My brain made me do it:

strategies to help you make better decisions

Presenter Full Name

John Hancock Investment Management

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

John Hancock Investment Management

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

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

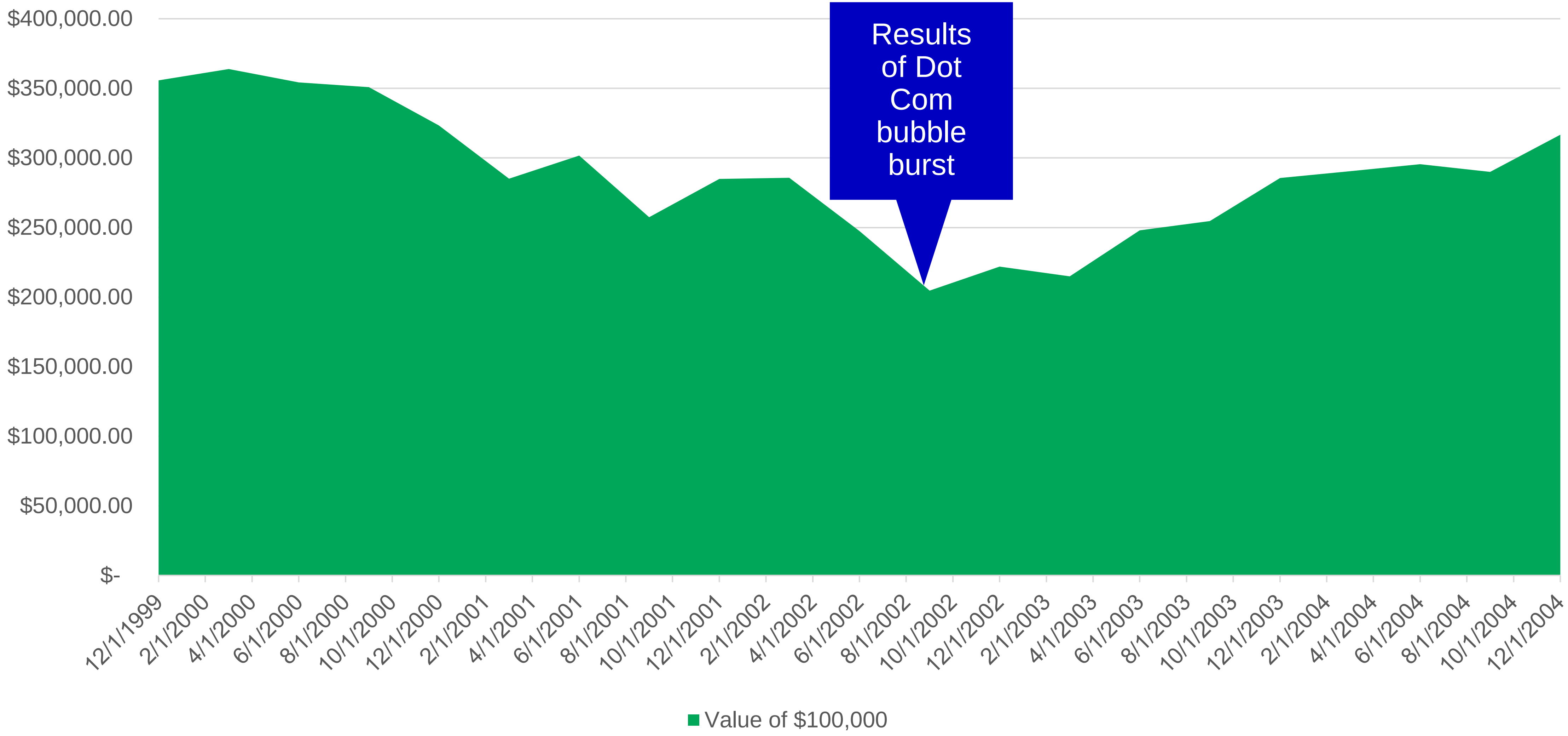
Cognitive bias

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

Change your anchors

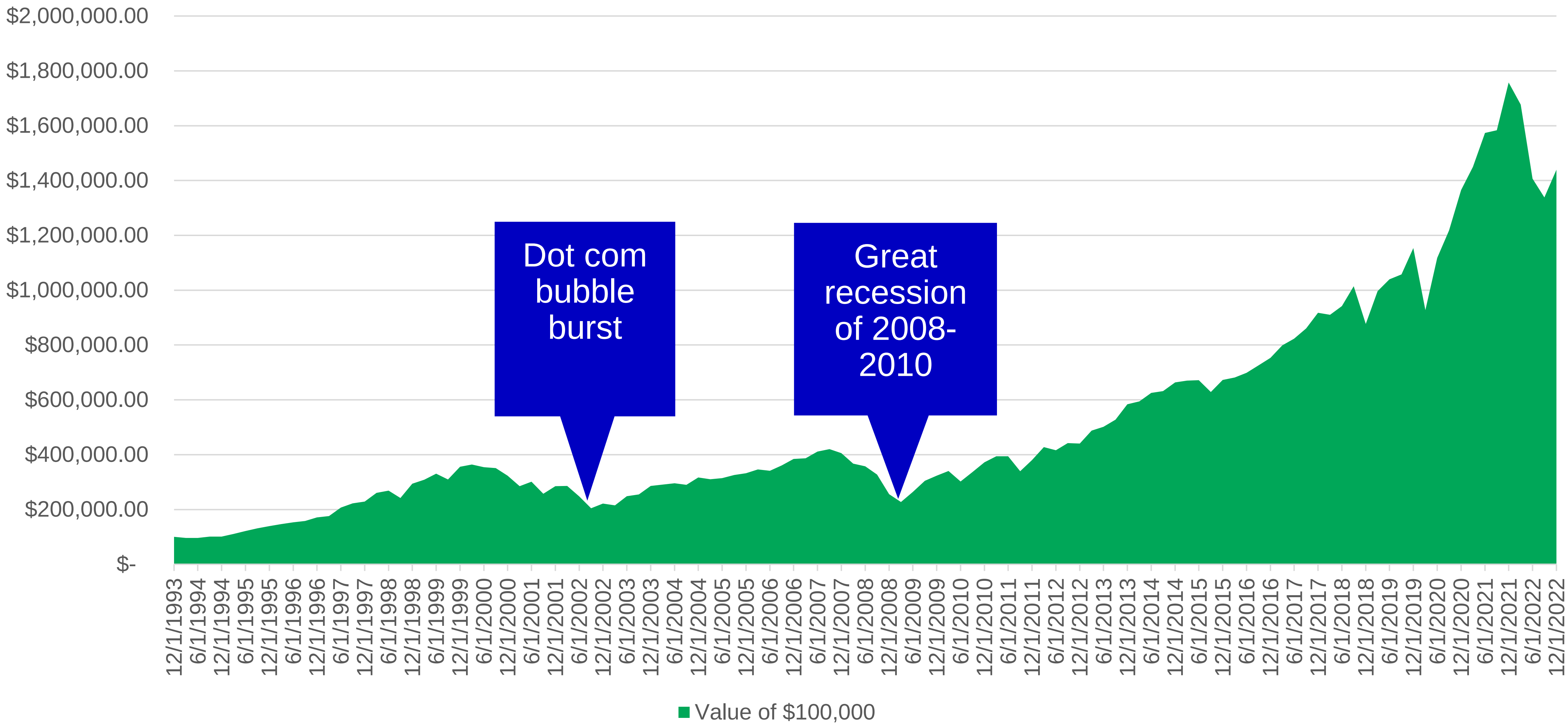
S&P 500 Index, 1999–2004



Source: John Hancock Investment Management, 2022. 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. 12/1/1999-12/1/2004.

Change your anchors

S&P 500 Index, 1993–2022



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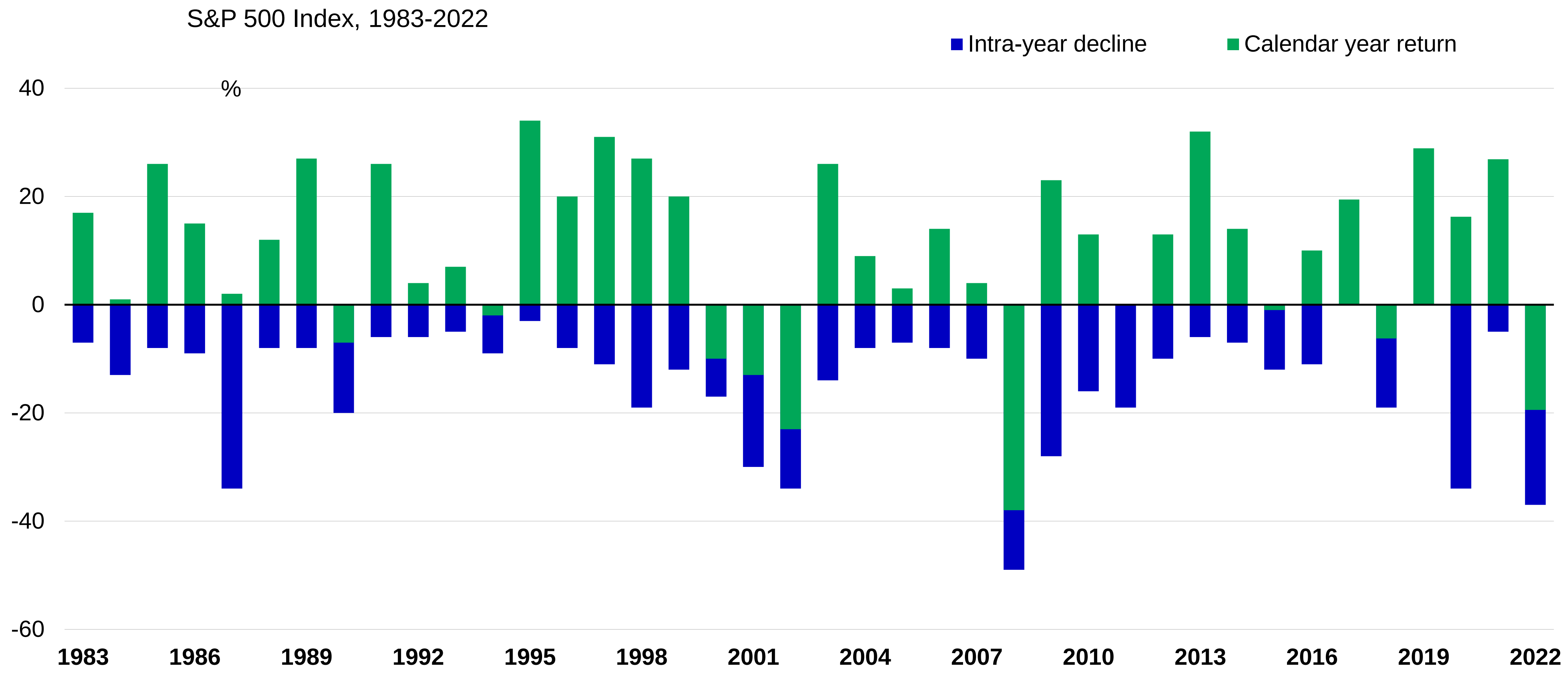
Source: John Hancock Investment Management, 2022. The S&P 500 Index tracks the performance of 500 of the largest publicly traded companies in the United States. It is not possible to invest directly in an index. Past performance does not guarantee future results. 12/1/1993 -12/31/2022.

- INTERNAL

Intra-year corrections are normal

The market will often experience setbacks before moving higher



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Source: Bloomberg, Standard & Poor's, as of 12/31/22. 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.

In any given year, returns may be negative

Distribution of annual returns, S&P 500 Index, 1928–2022

Number of occurrences

- **Positive years** 69 (73%)
- **Negative years** 26 (27%)

Annual return	Number of occurrences	Years
-50% to -40%	1	1931
-40% to -30%	2	2008, 1937
-30% to -20%	3	2002, 1974, 1930
-20% to -10%	6	2022, 2001, 1973, 1957, 1941, 1940
-10% to 0%	14	2018, 2000, 1990, 1981, 1977, 1969, 1966, 1962, 1953, 1946, 1939, 1934, 1932, 1929
0% to 10%	14	2015, 2011, 2007, 2005, 1994, 1992, 1987, 1984, 1978, 1970, 1960, 1956, 1948, 1947
10% to 20%	21	2020, 2016, 2014, 2012, 2010, 2006, 2004, 1993, 1988, 1986, 1979, 1972, 1971, 1968, 1965, 1964, 1959, 1952, 1949, 1944, 1942
20% to 30%	16	2021, 2017, 2009, 2003, 1999, 1998, 1996, 1983, 1982, 1976, 1967, 1963, 1961, 1951, 1943, 1938
30% to 40%	13	2019, 2013, 1997, 1995, 1991, 1989, 1985, 1980, 1975, 1955, 1950, 1945, 1936
40% to 50%	4	1958, 1935, 1933, 1928
50% to 60%	1	1954

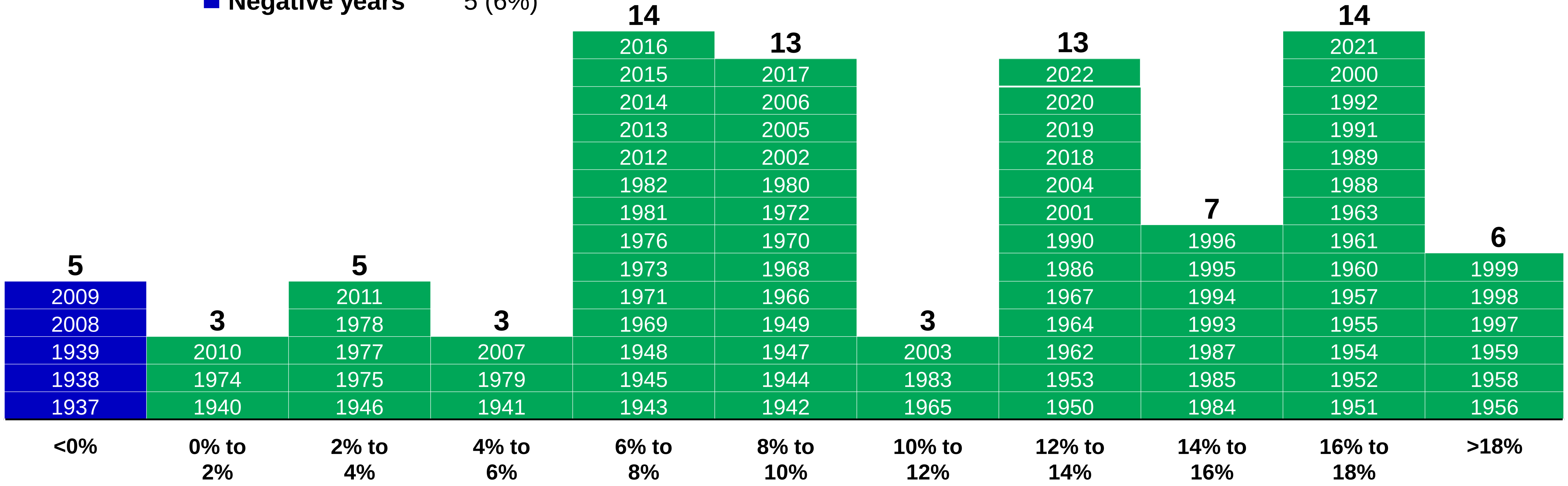
Source: Bloomberg, 2022. The S&P 500 Index tracks the performance of 500 of the largest publicly traded companies in the United States. It is not possible to invest directly in an index. Past performance does not guarantee future results.

The longer you hold stocks, the better the chance returns will be positive

Rolling 10-year stock market returns, 1928–2022

Number of occurrences

- Positive years 81 (94%)
- Negative years 5 (6%)



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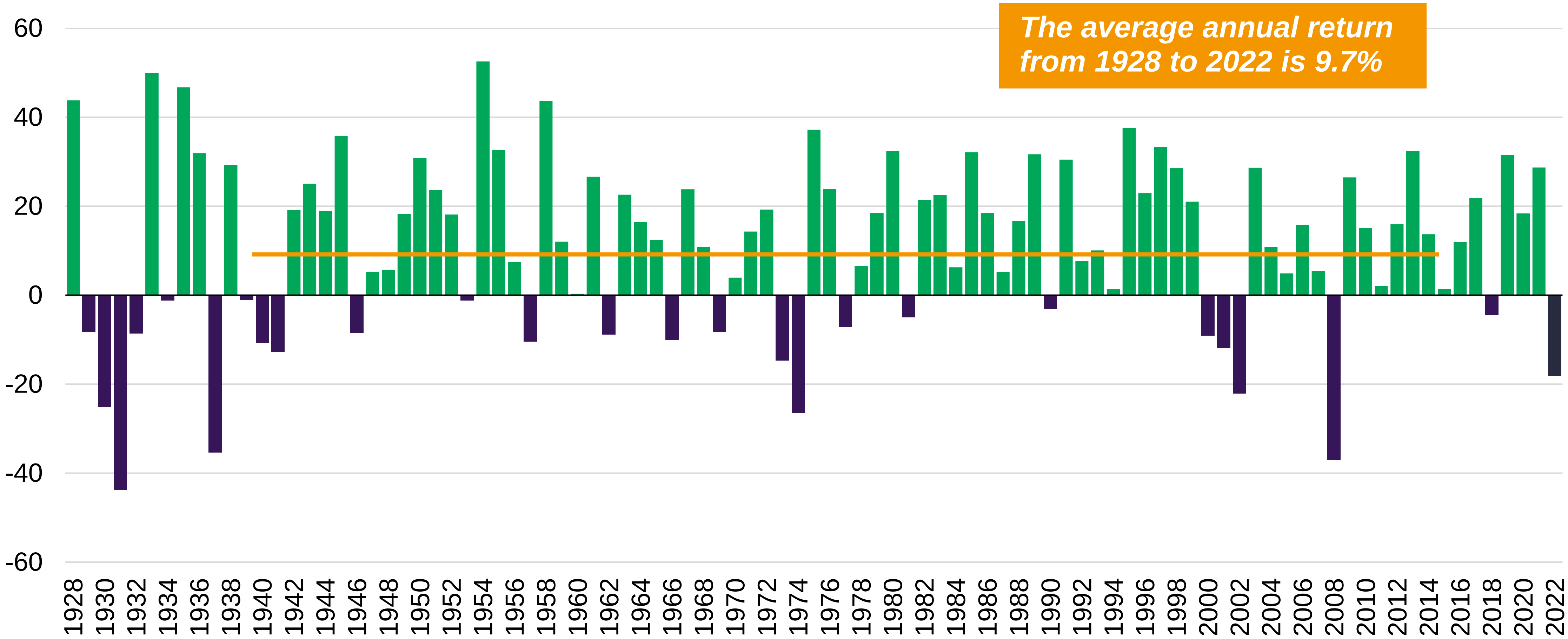
Source: The data is calculated by John Hancock Investment Management using information presented in Bloomberg, 2022. All rights reserved. Used with permission. Stocks are represented by the S&P 500 Index, which tracks the performance of 500 of the largest publicly traded companies in the United States. It is not possible to invest directly in an index. Past performance does not guarantee future results. Data begins in 1928 with the first 10-year period in 1937.

It is a market of extremes

S&P 500 Index calendar year returns, 1928–2022 (%)

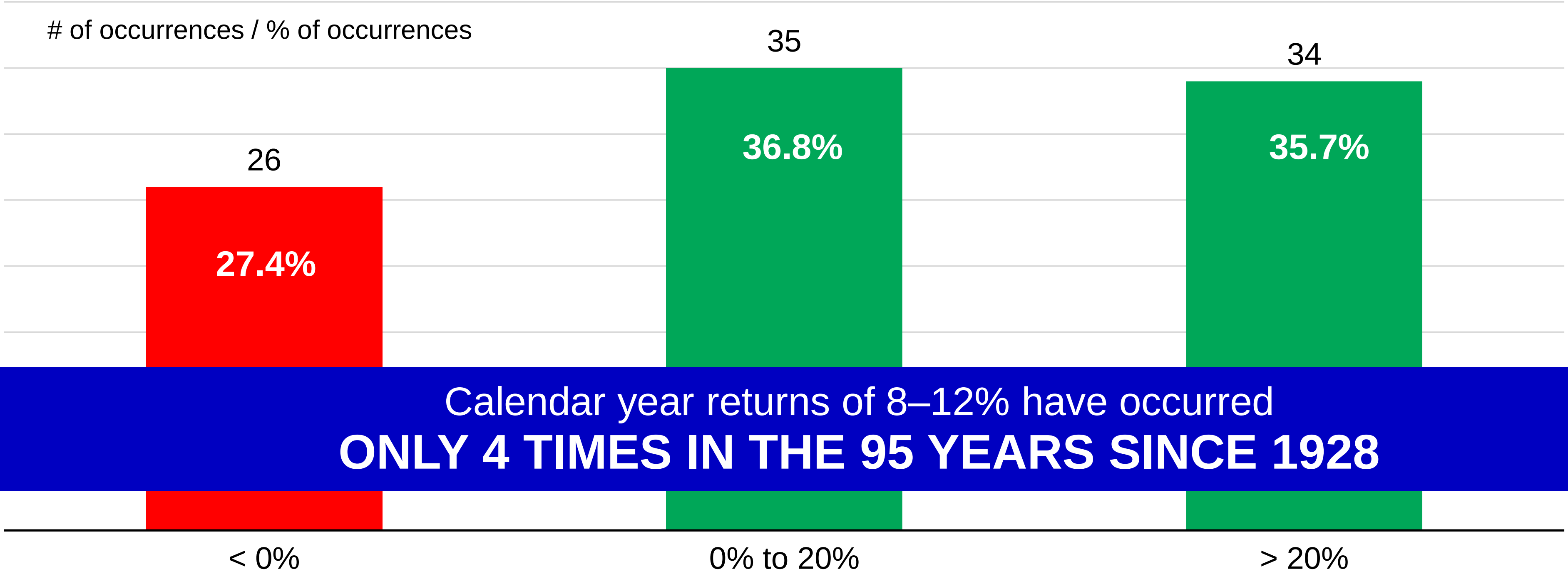


Source: Calculated by John Hancock Funds, LLC using information and data presented in Morningstar Direct. All rights reserved. Used with permission. Based on average annual percentage returns for the S&P 500 Index over 94 one-year periods from 1928-2022, assuming reinvestment of dividends and capital gains. 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 is no guarantee of future results.

There is nothing average about returns

1928–2022

What's the most common occurrence in the stock market in a calendar year?



Calendar year returns of 8–12% have occurred

ONLY 4 TIMES IN THE 95 YEARS SINCE 1928

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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

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

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

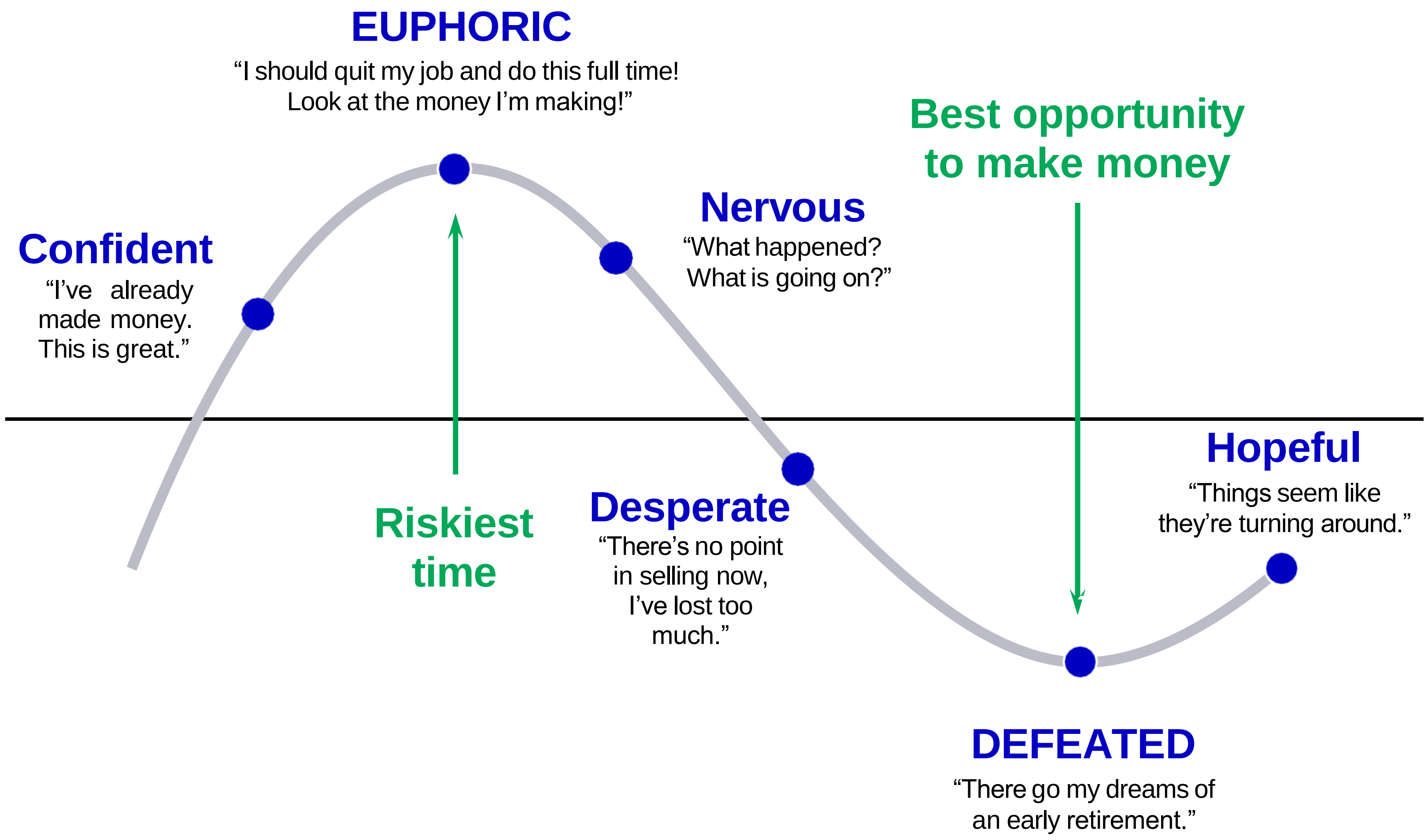
Emotional bias

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.

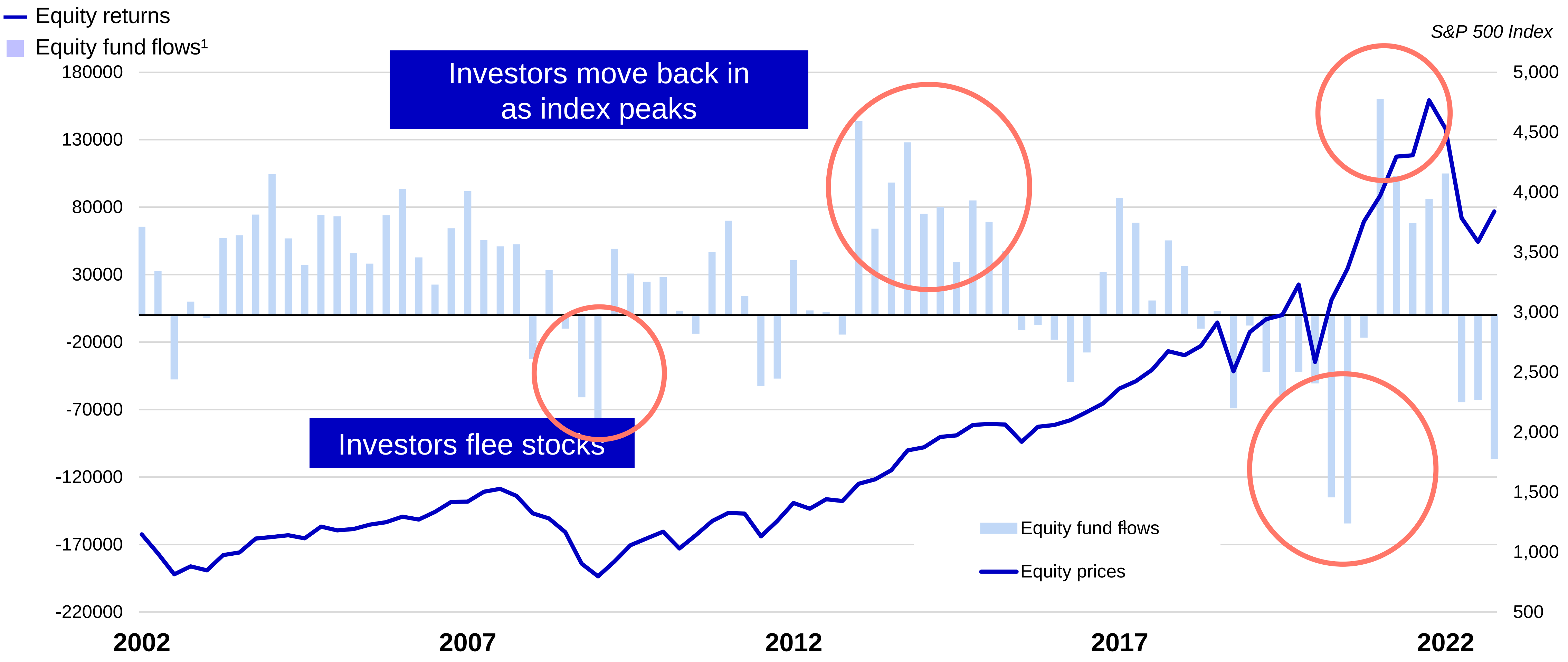
It’s natural to feel emotional about your investments



This hypothetical scenario is for illustrative purposes only and is not a prediction of future market conditions.

Emotions tend to make investors abandon and reenter stocks at the worst times

Net fund flows ($M), 2002-2022

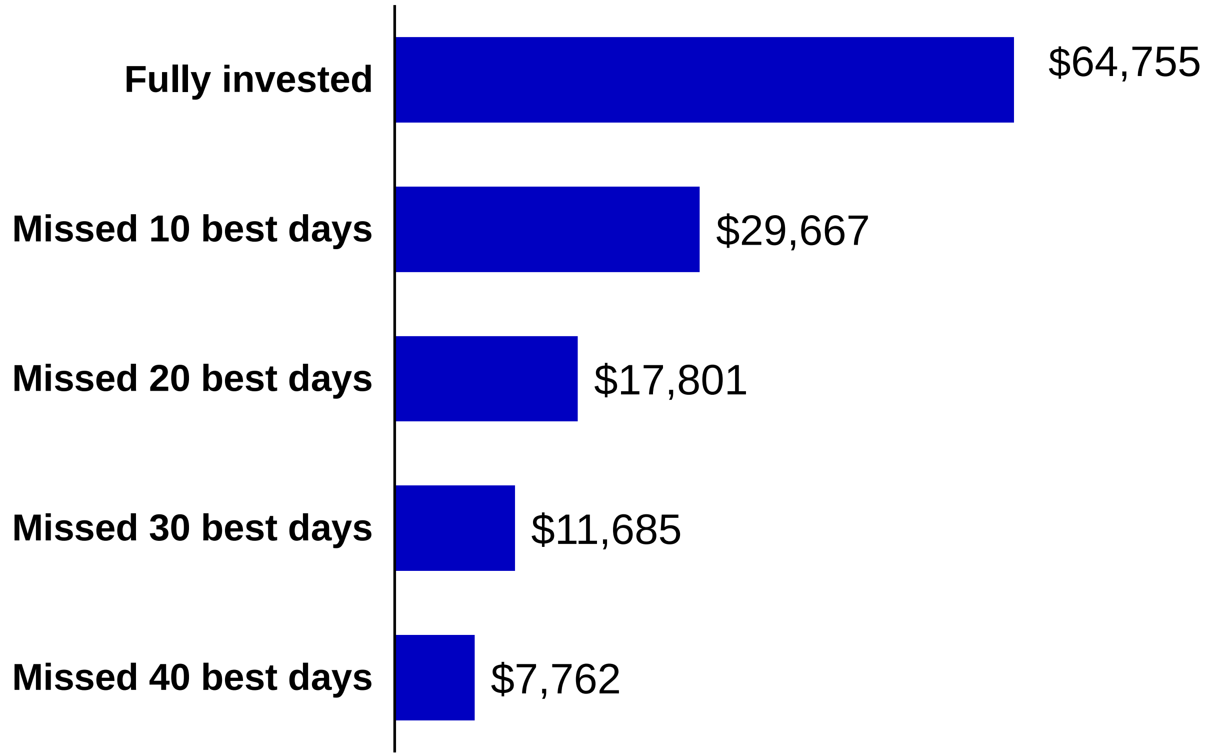


Source: Bloomberg as of 12/31/2022. The S&P 500 Index tracks the performance of 500 of the largest publicly traded companies in the United States. It is not possible to invest directly in an index. Past performance does not guarantee future results.

1 Comprises U.S. equity, sector equity, international equity, and hybrid mutual funds and ETFs. ISS Market Intelligence, showing only the allocation, sector equity, U.S. equity, and international equity Morningstar groups, excluding fund of funds.

The key is not missing the market's best days

20-year growth of $10,000, 2002–2022



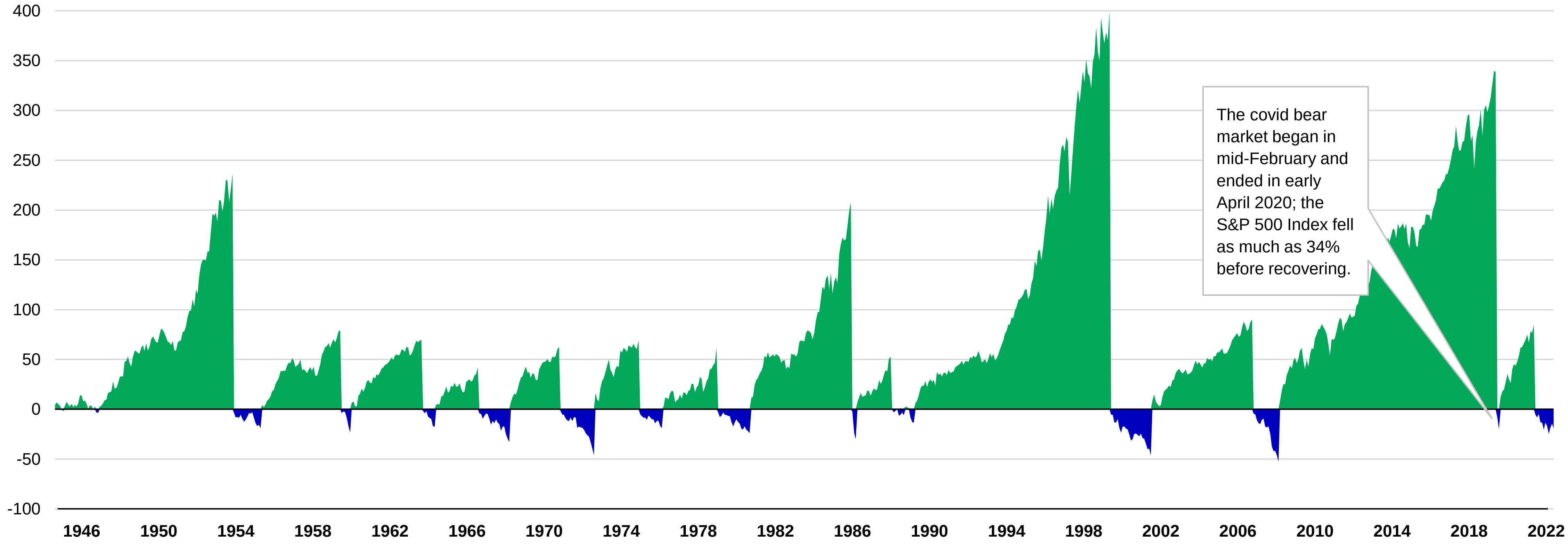
Source: Bloomberg, as of 12/31/2022. This table is for illustrative purposes only. The S&P 500 Index tracks the performance of 500 of the largest publicly traded companies in the United States. It is not possible to invest directly in an index. This is a hypothetical example and does not reflect the performance of any John Hancock fund. Past performance does not guarantee future results.

U.S. equities have historically recovered

Bull markets have outlasted bear markets for more than 70 years (%)

Bulls vs. bears (1946–2021)	Bull markets	Bear Markets
Occurrences	13	13
Average length (months)	56	14
Average return (%)	137.88	-28.39

S&P 500 Index (January 1946–December 2022)



Source: Standard & Poor's, as of 12/31/22. 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.

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

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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