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Take The Shine Off The Halo Effect

(NAPSA)—When you meet a broker who is well dressed, you may be inclined to also view him or her as smart, honest and competent, researchers say. It's a natural bias that occurs on a subconscious level, so you and other investors likely make these assumptions without even realizing it.

But being aware of this psychological bias, and doing a little investigating on your own, could help you steer clear of potential problems.

Emily Pronin, a Princeton University assistant professor of psychology and public affairs, calls it "the halo effect." It's one of several subconscious biases that Pronin studied under a grant by the FINRA Investor Education Foundation. Pronin's research can be found on the Foundation's website, FINRAFoundation.org.


In her experiment, Pronin examined whether a well-dressed broker who claimed to be an Ivy League graduate would also be seen as especially competent and trustworthy. She showed half her test subjects a version of the broker's profile that said he went to Cornell University and contained a picture of him wearing a nice suit and tie. And she showed the rest of her test subjects a picture of the same person wearing a polo shirt whose profile said he went to Elmira College.

Test results showed that participants rated the broker with the elite college education and business suit as more competent and less in need of a background check than the other broker. The test subjects were also willing to invest more of their money with

the pedigreed broker than with the more casual broker.

The research determined that the halo effect and other biases influence all investors—regardless of age, level of education, gender or experience. Most of us are unaware of our biases because they are triggered on the subconscious level.

In a related study, Pronin showed two groups of test subjects

Use your head, not just your eyes, before you take your hand out of your pocket. 

the same well-dressed broker and asked how much they would invest with him. Only this time, she warned one group of test subjects about the halo bias before showing them the broker's profile and picture. Her results showed that those who learned about the halo effect in advance invested 23 percent less on average than the group that wasn't warned.

"By simply learning that the halo bias exists, you reduce your vulnerability to it," said Gerri Walsh, president of the FINRA Foundation. "So keep this in mind the next time you shop for a financial expert."

Instead of concentrating on the nice suit and warm smile, Walsh said, ask if the broker is registered with FINRA, your state's securities regulator or the U.S. Securities and Exchange Commission, and verify the information.

The FINRA Foundation's anti-fraud website, www.SaveAndInvest.org, contains additional information on how to check a financial professional's background and tips to avoid investment fraud.