The Role of Economic Psychology in Financial Advising: Understanding Psychological Biases and Their Influence on Financial Advisors in Sweden

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Candidate Declaration

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I certify that the dissertation entitled:

submitted for the degree of: MSc in International Business Management is the result of the my own work and that where reference is made to the work of others, due acknowledgment is given.

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Abstract

The Russian invasion of Ukraine in 2022 resulted in significant financial disruptions, impacting global markets and leading to increased inflation and interest rates. This study investigates how financial advisors in Sweden navigate the current economic climate, focusing on economic psychology and the influence of psychological biases in the advisory process. Specifically, it explores advisors' awareness of biases such as overconfidence, risk aversion, the disposition effect, and mental accounting, assessing how these biases affect their recommendations and decision-making. Through semi-structured interviews with nine financial advisors, the study analyses the extent to which SwedSec's 2020 knowledge requirements on economic psychology have been adopted and their effectiveness in mitigating psychological pitfalls. The findings suggest a divided understanding of economic psychology among advisors, with many relying on standardized tools to avoid the influence of biases, though some advisors exhibit overconfidence and a reliance on mental accounting. The research highlights the importance of continuous education on behavioural finance to enhance the quality of financial advice, especially in times of economic uncertainty.

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1. Introduction

1.1 Background

The Russian invasion of Ukraine, which began on February 24, 2022, triggered significant disruptions in global financial markets. Within a week, the OMXS30 index fell by 8%, and by the end of the year, it had dropped by 16% (Nasdaq OMX Stockholm, 2024). This contrasted sharply with the market's performance during the COVID-19 pandemic in 2020, when the OMXS30 initially plunged by 30% but rebounded to end the year up by 5% (ibid). The ongoing war has also impacted key commodity exports, particularly oil, natural gas, and wheat, further exacerbating economic challenges (OECD, 2022). The constrained supply of Russian energy resources, coupled with the disruption of wheat exports, has led to sharp price hikes in energy and food, fueling inflation across Europe (Konjunkturinstitutet, 2022). To combat rising inflation, the Swedish Central Bank gradually increased the key interest rate throughout 2022 and 2023. However, inflation peaked at 12% in February 2023, the highest level recorded in Sweden since the early 1990s, despite the interest rate hikes (SCB, 2024a). The rate remained at 4% between September 2023 and May 2024 before being lowered to 3.5% in August following a reduction in inflation to 2.6% (Riksbanken, 2024; SCB, 2024a). Despite the lowered key rate, average floating mortgage rates were 4.7% by June 2024 (Finansportalen, 2024), significantly higher than the 1.5% rate before the invasion (SCB, 2024b). These volatile economic conditions have presented significant challenges for investors, prompting many to seek financial advice. Previous research has shown that during periods of economic uncertainty, such as the 2008 financial crisis, investors are more likely to consult financial advisors (Cheng et al., 2019). This raises the question of how financial advisors are providing guidance to clients in today's economic landscape.

Private investors often fall into psychological pitfalls during difficult economic periods, which can lead to irrational investment decisions. One common pitfall is overconfidence, where investors overestimate their knowledge and abilities, leading to increased risk-taking and more frequent trading, often resulting in lower returns (Barber & Odean, 2000). Other psychological factors, such as risk aversion and the disposition effect, further complicate decision-making. Risk aversion tends to increase during times of uncertainty, potentially leading investors to choose low-growth investments, which can erode value during inflationary periods (Thaler, 2016; King, 2011). The disposition effect, where investors sell winning assets and hold onto losing ones, can also lead to suboptimal portfolios (Shefrin & Statman, 1985).

Moreover, the concept of mental accounting, where investors compartmentalize their finances into separate accounts, often results in missed opportunities for portfolio synergies (Krase et al., 1994). These psychological pitfalls are especially pronounced during economic downturns (Barberis et al., 2001; Bauer & Dahlquist, 2001; Winchester et al., 2011), such as the 2008 financial crisis. During that time, many investors sold off stock holdings in favor of safer options like savings accounts, missing out on subsequent market rebounds (Kimes, 2010; Winchester et al., 2011). Research has also shown that investors who seek financial advice are better able to avoid these pitfalls. Those who consult advisors are 50% more likely to maintain a long-term investment strategy, avoiding short-term emotional decisions (Winchester et al., 2011). This highlights the crucial role financial advisors play during times of economic stress.

Financial advisors, however, face their own challenges. They must balance their responsibility to clients with ethical obligations, ensuring that they provide sound advice that avoids conflicts of interest (Oxenstierna, 2018). Additionally, financial advisors can themselves fall prey to psychological pitfalls such as overconfidence (Kaustia & Perttula, 2012). In recognition of this, SwedSec introduced a new knowledge requirement in 2020, mandating that advisors maintain a solid understanding of economic psychology. To help financial advisors learn about economic psychology, a new knowledge requirement was introduced in SwedSec's advisory license in 2020 (SwedSec, 2020a). Annually, all advisors who want to retain their SwedSec license undergo a knowledge update, which includes topics that SwedSec's Disciplinary Committee deems should be repeated (SwedSec, 2024). The annual knowledge update for 2021 included the knowledge requirement and the topic of economic psychology and financial decision-making (SwedSec, 2020b). However, economic psychology was not included as a topic in the annual knowledge updates for 2022, 2023, and 2024 (SwedSec, 2020b; 2021; 2022; 2023). Given these omissions, it is worth exploring how well financial advisors understand economic psychology and its influence on the advisory process today.

1.2 Problem Formulation

Previous studies have examined the role of psychological factors in the behaviour of both private advisors and investors within stock market contexts. Karlsson & Wahlström (2020), for example, explored how financial advisors were affected by psychological biases such as framing and anchoring. This study expands upon their work by investigating additional psychological biases in a different economic climate. Similarly, Burman & Erlandsson (2021) analysed how private investors were influenced by these biases during the COVID-19 crisis, highlighting the role of psychological pitfalls during market downturns. While these studies focused on investors and prior crises, this research shifts the focus to advisors and the current economic environment.

Understanding how financial advisors are influenced during crises is critical, as these biases may negatively impact client investments. Unlike individual investors, financial advisors are licensed professionals, but holding a SwedSec advisory license does not automatically safeguard them from psychological biases. The importance of economic psychology in financial advising was only introduced in 2020 (SwedSec, 2020a), leaving a gap in knowledge for advisors who received their licenses prior to this period. Understanding economic psychology is highly relevant, especially since previous research has shown that psychological pitfalls occur more frequently during economic crises (Winchester et al., 2011). This study thus aims to highlight and analyse how this phenomenon manifests in practice, hoping to provide insights and understanding for financial advisors. Therefore, there are strong incentives to investigate how advisors handle customers' risk preferences, how they work with clients in the advisory process, and how advisors are affected by psychological biases. It is relevant to investigate this to understand how financial advisors operate, enabling a potential comparison of how financial advisors work under different economic conditions.

1.3 Purpose

The purpose of this study is to investigate how financial advisors provide advice and recommendations to clients during the current economic climate. Specifically, the study will assess how advisors have integrated the 2020 SwedSec advisory license's knowledge requirements on economic psychology into their practice. Additionally, it will explore the extent to which advisors acknowledge being influenced by psychological biases in their decision-making processes. Lastly, the study seeks to identify effective strategies that advisors employ to mitigate these biases and enhance the quality of their financial advice.

1.4 Research Questions

To fulfil the study's purpose, the following research questions have been addressed:

- What is the level of financial advisors' awareness of psychological biases and psychological factors?
- How have financial advisors worked to enhance their understanding of behavioural psychology in light of the new knowledge requirements in SwedSec's advisory license 2020?
- Can psychological biases or factors, such as prospect theory, the disposition effect, mental accounting and overconfidence be observed in the advisory process?
- What methods or techniques do financial advisors use to avoid falling victim to psychological biases or being influenced by psychological factors themselves?

1.5 Limitations

This study only aims to study financial advisors with an active advisory license issued by SwedSec in Sweden and not globally. Due to the study's time constraints, it was chosen to only investigate psychological biases from the advisors' perspective and not from the clients' perspective. Another limitation has been made regarding the size of the capital that the advisors manage and has been set to advisors' whose main clients has investable assets between SEK 1.000.000-5.000.000 (roughly €100.000-500.000). The study was conducted during 2024, meaning the timeframe is limited to this period.

2. Theoretical Framework

2.1 Financial Advice

It is important to understand what financial advice is and what an advisor can and cannot do in their work to analyse their work from a behavioural psychology perspective. Both companies and private individuals can, with the help of financial advice, for example, get a better handle on their finances, investment opportunities, asset allocation, and financing. Financial markets offer private individuals a range of different investment options, such as stocks and funds. Furthermore, many private individuals may find financial markets difficult or complicated, which creates a need for financial advice (Oxenstierna, 2018). However, research shows that people with higher financial knowledge seek financial advice more often than those with lower financial knowledge, resulting in those who may need financial help or support the most not receiving it (Calcagno & Monticone, 2015). To become a financial advisor, it is required to meet high and comprehensive knowledge requirements. These requirements ensure the advisor's knowledge and knowledge within the regulatory framework that governs financial advice (Oxenstierna, 2018). For example, the knowledge requirements include laws about financial markets, knowledge of the products sold on the securities market, and the relationship between return and risk (ibid). In addition, the advisor needs a SwedSec license to be able to work as a financial advisor.

To work as a financial advisor in the securities market, the advisor must have an active advisory license issued by SwedSec. SwedSec's advisory license is obtained by taking a test with 120 questions that assess the advisor's knowledge in four different areas: products and handling of customer transactions, economics, ethics and regulations, and pensions and insurance (SwedSec, 2024). To pass, 70% correct answers are required (ibid). After the license is approved, the advisor must annually update their knowledge through a test called the annual knowledge update. The licensor has a disciplinary procedure where misconduct and deviations from the rules are reported (Oxenstierna, 2018). The consequences of rule violations can range from a warning to the advisor losing their license (ibid).

Financial advice is not only regulated by licenses or workplace regulations but also by several different laws. Decisions about laws regarding advice and financial markets come from EU directives (Oxenstierna, 2018). Two of these laws are the Securities Market Act (2007:528) and the Financial Advice to Consumers Act (2003:862). The Swedish Financial Supervisory Authority works to maintain order in the financial markets in Sweden and to uphold good consumer protection (Mitelman Lindholm, 2022). Examples of cases that the Financial Supervisory Authority monitors and handles are indications of insider trading and market manipulation (ibid). Part of the Financial Supervisory Authority's job is also to issue regulations (FFFS), review laws that may need to be adjusted, and provide general advice to actors in the financial market

(Oxenstierna, 2018). The Financial Supervisory Authority's regulations and general advice on financial advice to consumers (FFFS 2004:04) contain provisions on the requirements placed on advisors. The knowledge requirement includes how advice has been presented during the advisory meeting, through documentation requirements, information obligations to the customer, and following good advisory practices (ibid). The regulation applies to all financial advisors according to the Financial Advice to Consumers Act (2003:862). The purpose of highlighting the regulatory framework behind advisors' work is to create more knowledge about the actual requirements for advisors, in order to analyse this with the collected empirical data later in the report.

2.2 Rationality

2.2.1 Rationality

Rationality is a central concept in economic theory. The classical economic perspective is based on the market being efficient and people being rational, which drives them to create portfolios according to portfolio selection theories (Statman, 2014). The rational investor is defined, according to Herbert A. Simon (1955), as the economic man. The economic man is assumed to have complete, or nearly complete, information about his surroundings (Simon, 1955). Furthermore, the economic man has clear preferences and knows how to maximize utility based on the different options he faces (ibid). The market is the sum of the actions of individual investors. If most investors in financial markets act in line with the economic man, it results in rational and therefore efficient markets. The Efficient Market Hypothesis, according to Fama (1970), describes that prices in financial markets reflect all available information in the market. There are three conditions for the market to be efficient (ibid). The first is that there are no transaction costs in the market; further, all available information should be accessible to all market participants, and finally, all participants should agree on the final price (Fama, 1970). However, not all markets are efficient, such as in emerging markets where transaction costs and information costs can lead to inefficiency in the market (Jacobs, 2016). The hypothesis also assumes that the market is expected to act rationally on all available information, making it impossible for individual investors to systematically and risk-adjusted outperform the market. According to economic theory, it is rationality that underlies how investors and markets behave, not psychological pitfalls or factors.

2.2.2 Bounded Rationality

The other perspective on rationality is a behavioural finance perspective that argues people can act irrationally. Psychological and emotional factors can cause people to deviate from rational behaviour. The psychological perspective is based on the idea that people do not always act rationally, that markets are not always efficient, and that portfolios are not constructed according to financial theories (Statman, 2014). Furthermore, expected returns can be explained by several aspects beyond just different risk levels (ibid). Bounded rationality manifests in people when the decision taken is valued as "good enough" instead of the best alternative, or when people simplify a complex situation (Simon, 1955). For example, traditional economic theory explains that investors are risk-averse and only take risks if the reward is high, but Nofsinger (2018) argues the opposite. In reality, people behave differently from the theory because people are risk-averse when, for example, they take out insurance but are risk-seeking in other situations such as a lottery (Nofsinger, 2018). Thus, people are risk-averse to varying degrees depending on the situation they face. Bounded rationality and psychological biases go hand in hand because psychological factors can lead to irrational behaviour in humans. Therefore, this is an important building block in understanding psychological pitfalls in the advisory process.

2.3 Dual-Process Theory

As an introduction to psychology in economics and psychological biases, the dual-process theory is presented. When people face a decision, two different cognitive systems are at work during the decision-making process. Dual-process theory is a theory that describes the two systems that govern how people think and make decisions (Kahneman, 2011). The first system is the fast system, which allows people to make decisions in no time (ibid). This system operates automatically and is used for simple everyday thinking that people do subconsciously without much thought. Characteristics that distinguish the intuitive System 1 are that it works quickly and associatively (Kahneman & Frederick, 2002). When people are faced with more complex decisions that may sometimes feel challenging, System 2 is activated to assist (Kahneman, 2011). Controlling, effortful, and self-awareness are some of the characteristics that distinguish the reflective System 2 (Kahneman & Frederick, 2002). Furthermore, the two systems work together, with System 1 sending several different proposals to System 2, where the proposals are then evaluated and either accepted or rejected.

2.4 Behavioural Finance

2.4.1 Prospect Theory

Prospect theory is a theory about how people make decisions under uncertainty. In a study by Daniel Kahneman and Amos Tversky (1979), they criticized the economic theory of expected utility and developed an alternative model, known as prospect theory. The theory emerged from a study in which the responses showed that people do not always make decisions according to utility theory (Kahneman & Tversky, 1979). Prospect theory is a theory within the behavioural finance perspective that describes how people respond to risky alternatives after a previous loss or gain (Kaustia, 2010). The value function in the theory is concave for gains and convex for losses, and it is also steeper for losses (Kahneman & Tversky, 1979). The fact that the upside and downside are not symmetrical in the value function means that people do not feel as strong positive emotions when they gain 500 SEK as they feel strong negative emotions when they lose 500 SEK (Nofsinger, 2018). At the same time, the value function shows that people feel happier when they gain 500 SEK but not twice as happy when they gain 1,000 SEK, which is explained by the diminishing slope of the curves (Kahneman & Tversky, 1979). Furthermore, prospect theory shows that individuals' risk preferences are influenced by the situation they face (ibid). In the case of a guaranteed loss, risk-seeking increases if they have the chance to neutralize the loss, but in the case of a guaranteed gain, risk-seeking decreases if they have the chance to increase the gain (Thaler, 2016). The reason why individuals tend to increase risk-seeking when facing losses but not when facing gains is rooted in the asymmetric value function (ibid). In summary, prospect theory is a useful theory when analysing people's attitudes towards risk and uncertainty in decision-making.

2.4.1.2 Risk Aversion

How people perceive, value, and manage risk can vary between individuals, resulting in different levels of risk aversion. Risk aversion refers to individuals' reluctance to take financial risks, where previous financial losses can lead to increased risk aversion, while previous gains can reduce risk aversion (Massa & Simonov, 2005). Further research shows that other factors also contribute to risk aversion. One contributing factor to risk aversion is older age, mainly due to a shorter investment horizon as a result of the higher age (Brooks et al., 2018). A shorter investment horizon means that individuals have less time to recoup losses, so they choose to reduce their risk (ibid). Other previous research also shows the relationship between investment horizon and risk, for example, that a longer time horizon for an investment reduces the risk (Thaler, 1995; Statman, 1999). It is important for financial advisors to understand and consider their clients' own risk preferences when conducting financial advice, as risk levels can vary between clients.

People also behave differently towards risk when managing other people's money—they can become more risk-averse (Fullbrunn & Luhan, 2015; Eraslan et al., 2022). This may be because the clients' risk aversion affects the person investing the money, leading to lower risk-taking (ibid). Furthermore, clients' money is often invested with a long investment horizon and is not actively managed (Eraslan et al., 2022). The low-risk appetite affects advisors, who depend on clients for income from commissions and fees (ibid). Therefore, advisors avoid taking risks that could result in a bad reputation for the financial institution or cause clients not to return for new investments because an investment generated poor returns (Eraslan et al., 2022). Risk aversion can result in risk-free or completely absent investments, which can lead to low returns (Parrish, 2020). In difficult economic times, risk aversion tends to increase, which can result in investors withdrawing all their invested money or reallocating it to risk-free assets with low growth (ibid). The effect of low or no-growth investments during times of high inflation is negative because the money loses value (King, 2011). Because risk aversion has been shown to be more common during difficult economic times, it is important to understand whether this also affects financial advisors in the advisory process.

2.4.2 The Disposition Effect

Admitting one's mistakes is something that people, both subconsciously and consciously, tend to avoid—not only in real life but also in the stock market when it comes to realizing gains and losses. Emotions such as anxiety and pride stand in the way of managing a stock portfolio completely rationally. The disposition effect can be seen in investors, resulting in the tendency to "sell winners too early and hold losers too long" (Shefrin & Statman, 1985, p. 3). When an investor sells winners instead of losers, it can be explained by the psychological burden of having to realize a loss, which leads to anxiety and is evidence of a poor investment (Shefrin & Statman, 1985). Anxiety is one part of the theory, and the other part is based on pride. Investors feel proud when they sell a security and make a profit instead of a loss (ibid). In this study, this will analyse the empirical data considering the disposition effect when it comes to advisors' decisions to sell off assets in a portfolio.

A portfolio with stocks that perform well combined with dividend payments results in a good return on the portfolio. This is something that is difficult to achieve with a portfolio consisting only of losing securities. Investors tend to hold onto losers longer in the portfolio than stocks that are performing well (Shefrin & Statman, 1985; Nofsinger, 2018). An example of this is that if an investor buys a stock on the stock market that then increases in value, the investor will sell the stock shortly thereafter to realize the profit and thus experience a sense of pride (Schlarbaum et al., 1978; Nofsinger, 2018). However, if the stock decreases in value after the purchase, the stock will be kept in the portfolio until the price has turned around (ibid). This results in a portfolio with losers, which leads to the portfolio generating poor returns (Coval & Shumway, 2005; Locke & Mann, 2005).

2.4.3 Mental Accounting

The division and valuation of financial activities differ between people. Mental accounting is the cognitive division of a person's financial activities (Thaler, 1999). The behavioural science theory shows that people tend to divide their activities into different mental accounts, rather than seeing and valuing all accounts together (ibid). Individuals' tendency to focus only on one account at a time results in missed synergies between the accounts (Krase et al., 1994). The division into several mental accounts can therefore contribute to a non-diversified asset allocation because the interaction between the assets in the total portfolio is not considered (ibid). Thus, it is of interest to investigate whether financial advisors view all the client's assets as a whole or if they divide the client's financial activities into different mental accounts.

Assets that make up the total portfolio can be both tangible and intangible; examples of assets that should be considered may include a house or securities. However, it can be difficult for private individuals to diversify their asset portfolio, as Statman (2004) suggests that a fully diversified portfolio should contain 300 different assets. However, there is some disagreement about how many assets are required to achieve a diversified portfolio. For example, Campbell et al. (2001) suggest that 20 assets are sufficient to diversify away company-specific risk and that this is enough for a portfolio to be considered diversified. Therefore, a financial advisor needs complete information about all the client's assets in order to optimize and diversify the client's portfolio.

The division of financial activities into different mental accounts can, however, be advantageous even though it may contribute to a poorer asset allocation. One advantage is that an investor can more easily specify risk levels over separate mental accounts than they can over a combined total portfolio (Das et al., 2020). Unlike classical portfolio theory, where a portfolio with all assets is optimized, the investor instead gets several smaller and individually optimized portfolios with fewer assets (ibid). The portfolio optimizations across multiple mental accounts are, however, less efficient than a combined optimized portfolio because they generate a lower return for the same level of risk (Das et al., 2010). However, the lower efficiency can be balanced out by the fact that risk preferences can be more easily specified by the investor in their different mental accounts.

2.4.4 Overconfidence

People tend to overestimate their own performance and knowledge. Overconfidence can be divided into three parts: over-precision, overestimation, and the better-than-average effect (Olsson, 2014). Over-precision means that individuals subjectively overestimate the accuracy of their own estimates (ibid). This can mean that they underestimate the uncertainty in their own estimates and believe that their estimates are more accurate than they are. Overestimation refers to the tendency of individuals to overestimate their own performance, resulting in a belief that they have performed better than they have (Olsson, 2014). The better-than-average effect describes the belief that one has performed better than most other people (ibid). This effect is exemplified in Svenson's (1981) study, where 82 percent of those studied rated their driving ability as better than the average ability of others. Overconfidence in investors has been shown to contribute to increased risk-taking and trading frequency, often leading to poorer profitability for the investor (Barber & Odean, 2000). Research has also shown that overconfidence is more common among men than among women (Barber & Odean, 2001). Overconfidence leads men to trade more frequently and take higher risks than women, resulting in lower profitability for men than for women in their investments (ibid). Because it is common for people to suffer from overconfidence, it aligns with the study's purpose to analyse how this psychological pitfall influences the advisory process.

Overconfidence has not only been observed among private investors but also financial professionals. In a study of mutual fund managers in the United States, an increased portfolio turnover and risk were observed among managers who had previously experienced good profitability in their managed fund (Puetz & Ruenzi, 2010). The increased trading frequency is based on overestimation, as fund managers attribute previous profitability to their skill, which may not necessarily be the case, as fund managers may believe they have performed better than they have (ibid). Therefore, it is interesting to investigate whether financial advisors tend to overestimate their own performance, as this could influence the advisory process and lead to increased risk-taking.

2.5 Managing Biases

One of the many primary tasks of a financial advisor is managing clients' psychological biases. This is important because the influence of psychological biases can lead to poor investment decisions for the client (Collins, 2012). Psychological biases can cause an individual's subjective view not to reflect reality, arising from errors in interpreting and gathering information (Kahneman, 2011). The reason why individuals are affected by biases is rooted in the brain's tendency to simplify the information process (ibid). To be able to manage and minimize the effects of psychological biases, awareness and knowledge of them are required (Kapoor & Prosad, 2017). However, mere awareness and knowledge of psychological biases are not seen as sufficient to counteract their influence (Belsky & Gilovic 1999; Baker & Nofsinger, 2002). Instead, clear guidelines must be established and adhered to counteract the effect of psychological biases when making investments (Baker & Nofsinger, 2002). These guidelines include, briefly: creating an understanding of psychological biases, setting quantifiable goals and restrictions, avoiding acting on emotions and rumours, diversifying the portfolio, and evaluating the portfolio annually (ibid). These guidelines are a tool for minimizing the influence of psychological biases, although they do not guarantee the complete elimination of their effects.

3. Method and Research Design

3.1 Research Philosophy

The aim of this study is to understand how financial advisors have adapted to the new knowledge requirements introduced by SwedSec and to analyse the psychological pitfalls that may arise during the advisory process. It also seeks to explore the methods advisors use to avoid these pitfalls. In line with this aim, the study adopts an interpretivist perspective, which focuses on understanding human actions through interpretation (Bryman & Bell, 2017). Since the research is centred on developing an understanding of the advisors' behaviours and experiences, this interpretive approach is more suitable than a positivist view, which, according to Bryman & Bell (2017), tends to focus more on objectively explaining human behavior.

3.2 Choice of Method

In this study, a qualitative method has been used to achieve the study's purpose and thereby answer the research questions. Qualitative methods are intended to provide an interpretive understanding of what is studied, where the emphasis is on words rather than numbers and data (Bryman & Bell, 2017). The qualitative method allows for the study of individuals' social realities, where the focus is on their experiences and actions (Savin-Baden & Major, 2013). This study aims to understand how advisors have worked with financial advice during the challenging economic times of 2024 from a psychology perspective. The study seeks a contextualized understanding of the advisors' own experiences and actions in their work. The complex social reality that is studied means that a qualitative method is the most appropriate to achieve the study's purpose and allows the collection of relevant data for the research questions.

3.3 Research Approach

It is common in qualitative and quantitative methods to use inductive and deductive approaches or a combination of both. When using a deductive approach, the study is based on existing theories, which are then tested against the empirical data collected (Bryman & Bell, 2017). In an inductive approach, theories are instead generated from the collected empirical data (ibid). There is also a third approach, the abductive approach, which includes elements from both deduction and induction. An abductive approach uses the strengths of both deductive and inductive approaches to overcome their individual limitations (Bryman & Bell, 2017). In this study, a theoretical framework was developed with theories about the psychological factors the study aims to investigate in advisors, similar to a deductive approach. However, there is a need to continuously develop the theoretical framework based on the empirical data, like an inductive approach. The study aims to explore and create an understanding of how advisors manage advice and recommendations in challenging economic times, which means that the study also has an exploratory and understanding-oriented approach, which is typical of an inductive approach. The combination of starting from existing theories while exploring and understanding new insights into how advisors work with economic psychology means that the study fits within the framework of an abductive approach.

3.4 Research Method

Semi-structured interviews were used in collecting the empirical data as this type of interview allows for flexibility that structured interviews do not. Semi-structured interviews have a clear focus and direction, something that can be difficult to maintain in unstructured interviews (Bryman & Bell, 2017). Interviews that are semi-structured are based on an interview guide but leave room for deviations if the interviewee brings up unexpected and interesting information (Justesen & Mik-Meyer, 2011). At the same time, there is the possibility of continuously asking follow-up questions to the main questions in the interview guide if the interviewee does not provide complete answers (ibid). This study has a specific area to investigate, which requires some structure to fulfil the study's purpose. At the same time, the study is exploratory and aims to capture the interviewees' own experiences, which makes flexibility and follow-up questions necessary. For these reasons, semi-structured interviews were the best fit to achieve the study's purpose.

3.5 Data Collection

Initially, a literature search was conducted where the review of previous research, course literature and existing theories helped to identify a knowledge gap. Searches were primarily conducted via databases using the words Financial Advisors, Behavioural Finance, Overconfidence, Mental Accounting, Disposition Effect and Prospect Theory. In order to get national writings on relevant concepts, searches have also been made with the same words but in Swedish. The theoretical framework was used as a basis when designing the interview guide to enable the formulation of relevant interview questions where the empirical data collected could then be analysed based on the framework. Primary data for the study was collected through interviews, a total of nine interviews were conducted. After nine interviews, the theoretical saturation was experienced as the answers from interviewees eight and nine were similar to previous interview responses.

3.5.1 Sampling

To achieve the purpose of the study, financial advisors were contacted across various financial institutions with a request to participate in an interview for this study. All the advisors were contacted via email. The selection was based on individuals who work in advisory roles, which indicates a purposive sampling method (Bryman & Bell, 2017). All research questions focus on advisors, and therefore, only advisors were asked to participate in the study. Purposive sampling is a non-probability-based sampling method (Bryman & Bell, 2017), which aligns with the study's aim to create understanding rather than to generalize.

3.5.2Interviews

To introduce the advisors who were part of the study, a summarized brief presentation of all the interviewees below. In accordance with the confidentiality and anonymity requirements of the study, the advisors are presented with fictional names. The respondents' ages and workplaces have been omitted to maintain anonymity.

- Anna has worked as an advisor for a total of six years. She has worked as a personal advisor for just over five years, and in the last two years, she has been focusing more on the corporate side as a business advisor.

- Benjamin has worked as an advisor for six years. Benjamin mainly provides advisory services to corporate clients and high-net-worth individuals.

- Charles has 25 years of experience in advisory services and has been a branch manager for about 15 years. Charles has been a licensed advisor since the requirement was introduced and now partly works with investment placements focusing on corporate clients.

- Diana has been working as an advisor since 2007. Today, she primarily works with pension plans and investment placements. She also handles mortgage loans and other investments.

- Emily has over 30 years of experience in advisory services. During these years, she has worked as a branch manager. Today, she works as an investment advisor for high-net-worth clients.

- Fiona has over 20 years of experience in advisory services. She has worked in various positions over the years. Today, she focuses on investment and wealth management advisory.

- Gabriel has almost five years of experience in advisory services. He works with investment and financing aspects of advisory services.

- Hannah has worked in advisory services for 16 years. She currently works as a wealth advisor.

- Isak has five years of experience in advisory services and currently works as a personal advisor.

3.5.3 Preparation

Before conducting the interviews, an interview guide was prepared based on the theoretical framework. The interview guide was structured around the study's research questions and divided into different themes. In addition, a pilot interview was conducted to test the interview guide and ensure that the questions were understandable and relevant. In accordance with the choice of purposive sampling, advisors at various financial institutions were contacted. The advisors were reached via email, the email stated that the information would be presented anonymously, that it was possible to withdraw from participation at any time. The purpose of the study was also presented in the email. However, the interview guide was not sent to the interviewees in advance, with the rationale being to capture the respondents' initial thoughts and answers to the questions during the interview. Furthermore, it also eliminated having the interviewees prepare for the interview by, for example, researching various psychological biases and preparing answers. This approach allowed for capturing the respondents' spontaneous thoughts and answers to the questions, which was the goal of the interviews.

3.5.4 Conducting the Interviews

Interviews were conducted Zoom or other digital alternatives. The advantage of on-site interviews is that body language can be interpreted in conjunction with the respondent's answers during the interview (Bryman & Bell, 2017). In a remote setting, it is not possible to interpret body language in the same way as in a face-to-face interview. Due to the geographical distance to the respondents, the only option was a digital interview. The interviews lasted between 50-90 minutes, depending on how much the advisor shared in response to each interview question. Before starting the audio recording, the respondents were asked if it was okay to begin recording. It was also explained that all information would be treated confidentially in accordance with anonymity requirements and that the information provided would only be used for the purpose of the study. Respondents were reminded that they could withdraw from the study at any time.

Each interview began with the respondents discussing their professional background and their main professional role at their workplace. They were then asked about their prior knowledge of economic psychology and how they had experienced the new knowledge requirement in SwedSec introduced in 2020. Subsequently, questions were asked about each psychological bias or factor the study aims to examine. At the end of each psychological bias or factor discussion, the advisors were asked if they were familiar with each bias, which was followed by a brief description the bias. After the description of the psychological pitfalls, the respondents were asked how they could identify these biases in the advisory process and how they work to avoid being influenced by them.

3.5.5 Transcription

After each interview, the recording was transcribed. Transcribing the interviews allowed to capture all the nuances of the respondents' answers, which is crucial for qualitative analysis (Bryman & Bell, 2017). The transcripts were then reviewed and edited to remove any irrelevant content or transcription errors. The transcripts have also been anonymized by removing any identifiable information to ensure the respondents' confidentiality.

3.6 Assessment Criteria

In both qualitative and quantitative research, there are several assessment criteria to ensure the quality of the research. In quantitative research, common assessment criteria include reliability and validity. To some extent, these two concepts are also used in qualitative research. However, there has been discussion about the significance of reliability and validity in qualitative research (Bryman & Bell, 2017). One argument against their use is that the definitions of reliability and validity need to be reevaluated and adapted for value creation in qualitative studies (Kvale, 1997:227; Justesen & Mik-Meyer, 2011). In this study, the research was assessed based on the criteria of credibility, transferability, dependability, and confirmability, which are alternative formulations of reliability and validity (Lincoln & Guba, 1985; Guba & Lincoln, 1994; Bryman & Bell, 2017).

3.6.1 Credibility

The study's credibility, which can be likened to a variant of validity in phenomenological research involving respondent validation (Kvale, 1997:239 in Justesen & Mik-Meyer, 2011). Credibility is interpreted as a complement to internal validity (Bryman & Bell, 2017). A study is considered credible if respondent validation has been conducted (ibid). To ensure the study's credibility, all interviewees were given the opportunity to confirm the transcription to ensure that they had been understood correctly. All information collected for the study’s purpose has been processed in accordance with GDPR and anonymized. The anonymity of the study increases credibility because participants feel more comfortable sharing information when they are not identified by their real names. Thus, there was no incentive for respondents to distort information to present themselves in a different light or similar, which benefits the study's credibility.

3.6.2 Transferability

Transferability measures the extent to which the results generated by the study can be transferred to another environment or to the same environment at a different time (Bryman & Bell, 2017). To be more suitable for qualitative research, generalizability has been reformulated to describe how well the results from a study can provide indications about what might happen in another situation (Kvale, 1997:228; Justesen & Mik-Meyer, 2011). Qualitative studies often use smaller sample groups, which is an argument against assessing qualitative studies based on generalizability, as unlike quantitative studies, qualitative research aims to describe rather than find statistical patterns (Kvale, 1997:228; Justesen & Mik-Meyer, 2011). The purpose of this study is to create an understanding of how advisors are affected by and work with psychological pitfalls or factors during challenging economic times. Therefore, the results of this study are not generalizable to all advisors and their work, as the selection of respondents may vary. However, the results of the study can provide an indication of how the phenomenon might appear in another situation and thus meet the criteria of transferability.

3.6.3 Dependability

High dependability would mean that the results would be similar if the study were replicated. To ensure dependability in the study a scrutinizing approach has permeated the entire process. In the report, a complete and accessible account of all phases the research has undergone has been provided. However, the human factor cannot be excluded, as it inevitably appears when conducting semi-structured interviews due to follow-up questions being adapted based on the respondent's answers. All respondents in the study are anonymous, which means that in a replication of the study, the exact same individuals cannot be interviewed. Despite this, given the study's purpose and the qualitative method used, the study's dependability is still considered the to be high.

3.6.4 Confirmability

Confirmability refers to the objectivity and neutrality of the study's findings (Bryman & Bell, 2017). To enhance confirmability, conscious efforts to minimize personal biases and preconceived notions throughout the research process. Additionally, the findings were grounded in the empirical data by providing direct quotes from the respondents to support the analysis.

3.7 Ethical Considerations in Research

Ethical considerations have permeated the entire course of this study. It has been crucial to conduct each step of the investigation with strong ethical standards. Four important principles in research are the requirement for information, consent, confidentiality and anonymity, and the requirement for utility (Bryman & Bell, 2017).

3.7.1 Requirement for Transparency

The requirement for transparency means that the person conducting the study must inform all participants about the purpose and scope of the study (Bryman & Bell, 2017). To adhere to this requirement, all participating advisors were informed about the purpose of the study in the initial email that was sent out. The advisors were also informed that the interview would focus on SwedSec's knowledge update and psychological biases in the advisory process.

3.7.2 Requirement for Consent

The requirement for consent means that the interviewed individuals must be informed that participation in the study is voluntary and that they can withdraw from participation at any time (Bryman & Bell, 2017). Similar to fulfilling the requirement for transparency, all interviewees were informed that participation in the study was entirely voluntary and that they could withdraw at any time.

3.7.3 Requirement for Confidentiality and Anonymity

The third requirement, the requirement for confidentiality and anonymity, was met by the study through fictitious names for all interviewees in the presentation of the data. Information about which financial institution the interviewees work for was also excluded to further enhance confidentiality and anonymity. In accordance with GDPR and this requirement, personal data have been stored securely and confidentially. This requirement aims to handle personal data confidentially and to ensure that the information is accessible only to the author of the study (Bryman & Bell, 2017).

3.7.4 Requirement for Utility

The requirement for utility means that the collected data and information about the interviewees should be used solely to achieve the study's purpose (Bryman & Bell, 2017). Data collected through interviews has only been used with the goal of answering the study's research questions and thereby achieving the purpose of the research. Personal data and stories from the advisors have not been used for any purpose other than achieving the study's objectives. This was also communicated to all interviewees per email and at the beginning of the interview.

3.8 Criticism of the Study

Throughout the study, a source-critical perspective in the collection of secondary data was maintained. The sources used for the background and theoretical framework consist of academic articles and textbooks, which are considered credible. One criticism of the study was that the sample became somewhat skewed when a few men declined to participate, citing insufficient knowledge of economic psychology. This affects the sample as these individuals chose not to be interviewed. However, it was a given that declining participation was acceptable. There were measures to ensure that both the respondents and their workplaces were kept anonymous, in line with the requirements for confidentiality and anonymity, nonetheless, this could impact the replicability of the study. The interviews varied in length, taking between 50 and 90 minutes, which resulted in some respondents with longer interviews providing more empirical data. However, an active choice was made not to limit the interviewees by imposing a time constraint on the interviews, as this would have been inconsistent with the study's purpose.

4. Empirical Data & Analysis

Table 1: Summary of the respondents' experience in advising, stated in years.

Respondent	Anna	Benjamin	Charles	Diana	Emily	Fiona	Gabriel	Hannah	Isak
Erfarenhet	6	6	20+	17	30+	20+	5	16	5

4.1 Advisors' Knowledge and Familiarity with Behavioural Finance

All interviewees were asked how they would describe their knowledge in the research area of behavioural finance or economic psychology. Five out of nine respondents answered that they do not have a good understanding of the subject. Anna does not remember if she has read anything about behavioural finance or economic psychology. Benjamin has read a little and finds it interesting how the advisor's presentation can affect the outcome of the advisory process.

Charles finds it very interesting how people behave during the sales meeting. Emily and Fiona claim to have some knowledge, but it comes from experience. Hannah thinks that psychology plays a significant role, exemplifying this by stating that decisions on the stock market are not always based on facts but can be driven by emotions. Isak believes he has moderate knowledge of the subject, which he attributes to internal training. Diana is not very up to date on the subject of economic psychology, and Gabriel claims to have weak knowledge of behavioural finance, saying:

"Yes, no, I'm quite blank there. I've read a little, but nothing major." (Gabriel)

Eight out of nine respondents answered no when asked if they knew what prospect theory is. Anna is not familiar with the term but recognizes its meaning after the explanation of what prospect theory is. Diana is the only respondent who has heard of prospect theory, but she still requested an explanation.

None of the respondents knew what the disposition effect was upon hearing the term. Isak, Anna, Diana, Benjamin, Emily, and Hannah recognized the effect after the explanation. Hannah says that it probably makes sense but that it's not something she has thought about. What Hannah says might be because the concept of the disposition effect has only been processed in System 1 and not in the reflective System 2 (Kahneman & Frederick, 2002). Diana and Emily, however, recognize the behaviour in their clients. Emily elaborates that clients sometimes don't want to realize losses or, for that matter, realize gains because they don't want to pay capital gains tax.

To build on this, Charles and Fiona say that it can be the opposite, with many wanting more and holding on to something that has increased in value.

"Yes, there are those who do that, but just as many do the opposite because they don't want to sell something that has performed so well, so they hold on to it until it goes bad instead, so yes, I know exactly what you mean." (Fiona)

According to Benjamin, the disposition effect is more common in stock trading than in mutual funds because people have a greater emotional attachment to stocks. He also shares that he has personally fallen into this psychological trap in his private life.

When the interviewees were asked if they knew what mental accounting is, only Benjamin recognized the term. Diana and Hannah recognized the description of mental accounting, and Hannah in particular sees this behaviour in clients. Anna, Charles, and Emily say that it resembles how they, as advisors, segment advice according to clients' different savings goals. Gabriel has never heard of the term mental accounting, and Fiona says that she doesn't know what it is but that one could almost guess it. Isak responds that the term mental accounting is not something he usually uses in everyday language.

Anna, Emily, Gabriel, and Hannah know what overconfidence is. Emily is quick to point out that overconfidence is common among younger men. Benjamin, Charles, Diana, Fiona, and Isak do not know what overconfidence is, but they understand after the explanation. Charles encounters overconfidence occasionally. Fiona realizes that she herself had answered previous questions in line with overconfidence and says, "Yes, like I just did," after the explanation of what the theory entails.

4.2 SwedSec's Knowledge Update

To understand how advisors perceived SwedSec's new knowledge requirements regarding economic psychology and financial advisors, which were introduced in 2020, questions were asked on this topic. Advisors had different experiences with the implementation of the new knowledge requirement. Isak and Diana think it's positive that the knowledge requirement was introduced. However, Benjamin, Charles, Emily, and Fiona feel that there hasn't been a significant change since the new knowledge requirement was introduced. Emily mentions that new requirements are constantly being added by SwedSec, which has made her not think specifically about them. Fiona, like Emily, points out that there is always something new to be done in the annual knowledge updates. Anna, Gabriel, and Hannah do not remember that economic psychology was implemented as part of SwedSec's knowledge requirement.

Most of the advisors have not done anything specific to familiarize themselves with the new knowledge requirement, apart from completing the annual knowledge update. Isak mentions that he has also done additional training at his workplace. Hannah explains that the format of the annual knowledge update is up to the financial institution and that it can involve watching videos, reading texts, or answering questions. Gabriel explains that the annual knowledge update is divided into several chapters, with each chapter ending with a test, but one does not have to pass the test immediately and can retake it multiple times. The fact that financial institutions control the design of the annual knowledge update could lead to differences in knowledge levels among advisors at different financial institutions.

Most of the interviewees claim that their knowledge of economic psychology has improved after the implementation of the new knowledge requirement. Only Diana and Emily claim that their knowledge has not improved. Anna, Gabriel, and Hannah claim that their knowledge has improved despite not remembering that economic psychology was part of the new knowledge update. This could be linked to System 1, where they intuitively answered that they did not remember the new knowledge requirement (Kahneman, 2011). They then reflected and evaluated the question using System 2 and subsequently answered that their knowledge had improved (ibid). Gabriel has become more aware of the subject but does not actively think about it in an advisory situation, instead, it remains more in the back of his mind.

Even though most of the interviewees feel that their knowledge of economic psychology has improved, there is a divided opinion on whether economic psychology or psychological biases affect the advisory process. Benjamin, Emily, Fiona, and Hannah do not believe that it affects their advising. Benjamin highlights that they are not affected because they have such good, standardized tools, and according to Fiona, it should not affect the advice because it is solely based on risk appetite and investment horizon. Anna, Charles, Diana, Gabriel, and Isak, on the other hand, believe that economic psychology absolutely has an impact on advising.

4.3 Prospect Theory & Risk Aversion

This part of the interview began with two problems presented to the advisors. The problems test how they approach risky decisions in scenarios involving gains versus losses. They are designed to test the theory that people are reluctant to take risks when they have gains but are more risk-seeking when facing losses (Thaler, 2016).

Problem 1: Suppose you are 3,000 SEK richer than you are today. You are offered a choice between A: A guaranteed gain of 1,000 SEK or B: A 50% chance to gain 2,000 SEK and a 50% chance to gain 0 SEK.

Table 2: Illustrates all respondents' answers to problem 1.

Respondent	Anna	Benjamin	Charles	Diana	Emily	Fiona	Gabriel	Hannah	Isak
Svar	B	A	A	B	B	B	A	B	B

Isak, Anna, Gabriel, and Charles did not provide reasons for their answers. Hannah explained that it depends on the overall picture and that it wouldn't affect her total finances. Benjamin thinks that a 33 percent increase is perfect. Given the amounts, Diana chose the risky alternative. Emily, as a private individual, chose option B, but as an advisor, she would have considered other assets and the overall situation. Fiona chose option B to take a chance. Hannah went with option B because three thousand SEK is not much compared to her total portfolio. Six out of nine respondents chose option B, which goes against the theory according to Thaler (2016), as this response indicates risk-seeking behaviour in the context of gains.

Problem 2: Suppose you are 5,000 SEK richer than you are today. You are offered a choice between A: A guaranteed loss of 1,000 SEK or B: A 50% chance to lose 2,000 SEK and a 50% chance to lose 0 SEK.

Table 3: Illustrates all respondents' answers to problem 2.

Respondent	Anna	Benjamin	Charles	Diana	Emily	Fiona	Gabriel	Hannah	Isak
Svar	A	A	B	B	A	B	A	B	B

Isak, Anna, Gabriel, and Benjamin did not provide reasons for their answers. Hannah explained problem 2 the same way as her response to problem 1. Emily chose one of each to have both an upside and a downside. Fiona would have taken option B again to take a chance at keeping the money. However, she also added that it depends on the economic situation; if there's a need for the money, one might make different choices. Charles took a chance to break even. Hannah chose option B based on her financial situation. Five out of nine respondents chose option B, which is in line with the theory according to Thaler (2016) that people are more risk-seeking in the context of losses.

To understand how advisors work with risk, they were asked how they determine their clients' attitudes toward risk and expected returns. Seven out of nine assess this by sending a questionnaire with questions to the client before the meeting. The questions outline scenarios about expected returns and the associated risks. Diana adds that it is important to ensure the client understands what the level of risk entails.

Benjamin responds that clients either answer risk questions before the meeting or that the questions are asked directly during the meeting, as this allows him to observe the client's body language, which reveals whether the client is confident or not. Benjamin also comments that it’s not always advantageous for the client to fill out the questions on their own.

"So, the client is sitting at home, maybe on their mobile while watching Desperate Housewives and filling it in. It usually doesn’t turn out well, and it usually doesn’t match how the client actually views it." (Benjamin)

Gabriel, like Benjamin, mentions that he sometimes finds that clients are bolder at home when filling out the questionnaire than they are during the advisory meeting. Isak determines clients' attitudes toward risk and expected returns by asking many questions related to these topics. He also says that it’s about making the client very aware, which can be likened to engaging System 2 in the clients (Kahneman & Frederick, 2002).

To investigate whether the advisors have become more risk-averse in the current economic climate, they were asked how they perceive their clients' risk aversion today and how they approach it in their advising. Isak says that it depends on the investment horizon and that clients want to reduce risk if the investment horizon is short. This aligns with previous research, which states that a shorter investment horizon is a contributing factor to risk aversion (Brooks et al., 2018). Hannah, Anna, Benjamin, Fiona, Diana, and Gabriel report that clients have become more risk-averse or cautious in the current economic climate. This can be explained by the tendency of people to increase their risk aversion during difficult economic times (Parrish, 2020). However, Hannah and Diana add that some choose to enter the market and see it as a buying opportunity. Gabriel states that clients are looking for safer options and are withdrawing their money from the market because they have a feeling, which can also be connected to Parrish's (2020) theory that people withdraw their money from the market during tough economic times. However, it could also be because they need to liquidate their assets due to financial necessity, Gabriel continues. According to Emily, risk aversion can vary; some clients choose risk-free investment accounts while others think long-term and invest money in the market, which is consistent with Parrish's theory (2020).

Isak responds to risk aversion by explaining that it is individual. Hannah tries to take a long-term view but, of course, discusses uncertainty with the client, emphasizing that one should not think short-term. A shorter investment horizon often results in lower risk compared to a longer investment horizon (Brooks et al., 2018). Anna expresses that it does not affect her advising. Emily’s approach to risk-averse clients varies depending on whether the money is already invested in the market or sitting in an account; in the latter case, she suggests taking a closer look at it. This is interpreted as risk aversion stemming from previous financial losses when the invested money did not perform as expected, leading to a more thorough evaluation before a new investment in the current situation (Massa & Simonov, 2005).

Benjamin explains that the current interest rate environment has led to other risk-free investment options with savings accounts, but it has not affected his own risk tolerance. Benjamin's response indicates that investors choose risk-free investments with lower returns as a result of risk aversion (Parrish, 2020). Charles says that clients' attitudes must influence his advising. Fiona does not change her advice when a client is cautious; her advice remains the same. This suggests that Fiona does not let herself be influenced by risk aversion, which indicates that she acts more in line with the theory of rational investors, which states that investors create portfolios according to portfolio selection theories (Statman, 2014). Gabriel tries to make the client understand that there are ups and downs and that, over time, there has been an upward trend despite crises, which can also be interpreted as rational (Simon, 1955). Hannah also says that she works long-term and that one cannot only look at the short-term, which is also rational (ibid). Diana says that it's important to explain to a client who is reluctant to take any risk that the possibility of return over the saving period requires a certain level of risk and to clarify what that entails.

All respondents were asked how they believe prospect theory manifests in advising and how they, as advisors, work to avoid this psychological pitfall in the market. Fiona does not believe that risk aversion or prospect theory shows up in the advisory process, while Isak's response suggests the opposite of Fiona's.

"One should have a neutral approach, but it is still easy for one's own characteristics to be incorporated into the advising." (Isak)

Isak avoids the psychological pitfall by constantly reminding himself of the power he has over the client's decisions and through continuous training. He adds that there is great responsibility as a financial institution, and if something goes wrong, it can go very wrong. Isak's response indicates that awareness helps him manage this psychological bias, which aligns with what Kapoor and Prosad (2017) say is needed to manage and minimize the effects of biases.

Anna does not provide an answer on how she thinks prospect theory can manifest in advising, but she says that she avoids it as an advisor by going through the questions that clients have answered and reviewing them with the client to see if the answers align. Emily adds that it is the risk profile and time horizon based on the clients' responses that guide the process, which leads to the avoidance of the pitfall. Benjamin also does not provide an example of how prospect theory manifests in advising, which can be explained by the fact that he could not come up with an example in System 1 (Kahneman & Frederick, 2002). However, he later explains that they avoid the pitfall due to the control they have. He says that if you have thoroughly reviewed the risk questions with a client, the individual advisor's risk appetite cannot influence the outcome very much. Gabriel is on the same page and says that prospect theory can have some impact, but it is mitigated by the advisory tool, which, based on the client's risk level and time horizon, should provide a correct investment proposal. Fiona, like Gabriel, claims that the advisory tool ensures that the pitfall is avoided, in combination with the duty of care for the client.

"You have to narrow down the savings goal and the time frame, like, if it's a longer time frame, I can, with a clear conscience, recommend that you should take a higher risk." (Charles)

Charles continues by saying that they avoid prospect theory by thoroughly discussing various aspects in different ways. Diana is not affected by prospect theory and sticks to her advice. She then says something that can be interpreted as risk-averse because it goes against what the advisory tool recommends (Massa & Simonov, 2005).

*"I think it's unwise to invest large portions of savings as a lump sum if you're taking too much risk. Even if it's the institution's advice to do so. What risk are you willing to take? And then you can deposit money today into an investment account that still gives a good return." *(Diana)*

*The quote has been adjusted for readability and to meet anonymity requirements.

Hannah says that risk aversion can be difficult, but you need to maintain a dialogue with the client. She emphasizes the importance of discussing uncertainty and not thinking too short-term. She says that they protect themselves against the pitfall by going back to basics and not speculating in the short term. Hannah's statement can be interpreted as rational because she adheres to the time horizon, which drives people to create portfolios according to portfolio selection theories (Statman, 2014).

4.4 The Disposition Effect

This section began with a scenario: *A client comes to you today and needs to free up liquid assets to invest in a new asset. The client does not have enough liquid funds to invest in the asset without selling existing holdings in stocks or mutual funds. The client asks you whether you would recommend selling a stock that has increased in value by 20% since purchase or selling a stock that has decreased in value by 20% since purchase. Which stock would you recommend the client sell?*

None of the advisors could answer the scenario immediately, instead leading to a discussion about the investment horizon and risk level. All advisors also mentioned that they are not allowed to give advice on individual stocks. Charles said he would ask the client which stock they would want to buy today and that this is the one that should be kept. He added that it depends on which fund it is, but that he would sell both 50/50 for tax offset purposes, which Anna would also do, provided it is a medium-risk client and two medium-risk funds. Benjamin, Isak, Fiona, Emily, and Hannah explained that it depends on the client's time horizon, risk, and the state of the funds. Benjamin and Diana also added that the tax environment plays a role since it might be possible to offset gains against losses. Gabriel was on the same page as the other respondents but added that if it's in an investment savings account (ISA) where taxes are not an issue, it's more satisfying to keep the stock that's in the plus and sell the one that's in the minus. From one perspective, this partly goes against the tendency of investors to quickly sell stocks that have increased in value to realize the gain (Schlarbaum et al., 1978; Nofsinger, 2018). From another perspective, it's an answer that avoids directly answering the question.

The advisors were asked what emotions they experience when they recommend clients sell holdings that result in a loss or a gain. Anna said that clients generally have a harder time selling at a loss than she does advising them to sell something at a loss, which indicates the disposition effect among clients, as they tend to hold on to losing securities (Shefrin & Statman, 1985). She finds it more enjoyable to sell a fund that has performed well, and those recommendations feel good. This can be interpreted as a feeling of pride after giving successful advice, which is in line with the disposition effect (Shefrin & Statman, 1985). Gabriel said that the feeling of a loss for a client is disappointing if it's a fund recommended by the institution that has not performed well compared to similar funds with the same risk profile. The feeling of a gain is pride toward the institution, according to Gabriel, which again aligns with the emotions described by the disposition effect as pride (Shefrin & Statman, 1985). Benjamin said that many clients see the decline but want to get back to a gain before selling. Benjamin and Isak are neutral in their emotions when clients sell at a loss or gain. "It's disappointing to see a loss," Benjamin said, "but you can rely on the fact that it was the right decision from the start." Isak added, however, that it can be more enjoyable if the investment has gone well for the client. Fiona said, like Benjamin, that she is confident in the advice she gives but may feel sorry for the client. She also said that it's more enjoyable to sell at a gain, but as an advisor, she doesn't really feel any difference, which Hannah also said. Hannah mentioned that the documentation requirement is good, but it's always disappointing to advise a client to sell at a loss, although there can be several reasons why it didn't go well.

Charles said that if a client sells at a loss, it can be positive because they can make a loss deduction, and if they sell at a gain, it's just a matter of congratulating the client. Diana also highlighted a positive aspect of selling at a loss. She said that it could be money needed in the near term, so selling prevents further potential losses. If it's sold at a gain, it's always good to lock in profits, said Diana, and that it can absolutely be disappointing to sell at a loss. Unlike the disposition effect described by Shefrin and Statman (1985), Emily said that many clients may have difficulty selling at a gain if it's in a direct savings account because the client would have to pay taxes on the gain. Regarding losses, she provided an example where it's beneficial if a client sells at a loss and then reallocates to something that better suits the client's profile.

The advisors were asked if they had anything to add about how the disposition effect might manifest in the advisory process and how they manage it in their work. Gabriel avoids this psychological pitfall through preparation and a mental approach, as well as the contribution of experience in avoiding the pitfall. This can be linked to what Kapoor and Prosad (2017) say about awareness being a part of avoiding psychological biases. Benjamin explains that advisors avoid the pitfall by sticking to the facts and emphasizing that past performance is not a guarantee of future results. Benjamin's statement aligns with previous research that advisors do not want to make investments that could reflect poorly on the institution (Eraslan et al., 2022).

"But it's always there in the beginning, if the advising hasn't been done correctly, I think, as an advisor, you might feel, as I said, some shame, like disappointment. Partly because of the advice, but also because the customer may perceive it negatively. You don't want to lose face, either as an advisor or as an institution." (Benjamin)

Charles mentions that the disposition effect can manifest from the clients' side, as they might hold on tightly to an old, risky stock portfolio that they sometimes want to keep out of the advisory process. Diana also recognizes this from clients and gives the example that they find it difficult to sell and instead wait for the value to go up. This aligns with the theory that a losing stock is kept in the portfolio until its price turns around (Schlarbaum et al., 1978; Nofsinger, 2018). To avoid this influence, Diana explains that it's important to clarify when the client will need the money and the associated risk. Emily has also noticed that clients with individual stocks can become attached to them and find it difficult to sell them. According to Emily, advisors avoid the disposition effect by doing the groundwork based on the client's risk and investment horizon. However, Hannah does not recognize this as something clients tend to do, saying it has only happened occasionally. This could be because Hannah's spontaneous thought from System 1 might not reflect deeper consideration, as other advisors have observed the opposite (Kahneman & Frederick, 2002). Hannah says that advisors avoid the effect by relying on facts and the analysis conducted. If a client reasons in line with the disposition effect, you must go back and review the thought process when the investment was made, according to Hannah.

Isak, however, sees that it can affect advisors but believes that remaining neutral and not being influenced by emotions comes with professional experience. Fiona also says that the disposition effect can certainly manifest in hundreds of situations from an advisor's perspective. The pitfall is avoided through the advisory tool Fiona has at her workplace, which advisors are not supposed to bypass. Anna doesn't believe the disposition effect has a significant impact from an advisor's perspective. She also says that it can instead be difficult for an advisor to persuade a client to sell a fund with a large gain. Then she gives an example from her own portfolio.

"I have a fund like that right now that has been in the red for a year, but I haven't sold it because I just don't feel good about it." (Anna)

4.5 Mental Accounting

This section of the interview guide began with a scenario: *You are conducting a consultation for a client who says they are willing to take additional risk to increase their pension savings. You then have two options: take a large risk with a portion of the client's assets or take a smaller risk with all the client's assets. Which do you choose?*

Gabriel, Isak, and Anna choose to take a large risk with a portion of the client's capital. Anna mentions that the portion of the client's capital that is risked may vary depending on the client's own risk tolerance. Isak justifies his answer by stating that the client would then achieve a greater return over a long time-horizon. Gabriel adds that it depends on the client's age and similar factors. This can be interpreted as mental accounting, as the client's total engagement is not viewed as a whole, but is instead segmented, separating pension money from the remaining capital (Thaler, 1999). Charles responds that the time horizon is relevant, and that the investment option becomes a higher risk if the time horizon is long. This aligns with previous research showing that risk in an investment decreases due to a longer time horizon (Thaler, 1995; Statman, 1999). Both Benjamin and Diana say that with a 10-year time horizon, the choice is a high risk with a portion of the money, and with a 30-year horizon, it is high risk with the entire capital. According to Fiona, it depends on the client's willingness to take risk and how much time is left until retirement, but the advice often tends towards a lower risk with the entire amount. This contradicts the theory that mental accounting is negative, and instead reflects the positive aspect of mental accounting, which is that it becomes easier to specify risk with separate accounts (Das et al., 2020). In contrast to Fiona, Hannah says high risk with the entire capital. She adds that it is important to understand if it truly matches the client's risk profile. The time horizon is also important. Emily responds that if someone is born in the 1990s, they can invest 100 percent in the stock market, but it is still considered a low risk due to the many years remaining until retirement. This is consistent with previous findings that higher risk can be taken with a longer time horizon (Thaler, 1995; Statman, 1999).

The collection of information about clients' total assets is done via a form sent out to clients before the consultation, according to six out of nine respondents. Anna adds that they usually review the questions again during the meeting for confirmation. Benjamin and Emily explain that information is either collected via a form before the meeting or discussed with the client during the meeting. Isak says he asks the client about external assets if they want these to be included in the consultation. This can be interpreted as mental accounting according to Thaler's theory (1999). Furthermore, this is not beneficial for the client, as synergies cannot be created between assets that the advisor is unaware of (Krase et al., 1994).

To find out if external assets, such as stock holdings on Avanza (Sweden's biggest stockbroker), are considered or excluded, questions were asked to the respondents. Anna responds that it depends on how much of the client's total assets are on Avanza. She illustrates this by stating that if the total assets are one million (SEK) and a hundred thousand of these are on Avanza, she would not consider it. Anna further claims that she would not look at the types of stocks on Avanza, making it difficult to account for all the client's assets for accurate diversification according to Campbell et al. (2001). According to Diana, it is important to see the whole picture and include it in the consultation, but she cannot give advice on individual stocks. She does not gather information on the types or number of stocks. Diana's statement can be seen as contradictory since it is difficult to see the whole picture when information about which stocks and how many are not considered, which can lead to a non-diversified asset allocation (Krase et al., 1994). If there are only high-risk stocks on Avanza, for example, and these are not included, it is not possible to balance the risk profile. Similarly to Diana, Fiona says they include the amount to understand the whole picture and risk profile, but no specific details about the holdings if the client does not want them.

Unlike Diana, Isak, and Fiona, Emily emphasizes the importance of incorporating all available information and understanding what the client has in Avanza to ensure that advice is based on all the client's assets. Otherwise, the advice may not be effective. Gabriel and Hannah also stress the importance of including information about holdings in Avanza for the overall picture, but they mention that they cannot advise on individual stocks. Hannah adds that this information is crucial to assess the client's risk status and include it in the calculations. Benjamin states that if there are stocks in Avanza, he wants to know the amount relative to the total financial picture and the specific stocks, as it is important for the whole picture.

"It's a professional error not to include it and actually give advice on it to the client in the end. If you don't do that and three years go by, and the client comes back and things have gone badly, and they say, 'But no one mentioned anything,' then that's not really good; that's not taking care of the client." (Benjamin)

Charles prefers to know if the client has holdings on platforms like Avanza to understand the client's investment interests. This could imply that such information might not be included in the advice if it is only to gauge the client's interests. Furthermore, this could lead to the client's overall risk profile being considered separately from holdings at Charles's institution, potentially losing synergies between portfolios (Krase et al., 1994). Isak also states that it is entirely up to the client which aspects are considered in the advice. However, if the client has stocks at Avanza, he includes the number of stocks, types of stocks, and market value to align the investment horizon and risk with the client. Thus, this implies that portfolio optimization becomes less effective compared to including the entire client portfolio in the advice (Das et al., 2010).

All respondents, regardless of their institution, state that pension savings are either placed in an Investment Savings Account (ISA) or a capital insurance account. If the client already has an ISA, it is up to the client whether a new one is opened specifically for pension savings, according to most respondents. Anna and Fiona add that separating it can contribute to clarity, and Benjamin mentions that it can be easy for advisors to mix things up if everything is combined. These responses reflect the positive aspects of mental accounting (Das et al., 2010). Charles says that everything can be consolidated into the same ISA if a specific pension fund is set up within the existing ISA. Diana says that if multiple funds are added beyond the pension fund, she recommends opening a new separate ISA to clarify what is for pension savings. Gabriel gives a similar response. According to Gabriel, it benefits the client not to mix things up and helps advisors when making a pension forecast. Isak concurs with Gabriel, saying that a new ISA is usually opened for retirement savings. This again indicates the benefit of separating assets into different mental accounts (Das et al., 2010).

Isak and Charles use mental accounting in their advice. Isak does so to separate the time horizon and investment risk. Charles states that it concerns different savings goals and risk targets and that it is not feasible to group them together. Diana and Fiona also see the benefit of separating activities for clarity. Diana does not fully see how to guard against mental accounting but argues that advice is based on the savings horizon and risk, while also considering other assets. Fiona elaborates:

"To avoid mixing things up if you suddenly need the capital or want to do something else with the money you have in your existing ISA, it's important not to risk accidentally using the pension capital. ISA remains very flexible, so you can withdraw the money whenever you want." (Fiona)

Anna also mentions different savings goals.

"So, we divide it into different savings goals, for example, one goal might be to buy a vacation home in five years, another goal might be saving for retirement, and one might be for medium-term savings [...]. So I absolutely think it becomes evident because we create an advisory part for each goal you want to save for." (Anna)

Anna asserts that it is challenging to avoid mental accounting in the advisory process and says they almost have to segment it into different savings goals due to varying risk levels associated with each. Anna's statement aligns with the benefits of mental accounting and the clarity it provides (Das et al., 2010). However, it negatively impacts overall returns because the returns would be higher for the same risk level with total portfolio optimization (Das et al., 2010).

Benjamin and Emily acknowledge that mental accounting can manifest in advisory sessions. Benjamin uses the example of two different investment savings accounts for different purposes. He still tries to view everything holistically, which is facilitated through the controls available within the institution. Emily states that mental segmentation occurs across different investment horizons and that mental accounting is avoided by adhering to the investment horizon and risk profile.

Both Hannah and Gabriel have observed mental accounting among clients, noting that they have many accounts for various purposes. Hannah adds that they work with different savings goals and time horizons and that money is set aside for each sub-goal, which clearly aligns with mental accounting (Thaler, 1999). Gabriel has not reflected on how this affects the advisory process but mentions having different "bags of money" during advisory sessions. He believes it is difficult to avoid mental accounting but thinks it might be easier to view the portfolio as a whole if the client has substantial assets, such as several million.

4.6 Overconfidence

Question: What is the percentage probability that your advice has been more profitable than the average advice from other SwedSec-licensed advisors? (1-100%)

Table 4: Summary of Respondents' Answers Regarding Overconfidence

Respondent	Anna	Benjamin	Charles	Diana	Emily	Fiona	Gabriel	Hannah	Isak
Svar i %	60	80-85	50	50	80*	60-70	60	100	50

**Emily modified the question to focus on the number of transactions conducted.*

The question is based on a previous test of overconfidence, where a response over 50 percent indicates that the respondent is affected by overconfidence, and responses between 0-50 percent show they are not (Morales-Camargo et al., 2015). Charles, Isak, and Diana all respond with 50 percent, which does not indicate overconfidence according to the test (ibid). Charles justifies his answer by stating that he does not know what others have delivered in terms of profitability and can only base his answer on his own performance. Diana provides a similar justification, adding that the advice is so standardized that it does not differ much among advisors. Emily notes that she could not estimate this from a profitability perspective with the same reasoning as Charles. However, Emily claims that in terms of the number of transactions completed, she would estimate her probability at 80 percent, which indicates overconfidence according to the test. This can also be linked to the better-than-average effect, as she perceives herself to make more deals than the average person (Olsson, 2014).

"No, that's a very difficult question. Firstly, you have no idea how other players perform [...], but I would say a bit better than average, so let's say 60 percent." (Gabriel)

The majority of advisors report that their advice has been more profitable than the average advice of other advisors, which aligns with overconfidence according to the test (Morales-Camargo et al., 2015). Gabriel asserts that he does not know how other players perform but estimates that his advice has a 60 percent probability of being more profitable than the average, which can be associated with the better-than-average effect and overestimation (Olsson, 2014). Benjamin and Hannah justify their answers of 80–85 percent and 100 percent, respectively, by noting that their clients are satisfied and that the advice they have given generally has performed well. However, they do not provide concrete justification that they have compared their placements with other advisors, which also indicates the better-than-average effect (Olsson, 2014).

All advisors believe they have good conditions to meet their clients' goals despite the current economic difficulties. Anna, Diana, Gabriel, and Hannah acknowledge that achieving goals depends on the nature of the goals and the time horizon involved. They note that short-term goals can be challenging to meet, but long-term goals have better prospects. Emily also mentions that one can never promise a specific return, only set expectations. Charles agrees with Emily that it is not possible to guarantee returns. Although all advisors claim they are well-positioned to meet clients' goals, they base their confidence on the time horizon and the inability to promise returns. Thus, there is no indication of overconfidence in this regard among the respondents according to the theory (Olsson, 2014).

"I have lost business to a competitor because they can say, 'We promise you a 12% return every year.' It's impossible to guarantee a 12% return every year." (Charles)

In responses to interview questions not directly related to overconfidence, some answers from respondents have been linked to overconfidence. For example, when asked how he determines a client's attitude toward risk and return, Benjamin mentions that there are seven to eight questions that should be used. However, Benjamin himself only needs two or three questions to find this out, which may indicate overestimation (Olsson, 2014). Charles's response regarding how often he discusses investment options with colleagues may reflect both overestimation and the better-than-average effect (Olsson, 2014).

"No, in that product I am confident enough in myself, so to speak. I probably outperform most others. It's more likely that they will ask some questions." (Charles)

Anna, Diana, Emily, and Gabriel do not perceive overconfidence in their own advisory practices, but they do see it as common among clients. Emily specifically points out that overconfidence is common among young men, which aligns with research suggesting that men are more affected by overconfidence (Barber & Odean, 2001). Isak also notices overconfidence in clients, noting that clients who have previously had profitable investments tend to become more risk-tolerant. Isak's observation is consistent with previous research showing that past profitability leads to increased risk-taking (Puetz & Ruenzi, 2010).

Benjamin, Charles, Fiona, and Isak acknowledge that overconfidence can appear among advisors during the advisory process.

"[...] you have to believe in yourself, otherwise, you will never succeed. If you never put yourself out there, you won't get anywhere, right?" (Charles)

This indicates a self-perception of confidence that could be linked to overconfidence in their advisory role. Charles continues by stating that overconfidence should not impact the advice itself. He explains that they avoid being influenced by overconfidence by basing their advice on the client's risk profile and time horizon, combined with existing advisory routines. Benjamin, Fiona, and Isak share the view that overconfidence should not affect the advisory process if the advisory tools are followed.

"We have such good controls in place. So, it can't completely go off track. It just doesn't work that way." (Benjamin)

This suggests that despite the potential for overconfidence, the structured advisory tools and controls are designed to ensure that the advice remains objective and aligned with the client's needs and circumstances.

5. Discussion

5.1 Advisors' Knowledge and Familiarity with Behavioural Finance

The majority of advisors describe their knowledge of behavioural finance or financial psychology as low or non-existent. For example, Anna and Gabriel state that they have no knowledge of behavioural finance. Most respondents were unfamiliar with concepts such as prospect theory, the disposition effect, mental accounting, overconfidence. A few advisors indicated that they recognized the meaning of these terms after an explanation from the researchers. However, it cannot be ruled out that these advisors might have guessed or were reluctant to admit their lack of familiarity with the terms initially. This situation could be interpreted as advisors being aware of the meanings but not the terminology itself, thus unable to respond to questions initially using System 1, but recognizing them after explanation with the help of System 2 (Kahneman & Frederick, 2002).

Respondents were more familiar with concepts that are easier to infer from their names, such as overconfidence. Overall, there appears to be a lack of specific knowledge about psychological biases or factors among advisors, with the knowledge level being lower than might be expected given SwedSec's requirements. The lack of knowledge about psychological pitfalls increases the likelihood that advisors are influenced by psychological factors during the advisory process. Awareness can make investors less prone to falling for psychological pitfalls (Kapoor & Prosad, 2017), which implies that without advisory tools, advisors would likely be more affected by psychological biases and factors. However, mere awareness of psychological biases is not sufficient to completely counteract their impact (Belsky & Gilovich, 1999; Baker & Nofsinger, 2002). This suggests that even if advisors had a higher level of knowledge on the subject, the advisory tool would still be advantageous in preventing the impact of psychological pitfalls in the advisory process.

5.2 SwedSec's Knowledge Update

The majority of advisors have not experienced an improvement in their knowledge of financial psychology following the implementation of the knowledge requirement, and some advisors do not recall its introduction. For instance, Anna does not remember studying financial psychology, which is problematic given that it is part of her licensing requirements. Anna has been an advisor for nearly six years, meaning she completed the knowledge update in 2021 on financial psychology and financial advising, yet she still lacks knowledge in the area. This raises questions about the effectiveness of the knowledge requirement.

All advisors indicate that they have not done anything specific to engage with the new knowledge requirement from SwedSec beyond the annual knowledge update. Despite completing the exam, advisors' knowledge on the subject remains low, which might be due to the possibility of retaking the exam until passing. This allows advisors to memorize or guess answers until they get them right. The problem here is that license holders (advisors) are supposed to be familiar with the components included in SwedSec, but the data from this study shows otherwise.

At the same time, most respondents have stated that their knowledge has improved since the introduction of the knowledge requirement, despite not having done anything specific to engage with it. This could be linked to overconfidence, specifically overestimation (Olsson, 2014). Another interpretation might be that advisors do not want to present themselves as ignorant in the field and thus have repressed what they have said. Overall, it seems that the new knowledge requirement has not had a significant impact on the advisory process, and advisors have not engaged with the requirement to a notable extent.

5.3 Prospect Theory & Risk Aversion

Prospect theory, as observed from the collected data, appears more pronounced from the customers' perspective than from the advisors' perspective. According to the advisors, customers have become more risk-averse since the Corona crisis, shifting towards safer investment options, such as placing funds in interest-bearing accounts. This observation aligns with Parrish's (2020) findings on risk aversion, where customers opt for low-risk or completely risk-free investment alternatives during challenging economic conditions.

Most advisors claim to mitigate the influence of prospect theory in the advisory process through their advisory tools. However, Diana's comments may indicate a form of risk aversion. She suggests that investing a larger sum into high-risk options might be unwise, even if it is recommended by the advisory tool. This raises questions about whether she deviates from the tool's advice or still adheres to it. Diana also notes that an interest-bearing account is a good option, which supports Parrish's (2020) theory that investors place money in risk-free options with lower returns during economically difficult times.

Previous research has shown that risk aversion among financial advisors can affect the investment recommendations given to clients (Fullbrunn & Luhan, 2015; Eraslan et al., 2022). However, this study does not present strong evidence that advisor risk aversion significantly impacts the advice provided to clients, except for Diana's potential deviation. All advisors appear to adhere closely to their advisory tools, likely due to the extensive documentation requirements imposed by financial regulators (Finansinspektionen, FFFS 2004:04). Thus, the empirical data in this study suggests that while advisors themselves are less influenced by prospect theory and risk aversion, client risk preferences significantly affect the advisory recommendations. The advice is tailored to clients' risk preferences through the advisory tools, reflecting a greater influence of prospect theory and risk aversion on clients than on advisors themselves.

5.4 Disposition Effect

Based on the responses from the participants, there are several indications that the disposition effect influences clients more than it affects advisors. This can be attributed to the fact that advisors use advisory tools that guide decisions on which assets to buy or sell based on the client's time horizon and risk tolerance, thereby protecting against the disposition effect.

One explanation for this is reflected in Benjamin's observation that people have a stronger emotional attachment to individual stocks compared to mutual funds. Since advisors are prohibited from giving advice on individual stocks and use advisory tools to make recommendations, they avoid the emotional attachment associated with stocks in their professional capacity. This systemically reduces the impact of the disposition effect on their advisory practices.

However, some respondents acknowledge that the disposition effect might manifest from the advisor's perspective in the advisory process but do not provide specific examples. For instance, Anna shares a personal experience where she chose not to sell a fund that had been performing poorly for over a year. This example suggests that advisors might be more influenced by the disposition effect in their personal financial decisions compared to their professional role. This reinforces the idea that the advisory tools used are beneficial, as they help mitigate emotional biases by not considering the advisor's or the client's emotions.

Initially, advisors maintain a neutral emotional stance regarding recommendations that result in gains or losses for the client. However, most advisors admit that it is more satisfying to provide recommendations that lead to client gains. This sentiment aligns with the disposition effect theory, which posits that the pride associated with recommending successful investments can be a motivating factor (Shefrin & Statman, 1985). In summary, while the disposition effect is present in the advisors' personal financial decisions, it does not significantly impact the advice given to clients due to the structured nature of the advisory tools used, which are designed to exclude emotional influences.

5.5 Mental Accounting

Mental accounting appears to affect all advisors in the advisory process according to the empirical data collected in this study. To start with, all advisors work with an advisory tool based on the clients' various savings goals, which results in the clients' holdings being divided into different savings accounts or investments. This is consistent with the theory of mental accounting as financial activities are separated into different mental accounts (Thaler, 1999). The design of the advisory tool is something that the advisors cannot influence, but advisors seem to view the division of clients' savings goals positively as it provides clarity for both clients and advisors. For example, mental accounting is evident among advisors in the retirement scenario presented, where some respondents highlighted that a separate investment savings account (ISA) for retirement could be beneficial for clarifying what constitutes retirement savings. This argument aligns with previous research showing that one advantage of mental accounting is that dividing into different mental accounts contributes to increased clarity (Das et al., 2010). However, it can also be inferred from the advisors' responses that they are affected by the negative aspects of mental accounting, such as some advisors not considering complete information about clients' holdings at other financial institutions. If not all the assets are included in the advisory process, the advisor does not get a comprehensive view of the client's total financial engagement, which can affect the client in various ways. For example, this can result in missed synergies between the client's various accounts or the asset allocation not being as diversified as it could be if the interaction between the assets in the client's total portfolio had been considered (Krase et al., 1994). Based on the collected empirical data, however, it is not possible to conclude that financial advisors reduce the impact of mental accounting on clients, as advisors themselves divide clients' financial activities according to mental accounting. Overall, there are both positive and negative aspects of mental accounting in the advisory process.

5.6 Overconfidence

Indications of overconfidence can be identified among most advisors. This is primarily evident from the initial question regarding how they perform compared to other advisors. Most advisors responded with over 50 percent, with several even responding with over 80 percent. Responses of 50 percent or higher align with the better-than-average effect, which is part of overconfidence (Olsson, 2014). This is because advisors claim that their advice has been more profitable than the average for other SwedSec-licensed advisors, without knowing how the average performs. Furthermore, there have been ongoing indications during the interviews that advisors act in line with overconfidence. For example, Benjamin mentions that he only needs two to three questions to determine clients' risk tolerance and expected return, despite the standard according to the institution being seven to eight questions. However, there is no indication that the male interviewees are affected by overconfidence to a greater extent than the female interviewees, which is expected according to theory (Barber & Odean, 2001). Overconfidence among advisors has been shown in previous studies to potentially lead to suboptimal investment advice for their clients (Lichtenstein & Fischhoff, 1977; Lichtenstein et al., 1982; Henrion & Fischhoff, 1986; Kaustia & Perttula, 2012). However, it is unlikely that this is the case here, given that the advisors do not select which financial products they recommend themselves; instead, the selection is managed entirely by a digital advisory tool. Furthermore, all advisors claim to have good conditions to achieve clients' desired goals, but only with realistic and long-term goals, which is not associated with overconfidence. The role of the advisor is thus more about collecting information on risk and investment horizon rather than determining what the advice should be.

6. Conclusion & Future Research

6.1 Purpose and Research Questions

The purpose of this study is to investigate how financial advisors provide advice and recommendations to clients during the current economic climate. Specifically, the study will assess how advisors have integrated the 2020 SwedSec advisory license's knowledge requirements on economic psychology into their practice. Additionally, it will explore the extent to which advisors acknowledge being influenced by psychological biases in their decision-making processes. Lastly, the study seeks to identify effective strategies that advisors employ to mitigate these biases and enhance the quality of their financial advice.
To fulfil the study's purpose, the following research questions have been addressed:

- What is the level of financial advisors' awareness of psychological biases and psychological factors?
- How have financial advisors worked to enhance their understanding of behavioural psychology in light of the new knowledge requirements in SwedSec's advisory license 2020?
- Can psychological biases or factors, such as prospect theory, the disposition effect, mental accounting and overconfidence be observed in the advisory process?
- What methods or techniques do financial advisors use to avoid falling victim to psychological biases or being influenced by psychological factors themselves?

6.2 Conclusion

The results of the study show that financial advisors are protected from psychological biases and factors through the advisory tool at the workplace, which is the primary method they use to avoid falling victim to psychological pitfalls themselves. The study also contributes to the understanding that the knowledge requirement introduced in SwedSec does not appear to have resulted in financial advisors acquiring significantly more knowledge on the subject. Thus, the effectiveness of the knowledge requirement and its implementation can be questioned. It might be worthwhile to investigate the effect of implementing the knowledge requirement on a larger scale, for example, through a survey.

All advisors describe their knowledge of psychological biases and financial psychology as low or nonexistent. Some respondents report recognizing certain psychological biases, but only those where the meaning can be inferred from the name. The remaining psychological biases were not known to the advisors, which reinforces the view that awareness of psychological biases is low among advisors. Overall, the knowledge proved to be worse than expected, given that knowledge of financial psychology and financial advisors is part of all advisors' licensing requirements. To familiarize themselves with the new knowledge requirement introduced in 2020, advisors have only completed the annual knowledge update in 2021 that included financial psychology and financial advisors. Only one respondent mentioned having also participated in internal training available at his workplace. The effect of the knowledge requirement can be further questioned since several respondents did not recall that the requirement had been introduced, and the overall level of knowledge among respondents regarding financial psychology is low. Despite this, all respondents claim that their knowledge of financial psychology has improved since the knowledge requirement was implemented, even though not all respondents remember its introduction. Thus, the advisors have not done much, if anything at all, to gain knowledge about behavioural psychology after the implementation of the knowledge requirement.

Prospect theory and risk aversion seem, according to the study's results, to manifest more from the clients' perspective than from the advisors' perspective in the advisory process. According to the advisors in this study, risk-averse tendencies have been observed among clients. However, Diana shows risk-averse tendencies from the advisors' perspective. The results of this study indicate that the advisory tool generates the advice to the client, and thus the advisors themselves are not affected by prospect theory. Similar results were found for the disposition effect. Respondents believe that the emotional effects are more pronounced among clients than among advisors. The study indicates that advisors might be affected by the disposition effect in their personal lives but not in the advisory process. Decisions about which assets to buy or sell also seem to be made via the advisory tool, meaning that the advisors' emotions do not influence the decision. However, advisors report that it feels better when a client sells with a profit, which can be interpreted as consistent with the disposition effect. Thus, advisors protect themselves from psychological factors through the advisory tool.

The results of this study show that mental accounting can influence the advisory process since the advisory tool divides clients' financial engagements into different savings goals. However, it is not the advisors themselves who are influenced by mental accounting and decide that the division should be made into different savings goals; they merely follow how the advisory tool is structured. Nonetheless, most advisors are affected by mental accounting in the sense that they do not collect all relevant information about the client's total financial engagement. Overall, mental accounting can be observed in the advisory process in terms of the division of clients' financial assets and that the advice does not always take the client's entire financial situation into account.

Overconfidence can be identified among most respondents, both through the initial question that tested the better-than-average effect among advisors and throughout the interviews where the better-than-average effect and overestimation could be observed. However, overconfidence does not seem to affect the advice given, as advisors use the advisory tool, where the client's risk level and investment horizon determine the advice. Furthermore, it seems that advisors do not deviate from the advisory tool, as doing so would require clear documentation. One factor that, according to the empirical data, might affect the advice is the requirement to provide a certain number of recommendations annually, as this could lead to unnecessary advice to clients. Advisors have not indicated that they have specific methods or techniques to avoid falling victim to psychological biases themselves.

The advisors have not reported having any specific methods or techniques to avoid falling victim to psychological biases or to mitigate the influence of psychological factors. However, some advisors have mentioned that experience has helped them avoid psychological pitfalls. Furthermore, the advisors work with an advisory tool and must follow strict rules and guidelines that help them avoid psychological pitfalls, except for mental accounting, which seems to affect the advisors. Ultimately, advisors are not significantly affected by psychological pitfalls. The avoidance of these pitfalls is not due to the advisors' awareness and knowledge in these areas, but rather because the advisory tool protects the advisors. Without the advisory tool, the impact of psychological biases and psychological factors would likely have been much more pronounced.

6.3 Suggestions for Future Research

During the data collection, it became clear that the advisory process is highly standardized since advisors use an advisory tool and cannot influence the advice provided. Consequently, advisors are not as affected by psychological biases as they might have been if they were able to determine the advice themselves. Therefore, it would be interesting to investigate psychological biases among advisors at other financial institutions where advisors are not as constrained by an advisory tool and can create and decide on advice themselves.

Furthermore, it would be valuable to explore the knowledge of behavioural finance across a broader sample, as the number of SwedSec-licensed advisors today is extensive. Thus, a supplementary quantitative study could provide a better and more comprehensive overview of the level of knowledge about behavioural finance among SwedSec-licensed advisors.

The results of this study indicated that the respondents are not significantly affected by psychological biases, as all work with an advisory tool that determines the portfolio recommendations. Therefore, it would be interesting to study psychological biases among those who create advisory tools at different financial institutions, as well as to investigate whether individuals who assemble the portfolios that advisory tools work with are influenced by psychological biases.

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Appendix A: Interview Guide

Background questions

Can you describe your professional background?

How much experience do you have in financial advice and counceling?

How has the current difficult economic climate with high interest rates affected your work in advising clients?

How would you describe your knowledge of the research area of behavioural finance or economic psychology?

SWEDSEC questions

How did you experience the new knowledge requirement, which came in 2020, in SwedSec regarding economic psychology and financial advisors?

Has your knowledge of the research area of economic psychology or psychological biases improved since the knowledge requirement in SwedSec?

How did you familiarise yourself with the new knowledge requirement?

In your opinion, do you think that economic psychology or psychological biases of advisors influence financial advice? If yes, in what way?

Bias 1 Disposition effect

Scenario: A client of yours today needs to free up cash to invest in a new asset. The client does not have enough cash to invest in the asset without selling off existing holdings in shares or funds.

The client asks you whether you recommend selling a stock that has increased in value by 20% since purchase, or selling a stock that has decreased in value by 20% since purchase.

Which stock do you recommend the client sell?

With follow-up questions about time horizon.

What emotions do you experience when you recommend a client to sell a stock that has performed poorly and the client is making a loss?

What emotions do you experience when you recommend a client to sell a stock that has performed well and the client makes a profit?

Follow-up question: compare your feelings in case of loss and profit.
Do you know what the disposition effect is?

Explanation: Investors tend to sell assets that have increased in value and keep assets that have decreased in value. Do you recognise this?

How do you think the disposition effect manifests itself in advice? How do you work as an advisor to avoid falling into this psychological pitfall?

Bias 2 overconfidence

What is the percentage probability that your advice has been more profitable than the average of other SwedSec-licensed advisors' advice? (1-100%)

How do you view your ability to fulfil your clients' desired goals when advising in the current economic climate?

Do you know what overconfidence is?
Explanation: The tendency of individuals to overestimate their own performance and knowledge. Do you recognise it?

How do you think overconfidence manifests itself in counselling? How do you work as a financial advisor to avoid falling into this psychological pitfall?

Bias 3: Mental Accounting

Scenario: You are counselling a client who tells you that they are willing to take additional risk in order to have more money for their retirement. You then have two options: to take a big risk with some of the client's assets, or to take a little risk with all of the client's assets, which do you choose?

Follow-up question:
--> time horizon 10 years?
--> time horizon 30 years?

Can you describe how the information gathering of the client's assets is done when advising clients?

Follow-up question: If it turns out that a client has shares in another institution, for example, another bank or other financial institution, how do you work with this information?

A customer wants to start saving for retirement. How is such a plan organised in brief?

Do you know what mental accounting is?
Explanation: Mental accounting is the cognitive breakdown of people's financial activities where people tend to divide their activities into different mental accounts. Do you recognise it?

How do you think mental accounting manifests itself in counselling? How do you work as a counsellor to avoid falling into this psychological pitfall?

Bias 4: Bias 4: Risk aversion / Prospect theory

Problem 1: Suppose you are 3,000 SEK richer than you are today. You are offered a choice between
A: A certain profit of 1 000 SEK or
B: A 50% probability of winning 2,000 SEK and a 50% probability of losing 0 SEK

Problem 2: Suppose you are 5,000 SEK richer than you are today. You are offered a choice between
A: A certain loss of 1 000 SEK or
B: A 50% probability of losing 2,000 SEK and a 50% probability of losing 0 SEK

Can you explain how you find out customers' attitudes to risk and expected return?
Follow-up question: What questions do you ask the customer to find out their attitude to risk and expected return?

How do you feel that customers' risk aversion has been affected by the current difficult economic situation? How do you address clients' risk aversion in their recommendations?

Do you know what prospect theory is?

Explanation: Prospect theory is a theory in behavioural finance about how people choose between different risky decisions. How people perceive, evaluate and manage risk can differ between individuals, resulting in different levels of risk. Risk aversion refers to individuals' reluctance to take financial risks.
Do you recognise it?

How do you think risk aversion / prospect theory manifests itself in counselling? How do you work as counsellors to avoid falling into this psychological pitfall?

Finishing questions and possible additions.