

MASSIMILIANO SILLA

MULTI FAMILY OFFICE

The human **factor.**

The mistakes that cost more than fees: why the head goes wrong when money is at stake, where it goes wrong (the herd, the anchor, winners sold and losers kept, the wrong moment) and how to defend yourself with rules decided with a cool head: the written plan, the automatisms, rebalancing, a levee. An independent guide for those who want to invest without hurting themselves.

THE HEAD THE TRAPS THE DEFENCES

EDITION · SEPTEMBER 2026

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The enemy **in the mirror.**

In the decade to 2025 American funds returned 9.9% a year; those who owned them earned 8.7%. One point two a year, worth a fifth of the final capital over twenty years, and explained by no fee: lost in the dates on which people got in and out. In Italy only 10% of investors have a multi-year plan, 83% think it useful to check their portfolio at least once a month and 69% will not tolerate even a minimal loss; in March 2020 Italian managed savings recorded 8.7 billion euros of redemptions, and in the quarter of the rebound the funds alone took in almost 15.

This guide brings order with the series' framework: the head (the measured cost of behaviour, the two speeds of thinking, the fear of losing, overconfidence), the traps (the herd and the news, the anchor and the mental accounts, winners sold and losers kept, the wrong moment) and the defences (the written plan, the automatisms, a family with 300,000 euro on two roads, the levee and the salesman, the words). Every number is dated and every study is cited with authors and year; the sources are verified as at September 2026.

It is an independent guide: it sells neither products nor forecasts, and its thesis is simple: the investor's enemy is not the market, it is the person in the mirror; and it is governed in one way only, by deciding on the calm day what will be done on the day of fear. The sister guides accompany the rest of the journey.

HOW TO USE THIS GUIDE

- **It is navigable.** From the contents you jump to a chapter with one click; the page number at the foot always leads back to the contents.
- **«Key points»,** at the end of every chapter except the glossary, sums up the essentials in a few lines.
- **The «In plain words» boxes** translate the most technical concepts into everyday analogies.
- **The final glossary** collects all the technical terms: when a term does not add up, the answer is there.

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Behaviour, **in six numbers.**

1.2 points

The annual gap between the return of funds (9.9%) and that of their investors (8.7%) in the decade to 2025: the cost of the dates, partly mechanical and partly behaviour, which no prospectus shows.

2.25 times

How much a loss weighs compared with an equal gain (Tversky and Kahneman, 1992): the reason people sell on the day of fear.

−33.8%

The fall of world equities in euros between 19 February and 23 March 2020; the high returned on 7 January 2021. Those who left watched the rebound from outside.

6 out of 10

The best stock market days of the last twenty years that fell within two weeks of the ten worst: leaving after a crash means missing the rebound.

10%

The Italian investors who refer to a multi-year financial plan (Consob, 2024); in the 2022 Report 83% thought it useful to check their portfolio at least once a month.

166,000 €

The difference after six years between two families with the same 300,000 euro and the same two funds: one with a written plan, one without (chapter 11).

Sources: Morningstar, Mind the Gap 2026; Tversky and Kahneman (1992); MSCI, World index in euros, dividends reinvested; J.P. Morgan Asset Management (2026, S&P 500 index); Consob, 2022 and 2024 Reports; the case of chapter 11 on MSCI and Bloomberg indices, without costs or taxes. Data as at September 2026.

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PART ONE · CHAPTERS 1–4

The **head.**

Why we err: the measured cost of behaviour, the two speeds of thinking, the fear of losing, overconfidence.

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01 The invisible **gap.**

Every fund publishes a return; almost no saver earns it. Between the return of the product and the return of the person who owns it lies a gap that appears in no prospectus, because it is not a cost of the product: it is the cost of the dates on which you got in and got out. In the United States it has been measured for twenty years and it is worth about one percentage point a year; in Europe things are no better. This chapter puts it in figures, weighs its effect over twenty years, compares it with fees and then looks at the Italian saver in the mirror.

1.1 Two returns for the same fund

A fund has an official return: that of one euro paid in on the first day and left untouched until the last. But no saver pays in one euro on the first day and leaves it there: savers pay in when they feel calm and take their money out when they are afraid, and the return your money has really earned depends on those dates. Scholars call the first the **fund return** (time-weighted) and the second the **investor return** (money-weighted). The difference between the two is the **investor return gap**, and no document handed to you at the bank shows it, because it does not belong to the product: it belongs to whoever owns it.

Morningstar has measured it every year since 2005, in its *Mind the Gap* study. The August 2026 edition, on some 23,000 US funds and ETFs, says that in the ten years to 31 December 2025 the average dollar invested returned **8. The gaps in the figure are those Morningstar calculates on unrounded returns: subtracting the two figures shown may differ by a tenth of a point.7% a year against the 9.9%** of the funds it was invested in: 1.2 points a year, about 12% of the return. Translated into money: the 13.6 trillion dollars sitting in funds at the beginning of 2016 would have become almost 35 trillion had nobody touched them; in fact there were 29.7 trillion, with about 3.8 trillion of «timing effects». The earlier editions tell the same story: 1.7 points in the decade to 2022, 1.1 in the one to 2023, 1.2 in the one to 2024. In the decade to 2023 the gap was negative in all ten calendar years, with about two points in 2020 alone, when investors withdrew almost 500 billion dollars while markets were falling and lost part of the rebound.

The figure shows the gap by product family. Those who owned American equity funds captured 97% of the return of their funds; those who owned bond funds between 49% and 65%, those who owned alternative funds 62%. The gap widens where the product is more volatile, more specialised or more

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fashionable, in other words where it is easier to get in and out at the wrong time: the 2025 edition carried a headline worth a thesis, «the more investors traded, the less they earned», and showed that the quintile of funds most heavily traded by clients lost 1.8 points a year against the 0.8 of the calmest quintile, and that the least volatile funds had delivered 9.6% a year to their investors against the 3.4% of the most volatile.

IN PLAIN WORDS

The fund return is the average speed of the train from Milan to Rome; the investor return is the average speed of someone who got on at Bologna, got off at Florence frightened by a slowdown and waited for the next train. The train arrived on time; the passenger did not, and it is not the train's fault.

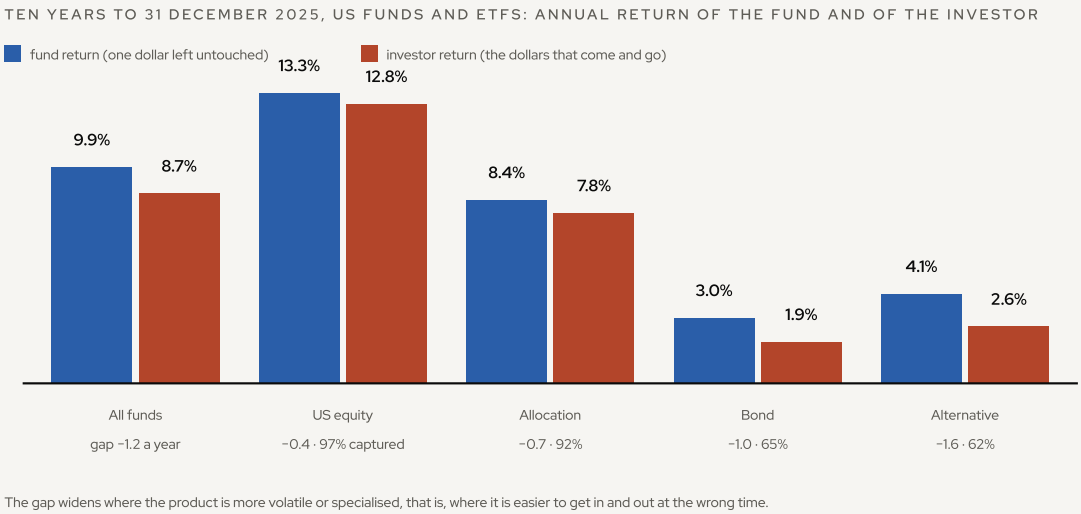

FIGURE 1 The gap by product family

Morningstar, Mind the Gap 2026; gaps on unrounded returns

1.2 In Europe, and in bank accounts

The phenomenon is not an American one. In the international edition of the study (five years to June 2023) all six domiciles examined show a negative gap: **0.82 points a year in Luxembourg**, where savers lost 27% of the return of their funds, **0.73 in Ireland** (18%), 0.32 in the United Kingdom and 0.40 in Australia. Luxembourg and Ireland are home to more than half the assets of European funds, and are the domiciles of about two thirds of the funds held by Italian households: their numbers are the closest to the experience of an Italian saver. In equity funds alone the gap rises to 1.32 points a year in Luxembourg and 0.91 in Ireland; about 70% of equity funds have a negative gap and one in four exceeds three points a year. In fashionable products it becomes a chasm: clean energy funds had returned 13.3% a year, their investors 2.9%, because the money had arrived en masse after the great

rise of 2020. Morningstar observed that the narrowest gaps are found in the markets where advice is more complete (the United Kingdom, Australia) and the widest where funds are sold with inducements: a theme that chapter 12 takes up.

The American firm DALBAR has been calculating a gap since 1994, on a series going back to 1985, using a different method based on the aggregate flows of the whole industry, and it arrives at bigger numbers: over the thirty years to 2022 the average investor in equity funds would have earned 6.81% a year against the 9.65% of the American index; in 2024 alone 16.54% against 25.02%; in 2025 the annual gap narrowed to 0.72 points, the lowest since 2012. The method is disputed, and this guide cites it as an order of magnitude, not as a measurement. The academic measures lie in between: Ilia Dichev (*American Economic Review*, 2007) found that dollar-weighted returns fall short of buy-and-hold returns by 1.3 points a year on the New York Stock Exchange from 1926 to 2002, and by 5.3 points on the Nasdaq from 1973, because the money poured in at the top of the bubble; Friesen and Sapp (*Journal of Banking & Finance*, 2007) put the cost of investors' timing decisions in equity funds from 1991 to 2004 at 1.56 points a year, higher in funds with entry charges.

For those who buy not funds but individual shares the bill is steeper, and chapter 4 tells that story: the American households that traded most earned 11.4% a year against the 17.9% of the market, and the complete archive of the Taiwan Stock Exchange shows that individual investors, all together, lost 3.8 points a year, a sum equal to 2.2% of the country's gross domestic product. Whichever measure you take, the order of magnitude is the same: **between one and two points a year for those who invest in funds, more for those who do it themselves**.

1.3 What one point a year is worth

One percentage point sounds like very little, and that is its strength. A hundred thousand euro earning 6% a year become 320,714 over twenty years; at 5% they become 265,330: **55,000 euro less, 17% of the result**. Over thirty years the difference is a quarter of the final capital. One point a year is also of the same order of magnitude as fees: an equity fund sold over a bank counter in Italy costs between 1.8% and 2.3% a year in ongoing costs, and equity funds domiciled in Italy are, with Portuguese ones, the most expensive in Europe according to ESMA; the sister guide on invisible costs has done that sum. Behaviour costs, on average, a comparable amount, and the two costs add up; for whoever sells on the day of fear, like the family in chapter 11, it costs far more; but fees are written in the information document, while the gap is written nowhere. It is the invisible gap of the title.

In fairness, not all of the gap is a mistake. Morningstar itself warns against reading it as «the parable of dumb money»: even praiseworthy practices, such as paying in a part of every salary, create a mechanical gap, because in a rising market the money that arrives later earns less than the money that arrived earlier, and for the market as a whole the gap is zero, because for every seller there is a buyer. A study published in May 2026 in the *Financial Analysts Journal* (Fulkerson, Jordan, Riley and Yan) argues, using the same data, that bad timing in the strict sense costs investors in funds only 0.10% a year. The truth

lies in between, and at a precise point: the behavioural part of the gap is concentrated in the years that count. In 2020 the gap was double the average; in 2022, according to DALBAR, the average investor in American equity funds lost 21.17% against the 18.11% of the index: three points in a single year. The average gap is an abstraction; the gap in the year of crisis is a cheque.

The most quoted story in the industry concerns Peter Lynch, the manager of Fidelity's Magellan fund, which from 1977 to 1990 returned about 29% a year, twice the market. By Lynch's own account, the average investor in his fund earned about 7% a year over the same period, because they came in after the rises and got out after the falls; Fidelity has never published a study, and this guide reports the tale for what it is, a statement by the manager. But the lesson holds even without the decimal: the best fund in history was not enough for its owners. **The gap is not a defect of the product: it is a defect of the dates, and it is the head that chooses the dates.**

1.4 The Italian saver in the mirror

Since 2015 Consob has taken periodic snapshots of the choices of Italian households. In the 2024 Report, on 2,011 investors, **42%** say they take at least some decisions on their own, 40% with the support of an adviser or a bank employee, 32% by following relatives, friends and colleagues who are not experts; only **10% refer to a multi-year financial plan**, and 23% set themselves monthly saving targets. In the 2022 Report 63% found it hard to save for goals far off in time, **83%** thought it useful to check their investments at least once a month, and **69%** declared that they would not tolerate «even the smallest loss of the capital invested», even though 65% would have borne short-term losses in exchange for good prospects; more than 60% were inclined to mental accounting, willing to risk a great deal on a small share held «apart»; 62% felt they could lose their savings even through no fault of their own. Every number in this list has a chapter in this guide.

It is not a problem of knowledge, or not only that. The 2024 sample, made up of investors and not of the whole population, answers four out of five questions on the basic concepts correctly; 26% overestimate their own competence and 29% underestimate it. It is true that Italian financial literacy remains low (10.7 out of 20 in the Bank of Italy survey of 2023; 53 points out of 100 in the OECD comparison of the same year, against an average of 60, in thirty-sixth place out of thirty-nine economies), but the very people who know what diversification is have no plan, check every month and fear any loss at all. Knowing is not enough, because the moment when you decide is not the moment when you know: it is the moment when you are afraid.

The flows confirm it. In March 2020 Italian managed savings recorded 8.7 billion in net redemptions, 10.5 from funds, while 6.2 billion took refuge in money market funds; in the following quarter, the quarter of the rebound, funds took in 14.8 billion, 8.5 of it in equity funds: people sold in March and bought back after the recovery. In 2022, the year of rising rates, 17.4 billion left bond funds, largely after prices had already fallen. It is the gap of the previous section, written in Italian. This guide tackles it in three parts: the head (chapters 1-4), where the mistakes begin; the traps (chapters 5-8), where they

are paid for; the defences (chapters 9-13), where the gap is closed, with a complete case in chapter 11 and the pivot in chapter 12. Because the gap can be closed from one side only: from the side of the head.

KEY POINTS

- Two returns: the fund return (one euro left untouched) and the investor return (the euros that come and go). The difference is the investor return gap: 1.2 points a year in the United States in the decade to 2025 (Morningstar), between 1.1 and 1.7 points in every rolling decade ending from 2020 to 2025.
- The more volatile, specialised or fashionable the product, the wider the gap: investors in bond and alternative funds capture between half and two thirds of the return; those who trade more earn less.
- In Europe: 0.7-0.8 points a year in Ireland and Luxembourg (a fifth, a quarter of the return), 1.3 in Luxembourg equity funds, up to 10 in fashionable funds. For those who trade shares themselves, more.
- One point a year on 100,000 euro is worth 55,000 euro over twenty years (17% of the result) and a quarter over thirty: the same order of magnitude as fees, but written nowhere.
- The Italian saver: only 10% have a multi-year plan, 83% think it useful to check every month, 69% will not tolerate even the smallest loss, and in March 2020 they sold, only to buy back after the recovery. The problem is not one of knowledge: it is one of behaviour.

Markets, products and rules change constantly; the head does not: before every choice, the written plan and a night's sleep.

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02 Two speeds, **one head.**

We do not get things wrong because we are stupid: we get them wrong because we have two ways of thinking, one fast and automatic, one slow and effortful, and money almost always switches on the first. Behavioural finance grew out of this discovery, which has brought three Nobel prizes and changed the way we look at markets. This chapter explains it without formulas: the two speeds, the shortcuts fast thinking uses, and why money sets off every one of them.

2.1 The autopilot and the pilot

Daniel Kahneman, a psychologist, won the 2002 Nobel prize in economics for showing that people do not make decisions the way economists' models assumed they did. In his 2011 book, *Thinking, Fast and Slow*, he popularised a distinction first named by the psychologists Stanovich and West: inside the same head two systems are at work, a fast, automatic **System 1** that never tires and never switches off, and a slow, deliberate **System 2** that tires quickly and steps in only when it is called.

System 1 is what recognises a face, finishes the phrase «bread and…», hits the brakes before you are aware of it, and decides in a flash whether you like someone. It is a marvel of evolution: without it we would not last a day. System 2 is what does two-digit multiplication, fills in a form, compares two offers. It has one strength and one weakness: it reasons well, but it is lazy, and it is happy to take the ready-made answers System 1 hands it and pass them off as its own.

The point that matters for money is this: **almost every financial decision that costs us dearly is a System 1 decision signed by System 2**. The fear of March 2020 that makes you sell, the enthusiasm of 2021 that makes you buy, the confidence with which you hold on to a losing investment «because it will come back»: these are immediate, emotional responses, which reason then ratifies with a plausible justification. Behavioural finance is the study of how this happens, and of how you can get something in between the impulse and the signature.

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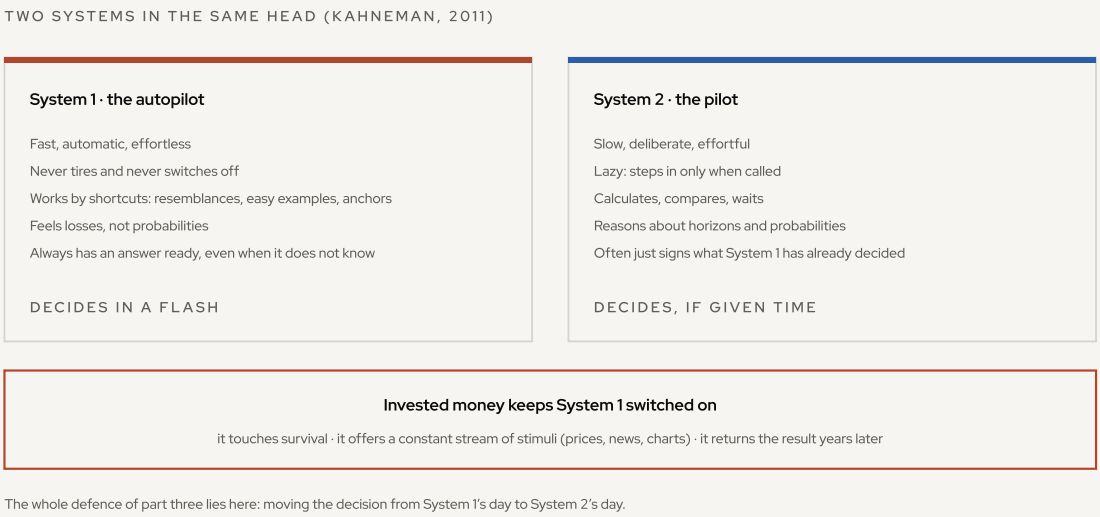

FIGURE 2 Two systems in the same head — Diagram after Kahneman, Thinking, Fast and Slow (2011)

2.2 The shortcuts

System 1 works by **shortcuts**, which psychologists call heuristics. Tversky and Kahneman described them in a 1974 article in *Science*, and the three main ones turn up every day in finance. **Representativeness**: judging by resemblance rather than probability (a fund that has performed well for three years «looks like» a good fund, so it must be one). **Availability**: judging by how easily an example comes to mind (after a crash that has been in the news for weeks, a crash looks likely; after a year of rising markets, impossible). **Anchoring**: starting from whatever number is to hand and adjusting far too little.

The anchoring experiment is the most famous of all. The researchers spun a wheel of fortune rigged to stop at 10 or at 65, then asked what percentage of African countries were members of the United Nations. Those who had seen 10 gave a median answer of 25; those who had seen 65 answered 45. A number everyone could see was random had almost doubled the estimate. In finance the anchors are not random: they are the **purchase price**, the all-time high, last year's return, the first figure the salesman mentions. Chapter 6 lines them up.

The shortcuts are not defects to be corrected: they are how a finite mind copes with an infinite world, and in everyday life they work very well indeed. They turn into traps in one specific environment: the one where the outcome depends on probabilities, long horizons and large numbers, and where the emotional answer is almost always the opposite of the right one. That environment is called the market.

IN PLAIN WORDS

System 1 is the aircraft's autopilot: perfect in the cruise, it handles 95% of the flight on its own. System 2 is the pilot, who steps in at the difficult moments, if awake and if someone calls. The investor's problem is that the turbulence arrives just when the pilot is tired, and the autopilot has no idea what a crisis is.

2.3 Why money switches on System 1

There are areas where System 2 wakes up on its own: nobody fills in a tax return «on instinct». Invested money, though, has three features that keep System 1 switched on. The first is that it **touches survival**: to the brain, a loss of wealth is a threat, and threats are met with fight or flight, not with analysis. The second is that markets deliver **a constant stream of stimuli** (prices, news, charts, opinions) that System 1 processes in real time, while System 2 would need to pause. The third is that the result arrives **years later**, and the fast mind cannot wait: it judges every day as if it were the last.

Research has measured these effects. People who look at how their investments are doing every month choose more cautious portfolios, and therefore less rewarding ones over the long run, than people who look once a year: the same investment, watched more often, frightens you more, because it shows a loss more often. This is the **myopia** that chapter 3 explains: not a defect of sight, but of frequency. And people who are given more information do not decide better: they decide more, and doing more in the markets almost always costs.

You cannot change your own brain. You can change three things: **how often** you expose it to the stimuli, **when** you take your decisions (never on the day of fear) and **who** holds your hand on that day. The three defences in part three are exactly these.

2.4 A discipline with three Nobel prizes

Behavioural finance is not a fad: it is half a century of research, and the Swedish Academy has honoured it three times. In 2002 **Kahneman**, for having «integrated insights from psychological research into economic science, especially concerning human judgment and decision-making under uncertainty». In 2013 **Robert Shiller**, together with Eugene Fama, the theorist of efficient markets, and Lars Peter Hansen, «for their empirical analysis of asset prices»: Shiller's work showed that markets swing far more than the fundamentals justify, and the Academy honoured the two opposing readings of the market on the same day. In 2017 **Richard Thaler**, «for his contributions to behavioural economics»: the Academy explains that he has «incorporated psychologically realistic assumptions into analyses of economic decision-making», exploring bounded rationality, social preferences and a lack of self-control.

The thread linking the three is simple: markets are made of people, and people's minds work the way they work. That does not mean markets are irrational and predictable, and anyone who believes they are makes the opposite mistake (as chapter 4 shows); it means that **the investor is the first risk in their own portfolio**, before the markets, before the costs, before the taxes. The good news, which is what makes this guide useful and not merely interesting, is that this is a risk you can manage, with rules, with tools and with a little engineering applied to your own laziness.

Chapters 3 and 4 go inside the head: the fear of losing and overconfidence, the two forces that between them explain much of the gap in chapter 1. Part two works through the traps one by one. Part three builds the defences.

KEY POINTS

- Two systems in the same head: System 1, fast and automatic, and System 2, slow and lazy. Costly financial decisions are almost always System 1's answers, signed by System 2.
- The shortcuts (representativeness, availability, anchoring) work in everyday life and fail in the markets, where the emotional answer is almost always the opposite of the right one.
- A random number shifts an estimate by almost double (the wheel experiment, 10 versus 65: answers of 25 and 45). In finance the anchors are not random: purchase price, all-time high, past return.
- Money keeps System 1 switched on because it touches survival, arrives as a constant stream of stimuli and gives the result years later. Looking more often frightens you more and earns you less.
- Three Nobel prizes (Kahneman 2002, Shiller 2013, Thaler 2017) for one simple idea: the investor is the first risk in their own portfolio, and that risk is managed with rules.

Markets, products and rules change constantly; the head does not: before every choice, the written plan and a night's sleep.

03 A loss weighs **double.**

Losing a hundred euros hurts more than gaining a hundred feels good: about twice as much. This is the central discovery of behavioural finance, measured in the laboratory and found again in every market, and on its own it explains the most expensive thing an investor can do: selling on the day of fear. This chapter shows it through the original experiment, follows the consequences (the endowment effect, inertia, the myopia of looking too often) and closes with the bill for March 2020.

3.1 A loss weighs double

In 1979 Daniel Kahneman and Amos Tversky published in *Econometrica* their paper on **prospect theory**, the work that would go on to earn the Nobel. Its central idea is that people do not judge wealth in absolute terms but **changes** measured against a reference point, and that negative changes count for far more than positive ones. In the 1992 version the ratio was measured: a loss weighs about **2.25 times** as much as a gain of the same size. It is not an opinion: it is the median value measured in the laboratory, found again at similar magnitudes in many later studies.

You can repeat the experiment over dinner. I offer you a bet on the toss of a coin: heads, you lose 100 euros; how much would you have to win on tails to accept? Almost nobody accepts 100, the fair bet; most people ask for between 200 and 250. That number is your own coefficient of loss aversion. It is not irrational in itself: it is how the brain learned, over millennia in which a loss could be fatal, to put defence first. It becomes a problem when the bet is not a coin toss but an equity portfolio, which so far has risen more often than it has fallen and has given back, with time, what it had taken away; the past, however, is no guarantee, and nobody can promise it for the future.

The figure shows the shape of the thing: an S-shaped curve, steep below zero and flat above. Steep below means the first loss hurts badly; flat above means the tenth gain barely registers. Almost all the behaviours in the second part follow from that shape: you sell what has lost in order to stop the suffering, you keep what has gained too little to enjoy, and you avoid risk even when it pays.

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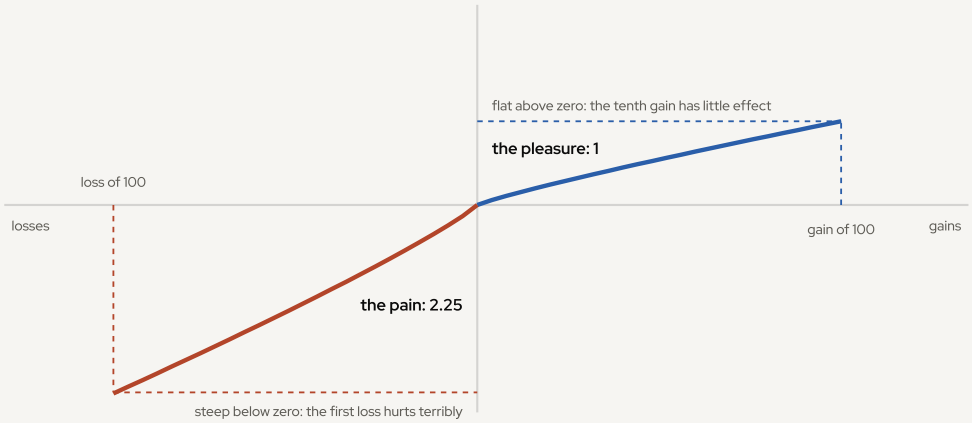
THE VALUE FUNCTION: A LOSS OF 100 WEIGHS 2.25 TIMES A GAIN OF 100



Changes are valued against a reference point, not wealth. Kahneman and Tversky (1979); coefficient 2.25 from Tversky and Kahneman (1992).

FIGURE 3 The value function — Kahneman and Tversky (1979); coefficient from Tversky and Kahneman (1992)

3.2 What is mine is worth more

One consequence of loss aversion is the **endowment effect**: the moment something is ours, parting with it counts as a loss, and we value it more highly. Kahneman, Knetsch and Thaler measured it in 1990 with coffee mugs: half the students were given a mug and asked what they would sell it for; the other half were asked what they would pay to buy one. The owners asked a median of 5.25 dollars; those who did not own one were willing to pay 2.75, then 2.25: double, for the same object. Same mug, same lecture room, same students: ownership had doubled the value.

In portfolios the endowment effect goes by the name of **attachment**: the shares inherited from your father, the fund you chose twenty years ago, the bonds of the bank round the corner, the shares in the company you work for. None of these assets is any better for being yours, but selling it feels like a loss even when the plan says you should. The question that breaks the spell is the one in chapter 9: *if I did not own it today, would I buy it at this price?* If the answer is no, the reason for holding it is attachment, and attachment pays nothing.

The endowment effect has a sibling, the **status quo bias**, described by Samuelson and Zeckhauser in 1988: faced with changing or not changing, the mind chooses not to change, because every change carries a possible loss and standing still, apparently, does not. It is the reason why the 1,163 billion counted in the sister guide on liquidity sit in current accounts, why the expensive fund is not replaced, why the inherited portfolio stays as it was. Inertia looks like prudence; it is loss aversion in disguise.

IN PLAIN WORDS

Loss aversion is the reason a 50-euro fine ruins your day more than a 50-euro gift improves it. In the markets the fine arrives as a red minus on the account, and the reaction is the same: make it stop now, at any cost. The cost is almost always higher than the fine.

3.3 The more often you look, the more you lose

In 1995 Shlomo Benartzi and Richard Thaler solved an old puzzle: why have equities returned so much more than bonds over the long run, if savers are free to choose them? Their answer is called **myopic loss aversion**: people assess their investments too often, about once a year, and at that frequency equities show a loss one year in three or four. Each loss they see weighs double, and the sum of those yearly fears makes equities look far more dangerous than they are over ten or twenty years.

Two years later Thaler, Tversky, Kahneman and Schwartz showed it in the laboratory: different groups were asked to split a sum between a safe investment and a risky one, and the results were shown to them at different frequencies. Those who saw the results every «month» ended up putting 41% into the risky asset; those who saw them every «year», 70%; and the first group, with more information, earned less. The authors concluded that «providing such investors with frequent feedback about their outcomes is likely to encourage their worst tendencies». The conclusion is one of the most practical in the whole discipline: **how often you look at the portfolio decides how much risk you are able to bear**, and therefore how much you earn.

The bank's app on your phone has turned this experiment into the daily life of millions of people. A balanced portfolio looked at every day shows a loss almost one day in two; looked at every month, one month in three; every year, one year in four or five; every ten years, almost never. The same portfolio, the same history: what changes is how many times System 1 gets the danger signal. From this, chapter 10 draws the simplest defence in the guide.

3.4 The bill for March 2020

The fear of losing has a recent, well-documented date. Between 19 February and 23 March 2020 world equities lost about a third of their value in a little over a month, the fastest crash in history. Mutual funds saw record redemptions in March; the savers who sold did so, by definition, close to the lows, because it is close to the lows that fear is greatest. Then the market climbed back: by the end of the summer world equities had regained their previous high in dollars, and on 7 January 2021 in euros too, as chapter 8 shows; 2020 ended in profit all the same.

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Anyone who sold at the end of March and waited «for the situation to become clearer» came back in, at best, at the end of the year, after the vaccines were announced: they bought back what they had sold at a price about a third higher, and about half as much again if they had sold right on the low of 23 March. Chapter 11 works this sum out for a family with 300,000 euro, and the result is not a loss of 30%: it is a permanent loss of a few tens of thousands of euros that no later rebound will give back, because the rebound happened without them.

It is not an exception: it is the rule. In every documented crisis (2000-2003, 2008-2009, 2020) fund flows show the same shape, selling in the worst months and buying after the recovery; in 2022 the same script played out in bond funds, and investor returns come out systematically below the returns of the funds those investors held. The fear of losing does not protect you from losses: it **realises them**. The defence is not to feel less fear, which is impossible, but to decide before the fear arrives, and that is the subject of the third part.

KEY POINTS

- Prospect theory (Kahneman and Tversky, 1979): we judge changes, not wealth, and a loss weighs about 2.25 times as much as an equal gain. The proof: almost nobody accepts a fair coin toss for 100 euros.
- Endowment effect: what is ours is worth double (the mugs of 1990). In portfolios it is called attachment, and the question that breaks it is «would I buy it today at this price?».
- Status quo bias: inertia looks like prudence and is loss aversion in disguise. It keeps money sitting in the account and expensive funds in the portfolio.
- Myopic loss aversion (Benartzi and Thaler, 1995): look often and you see more losses, bear less risk and earn less. How often you look decides the return.
- March 2020: a third lost in a month, record redemptions, the high regained at the end of August in dollars and in the first days of January 2021 in euros. Those who sold turned a temporary loss into a permanent one. Fear does not protect you from losses: it realises them.

Markets, products and rules change constantly; the head does not: before every choice, the written plan and a night's sleep.

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04 Too sure **of ourselves.**

Most drivers judge themselves better than average, and so do most investors. Overconfidence is the most democratic of the biases, because it spares no expert, and the most costly in one precise sense: it makes you do too much. People who are sure of themselves buy and sell more often, concentrate their portfolio on what they believe they know, and remember predicting it all. This chapter measures it with the most cited study in the field, «trading is hazardous to your wealth», and follows it through its three forms: activity, familiarity, hindsight bias.

4.1 Better than average

Ask a room full of people to raise a hand if they drive better than average: almost every hand goes up, and they cannot all be right. **Overconfidence** has two faces. The first is overrating your own ability against everyone else's; the second, and more insidious, is **overrating the precision** of your own estimates: when people are asked for a range that contains the right answer «with 90% probability» (the weight of an aircraft, the length of a river), the range contains the right answer far less than nine times out of ten. We are sure of things we do not know, and we are sure of them precisely.

Experts are not immune, and in some fields they are less immune than lay people, because expertise raises confidence more than it raises accuracy. In finance this has a practical consequence: forecasts about the markets (where the stock market will be at the end of the year, when rates will come down, which sector will win) are systematically more confident than their own track record justifies, and anyone who listens to them takes on the confidence without the precision, which is not there. An investor who «knows» where the market is going acts; one who knows they do not know sits tight. In the data, the second earns more.

Overconfidence combines with the **illusion of control**: the feeling that doing something (choosing the moment, the stock, the manager) improves the outcome, when in many cases the outcome depends on variables nobody controls. It is the reason why people pick their own lottery numbers instead of having them assigned, and why they «actively manage» a portfolio whose course depends largely on the split between equities and bonds, settled just once (in a celebrated 1986 study by Brinson, Hood and Beebower that split explained about 90% of the variation over time in American pension funds), and for the rest on chance and on costs.

4.2 Trading is hazardous to your wealth

That is the title, word for word, of the paper in which Brad Barber and Terrance Odean published, in the *Journal of Finance* in 2000, their analysis of more than sixty-six thousand American households with an account at a large discount broker, from 1991 to 1996. They divided the investors into five groups according to how much they turned over their portfolios. The group that traded least earned a net annual return of **18.5%**, a little above the market; the group that traded most, with a turnover of more than 250% a year, earned **11.4%**. A difference of seven points a year, owing almost entirely to the cost of the trades and to their uselessness: the shares bought did no better than the ones sold.

The year after, in *Boys will be boys*, the same authors found that men turned over their portfolios **45% more** than women, and that the excess activity cut their net return by about a point a year more than it cut women's. The explanation they offered was overconfidence, more widespread among men in tasks seen as masculine, and the data bore it out: single men, the most confident of all, were the most active and the least profitable. Years later, a study by Barber, Lee, Liu and Odean of Taiwanese day traders (*Journal of Financial Markets*, 2014), which covered the whole market, found that fewer than one per cent of them managed to make money predictably after costs.

The lesson is not that you must never trade: it is that **every trade the plan did not provide for has a certain cost and an uncertain benefit**, and that the confidence with which it is decided tells you nothing about its outcome. The online trading boom of 2020-2021, in Italy as elsewhere, set millions of people to repeating Barber and Odean's experiment with their own hands, with free apps and social media added on top; the results, where anyone has measured them, are the same as they were then.

> IN PLAIN WORDS
>
> Overconfidence is the reason why, on the motorway, everyone driving more slowly than us is slow and everyone driving faster is mad. On the markets it has the same effect: the person buying when we sell looks foolish, and the other way round. Half the time the fool is us, and we will never know.

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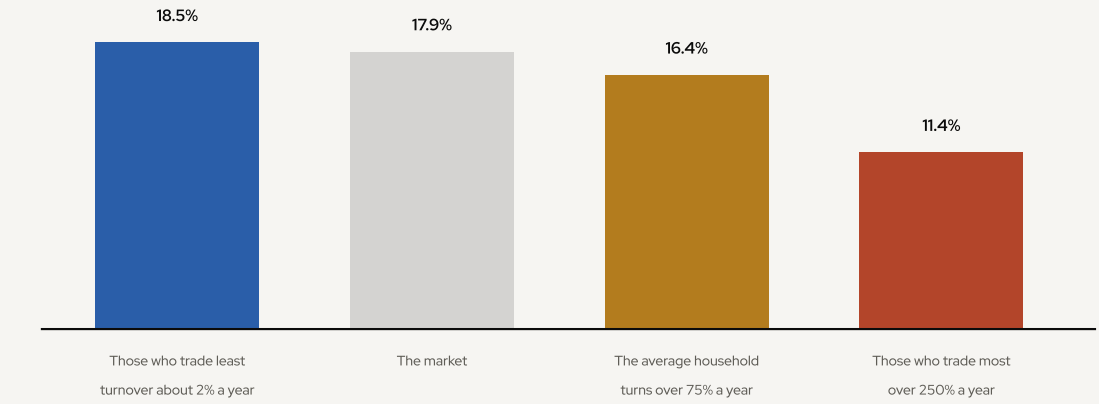

FIGURE 4 Trading is hazardous to your wealth — Barber and Odean, Journal of Finance (2000)

4.3 The illusion of competence

The second form of overconfidence is **familiarity** mistaken for competence. We know the brands we buy, the company we work for, the bank round the corner, our own country's government bonds: and what we know looks less risky to us. But knowing a company as a customer or as an employee says nothing about the price of its shares, which already embodies everything we know and a great deal more. Familiarity reduces fear, not risk.

The costliest form is **concentration on your own country**, which scholars call *home bias*, and of which Italian households are a textbook case: portfolios full of Italian government bonds, of shares in the few banks and utilities listed in Milan, of bonds issued by their own bank. Italy accounts for less than 2% of the world equity market, and an economy that is about 2% of the world often takes up more than half the risk of an Italian household, which already lives, works and owns its home in Italy. The answer is neither patriotic nor unpatriotic: it is statistical. Putting everything you have in the same place where you already have everything else is the opposite of diversification.

The same goes for **the shares of the company you work for**: anyone who concentrates their savings there ties their salary and their wealth to the same fate, and the employees of Enron and Lehman Brothers learned it on the very day they lost their jobs; in Italy the lesson fell on the savers who had put a lifetime's money into the bonds of a single company, the Parmalat of 2003. Real competence in these cases is not knowing the company: it is knowing your own overall risk, and not doubling it.

4.4 Hindsight bias

The third form is the quietest: **hindsight bias**, the conviction, once an event has happened, that you knew it beforehand. The crash of 2008 «was obvious», the recovery of 2020 «was a foregone conclusion», the rise in gold «could be seen coming». None of it was, and the proof is that almost nobody acted accordingly; but memory rewrites past expectations to make them consistent with what happened, and that rewriting feeds overconfidence for the next round: anyone who believes they predicted the last three crises feels able to predict the fourth.

Hindsight bias has an accomplice, the **after-the-fact narrative**: for every movement of the markets there is, the next day, a straightforward and convincing explanation, and the mind accepts it as though it had been available the day before. Next-day explanations are almost always true and almost always useless: they describe, they do not predict. Read them every evening and you build up a collection of stories that make the world look more predictable than it is, and your own confidence higher than it deserves to be.

Against hindsight bias there is only one tool, and it is the **decision diary** of chapter 9: writing down beforehand what you expect, with the date, and reading it again afterwards. Do it for a year and you discover two things: that your forecasts were far less confident than you remember them being, and that most of the right decisions were the decision to do nothing. It is a humbling and a liberating discovery, and the second part of the guide, which begins with chapter 5, shows where those occasions come up: the traps, one by one.

KEY POINTS

- Overconfidence: we overrate our own abilities and the precision of our estimates; experts are not immune. If you «know» where the market is going you act; if you know that you do not know, you earn more.
- Barber and Odean (2000): the most active investors returned 11.4% a year against 18.5% for the least active. Trading is hazardous to your wealth: certain costs, uncertain benefits.
- Boys will be boys (2001): men turn over their portfolios 45% more and earn about a point a year less; among Taiwanese day traders fewer than 1% make money predictably.
- Familiarity is not competence: Italy is less than 2% of the world market and often takes up half the risk of an Italian household. Never the shares of the company you work for.
- Hindsight bias rewrites memory («it was obvious») and feeds confidence for the next round. The only antidote is to write down beforehand what you expect, and read it again afterwards.

Markets, products and rules change constantly; the head does not: before every choice, the written plan and a night's sleep.

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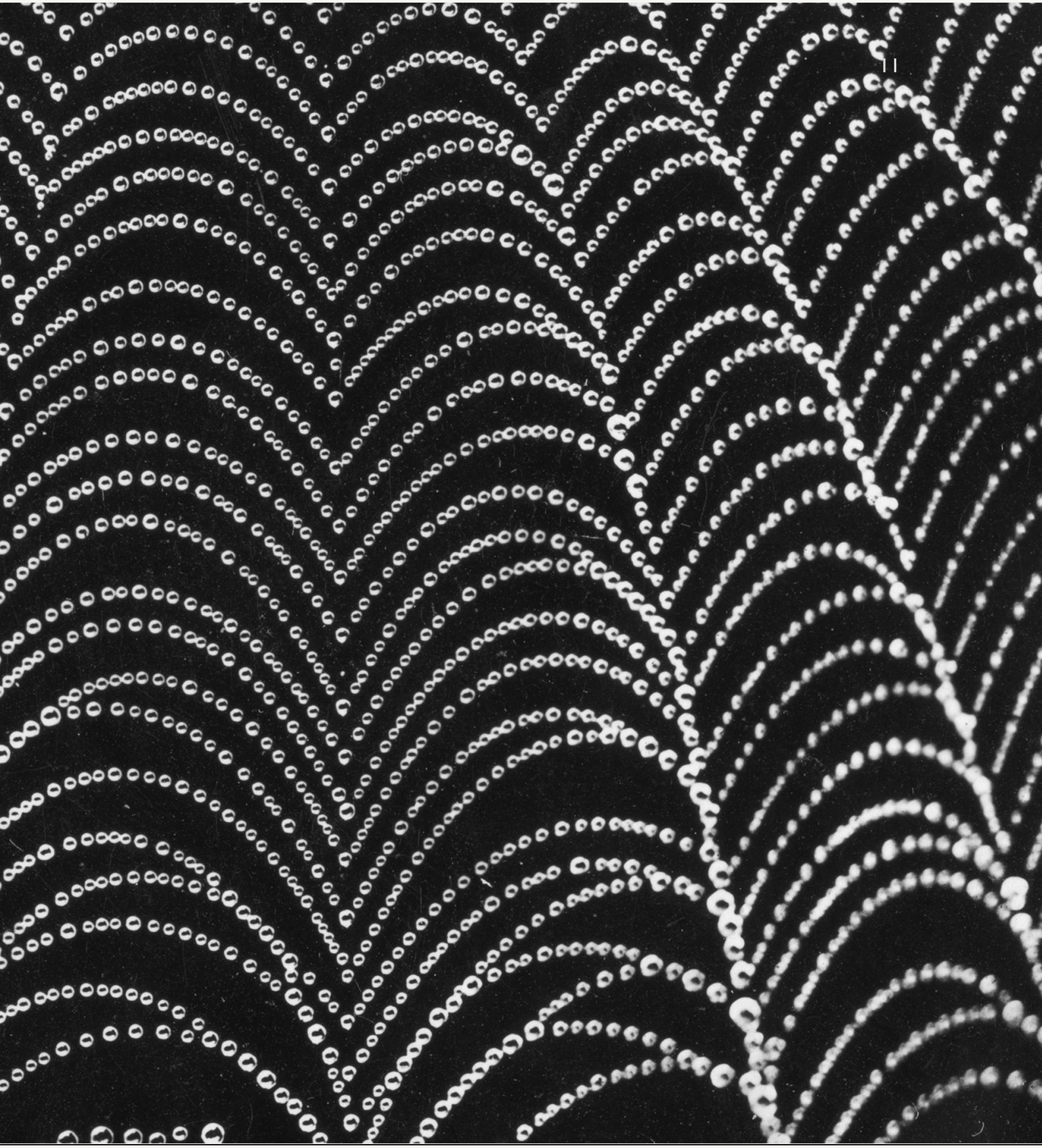

II

PART TWO · CHAPTERS 5–8

The **traps.**

Where it is paid: the herd and the news, the anchor and the mental accounts, winners sold and losers kept, the wrong moment.

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05 The herd **and the news.**

Nobody buys a security because everyone is buying it: you buy because «people are talking about it», because «everyone says so», because «this is the moment». But the sum of these individual reasons is a herd, and the herd has a property measured by a century of data: it goes in at the highs and out at the lows. This chapter opens Part Two, the traps, with the oldest of them: following the others, fed by the latest news and by the media that repeat it.

5.1 Buying what everyone is talking about

The **herd** is not a character flaw: it is a reasonable social shortcut. If everyone is running in one direction, they have probably seen something we have not, and following them costs less than checking. On the savannah it works; on the markets it does not, because the price of what everyone is buying has already risen through everyone's buying, and whoever arrives last pays the highest price at exactly the moment when the remaining buyers have run out. The collective rush towards a financial asset is the only case in which the herd, by arriving, destroys the thing it was looking for.

Mutual fund flows are the accounting record of this. In the months when stock markets touch their highs, savers pay the largest sums into equity funds; in the months of the lows, they take them out. It happened in 2000: in the United States equity funds took in a record 309 billion dollars, with the richest first quarter in history a few months away from the crash, and in Italy savers moved 39 billion euros over the year out of bond funds and into equity funds, right at the top. It happened the other way round in 2002, the first year of net outflows from American equity funds since 1988, and in 2008, when Americans withdrew 234 billion from equity funds and Italian households, in the twelve months to September 2008, sold shares, funds and life policies worth about 80 billion in order to buy deposits and bank bonds worth 110. It happened in March 2020, the largest month of outflows ever recorded by European funds (313 billion euros), with 8.7 billion leaving Italian managed savings. The investor return gap of chapter 1 is the arithmetical consequence of these flows: fund returns are calculated on a euro that sits still, investor returns on the euros that come in and go out, and the euros come in late and go out early.

In recent years the herd has had two new training grounds. In January 2021 a share in a chain of video game shops, GameStop, went from less than 20 dollars to a high of 483 in a little over two weeks, pushed by small investors coordinating on a forum: the accounts trading it each day went from fewer

than ten thousand to nearly nine hundred thousand; by 19 February it was worth 40 dollars. In November 2021 bitcoin touched about 69,000 dollars, and a year later about 15,500, which is 77% less; in Italy, according to Consob, the share of investors who say they own some went from 8% in 2022 to 18% in 2024, in other words after the crash. In both cases whoever went in first had made money; whoever went in because «everyone was talking about it» went in, by definition, when everyone was talking about it, which is to say near the top.

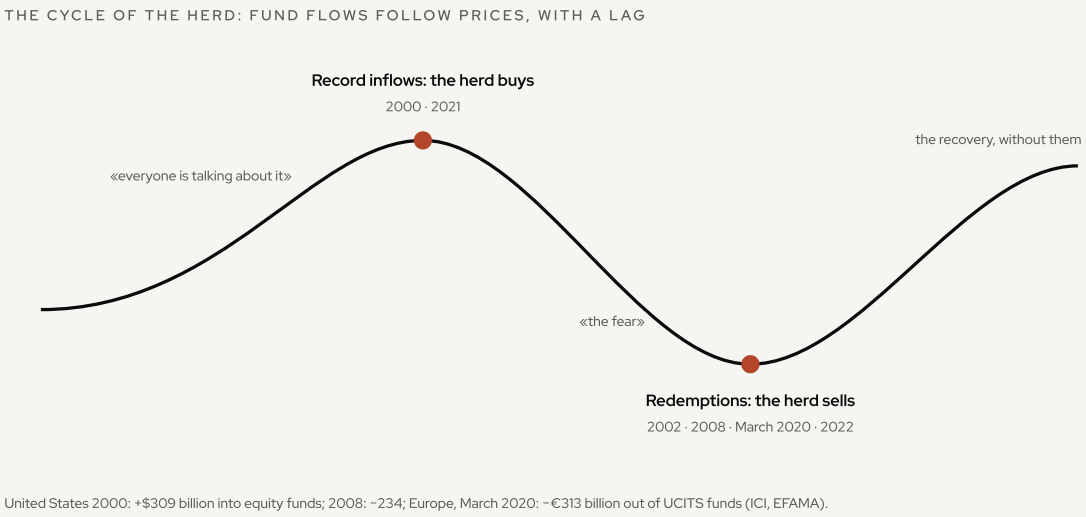

FIGURE 5 The cycle of the herd — ICI, Assogestioni, EFAMA; method scheme

5.2 The last thing that happened

The herd feeds on two shortcuts from chapter 2. The first is **availability**: we judge as probable whatever comes easily to mind, and what comes easily to mind is whatever is recent, vivid and repeated. After a year of rises, rising looks like the norm; after a crash retold for weeks, the crash looks like the only scenario. The second is **recency**: we weigh the last three years far more heavily than the thirty years before them, and we project the recent trend into the future as though it were a law.

Recency is why the question «how has it done over the last three years?» is the most frequent and the least useful. The recent returns of a fund, of a sector or of a country do not predict future ones, and research has documented this for decades; but System 1 reads them as a promise. The saver who in 2000 was buying technology funds, in 2007 property funds, in 2021 thematic funds and in 2025 gold was each time buying the chart of the last three years, which is the one thing about an investment that you never actually buy.

Recency has a subtler relative, **representativeness**: a fund that has returned well for five years «looks like» a good fund, therefore it is one. But in a universe of thousands of funds, a few dozen will beat the market for five years running by pure chance, exactly as in a room of a thousand people tossing a coin

some thirty will get five heads in a row. Whoever picks the fund with the five heads is picking past luck, which does not repeat itself, and costs, which do.

> IN PLAIN WORDS
>
> The financial herd is like the traffic on the motorway to the coast on the mid-August holiday: everyone has a good reason to set off on precisely that day, and the sum of the good reasons is a thirty-kilometre queue. Whoever leaves on the following Tuesday is no cleverer: they simply decided in advance, on a day when nobody was leaving.

5.3 The media and the merchants of attention

Financial news has a job that is not yours: to capture attention, every day, with something new. For a long-term investor, by contrast, the market produces nothing new for years at a time. Out of this asymmetry comes a machine that amplifies the herd: rises are presented as opportunities not to be missed, falls as catastrophes, and in both cases the implicit conclusion is that something must be done. But the news arrives once the price has already moved, and acting on the news nearly always means acting after the fact.

Social media have added **finfluencers**: people who talk about investing to millions of followers, often with no qualifications at all, often paid by whoever sells the products they talk about, always selected by the algorithm for their ability to stir emotions, not to be right. The European and Italian supervisory authorities have issued repeated warnings; the rule for the investor is simpler than any warning: **whoever is not answerable for your wealth has no standing to move it**, and whoever earns from your attention earns more when you are agitated.

Then there is the **fear of missing out**, usually known by its acronym, FOMO: the torment of seeing others make money on something we do not own. It is the emotion most exploited by bubbles, and the easiest to take apart with a single observation: the others who make money are visible, the others who lose are not, because nobody publishes their losses. The sample we see on social media is selected from the winners, and on that sample every decision is wrong.

The fear of missing out has an illustrious and documented victim. In the spring of 1720 Isaac Newton sold most of his shares in the South Sea Company at about 350, with a profit of over 20,000 pounds; then he watched the stock rise further, and on 14 June he reinvested the whole lot at about 700. Three years later the position was worth 77% less: the loss, which his niece put at 20,000 pounds, is the equivalent of something like twenty million today. The sentence attributed to him, «I can calculate the motions of the heavenly bodies but not the madness of people», is in part a later embellishment (the

oldest source reports only that he «could not calculate the madness of the people»); the mistake, on the other hand, is fully documented, and the greatest scientist of his century made it in the most ordinary way: selling well and going back in at twice the price, so as not to be left out.

5.4 Leaving the herd without driving the wrong way

The defence against the herd is not doing the opposite of the herd, which is another way of letting the others lead you and which, in the data, performs no better: whoever «buys when everyone is selling» as a mechanical rule often buys too early and sells too early. The defence is **not to use the others as information**, in either direction. The written plan of chapter 9 decides weights and bands without knowing what the others are doing; the rebalancing of chapter 10 buys what has fallen and sells what has risen by rule, and the rule does, by construction, the opposite of the herd, without meaning to and without the courage it would take to mean it.

Against recency there is an exercise to repeat at every annual review: look at the returns of the last twenty years, not of the last three, and remember that every year of those two decades was somebody's «last year», the one on which they based a decision. Against availability there is the information diet of chapter 10: one good read a week, none on the days of a crash. Against the fear of missing out there is one question: *if this thing doubled without me, what would change in my goals?* The answer, almost always, is nothing.

The herd works on the things you buy; chapter 6 moves on to the things you keep, and to the wholly internal accounting with which the head decides what something is worth, starting from the most deceptive number in the portfolio: the price you paid.

KEY POINTS

- The herd is a reasonable social shortcut that destroys itself on the markets: the price of what everyone is buying has already risen, and whoever arrives last pays the top price.
- Fund flows record it: record subscriptions at the highs (2000, 2021), redemptions at the lows (2002, 2008, March 2020) and from bond funds in 2022. The gap of chapter 1 is their arithmetic.
- Availability and recency: we weigh the last three years more than the thirty before them and we buy the past chart, the one thing about an investment that you never actually buy.
- The media sell attention, the finfluencers sell emotions: whoever is not answerable for your wealth has no standing to move it. Other people's losses are not visible: the sample on social media is made up of winners.
- Do not do the opposite of the herd: do not use the others as information. Rebalancing does the opposite of the herd by rule, with no courage required.

Markets, products and rules change constantly; the head does not: before every choice, the written plan and a night's sleep.

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06 The anchor and **the mental accounts.**

«I am waiting for it to come back to the price I paid.» «It is bonus money, I can gamble with it.» «I live on coupons alone, I do not touch the capital.» Three sentences every adviser hears every week, and three mistakes of mental accounting: the market does not know what you paid, money has no labels, and a coupon is capital moving from one pocket to another. This chapter dismantles the anchor of the purchase price, Thaler's mental accounts and the frames in which products are presented.

6.1 The purchase price does not exist

The **anchoring** of chapter 2 has a favourite anchor in finance: the **purchase price**, what you paid. It is the number that decides whether an investment is «at a gain» or «at a loss», and therefore, through loss aversion, how you feel when you look at it. But the market does not know it and does not care: the value of a security today depends on what will happen tomorrow, not on what you did yesterday. A share bought at 100 and today at 70 does not «have» to go back to 100 any more than it has to fall to 50; the two are equally likely for someone who bought it at 100 and for someone who bought it at 60.

And yet the purchase price governs millions of decisions: people wait «for it to come back» so that they can sell at breakeven, they sell «because it has done its job» when it reaches a round number, they buy «because it has fallen so far» from a high that will never return. These are all anchors. The only price that counts is today's, and the only question is the one in chapter 9: *at this price, with what I know today, would I buy it?* The purchase price matters to the tax authorities, which tax the difference, and to nobody else.

The other anchors are the **all-time high** («it has lost 40% from its high, it is at a discount»: no, the high was the wrong price, not this one), the **past return** (last year's 12% as the basis for «expecting» 12%), and the **first number** the salesman mentioned, which makes every discount that follows look like a gift. There is only one defence: before looking at any number from the past, write down what you expect from the future, and why.

6.2 Money has no labels

In two papers, one in 1985 and one in 1999, Richard Thaler gave the name **mental accounting** to the tendency to divide money into separate accounts with different rules: the money «for retirement», the money «for the children», «the bonus», «the inheritance», «the winnings». Economically a euro is a euro, but psychologically it is not: people readily gamble with the bonus and never with their salary, they spend an aunt's inheritance lightly and cling anxiously to hard-won savings. His first example, from 1985, is a true story: two couples lose in transit the salmon they had caught on holiday; the airline pays them back 300 dollars and they spend it on a dinner costing 225, «a sum they had never spent in a restaurant»; a yearly pay rise of 150 dollars for each couple, which is worth more, would not have bought that dinner.

Mental accounting is not always harmful: the three buckets of the sister guide on liquidity are mental accounts used well, because they give every sum a job and a horizon. It becomes harmful when it produces decisions that, seen against your wealth as a whole, make no sense: keeping 100,000 euro in a current account earning zero per cent «for safety» while paying interest on a mortgage; investing «the children's money» with extreme prudence for thirty years, which is the longest horizon in the family; treating a capital gain as «found» money, there to be risked. The rule is to look, at least once a year, at **a single set of accounts**: all your wealth, with all your debts, and ask whether each sum sits where its job is.

The most expensive mental account is the one that separates **capital and income**: «I live on coupons and dividends, I do not touch the capital». It sounds prudent, and it pushes you towards the products that promise high coupons (risky bonds, policies, certificates, income-distributing funds) precisely because the coupon looks like «income» and selling a unit looks like «eating into the capital». But a bond paying 6% while its price falls is capital turning into coupons, and a fund that pays out 5% a year takes that money out of its own value. In economic terms a systematic withdrawal from capital (chapter 10) and a coupon are the same thing: only the first is yours to decide.

> IN PLAIN WORDS
>
> Mental accounting is like having ten jars in the kitchen with different labels, and filling one to the brim while another is empty: the larder as a whole is the same, but the decisions change depending on which jar you look at. Once a year you have to empty the jars onto the table and count.

6.3 The frame changes the choice

Tversky and Kahneman showed that the same choice, presented in two ways, produces opposite decisions: a programme that «saves 200 people out of 600» is preferred to one in which «400 people out of 600 die», which is identical. It is called the **framing effect**, and financial products are full of it. «Protected capital» sounds like safety and describes a product that, in exchange, gives up much of the

return and is expensive. «5% coupon» sounds like income and describes capital at risk that pays 5% for as long as things go well. «Average return of 7% over the past five years» sounds like a promise and describes somebody else's past. «Guaranteed» often means guaranteed by someone whose soundness nobody has checked.

The frame also works in the other direction: an index fund described as «passive» sounds lazy, a government bond described as «yielding 3%» sounds meagre, a rebalancing described as «selling what is doing well» sounds foolish. One gesture is enough to defend yourself against the frame: **translate every sentence into euros and probabilities**. «Protected capital» becomes «if the market rises 30% I receive 10, if it falls I receive the capital less the costs». «5% coupon» becomes «5,000 euro a year on 100,000 that may be worth 70,000». Once translated, many choices go the other way.

A table helps you practise. In the left-hand column the sentences as they are spoken; on the right their translation into a single set of accounts:

THE FRAME	THE TRANSLATION
«I am waiting for it to come back to the purchase price»	«I am betting that this security will rise 43% (from 70 to 100), and I have no reason other than my own past»
«It is bonus money, I can gamble with it»	«I am about to invest 10,000 euro of my wealth in a way I would not accept for the other 290,000»
«I live on coupons, I do not touch the capital»	«I withdraw 5% a year and let the issuer decide how much capital to consume in order to pay it to me»
«Capital protected at maturity»	«I give up much of the upside and pay the cost of the protection, so as not to see a minus on my account»
«It has lost 40% from its high, it is at a discount»	«The high was the wrong price; today's price is the only one that counts, and I do not know whether it is at a discount»
«It has returned 12% a year over the past five years»	«Somebody else's past, in a period that will not return; the future starts today»

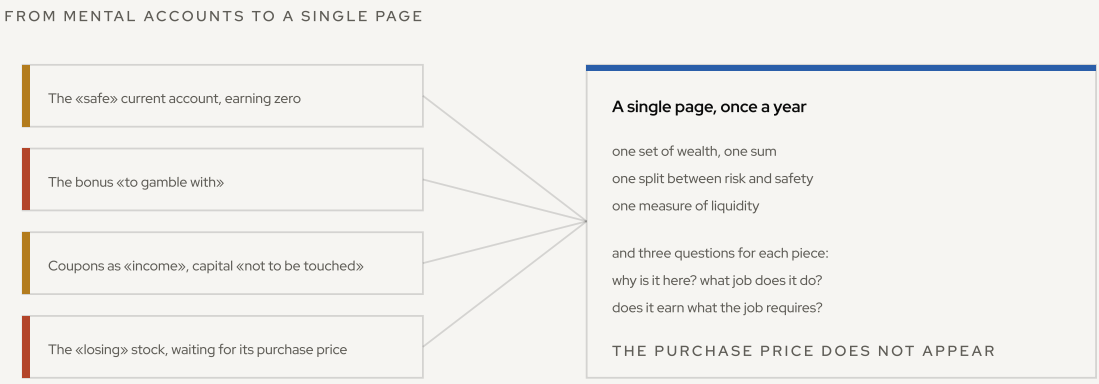
TABLE 1 The frames, translated

6.4 A single set of accounts

The remedy for every form of mental accounting is the same, and it is the dullest gesture in the guide: once a year, at the review of the plan, you put everything on one page. Accounts, deposits, funds, securities, policies, gold, the house and the mortgage, the pension fund, the debts. One sum, one split between risk and safety, one measure of liquidity. The questions this page raises are always the same: why is this sum here? What job does it do? Does it earn what the job requires? And anyone who sees it all at once realises that the purchase price of the individual pieces, the jars and the coupons are details.

The second gesture is **not to look at the purchase price** on the statement, or at least not to read it first. Many platforms display it prominently, with the gain or the loss in green or in red: it is the most powerful frame in existence, and it is the one that feeds the disposition effect of chapter 7. The number to look at is today's value and its share of the total; the rest is an invitation to decide with System 1.

The third gesture concerns other people's frames: when a product is presented with a warm word (protected, guaranteed, coupon, average return, opportunity), the calm-day rule of chapter 9 counts double. You ask for the document with the costs and the scenarios, you translate it into euros, and you sleep on it. Frames work on the day they are spoken; the day after they are just sentences.



Money has no labels: the head puts them on, and uses them to risk too much on one side and too little on the other.

Thaler (1985, 1999); the guide's method diagram.

FIGURE 6 A single set of accounts — Method diagram

KEY POINTS

- The purchase price is an anchor: the market does not know it. A security bought at 100 and today at 70 does not «have» to go back to 100. The only question: at this price, today, would I buy it?
- Mental accounting (Thaler, 1985 and 1999): people gamble with the bonus but not with the salary; they spend the inheritance and hold on to the savings. A euro is a euro: once a year, all your wealth on a single page.
- The most expensive mental account separates capital and income: «I live on coupons» pushes you towards the products that promise them, and a coupon is capital moving from one pocket to another. A systematic withdrawal is the one you decide yourself.
- Framing effect: «protected capital», «5% coupon», «guaranteed», «average return» change the choice without changing the facts. The defence is to translate every sentence into euros and probabilities.
- Do not read the gain or the loss in green or in red first: it is the most powerful frame in existence. Look at today's value and its share of the total.

Markets, products and rules change constantly; the head does not: before every choice, the written plan and a night's sleep.

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07 Winners sold, **losers kept.**

Look at any portfolio held for a long time without a plan: the holdings that gained were sold early, «to bank the result»; those that lost are still there, «waiting for them to come back». This is the disposition effect, the best-measured bias in behavioural finance, and it costs twice over: it makes you sell what would have gone on rising and keep what goes on falling. This chapter shows it with the numbers, explains the sunk cost and the regret that feed it, and gives the rule for getting out.

7.1 Odean's numbers

In 1998, in the *Journal of Finance*, Terrance Odean published an analysis of around ten thousand accounts at a large American broker, from 1987 to 1993. The question was simple: when investors sell, are they more willing to sell a holding at a gain or one at a loss? The measure was carefully constructed: for every day on which a sale took place, the gains realised were counted against the gains available in the portfolio, and the losses realised against the losses available. The result: investors realised **14.8%** of the gains available and only **9.8%** of the losses. In other words, they were one and a half times as likely to sell a winner as a loser.

The phenomenon had been given its name, the **disposition effect**, thirteen years earlier by Shefrin and Statman, who explained it through prospect theory: selling at a gain closes a mental account with pleasure; selling at a loss closes an account with pain, and pain weighs double, so it is put off. Odean added the part that hurts: over the following year, the winners that had been sold returned more on average than the losers that had been kept. Investors were not just making odd choices: they were **systematically choosing the worse side**.

There is an instructive exception in the data: in December the effect flipped, with 12.8% of the losses realised against 10.8% of the gains, because in the United States realising losses by the end of the year reduces the tax bill. When the tax rules give a concrete reason to sell at a loss, people sell. It is proof that the bias is not invincible: an external rule is enough, and an external rule is what the written plan supplies, every day of the year. In Italy too, as the sister guide on gold points out, a capital loss realised with the paperwork in hand is worth a credit for the current year and the four that follow, which can be

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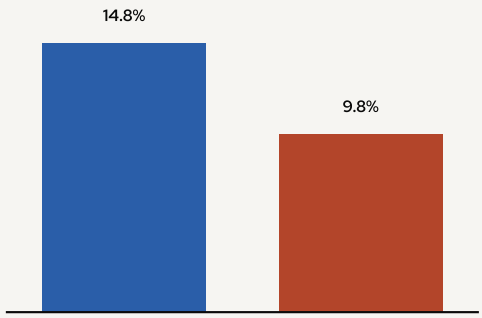
spent against capital gains on shares, bonds and certificates and not against the gains on funds and ETFs, as the sister guide on taxation explains: selling at a loss is not only psychologically right, it is often useful for tax as well.

10,000 AMERICAN ACCOUNTS, 1987-1993: HOW MUCH IS SOLD, AT A GAIN AND AT A LOSS



+3.4 points

the extra return, in the following year, of the winners sold compared with the losers kept

WHAT WOULD HAVE RISEN IS SOLD

A gain is realised one and a half times more readily than a loss; the only exception is December, for tax reasons (Odean, 1998).

FIGURE 7 Odean's numbers — Odean, Journal of Finance (1998)

7.2 The sunk cost

The second engine of the disposition effect is **sunk cost**: the tendency to carry on with an undertaking because a great deal has already been invested in it, even when carrying on no longer makes sense. Arkes and Blumer measured it in 1985 with an experiment at the theatre: those who had paid the full price for a season ticket went to more performances than those who had got theirs at a discount (4.1 against 3.3 in the first half of the season), not because they enjoyed the shows more, but because «otherwise I would have wasted the money». The money was wasted in both cases, on the day of purchase.

The classic example is Concorde, which the French and British governments went on funding for years knowing it would never be profitable, because too much had already been spent. In portfolios, Concorde is the holding bought at 100 that is now worth 40: «I cannot sell now, I would lose 60». But the 60 are already lost, today, whatever you do; the only decision still open is whether the 40 that remain are better invested in that holding or somewhere else. The past is not an argument: it is a sunk cost.

Sunk cost also explains why people put more money into an investment that is falling («I am averaging down my purchase price») without asking whether they would buy it from scratch, and why they stay in an expensive fund «because I have been in it for twenty years now». In every case the liberating question is the same, and it is worth repeating because it is the most important in the guide: **if I did not have this position today, would I open it at this price with this sum?** If not, the rest is archaeology.

IN PLAIN WORDS

Sunk cost is the restaurant where you finish the dreadful dish «because I paid for it». The bill has already been paid; the only thing you are deciding now is whether to suffer a little longer. It is the same with holdings, except that the dish can go on getting worse for years.

7.3 Regret and omission

The third engine is **regret**, and in particular its asymmetry: we regret what we have done more than what we have not done. Selling a holding at a loss is an action, and if it then rises again the regret will be searing and visible («I sold it myself, at the bottom»); keeping it is an omission, and if it goes on falling the regret will be diffuse and deniable («who could have known»). The brain chooses omission, because the regret of action hurts more. The portfolio picks up the bill.

The same mechanism protects our self-image: as long as the holding is not sold, the loss is «not realised», and the mistake is not admitted. Selling means declaring, to yourself and to your spouse, that the decision was wrong. It is a psychological tax on honesty, and many prefer to pay in money. The antidote is to change the question: not «was I wrong?» but «what do I do now with these 40?». The decision diary of chapter 9 helps here too, because it separates the decision from the outcome: a decision taken well with the information available at the time remains a good decision even if it turned out badly, and the other way round.

It is worth noting that the winners suffer from the opposite bias: they are sold early «so as not to risk losing the gain», realising a small pleasure and giving up a return which, in Odean's data, was on average higher. The portfolio that results is the collection of your own past mistakes: full of the losers kept, empty of the winners sold. Peter Lynch described it as «cutting the flowers and watering the weeds», and Warren Buffett took it up, quoting him, in the 1988 letter to shareholders; the phrase, for all its simplicity, is worth a chapter of statistics.

7.4 The rule: look forward

The defence against the disposition effect does not call for courage: it calls for changing the question and the moment. The question is the one in the plan: every position is judged **as if it were new**, ignoring the purchase price and the history. The moment is the annual review, not the day the holding falls or rises: you examine the whole portfolio at once, with the list of ten questions of chapter 9, and decide for each position whether it still has a job in the plan. If not, it is sold, at a gain or at a loss, with the same expression on your face.

For anyone whose portfolio is made of index funds and rebalanced with bands, the disposition effect is almost defused by design: there are no individual holdings to judge, and rebalancing sells a little of what has risen and buys what has fallen, which is the exact opposite of the bias. For anyone who owns individual holdings the rule has to be written down: **no position goes above 5% of your wealth**, so that no loser kept and no winner sold can do too much damage; and every position has, in the diary, the reason why it exists and the condition under which it will be closed.

One practical piece of advice about the statement remains, repeated from chapter 6: if the platform shows the gains in green and the losses in red, look at another column. Green and red are the disposition effect in graphic form, and no rule holds out for long against a stimulus repeated ten times a day. Chapter 8 turns to the last trap in the second part, the one that concerns all your holdings at once: the moment.

KEY POINTS

- The disposition effect (Odean, 1998): investors realise 14.8% of the gains available and 9.8% of the losses, and the winners they sell go on to return more than the losers they keep. You systematically pick the worse side.
- In December the bias flips because the tax rules reward realised losses: an external rule beats it. In Italy a capital loss with the paperwork in hand is worth a credit for the current year and the four that follow, which can be spent against gains on shares, bonds and certificates.
- Sunk cost (Arkes and Blumer, 1985): the 60 lost out of 100 are already lost; the only open decision concerns the 40 that remain. The past is not an argument.
- Regret is asymmetric: action hurts more than omission, so the holding is kept. Separate the decision from the outcome with the diary: a decision taken well remains a good one even if it turns out badly.
- The rule: every position is judged as if it were new, at the annual review, with the same expression at a gain and at a loss; no position above 5%; do not read the green and the red.

Markets, products and rules change constantly; the head does not: before every choice, the written plan and a night's sleep.

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08 The wrong **moment.**

«I'll get out now and come back in when it has calmed down.» It is the most expensive sentence in finance, because the market gives no warning when it calms down: it rebounds on the days that frighten most, and whoever got out the day before watches the rebound from outside. This chapter closes the part on the traps with the costliest of them all, the choice of the moment: the best days that arrive on the worst days, the crises as seen by those who count in euros, the cost of waiting, and the only market timing a plan can allow itself.

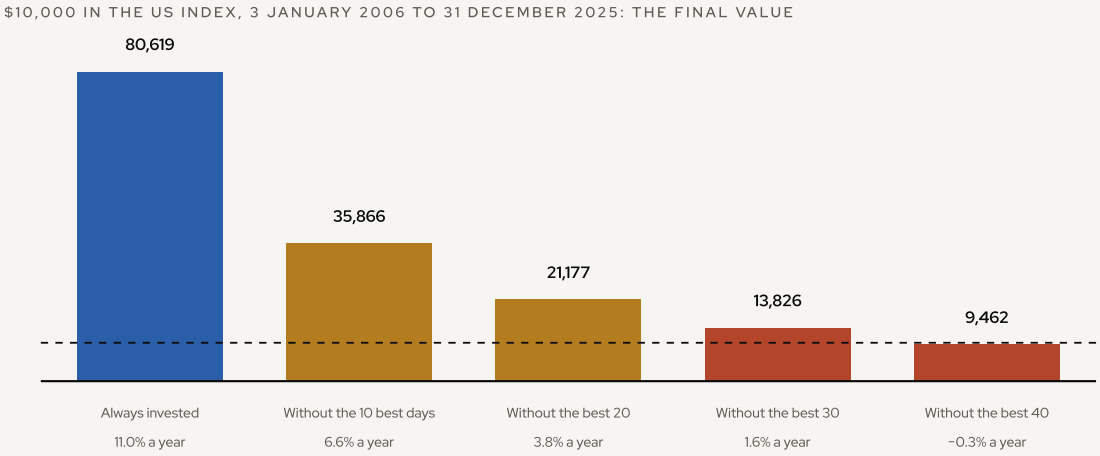
8.1 The best days arrive on the worst days

The asset manager J.P. Morgan does the same sum every year. Ten thousand dollars invested in the American equity index from 3 January 2006 to 31 December 2025, dividends reinvested, became **80,619 dollars**, 11.0% a year. Anyone who stayed out of the market on the **ten best days** of those twenty years (ten sessions out of about five thousand) has 35,866, 6.6% a year: less than half the result. Without the twenty best days, 21,177 (3.8%); without the thirty, 13,826 (1.6%); without the forty, 9,462: less than they put in. The figure shows the scale.

The trap lies not in the number but in the calendar. On the same page J.P. Morgan notes that **six of the ten best days fell within two weeks of the ten worst**, and five of those six came after them, not before. In March 2020 the American index lost 9.51% on Thursday the 12th, the sixth worst session in its history; the next day it gained 9.29%. On Monday the 16th it lost 11.98%, the third worst ever; on the 24th it gained 9.38%. Anyone who sold on the evening of 12 March, or of the 16th, had an excellent reason to do so, and missed the rebound the next morning. Wells Fargo has done the same sum over thirty years (July 1995 to June 2025): 8.45% a year staying invested, 5.56% without the ten best days; three of the thirty best days and five of the thirty worst fell within eight sessions, between 9 and 18 March 2020.

One academic study widened the sample. Javier Estrada (*Journal of Investing*, 2008) examined fifteen equity markets and 160,278 sessions: on average, missing the ten best days leaves you 50.8% less rich than someone who stays invested; avoiding the ten worst makes you 150.4% richer. The exercise is symmetrical, and it is right to say so: anyone who knew how to avoid the worst days would make a fortune. But nobody knows in advance which day will be which, and the extreme sessions are clustered, not scattered: whoever is out on the worst days is out, almost always, on the best ones too. Estrada's

conclusion is that trying to predict those days «seems to be a losing proposition», and the ten days that decide two decades are two sessions in a thousand, less than 0.1% in the longest series he examined.



Ten sessions out of five thousand take away more than half the result; six of those ten days fell within two weeks of the ten worst. The dashed line: the initial 10,000.

FIGURE 8 If you miss the best days — J.P. Morgan Asset Management, Guide to Retirement 2026 (S&P 500, 2006-2025)

8.2 The crises, seen by those who count in euros

The crises an Italian saver has lived through over the past twenty-five years are in the table, measured on world equities in euros, dividends reinvested, on the MSCI series that begins in December 2000:

THE FALL	FROM HIGH TO LOW	LOSS	HIGH REGAINED
After the tech bubble, up to the financial crisis	24 May 2001, 9 March 2009	−53.6%	1 March 2013, after 11 years and 9 months
China and oil	15 April 2015, 11 February 2016	−21.8%	8 December 2016
Rates and tariffs	3 October, 25 December 2018	−16.6%	29 March 2019
Pandemic	19 February, 23 March 2020	−33.8%	7 January 2021
Inflation and rates	4 January, 20 June 2022	−16.9%	14 September 2023
Tariffs	19 February, 21 April 2025	−20.3%	6 October 2025

TABLE 2 The falls of world equities in euros

Seven falls of at least 10% from the previous all-time high in twenty-five years and eight months, one every three years and eight months, four of them of at least 20%: the table shows the six that left a mark, while the seventh, of 15% between January and April 2001, was recovered within seven weeks. On the American index, since 1954, a fall of 10% arrives on average every eighteen months and one of 20% every six years. They are not exceptions: they are the price of admission, and anyone who buys equities knowing they will have to hold them for fifteen years is also buying, on average, four falls of at least 10% from the all-time high and two of at least 20%. The table says two things clearly. The first: **every fall has been recovered**, without exception, including the one that took almost twelve years; over the twenty years from 2006 to 2025, which contain 2008, 2020 and 2022, world equities returned 8.54% a year in euros, more than quintupling the capital, and from 1999 to 2025 they closed at a loss in eight years out of twenty-seven. The second: the recovery arrived **without those who had got out**, because it was concentrated in the days and the months when fear was still at its height.

One detail concerns the currency, and it matters for anyone who reads the American papers but lives in euros. In dollars the world index had already regained its pre-pandemic high on 24 August 2020; in euros only on 7 January 2021, because in the meantime the euro had strengthened from 1.08 to 1.22 dollars. In 2025 the same index returned 21.1% in dollars and 6.8% in euros. The year 2022, finally, stands apart: that year not even bonds protected you. The euro bond index lost 17.2%, its worst year on

record, and a fund that tracks it had lost about a fifth from the high of the end of 2020 to the low of October 2022, a high it has still not regained in September 2026. Italian bond funds saw 17.4 billion leave that year, almost all of it after the fall; and whoever sold bonds at the end of 2022 sold them at the moment when they were yielding more than at any time in a decade: from 2023 the index returned 7.2%, 2.6% and 1.3%. Chapter 11 does the sums for a family that lived through both years.

8.3 Waiting for the right moment

Market timing has a mirror image, less dramatic and just as expensive: not selling, but **not buying**. «I'm waiting for it to fall», «I'm waiting for it to calm down», «I'll go in a bit at a time»: these are the ways in which a sum you already have sits in the account for months or years. Vanguard has measured the cost of waiting in two studies. In 2012, on 60/40 portfolios and ten-year periods ending in 2011 (from 1926 in the United States, from 1976 in the United Kingdom, from 1984 in Australia), investing everything at once beat spreading the sum over twelve months in **67% of cases** in the United States, 67% in the United Kingdom and 66% in Australia. In 2023, on world equities from 1976 to 2022 and with a horizon of one year, the lump sum beat entering in three monthly instalments in 68% of cases, and the three instalments in turn beat idle cash in 69%; on 100,000 dollars, after a year median wealth was 111,940 with the lump sum and 109,580 with the three instalments, in an all-equity portfolio; 109,360 against 107,453 in a 60/40.

The reason is simple: markets rise more often than they fall. World equities in euros have closed higher in more than half of all sessions, about six months in ten and seven years in ten, and every day spent waiting is, on average, a day of gains lost. But the behavioural reason is stronger than the statistical one: **the right moment never arrives**, because the signal that would announce it (the calm, the good news, the index back at its highs) is the same signal that says prices have already risen again. Whoever sold in March 2020 and was waiting «for things to become clear» got that clarity in January 2021, with the vaccines and the index at its highs: 33.6% above the price at which they had sold, and over 50% above it if they had sold at the low of 23 March. Clarity is always paid for, and the price is the price.

Vanguard draws a distinction that this guide adopts. A regular savings plan out of current income (a share of every salary) is not a timing choice: it is the only way of investing money you do not yet have, and it is excellent. Spreading a sum you already have, by contrast, costs on average a couple of points of the one-year result, in exchange for an advantage that is not financial: not being the person who invested everything the day before the crash. Chapter 10 accepts this price for behavioural reasons, and suggests three or four instalments a few months apart for a large sum. What it does not accept is cash waiting for a sign.

IN PLAIN WORDS

Choosing the moment to get into or out of the market is like trying to climb onto a moving roundabout by picking the instant when it is going most slowly: you end up waiting on the ground, and the roundabout never slows down while you are watching it. Whoever has decided to take the ride climbs on, holds tight, and gets off when it is over.

8.4 The only market timing allowed

The defence is not «never move»: it is to move **by rule and not by forecast**. The rebalancing bands of chapter 10 say that when equities go above 65% of the portfolio you sell part of them, and when they fall below 55% you buy more; the scenario rule of chapter 9 says that after a fall of 20% from the high you buy what has fallen, within the month, without argument. Both are a form of market timing, but they work from the price that is there, not the price that is coming, and by construction they do the opposite of the herd: in March 2020 they bought what everyone was selling, without anybody having to find the courage to do it; and in 2022, when everything was falling together, they said to do nothing.

And the right question is never *when*, but **how much**. The share held in equities is decided on the calm day, on the basis of your horizon and your capacity to bear losses, and written down in euros: whoever has 60% of 300,000 euro in equities must have written that a fall of 35% in equities is worth 63,000 euro less in the account, and must have accepted it beforehand. If that number is unacceptable, the answer is not better timing: it is a lower share, decided today, and the rest in instruments that do not swing. The ability to bear the worst day is bought in advance, with the allocation; it is not found on the day itself, by intuition.

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There is, finally, one last trap, which chapter 4 called hindsight bias and chapter 5 recency: after every crisis the crash looks as though it was foreseeable and the recovery a foregone conclusion, and this rewritten memory makes you believe that next time you will be able to get out earlier and get back in at the low. The data in this chapter say the opposite, for everyone, professionals included. The second part ends here: four traps, all with the same mechanism, a decision taken at the moment when System 1 is in command. Part three does not teach you to forecast: it teaches you to decide beforehand.

KEY POINTS

- Ten thousand dollars in the American index from 2006 to 2025 become 80,619; without the ten best days 35,866, without the thirty 13,826, without the forty less than the starting sum (J.P. Morgan, 2026). Six of the ten best days fell within two weeks of the ten worst: whoever gets out after a crash misses the rebound.
- World equities in euros lost 53.6% between 2001 and 2009, 33.8% in 2020, 20.3% in 2025: seven falls of at least 10% in twenty-five years and eight months, all recovered, always without those who had got out. In 2022 not even bonds protected you (−17.2%).
- Whoever counts in euros does not live through the American crises: the 2020 high came back in dollars in August 2020 and in euros only in January 2021; in 2025, +21% in dollars, +7% in euros.
- Waiting for the right moment costs: investing at once beats entering in instalments in two cases out of three (Vanguard) because markets rise in more than half of all sessions and in seven years out of ten; and the «clear» moment arrives when prices have already risen again.
- The only market timing allowed is timing by rule: rebalancing bands and the −20% rule. The question is not when, but how much: the share held in equities is decided on the calm day and written down in euros.

Markets, products and rules change constantly; the head does not: before every choice, the written plan and a night's sleep.

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III

PART THREE · CHAPTERS 9–13

The **defences.**

How the gap is closed: the written plan, the automatisms, one family on two roads, the levee and the salesman, the words.

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09 The ropes **of Ulysses.**

Ulysses wanted to hear the song of the sirens without ending up on the rocks. He did not rely on his own willpower: he had himself tied to the mast and ordered his companions not to untie him, whatever he might shout. It is the first behavioural defence in history, and it remains the best: deciding on the calm day what you will do on the day of the storm, and putting it in writing. This chapter builds a family's written plan, with the rules that take the decision away from the wrong moment.

9.1 Deciding beforehand, not during

The philosopher Jon Elster gave this strategy the name it deserves in a 1979 book titled, aptly enough, *Ulysses and the Sirens*: **precommitment** (*pre-impegno* in Italian). It means limiting your own future freedom in advance, because you know you will be less lucid then than you are now. If you put the alarm clock across the room from the bed, keep no sweets in the house, or pay your salary into an account you cannot draw on without notice, you are doing exactly this. In finance, precommitment has a precise form: **the written plan**.

The logic is the one behind the two systems in chapter 2. On the calm day System 2 is awake, it has time, it reasons about probabilities and horizons; on the day of fear System 1 is in command, and no reasoning you do in that moment is really reasoning. The written plan moves the decision from the second day to the first: when the storm arrives, you do not decide, **you execute**. And executing a rule takes no courage, only obedience to yourself.

There is one detail in the story of Ulysses that carries a lesson of its own. The ropes were not enough on their own: it also took the companions, wax in their ears, who could not hear the song and would not give in to his pleas. In part three of the guide the companions have two names: the **automatisms** of chapter 10, which execute without hearing, and the **levee** of chapter 12, the person you charge with not untying you.

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9.2 What a written plan contains

Professionals call it an *Investment Policy Statement*, and the large foundations do not move a euro without one. For a family two pages are enough, but they must answer six questions, in this order. **Why**: the goals with their date (retirement in twenty years, the children's university in eight, the house in three) and their priority. **How long**: the horizon of each goal, which decides how much risk is bearable for that sum. **How much risk**: the maximum loss you are willing to see in the account without changing the plan, written in euros, not in percentage terms (30% of 300,000 is 90,000: that is how it must be written). **How**: the weights of equities, bonds, cash and gold, with the bands within which they may swing before you intervene. **When**: the calendar of reviews (once a year) and of contributions. **What I will do if**: the rules for the foreseeable scenarios.

The last question is the most important and the least often answered. A plan that does not say what you will do when the market falls by 20% is not a plan: it is a wish. The rules must be written as operating instructions, in the form «if X happens, I do Y», and Y must be something you can carry out without thinking: *«If equities fall 20% from the high, I rebalance towards the plan's weights within the month, buying what has fallen. I do not sell. I do not look at the account more than once a week. I do not buy anything that was not already in the plan.»* Anyone who wrote that sentence in 2019 carried it out in March 2020 almost without effort; anyone who had not written it had to invent it on the worst day, and did not manage it.

The plan is written once, signed (literally: on your own or with your adviser) and then reread at the annual review, and every time you feel the need to «do something». In most cases the need has passed by the second page. The figure sums up the structure; chapter 11 shows a plan at work in 2020 and in 2022.

> IN PLAIN WORDS
>
> The written plan is like a living will: you draw it up while you are healthy, to decide what you want done once you are no longer able to decide it. Nobody writes their living will in intensive care. Nobody should write their investment strategy in the middle of a crash.

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FIGURE 9 The written plan in six questions — Method diagram

9.3 The rules of the calm day

Besides the scenario rules, three rules of method have proved effective against the biases of part two. The first is **the night rule**: no transaction the plan does not provide for is carried out on the same day it comes to mind. You write it down, you sleep on it, you reread it. There is no magic deadline (some say 72 hours), but there is a fact: most financial impulses do not survive a night's sleep, and those that do survive deserve at least System 2.

The second is the **premortem**, an exercise devised by the psychologist Gary Klein and recommended by Kahneman: before an important decision you imagine that a year has passed, that the decision has turned out to be a disaster, and you write in five lines the story of how it went wrong. The premortem sidesteps the overconfidence of chapter 4, because it does not ask «can it go wrong?» (answer: no) but «tell the story of how it went wrong» (answer: surprisingly easy).

The third is the **decision diary**, which Kahneman named without hesitation when he was asked what the single most useful thing for an investor was (Michael Mauboussin tells the story): buy a cheap notebook and jot down every non-routine choice in three lines, with the date, the reason and what you expect. You do not keep it to judge yourself: you keep it to beat hindsight bias, the bias that rewrites memory and makes you believe you «knew it all along». Rereading, a year later, the reasons why you bought that holding or sold that fund is the cheapest lesson an investor can buy, and the diary is the only way to receive it.

9.4 The list of ten questions

The surgeon Atul Gawande showed, in a celebrated book, that a simple checklist reduces mistakes in the operating theatre more than any appeal to attention: not because surgeons do not know what to do, but because under pressure they forget to do it. The investor is in the same position, and a list serves the same purpose. This is the guide's own list, to be filled in before every transaction that is not a scheduled contribution or a calendar rebalancing:

QUESTION	THE BIAS IT INTERCEPTS
1. Was this transaction provided for in the written plan?	All of them: if the plan did not provide for it, it is probably an impulse
2. What has changed in my goals, not in the markets?	Recency, the herd: the markets change every day, the goals do not
3. Would I buy this holding today, at this price, if I did not own it?	Disposition effect, sunk cost, anchoring to the purchase price
4. Where does the idea come from: from the plan, from a news item, from a person?	Availability, the herd, authority
5. What do I lose if I am wrong, in euros, and can I afford it?	Overconfidence, illusion of control
6. What is the story of the premortem?	Overconfidence, hindsight bias
7. Who makes money if I do this? (fees, inducements, spread)	The salesman who exploits the biases
8. Have I slept on it since the idea came to me?	System 1: the impulse does not survive sleep
9. What would my adviser say, or the most prudent person I know?	The herd, overconfidence
10. Have I written it in the diary, with the reason and the expectation?	Hindsight bias

TABLE 3 The ten questions

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Ten questions, five minutes. They do not stop you deciding: they stop you deciding *without noticing*, which is all that behavioural finance asks. Chapter 10 adds the most powerful defence of all: the one that does not even take the five minutes, because it works on its own.

KEY POINTS

- Precommitment (Elster, 1979): limiting tomorrow's freedom today, because tomorrow you will be less lucid. In finance it is called the written plan: on the day of fear you do not decide, you execute.
- A plan answers six questions: why, how long, how much risk (in euros), how (weights and bands), when (the calendar), what I will do if. Without the last one it is a wish.
- The scenario rules are written as instructions: «if equities fall 20%, I rebalance by buying what has fallen, I do not sell, I do not look at the account more than once a week».
- Three rules of method: a night's sleep before any transaction the plan does not provide for; the premortem (telling the story of how it went wrong); the decision diary against hindsight bias.
- The list of ten questions before every transaction: the first one, «was this in the plan?», catches almost every impulse on its own.

Markets, products and rules change constantly; the head does not: before every choice, the written plan and a night's sleep.

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10 The **autopilot.**

The most effective defence against your own mistakes is the one that does not have to be carried out: the automatism. A contribution that leaves on its own, a rebalancing that follows the calendar and not your mood, an app that is no longer on your phone. Research has measured this in spectacular fashion: changing the default option, without taking away anyone's freedom to choose, almost doubled participation in pension plans. This chapter puts the autopilot to work for the written plan.

10.1 The power of the default option

In 2001 the economists Brigitte Madrian and Dennis Shea studied an American company that had changed one single thing in its pension plan: new hires, instead of having to ask to join, were enrolled automatically and could leave whenever they wanted. The freedom was identical, the information identical, the cost identical. Participation went from **49% to 86%**. Nobody had persuaded anybody: the only thing that had changed was the answer you got by doing nothing.

In 1998 Richard Thaler and Shlomo Benartzi had already tried out the *Save More Tomorrow* programme at a manufacturing company, and they published the results in 2004: employees committed part of their *future* pay rises to saving, without touching their present pay. Those who signed up went from a saving rate of **3.5% to 13.6%** over forty months and four pay rises. The programme turned three biases to good use: inertia (once you are enrolled, you do not leave), loss aversion (your take-home pay never falls) and the fact that giving up future money hurts less than giving up present money. Out of these ideas came the book *Nudge* (2008) and Thaler's Nobel prize.

The lesson for a family is direct: **do not count on your own discipline, design your own inertia**. Every decision that repeats itself (paying in, rebalancing, not looking) should be turned into a default option that runs on its own, so that the only thing that takes any effort is stopping it. The sections that follow do this for the three decisions that matter.

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10.2 Paying in without deciding

The **regular savings plan** is the oldest and most underrated automatism: a fixed sum that moves from your current account into your investments on the same day every month. In financial terms it is not the most profitable strategy on average: someone who has a sum available now and invests all of it beats someone who spreads it over twelve months in about two cases out of three in the history of the markets, according to Vanguard's analyses, simply because markets rise more often than they fall. But the regular savings plan is not a financial strategy: it is a **behavioural strategy**, and on its own ground it has no rivals.

It does three things that no monthly decision would do. It removes market timing, because the day of the contribution is set by the calendar: in March 2020 the regular savings plan was buying at a discount while the investor who was free to choose was selling. It removes regret, because no single contribution is «the wrong one». And it turns saving into a default option: the money no longer lingers in the account, so it does not get spent and you do not «wait for the right moment» to invest it, which is the moment that never comes. For a sum you already have, this guide suggests a middle way: invest it in three or four instalments a few months apart, giving up a little expected return in exchange for the certainty of not being the person who invested everything the day before the crash.

The automatic contribution should be paired with a **systematic withdrawal** if you live off your wealth: a fixed monthly sum that moves from the investments to the current account, set once a year at the review and independent of coupons and dividends. It is the antidote to the mental account of «I live on coupons alone» in chapter 6, and to its perverse effect of pushing you towards the products that promise high coupons.

> IN PLAIN WORDS
>
> An automatism is the thermostat in your home: nobody adjusts the heating by hand every hour, and not because they are incapable, but because the thermostat does not forget, is not afraid of the cold and does not read the forecasts. The regular savings plan and rebalancing with bands are the thermostats of your wealth.

10.3 Rebalancing with bands

Rebalancing is the rule that turns volatility from an enemy into an ally. The plan sets the weights (for example 60% equities and 40% bonds) and the bands within which they may swing (for example five points). When equities rise above 65%, you sell part of them and buy whatever has lagged behind; when they fall below 55%, you do the opposite. There is no forecast: there is a threshold and an action. The mechanical result is that you sell a little of what has become expensive and buy a little of what is at a discount, which is exactly what System 1 would never do.

The evidence says that rebalancing serves above all to **keep the risk where the plan put it**: in Vanguard's data going back to 1926, a 60/40 portfolio that was never rebalanced drifted to an average equity weight of 84%, and a final weight of 98%, with nobody ever deciding that it should, and a volatility of 14 against 12; checked once a year with bands of 5%, it called for 28 interventions in 84 years and held the average weight at 61%. On return the effect is small and depends on the period (Vanguard singles out annual or semi-annual monitoring with a 5% threshold as a «reasonable balance» for most investors); on behaviour it is enormous, because it gives the investor **something to do on the day of fear** other than selling. In March 2020 those who had a rebalancing rule bought equities; those who did not tried to guess the bottom, and most of them guessed wrong.

The right frequency is low: you check the weights once a year, at the review, or when a market move is large enough to suggest that a band has been crossed. With physical gold, as the sister guide on gold reminds you, you rebalance in a few moves years apart; with securities held at the bank a single order is enough. Chapter 11 works through the numbers of a rebalancing carried out in March 2020, when the threshold was triggered, and of a review at the end of 2022 in which the rule says to do nothing.

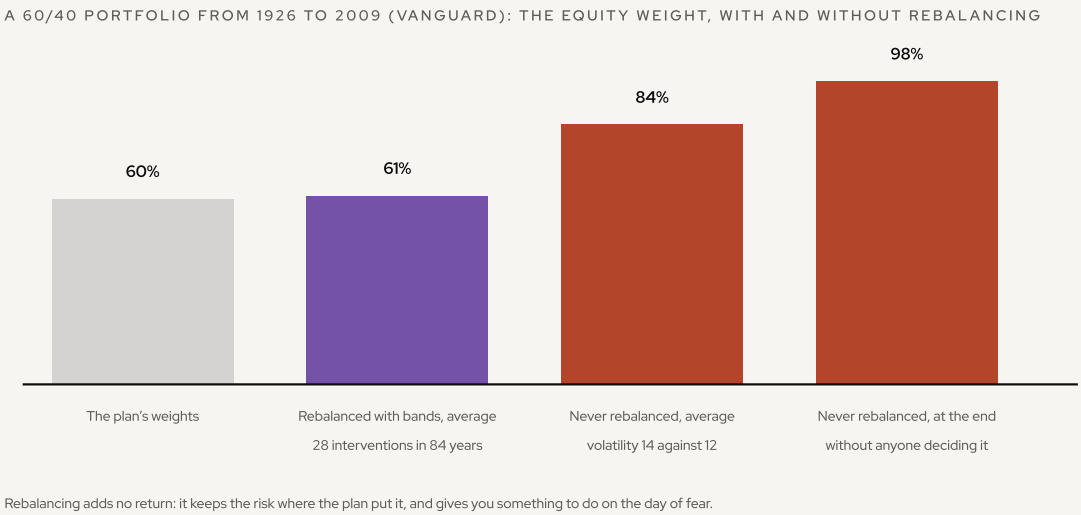

FIGURE 10 Rebalancing keeps the risk where the plan put it — Vanguard, Best practices for portfolio rebalancing (2010)

10.4 Low-frequency information

An anecdote has been circulating in the industry for years: a large American fund house is said to have discovered that the accounts with the best results belonged to clients who had forgotten they had them, or who had died. The study was never published, and the story goes back to a quip on a podcast in 2014; but the real evidence does exist, and it is Barber and Odean's from chapter 4: those who do not touch anything earn more. The third decision to automate is therefore **how often to look**. Chapter 3 showed that the more often you look at your portfolio, the more losses you see, the more afraid you are and the worse you invest. The automatism here is an absence: **the bank's app does not sit on your**

phone, prices do not sit on your home screen, the statement arrives once a quarter and is read once a quarter. It is the wax in the ears of Ulysses' companions: you do not resist the song, you simply never hear it.

The same goes for the news. A reasonable diet for a long-term investor is one good read a week and none at all on the days of a crash, which is exactly when the temptation to read is strongest and the usefulness of doing so is lowest: what you read on those days is an account of what has already happened to prices, seasoned with forecasts worth just as much as the previous day's. If you want to know what to do on the day of a crash, do not read the paper: reread the second page of your own plan.

There is, finally, an automatism that concerns your wealth as a whole, and the sister guide on liquidity calls it the three buckets: the everyday cash, the cushion for the unexpected kept one day away, and the rest invested. It is not only a matter of organisation: it is a behavioural defence. If you know that the next two years' spending is safe, you can leave your investments in peace on the day of the crash, because you **do not need that money tomorrow**; if you keep everything in a single account, you see the crash as a threat to your spending, and you sell. The structure of your wealth decides, in advance, how much fear you can afford.

KEY POINTS

- Do not count on discipline: design inertia. Automatic enrolment: participation from 49 to 86% (Madrian and Shea, 2001); Save More Tomorrow: saving from 3.5 to 13.6% over forty months (Thaler and Benartzi, from 1998, published in 2004).
- The regular savings plan is not the most profitable strategy on average (investing at once wins two out of three times), but it is the best behavioural defence: it removes market timing, regret and spending.
- Rebalancing with bands: weights and thresholds set in the plan; you sell what has become expensive and buy what is at a discount by rule, not by forecast. It keeps the risk where the plan put it and gives you something to do on the day of fear.
- Low-frequency information: no app on your phone, a quarterly statement, one read a week, none on the days of a crash.
- The three buckets of the guide on liquidity are also a behavioural defence: if the next two years' spending is safe, you can leave your investments in peace.

Markets, products and rules change constantly; the head does not: before every choice, the written plan and a night's sleep.

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11 One family, **two roads.**

Giulia and Andrea have 300,000 euro, a goal fifteen years away and the same portfolio: sixty per cent in world equities, forty in euro bonds. We follow them from 31 December 2019 to 31 December 2025, through March 2020, 2022 and the recoveries, along two roads: on the first they decide when the need arises, on the second they had decided beforehand, on two signed pages. Same products, same markets, same money. Only the head changes; and in the end so do 166,000 euro.

11.1 The family, the portfolio, the plan

Giulia is 48 and teaches; Andrea is 50 and a middle manager at a company; two children aged 16 and 19, and their house with no mortgage. At the end of 2019 they have 300,000 euro, from an inheritance and twenty years of saving, and a clear goal: to supplement their pension from 2035. The next two years' spending is covered by their incomes and by a cushion kept to one side, following the logic of the three buckets in chapter 10. The portfolio is the same on both roads: **180,000 euro in an index fund tracking world equities** (the MSCI World index, dividends reinvested, in euros) and **120,000 in an index fund tracking euro bonds** (the Bloomberg Euro Aggregate index). Sixty and forty.

On **road A** the family has written nothing: «we'll decide when the time comes». The bank's app is on Andrea's phone, and he follows the news. On **road B**, in December 2019, on a calm day, Giulia and Andrea filled in the two pages of chapter 9: the goal and the date; the fifteen-year horizon; the maximum loss accepted, written in euro («a fall of 35% in equities is worth 63,000 euro less in the account: we accept it»); the weights, 60 and 40, with bands of five points; the review every 31 December; and the scenario rule: *«If equities fall 20% from their high, we rebalance to the weights in the plan within the month, buying what has fallen. We do not sell. We do not look at the account more than once a week.»* Signed by both of them, and by the person who advises them.

The case is reconstructed for illustration: the people do not exist, the numbers do. Equities are valued at the official daily levels of the index; bonds at the annual return of the index, treated as flat in the intervening months for simplicity; no costs and no taxes are counted, on either road, and the sums parked by road A earn, where the text says so, an assumed 3% a year, a generous figure. Neither road is favoured by construction: ignoring taxes helps road B, which realises a gain at every rebalancing, and the 3% credited to the deposit account helps road A.

11.2 2020: the month of fear

On 19 February 2020 the world equity index in euros reaches its high, at 338.5 points. On Monday 9 March it closes 22% below: it is the first day beyond the 20% threshold, and on road B the rule has been triggered. On Thursday the 12th the American market loses 9.5%, on Monday the 16th 12%. On 23 March the index touches its low, 224.2 points, 33.8% below the high: the 180,000 euro of equities are worth **128,000**. Italy is shut indoors, the television news counts the dead, nobody knows how long it will last. By 31 March the index has climbed back to 254.6; the family's equities are worth 145,377 euro, 34,600 less than at the end of December.

That day the two roads part. On road A Andrea sells the equities: «let's wait until things become clear». He banks 145,377 euro, which stays in the account, and keeps the bonds. On road B, on the same day, Giulia and Andrea execute the rule: they sell 13,849 euro of bonds and buy equities, bringing the weights back to 60 and 40. They do not think it is the low; they think nothing. They execute a sentence written four months earlier, on a day when it was easy to write.

Then the market climbs back, as always without warning: 296.8 at the end of June, 311.6 at the end of August, 322 on 9 November, the day of the vaccine, 335.1 at the end of the year, 6.3% above the level of twelve months before. At the end of 2020 road B is worth **320,024 euro**; equities have risen to 65.5% and the December review sells 17,613 euro of them to go back to 60 and 40. Road A is worth 270,177 euro: 145,377 sitting in the account and 124,800 of bonds. A difference of fifty thousand euro, in the same year, with the same products. On 7 January 2021, when the papers write that the market has recovered everything, Andrea goes back in: he buys the equities at 340.0 points, **33.6% above the price** at which he had sold them. He sold at 100 and bought back at 134.

> IN PLAIN WORDS
>
> Road A did not make a bad forecast: it chose the wrong moment to decide. Road B did not guess the low: it did not even try. It did what a pilot does in turbulence: execute the procedure written on the ground, with the time and the calm that are not available at ten thousand metres.

11.3 2021-2022: the year when nothing protected

2021 is an easy year: world equities return 31.1% in euros, bonds lose 2.85%. At the end of the year road A is worth 309,031 euro, at last above the 300,000 it started with, two years later; road B is worth **376,029**, and since equities are at 66.9% the review sells 26,050 euro of them to buy bonds. With hindsight, it is the worst moment to buy bonds; but the plan does not have hindsight, it has a band, and the band does one thing only: it keeps the risk where the family had put it.

2022 is the year when nothing protects you. Rates rise, equities lose 12.8% and bonds 17.2%, the worst year for the index since it began. On road A the portfolio falls to **264,221 euro**, 36,000 below the capital of three years before: «even bonds are losing», and in the last session of the year Andrea sells everything and moves the sum into short-dated government bonds and a deposit account. He is not alone: in June 2023 the first issue of the BTP Valore will raise 18.2 billion euro from 654,675 contracts. For the three years that follow, the guide credits him with an assumed 3% a year. On road B the portfolio is worth 321,378 euro; equities are at 61.2%, inside the bands, and the December review says: no transaction. Giulia writes in the diary: «2022, everything lost; the plan says nothing; nothing executed».

From 2023 the markets climb back: equities return 19.6%, then 26.6%, then 6.8%; bonds 7.2%, 2.6% and 1.3%. Road B goes to 368,899, then to 435,006 (equities are at 68.5%: the 2024 review sells 36,946 euro of them), and closes 2025 at **454,844 euro**. Road A goes to 272,147, 280,312 and **288,721**: the deposit account does its job, 3% a year, and nothing more.

11.4 The sums, and the lesson

The summary, date by date, with the level of the equity index in euros:

DATE	INDEX	ROAD A	ROAD B
31 December 2019	315.2	300,000	300,000
23 March 2020, the low	224.2	248,028	248,028
31 March 2020	254.6	265,377, sells the equities	265,377, buys 13,849 euro of equities
31 December 2020	335.1	270,177	320,024, sells 17,613 euro of equities
7 January 2021	340.0	buys the equities back	no transaction
31 December 2021	439.2	309,031	376,029, sells 26,050 euro of equities
31 December 2022	383.1	264,221, sells everything	321,378, no transaction
31 December 2023	458.2	272,147	368,899
31 December 2024	580.1	280,312	435,006, sells 36,946 euro of equities
31 December 2025	619.3	**288,721**	**454,844**

TABLE 4 Six years, two roads

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Road B returned 7.2% a year; road A lost 0.6% a year. **A difference of 166,123 euro**, more than half the starting capital, with the same two funds and the same markets. Nobody on road B forecast anything: in six years it made four transactions, all on a day decided by the calendar or by a threshold, and all of them contrary to what the majority was doing. Road A took three decisions, all on a day of fear or of weariness, and all of them together with the majority.

Where did road A lose? First in the round trip of 2020: selling at 254.6 and buying back at 340.0 left behind, for good, 33.6% of 145,377 euro, about 48,800; and in March there was no good day to sell: anyone who had sold at the low of the 23rd would have taken in 128,028, still less than the 145,377 at the end of the month, and would in any case have bought back higher. What costs you is not the day, it is the exit. Then, and above all, in the exit of 2022: three years out of the market, while equities returned 62% and bonds 11%, against the 9% of the deposit. The figure puts the three results side by side, because there is a third number to state honestly: anyone who had touched nothing, ever, would have closed 2025 with 465,556 euro, **more than road B**, but with equities risen to 76% of the portfolio, a risk the family had not chosen. Rebalancing gave up about 11,000 euro of return in order to keep the risk where the plan had put it, and above all it gave road B, in March 2020, something to do that was not selling.

The lesson is not «buy and hold», which everyone knows and which road A knew perfectly well. The knowledge was identical on the two roads: both knew that markets recover. The difference was two pages written on a calm day, a rule that decided for them, and a person who reminded them of it. Which is the question the guide's path closes with, in chapter 12: **who decides, on the worst day?**

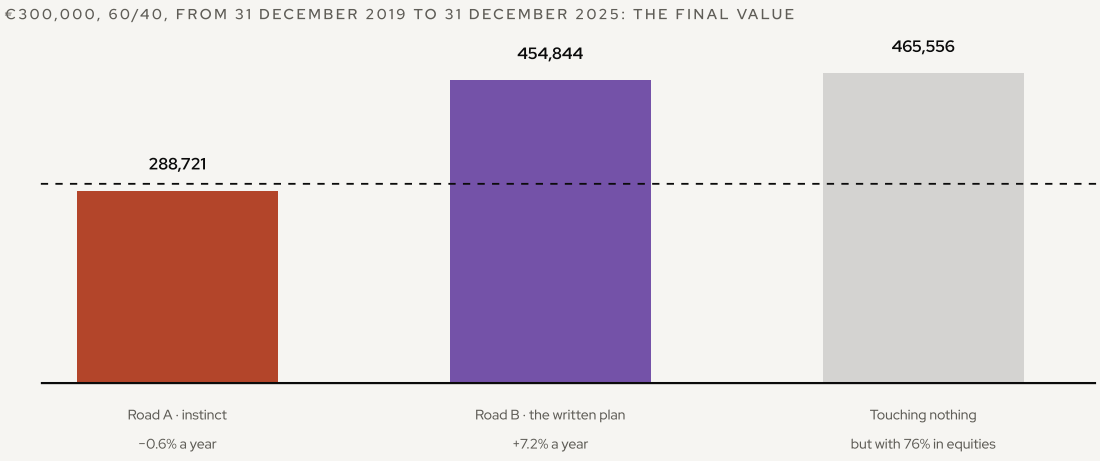

FIGURE 11 Two roads, six years — Case reconstructed for illustration; MSCI and Bloomberg indices, assumptions in the text

KEY POINTS

- The same 300,000 euro, the same two funds (60% world equities, 40% euro bonds), the same six years: the road without a plan closes 2025 with 288,721 euro, the one with the written plan with 454,844. The difference, 166,123 euro, is more than half the starting capital.
- March 2020: road A sells the equities at the end of the month and buys back on 7 January 2021, 33.6% higher, when the papers say the market has recovered. Road B executes the −20% rule: it buys what has fallen, without thinking about the low.
- 2022: equities −12.8%, bonds −17.2%. Road A sells everything and goes into a deposit account; road B, inside the bands, does nothing and reaps the recovery of 2023-2025.
- Anyone who had touched nothing would have had even more (465,556), but with 76% in equities: rebalancing does not add return, it keeps the risk where the plan put it and gives you something to do on the day of fear.
- The knowledge was identical: the difference is two pages, a rule and a person who reminds you of them. No day in March was the right one: what costs you is not the day, it is the exit.

Markets, products and rules change constantly; the head does not: before every choice, the written plan and a night's sleep.

12 The levee **and the salesman.**

Ulysses had companions with wax in their ears; a family has an adviser, if it wants one. But not everyone who goes by that name does the same job: some are paid to keep you still on the day of fear, and some are paid to make you move, and the biases of this guide are the working capital of the second kind. This chapter is the pivot of part three: what you buy when you pay an adviser, how to tell the levee from the salesman, and the question that decides everything, «who decides on the worst day?».

12.1 What you buy, when you buy an adviser

The value of an adviser does not lie in forecasting markets, which nobody can do, nor in choosing the best funds, which the statistics give little reason to attempt. It lies, according to the most quoted measures, elsewhere. The American asset manager Vanguard, in its series of studies *Advisor's Alpha*, estimates that advice done well can be worth **up to about three percentage points of net return** compared with the average do-it-yourself investor (a value that arrives «intermittently», not every year), and attributes the largest slice, between one and two points, to a single item: **behavioural containment**, which means stopping the client from selling in 2008, in March 2020 and in 2022, and from buying in 2000 and in 2021. The other items are the usual ones: low costs, rebalancing, tax efficiency, a sensible withdrawal plan.

It is a self-interested estimate, because Vanguard addresses it to advisers, and it should be read as such; but it is consistent with the gap of chapter 1, which measures how much the average investor leaves on the table when going it alone, and it is the reason this guide has a chapter on the adviser and not one on the best funds. The value of advice is concentrated in a few nights a year, the ones in which the client rings up to sell and somebody reminds them of the second page of the plan. For the rest of the year the adviser seems to be doing nothing, and that is the sign that they are doing their job.

The flip side is that this value exists only if the adviser really is a levee: if their interest lies in keeping you still and not in making you move. And it is here that the Italian advice market, as the Consob figures show, has a transparency problem before it has a quality problem.

12.2 The levee: what the law asks of them

Since 2018 the European MiFID II directive, transposed into the Consolidated Law on Finance (the TUF) and into the Consob Intermediaries Regulation, has set the boundaries of the job. Anyone who provides advice must gather information about your **knowledge and experience, about your financial situation, including your capacity to bear losses, and about your objectives, including your risk tolerance**, and recommend only instruments suitable on all three counts; before every transaction they must hand you a written **suitability statement** explaining why that recommendation matches you. The questionnaire that many people fill in absent-mindedly at the bank is, in origin, the instrument by which the law forces somebody to write your plan for you. Filling it in with care, and asking to read it through, is the first free defence.

The second rule concerns **costs**: every year you must receive a personalised statement with all the costs borne, in euro and as a percentage, with the payments received from third parties shown separately and with an illustration of the cumulative effect on the return. It is the sheet the guide on invisible costs teaches you to read, and that few people read: in the 2022 Consob Report only 35% of the investors interviewed knew that advice is a service you pay for, and among those who were being advised 42% were convinced they paid nothing.

The third rule distinguishes the two jobs. Advice provided **on an independent basis** (art. 24-bis of the Consolidated Law) requires the adviser to assess an appropriate range of instruments available on the market, sufficiently diverse in type and issuer and forbids accepting and retaining payments from third parties: the adviser is paid by the client alone, on a fee basis. Anyone who provides it outside banks and adviser networks is entered, if a natural person, in the register kept by the OCF, in the section for **«consulenti finanziari autonomi»** (financial advisers on their own account): at the end of 2025 there were 851 of them, plus 103 advice firms, against almost 55,000 tied financial advisers on the register, of whom just over 38,000 hold a current mandate, who work on behalf of a single intermediary and are paid by it. The register is public, can be searched by name on the OCF website and shows any disciplinary measures in force: it is the first check to make, before any meeting.

> IN PLAIN WORDS
>
> An independent adviser is like the family doctor who does not sell medicines: they can get it wrong, and they too have an interest (keeping the client and the fee), but they do not earn from what they prescribe. An adviser paid by the products can be excellent, but they work with a conflict in their pocket, and on the day when your interest and theirs diverge, the law asks them to declare it and not to let it sway them, not to give up the inducement.

12.3 The salesman: the biases as working capital

Expensive products are mostly sold by exploiting the traps of part two, and spotting them is the quickest way to recognise a salesman. **Anchoring** to past returns: the table with the five best years. The **frame**: «protected capital», «coupon», «guaranteed», which chapter 6 learned to translate. **Urgency**: the placement that closes on Friday, the window that will not come back, the rate «locked in» for a week. **Complexity** as reassurance: structured products and policies with fifteen pages of terms, where the cost is legal but unreadable. The **status quo** dressed up as loyalty: the fund bought twenty years ago that «has always done its duty», never compared with anything.

Behind the techniques there is a measured incentive. ESMA, the European Securities and Markets Authority, has estimated, in the reports on fund costs published between November 2025 and March 2026, that when the manufacturers pay the distributors, **inducements are worth on average 45% of the ongoing costs** of a fund; that Italy has, together with Portugal, the highest costs in Europe for equity funds; and that on 10,000 euro invested for ten years a retail saver has paid about 1,700 euro in ongoing costs, almost double what an institutional investor paid. A study commissioned by the European Commission (DG FISMA, 2022, corrected in 2023) found that products paying inducements cost 24-26% more than those that do not. The rule counts double when the person making the recommendation is paid by the manufacturer: it is not dishonesty, it is physics.

The frontier of the trade is digital. Trading platforms have turned dealing into a game, with confetti and leaderboards, and in January 2025 a Consob legal working paper was devoted to the «gamification» of investing; **finfluencers** received a warning notice from Consob in June 2025 and, in January 2026, suggestions from ESMA, which recall that telling people what to invest in may be advice, and that advice requires authorisation. The clearest case is **CFDs**, the leveraged contracts on price movements: a 2019 Consob measure, which made the 2018 European rules permanent, obliges every provider to state prominently, on its website and in every communication, the share of its retail clients' accounts that lost money over the last twelve months, recalculated every quarter, and in September 2026 three of the main operators active in Italy declared 72, 77 and 81%. It is the only financial product with the percentage of losers printed on the door; people go in all the same, and that is the guide's last lesson on System 1.

12.4 The pivot: who decides on the worst day?

Everything that has gone before converges in one question, to be asked today, on the calm day: **who decides, on the worst day?** If the answer is «I do, in the moment», chapter 3 has already told you how it ends. There are three answers that work, and they add up. **The plan** decides: the scenario rules of chapter 9, written and signed, say what to do when equities fall by 20%, and on that day you do not decide, you execute. **The automatisms** execute: the contribution goes out, the rebalancing buys what

has fallen, the app is not involved. **The levee** holds: a person who has read the plan with you, who does not profit from your agitation, and who on the worst day answers the phone with the second page in hand.

The levee can be an adviser, and in many cases that is the right choice; it can be, where the wealth is simpler, a trusted person with whom you have shared the plan and whom you have asked explicitly to say no; it can be, failing anything else, the diary and the night rule. What it cannot be is nobody: in the research, willpower on its own is the defence that works worst, which is why the studies in chapter 10 measure automatisms and not good intentions. Ulysses, who was the most cunning of men, knew this, and had himself bound.

One last word on the relationship between client and levee. The adviser does not decide in your place: **you are the owner of the plan**, and the adviser is its custodian. A good levee will tell you no when you want to sell in March and when you want to buy in November, and will tell you yes when you want to change the plan on the calm day, with the reasons written down. If they always say yes to you, that is not a levee: it is a door. The table closes with the questions that tell one from the other. The two columns describe two ways of working, not two categories of people: an adviser paid by the products can behave like a levee, and one on their own account like a salesman; the first row says only which way the incentive leans to begin with. The glossary that follows gathers the words to speak about it properly:

QUESTION	THE LEVEE	THE SALESMAN
Who pays you?	The client alone, on a fee basis; entered in the own-account section of the OCF register	The intermediary or the manufacturer, with inducements on the products
What do you give me in writing?	A plan with objectives, weights, bands and scenario rules; the costs statement in euro	A product proposal, with the suitability statement treated as a formality rather than an explanation
What do you tell me on the day of the crash?	«Let's read the second page of the plan again; we rebalance as written»	«This is the moment to protect yourself» or «this is the moment to seize the opportunity»
How many transactions do you propose in a year?	Few, by the calendar; the rest is «do nothing»	Many, with a new reason every time
How do you talk about past returns?	As somebody else's history; what counts is how much risk you carry	As a promise, with the table of the five best years
What happens if I say no?	Nothing: the plan stays, and it comes up again at the review	A deadline, a window that is closing, a rate that expires on Friday

TABLE 5 The levee and the salesman, compared

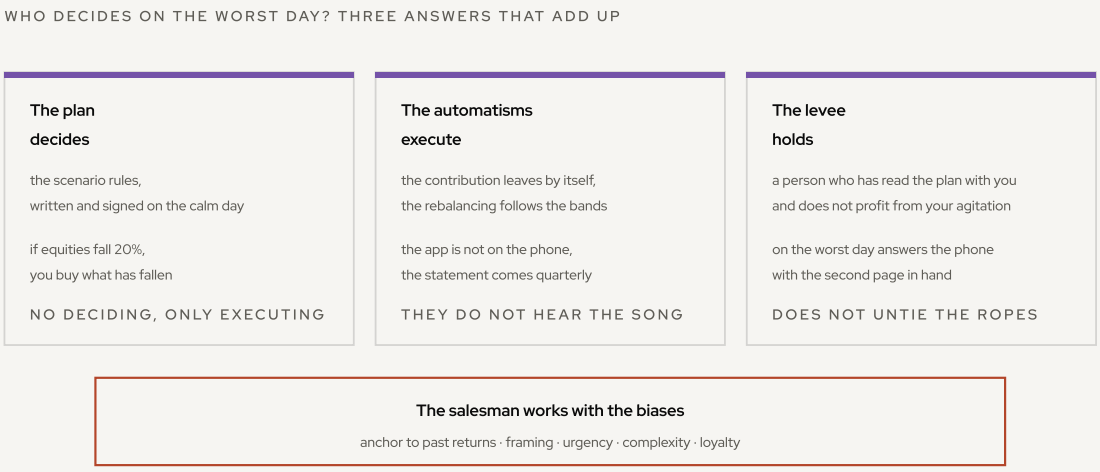

FIGURE 12 Who decides on the worst day — Method diagram

KEY POINTS

- The measured value of advice (Vanguard, Advisor's Alpha) reaches about three points of net return, intermittently, and the largest slice (one to two points) is behavioural containment: a few nights a year in which somebody stops you selling.
- The law (MiFID II, the TUF, the Consob Regulation) asks the adviser to know your capacity to bear losses and your risk tolerance, to hand over a suitability statement before every transaction and an annual costs statement in euro. Filling in the questionnaire with care is the first free defence.
- Two jobs: advice provided on an independent basis (art. 24-bis TUF, paid by the client alone, 851 advisers on their own account and 103 firms at the end of 2025) and advice paid for by the products (almost 55,000 tied advisers). Among the investors interviewed by Consob in 2022, only 35% knew that advice is paid for.
- The salesman works with the biases: anchoring to past returns, frames, urgency, complexity, loyalty. Inducements are worth on average 45% of the ongoing costs of funds (ESMA 2025); CFDs state on the door that 72-81% of their clients lose money.
- The pivot: who decides on the worst day? The plan decides, the automatisms execute, the levee holds. You are the owner of the plan; a levee that always says yes is a door.

Markets, products and rules change constantly; the head does not: before every choice, the written plan and a night's sleep.

13 The words **of behaviour.**

The words of behaviour, plus the three legal terms you need for chapter 12, in alphabetical order and in plain English. Once you have learned them, you recognise them in your own sentences before they turn into transactions.

13.1 A–H

Advice on an independent basis. The service in which the adviser assesses an appropriate range of instruments available on the market and may neither accept nor retain payments from third parties: the client alone pays (art. 24-bis of the Consolidated Law on Finance, the TUF).

Anchoring. Starting from a number (the purchase price, the all-time high, the past return, the first figure the salesman mentions) and adjusting far too little. The wheel experiment: 10 or 65 shift the estimate from 25 to 45.

Bias. A systematic error of judgement, predictable in its direction: not an accident, but a tendency. You correct it with external rules, not with willpower.

Decision diary. Three lines for every non-routine choice: date, reason, expectation. The only antidote to hindsight bias.

Disposition effect. Selling the winners and keeping the losers (Shefrin and Statman, 1985; Odean, 1998: 14.8% of the available gains are realised against 9.8% of the losses).

Endowment effect. What is ours is worth more: the mugs of 1990 (Kahneman, Knetsch and Thaler). In portfolios it is called attachment.

Framing effect. The same choice, described in two ways, produces opposite decisions («protected capital», «5% coupon», «guaranteed»). You defuse it by translating into euros and into probabilities.

Herd. Buying what everyone is buying and selling what everyone is selling: the record fund inflows at the highs and the record redemptions at the lows.

Heuristics. The shortcuts of System 1: representativeness, availability, anchoring (Tversky and Kahneman, 1974). Excellent in life, dangerous on the markets.

Hindsight bias. Believing, afterwards, that you knew beforehand («it was obvious»). It rewrites memory and feeds overconfidence.

Home bias. Concentrating the portfolio on your own country, mistaking familiarity for competence. Italy is less than 2% of the world market.

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13.2 I–O

Inducements (retrocessions). The payments a product manufacturer passes on to whoever distributes it. They are allowed only if they raise the quality of the service and do not impair the duty to act in the client's best interest, and they must be disclosed; in Europe they are worth on average 45% of the ongoing costs of the funds that carry them.

Investor return gap (or behaviour gap). The difference between a fund's return and the return obtained by the person who owns it, produced by getting in and out at the wrong moments: about a point a year in Morningstar's measurements.

Loss aversion. A loss weighs about 2.25 times as much as an equal gain (prospect theory; the coefficient is from Tversky and Kahneman, 1992). It is the root of selling on the day of fear, of the endowment effect and of inertia.

Market timing. Getting in and out to anticipate the market's movements: «I'm waiting for it to fall», «I'm waiting for it to calm down». It costs you the best days, which arrive close to the worst.

Mental accounting. Dividing money into accounts with different rules (the bonus, the inheritance, the children's money, the coupons). Useful for giving each sum a job, harmful when it produces absurd decisions about your wealth as a whole (Thaler).

Myopic loss aversion. Looking at the portfolio too often makes you see more losses, bear less risk and earn less (Benartzi and Thaler, 1995).

Night rule. No transaction the plan does not provide for is carried out on the same day it comes to mind. You write it down, you sleep on it, you reread it.

Overconfidence. Overestimating your abilities and the precision of your estimates. It makes you trade too much: the most active earn seven points a year less than the least active (Barber and Odean, 2000).

13.3 P–W

Precommitment. Limiting tomorrow's freedom today, because tomorrow you will be less lucid: the ropes of Ulysses (Elster, 1979).

Premortem. Imagining that the decision has already failed and telling the story of how it went wrong (Klein, Kahneman). It sidesteps overconfidence.

Rebalancing with bands. Restoring the plan's weights when they move outside a threshold (five points, for example): you sell what is expensive and buy what is at a discount by rule, not by forecast.

Recency. Weighing the last three years far more than the thirty before them, and projecting the recent trend into the future as if it were a law. It is the engine of the herd: you buy the past chart, the one thing an investment does not sell you.

Regret. Action hurts more than omission, and so you keep what ought to be sold. You treat it by separating the decision from the outcome.

Regular savings plan. A fixed automatic contribution: not the most profitable strategy on average, but the best behavioural defence.

Status quo. Between changing and not changing, the mind chooses not to change, because change contains a possible loss (Samuelson and Zeckhauser, 1988). The inertia of the 1,163 billion sitting in current accounts.

Suitability statement. The document the adviser hands you before every recommended transaction, explaining why that recommendation matches your knowledge, experience, financial situation and objectives.

Sunk cost. Carrying on because money has already been spent: the 60 lost out of 100 are already lost; all that counts is what to do with the 40 (Arkes and Blumer, 1985).

System 1 and System 2. Fast, automatic, emotional thinking, and slow, effortful, deliberate thinking (Kahneman, 2011). Costly financial decisions belong to the first, signed by the second.

Written plan. The six questions (why, how long, how much risk, how, when, what I will do if) decided on the calm day and signed. On the day of fear you do not decide: you execute.

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CLOSING NOTE

The rules of **the calm day.**

This guide ends here; the decisions do not. The human factor cannot be eliminated: it is governed, and it is governed in one way only, by deciding beforehand. The rules decided on the calm day, written and signed, are the difference between wealth that crosses the crises and wealth that realises them; and a family that has them, with someone to remind them of them, has already done the hardest part of the job of investing.

If, while reading, you recognised yourself in a trap (the stock that «will come back», the account that must not be touched, the news that made you sell, the app opened ten times a day), that is the signal that the most useful part of the work begins now: writing the plan, and choosing who will keep it with you.

A confidential conversation, with no obligation, is the simplest way to find out together. The contacts are on the last page.

Massimiliano Silla

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To be read **before deciding.**

This guide has an exclusively educational and informative purpose. It is not investment advice, a personal recommendation or an offer of financial products to the public; it is not legal or tax advice. The rules proposed (written plan, rebalancing bands, automatisms, checklists) are general planning criteria: every decision should be taken on one's own concrete situation, where needed with the assistance of an independent professional.

The data and references cited are current as at September 2026, unless otherwise indicated: the academic studies are cited with authors, venue and year of publication, and the numbers reported are those of the originals; the measures of the gap come from Morningstar, from DALBAR and from the academic studies cited in chapter 1; the Italian data from Consob, the Bank of Italy, the OCF and Assogestioni, the European comparisons from ESMA; the index returns from the sources indicated in the chapters. The percentages of losing clients of CFD providers are those displayed on their websites on 9 September 2026 and change every quarter. The information comes from public sources considered reliable, which are nonetheless not guaranteed.

The numerical examples are hypothetical and serve only to illustrate the mechanisms described; the characters of chapter 11 do not correspond to real people, and their case uses the historical returns of the indices cited with the assumptions stated in the text. No instrument, operator or product cited constitutes a suggestion to buy or sell; the names of companies, platforms and products appear only as documented examples of the behaviours described.

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A first confidential conversation, with no obligation, to see where to start.

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