She, nevertheless, expresses her reservations about it.

**A.** **Determine** the BIT *most likely* to be assigned to Boe. **Justify** your response.

**5 minutes (Answer Part A on the template provided)**

Cole meets with Justin Foley, 54, a managing director at CMI, a chemical manufacturing company. Foley has no children and would like his investment portfolio to provide for him and his wife Susan after he retires. He shows Cole his present retirement portfolio allocations based on the highest-performing asset classes in his defined contribution plan. Foley's allocations are given below:

**Exhibit 1**

| Investments | Fund Allocations |
|---|---|
| Government Bonds | 25% |
| Stocks | 25% |
| Emerging market sovereign bonds | 25% |
| Emerging market large-cap stocks | 25% |
| Sharpe ratio | 0.6 |

After evaluating Foley's risk/return objectives and his risk tolerance, Cole suggests two other allocations. All allocations have Sharpe ratios of about 0.6. Cole's recommendations are shown below:

**Exhibit 2**

| Asset Classes | Portfolio I* | Portfolio II** |
|---|---|---|
| Government Bonds | 10% | 15% |
| US stocks | 40% | 35% |
| Emerging market equities | 35% | 35% |
| Emerging market sovereign bonds | 15% | 15% |

*,** Based on the same highest-return asset classes of Foley's defined contribution plan.

However, Foley is not convinced and wants to maintain an equal stock/bond allocation. He says it is difficult for him to accept if one asset class was to beat the other.

**B.** **Determine** the behavioral biases *most likely* exhibited by Foley in choosing his retirement portfolio asset allocations. **Justify** your response.

**6 minutes (Answer Part B on the template provided)**

Cole reads a research report on an e-commerce company, Blaze, covered by Cyrus Cass, an analyst of AMM. Blaze is included in Cole clients' portfolios. Based on the proprietary valuation model, Cass gives a negative rating to the e-commerce company. He rigidly adheres to the output of the proprietary model and supports its efficiency in forecasting cash flows while discussing the company's prospects with Cole. Cass states, "Because complex models use extensive data, they can be more helpful in understanding a company than any other analysis."

While observing the company's sales and earnings per share growth over the past 10 years, Cass has concluded that its growth rate will continue to decline in the future. Cass tells Cole that he has known about the company's growth prospects as less than average because the company's CEO had made a much-publicized personal investment in alternatives that turned out to be unprofitable. Cass had read about the CEO's investments via social media. Supported by the additional information, Cass was more confident with the forecasted growth rates. As a result, he lowered the expected earnings growth rate and increased its volatility. Cass has included this additional information about the chief executive in the report.

**C.** **i. Determine** Cass's *likely* bias(es) for adhering to the proprietary valuation model for his research approach. **Justify** your response.

**ii**. **Discuss** Cass's *likely* flaws and **identify** his *likely* bias(es) in his approach of using additional information about the CEO in the report.

**8 minutes (Answer Part C on the template provided)**

**Template for Part A**

| **Determine** the BIT (PP, FF, II, AA) *most likely* to be assigned to Boe. **(circle one)** | | | |
|---|---|---|---|
| **Passive Preserver** | **Friendly Follower** | **Independent Individualist** | **Active Accumulator** |
| **Justify** your response. | | | |
| | | | |

 

**Template for Part B**

<table>
<tr><td colspan="4">Determine the behavioral biases most likely exhibited by Foley in choosing his retirement portfolio asset allocations.<br> (circle one) </td></tr>
<tr><td>Framing and regret biases</td><td>Overconfidence/ and home biases</td><td>Familiarity and loyalty effects</td><td>Hind-sight and endowment biases</td></tr>
<tr><td colspan="4">Justify your response.</td></tr>
<tr><td colspan="4"></td></tr>
</table>

**Template for Part C**

<table>
<tr><td colspan="3">i. Determine Cass’s likely bias(s) in adhering to the proprietary valuation model for his research approach.<br>(circle one)</td></tr>
<tr><td>Availability bias</td><td>Self-attribution bias</td><td>Illusion of control</td></tr>
<tr><td colspan="3">Justify your response.</td></tr>
<tr><td colspan="3"></td></tr>
</table>

| | |
|---|---|
| **ii.** | **Discuss** Cass's *likely* flaws and **identify** his *likely* bias(es) in his approach of using additional information about the CEO in the report |
| **Cass Flaw #1** | |
| **Cass Flaw #2** | |
| **Cass bias 1** | |
| **Cass bias 2** | |

 