Bias Worksheet

1. Confirmation Bias

The tendency to overweight information that confirms our beliefs and ignore information that contradicts it. This bias is often seen in politics and investing. If you have an opinion about a politician or stock and nothing will ever change your mind, perhaps you're suffering from Confirmation Bias. Knowledge of this bias is the first step to addressing it. Once you are aware, ask yourself "How am I wrong?" and be open to critically looking at your existing opinions.

2. Overconfidence Bias

The tendency to hold a false and misleading assessment of our skills, intellect or talent. In short, it's an egotistical belief that we're better at something than we actually are. How does one rectify this? Evaluate your investment returns. If you or your advisor consistently underperform the appropriate index, it may be time to make a change.

3. Statis Quo Bias

An emotional bias where one prefers the current state of affairs and any change is perceived as a loss. This is big with investments that are doing poorly or a longtime advisor. Often, investors will stay with a losing stock even though it is obvious their money would do better elsewhere. This goes for their current advisor as well. Investors may stay with a poor advisor for years or even decades even if he/she is obviously not doing a good job. To combat this, look critically at your investments and advisors. Don't be afraid to make a change if the data warrants action.

4. Loss aversion bias (1)

The tendency for people to prefer avoiding losses over obtaining gains. Psychologists tell us that the ***pain of losing money*** is twice as powerful as the ***pleasure of a gain***. If you would rather accept a small but certain reward over a chance for a larger gain, loss aversion bias may be an issue for you. According to ideatovalue.com, overcoming this bias involves "shifting your focus away from thinking about the success or failure of each individual investment and instead think about the overall net each holding has on the overall portfolio".

5. Hindsight bias (2)

A psychological phenomenon that allows people to convince themselves after an event that they had accurately predicted it before it happened. Hindsight bias prevents us from recognizing and learning from our mistakes. An investment diary, comparing outcomes to the reasoning behind our investment decisions are good ways to keep hindsight bias in check.

6. Herd Mentality (AKA: bandwagon effect)

A tendency of investors to follow what they perceive other investors are doing rather than follow their own analysis. If you make decisions based on current affairs or news, without much thought beyond that, you may have herd mentality traits. As mentioned in our blog, this is best handled by adopting a bucket strategy and committing to following a detailed investment process; even when that process is out of sync with the current investment environment. If you have a good investment process, stick with it and remember that the process may work over time but may also have periods where it lags the market.

9. Anchoring bias (9)

Anchoring bias occurs when people rely too much on pre-existing information or the first information they find when making decisions. For example, if you first see a T-shirt that costs $1,200 – then see a second one that costs $100 – you're prone to see the second shirt as cheap. Whereas, if you'd merely seen the second shirt, priced at $100, you'd probably not view it as cheap. The anchor – the first price that you saw – unduly influenced your opinion. The same thing can happen with stocks. How do we combat anchoring? There's no substitute for rigorous and critical thinking.

10. Recency Bias

The phenomenon of a person most easily remembering something that has happened recently compared to something that may have occurred long ago. This bias causes people to buy when they should sell and sell when they should buy. For example, investors tend to sell as stock prices fall and become afraid to buy back into the market due to the belief that recent market drops will continue. Many investors suffer from this bias to a certain degree as evidenced by studies of individual investor returns versus the S&P 500. Dalbar research found that the average investor lost 9.4% during the market drop in 2018 versus the index which lost 4.3%. (7) A quick google search of investor returns versus index returns will show several examples of this phenomenon over longer periods of time. Combating this bias requires discipline and a knowledge of market history. A good advisor who acts as a coach can help greatly with Recency bias.

Our team at Callesen Wealth Management is here to help and we are trained in behavioral coaching. If you would like to discuss these biases with an advisor, click this link to our email and we will be in touch within 48 hours. nick@callesenwealth.com

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