Chicago Partners | Wealth Advisors

Young Investors Series

Investing in Your Future

The Hidden Cost of Investor Bias

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Meet the Team

Today's Speakers:

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What is Chicago Partners?

A **Registered Investment Advisor (RIA)** headquartered in downtown Chicago

Also known as a "**private wealth manager**" for high-net-worth individuals and families

A **fiduciary** advisor, or an advisor always acting in the best interest of the client

Builds financial plans, makes investment recommendations, and provides account oversight

Works with over 3,000 clients and $9 billion in assets under management

Josh Vick, CFP®
Senior Associate, Client Services

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Today's Agenda

Part I	Know Your Investment Bias
Part II	Your Emotions vs. the Markets
Part III	Q&A and Next Steps

Josh Vick, CFP®
Senior Associate, Client Services

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Part I

Know Your Investment Bias

Recency Bias, Confirmation Bias, Anchoring, Herd Mentality and How to Stick to Your Plan

Josh Vick, CFP®

Senior Associate, Client Services

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Investment Bias Types

Recency Bias

How It Shows Up

Recency bias can lead investors to place too much weight on recent events potentially triggering short-term decisions that undermine their long-term financial plans.

Why It Matters For Investors

- Clients chase what performed well most recently, not what fits their plan.
- Short-term market noise gets mistaken for a long-term signal.
- Reactive decisions replace disciplined, goals-based investing.

Kelly MacDonald
Senior Associate, Client Services

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Investment Bias Types

Recency Bias in Action: FAANG Stocks

For years, Facebook (Meta), Apple, Amazon, Netflix, and Google (Alphabet) outpaced the S&P 500® and Nasdaq Composite, leading many to see them as a sure bet.

-50%

Netflix stock price drop in 2022, amid a broad tech-sector revaluation

-27%

How far Netflix remained below its all-time high as of June 2023

Source: Schwab

The Takeaway

Recency bias might have led an investor to keep holding Netflix despite the broad 2022 tech-stock revaluation. Short-term market moves can erode long-term results, making it harder for affected clients to reach their financial goals.

Kelly MacDonald
Senior Associate, Client Services

Investment Bias Types

The Recent Past Misleads

Kelly MacDonald

Senior Associate, Client Services

RECENCY BIAS

The recent past is a poor predictor of the future.

Inflation has felt extreme before

Average annual rate

1970s	7.5%
2010–2020	1.7%
2022	6.4%

2022 was painful — but still below the 1970s.

...and reacting to it cost investors

S&P 500 Index return

2022
–18.1%
A year of losses

→

2023 · JAN–JUN
+16.9%
Recovery, six months later

$65.7B pulled out of U.S. large-cap growth funds in 2022 — **right before the rebound.**

Selling on last year's news is how a temporary loss becomes permanent.

Source: Schwab

Investment Bias Types

Confirmation Bias

Josh Vick, CFP®

Senior Associate, Client Services

The Self-Reinforcing Loop

1. Investor holds a belief about a stock, sector, or strategy.
2. Seeks out and favors information that supports that belief.
3. Discounts or ignores contradictory evidence.
4. The one-sided view is reinforced and the cycle repeats.

Why It Matters For Investors

Confirmation bias helps explain why investors don't always behave rationally and can cause investors to ignore valuable information.

Investment Bias Types

Anchoring

How It Shows Up

Anchoring is the tendency to rely too heavily on the first piece of information encountered, the “anchor”, when deciding, even when it has little bearing on the true value.

Why It Matters For Investors

- Clients fixate on the price they originally paid for a stock rather than its current value.
- You judge a fund’s performance at an all-time high instead of a relevant benchmark.
- You treat an advisor’s first proposed allocation at the reference point even if new information arrives.

Josh Vick, CFP®
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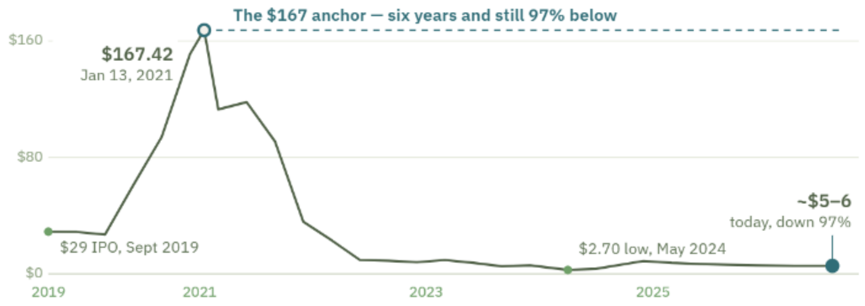
Investment Bias Types

Anchoring in Action: Peloton

Josh Vick, CFP®

Senior Associate, Client Services

During the pandemic in 2020, Peloton became the status workout. Anyone who bought near the top now has an unrealistic number in their head instead of a plan.



30x

the gain now needed just to get back what they paid

The Takeaway

The mistake wasn't buying it; it was letting the peak price run every decision after and ignoring the new information presented.

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Investment Bias Types

Herd Mentality

Josh Vick, CFP®
Senior Associate, Client Services

The Risks Of Following The Crowd

Skipped Due Diligence

Vital steps get skipped — researching an asset's fundamentals and disciplined portfolio construction take a back seat to following the crowd.

Unnecessary Risk-Taking

Investors take on risks they wouldn't otherwise accept, simply because others appear to be doing the same.

Buy High, Sell Low

Herd-driven investors often buy high and sell low, ignoring their long-term objectives and limiting portfolio performance.

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Investment Bias Types

Herd Mentality In Action: GameStop

In January 2021, a wave of retail investors coordinated online piled into GameStop — not because of the company's fundamentals, but because everyone else seemed to be buying.

~$17

GameStop's share price at the start of January 2021, before the frenzy began

$483

Intraday peak on January 28, 2021 — a gain of more than 2,700% in under a month

$40.59

GameStop's closing price by February 19, 2021, roughly 92% below the peak

The Takeaway

Investors who bought near the top weren't reacting to GameStop's business prospects — they were reacting to the crowd. When the rally unwound within weeks, many of the last to join were left holding steep losses, a reminder that following the herd can substitute for due diligence rather than support it.

Josh Vick, CFP®

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Investment Bias Types

Know Your Bias to Protect Your Portfolio

Kelly MacDonald

Senior Associate, Client Services

Recency Bias

Weigh long-term evidence, not just what's fresh in memory

Confirmation Bias

Actively seek out disconfirming evidence

Anchoring

Reassess against current facts, not the first number seen

Herd Mentality

Stick to independent, research-driven decisions

Part II

Your Emotions vs. The Market

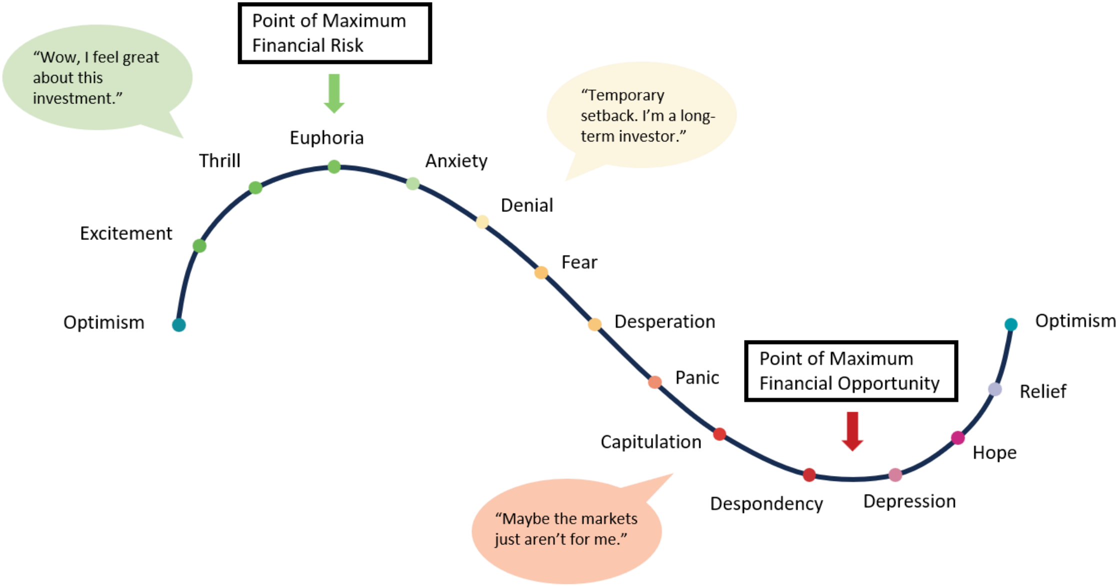
Investor Psychology & Strategies to Stay on Track.

Kelly MacDonald
Senior Associate, Client Services

The Impact of Emotions in Investing

Investor Psychology

Kelly MacDonald
Senior Associate, Client Services



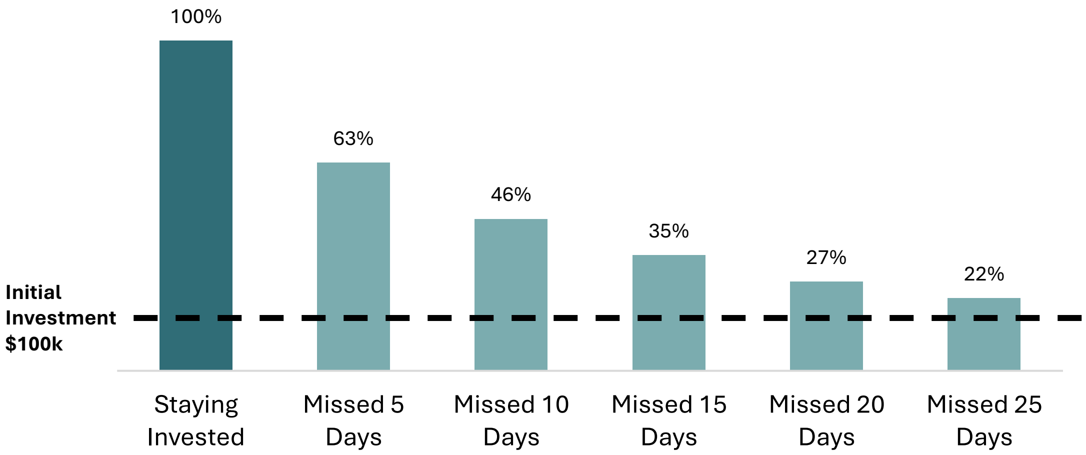
Managing Emotions

Time in the Market Beats Timing it

Kelly MacDonald
Senior Associate, Client Services

Missing Top-performing Days Can Hurt Your Return

Trying to jump in and out means risking missing the market's best days — which often cluster right next to the worst ones. The cost of sitting out compounds.



Source: BlackRock, Bloomberg

Hypothetical Investment of $100,000 in the S&P 500 Index over the last 20 years (2005-2024)

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Managing Emotions

Don’t Put All of Your Eggs in One Basket

Josh Vick, CFP®
Senior Associate, Client Services

ONE BASKET

Your entire future is riding on a single stock or investment. If it crashes, everything falls with it.

MULTIPLE BASKETS

Risk spread across holdings. One fall does not impact the entire portfolio aggressively.

Managing Emotions

Continuous Education

Recognize the Bias

Investing in education that meaningfully raises your lifetime earning potential, when the degree's expected return exceeds the loan cost.

Build Credible Information Habits

Favor durable, credible sources over whatever is loudest in your feed today.

Filter Out the Noise

Most "urgent" market news is irrelevant to a decades-long plan. Turn it down.

Kelly MacDonald
Senior Associate, Client Services

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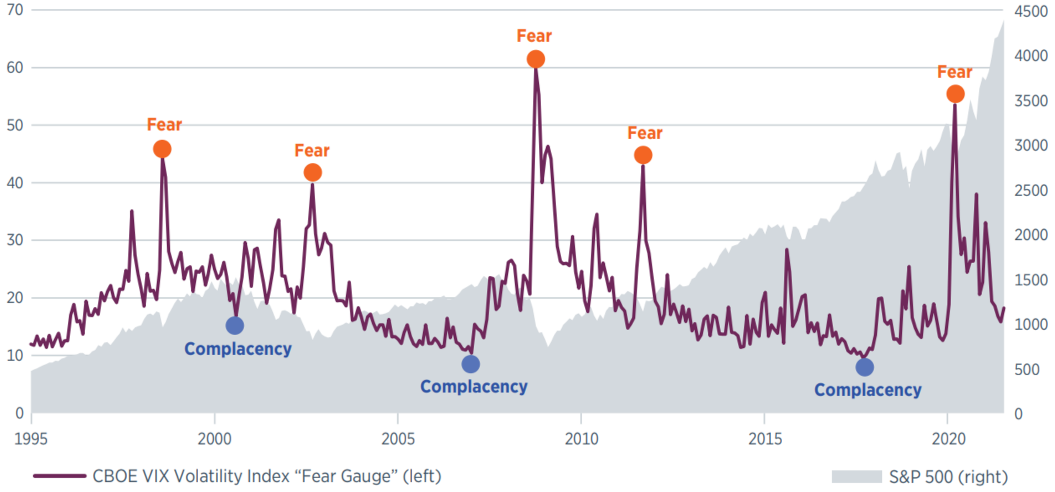
Managing Emotions

The Fear Gauge

Kelly MacDonald
Senior Associate, Client Services

Do your emotions lead you astray?
S&P 500 vs VIX Volatility Index (Equity "Fear Gauge")



Source: Macrobond, Wilmington Trust

The Bottom Line

Fear is loud in the moment and irrelevant in the long run.

Managing Emotions

The "Wall of Worry"

Source: Factset, Nationwide

The Bottom Line

The news gives you a fresh reason to panic every few years. Staying invested is what let investors stick to their long-term plans.

Josh Vick, CFP®

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Managing Emotions

Timing the Market

Source: Findependent

The Bottom Line

The emotional investor buys at the top, sells at the bottom, and buys back higher — feeling correct at every step.

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Managing Emotions

Strategies to Stay on Track

Kelly MacDonald

Senior Associate, Client Services

Dollar-Cost Averaging

Investing a fixed amount on a regular schedule, so you buy through ups and downs instead of guessing the timing.

Long-Term Diversified Investing

A broad, spread-out mix held onto for years – the boring approach that history has rewarded patience for.

Tax-Advantaged Accounts

Vehicles like a 401(k), IRA, or HSA can be good places to begin.

Periodically Rebalance

Rebalance allocations periodically to ensure the changes in your portfolio aligns with your long-term plan.

Actionable Steps

Josh Vick, CFP®
Senior Associate, Client Services

Keep your emotions in check and know the signs of biases in action.

Identify reputable sources to gather market information.

Write out a long-term plan with your financial goals to stick to.

Review your portfolio quarterly to recognize what needs rebalancing.

Part III

Q&A and Next Steps

Next steps to support returns in your portfolio.

Josh Vick, CFP®

Senior Associate, Client Services

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Submit Your Ideas For Future Topics

Kelly MacDonald

Senior Associate, Client Services

We would love to hear from you!

You can navigate to the web address below to submit any topic ideas you have for future Young Investor Webinar calls.

https://chicagopartnersllc.com/young-investors-recommended-topics/

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Q&A

Thanks for attending!

Stay tuned for our next installment!

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