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# Bias-free investing

Tips to help avoid common mistakes

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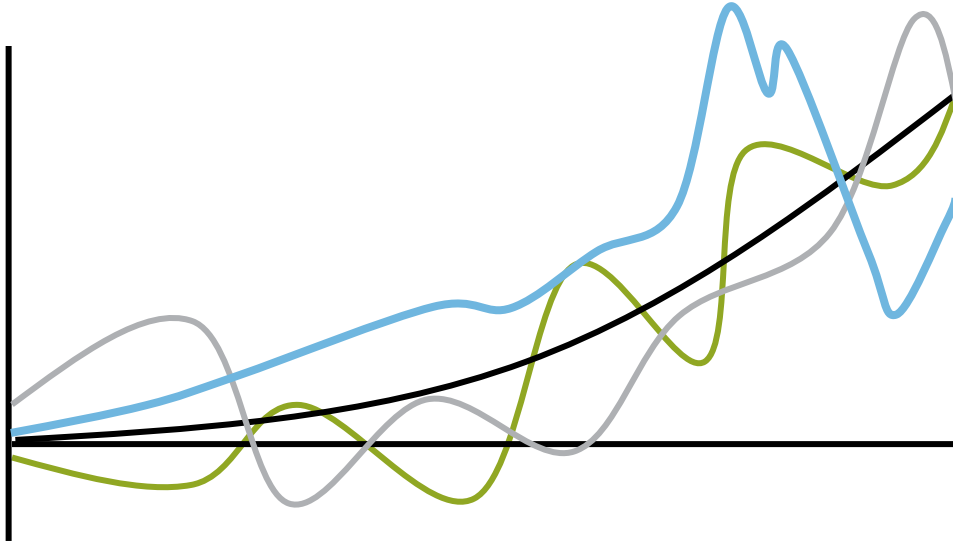


# Overview

1. What is behavioral finance?
2. Why do behavioral biases matter?
3. Where do biases come from? What are some common examples?
4. How can we manage our biases?
5. How does this all fit together?

# What is behavioral finance?

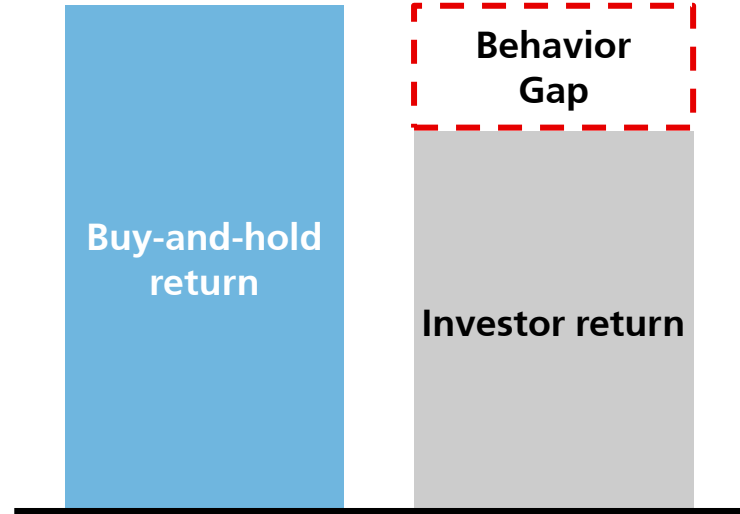
**Traditional finance** assumes investors are rational and that markets are efficient



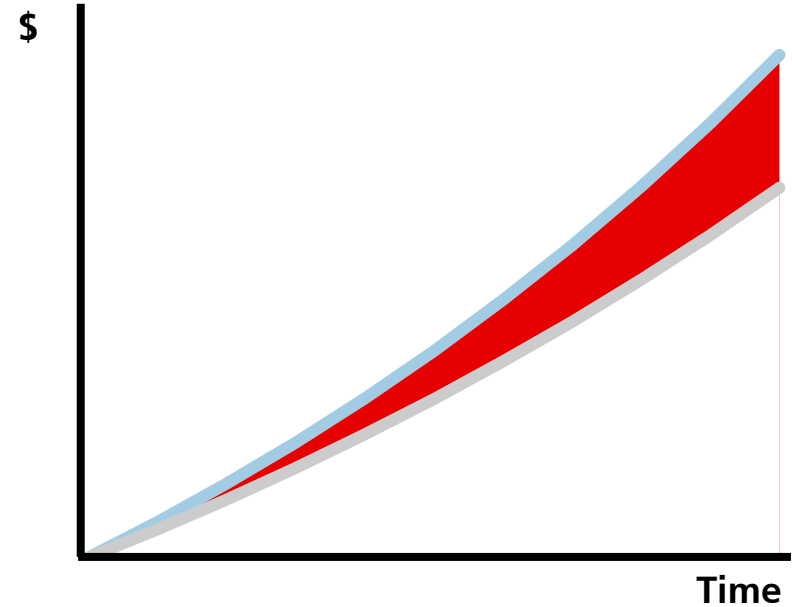
**Behavioral finance** helps us explain the gap between how we should behave and how we actually behave

# Why do behavioral biases matter?

Average returns



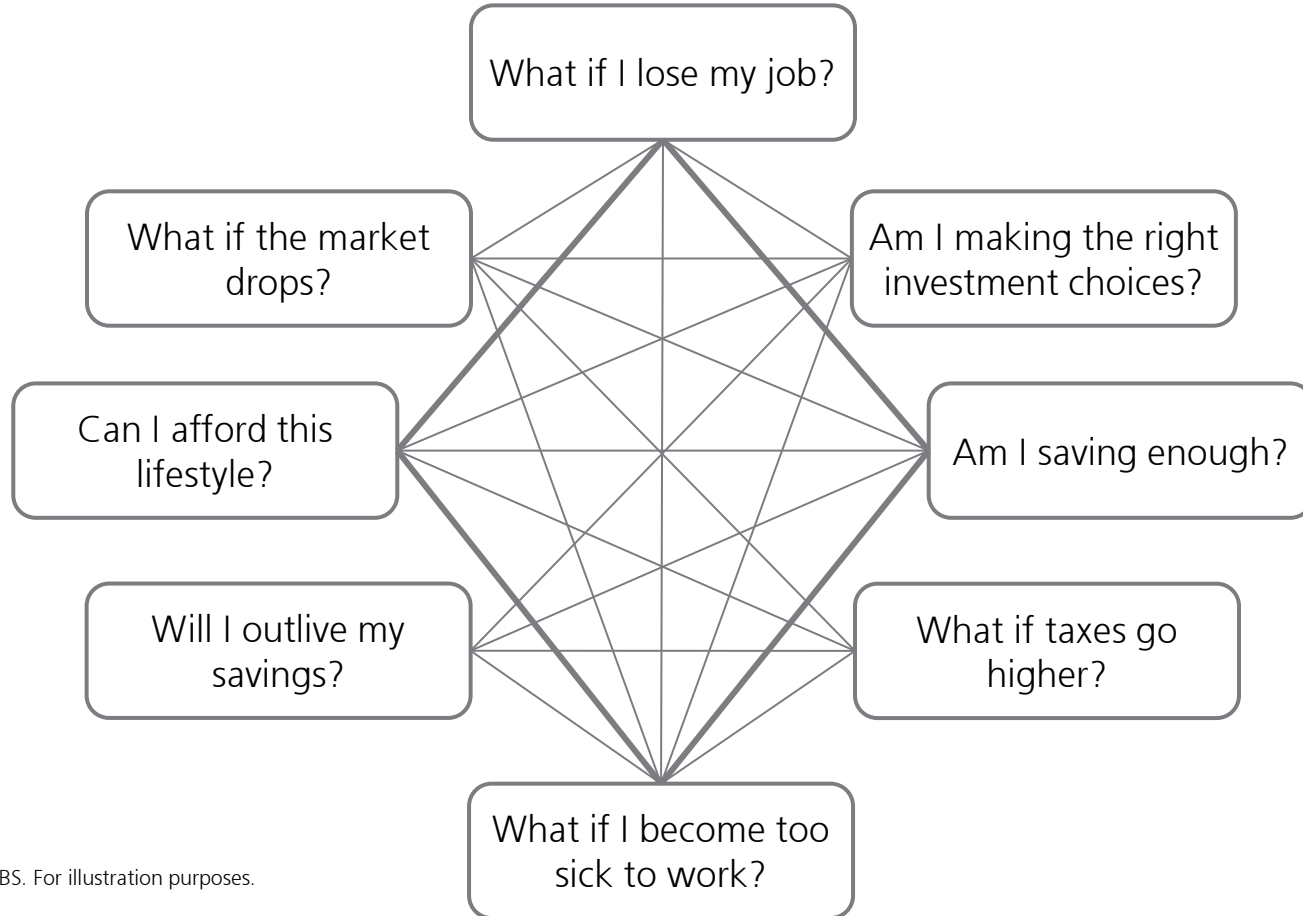
Growth



Where do **biases** come from?



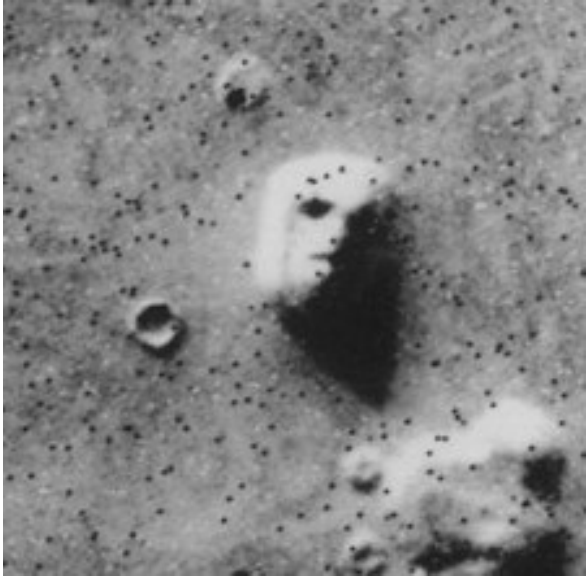
# Why is investing **emotional**? Wealth can mean security & freedom



What are some **common**  
behavioral biases?

# Pareidolia: Finding patterns, even in random noise

"The face of Mars"



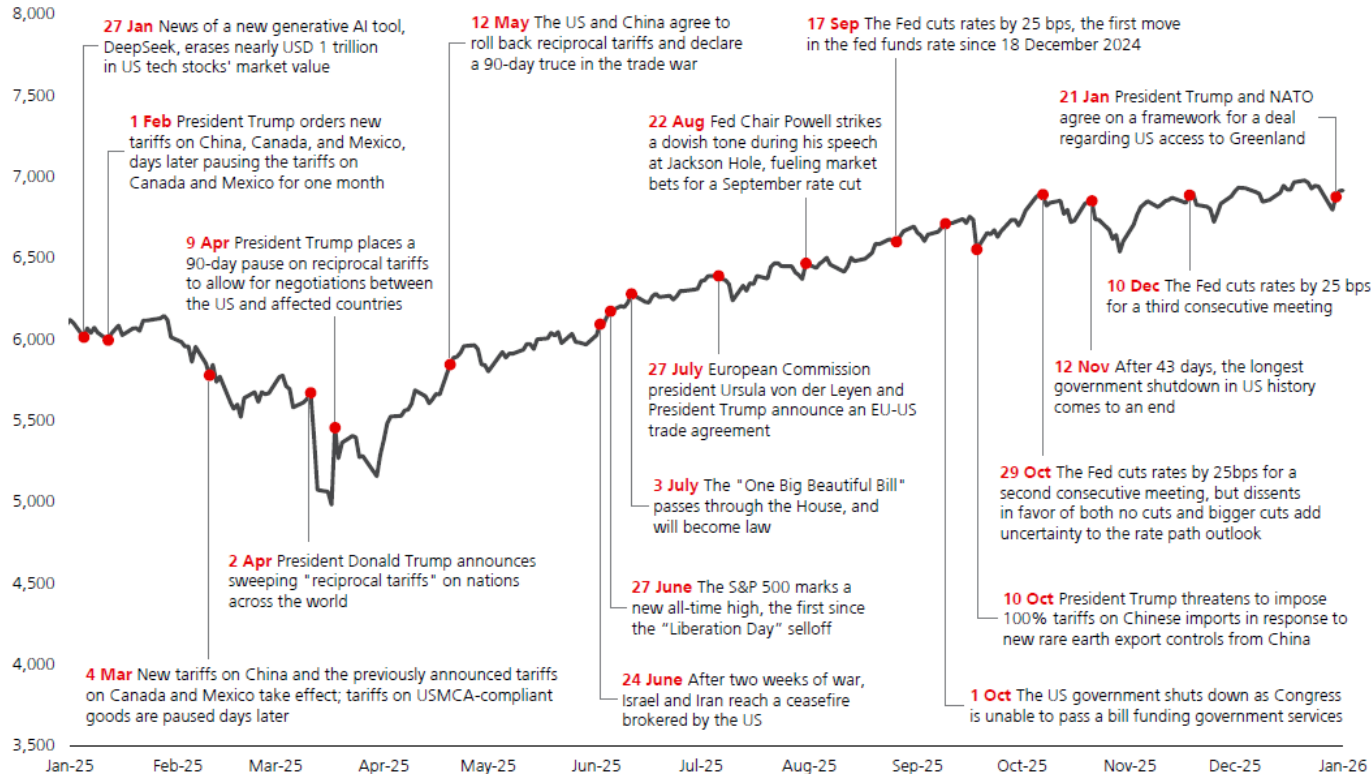
1976



2001

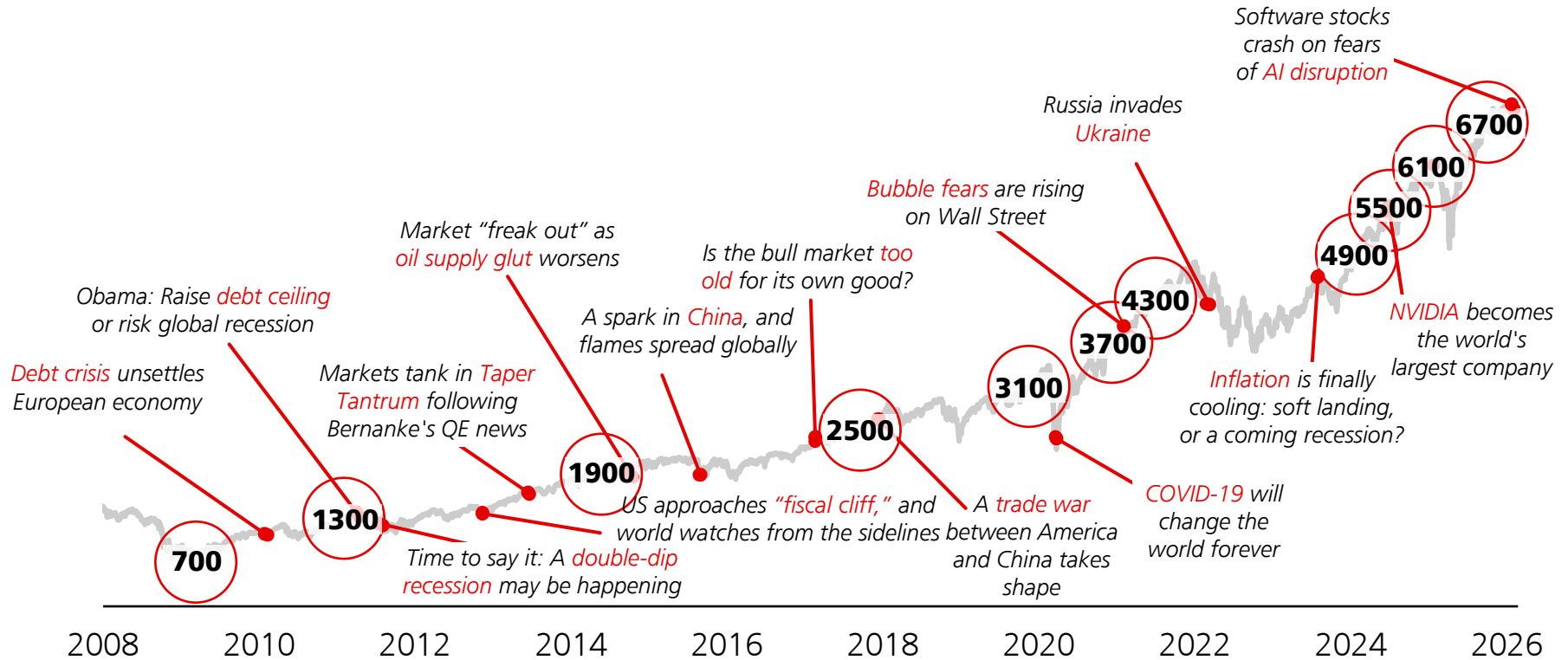
# “Why did markets \_\_\_\_ today?” Often, there is no right answer...

S&P 500 index level, with callouts for select news items

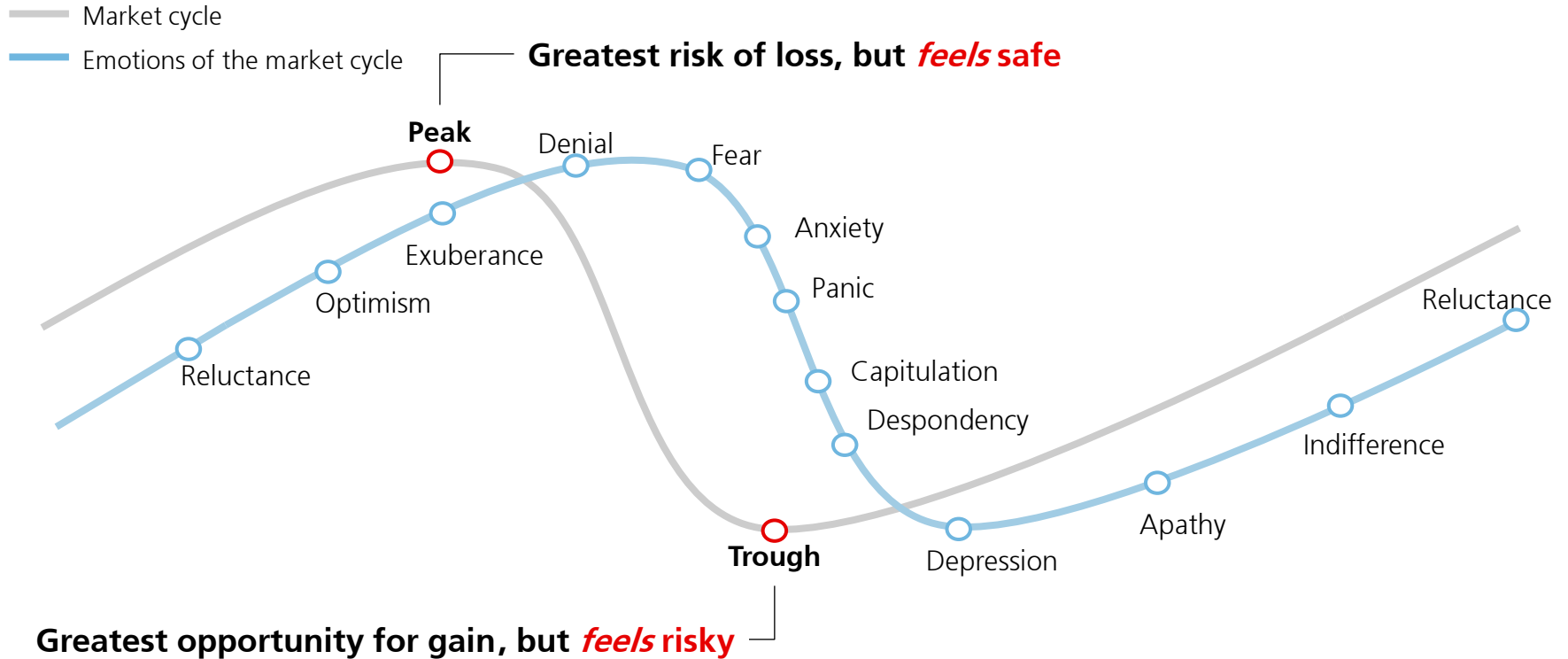


# ...and markets tend to climb "the wall of worry" over time

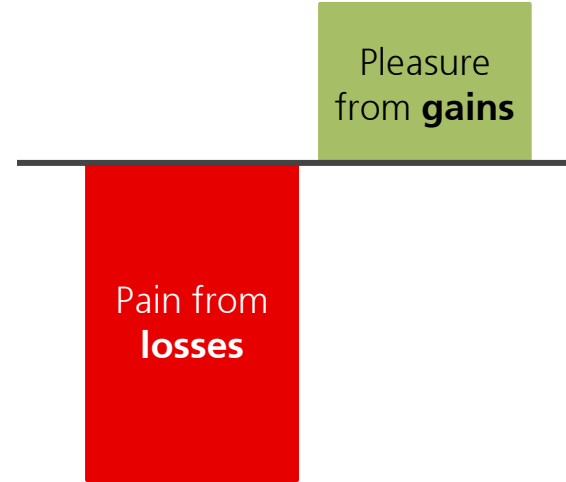
S&P 500 index level, with callouts for select news items



# Recency bias: We tend to chase performance



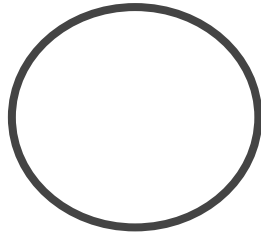
Loss aversion: We feel **losses** more powerfully than **gains**



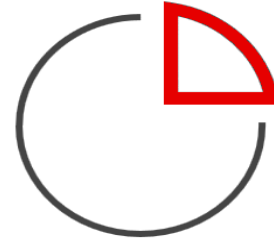
# Mental accounting: We treat some dollars differently



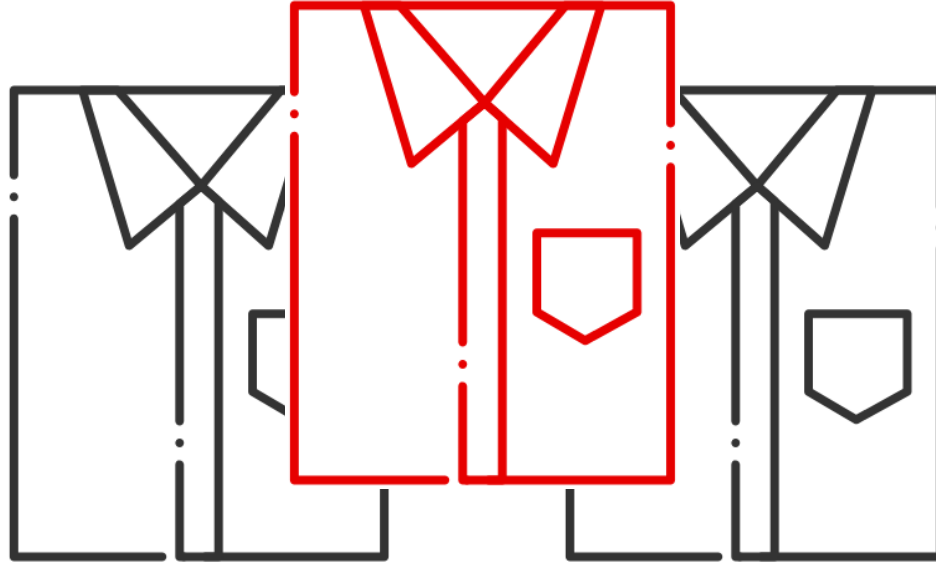
VS.



VS.

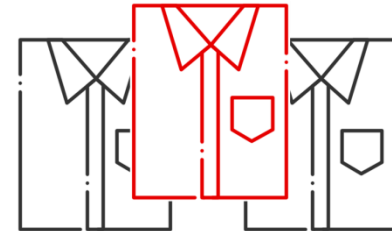


Endowment effect: We **grow attached** to what we own



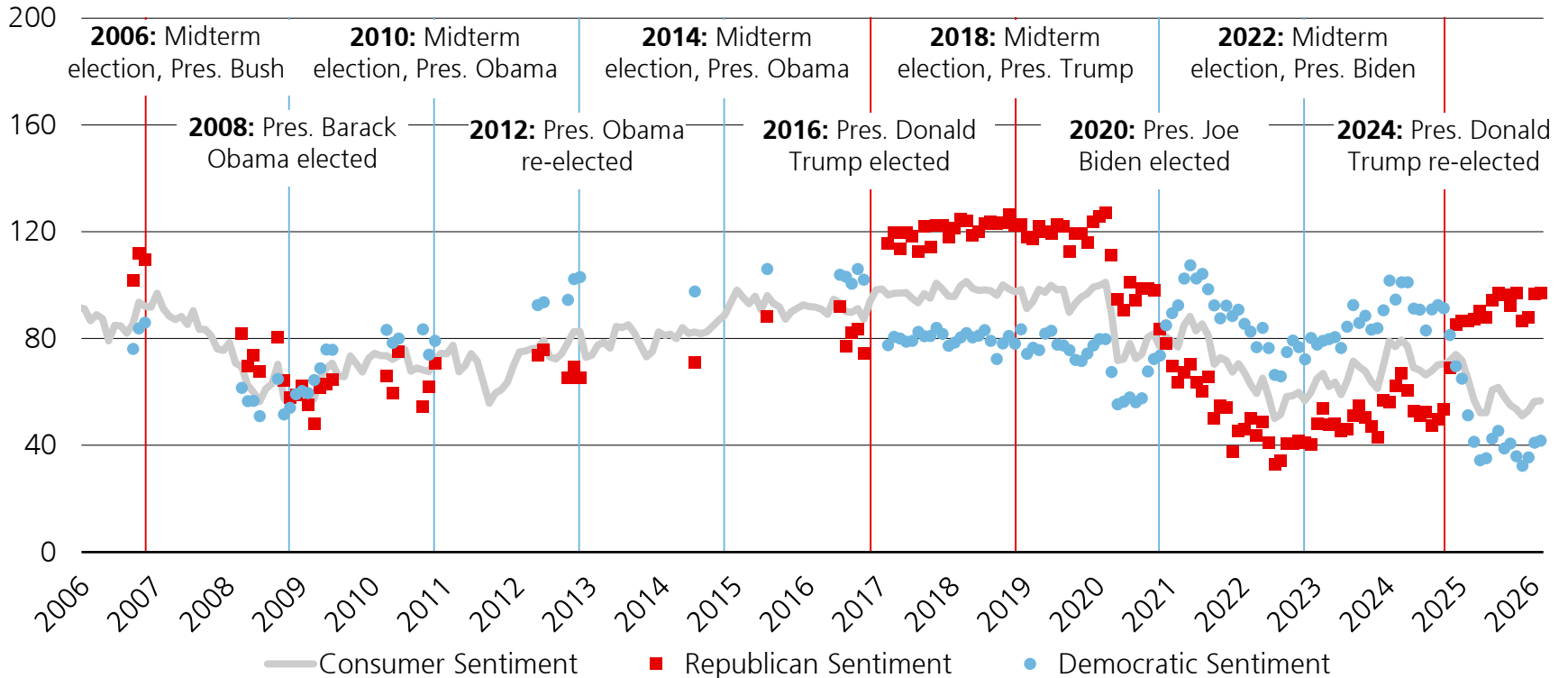
# Recap

- 1. Pareidolia** We are hard-wired to find patterns, even in random noise
- 2. Recency bias** We tend to chase performance
- 3. Loss aversion** The pain of losses is about twice as powerful as the pleasure from gains
- 4. Mental accounting** We create arbitrary categories that can cloud our judgement
- 5. Endowment effect** We grow attached to what we already own

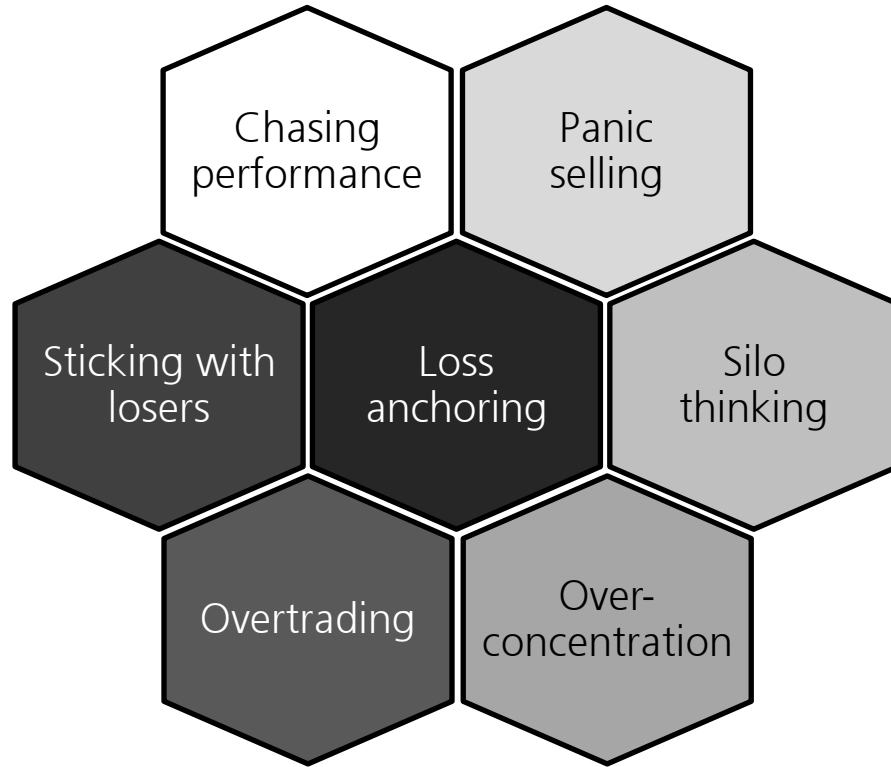


# Bonus: Political bias **skews perception**

University of Michigan Consumer Sentiment by political party affiliation of survey respondents

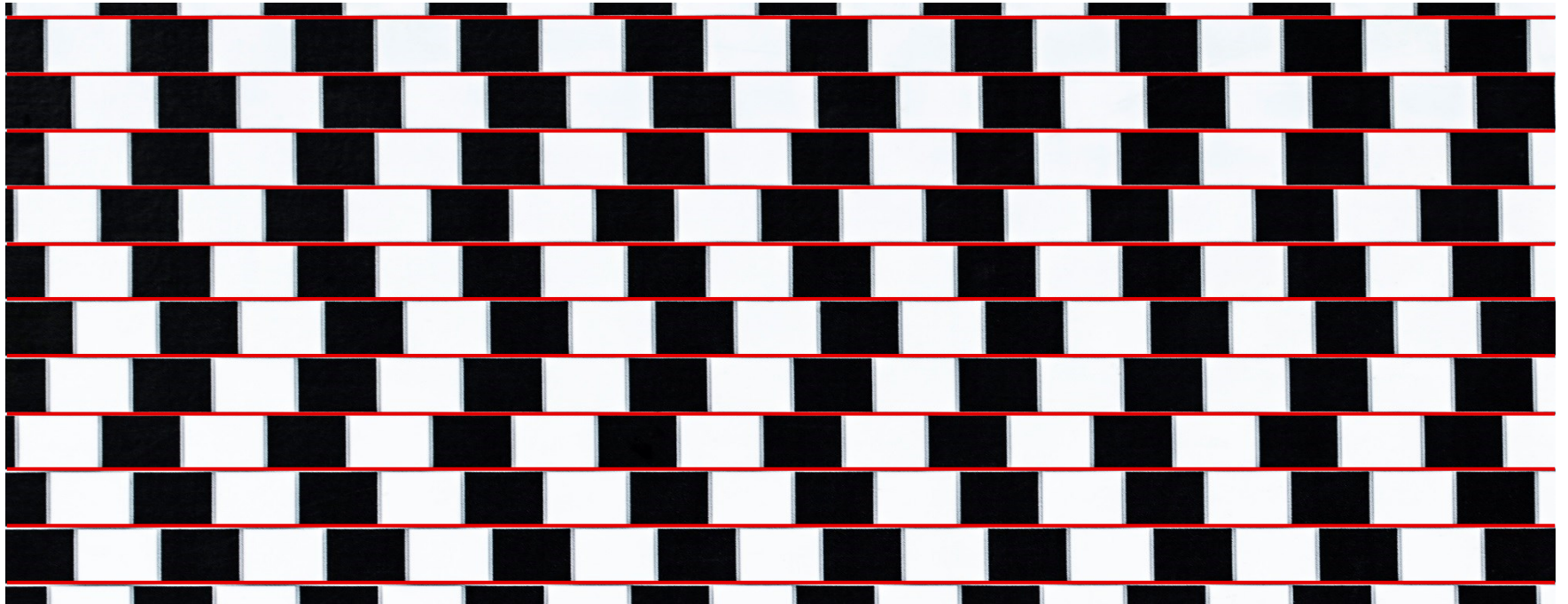


These biases may lead to some common **investor mistakes**



# Unfortunately, knowledge alone isn't enough to dispel biases

These lines are horizontal and parallel!



How can we manage our **biases**?

# Reduce the **noise**, avoid “doom scrolling”

// Being informed is a virtue. It helps us make better decisions and encourages us to take action.

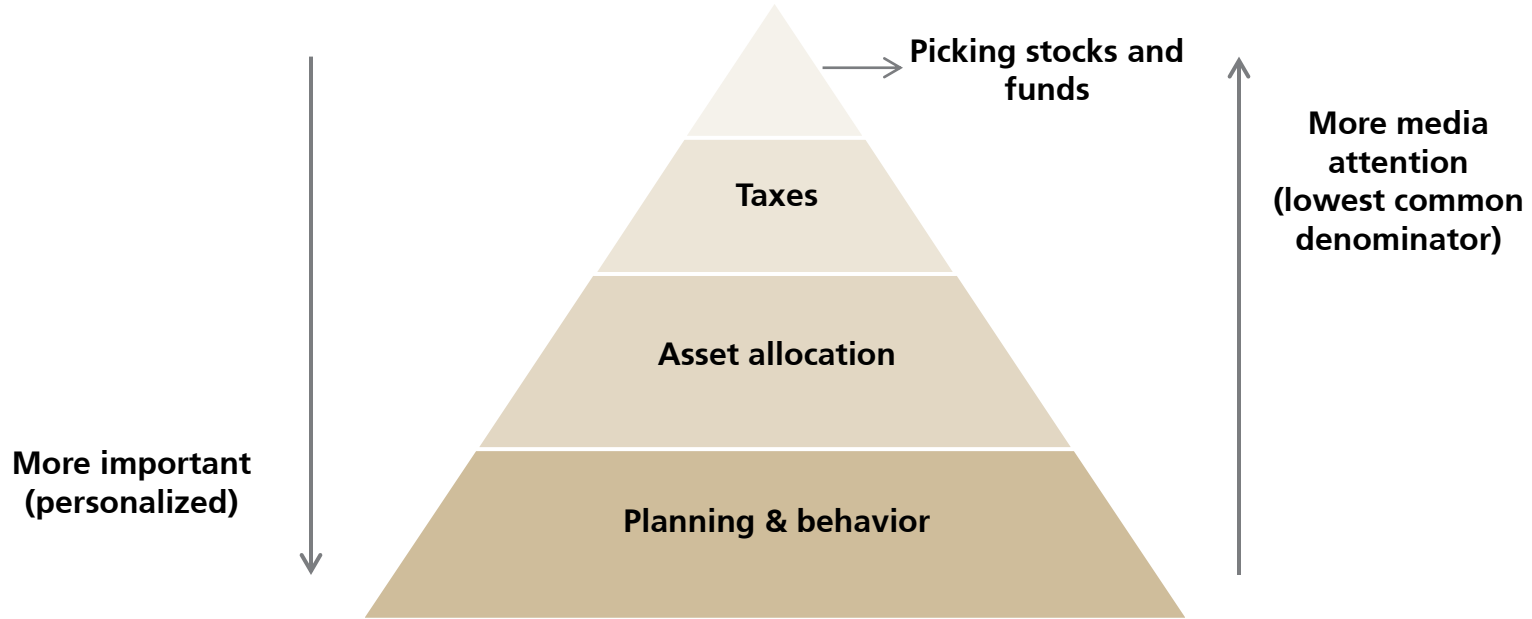
Getting hooked on an endless scroll of media inputs is not the same as being informed. There's long been a business model of urgent news (“man bites dog!”), but now it's been leveraged, amplified and optimized to suck people in for hours at a time. And division is much easier to sell than progress.

If it's not helping you take action to make things better, what's it for?

—**Seth Godin**, *Doom scrolling*

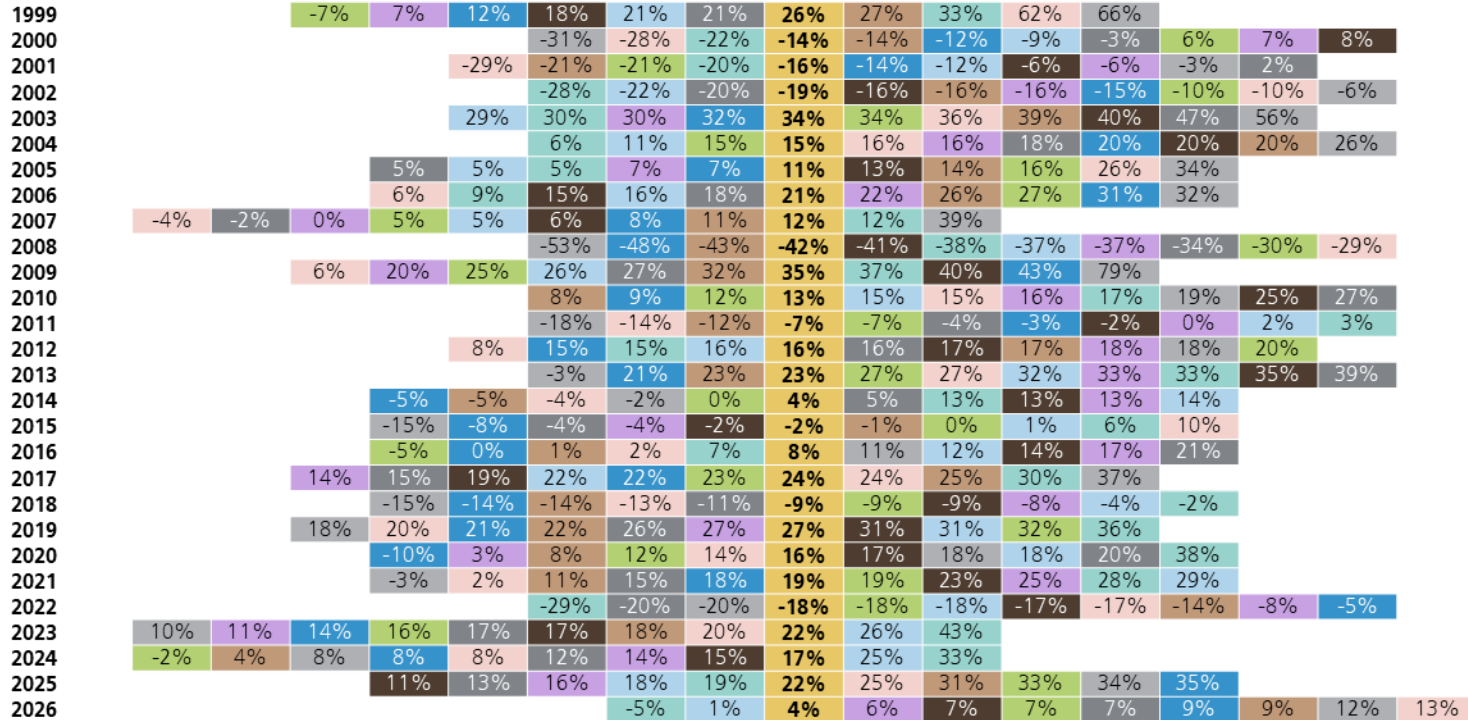
# Prioritize attention

The ingredients of investor success



# Diversification is great, but often uncomfortable

Annual "quilt chart" of asset class calendar returns, ranked from worst (left) to best (right)



## Legend



### 1996-2026 results

Annualized return

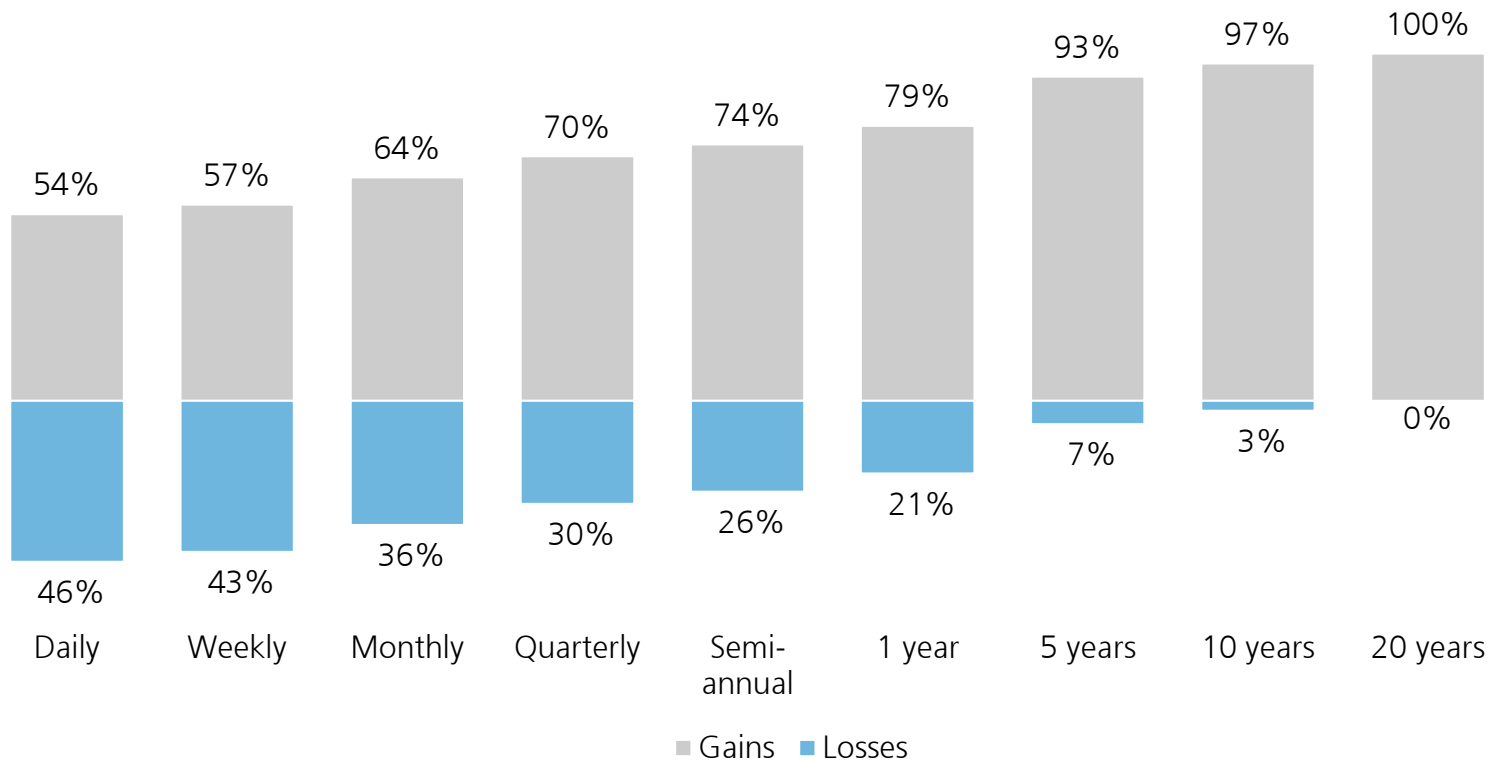
Standard deviation

5.0%	5.1%	5.6%	6.7%	7.0%	7.9%	8.5%	8.6%	8.8%	8.8%	9.8%
21.4%	19.9%	19.7%	17.0%	18.7%	15.8%	18.3%	17.3%	21.4%	30.6%	18.4%

Source: Bloomberg, UBS, as of 23 February 2026.

# Ignore short-term returns

Frequency of gains and losses, S&P 500 Index, rolling returns since 1926



# Beware the “pessimism paradox”

S&P 500 returns based on American Association of Individual Investors survey results since January 1999

Criteria	S&P 500 returns			
	Avg 6m return	Freq. of losses (6m returns)	Avg 12m return	Freq. of losses (12m returns)
<b>All periods</b>	<b>5.9%</b>	<b>24%</b>	<b>12.0%</b>	<b>18%</b>
Bullishness <50%	6.3%	23%	13.0%	16%
Bullishness <45%	6.4%	23%	13.2%	16%
Bullishness <40%	6.6%	23%	13.6%	16%
Bullishness <35%	7.0%	23%	14.3%	16%
Bullishness <30%	7.6%	21%	15.3%	15%
Bullishness <25%	9.1%	21%	16.8%	13%
Bullishness <20%	9.1%	24%	16.1%	13%
Bullishness <15%	18.3%	0%	24.3%	0%

# Contextualize and personalize risk

// If you know the enemy and know yourself, you need not fear the result of a hundred battles.

If you know yourself but not the enemy, for every victory gained you will also suffer a defeat.

If you know neither the enemy nor yourself, you will succumb in every battle.

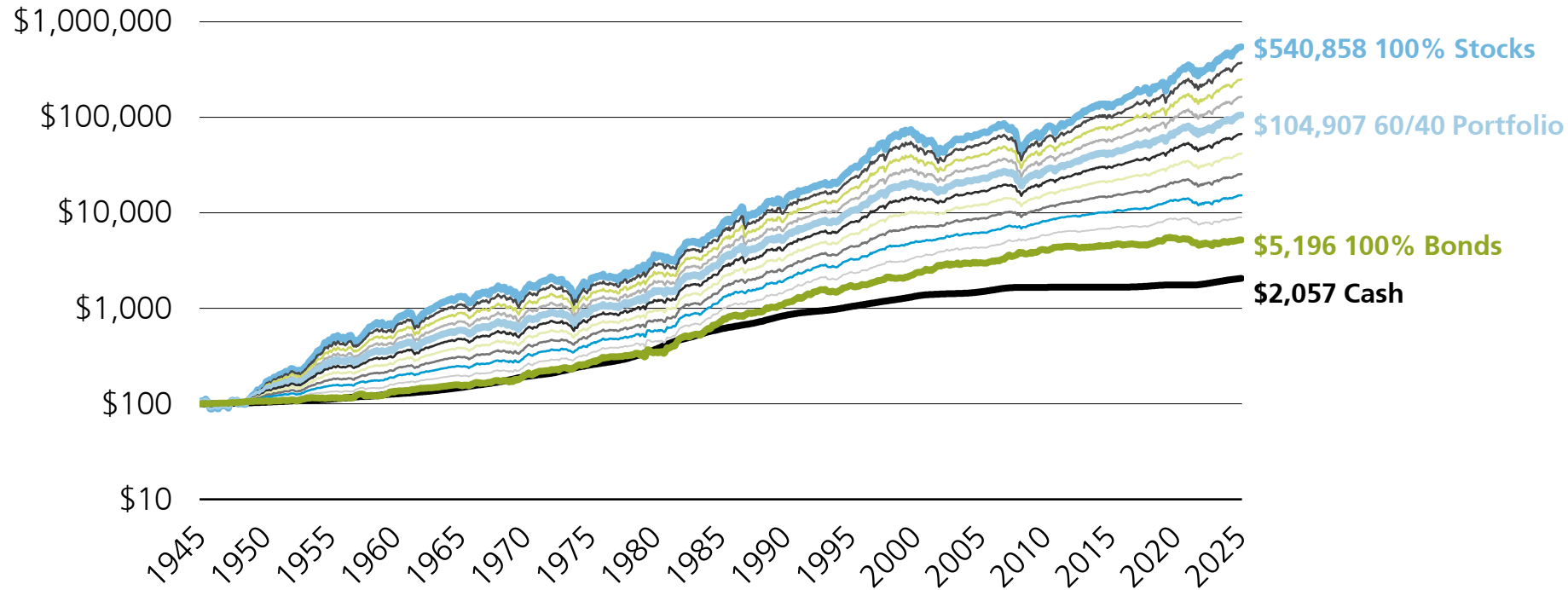
—**Sun Tzu**, *The Art of War*

## A “pre-mortem” to help identify risks

1. Assume that you failed
2. Identify the likely culprit
3. Assess potential protection strategies
4. Repeat

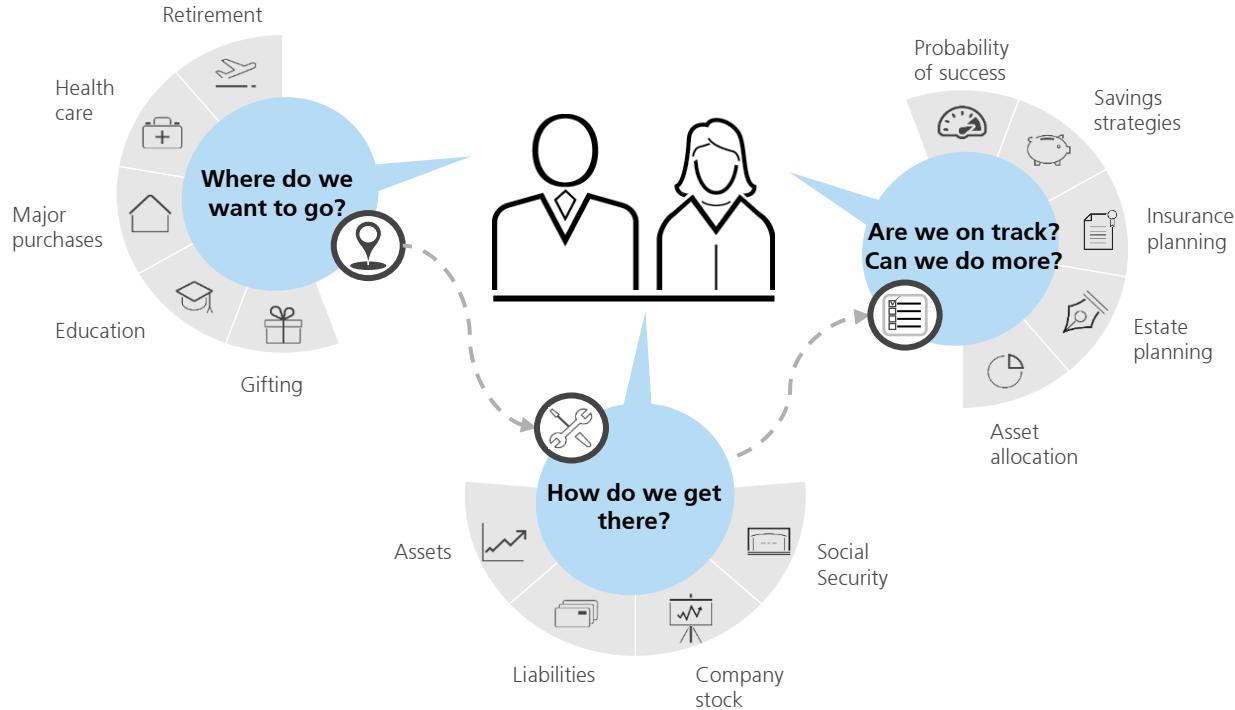
# Manage risk, but don't avoid it

Cumulative growth of \$100 invested in December 1945, various asset allocation mixes (US large-cap stocks and intermediate US gov't bonds), logarithmic scale

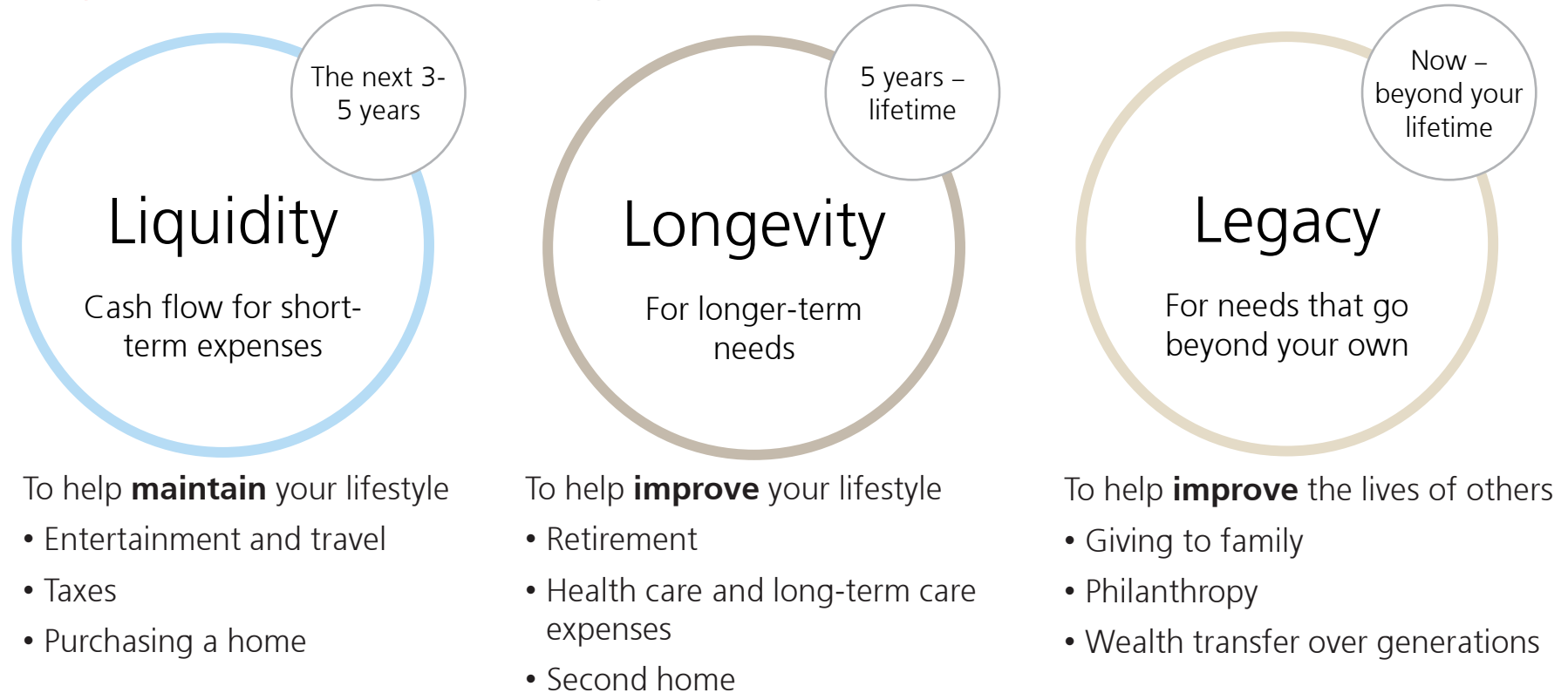


# Think holistically

Components of building and implementing a financial plan



# Align the portfolio with goals



Time frames may vary. Strategies are subject to individual client goals, objectives, and suitability. This approach is not a promise or guarantee that wealth, or any financial results, can or will be achieved.

## Recap: Tips to help avoid common mistakes

1. Prioritize attention on what matters most
2. Avoid “doom scrolling”
3. Ignore short-term returns, focus on the big picture
4. Don't *avoid* risk. *Manage* risk
5. Build a purpose-based foundation



You have power over your mind—  
not outside events.

Realize this, and you will find  
strength.

**Marcus Aurelius**, *Meditations*



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