CHICAGO PARTNERS | WEALTH ADVISORS

Young Investors Webinar Series

Investing in Your Future: The Hidden Costs of Investor Bias

About Chicago Partners

- Registered Investment Advisor (RIA), fiduciary, and private wealth manager headquartered in downtown Chicago, serving high-net-worth individuals, families, and organizations. As a fiduciary, the firm is always obligated to act in the client's best interest.
- Builds financial plans, makes investment recommendations, and provides ongoing account oversight and management.
- Serves 3,000+ clients with $9 billion in assets under management.

Part I: Knowing Your Investment Bias

- Recency Bias
    - The tendency to place too much weight on recent events, triggering short-term decisions that undermine long-term plans.
    - Example: After years of the Magnificent Seven beating the market, investors bought at peak valuations; when tech was revalued in 2022 (market down 18%), over $65B left large-cap growth funds right before a 16.9% recovery. Temporary losses became permanent for those who exited.
- Confirmation Bias
    - Tendency to interpret or recall information that supports investors beliefs, discounting contradictory evidence and creating a one-sided view.
    - Investors will ignore valuable information for their long-term goals.
- Anchoring
    - Relying too heavily on a single reference point, often an initial purchase price or an all-time high, and basing all future decisions on that "anchor."
    - Example: Peloton hit an all-time high of $167.42 in January 2021 and now trades near $5–$6 (down ~97%); recovering that loss would take roughly a 30x gain. The mistake was not buying it but anchoring to the peak and failing to reevaluate.
- Herd Mentality
    - Following the crowd's speculation rather than credible valuations—often skipping due diligence and taking on unnecessary risk, leading to a buy high, sell low scenario.
    - Example: GameStop spiked from ~$17 to an intraday peak of $483 on January 28, 2021, then fell to about $40.59 by February 19, a 92% drop from the peak.
- Know Your Bias to Protect Your Portfolio
    - Weigh long-term evidence, look at all the facts alongside your first impression, and stick to research-driven decisions.

Part II: Your Emotions vs. The Market

- Investor Psychology
    - Rises and falls in markets impact investors' emotions, cycling from euphoria at the peak to fear at the trough and back to optimism.
- Time in the Market Beats Timing It

    - Staying invested helps you avoid missing the best-performing days and protects you from rash, emotion-driven decisions. Those who stayed fully invested captured 100% of the market's upside.
- Don't Put All Your Eggs in One Basket
    - Diversification buffers your portfolio so the fall of one investment will not crash the whole.
- Continuous Education
    - Recognize the bias and emotions at play, build credible information habits over whatever is loudest in your feed, filter out the noise, and lean on your advisor.
- Fear Gauge
    - The Cboe VIX spikes during periods of complacency while the S&P 500 trends up over time; fear is loud in the moment but irrelevant in the long run.
- The Wall of Worry
    - Through difficult events and large-scale headlines, the market continues to move up and to the right. The news may give reasons to panic every few years, but staying invested is central to a long-term plan.
- Timing the Market
    - Selling into a downturn and missing the rebound turns a temporary loss into a permanent one. Don't let emotions drive buying and selling. Instead, rely on reputable valuations and your long-term plan.
- Strategies to Stay on Track
    - Dollar cost averaging: investing a fixed amount on a regular schedule.
    - Build tax-advantaged accounts (401(k), IRA, or HSA).
    - Diversify your investments by holding a mix.
    - Periodically rebalance as your investments grow and your portfolio evolves.
- Actionable Steps
    - 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 and invest based on your risk tolerance.

Part III: Q&A and Next Steps