Behavioral Finance Resolutions for a Better Financial Year

Provided by Joseph D'Urso, AIF®

As the old year has drawn to a close and a new one begins, millions of Americans have once again made New Year's resolutions. For many, these resolutions focus on health or wealth, and when it comes to financial resolutions, the usual suspects tend to surface: spend less, save more and pay down debt.

These are, of course, worthwhile goals. But this year, consider adding another set of resolutions that go beyond budgeting and focus on the behavioral tendencies that shape—and sometimes sabotage—financial decision-making. In the year ahead, consider the following behavioral resolutions to help you make sound financial choices.

Dial Down Your Emotions

Emotions often move faster than logic. They can override rational thinking and push you toward decisions that may feel good in the moment but undermine long-term financial health. This year, resolve to take emotion out of investing.

Separating feelings from financial choices can help you sidestep several potentially damaging behavioral biases, including ***loss aversion***. This is the tendency for investors to fear losses more than they value gains. This bias can lead to panic selling in volatile markets, potentially causing you to lock in losses and miss market rebounds. Alternatively, it could cause you to hold onto losing positions far too long, making you unwilling to cut your losses even when it is financially beneficial to do so.

Emotional investing can also fuel ***home bias***, the instinct to stick with what's familiar to you. Maybe that's a certain company or an industry you know well. Or maybe it's focusing on U.S. stocks to the exclusion of shares of international companies. Instead, practice viewing your investments not as extensions of your preferences or identity, but simply as the tools that are helping you reach your long-term objectives.

Keep an Open Mind

Financial markets evolve constantly. Rigid thinking increases the risk of missing potential opportunities or holding onto investments that are no longer serving you.

Keeping an open mind helps you stay adaptable and able to reevaluate long-held assumptions and adjust when new information emerges. This helps counter ***status quo bias***, the impulse to stick with the current situation purely because it's familiar and what's already happening. It also helps avoid ***anchoring***, the tendency to rely too heavily on the first piece of information encountered. For example, investors might anchor to the original price of a stock, using it as a benchmark for future decisions—such as when to buy and sell—rather than focusing on other, more relevant information.

Look at Things From Different Angles

How information is presented can dramatically shift how we interpret it. The same facts can feel very different depending on how they're presented. Marketers, pundits and headline writers understand this well; it's one of the ways they can make news seem sensational.

But before accepting something as true, especially in finance, it's useful to examine it from multiple angles. Seek out contrarian viewpoints, reframe the story and ask yourself what the opposite case might look like.

This approach helps guard against ***framing bias***, where decisions are influenced by how information is presented rather than what the information actually says. For example, a fund described as having a "5% chance of loss" might feel riskier than one described as having a "95% chance of success," even though both statements describe the same probability.

Stepping back, asking questions and challenging your first interpretation can lead to better, more balanced decisions.

Start a Media Diet

Today's information ecosystem is noisy, fragmented and optimized to snag your attention. Headlines are crafted to provoke emotion, and social media feeds tend to amplify the sensational.

A media diet can help restore balance. You don't have to disengage entirely, but you may want to limit exposure to influencers offering unvetted advice, sticking instead to outlets with strong editorial standards. Part of a healthy media diet also involves resisting the urge to check the market every day. Your long-term strategy doesn't require play-by-play updates.

A healthier personal media environment helps curb ***availability bias***, where recent or highly publicized events distort your perception of risk. It also combats ***recency bias***, which leads investors to overweight the latest market movements. And by lowering exposure to trending narratives, it limits the pull of ***herding***—the impulse to follow the crowd, chasing whatever big name is dominating the week's headlines.

Mastering Your Mindset

Good financial decision-making is largely about controlling behavioral impulses. Being more deliberate about how you think—less emotional, more open-minded and more balanced in how you consume information—can put you in a better position to stay focused on what truly matters: your long-term goals and the plan designed to help you meet them.

If you ever have any questions or want to talk more about how to put these principles into practice, reach out, I am happy to talk.

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