The inevitability of bias and what investors need to know.

What are biases and why do we have them?

We receive
11 million
pieces of information every minute.

But consciously, we can process only
40 pieces
at one time.

That means more than
99.9%
of the information we receive is processed unconsciously.

As humans, we are overwhelmed with information and sensory inputs. In his book "A Stranger to Ourselves: Discovering the Adaptive Unconscious," Timothy Wilson shares research demonstrating that the human ability to consciously process information is far eclipsed by the amount of information we are confronted with at any moment. He calculates that 99.9% of the information we receive is processed unconsciously.[1]

Mitigating the impact of unconscious bias is a relatively simple matter. You need to raise awareness and develop a more mindful approach at key decision-making times.

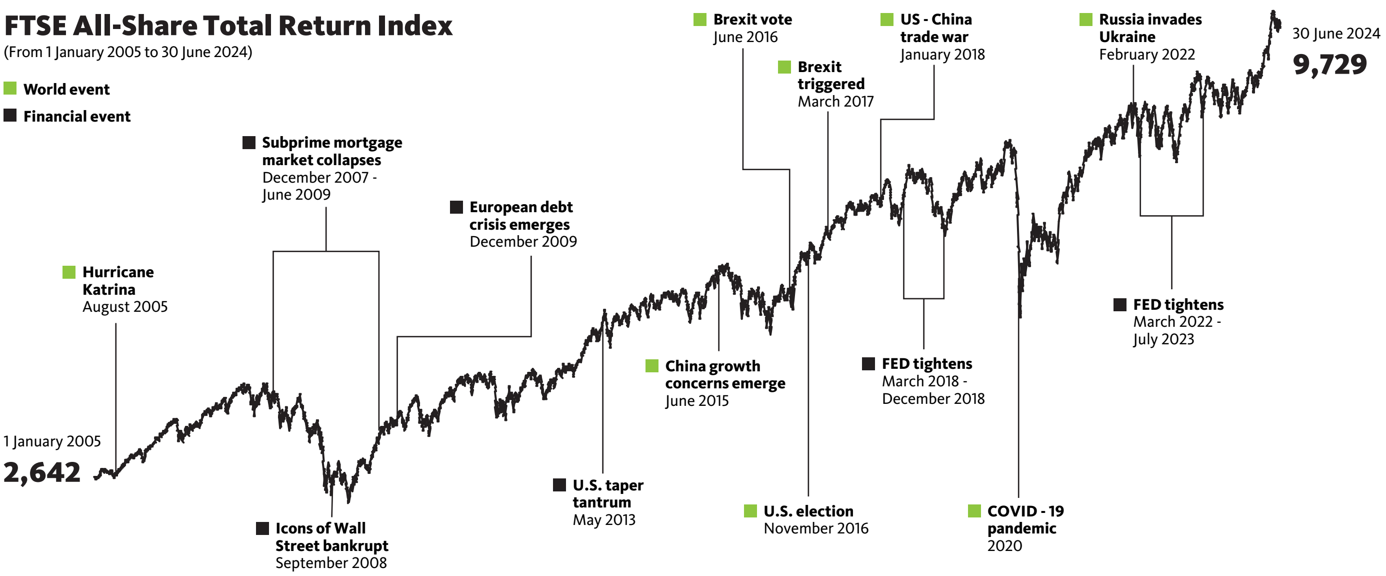
[1] Timothy D. Wilson, "Strangers to Ourselves: Discovering the Adaptive Unconscious," Belknap Press/Harvard University Press, 2002.

Resist the emotional roller coaster.

There will always be events that cause ups and downs in the financial markets—and for many, it's easy to overreact to short-term news. However, it's important to remember that markets have historically rallied and gone on to reach new heights.

FTSE All-Share Total Return Index

(From 1 January 2005 to 30 June 2024)



Source: Bloomberg, SEI Index returns do not reflect management fees, transaction costs, or expenses.
Indexes are unmanaged and one cannot invest directly in an index. Past performance does not predict future returns.

The controllable vs. uncontrollable

So what can you do when you begin to feel uneasy? Stay focused on your goals in all market conditions. Expect financial markets to move through their cycles, and avoid getting caught in emotional highs and lows. The best course for most long-term investors is to focus on what you can control versus what you can't.

What you can control

Your goals

Your behaviour in response to market events

Your decision-making process

Your engagement with your financial adviser and ongoing planning/maintenance of your financial plan

Your spending and saving patterns

What you can't control

Market volatility

Interest rates

Housing market trends

Geopolitical events

Corporate earnings

Investor biases and their potential impacts on investment advice/outcomes.

Possible biases you've faced, or may face, include focusing too much on potential short-term market movements, investing in what's most familiar, or worrying about what others are doing with their portfolios. Below, we describe some common investor biases and how they can negatively impact your financial decisions.

Bias	Description	Possible impact to investors
Loss aversion	Greater sensitivity to losses than to gains	Investing in more conservative investments than your risk tolerance or risk capacity may otherwise indicate.
Recency bias	Giving more weight to outcomes that occurred in the recent past	Staying out of the market due to a false belief that recent conditions are more common/prevalent than what history indicates.
Herding	Being influenced by peers to follow trends	Can cause buying high and/or selling low.
Familiarity bias	Tendency to invest in things that are familiar	May lead to an under-diversified portfolio. For example, having too much home-country bias.
Mental accounting	Applying different subjective values to the same amount of money based on its origin or intended purpose	Can lead to irrational decisions to redeem from one investment over another.
Narrative bias	Tendency to irrationally overweight stories versus objective facts	Can lead to purchasing inappropriate investments just because the "story" sounds good.
Overconfidence	Overestimating one's own skill and accuracy	Can lead to overtrading and/or overconcentration in your portfolio.
Hindsight bias	False belief that you correctly predicted a past event	Can cause you to believe you can accurately predict market movements, and possibly lead to attempts at timing the market.
Information bias	False belief that more information will improve decision-making	Deferring decisions can lead to missed opportunities, less time in the market, or wasted time and effort.
Status quo bias	Resistance to new ideas, new investment strategies	Can lead to irrational reluctance to make changes to your portfolio.

Think of your adviser as your trusted behavioural coach.

If you're concerned about media headlines or a news item on your social feed, pause and focus on your goals. After all, we suggest changing your strategy only when your personal circumstances change—not when the market changes. Financial decisions such as what to invest in, when to make an investment, or when to sell a stock, bond, or mutual fund are important decisions that should be made thoughtfully and in consultation with your financial adviser.

For more information talk to your adviser today.