

BEHAVIOURAL ECONOMICS

BEHIND THE

EQUITY ROCKET



Behavioural economics is the study of the effects of psychological, cognitive, emotional, cultural, and social factors on the economic decisions of individuals and institutions. It deviates from classical economics, which assumes that individuals are rational and always act to maximise their self-interest.

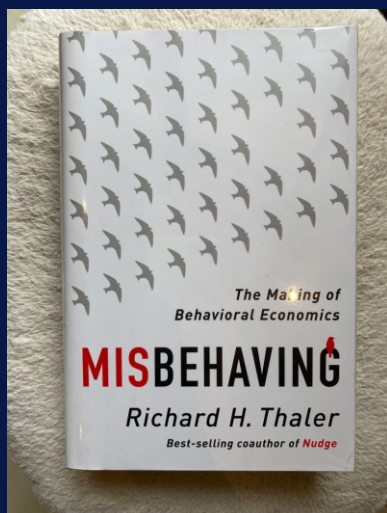
The theory you're referring to appears to align with several key concepts in behavioural economics, including mental accounting, commitment devices, and the power of having a well-defined goal. Let's delve into these:





1. Mental Accounting

Mental accounting, a term coined by Richard Thaler, refers to the way people categorise personal funds to separate them for different purposes. In this strategy, the investor sets aside \$50,000 for investment, creating a separate 'mental account' from their regular income and expenses. This separation makes the investor more mindful about using this fund only for its intended purpose, contributing to the discipline needed for the strategy.



Recommended Reading:

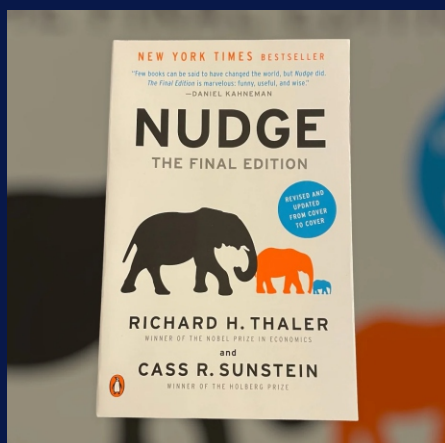
"Misbehaving: The Making of Behavioral Economics"

by *Richard H. Thaler*



2. Commitment Devices

Commitment devices are mechanisms that help individuals stick to their long-term goals by creating constraints on future actions. By agreeing to execute the Equity Rocket strategy, individuals commit to a multi-year investment plan, which acts as a commitment device. This commitment promotes stability and consistency, reducing the likelihood of making impulsive financial decisions.



Recommended Reading:

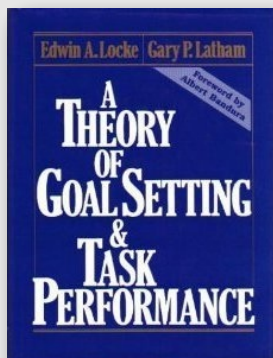
"Nudge: Improving Decisions About Health, Wealth, and Happiness"

by *Richard H. Thaler and Cass R. Sunstein*



3. The Power of Well-Defined Goals

Setting clear, specific goals can positively impact people's motivation and persistence, a concept widely discussed in the goal-setting theory by Edwin A. Locke. By agreeing to the Equity Rocket strategy, families set a tangible, long-term financial goal. This provides a clear vision for their future, fosters unity and cooperation, and enhances their determination to succeed.



Recommended Reading:

"A Theory of Goal Setting & Task Performance"
by Edwin A. Locke and Gary P. Latham