WHITEPAPER

Sunk cost, missed rates & the decision you keep deferring

Why finance leaders keep waiting on FX, & what it costs when they do

LUMON CORPORATE

When the rate moves

The exchange rate you needed was there on Thursday. You held off. Now it's Tuesday, the market dropped and your target rate is gone.

So, you decide to wait a few days to see if it bounces back before booking the trade. A few days becomes a few weeks. The rate keeps moving. You're still waiting.

By now, the decision has less to do with the market than with how it feels to have missed the number you wanted. Our brains are wired this way.

"There can be a dangerous disconnect between personal emotion and commercial sense. It's very easy to see your exposure through an emotional lens, looking at the market through rose-tinted glasses rather than managing the live reality of the business."

Eliot Basset
Managing Director

But deferring a trade after missing a target rate isn't a failure of professional acumen.

Rather, it is a highly predictable, human response, sustained by an illusion of control: the belief that you can somehow out-wait the market.

The behavioural patterns in this paper are grounded in academic research, applied to the specific conditions of corporate FX decision-making by Marise Gaughan MSc., a Behavioural Science expert holding nearly a decade of experience applying theory to financial markets.

While this is a natural psychological reflex, it is a dangerous financial strategy. The moment you rely on instinctive market calls instead of a pre-defined FX policy, you invite unmanaged, unpredictable variances into your business.

This paper reveals the hidden psychological patterns behind delayed hedging, what they cost your business and how a structured approach removes them as a variable.

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Why finance leaders keep deferring FX decisions

Whether you're securing margins on imported goods or sitting on an open €20 million position, the decision to delay will rarely be driven by a sudden change in corporate strategy. Instead, it stems from a subtle shift in your focus. The moment a target rate slips past, you're not thinking of the live exposure in front of you; you fixate on the rate you didn't take.

Behavioural scientists have found this cognitive shift usually triggers one of two well-documented patterns:

1. SUNK COST BIAS

You hold off because you are hoping the rate bounces back. But with the position still live, the market drifts further away from the rate you were prepared to accept and booking it now means accepting that the decision to wait was the wrong call. This is termed sunk cost bias: **continuing to pursue something because you've already invested heavily in it** (whether it's money, time or effort), even when giving up is the better choice. The longer you hold out on the trade, the more you fall behind, and the harder it is to pull the trigger.

2. LOSS AVERSION BIAS

The market has moved against you, so locking in this lower rate feels like crystallising a permanent loss. This is known as loss aversion: **the tendency to feel losses more acutely than equivalent gains**, making avoidance feel safer than acting. But loss aversion does not just cause hesitation. It triggers risk seeking behaviour. Rather than accepting the current rate as the new baseline, you wait for a recovery that may not come, taking an open speculative position while telling yourself you are being patient. Every day you wait, the loss you are trying to avoid becomes more likely, not less.

Though they look different in practice, both patterns come from the same place: **a reference point in your head that the market no longer reflects, and an inability to let it go.**

The universal patterns

Finance leaders are trained to reduce uncertainty, not court it. So how does someone whose job is to bring predictability to the business end up holding an open speculative position?

Not through a lack of discipline or understanding, but as a byproduct of mass marketing.

For decades, the banking sector has bombarded finance teams with daily forecasts and economic snapshots. This is how they sell at scale. Without the ability to capture the procurement timelines, pricing thresholds or cash flow sensitivities of individual enterprises, they default to generalised insights on where the market will move next. Over time, these narratives rewired how businesses view currency.

The industry now treats FX the same way it treats equities – as an asset with a future value that can be timed and predicted, rather than what it actually is: a highly volatile input cost that must be controlled.

When you combine this asset-class conditioning with the high-pressure environment of corporate finance, holding out for a better rate doesn't feel like taking a risk; it feels like a perfectly rational commercial calculation. The industry has taught you that waiting should eventually yield a better rate, so there is a natural, overriding reluctance to be the one who locks in a bad rate.

> *"The people running businesses know how to manage a commercial enterprise and risk. That is how they got to where they are. But predicting where a currency will move is not a commercial skill. It is speculation, and the market does not reward it consistently."*
>
> **Lloyd Eagles**
> **Dealing Director**

The financial reality of balancing these behavioural patterns with an unpredictable live market can be severe.

The cost of delay

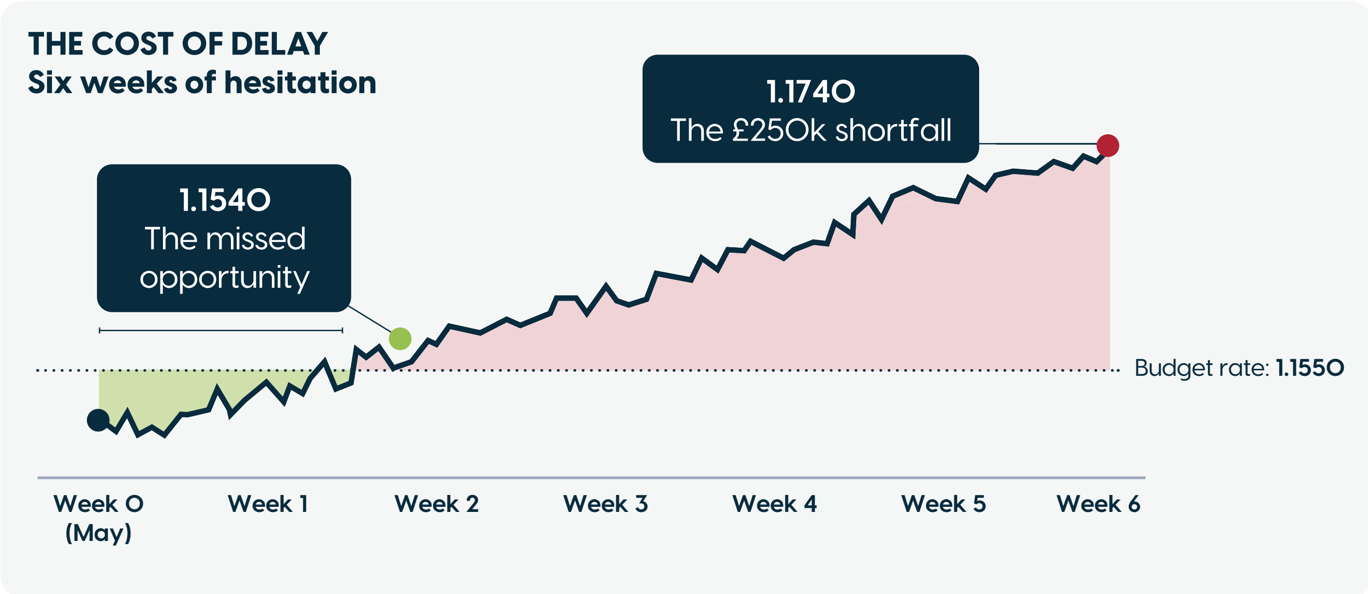
When you defer a trade, the market does not wait with you.

Take the example of a UK exporter managing €18 million in annual euro receivables. In January, it sets a budget rate of 1.1550. By late May the market approaches 1.1540 – in line with budget.

But instead of locking it in, the finance director holds off, hoping the market moves just a little further in their favour.

Over the next six weeks, the market drifts steadily higher, surpassing 1.1550 and eventually reaching 1.1740. By the time the FD reconsiders, booking the trade means locking in a rate well above the budget the year was planned around.

At an €18 million exposure, that brief window of hesitation translates into a ~£250,000 cash shortfall against the budget.



The information provided in this scenario is hypothetical and is intended for illustrative purposes only. The exchange rates referenced are interbank rates and should not be used as an indication of past, current or future performance or constitute a recommendation of any kind. A favourable movement in sterling would have benefited the unhedged position. However, the purpose of the hedge was to provide cost certainty for commercial planning and decision-making. The suitability of the recommendation is not contingent on the subsequent direction of the market.

A deferred trade's real damage shows up in your margins, not in the isolated FX loss. Because currency fluctuations bypass operational costs, a minor shift in the exchange rate can wipe out a disproportionate percentage of your net profit.

Your sales teams can exceed their targets, your operational costs can be perfectly controlled and your top-line revenue can show outstanding growth, but your net profit barely moves. At year-end, you're left trying to explain why a business that executed its commercial strategy flawlessly was undermined by one unmanaged variable.

"You see this with a lot of retailers. They are raising prices to compensate for currency moves, £100, £110, £120 for the same four shirts. They think they are protecting the margin, but the profit per unit still swings, £50 one year, £37 the next, £48 the year after. They are chasing the exposure through pricing rather than removing it at source."

Louis White
Sales Director

When you rely on market timing, you aren't just taking a risk on a rate. You are risking your commercial agility.

Sustained adverse market moves force leaders to abandon strategic growth plans.

Suddenly, capital that was earmarked for scaling operations is tied up covering margin compression. Businesses find themselves unable to execute planned office expansions, forced to withhold staff bonuses or pushed into higher-margin, riskier product lines just to stay afloat.

Ultimately, an unhedged position can turn your P&L into a hostage of the currency market.

Missing margin

If an operational error stripped hundreds of thousands of pounds from your tech budget, chances are it would be scrutinised at a board meeting.

But when an unhedged FX position inflicts the same financial damage, it typically goes unnoticed.

This happens because of a common reporting blind spot. Standard accounting software is designed to register settled invoices, not the cost of an unmade decision. Because the financial damage never appears on a ledger under a clear line item titled "Cost of a Deferred FX Decision", there is no structural feedback loop to diagnose the leak.

Instead, the financial hit is disguised as generic margin compression. Without a diagnostic tool, leadership teams naturally look to explain an underwhelming quarter with the variables they can track: supply chain inflation, rising overheads or aggressive competitor pricing.

Almost no one traces the performance back to a trade delayed by three months.

Surprisingly, this blind spot even exists in businesses that already have a formal FX policy in place. Many don't measure adherence to it, so the cost of deviating stays hidden.

"Because businesses are forced to evaluate that year-end result in isolation, without all the data to connect cause and effect, it is completely understandable that they write it off as an uncontrollable market event, rather than the cost of a stalled trade."

Erik Magnusson
Director of Corporate Strategy and Delivery

So, the business absorbs the loss and the next time a target rate is missed, the same FD makes the same call.

Breaking the cycle

The initial decision to delay a trade may feel like a calculated pause, but it is the beginning of a dangerous speculative pattern. When you wait based on the daily news cycle, luck is doing the work risk management should be doing.

Breaking this cycle means changing how your business views risk. You do not renegotiate your insurance policies every morning based on the daily news cycle, nor do you try to day-trade payroll. You set the terms, decide on the level of risk and get back to day-to-day operations.

Foreign exchange should be treated with that same mundane predictability.

HOW TO KNOW IF THIS PATTERN IS COSTING YOUR BUSINESS

- Your margin came in below forecast but there was no single operational reason you could point to.
- At year end, an underwhelming result got written off as a market event outside your control.
- A rate you were waiting for moved past you. You held off. You are still waiting.

Making the unpredictable predictable

Achieving that predictability starts with addressing the root cause: the cognitive biases that keep you treating currency management as a series of individual market calls.

Interrogating your P&L or investing in better forecasting software won't fix it. **The fix is addressing the root cause: the cognitive biases that keep you treating currency management as a series of individual market calls.**

As long as you are looking at live rates, evaluating the news cycle, and trying to decide if the number on your screen will get better or worse, you are trying to secure a "good" rate. You are making a prediction.

This is **the illusion of control: the belief that waiting, watching and making another judgement call will improve the outcome.** The sunk cost and loss aversion patterns explored earlier are not random. They are the predictable consequence of treating a cost management decision as a market timing decision.

SEPARATING MARGINS FROM MARKET CHAOS

A structured hedging policy is how you replace this illusion with greater control. It is a deliberate choice to stop managing your exposure by feel.

Removing the decision from the emotional space entirely prevents every market movement from becoming a fresh judgement call. Instead of evaluating the live rate against the number you anchored in your mind, you tie your FX decisions to your commercial fundamentals. Currency management becomes a predictable administrative process, planned in advance and executed consistently, regardless of market noise.

This addresses both behavioural patterns at their source.

There is no missed rate to anchor to, so sunk cost bias has nothing to feed on. Because the decision was made before the market moved, there is no alternative rate to compare against, so the trigger for loss aversion never arises.

Your FX costs reflect the budget you planned for, not whatever the spot market happened to do.

"Most CFOs I speak to have a fixed-rate mortgage. If I ask them why, the answer is straightforward: they want to know exactly what they are paying each month so interest rates don't dictate their cost base. Why wouldn't you manage your FX the same way?"

Lloyd Eagles
Dealing Director

But systemising your FX approach does more than just protect your profitability; it removes the cognitive burden of daily trade decisions. You no longer have to watch live rates so intensely, agonising over whether the market will bounce back or if you should pull the trigger today.

By removing the emotional guesswork, you can separate operational success from the chaos of spot rates, using currency management to strip out P&L variance rather than adding to it. That is what it means to manage FX rather than speculate on it.

Every day without a decision is a decision.

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Make your FX a policy decision, not a market call.

Speak to our dealing team about understanding your current exposure and what a structured approach could look like for your business.

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