John Hancock Investment Management

My brain made me do it: strategies to help you make better decisions

Presenter’s name
Presenter’s title

<Date>

A company of Manulife Investment Management

Welcome to “My brain made me do it”

Today, you’ll have an opportunity to:

- **Investigate** how we typically make decisions
- **Understand** how our decision-making process contributes to common investment mistakes
- **Learn** how to train our brains to avoid those mistakes

Pop quiz

Fill in the blanks

Buy

- [x] Low
- [ ] High

Sell

- [ ] Low
- [x] High

The fundamental principle of investing

The battle of the brain

Good investing techniques

Intuitive vs. reflective

Two schools of economics

Old school:
classical economics

Investors are
rational people
who have self-control

New school:
behavioral economics

Investors are
not logical and
are undisciplined

How to train your brain

We want quick and easy decisions

When dealing with your dollars, do you really want quick and easy?

A new mindset is needed to overcome human nature

Six common investing mistakes

1	Loss aversion
2	Anchoring
3	Status quo bias
4	Procrastination
5	Hindsight bias
6	Availability

Mistake 1: loss aversion

Emotional bias

1	People's tendency to strongly prefer avoiding losses over acquiring gains	• The psychological impact of a loss can be twice as powerful as the impact of a gain • Leads to poor investment choices

Warning signs

"I can't sell now—it's down too far.
It will come back eventually."

"I don't mind staying in cash—the markets have been crazy lately! I'd rather be safe."

Sound familiar?

How to remedy loss aversion

- Don't just be prepared for market volatility—**expect it**
- **Involve** impartial people
- Create a disciplined plan—**and stick to it!**
- **Develop** an emergency fund
- **Establish** a dollar-cost-averaging plan*

*** Dollar cost averaging does not assure a profit or protect against loss in a declining market.** Such a plan involves continuous investment in securities regardless of fluctuating price levels. An investor should consider his/her financial ability to continue purchases through periods of low prices. Most investments generally fluctuate according to market conditions. Past performance does not guarantee future results.

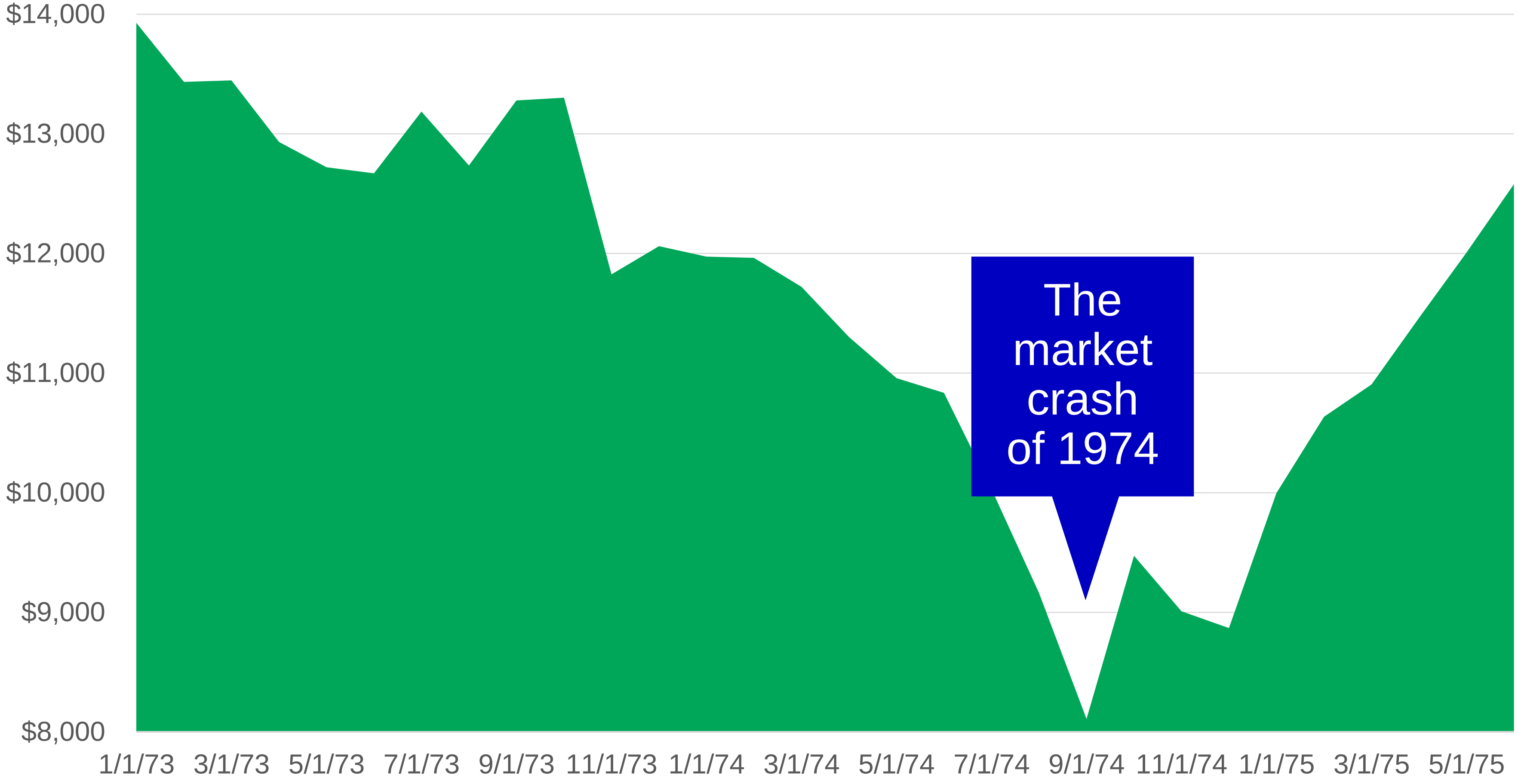
Mistake 2: anchoring

Cognitive bias

2	Anchoring is how well you can concentrate and focus	There's a common human tendency to rely too heavily, or anchor, on one trait or piece of information when making decisions

What are your anchors?

S&P 500 Index, 1973–1975



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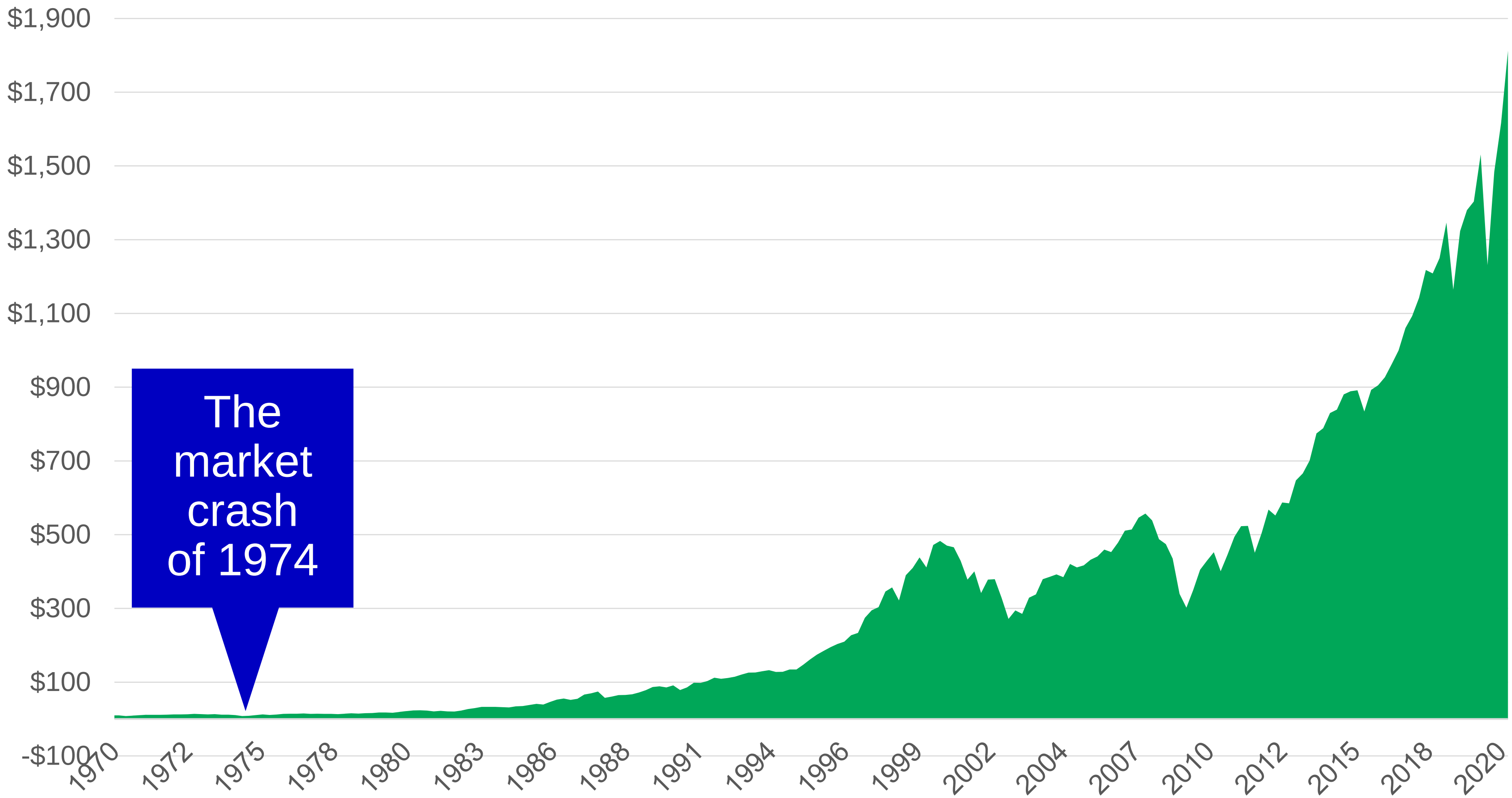
Source: Lipper, 12/31/72–6/30/75. The S&P 500 Index tracks the performance of 500 of the largest publicly traded companies in the United States. It is not possible to invest directly in an index. Past performance does not guarantee future results.

Change your anchors

S&P 500 Index, 1970–2020



Source: John Hancock Investment Management, 2020. The S&P 500 Index tracks the performance of 500 of the largest publicly traded companies in the United States. It is not possible to invest directly in an index. Past performance does not guarantee results.

Warning signs

“I’m still down 10%. I just want to get back to where I started.”

“Six months ago, I had $XXX, and now I have half that amount.”

Have you ever said this?

How to remedy anchoring

- **Keep** an open mind
- **Seek** out information to give you perspective
- **Change** your anchors
- Let **progress** toward your goals be your benchmark

Mistake 3: status quo bias

Cognitive bias

3	People tend not to change an established behavior unless the incentive to change is compelling	• It's easier to do nothing • Creatures of routine

Your initial portfolio allocation is tremendously important, as it has enduring impact.

Warning signs

“I’ve had that investment for years, and it’s been good. No need to change it now.”

“More than half of my portfolio is invested in my company’s stock. I’ve heard that’s not such a good idea, but I don’t know where else to invest.”

What can you do about it?

How to remedy status quo bias

- Make a **schedule**
- Revisit your plan at **regular intervals**
- Involve others and hold yourself **accountable**
- Learn what motivates **you**
- **Reward** yourself for progress toward your goals

Mistake 4: procrastination

Emotional bias

4	Procrastination	• Positive bias toward the present • Anxiety when starting a complex task • People want to relax today and invest (or do anything) next week

Fruit or chocolate?

Warning signs

“I really should join my company’s retirement plan. I’ll get to it next week.”

“Our child just turned 10. We really should open a 529 account one of these days.”

What can you do about it?

How to remedy procrastination

- Make a **schedule**
- Revisit your plan at **regular intervals**
- Involve others and hold yourself **accountable**
- Learn what motivates **you**
- **Reward** yourself for progress toward your goals

Mistake 5: hindsight bias

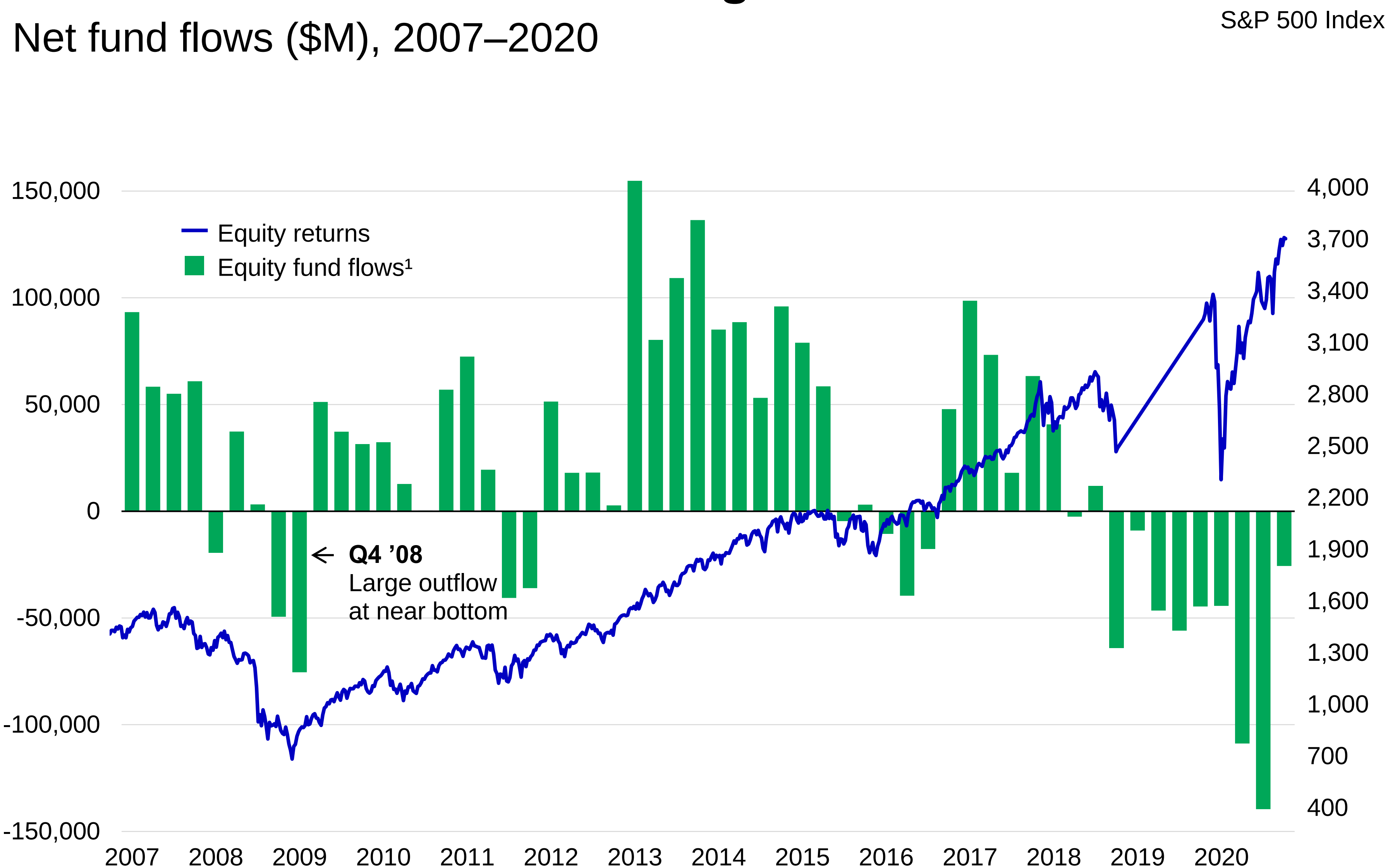
Emotional bias

5 **Hindsight—** locking the barn door after the horse has run away	• Taking action after it's too late • The mortgage meltdown, banks tightening credit • Past performance does not guarantee future results

It's why people start to eat right and exercise after a health scare.

The cost of emotional investing—stocks

Net fund flows ($M), 2007–2020



Source: Morningstar, Ibbotson as of 12/31/20. The S&P 500 Index tracks the performance of 500 of the largest publicly traded companies in the United States. It is not possible to invest directly in an index. Past performance does not guarantee future results.

1 Comprises U.S. equity, sector equity, international equity, and hybrid mutual funds and ETFs.

Warning signs

“I don’t care what happens next. I’m moving to cash until things calm down.”

“The market has done great this year. I knew I should have invested more.”

Next steps?

How to remedy hindsight bias

- **Remember** that you did the best you could with the information you had
- **Review** your plan to make sure it still works for you
- Keep a **long-term perspective**
- **Write a letter** to yourself

One way to remedy hindsight bias

"My financial professional and I have established a long-term plan. Sometime in the future, the market will correct to the point where I feel uncomfortable staying invested. I may feel scared and ask my advisor to get me out of the market.

But I know that my plan is sound and, if anything, it may be a good time to invest more. My long-term goals haven't changed and I'm committed to sticking to my long-term plan."

Mistake 6: availability

Cognitive bias

6

People's tendency to use information that's on hand to make decisions

- The prevalence of media coverage reinforces availability
- Results in overestimating the probability of an event because it's associated with a previous memory

Warning signs

“I see people with iPads everywhere. Apple must be a good stock to own.”

“This guy on TV says now is the time to buy gold. He must be right—he’s on TV!”

Have you said something like this?

Not a recommendation to buy or sell any security.

How to remedy availability

- **Don't believe** everything you hear!
- Remember, **bad news sells** newspapers
- Experts (and your neighbors and friends) can be **wrong**
- **Systematic investing** works in up ***and*** down markets

What have we learned?

- We're programmed to think intuitively
- When it comes to money, you should be thinking reflectively
- A new mindset is needed to overcome human nature
- It helps to have a plan and a person you can trust to help you implement your plan

Strategies to consider

- **Write** down your plan and refer back to it
- **Establish** what steps you will take in a crisis when you are not in a crisis
- **Start** dollar cost averaging*
- **Expect** that your portfolio will go down at times
- **Make** appointments with your financial professional well in advance and on a regular schedule

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Today, in “My brain made me do it,” we learned:

- How we typically make decisions
- How our decision-making process contributes to common investment mistakes
- How to train our brains to avoid those mistakes

Contact your financial professional today—
don’t procrastinate!

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