2022 / VALUE

# WHY WORK WITH A FINANCIAL ADVISER?

## Because that relationship may be one of your best investments

HELPING YOU ACHIEVE YOUR GOALS

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# WHAT CAN A FINANCIAL ADVISER DO FOR ME?

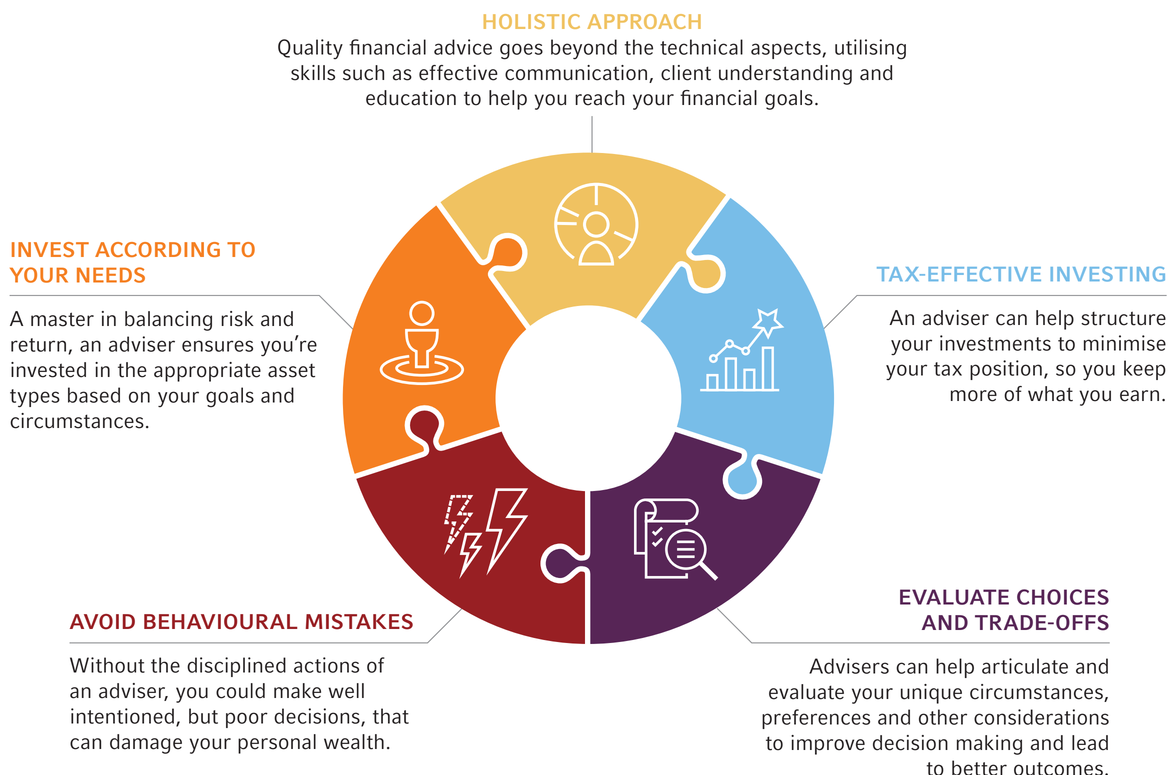
Over the past two years a lot has changed. Many people changed jobs or moved on to other pursuits. Others moved out of large cities altogether to regional communities. This was partly helped by businesses moving to more permanent work-from-home or hybrid arrangements, even after COVID-19 restrictions were eased. Along with significant increases in virtual shopping and rising interest rates, many people have taken this time to reassess their lives and work out what their 'new normal' is going to be.

Maybe you did too? Maybe the post-COVID-19 period has you thinking about what's next for you and your family, and how different that might be to any plans you had before the pandemic.

Russell Investments believes that during times of significant change, financial advisers are more valuable than ever. With new priorities and any major life changes that may bring, your investment portfolio and other finances need to adapt. That's where we believe working with a financial adviser is as important as ever – guiding you through that process of change.

We also believe it's important for you to understand the value you receive from a financial adviser – which is why we update our Value of Adviser formula every year. It shows you how the services your adviser provides can help you to potentially achieve your desired outcomes. Through guidance, education, timely responses to changing markets, and understanding and responding to your evolving needs, a financial adviser can inspire a sense of financial wellbeing and provide peace of mind that you're on the right track.

## HOW A FINANCIAL ADVISER CAN HELP YOU ACHIEVE YOUR GOALS



These are just some of the elements of a financial plan that an adviser may provide you. They're captured in our simple and handy formula that can help you understand the value of working with an adviser:

# IS FOR APPROPRIATE ASSET ALLOCATION

How your money is invested has a huge impact on whether you'll achieve your investment goals – with research suggesting that asset allocation can be responsible for over 85%[1] of your investment outcomes.

We know it's not a simple thing to understand, especially with so much choice available and the skill and/or time required for research to find the right investment strategy for your needs. Then there's the added temptation to chase performance returns and overreact to market events.

The role of an adviser is to help you to articulate your life goals, translate those into investment objectives, and design the best possible investment strategy and portfolio recommendations to reach those goals.

## What can happen if you don't engage a financial adviser to help?

Let's take a look at your superannuation savings.

People without a financial adviser usually fall into two groups. There are those who are totally 'hands-off' and can end up being defaulted into a one-size-fits-all asset allocation, which doesn't take into account your personal circumstances or needs. See our hypothetical case study on the next page to see how this can play out.

The other group are the 'hands-on' investors, who are confident enough to build their own portfolios or make active choices around investment option selection - which comes with its own risks.

## Returns and risk

We can show that taking an active role in how your money is invested can make a big difference, but appropriate asset allocation is not just about maximising returns – it's also about managing risk.

Risk can also mean volatility, which is often what scares people into making emotional decisions about their investments and pull money out of the market.

In periods of steadily rising markets, it can be easy to underestimate the value of a professionally managed portfolio. Your balance is going up, so why bother spending the time and effort, right? Well, you're missing out on the value that an adviser can generate by personalising an investment strategy and asset allocation to maximise your earnings in the good times - and keep you on track to get you through the tough times too.

*What is clear from our analysis is that financial advisers have the potential to add significant additional value to an investor's portfolio over the long term by helping you to work through your values, preferences and motivations from the outset. For investors who elect to proceed without advice, there can be a big price to pay for selecting the wrong asset allocation, or staying in a default allocation.*

## CASE STUDY

### The ‘hands-off’ super member

If your super savings are currently in one of the various default MySuper investment options in Australia, there’s a good chance you’re relying on a single-strategy asset allocation selected by the super fund[2]. This means that regardless of your age, current super balance or retirement goal – you’ll be invested the same way as everyone else.

We can show you the possible difference in outcome of this approach versus someone with a financial adviser helping them to manage asset allocation – using Jane as an example.

**Jane's option for advised or default asset allocation:**

| Advised portfolio | Alternative: default portfolio |
|---|---|
| 80% Growth assets | 70% Growth assets |
| 9.0% p.a. | 7.6% p.a. |
| $237,389 | $207,256 |
| Jane's Advised portfolio delivers 1.4% p.a. higher return from an appropriate asset allocation, or over $30,000 over a 10 year period | |

Based on her age, investment goals, current superannuation balance and preferences – Jane’s financial adviser recommended a portfolio with 80% in growth assets 10 years ago. This hypothetical portfolio with 80% growth assets has delivered an annualised return of 9.0% p.a. over that time.[3]

If Jane was in a default MySuper superannuation option with 70% growth assets, her return would have been 7.6% p.a.

Jane would be better off by 1.4% p.a. being in a portfolio with a more appropriate asset allocation for her individual needs. Based on an initial balance of $100,000, after 10 years Jane would be $30,000 better off and have a balance of $237,389 from her advised portfolio[4].

[1] Russell Investments Making Super Personal White Paper 2020

[2] Australian Prudential Regulation Authority (APRA) 2021

[3] See additional disclosures section of this report for assumptions

[4] This example is provided for illustrative purposes only. Individual results will vary

# B IS FOR BEHAVIOURAL MISTAKES

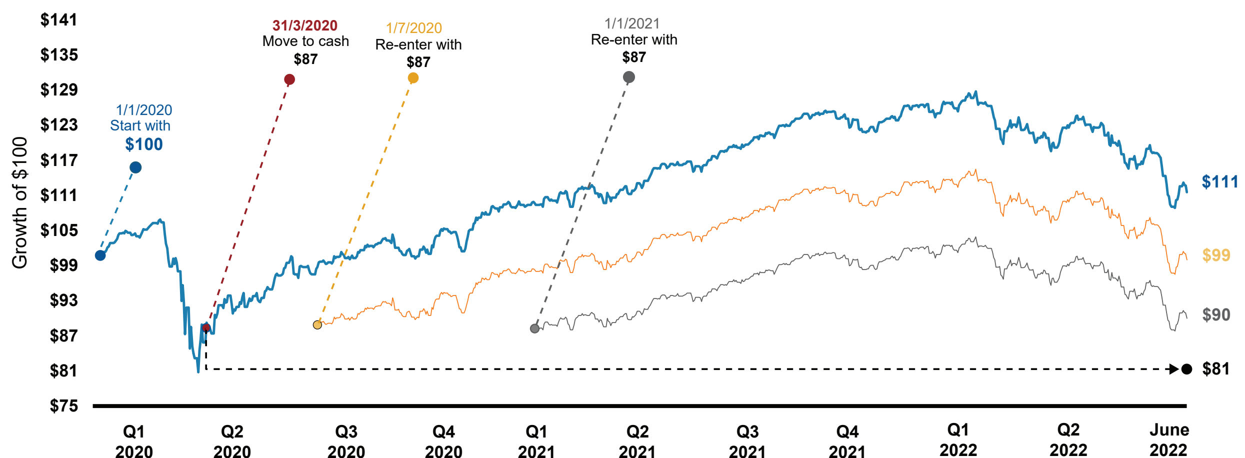
For many investors, 2020 was their first experience of significant market drops and ongoing volatility. Many investors sought shelter and switched their investments to the perceived safety of cash. It's not all that surprising, but it's an indication that people were letting emotions influence decision-making. While we rely on emotions to safely guide us through many aspects of our lives, it can be detrimental to our financial wellbeing when we let our 'fight or flight' response guide our reaction to market volatility.

It is important to remain objective and disciplined when making investment decisions. This usually means staying invested through thick or thin and making sure decisions align with your long-term goals. This is where working with an adviser can be helpful. Their role is to keep you on track with your chosen plan so that you've got the best chance to reach your financial goals.

## Fear impacts opportunity

Let's look at three hypothetical investors' journeys from January 2020 to 30 June 2022.

- Investors who remained in the market for the full time period would have seen a $100 investment rise to $111 (blue line in the chart below).
- Investors who moved to cash in March 2020 and then returned to the market a few months later at the end of the second quarter, would only have $99 at the end point (orange line in the chart below).
- Investors who moved to cash in March 2020 and remained in cash for the entire year, then re-entered the market at the beginning of 2021, would have only $90 at the end point (grey line in the chart below).




Source: Bloomberg. Balanced Portfolio: 35% ASX300 TR Index, 35% S&P 500 TR Index (Half Hedged), 15% Bloomberg AusBond Composite 0+ Yr Index & 15% Bloomberg Aggregate Bond Index. As of June 30, 2022

That's the problem with abandoning an investment plan due to fear. Pulling out of the market when it is volatile can lock in losses and could lead to missing out on any subsequent rally. It can feel uncomfortable for you to stay invested through market volatility - when your natural instincts may be to react differently. However, an adviser understands that 'no action' is different from 'inaction', and that making an active decision to stick to the plan and stay invested can help to ultimately lead you to better outcomes.

# IS FOR CHOICES AND TRADE-OFFS

The reality is that our lives become more complicated over time, and you have your own set of unique goals, circumstances and preferences – which evolve and change with your needs throughout your life.

Earlier in life it can be about careers and marriage, first homes and starting a family. Then things like managing your health and caring for elderly parents as you prepare for your own retirement can take priority. Finally, when you finish working it's about being able to enjoy the fruits of your labour and creating a lasting legacy.

Along the way, especially when it comes to your finances, you'll develop your own preferences around the amount of risk you're comfortable to take or aligning your investments with your ethical values. Then there's the external factors to consider and navigate, like the environment we're experiencing now with rising inflation, interest rates and ongoing market volatility.

| GOALS | CIRCUMSTANCES | | PREFERENCES | | | CONSIDERATIONS | |
|---|---|---|---|---|---|---|---|
| GROWTH | Single | Married | Conservative | Moderate | Aggressive | Rising inflation | Tax impacts |
| | Divorced | Widowed | Return driven | Preservation | Yield oriented | Rising interest rates | Aged care |
| INCOME | Young | Not young | Fee sensitive | Values based investing | Transparency | Market volatility | Family wealth transfer |
| | Working | Retired | Protection | Lifestyle expectations | Other need | Spending vs savings | Estate planning |

Source: https://russellinvestments.com/us/blog/customized-experience

The sheer number of decisions to be made and the knowledge required to understand the implications can be overwhelming, so it's an adviser's role to develop a deep understanding of your needs and circumstances and then guide you and your family through all of your major life events and decisions. How much value do you put on an adviser who can play such an integral role for you?

An adviser can help evaluate and prioritise these decision points, and the impact of implementing the right strategy to meet your needs while also maximising the outcomes of these choices and trade-offs can be invaluable.

*Regardless of how your circumstances and priorities change over time, and adviser is there to understand your needs and help guide you through the key events in your life*

# E IS FOR EXPERTISE

A common misconception is that financial advisers are purely investment managers, whose only job is to select investments and achieve a certain level of return. The reality is that good financial advice goes way beyond this.

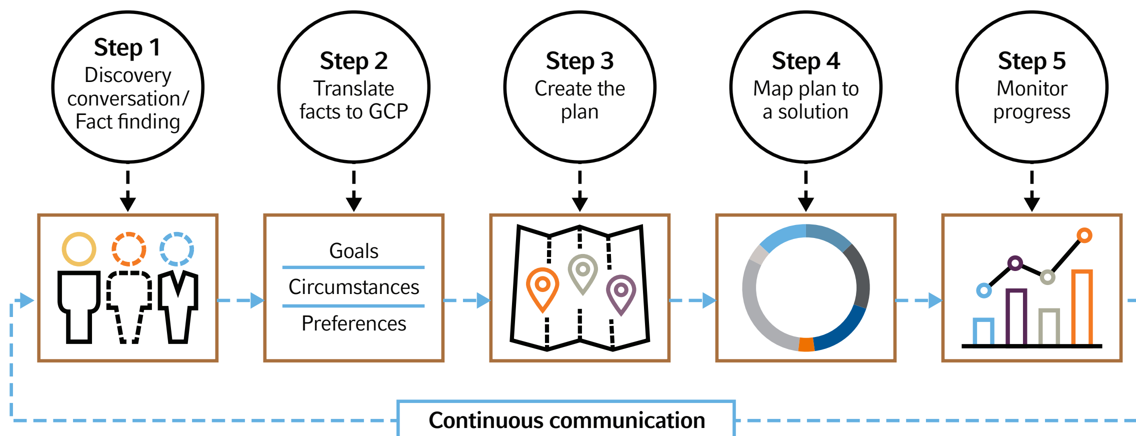
Of course, experience and expertise to navigate the technical aspects of investments, legal, tax, superannuation and insurance requirements are key to success. But a quality financial adviser also incorporates additional skills like effective communication, behavioural awareness and understanding to their offering.

Advisers will share their expertise through investment education, assistance with tax specific circumstances, estate and retirement income planning, and help to ensure you have adequate insurance coverage.

## Developing your financial plan

This will all come together in the process of developing and implementing your financial plan. A robust financial plan may incorporate your multiple financial goals, considerations for investing at different stages of your life, and strategising with other trusted professionals involved in your financial matters.

The process begins with a deep discovery conversation, taking time to understand you, your needs and what matters most. They then translate this into goals, circumstances and preferences before developing your unique financial plan. Once you give the green light, your adviser will be there to help you implement the plan and get you underway towards your goals. But it doesn't stop there - because these things are likely to change over time, your adviser may seek to monitor and review your plan regularly to help you reach your desired goals.




## There when you need them

In the best of times, an adviser can help you achieve life-long goals and celebrate personal and family milestones along the way. In challenging times, advisers can really add value when you need support to deal with trauma or illness (like challenging an insurance claim), financial crises (like chasing beneficiary payments), estate planning and death.

We believe this unique combination of technical skill and emotional expertise provides a priceless form of value from an adviser to you – leaving you to focus on what's important to you and your family - feeling more secure, more prepared to deal with the unexpected, and ultimately having peace of mind.

# T IS FOR TAX-EFFECTIVE PLANNING AND INVESTING

Tax is often considered the realm of the accounting profession. However, an adviser can also provide expertise in managing and optimising investment tax. The concept of investment tax isn't just limited to what goes into your tax return. It can have an impact on the asset value or portfolio return, even though it may not always be seen. As a result, it can be difficult to know how to be tax-effective in your portfolio.

## Strategic expertise

Your adviser can provide guidance to help manage your tax through a range of strategies that require their technical expertise and up-to-date legal and regulatory knowledge to implement effectively, including:

- Contribution and draw-down strategies like salary sacrifice and transition to retirement, and reinvesting tax savings
- Insurance premiums – identifying tax deduction benefits in super and also reinvesting these tax savings
- Optimising tax for non-superannuation assets and managing 'tax surprises' as regulatory changes occur

Advisers can also be there to help you maximise the tax incentives and benefits available to you at different life-stages. From childcare rebates and family tax benefits through to navigating superannuation top ups, health care cards, concessions and aged pension implications. If you're a business owner, you've got additional opportunities to be considered for grants and incentive programs.

Many of these considerations are embedded into the comprehensive financial plan and advice you'll receive, and the good news is that by lowering the tax payable on your investments and maximising the other benefits available, you may be able to reach your financial goals sooner.

*Quality financial advisers not only have the technical expertise to help you make the most of your tax circumstances, but can help you to avoid any unexpected surprises at tax time.*

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## WHERE TO FROM HERE?

If you're not already, taking action now in this 'new normal', post-pandemic world to consider the value of working with an adviser makes sense. As we've shown – that relationship may be one of your best investments yet.

If you were already lucky enough to be working with an adviser over the last few years who helped keep you invested through the market volatility and uncertainty of the pandemic, you've probably already received value above and beyond the fee you pay for that service.

Overall, when you consider the value embedded in an investment strategy tailored to your individual needs and goals, it's clear there is substantial value in working with an adviser.

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TO LEARN MORE, SPEAK WITH YOUR FINANCIAL ADVISER.

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### ADDITIONAL DISCLOSURES

The value of Appropriate Asset allocation is based on 5 portfolios with average asset allocations across Conservative, Diversified 50, Balanced, Growth and High Growth risk profiles. The value takes the difference of 10 year annualised performance of each adjacent risk profile, and calculates the average overall. These portfolios use index values as asset class exposures, including Australian equities: S&P/ASX 300 TR Index AUD, International Equities: MSCI AC World TR Index AUD, MSCI AC World ex Australia NR Index (AUD Hedged). International Bonds: Bloomberg Barclays Global Aggregate TR Index. Australian Bond: Bloomberg AusBond Composite 0 Year Index AUD. Example is provided for illustrative purposes only. Real returns may vary. Past performance is not a reliable indicator of future performance.

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# The Market Cycle of Emotions

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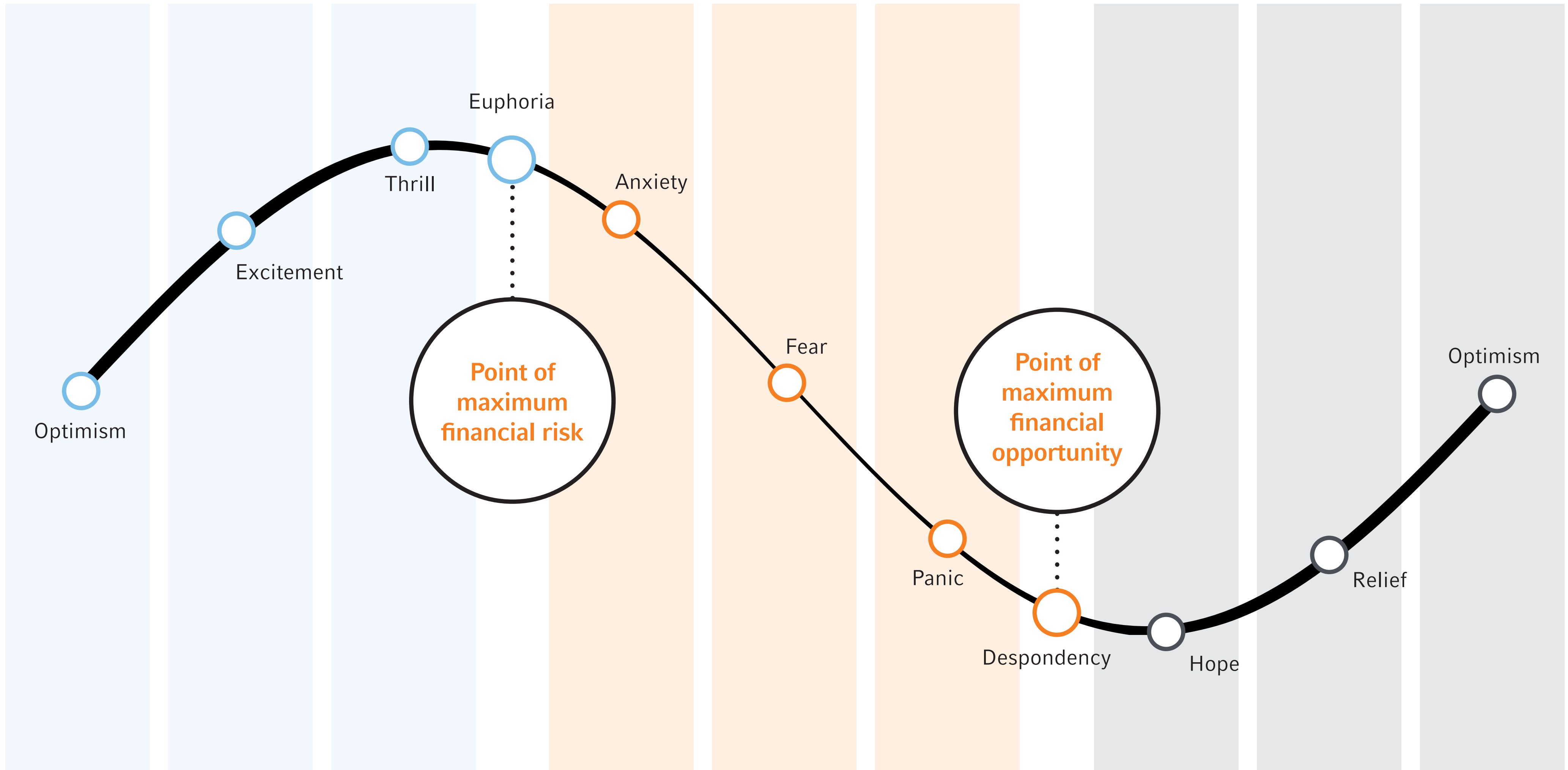
**Most investors are aware of market cycles; and how you feel about the market often runs in cycles as well. This chart identifies how you may be feeling during different phases of the market cycle.**





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# Value of diversification

## The temptation to chase short term returns can be hard to resist.

This table illustrates how different asset classes have performed relative to a multi-asset portfolio diversified across multiple assets, strategies & managers. It also helps to demonstrate that one year's best performing assets can just as easily end up the next year's worst.

Best annual performance

| 2002 | 2003 | 2004 | 2005 | 2006 | 2007 | 2008 | 2009 | 2010 | 2011 |
|---|---|---|---|---|---|---|---|---|---|
| AREITs 11.9 | INT. SHARES HGD 29.3 | AREITs 32.2 | AUS. SHARES 22.5 | AREITs 34.1 | AUS. SHARES 16.2 | AUS. BONDS 15.0 | AUS. SHARES 37.6 | INT. SHARES HGD 13.5 | AUS. BONDS 11.4 |
| INT. BONDS HGD 11.6 | AUS. SHARES 15.0 | AUS. SHARES 27.9 | INT. SHARES HGD 18.5 | AUS. SHARES 24.5 | CASH 6.7 | INT. BONDS HGD 9.2 | INT. SHARES HGD 28.4 | INT. BONDS HGD 9.3 | INT. BONDS HGD 10.5 |
| AUS. BONDS 8.8 | MULTI-ASSET 9.8 | MULTI-ASSET 17.4 | INT. SHARES 17.1 | INT. SHARES HGD 17.6 | INT. BONDS HGD 6.6 | CASH 7.6 | MULTI-ASSET 17.3 | AUS. BONDS 6.0 | CASH 5.0 |
| CASH 4.8 | AREITs 8.8 | INT. SHARES HGD 15.8 | MULTI-ASSET 15.3 | MULTI-ASSET 15.9 | INT. SHARES HGD 6.4 | MULTI-ASSET -22.5 | AREITs 9.6 | CASH 4.7 | AREITs -1.6 |
| MULTI-ASSET -6.8 | INT. BONDS HGD 6.6 | INT. SHARES 10.6 | AREITs 12.7 | INT. SHARES 11.8 | MULTI-ASSET 6.3 | INT. SHARES -25.9 | INT. BONDS HGD 8.0 | MULTI-ASSET 3.7 | MULTI-ASSET -2.0 |
| AUS. SHARES -8.6 | CASH 4.9 | INT. BONDS HGD 8.9 | INT. BONDS HGD 6.6 | CASH 6.0 | AUS. BONDS 3.5 | AUS. SHARES -38.9 | CASH 3.5 | AUS. SHARES 1.9 | INT. SHARES HGD -2.4 |
| INT. SHARES HGD -22.7 | AUS. BONDS 3.0 | AUS. BONDS 7.0 | AUS. BONDS 5.8 | INT. BONDS HGD 4.4 | INT. SHARES -1.9 | INT. SHARES HGD -39.4 | INT. SHARES 2.0 | AREITs -0.7 | INT. SHARES -5.7 |
| INT. SHARES -27.2 | INT. SHARES 0.0 | CASH 5.6 | CASH 5.7 | AUS. BONDS 3.1 | AREITs -8.4 | AREITs -55.3 | AUS. BONDS 1.7 | INT. SHARES -1.4 | AUS. SHARES -11.0 |

| 2012 | 2013 | 2014 | 2015 | 2016 | 2017 | 2018 | 2019 | 2020 | 2021 |
|---|---|---|---|---|---|---|---|---|---|
| AREITs 32.8 | INT. SHARES 47.8 | AREITs 26.8 | AREITs 14.4 | AREITs 13.2 | INT. SHARES HGD 19.9 | AUS. BONDS 4.5 | INT. SHARES 27.9 | INT. SHARES HGD 10.3 | INT. SHARES 29.3 |
| AUS. SHARES 19.7 | INT. SHARES HGD 32.3 | INT. SHARES 15.0 | INT. SHARES 11.5 | AUS. SHARES 11.8 | INT. SHARES 13.4 | AREITs 3.3 | INT. SHARES HGD 26.7 | INT. SHARES 5.6 | AREITs 27.0 |
| INT. SHARES HGD 19.1 | AUS. SHARES 19.7 | INT. SHARES HGD 12.4 | MULTI-ASSET 4.3 | INT. SHARES HGD 10.5 | AUS. SHARES 11.8 | CASH 1.9 | AUS. SHARES 23.8 | INT. BONDS HGD 5.1 | INT. SHARES HGD 23.7 |
| MULTI-ASSET 16.1 | MULTI-ASSET 19.1 | INT. BONDS HGD 10.4 | INT. SHARES HGD 3.7 | MULTI-ASSET 9.0 | MULTI-ASSET 10.3 | INT. BONDS HGD 1.7 | AREITs 19.5 | AUS. BONDS 4.5 | AUS. SHARES 17.6 |
| INT. SHARES 14.7 | AREITs 7.3 | MULTI-ASSET 9.9 | INT. BONDS HGD 3.3 | INT. SHARES 8.2 | AREITs 6.4 | INT. SHARES 1.3 | MULTI-ASSET 18.6 | MULTI-ASSET 3.1 | MULTI-ASSET 13.9 |
| INT. BONDS HGD 9.7 | CASH 2.9 | AUS. BONDS 9.8 | AUS. SHARES 2.8 | INT. BONDS HGD 5.2 | INT. BONDS HGD 3.7 | MULTI-ASSET -1.0 | AUS. BONDS 7.3 | AUS. SHARES 1.7 | CASH 0.0 |
| AUS. BONDS 7.7 | INT. BONDS HGD 2.3 | AUS. SHARES 5.3 | AUS. BONDS 2.6 | AUS. BONDS 2.9 | AUS. BONDS 3.7 | AUS. SHARES -3.1 | INT. BONDS HGD 7.2 | CASH 0.4 | INT. BONDS HGD -1.5 |
| CASH 4.0 | AUS. BONDS 2.0 | CASH 2.7 | CASH 2.3 | CASH 2.1 | CASH 1.7 | INT. SHARES HGD -7.5 | CASH 1.5 | AREITs -4.0 | AUS. BONDS -2.9 |

Weakest performance

Sources for the asset classes and sample diversified portfolios are as follows: (1) Australian Shares : S&P/ASX 300 Accum Index, ASX All Ordinaries Accum Index prior to 31 March 2000 (2) Australian Bonds: Bloomberg AusBond Composite 0+ Yr Index, 1980-1989 Commonwealth Bank All Series All Maturities. (3) Cash: Bloomberg AusBond Bank Bill Index (Australian 91 Day Treasury Notes prior to 1988). (4) International Shares: MSCI World Index – Net; Russell Developed Large Cap index prior to 1 October 2018; 1980-1996: MSCI World Net Div Reinvested Accumulation Index (in AUD). (5) International Bonds: Barclays Global Aggregate Index $A Hedged. Saloman Smith Barney World Government Bond Index $A Hedged (Note: Pre-1985 returns unavailable, Domestic Bond returns used) (6) A-REITs: S&P/ASX 300 A-REIT Index (ASX Property Trust Accumulation Index prior to 31 March 2000). (7) International Shares Hedged: MSCI World Index – 100% Hedged to AUD - Net; Russell Developed Large Cap index - AUD Hedged prior to 1 October 2018; 1988-1999: MSCI World Net Div Reinvested Accumulation Index $A Hedged, MSCI World Local Currency Index prior to 1988. The multi-asset portfolio is hypothetical only and is calculated by a weighted average of the asset class index returns For more information on the composition of the sample portfolio, please contact Russell Investments on +612 9229 5111. Case study performance calculations are based on geometric averages. Issued by Russell Investment Management Ltd ABN 53 068 338 974, AFS Licence 247185 (RIM). This document provides general information only and has not been prepared having regard to your objectives, financial situation or needs. Before making an investment decision, you need to consider whether this information is appropriate to your objectives, financial situation or needs. This information has been compiled from sources considered to be reliable, but is not guaranteed. This document is not intended to be a complete statement or summary. This work is copyright 2022. Apart from any use permitted under the Copyright Act 1968, no part may be reproduced by any process, nor may any other exclusive right be exercised, without the permission of Russell Investment Management Ltd.

# BEHAVIOUR

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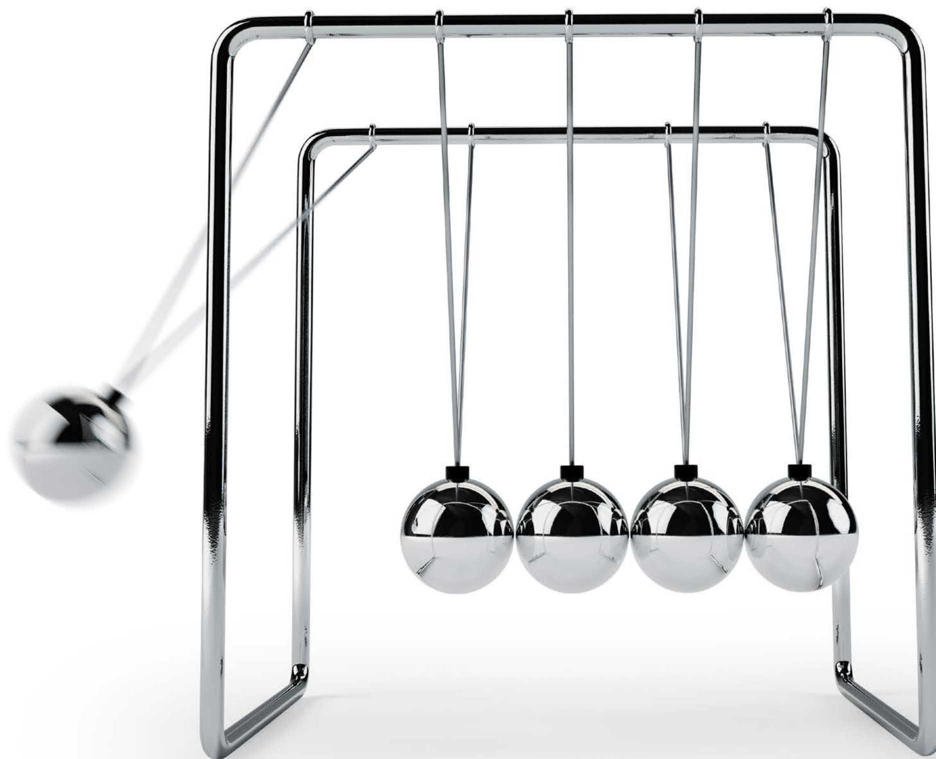
## How to avoid common behavioural biases



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## Why do investors react differently to the same market event?

It depends on a number of factors, such as what the investor's objectives are, including their risk tolerance and return target, what their beliefs are about where they are in
the market cycle and what markets will do next within the investor's time horizon.

**For example, if markets fall 10% and news headlines about an increased probability of near-term recession fuel anxiety in investors' minds, the following may happen:**

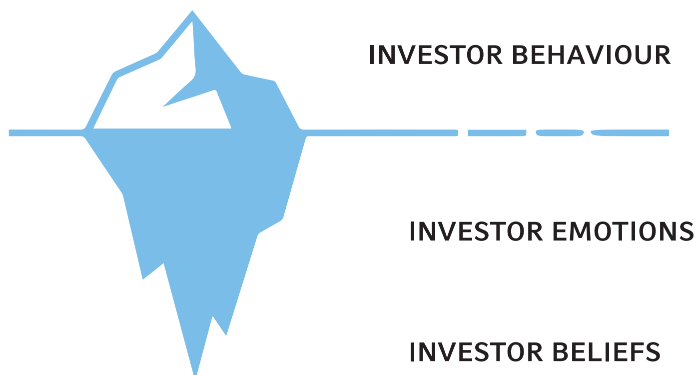
- A common response may be to stop investing until markets stopped falling;
- Some worried investors may even start selling in case it's the start of a bear market;
- Contrarian investors may see the market correction as an opportunity to buy stocks 'on sale' at lower prices.

Same event. Three different types of behaviours.

**Conversely, if markets or particular asset classes, sectors or stocks rally, the following may happen:**

- A common response may be to follow the herd and join in the buying activity, bidding up prices;
- Some cautious investors may wait to see if the rally will be sustained before investing;
- Contrarian investors may sell because they believe the prices are too high.

Some beliefs may lead to successful investment strategies and behaviours. However, other beliefs may lead to behavioural biases that are counterproductive and jeopardise the likelihood of achieving an investor's objectives. This could ultimately have a long-term negative impact on their wealth.




## Examples of behavioural biases & portfolio implications

To understand what these biases are and why investors exhibit them, we need to remember that our human brains are hardwired for a world of limited and poor information.Historically, survival depended on quick pattern recognition and decisive action. As a result, stereotyping and generalising have proved helpful in survival.

However, when it comes to investing in a world of uncertainty, these traits can push investors to find patterns that may not actually exist, especially for short-term horizons.

> *In "**Thinking Fast and Slow**", behavioural scientist Daniel Kahneman categorised the human thought process in two different ways: System 1, or "Blink" and System 2, or "Think". System 1 is our intuition – fast, automatic and emotional. System 2 is our reasoning – slow, deliberate and systematic.*

| "BLINK": SYSTEM 1 | "THINK": SYSTEM 2 |
|---|---|
| Fast: Freeze, flight or fight | Slow: Considered |
| Intuitive/Autopilot/ uncontrolled | Rational/Intentional/ controlled |
| Ignores some information due to speed | Includes all relevant information |
| Developed over many years | More recently developed |
| Prone to predictable, systematic errors | Can be trained, rule-following |
| Unconscious/effortless | Self-aware/deliberate |
| Associative | Deductive |

Source: "System 1" and "System 2" terminology taken from Daniel Kahneman, *Thinking Fast and Slow*. Random House, 2011.

## Buy high, sell low

Contrary to the key to successful investing – buying low and selling high – many investors end up doing the opposite. This can inadvertently result because of:

#### Herding biases

Humans tend to mimic actions of larger group and follow the crowd, e.g. if everyone is selling, you sell too and vice versa. Herding comes from our evolutionary need to fit in with the majority because exclusion from the pack can be dangerous as there would be less protection from predators.

#### Fear and loss aversion

Humans tend to prefer avoiding losses than acquiring equivalent gains: If someone is confronted with equal amounts of loss and gain, the pain they experience from loss is nearly twice as strong as the pleasure of the gain.[1] Some investors may sell at low prices as the market is falling to avoid more losses despite the investment being a sound one and helpful to achieve their long-term objectives. They may also miss out on true buying opportunities for fear that negative market sentiment will continue the downward trend.[2]

## Trade too often

In addition investors may trade too often because of an overconfidence bias: humans tend to overestimate or exaggerate their ability to successfully perform tasks.

Humans tend to overestimate their knowledge and skills, underestimate the risks and exaggerate their ability to control those risks.

An overconfidence bias often translates into high portfolio turnover. Overconfident investors tend to believe they know more than the average person about investing and tend to be more thrill-seeking according to research by two professors at the University of California.[3]

## Home bias & country specific risk

Humans tend to prefer what is familiar or well-known. One of the common results of this in portfolios around the world is the home country bias: the tendency to allocate a greater portion of one's portfolio to assets domiciled in your home country.

The home country bias limits the amount of diversification in investor portfolios and exposes investors to significant country-specific risk.

1 Source: Advances in Prospect Theory – Cumulative Representation of Uncertainty, Tversky and Kahneman, 1992.
2 Also related to regret aversion bias: fear of bad outcomes and desire to avoid blame for poor result, e.g. fear of missing out on fads or stay out of market to avoid downturn.
3 Source: Brad Barber, Terrance Odean, "Boys Will Be Boys: Gender, Overconfidence, and Common Stock Investments," Quarterly Journal of Economics 116(2001):
261-292.

## Common behavioural biases

### Herding

Humans tend to mimic the actions of the larger group

### Overconfidence

Humans tend to over estimate or exaggerate our ability to successfully perform tasks

### Familiarity

Humans tend to prefer what is familiar or well-known

**Can lead to**

| Buy high, sell low | Trade too often | Overweight home country |
|---|---|---|

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## How to avoid behavioural bias

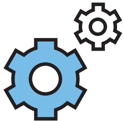
As humans, we all suffer from some biases. But many of these can be offset by a robust, objective and disciplined process.

As more and more investors prepare to retire and financial markets remain unpredictable, it will be increasingly important to keep behavioural biases in check.

## A trusted financial adviser can help:

**1** Provide education on potential biases and how to recognise whether they are affecting investment decisions

**2** Take an objective view of how any decision can have a long-term impact on a portfolio



**3** Create a process that considers an investor's goals, circumstances and preferences to keep them focused on their long-term outcomes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