Behavioral Finances

Module 5

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Here are the key points we will cover in Module 5:

1. The Economic Way of Thinking
2. What You Value Matters
3. Patience and Discipline are Virtues
4. How Biases Affect Our Decisions
5. Beyond the Bet - Choices Have Consequences

01

The Economic Way of Thinking

Money has power, so how will you choose to use that power and influence?

This is Personal Finance.. What does that have to do with Economics?

Economics is the study of how humans make decisions in the face of scarcity. These can be individual decisions, family decisions, business decisions, or societal decisions.

If you look around carefully, you will see that scarcity is a fact of life. Scarcity means that human wants for goods, services, and resources exceed what is available. Resources, such as labor, tools, land, and raw materials are necessary to produce the goods and services we want but they exist in limited supply.

This is Personal Finance.. What does that have to do with Economics?

At any point in time, there is only a finite amount of resources available. The existence of scarcity forces us to make decisions.

Watch **this video** to learn more about scarcity. It has an interesting question at the end. Ask yourself what would you do? Is it rational?

Activity Option

Use this time to complete an activity related to the Economic Way of Thinking. Work through questions to help understand this concept better.

See presentation notes or Canvas for links.

02

What You Value Matters

Do your work up front and trust the process. Be patient with your strategy and progress.

Fascinating? Yes. Important? Even more so.

“Money is everywhere, it affects all of us, and confuses most of us. Everyone thinks about it a little differently. It offers lessons on things that apply to many areas of life, like risk, confidence, and happiness. Few topics offer a more powerful magnifying glass that helps explain why people behave the way they do than money. It is one of the greatest shows on Earth.”

Morgan Housel, The Psychology of Money

The Effect

Finance often consists of those deemed “the smartest” … but is there any evidence it has made us better investors?

Does trial and error teach us to become better with our personal finances? Are we less likely to bury ourselves in debt or save for a rainy day?

The Effect

Engineers can determine the cause of a bridge collapse because of what?

Physics isn’t controversial, it’s guided by laws.

Finance is different. It’s guided by people’s behaviors. How I behave might make sense to me, but look crazy to you.

Your Experience with Money is Not Universal

"People do some crazy things with money. But no one is crazy. They just have different backgrounds and experiences."

Morgan Housel, The Psychology of Money

The Effect

We think about and are taught about money in ways that are too much like physics (rules and laws) and not enough like psychology (with emotions and nuance).

Everyone has their own mental model of how money works, based on when, where, and how they grew up.

The Effect

A student whose parent is a hedge fund manager and another whose family is in survival mode will view every conversation about money through different lenses.

It about how we interpret RISK, REWARD, and ENOUGH.

On the next slides, you're going to learn about two individuals who let their emotions and habits shape their financial decisions.

Wifi Tech Genius - Wealth Isn't Always What It Seems

A young man, extremely intelligent and tech-savvy, made hundreds of millions in his 20s during the dot-com boom. He had incredible timing and opportunities.

He lost everything though due to: high risk investments, overconfidence and emotional decision-making, and lavish spending and speculativ bets.

Ronald Read - The Janitor Who Died a Millionaire

He worked as a gas station attendant and janitor in Vermont. He lived modestly, wore old flannel shirts, and drove a secondhand car. He secretly invested small amounts in blue-chip dividend stocks over decade.

Died in 2014 with a net worth of over $8 million. He left millions to his local library and hospital.

Behavioral Finance Insight From These Stories

- People often confuse being rich (having money now) with being wealthy (having long-term security).
- Ego and impulse spending can destroy wealth - even among the brilliant and successful
- Wealth-building is about discipline, patience, and consistency
- You don't need a high income to become wealthy - you need the right behavior.

What You Value is What You Spend Your Time On.

Thinking Prompts:

1. Think about what you spent money on in the last month. What does that say about what you value most right now?
2. If someone looked at how you spend your time and money, what would they learn about your priorities? Do those priorities match what you want for your future?

Activity Option

NGPF PLAY: The Bean Game

Follow the instructions for this game to explore how your personal experiences and values affect your money management decisions, particularly when resources are tight.

This activity is from NGPF's Activity PLAY: The Bean Game

What do you value?

Reflection from the game.

The decisions you made in the Bean Game were driven by your personal values and beliefs. Read **this article** to learn about four types of "life values" and how they can impact your habits around money.

This resource is from NGPF's Lesson Your Values and Money

Values in Money Management

How you use your money often reflects what you value most.

- Some people value security → they save more
- Some value freedom → they spend on experiences
- Some value status → they buy brand-name items

There's no "right" or "wrong" .... Just different priorities

Up next: Take a short values and money management quiz to see what your spending style says about you!

Reflection Question #1

How can a person's values and experiences affect how they make financial decisions?

A. Personal values and experiences are generally the same for most people across the board, which is why we all spend and save similarly
B. Personal values and experiences fluctuate every few weeks, which can cause someone to spend and save in dramatically different ways over the course of a year
C. Personal values and experiences can change depending on what type of bank account you have, which determines how you spend and save your money
D. Personal values and experiences differ based on each person, which explains why people make different decisions around money

Reflection Question #2

How might scarcity of financial resources impact decision-making?

A. When money is tight, people cannot live full or meaningful lives
B. When money is tight, people make bad financial decisions weekly or even daily
C. When money is tight, people rely on their values to make tough choices
D. When money is tight, people tend to prioritize wants over needs

Reflection Question #3

What are social values, as they pertain to money?

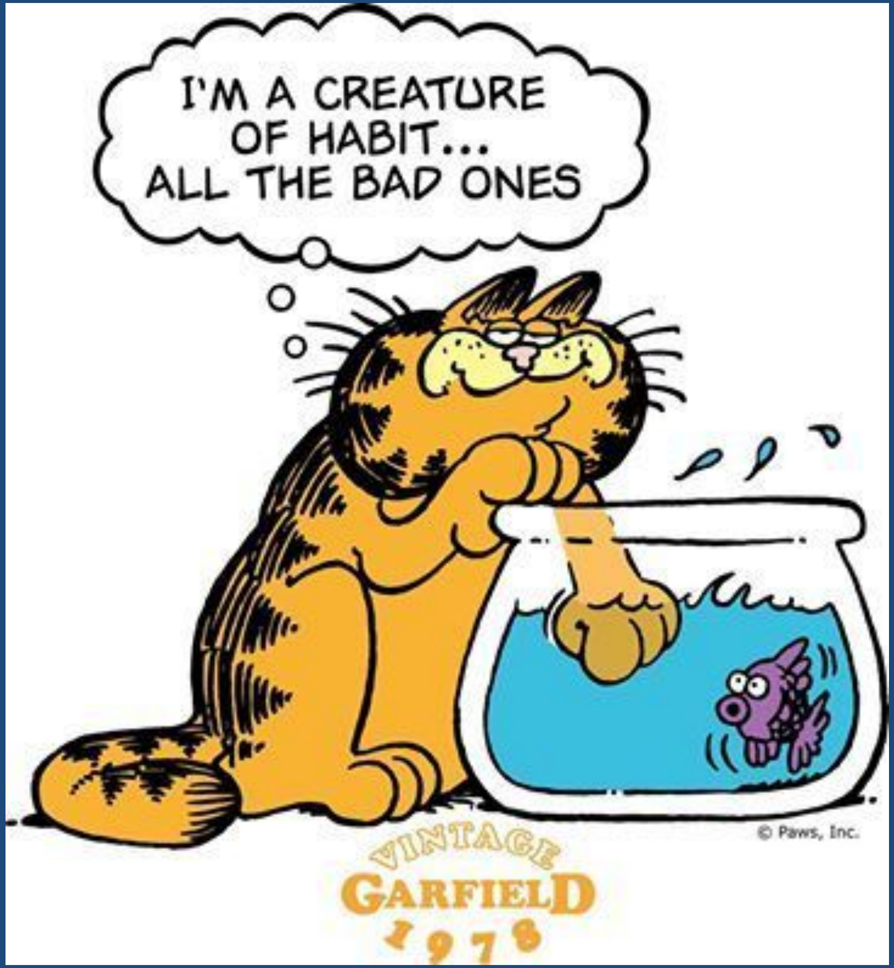
A. How you, personally, care and think about finances
B. How your family, friends, and community members impact your feelings about money
C. How companies and advertisements make you feel about money
D. How banks and other financial institutions treat you and your money

03

Patience & Discipline Are Virtues

Do your work up front and trust the process. Be patient with your strategy and progress.

Isn't this the truth…



Habit vs. Goal

A Habit

Something you do regularly

Has no end point (ex: saving $10 every week)

Focused on the process

A Goal

Something you want to achieve in the future.

Has an end point (ex: save $500 for a new phone)

Focused on results

Habit or Goal?

I will set aside items in online shopping carts for a week before I purchase them to make sure that I really need them.

A. Habit

or

B. Goal

Habit or Goal?

I will automatically have 10% of my paycheck deposited into my savings account on payday.

A. Habit

or

B. Goal

Habit or Goal?

I will reduce my expenses by 10% over the next 6 months.

A. Habit

or

B. Goal

Habit or Goal?

I will make my lunch and bring it to school so I don't have to buy food in the cafeteria.

A. Habit

or

B. Goal

Habits Are Important

But why more now than we can imagine?

Habits influence our behaviors - often unconsciously - but significantly shape our lives

Establishing good habits can help reduce mental effort, increase efficiency, and support long-term well-being.

Habits are cognitive shortcuts - repeated behaviors tied to context - that trigger automatically, helping people meet goals with minimal conscious effort

What is one small money habit you already have (or could start) that would help you reach a future goal, like saving for something you want, avoiding debt, or building financial freedom?

Power of Habits

Next, watch **this video** on habit loops.

Consider what the steps are in the process of habit formation and the role each step plays in creating habits in our lives?

This resource is inspired from NGPF's On-Demand Training The Power of Habit

Read & Share

Time to reflect on your own habits.

On the next slide, you will choose a path you want to take: to change an existing habit OR create a new one. You will click on the resource that corresponds to the decision you made.

Then, be prepared to share the habit you are committed to either changing or forming.

This resource is inspired from NGPF's On-Demand Training The Power of Habit

Select Which One You Want

Change a Financial Habit

Use this flow chart to change an existing financial habit.

When completed, fill in this statement: When [cue], I will [routine] because it provides me with [reward].

Click here: FLOW CHART

Develop a New Financial Habit

To achieve big goals, start with small habits

Click here for ARTICLE LINK

This resource is inspired from NGPF's On-Demand Training The Power of Habit

04

How Biases Affect Our Decisions

Poor behavior leads to poor results. Our biases can get in the way if we don't recognize and try to anticipate them.

Why is it so difficult to save?

Why is it so difficult to save?

- Spending feels good now (instant gratification)
- Advertising & social media pressure us to buy things
- Unexpected expenses (car repair, phone breaks, etc.) eat into savings
- Low income or high costs make it harder to set money aside
- Saving feels "invisible" compared to spending

Saving takes planning and discipline, but even small steps make a big difference over time.

Blame Your Biases

Struggling to save money?

Cognitive biases are mental shortcuts our brains use to make decisions quickly. They can be helpful (save time & energy) … but also misleading.

Biases can cause us to:

- Focus too much on the present
- Follow what others are doing
- Ignore important information

In money management, biases often lead to spending too much or saving too little.

Question Prompt:

Your personal finance teacher asks a multiple choice question as part of a fun whole-class game you're playing. The overwhelming majority of your classmates raise their hands for answer choice B. However, you are pretty confident the answer is D. Do you change your mind and pick answer B or stick with your answer, D? Explain.

Question the Herd Bias

This is the tendency to follow what everyone else is doing, even if it doesn't make sense. "If everyone else is buying it, it must be right!"

Why it happens:

- We want to fit in and feel safe
- We assume the group knows something we don't

In money decisions:

- Buying a trendy stock just because friends are buying it
- Spending money on the latest thing to keep up
- Panicking and selling investments when everyone else does

The herd is often wrong! Following the crowd can lead to bad financial choices.

Question Prompt:

Can you remember a time when you followed the crowd with money (buying something because everyone else did, going along with a trend, etc.)?

How did it turn out? Was it a good choice or did you regret it later?

FOMO

Our relationship with social media.

Another cognitive bias that is very similar to herd mentality is FOMO, or the Fear of Missing Out. Watch **this video** to learn more about it and then answer the following questions.

1. Describe a time when you have chosen to do something because of FOMO.

2. What is one realistic step you can take to combat FOMO from social media?

This resource is from NGPF's Lesson Your Brain and Money

Reflection Question #1

Due to FOMO, many people are...

A. Spending money they don't have and going into debt
B. Making purchases that align with their values
C. Quitting social media for good, costing companies billions of dollars
D. Saving unprecedented amounts of money for their futures

Reflection Question #2

One realistic way to combat the influence of herd mentality and FOMO is…

A. Immediately delete your social media profiles
B. Close all of your credit card accounts
C. Follow a budget and align your spending with your financial goals and priorities
D. Put away half of your paycheck in a savings account

Reflection Question #3

Which of the following BEST demonstrates herd mentality?

A. Sophie sees an ad for a pair of shoes on Instagram and decides to buy them
B. Will really likes an android phone his dad has but chooses to buy an iPhone because his friends all have one
C. Charlie decides to buy a jacket they saw a friend wearing that they really liked
D. Juan is in a department store, sees a shirt he likes, and decides to buy it

Confirmation Bias

This is the tendency to look for information that proves what we already believe. We ignore evidence that goes against our opinion.

Why it matters in money:

- You only read articles that say your favorite stock will rise
- You convince yourself that buying something expensive is “worth it” because you find reasons to justify it
- You listen to friends who agree with you and tune out those who don’t

The risk:

- Makes it hard to see the whole picture
- Can lead to bad financial decisions based on partial info

Question Prompt:

Think about a decision you’ve made.....

Have you ever wanted to buy something and then only looked for reasons that said it was a “good choice”?

What information might you have ignored that could have changed your mind?

Overconfidence Bias

This is believing you know more than you really do. You're too confidence in your own abilities or predictions.

Why it matters in money:

- Thinking you can "beat the market' without much knowledge
- Making risky bets because you're sure you'll win
- Ignoring advice or research because you think you already know best

The risk:

- Overestimating your skills can lead to big losses
- Confidence without preparation = costly mistakes

Question Prompt:

Think about a time in your life....

Have you ever been too confident about a decision (money, school, sports, etc.)?

What happened? Did things turn out how you expected, or did you learn a lesson?

Loss Aversion

People feel the pain of losing more strongly that the joy of gaining the same amount. Watch the video to the left to learn more.

Example: Finding $10 feels good, where losing $10 feels twice as bad.

Losses can feel about 2x more powerful than gains. This bias can cause us to avoid risks, even when they make sense and hold onto things just to avoid losing them.

Loss Aversion Strategies Businesses Use:

Free Trials / “Don’t Lose Access”	Streaming services or apps let you try for free & then say you don’t want to “lose” what you’ve been using
Limited-Time Offers	“Sales ends at midnight!” → creates fear of missing out (FOMO)
Scarcity Messages	“Only 2 left in stock” → people rush to buy so they don’t miss out
Loyalty Rewards Programs	Customers don’t want to lose points or status they’ve already earned
Warranties & Return Policies	Framed as protection against losing your money or product value.
“Act Now” Discounts	“Save $50 if you order today” → framed as losing savings if you wait

Loss Aversion Reflection:

1. Have you ever bought something because you didn't want to "miss out" on a sale or limited-time deal? How did you feel afterward?
2. Think of a time you held onto money, an item, or even an opportunity because you didn't want to lose it. Did that choice help you, or hold you back?

How Not to Invest & Avoid Costly Mistakes

"The best investors spend more time avoiding mistakes than chasing brilliance." - Barry Ritholtz, How Not to Invest

BEHAVIOR FIRST, KNOWLEDGE SECOND

Many believe investing is all about stock picking and market timing, but emotions and discipline matter most..

- financial habits matter, not just facts (ex. avoiding lifestyle creep)
- how to recognize emotional triggers (fear, greed, FOMO) that influence $$ decisions

Frequent mistakes consist of overtrading, chasing trends, ignoring costs, letting ego drive choices. You need to know:

- decision hygiene - “What can I do to reduce the odds of regret?”
- reflection over reaction - pause before making $$ decisions

AVOIDING MISTAKES IS A STRATEGY

SIMPLICITY WINS!

Complexity often disguises risk. The best portfolios are boring!!

- being consistent beats being clever
- trust simple, repeatable systems - like saving 10% of every dollar they get

Financial strategies are sold to the public without considering time horizon, risk tolerance, or lived reality.

- There's no one-size-fits-all advice
- Have students explore their own financial values, needs, and goals

YOU ARE NOT THE AVERAGE INVESTOR

Psychological Tricks

In **this video**, you will learn about three psychological tricks to help you save money.

Pay particular attention as you will be asked to answer a few questions and then identify which of the three strategies you can use in your life on the following slides.

This resource is from NGPF's On-Demand Training The Psychology of Saving

Poll

Each of the three savings strategies in the video entailed a change in _____.

A. mindset
B. environmental cues
C. willpower

Answer

Each of the three savings strategies in the video entailed a change in ______.

Environmental cues

Your savings behavior isn’t a question of how smart you are or how much willpower you have. The amount we save depends on the environmental cues around us. Recall the example of the people who budgeted better when told their weekly income instead of their monthly income.

Question

A new year, a birthday, retirement are all examples of ____ when your motivation to act will increase.

Answer

A new year, a birthday, retirement are all examples of _______ when your motivation to act will increase.

Transition moments

In psychology, it's called the "fresh start effect." Whether it's the start of a new year or even a new season, your motivation to act increases.

Poll

What's the best strategy if you want to save more of your tax refund?

A. Commit to save a certain percentage when your refund check arrives
B. Commit to save a certain percentage of the refund before you file your return
C. Commit to save a certain percentage after you finalize your budget in the month the refund check arrives

Answer

What's the best strategy if you want to save more of your tax refund?

Commit to save a certain percentage of the refund before you file your return.

Making a commitment to your future self changes the decision-making environment and increases the chances that you will save more of that tax refund.

Activity Option

NGPF PLAY: Roll with the Market

Use this time to complete an activity related to risk and the market. Explore how emotions may impact your bottom line when investing. It will allow students to experience the emotions humans have when we gain from, lose, or miss out on investment opportunities.

This activity is from NGPF's PLAY: Roll with the Market

05

Beyond the Bet: Impact of Choices

Understanding problem gambling and sports betting awareness as it relates to behavioral finances.

Impact of our Choices

Every day, we make choices about how we earn, spend, save, and manage our money. Some choices help us build a better future — and others can have lasting financial consequences.

Financial Choice	Short-Term Outcome	Long-Term Consequence
Spending more than you earn	You get what you want right away	Debt, stress, no emergency savings
Ignoring loan payments	Temporary relief	Lower credit score, higher future interest
Starting to save young	Sacrifices a little fun now	Major long-term gain through compound interest
Gambling to win money fast	Excitement, maybe a win	Likely loss, debt, habit formation
Budgeting and tracking your spending	Takes time and effort	Control, confidence, long-term stability

What is Problem Gambling?

- When betting behaviors cause harm to finances, health, school, or relationships – and the person finds it hard to stop
- Key characteristics:
  - Obsessively thinking about betting
  - Chasing losses
  - Lying to others about gambling
  - Borrowing money to keep gambling
  - Gambling with money needed for essentials

Problem gambling is about loss of control, not the amount of money spent.

How Gambling Behavior Escalates

- Occasional risk → thrill from winning → frequent betting
- Lose money → chase losses → take bigger risks
- Emotional consequences: stress, guilt, anxiety, denial
- Financial consequences: debt, poor credit, dropped classes, job loss

Activity Implementation: NCEE Identifying Problem Gambling

- Choices can have consequences, we know that!
- This activity shows what happens when our choices start to create problems for us.
- Having a strong background in economics helps when you are weighing the costs and benefits of a decision.
- In Beyond the Bet, Identifying Problem Gambling, your students will learn what happens when your choices start to create problems for you when it comes to gambling.

See notes below or Canvas for links.

Why is Sports Betting so Popular?

- In 2024, over 70% of college-age adults reported seeing sports betting ads online or during televised games.
- Most betting apps use:
  - Free bet promotions
  - Flashy graphics like video games
  - Social leaderboards and challenges

Why do you think sports betting is being marketed like gaming or entertainment?

Why Sports Betting is Riskier Than It Looks

- Feels casual – but it's still gambling
- Odds are set by algorithms to favor the house
- Apps can make it easy to lose track of spending
- Micro-bets (ex: "Will the QB throw a pass next play?") create addictive feedback loops
- Students may feel more "in control" because they know sports – but that's overconfidence bias

The house always wins – not because you're not smart, but because the system is built that way.

Activity Implementation: NCEE Sports Betting

- Incentives are always at play in your life.
  - Certain taxes may hope to change how you behave
    - Soda taxes, tobacco taxes, etc.
- Everyone responds to incentives whether they do it consciously or not
- In Beyond the Bet, Sports Betting, students will tackle the incentive issue.
  - What happens when you are betting on other human beings, who have their own incentives?
- This active and engaging lesson will get students moving physically and get their brains thinking when it comes to the dangers of sports betting.

See notes below or Canvas for links.

END OF MODULE 5