

**LEARNING CENTER**  
KNOWLEDGE + KNOW-HOW

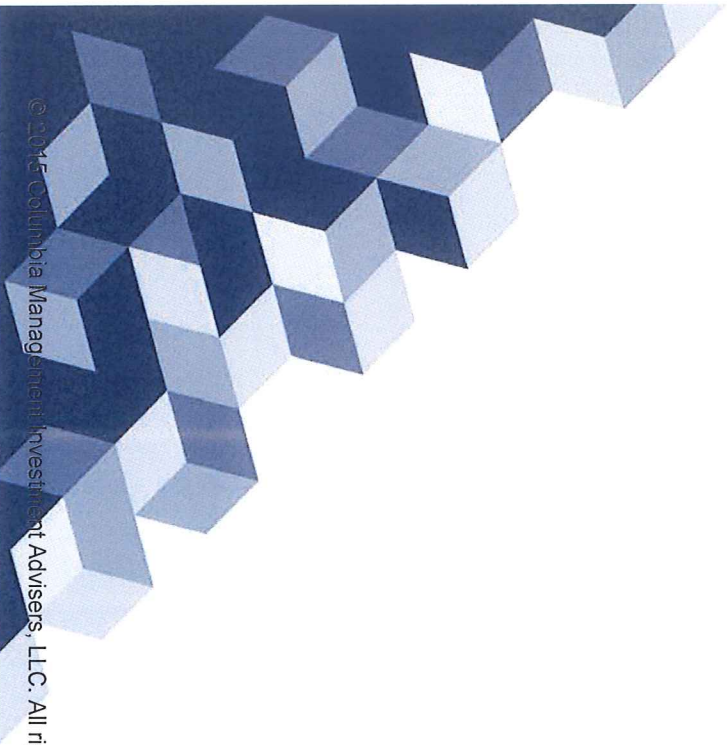


**COLUMBIA  
THREADNEEDLE**  
INVESTMENTS

Your success. Our priority.

# An Analysis of Investor Behavior

Speaker and title:



## Value proposition



## LEARNING CENTER KNOWLEDGE + KNOW-HOW

IT'S NOT JUST ABOUT  
KNOWLEDGE,  
IT'S ABOUT KNOW-HOW.

Financial expertise combined with practical tools  
and guidance to help you gain new clients and assets

For more than a decade, the Learning Center has consistently and persistently delivered high-end, high touch consultations on over 100,000 retirement cases. We work with elite advisors, providing them with not only the “knowledge” but the “know-how” to close new business, gather new assets and create repeatable business practices.

The Learning Center provides exclusive access to our key partners to a unique blend of timely technical information, actionable sales ideas, marketing seminars and workshops, real-time sales support and top of the line continuing education courses. This value-add program is designed to not only provide the tools but also assist you at each step of the way down the path of success.

## Investor psychology: The human brain



### Reptilian brain

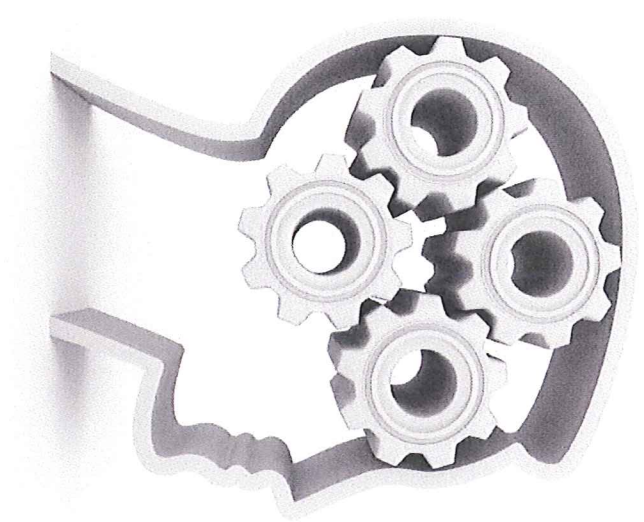
- Autonomic responses (heartbeat, breathing)

### Mammalian brain

- Visual response to fear (fight or flee)

### Cortical brain

- Controls speech/critical thinking

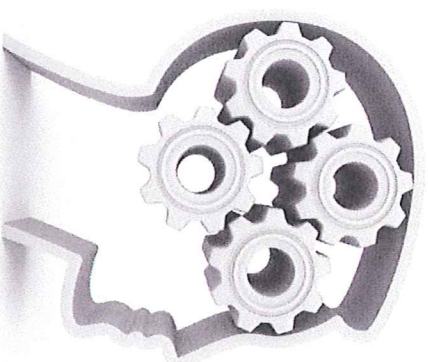


Source: IMCA Conference, 2004.

## Investor psychology: The human brain

### Prefrontal cortex

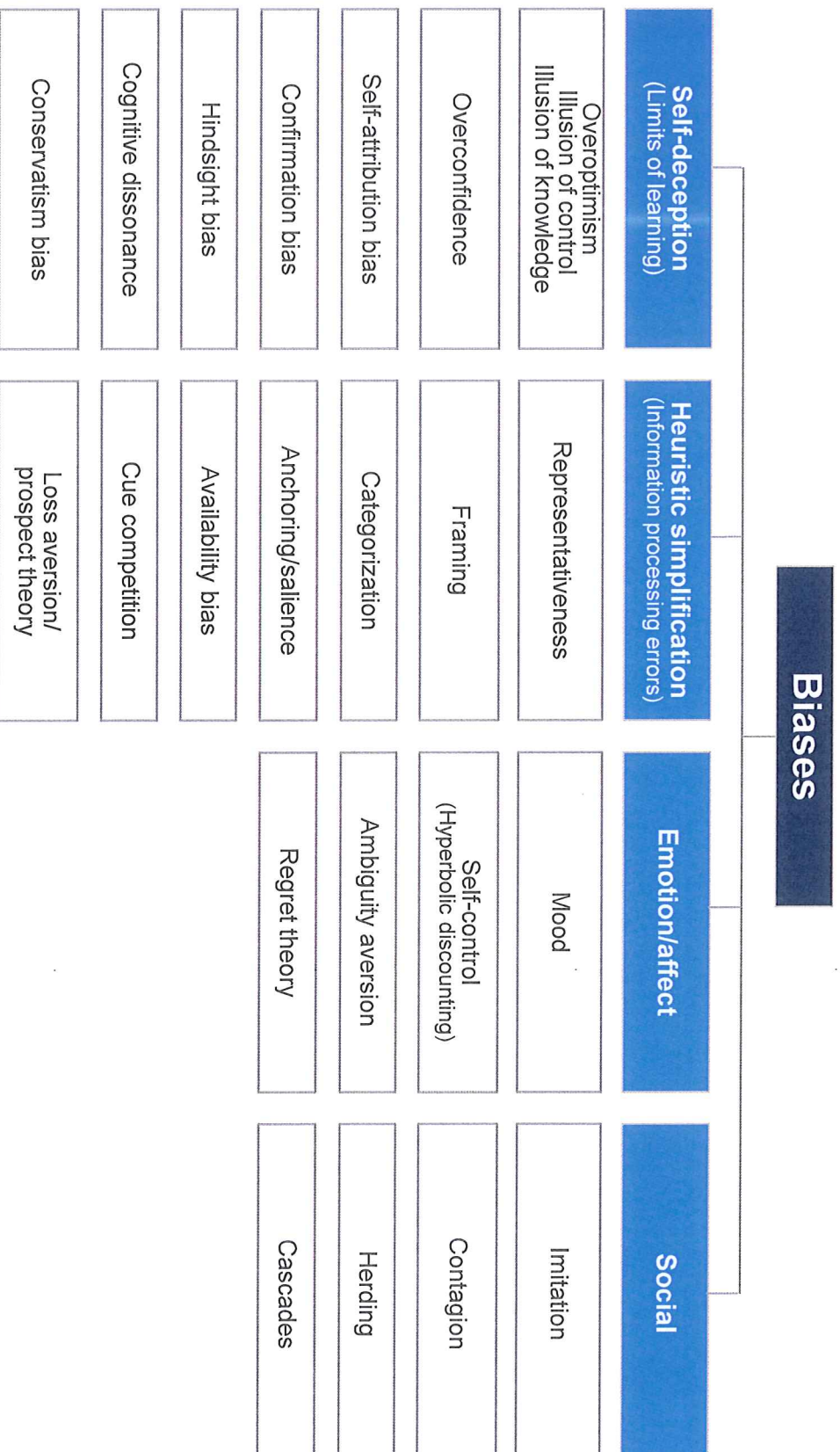
- Analytical “logic”
- Reflective
- Slower
- Serial
- Effortful
- Deliberately controlled



### Amygdala

- Experiential “gut”
- Reflexive
- Fast
- Associative
- Effortless
- Difficult to control/modify

# Investor psychology: Cognitive biases



Source: DKKW Macro Research  
 Reprinted with permission from "Just One Thing: Twelve of the World's Best Investors Reveal the One Secret You Can't Overlook," Wiley Publishing, 2011.

# Investor psychology: Overconfidence and optimism

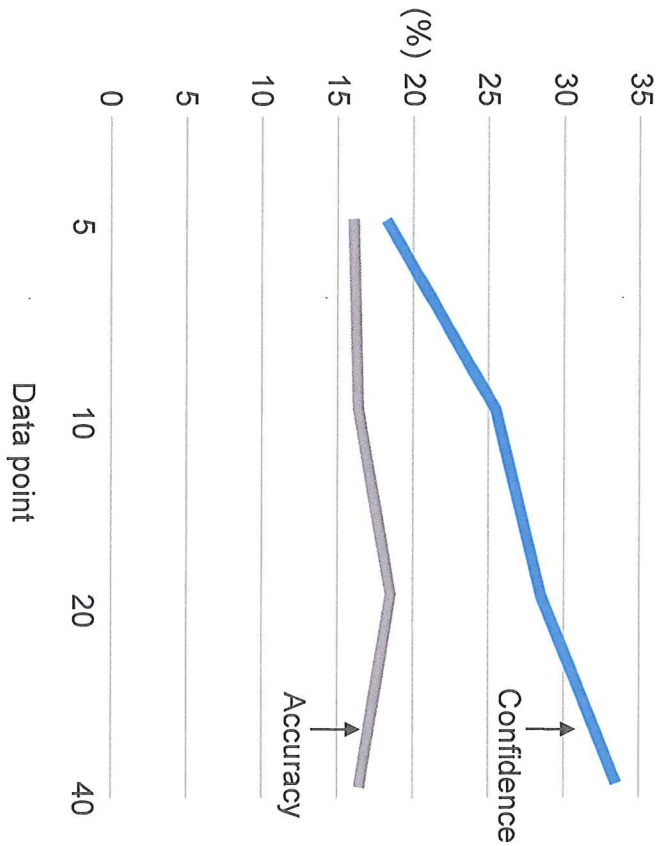


## An example of overconfidence/optimism

Driver survey<sup>1</sup>



The role of experts<sup>2</sup>



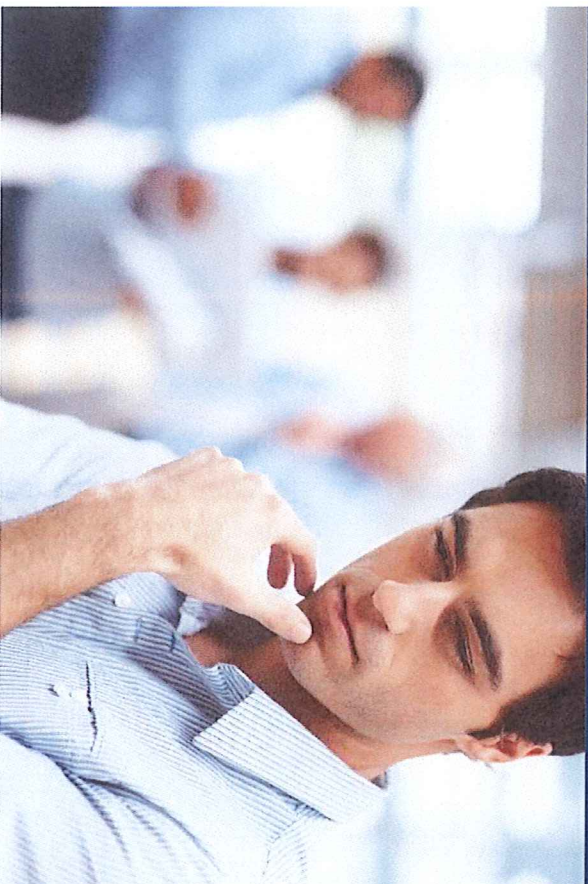
<sup>1</sup> Source: "Aspects of Investor Psychology," Journal of Portfolio Management, Summer 1998.

<sup>2</sup> Source: Slovic, 1973. Reprinted with permission from "Just One Thing: Twelve of the World's Best Investors Reveal the One Secret You Can't Overlook," Wiley Publishing, 2011.

# Investor psychology: Aversion to loss



The disposition effect – sell or hold?



Prospect theory choices

**Potential gains: Choose between**

- A. Guaranteed \$24 gain
- B. 75% chance of \$0  
25% chance of \$100 gain

**Potential losses: Choose between**

- C. Guaranteed \$75 loss
- D. 75% chance of losing \$100  
25% chance of losing \$0

Hindsight, regret

**Which would you regret more?**

Waiting two hours for a flight because:

- A. Weather/mechanical delays
- B. Missed your flight by two minutes

Past performance is no guarantee of future results. Charts are based on historical data and are intended for illustrative purposes only and should not be construed as a recommendation.

# Investor psychology: Framing

An example of framing

- Are anecdotes more important than antidotes?

## Option A

Treatment with 50% effectiveness

- or -

Percent of subjects choosing the treatment

Option B	Base rate			
	90%	70%	50%	30%
Positive anecdote	88	92	93	78
Neutral anecdote	81	81	69	29
Negative anecdote	39	43	15	7

Source: Angela K. Frey/muth and George F. Roman, "Modeling Patient Decision-Making: The Role of Base-Rate and Anecdotal Information," *Journal of Clinical Psychology in Medical Settings* 11, no. 3 (2004): 211-216  
 Reprinted with permission from "Think Twice: Harnessing the Power of Counterintuition," Michael J. Mauboussin, Harvard Business Press, 2009.



## Investor psychology: Anchoring

### An example of anchoring

#### Group 1

Estimate within five seconds the product of multiplying the following set of numbers:

$$1 \times 2 \times 3 \times 4 \times 5 \times 6 \times 7 \times 8 \times 9$$

#### Group 2

Estimate within five seconds the product of multiplying the following set of numbers:

$$9 \times 8 \times 7 \times 6 \times 5 \times 4 \times 3 \times 2 \times 1$$

# Investor psychology: Pattern-seeking

## An example of pattern-seeking/reference points

### Coin toss

T T T T T T

vs.

H T T H T H



Source: "Aspects of Investor Psychology," Journal of Portfolio Management, Summer 1998.

## Investor psychology: Representativeness



An example of representativeness:

- Susan is quiet, scholarly and passionate about social issues. She graduated from Stanford with a focus on English literature and environmental studies.

**Which of the following three cases is most probable?**

- A. Susan is a librarian.
- B. Susan is a librarian and a member of an environmental organization.
- C. Susan works in the banking industry.

# Investor behavior



So, just  
how  
rational  
are we?

Investor results: Harry's take



**“I should have computed the historic covariances of the asset classes and drawn an efficient frontier.**

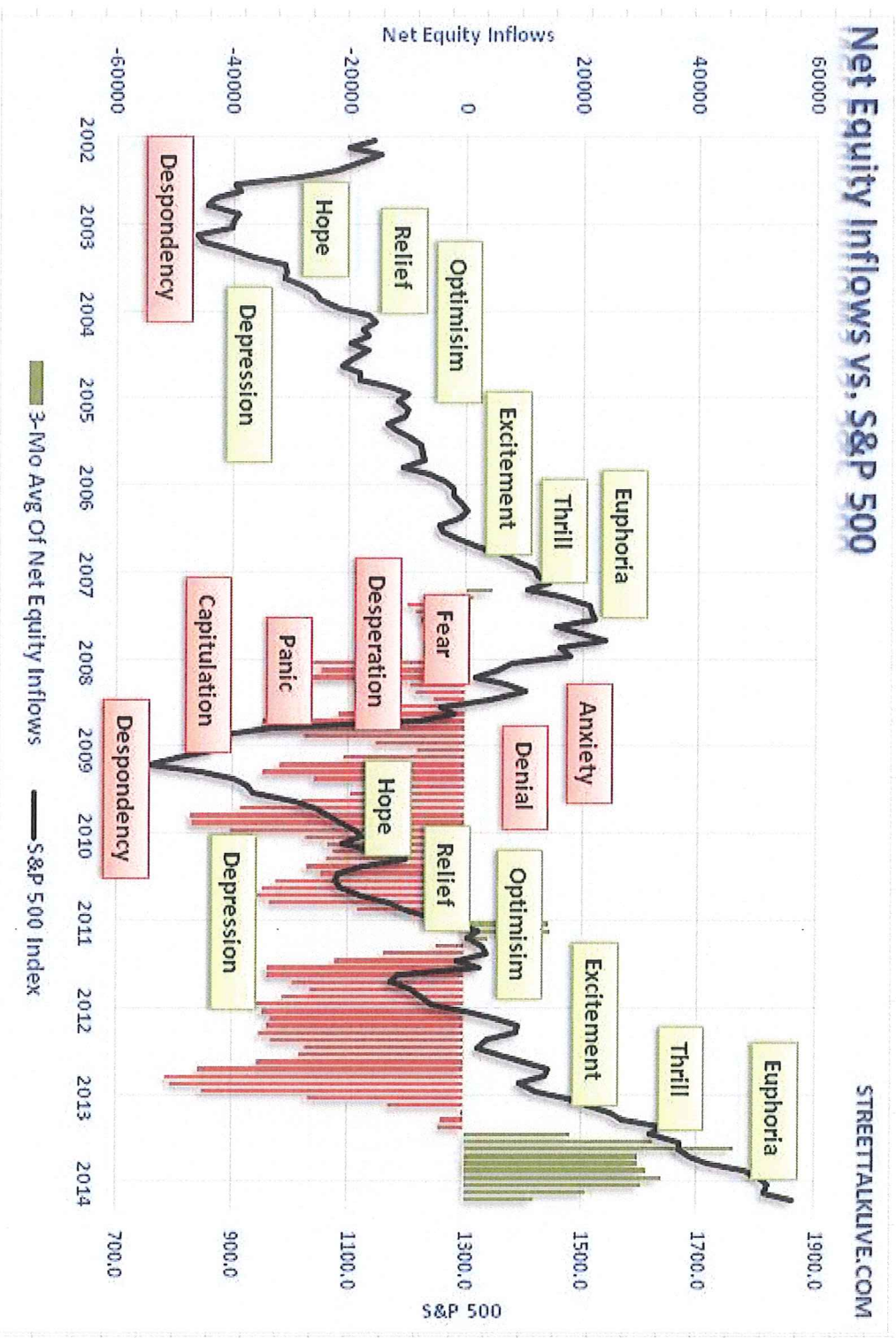
**Instead...**

**I split my contributions fifty-fifty between bonds and equities.”**

*—Harry Markowitz*

*Nobel Memorial Prize in Economic Sciences  
Founder of Modern Portfolio Theory*

# Investor psychology: An investor's Achilles' heel



Past performance does not guarantee future results. The S&P Index is an unmanaged index of 500 widely held common stocks. The S&P 500 covers 80% of the U.S. market and encompasses more than 100 different industry groups. It is not possible to invest directly in an index.

## Investor results: Historical bull market cycle

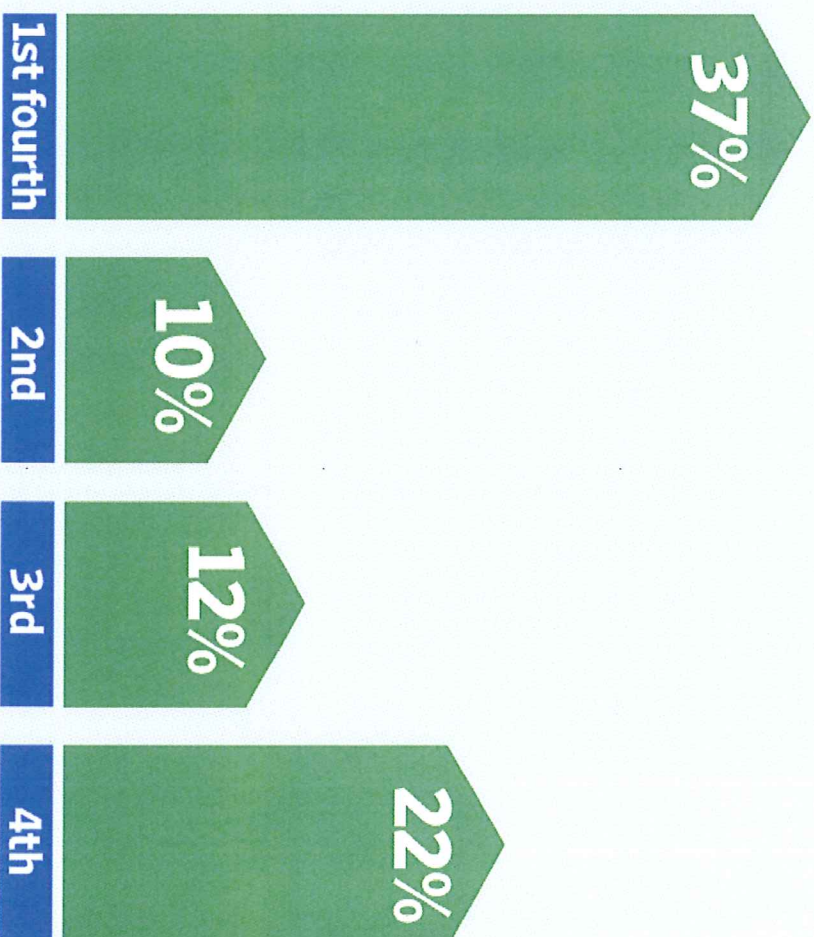


Biggest gains are in early bull market

### Less Juice

The biggest gains usually come when a bull market is starting. Dividing the past nine bull markets into fourths, chart shows average gain for each quarter. Data since 1962. Based on Standard & Poor's 500-stock index.

Source: Birinyi Associates



Source: "Bull Looks Long in the Tooth," Wall Street Journal, February 1, 2010. Used with permission from Dow Jones & Company. Past performance does not guarantee future results.

## Investor psychology: Common investor mistakes



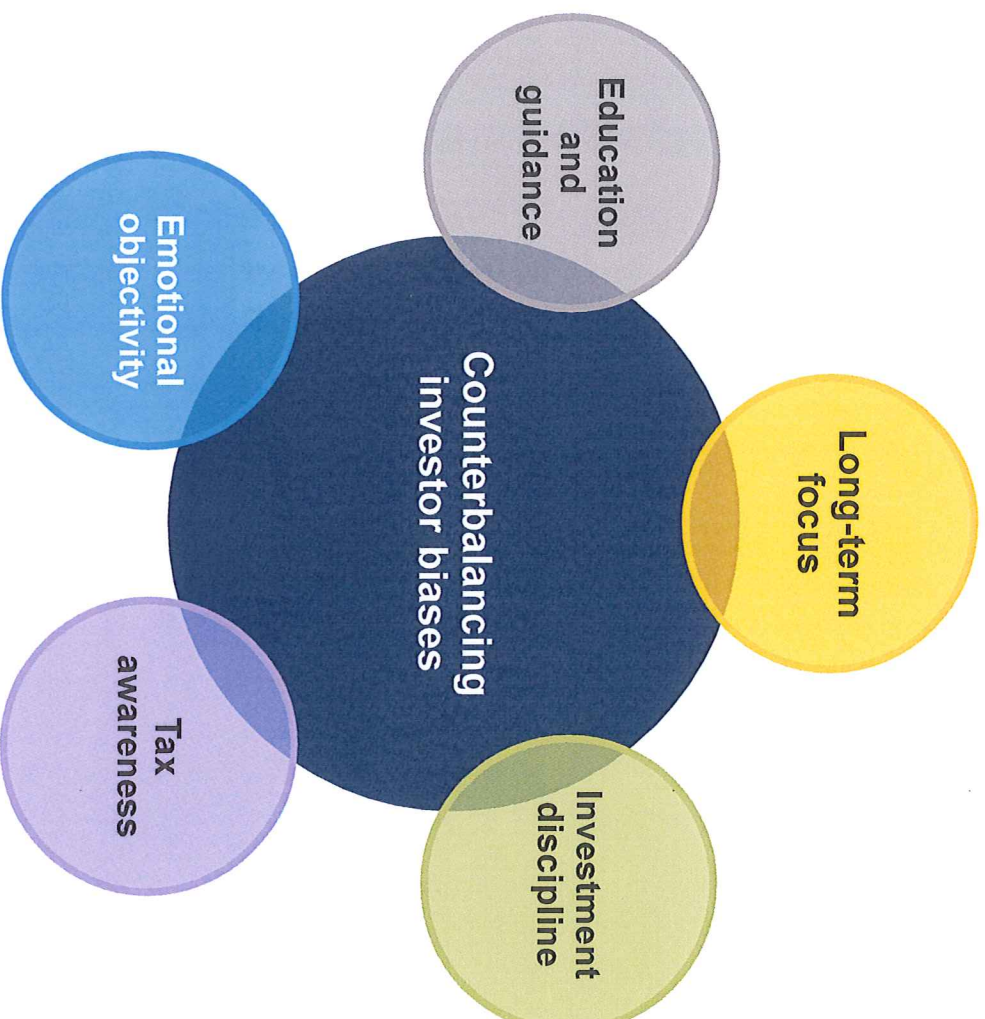
### High-net-worth investor's top five investing mistakes

5. Fixating on previous returns 14%
4. Failing to review a portfolio 16%
3. Making emotional decisions 20%
2. Investing without a plan 22%
1. Failing to diversify 25%

Source: deVere Group Survey (880 Global HNW clients w/ at least \$1MM in investable assets)  
Past performance does not guarantee future results.



# Investor psychology: Advisor value



## Investor psychology: Final thought



**“The investor’s chief problem – and even his worst enemy – is likely to be himself.”**

*–Benjamin Graham*

*Father of Modern Security Analysis*

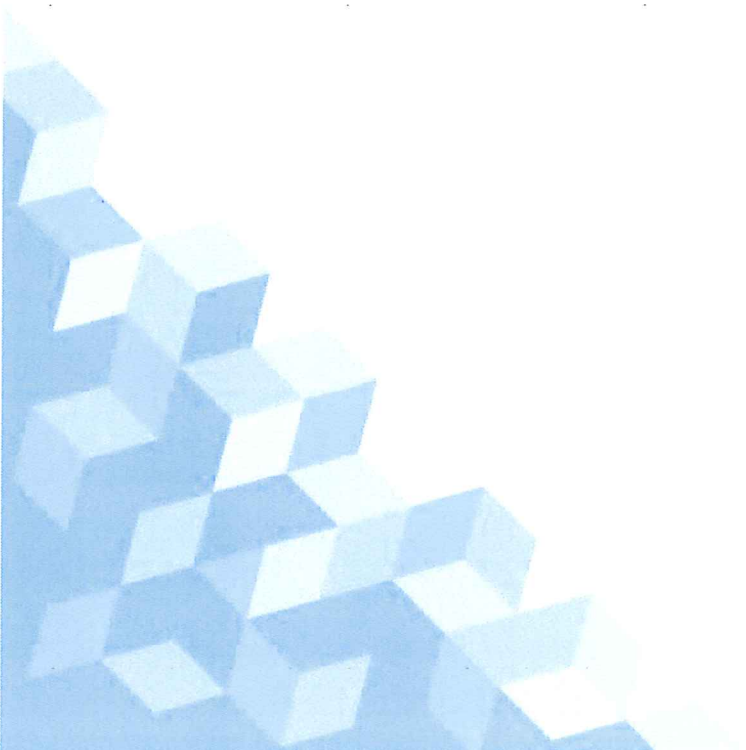
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# Q&A





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