Surging stock market valuations year-to-date give rise to overconfidence, specifically in the ability of retail investors to keep racking up double-digit gains. This psychological trait in which people put more focus on short term performance than long-term results, is known as **recency bias**. The sentiment is much different from the the Spring of 2020, when **loss aversion** -a preference to put avoiding losses ahead of achieving gains, saw retail investors panic sell as stocks were sinking.

Just as cars have blind spots, so do humans and is why we pay close attention to behavioural finance (which looks at why people make certain financial choices that affect not only their portfolios but the broader markets). People aren't wired to make decisions on a purely rational basis, and we know that decision-making can be impacted by a whole number of factors including emotions, personality traits and the context in which the decision is being made.

Cognitive biases are why investors do best with a trusted Financial Advisor. Professional wealth management requires investment discipline, and normative experiences of individual investors are subordinated to the more important long-term investment objectives. Separating investment preferences from emotional preferences is critical, and this mindfulness is integral to a better investment outcome. Free of emotional biases, the investment strategy is given the requisite time frame to yield results, and is how to successfully build wealth. Simply put, our role is to keep clients from making emotion-driven investment decisions, and this is where we provide the most value.

Goal-based financial planning plays a complementary role in removing cognitive bias from short-term investment decisions. Understanding what rate of return is required to meet long-term financial goals, mitigates the likelihood of making erratic decision in response to the immediacy of the situation. In 2020, markets fell 36% peak-to-trough and we are pleased to report that every client stayed the course -and reaped the benefits of doing so as markets recovered quickly.

Financial Advisors wear many hats when representing clients, but chief among them is the role as a strategic coach/counsellor by helping clients avoid mixing money and emotions, (generally the biggest risk to clients financial well-being over the long term). We are committed to *delivering a better client experience* and as such, make the understanding of our clients behavioural and cognitive biases a priority. Managing these by managing client's emotional biases through portfolios that deliver solid, risk-adjusted returns, is how we deliver on our commitment. The final word on this comes from legendary investor Warren Buffett who said "*remember that the stock market is a manic depressive*", which is true as it swings wildly day to day based on the smallest of news. By staying rational and tuning out the noise, investors can best achieve long term performance. A short video by our wealth management partner Dimensional makes this point and I encourage you to watch <here>.

Be safe, be well!

Martin
1-519-546-5088