

# Cognitive Bias and Advisor Technology



Let's rewind to June of 2019.

Did you find yourself rooting for the Toronto Raptors in the NBA Finals, even if you hadn't ever seen them play before or weren't a particularly big basketball fan?

If you did, you were experiencing the Bandwagon effect. Bandwagon fans are well-known in sports; it's when people who aren't fans of a team start cheering for that team because it's the popular thing to do. In other words, it's doing something because people around you are doing it.

If you've ever been a bandwagon fan, then you've experienced a form of cognitive bias.

Cognitive bias is everywhere and can even influence how you choose advisor technology.

## Defining Cognitive Bias

Cognitive bias refers to systematic ways in which the context and framing of information can influence an individuals' decision-making.

Biases lead to judgment and decision-making that deviates from rational objectivity—as you might expect, if you have any experience working with people making financial decisions.

As an advisor you should be well-versed in cognitive bias in the clients you serve. The most common types for investors are these six:

- Loss aversion
- Endowment effect
- Sunk cost fallacy
- Familiarity bias
- Status quo bias
- Bandwagon effect

Additionally, many investors grapple with Peak Recency Effect and Confirmation Bias.

Even if you don't realize it, you've been helping others deal with biases like these each and every day as an advisor.

But did you realize that when it comes time to purchase new technology, you can fall victim to them yourself?

It's important to remain objective and keep yourself aware of biases you might encounter during your buying decision.

## **Cognitive Bias and Advisor Technology Purchasing Decisions**

When you encounter decision-making of any kind, you might be affected by cognitive biases of your own, but when it comes to advisor technology, we've identified a few that advisors may experience more often than others.

### **Loss Aversion**

You don't want to replace your legacy tech because of a fear of change, so you keep using it even though it limits your business.

### **Sunk Cost Fallacy**

You've already been paying for your tech for 10 years, and you don't want to switch because it would be like throwing away all that money—even though you've already spent it, can't get it back, and are continuing to lose money by staying with your tech.

### **Familiarity Bias**

You like a tech solution that doesn't fit your needs because you have a friend that uses it or you like the sales rep you spoke with at a recent conference. Simply put, you're familiar with it so you justify using it because you don't know what else is out there.

### **Bandwagon Effect**

Everyone on social media is talking about a certain tech solution, so you need it too or else you'll be missing out.

### **Peak Recency Effect**

You judge an experience based on your most intense feelings about it, or how you feel when it's over, rather than basing your perception on the experience as a whole. For example, advisors may get on a high after a demo of a new system, but not take into account how consistent their experience would be throughout the fintech relationship.

### **Confirmation Bias**

You only pay attention to information that confirms your beliefs and ignore any opposing opinions. In some ways similar to Familiarity Bias, this bias takes the behavior up a notch to willful ignorance. Let's say you had one positive experience with a tech company at a conference kiosk, and now you only listen to people who have good things to say about them while brushing aside your friends who have valid criticisms.

When looking for new tech, it's important to take all sides into account so you can make educated decisions about what's best for your firm. Understanding your biases is the first step.

## **How Orion Helps You Overcome Cognitive Bias**

When you need assistance with purchasing a new advisor technology platform, you need expert guidance to feel confident in your decision.

Here at Orion, we're dedicated to making sure that when independent advisors choose us, you choose a consultative partner who's your best fit in both the

technology solutions we offer and the service-oriented culture of our team.

Here are just a few ways we grow with you as your business changes and adapts over the years, so you don't have to worry about things like loss aversion and sunk costs.

### **We Operationalize Your Vision**

Our comprehensive suite of innovative advisor technology can propel you to new levels of success from wherever you start. The stats show that using Orion makes firms more efficient. Eighty-five percent of our surveyed advisors said they complete trading tasks up to 25% faster with Orion.

### **We Grow as You Grow**

Our innovative culture supports new technology like Event-Based Notifications that disrupts the status quo so you don't find yourself in a situation where you're paying for technology that doesn't stay updated over the years and leaves you regretting the time and dollars you've invested.

### **Onboarding Process**

Most portfolio management solutions will give you an account manager during your implementation, but with Orion you get experts in every area in your corner. When you need billing training, a specialized billing team is there for you; it's the same for reporting, compliance, and on down the list. There's no shortage of ways to maximize your investment in your Orion experience.

### **Ascent Annual User Conference**

In addition to on-demand support by phone, online chat, and email, we also host in-person events like our Ascent user conferences. In 2020, you'll have the opportunity to network with other Orion advisors and build long-lasting connections with your peers in Scottsdale. Sign up here for Ascent 2020, held August 31 – September 3.

## **Effective Decision Making for Technology**

# Purchases

Above all else, a technology decision is one that is intensely personal. Begin by looking at your firm and your needs. Don't benchmark what you're looking for in technology against what others believe they need.

Additionally, recognize ways you might be biased toward one system over another and identify if those are due to true feature differences, or subjective feelings. If they're feelings-based, what can you do to move your decision making to a more objective process?

One way to guard against a subjective selection is to involve your team in your decision-making to get everyone on board so you know you are choosing tech that matches your whole firm's needs.

Lastly, do your research, but don't put off making a decision out of fear of the unknown.

When you have a consultative partner at your side, you can confidently approach even the largest implementation to a new platform. Schedule a demo with Orion to learn more about our process.

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