Manulife Investments | John Hancock

Behavioral biases: Strategies to help you *make better investment decisions*

We humans love *intuitive* decisions (those we make quickly in our minds). They require no real conscious effort; they're something we just *"know."*

Think about seeing a stop sign while driving. We do not have to *think* about whether we need to stop, we just stop.

Conversely, some decisions may require reflective thinking. When making a *reflective decision*, we are more likely to take our time, analyze data, and weigh our options. Reflective decision-making is key when it comes to investing and reaching our financial goals.

As behavioral economics suggests, humans are *not always as rational and disciplined* as we think. Below are six common investing mistakes that we may want to learn to recognize so that we can minimize any potential negative impact on reaching our financial goals.

6 Common investing mistakes:

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

Emotional bias

1 Loss aversion

(Preferring avoiding losses over acquiring gains)

Example:

You place a $5 bet, and if you lose, the next time you bid $10, then $20. You're not focused on winning, but on trying to avoid a loss. This is why the house always wins.

Warning sign:

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

This tendency may lead to poor investment choices. Examples are investing too conservatively for your time horizon and goals, and selling stocks during a market downturn.

How to remedy:

- Don't be prepared for market volatility – expect it.
- Involve impartial, knowledgeable advisors.
- Create a disciplined plan.
- Think about establishing an emergency fund.
- Consider participating in a dollar-cost-averaging plan.

2 Procrastination

(Wanting to relax today and postpone a certain activity until the future)

Example:

Many individuals, when asked if they'd like an apple or a piece of chocolate today, will gravitate towards chocolate today, and an apple next week. We want immediate gratification.

Warning sign:

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

This tendency may lead investors to forego making wise investment decisions today (like opening a child's 529 account), as relaxation and doing nothing seems more appealing in the present moment.

How to remedy:

- 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.

Emotional bias

3 Hindsight bias

(Taking action after it's too late)

Example:

Investors moving money into cash after a dramatic market downturn, when likely it was "too late" and they may have been better off staying in the market and riding out the storm.

Warning sign:

"The market has done great this year. I should have invested more."

This tendency can cause investors to feel they know what they should have done when looking in the rearview mirror. Hindsight is always 20/20.

How to remedy:

- Remember 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.

Cognitive bias

4 Anchoring

(Relying too heavily on one piece of information when making decisions)

Example:

Your first year investing in the stock market is a negative year. You are focused ("anchored") on how much money you lost and fail to recognize that although the stock market does not rise in a straight line, over time, stocks have been a huge wealth creator for investors.

Warning sign:

"Six months ago, I had $X, and now I have half that amount."

This tendency can cause an initial exposure to a number to serve as a reference point and influence subsequent judgement.

How to remedy:

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

5 Status quo bias

(Doing nothing as it's easier than changing an established behavior)

Example:

Magazines that offer "subscribe-and-cancel-anytime" guarantees realize most people won't bother to unsubscribe.

Warning sign:

"More than half 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."

This tendency towards inaction can cause an investor to not make potentially beneficial changes.

How to remedy:

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

6 Availability

(Using information that's on hand to make investment decisions)

Example:

Excessive media coverage on a specific topic or issue will bring that to the forefront of your mind and potentially affect any related decision.

Warning sign:

"This guy on TV says now is the time to buy gold. He must be right, he's on TV!"

This tendency can cause investors to overestimate the probability of an event occurring because it's associated with a recent memory.

How to remedy:

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

Moving forward, what investment strategies and action steps should you consider?

- Develop a disciplined plan with your financial professional.
- Continue meeting with your financial professional on an ongoing, systematic basis.
- 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.
- Continually seek out information that will give you perspective.
- Develop an emergency fund.
- Focus on your long-term goals, not potential short-term volatility.

Contact your financial professional today – don't procrastinate!

For more information, contact Manulife John Hancock Investments at 800-225-6020 or visit jhinvestments.com.

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