

The Human Factor: A Checklist of Behavioral Science Best Practices

Volatile markets underscore the need for a sound investment process. Heightened uncertainty breeds bias, which can lead to irrational behavior and human error. As a steward of our clients' capital, PIMCO is constantly looking for ways to test, challenge, and improve the process that underpins our investment decisions – and we're committed to helping our clients do the same.

In our recently published paper, "The Human Factor: Using Behavioral Science to Improve Investment Decisions," we explore some practices from behavioral science that can be applied to investment committees, as well as a variety of institutional scenarios.

The checklist below can help you implement behavioral best practices into your meetings and processes.



ENGAGE EXPERTS

- Solicit input from **outside experts**, particularly those who have opposing perspectives and are diverse in their domains, methods, and backgrounds, to gather **more complete information and challenge assumptions**.
- Solicit similar input from a large, cognitively diverse **pool of internal experts**, avoiding too much overlap/not enough coverage in skills and background, to help create more **customization and precision**.



BUILD DIVERSE TEAMS

- Connecting **diverse thinkers, specialists, and teams of skilled portfolio managers** to better synthesize insights and create **multisector strategies and integrated portfolios**.
- Diverse teams in terms of status, function, identity, background, and demographics have better **awareness**, more **dynamic perspectives**, and **novel, relevant ideas**.



MAKE IT EASY TO SHARE INFO

- Ensure ideas are shared and heard with ample **opportunity to communicate** via events, surveys, polls, technology, and office layout, **in combination with an inclusive culture** to help individuals feel comfortable sharing feedback.
- Use strategically-timed **reminders** and **nudges** to better guard against behavioral biases and informational noise. For example, the status of leaders can unintentionally silence other team members, so they should solicit others' views before revealing their own.



ALIGN INCENTIVES

- Incentivize accuracy by rewarding actions that involve **teamwork and sharing new evidence, ideas, and feedback**.
- **Focus less on immediate gratification** and more on the future and long-term success.
- Incentivize accuracy by rewarding actions that focus more on maintaining a **mindset of continuous learning and growth** rather than the pursuit of perfectionism.



EXPLORE ALL ALTERNATIVES

- Teams that take the **time and discipline** to systematically explore the value of a range of potential solutions are more likely to weed out weak, incomplete or inconsistent solutions.
- Evaluate the issues through a **variety of frames and perspectives**, and allow specialists to **deep dive** into the various components of the problem more thoroughly to help combat bias and errors from incomplete thinking.



BE QUANTITATIVE

- **Quantitative, data-informed approaches** promote more disciplined and impartial decision-making. It takes a significant amount of time, energy, structure and resources to **conduct original empirical research**, lay a foundation of robust evidence, and **specify the assumptions** on which they rest.
- Utilizing **new technology and machine learning techniques** helps overcome human limitations like lack of time, energy and cognitive capacity that impedes quality research.



RECORD AND TRACK VIEWS

- **Memory is unreliable**, so keeping detailed and transparent records can create useful data. **Documenting the rationale, evidence, and degree of confidence supporting the team's position at the time of the decision** both informally day-to-day and formally in publications helps maintain perspective and improve processes.



UPDATE ASSUMPTIONS

- The world is **constantly evolving**, so it's important to **verify assumptions and update them regularly** in light of new information.
- **Use the outcome of a decision as feedback** by comparing it to the records of the team's mindset at the time of the decision. Did it turn out the way we expected? For the reasons we expected? If not, then it's time to update.

Read, "The Human Factor: Using Behavioral Science to Improve Investment Decisions," for a deep dive into applying insights to institutional scenarios – with examples of how PIMCO is using them to manage risk and optimize decision-making.

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