



ClearVista
ADVISORS

Six barriers to investment success

Uncovering your behavioral bias





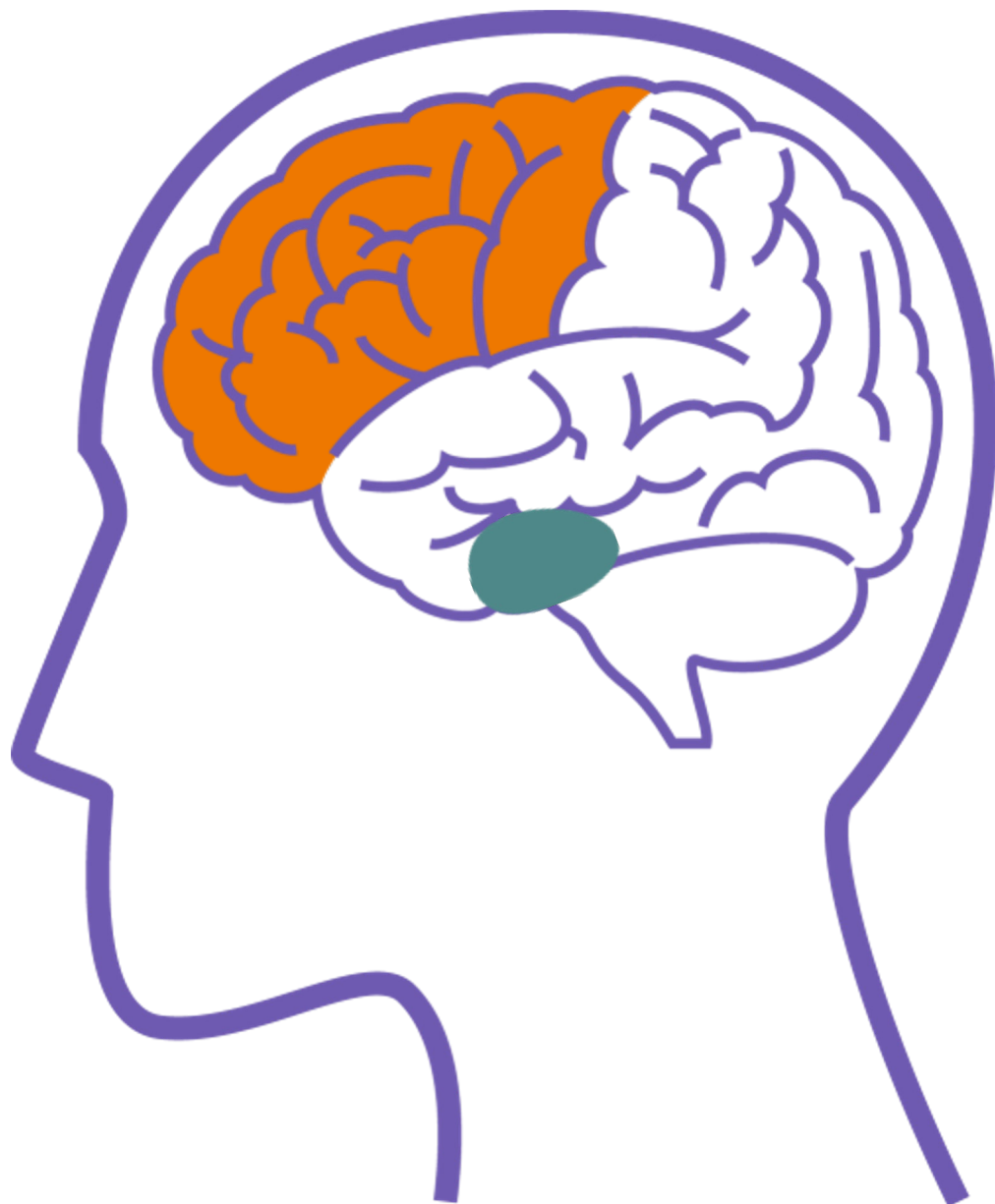
Melissa J. Stewart CFP[®], AIF[®], CPFA, CDFFA[®]
Founder | Senior Financial Advisor



- 17 years experience
- B.B.A., Finance and Business Management, Grand Valley State University
- CERTIFIED FINANCIAL PLANNER TM, CFP[®]
- Accredited Investment Fiduciary[®], AIF[®]
- Certified Fiduciary Plan Advisor, CPFA
- Certified Divorce Financial Analyst, CDFFA[®]
- Responsible for financial planning, wealth management and retirement plan consulting
- Formerly served on the Grand Valley State University Alumni Board. Currently serves on the Safe Haven Ministries Board and Finance Committee.
- Enjoys running, volunteering, and spending time with her family and dogs

Decisions can be challenging





Fight or flight



Today's discussion

- Availability Bias
- Herding
- Loss Aversion
- Present Bias
- Anchoring
- Home Country Bias

Availability bias

Our thinking is strongly influenced by what is personally most relevant, recent or traumatic.



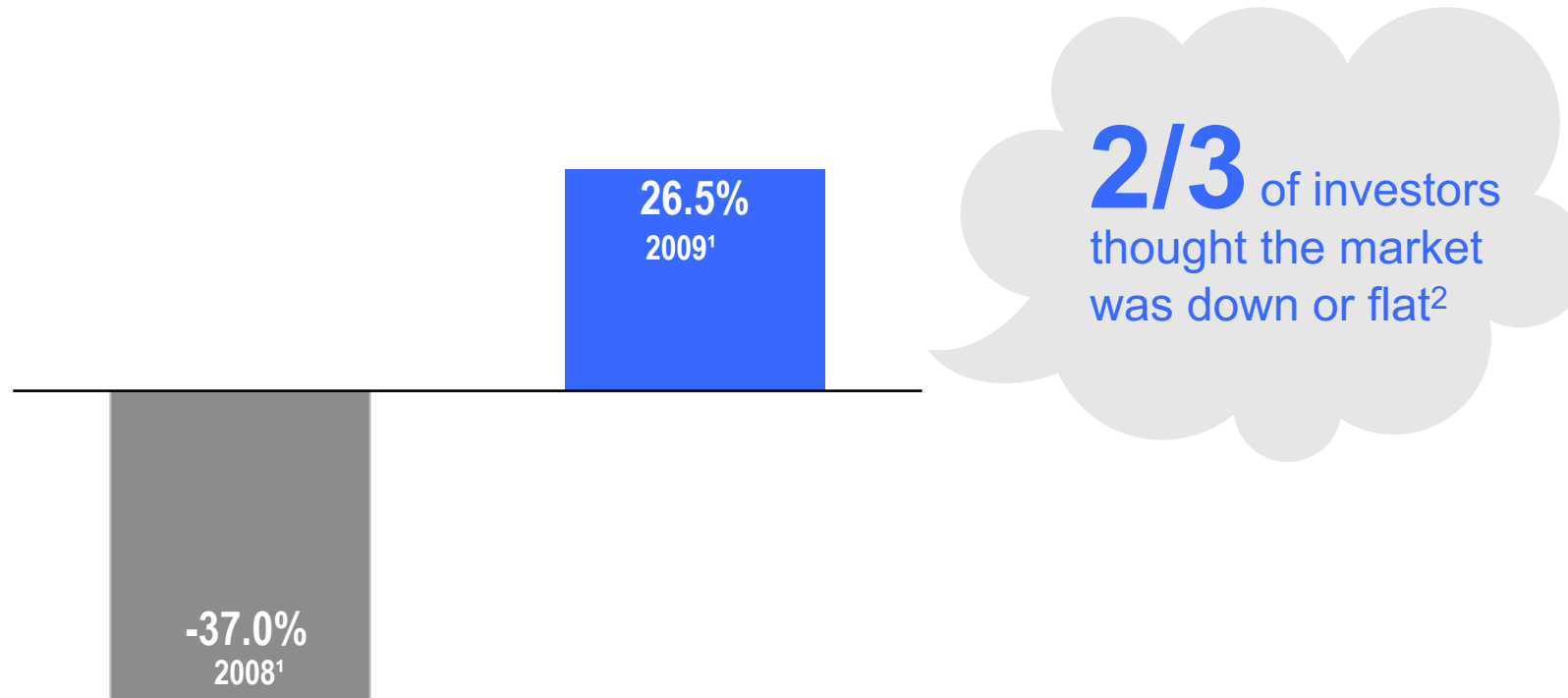
Where is the danger?



The lasting impact of a down market

Availability bias

S&P 500 Index annual returns and Franklin Templeton Investor Sentiment Survey results



This chart is for illustrative purposes only and does not reflect the performance of any Franklin Templeton fund.

Past performance does not guarantee future results.

1. Source: Morningstar.

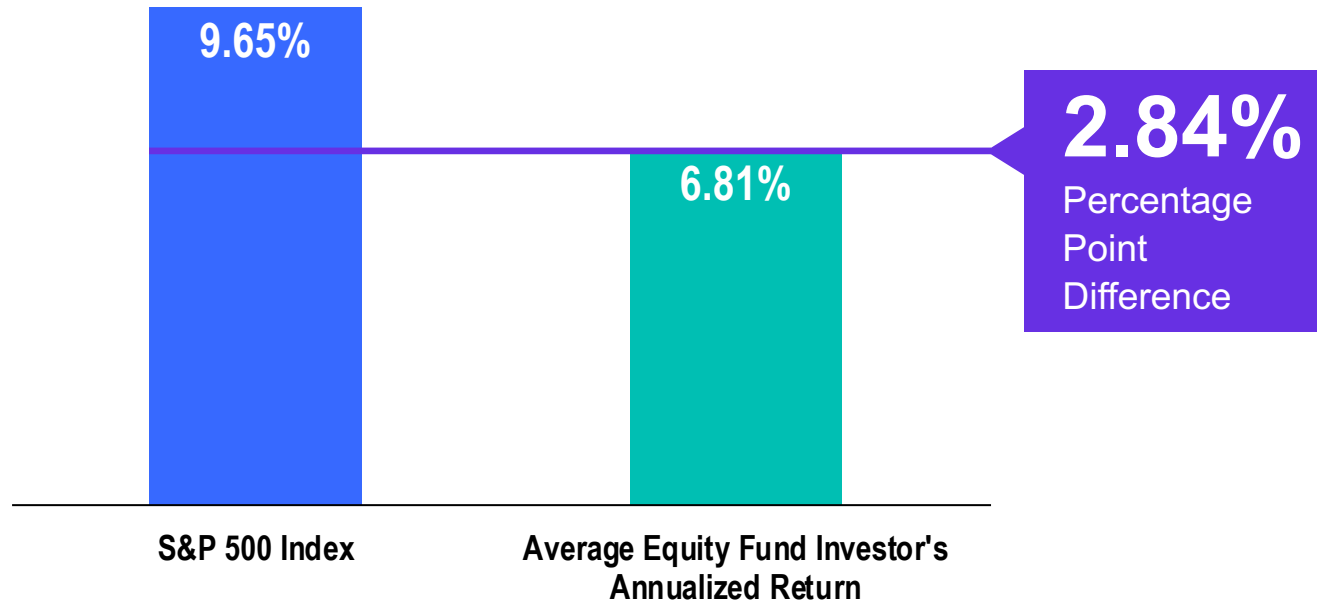
2. Source: 2010 Franklin Templeton Investor Sentiment Survey conducted in partnership with ORC International of at least 1,000 US adult respondents.

Investor returns lower than market returns

Availability bias

Average annual total returns

30-year period ended December 31, 2022



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Sources: S&P 500 Index: Morningstar; Average Equity Investor's Annualized Return: "Quantitative Analysis of Investor Behavior, 2023," DALBAR, Inc. Indexes are unmanaged and one cannot invest directly in an index. Index returns do not reflect any fees, expenses or sales charges.

Herding

We follow the crowd because we fear making mistakes or missing opportunities.



It's hard to go against the crowd



Used with permission from Candid Camera.

Bubbles throughout history

Herding



-82%

Tulipmania

1636–1637



-48%

Roaring 20's

1929



-78%

Dot-Com

2000–2002



-35%

Real Estate

2006–2012

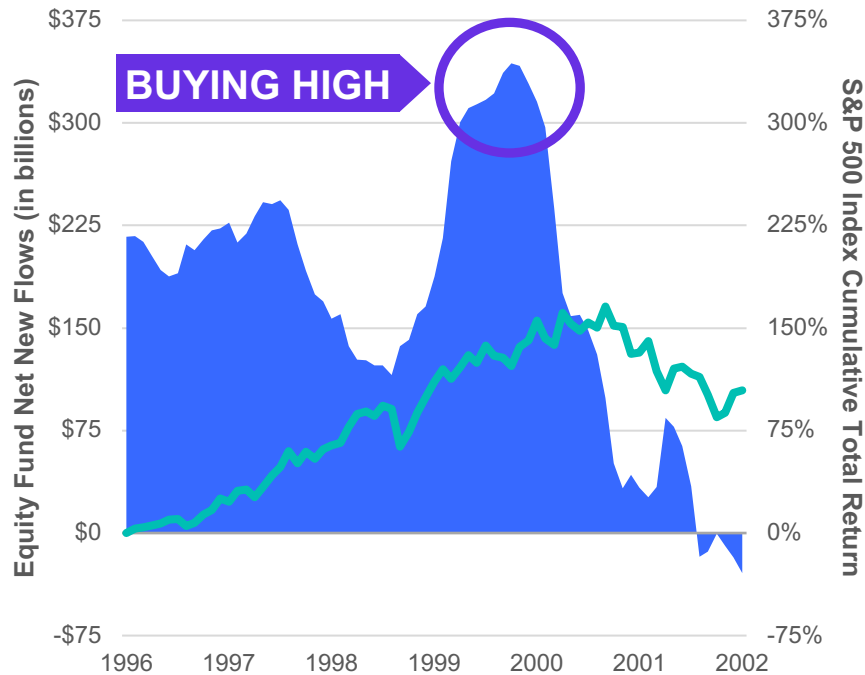
Sources: Tulipmania Dec. 1634 - May 1637: Thompson, Earl A. "The tulipmania: Fact or Artifact?" Public Choice, 2007; Roaring '20s Dec. 1924 - Nov. 1929: Dow Jones Industrial Average; Dot-Com Jan. 1997 - Oct. 2002: NASDAQ Index; Real Estate Jan. 2002 - Mar. 2012: Case-Shiller Housing Index.

The problem of going with the flow

Herding

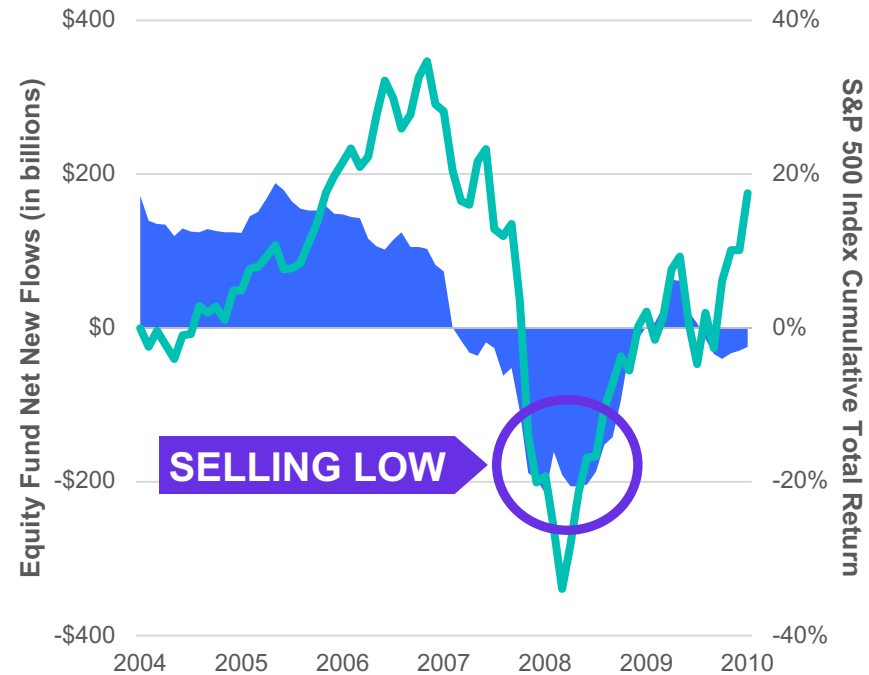
S&P 500 Index performance vs. equity fund net new flows

1996-2002



Equity Fund Flows

2004-2010



S&P 500 Index

This chart is for illustrative purposes only and does not reflect the performance of any Franklin Templeton fund.

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Sources: S&P 500 Index: Morningstar; Equity Fund Flows: ICI. Flows are represented by monthly rolling 12-month net new cash flows. Indexes are unmanaged and one cannot invest directly in an index. Index returns do not reflect any fees, expenses or sales charges.

Loss aversion

The pain we associate with a loss is much more intense than the reward felt from a gain.



We learn the pain of loss early



Fear drives investors into cash

Loss aversion



Dot-Com Bust

March 2000 – October 2002

\$491B



\$943B



Global Financial Crisis

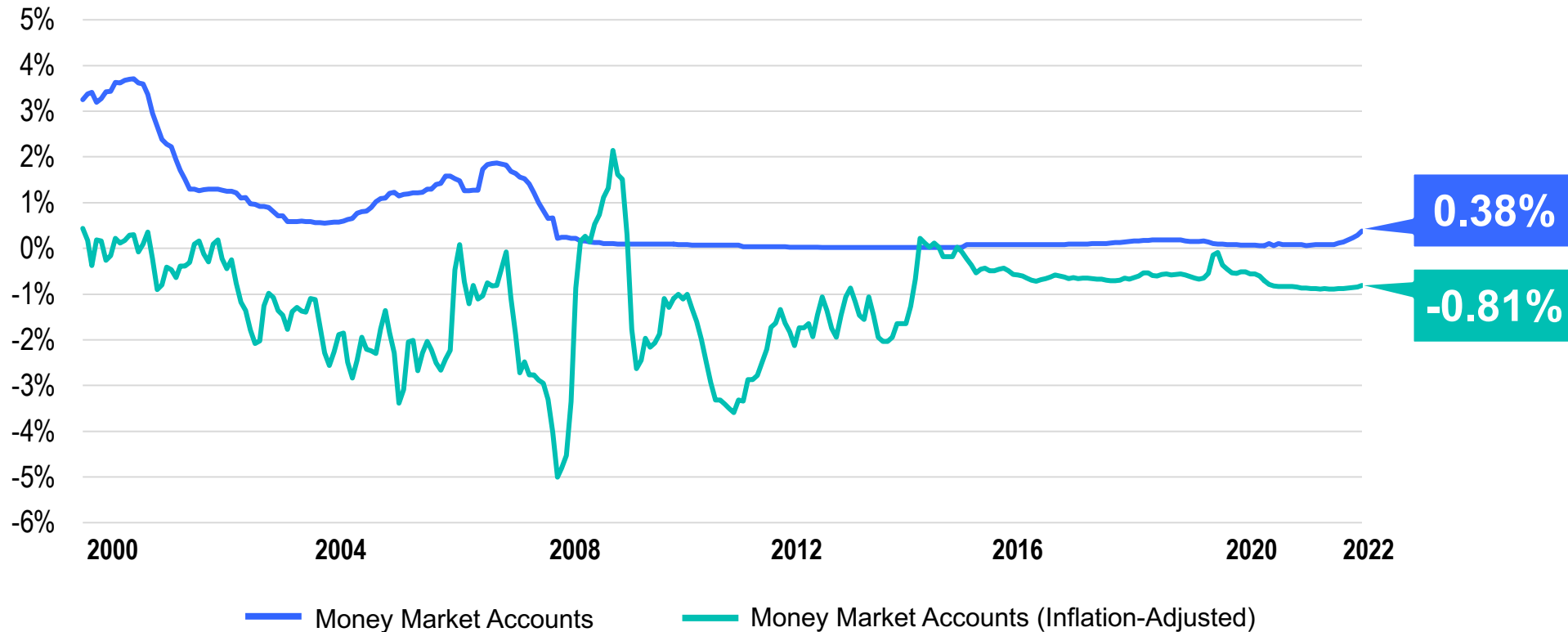
October 2007 – March 2009

Perceived safety may come at a cost

Loss aversion

Money market accounts' average yield before and after inflation

January 1, 2000–December 31, 2022



This chart is for illustrative purposes only and does not reflect the performance of any Franklin Templeton fund. It's important to note that money market accounts are insured by the Federal Deposit Insurance Corporation (FDIC) for up to \$250,000.

Sources: Money Market Accounts' Average Yield: BanxQuote® and Federal Reserve Bank of St. Louis; Inflation: Bureau of Labor Statistics. Inflation is represented by year-over-year changes of the Consumer Price Index (CPI) plotted on a monthly basis.

Present bias

We overvalue immediate rewards at the expense of long-term goals.



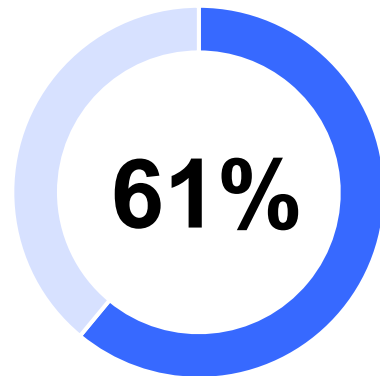
Decisions can be challenging



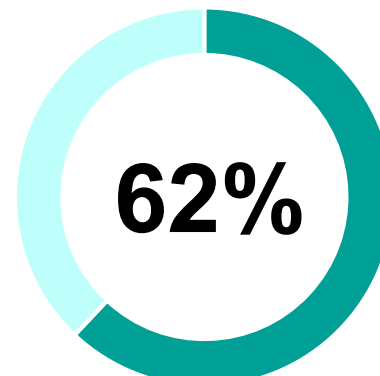
Planning for financial goals takes a backseat

Present bias

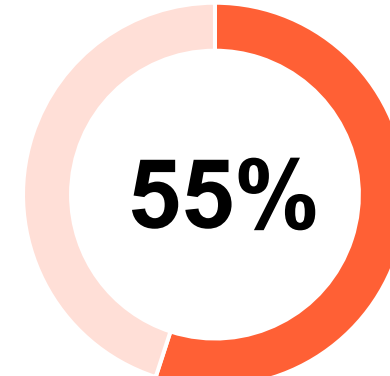
Percentage of respondents who prioritized daily expenses, paying down current debts or saving for other goals instead of saving for retirement



Age 40-49



Age 50-59



Age 60-69

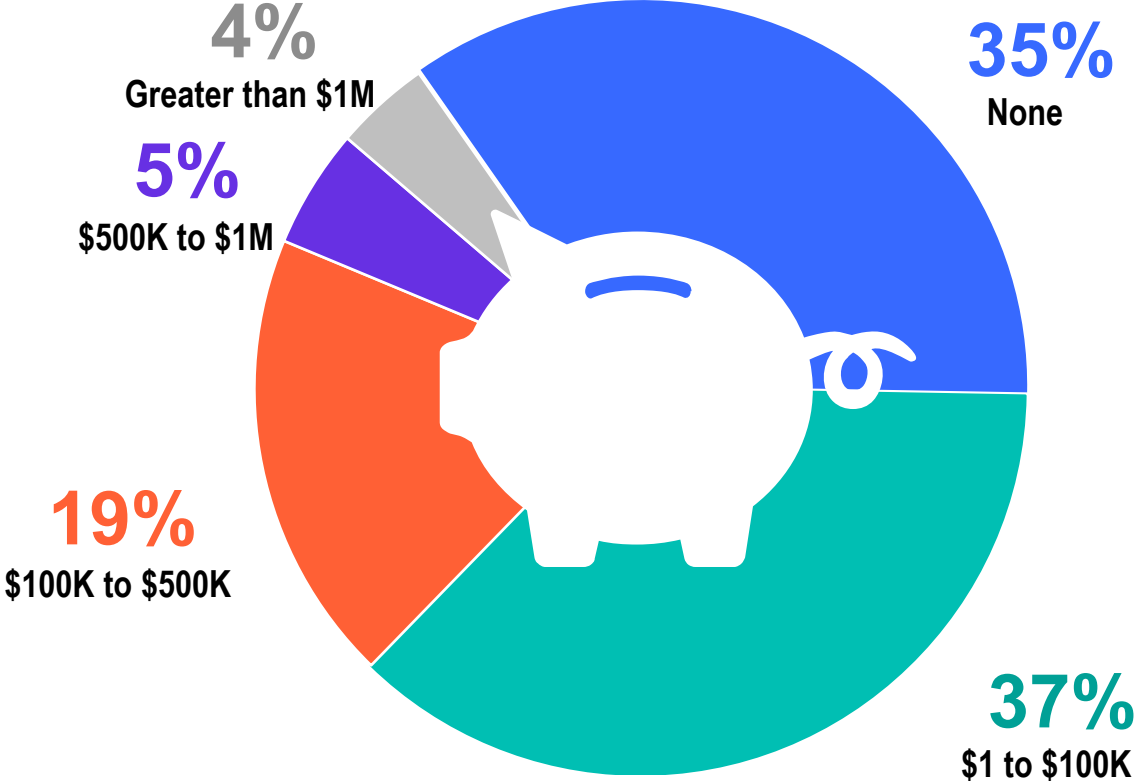
Source: The Franklin Templeton Retirement Strategies and Expectations (RISE) Survey. The RISE survey was conducted among a sample of 2,029 adults 40 years of age and older and weighted by age, gender, geographic region, race, and education. The custom-designed program assigns a weighted factor to the data based on current population statistics from the US Census Bureau and was administered February 17-28, 2022 by ENGINE INSIGHT'S Online CARAVAN®, which is not affiliated with Franklin Templeton.

Retirement savings are meager

Present bias

Retirement assets

US investors age 60-69



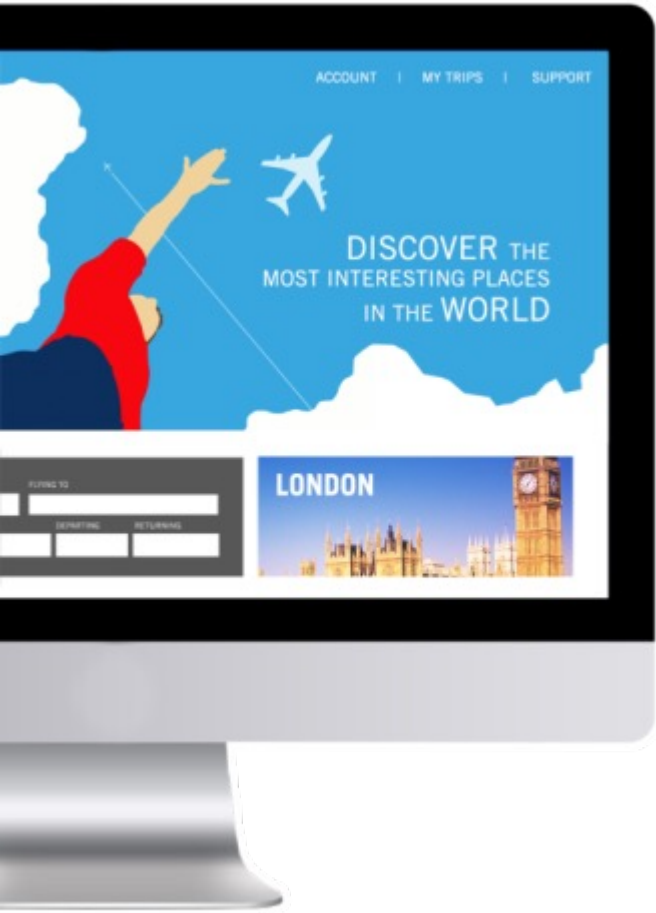
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Anchoring


We often focus too heavily on one piece of information when making decisions.



Expectations frame our feelings about decisions



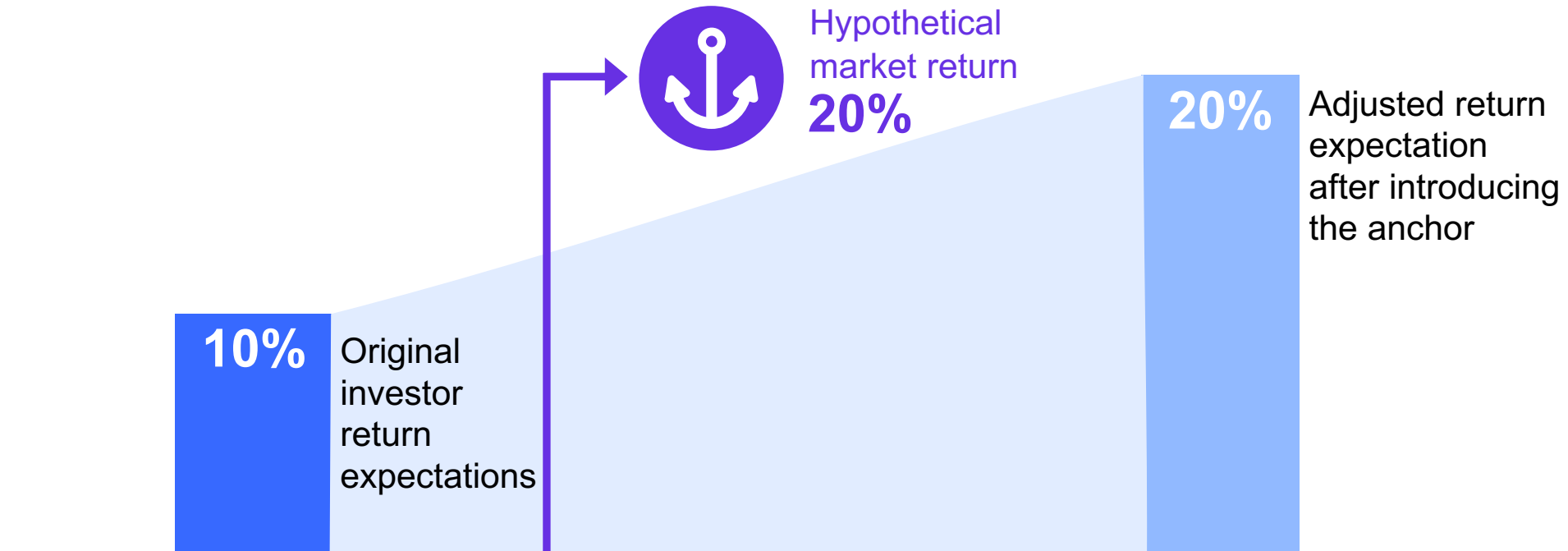
 Non-stop
 Purchase today
~~\$600~~
Select

 Non-stop
Purchase later
in the week
\$500
Select

Anchors influence performance expectations

Anchoring

Franklin Templeton Investor Sentiment Survey results



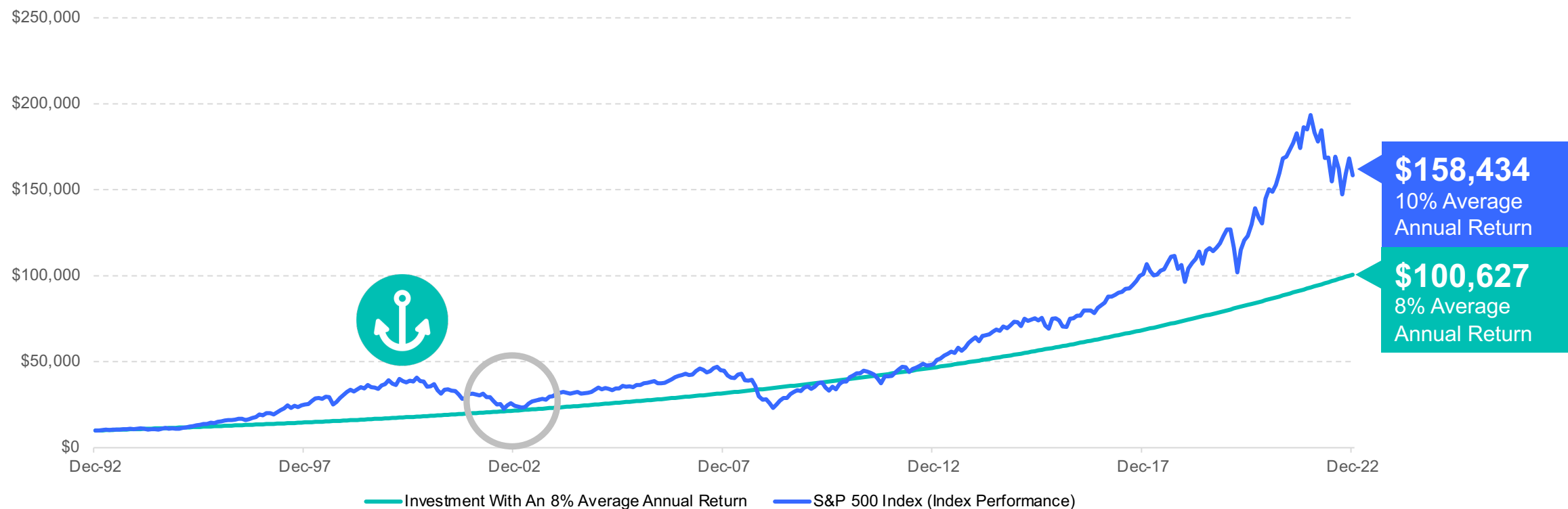
Source: 2020 Franklin Templeton Investor Sentiment Survey conducted in partnership with Qualtrics of at least 500 US adult investors. Most recent data available.

The full picture tells a different story

Anchoring

S&P 500 Index vs. 8% Average Annual Return

Growth of a \$10,000 Investment for the 30-Year Period Ended December 31, 2022



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Source: Morningstar. Indexes are unmanaged and one cannot invest directly in an index.

Home country bias

We tend to favor companies and products from our home country or region.



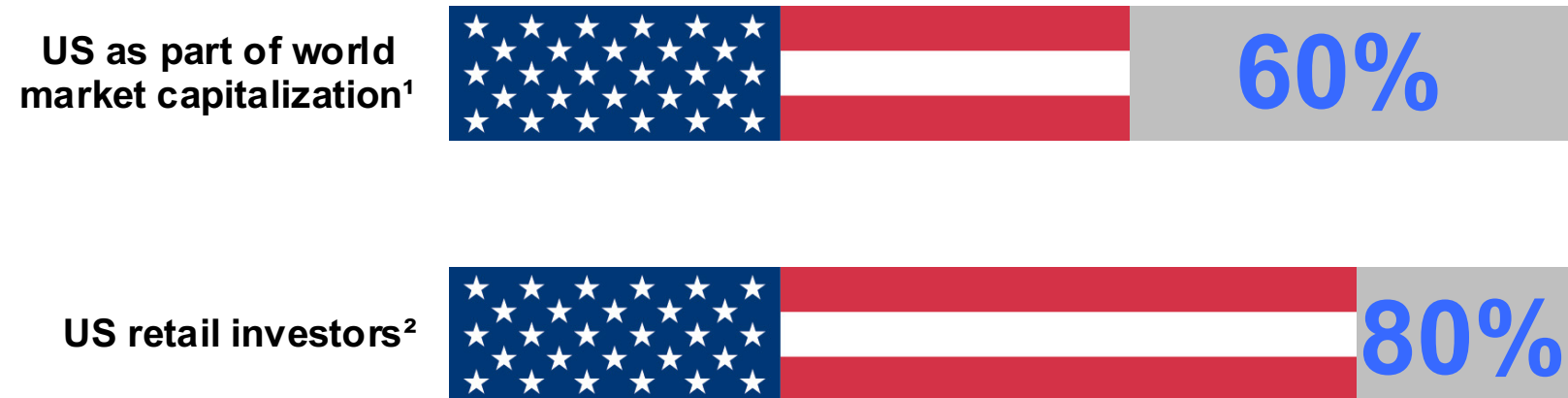
Home sweet home



Investors may be out of step

Home country bias

Potential for greater allocation to foreign investments by US investors
as of December 31, 2022



1. Source: MSCI Perspectives.

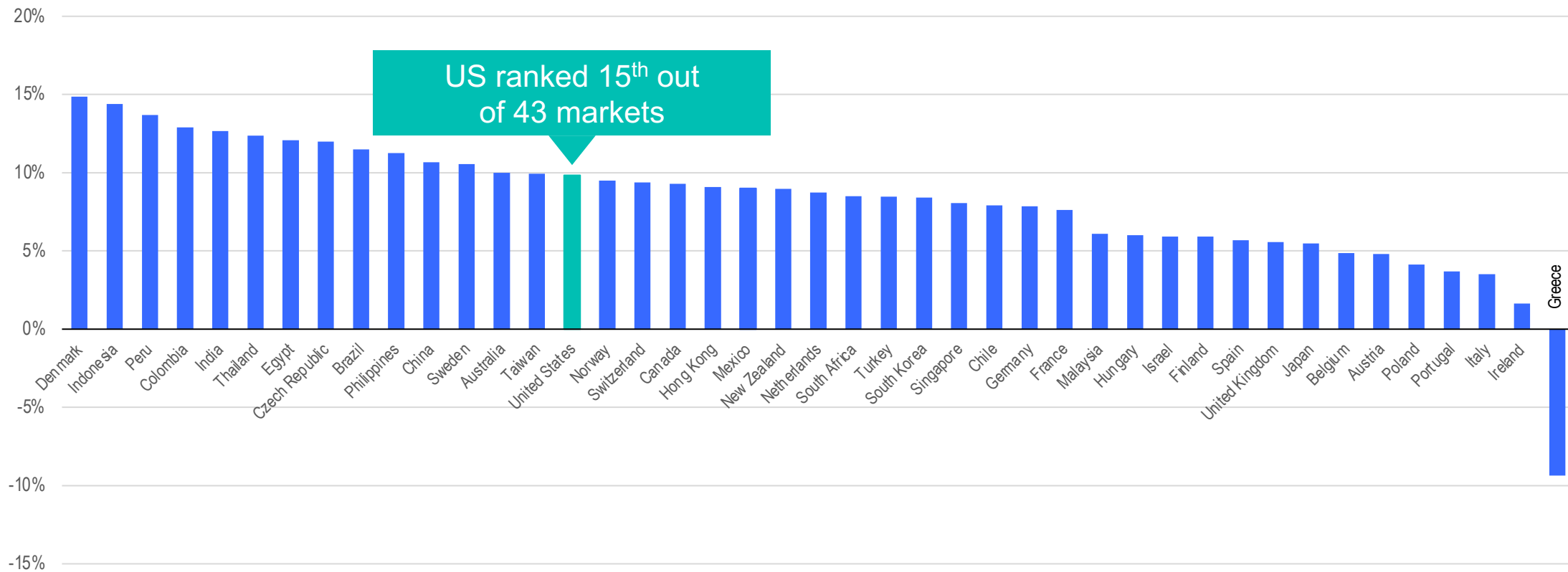
2. Source: ICI. Based on total net assets of Equity mutual funds invested in World Equity funds.

A global viewpoint tells a different story

Home country bias

Stock market performance by country

Total return for the 20-year period ended December 31, 2022



Source: Morningstar, MSCI. Based on the MSCI All Country World Index. The performance of countries and unmanaged indexes does not reflect expenses and may not correspond to the performance of a mutual fund, which may be actively managed and incur expenses. The All Country MSCI World Index is a free float-adjusted, market capitalization-weighted index that is designed to measure the equity market performance of global developed and emerging markets. MSCI makes no warranties and shall have no liability with respect to any MSCI data reproduced herein. Indexes are unmanaged and one cannot invest directly in an index.

In summary

- Availability Bias
- Herding
- Loss Aversion
- Present Bias
- Anchoring
- Home Country Bias

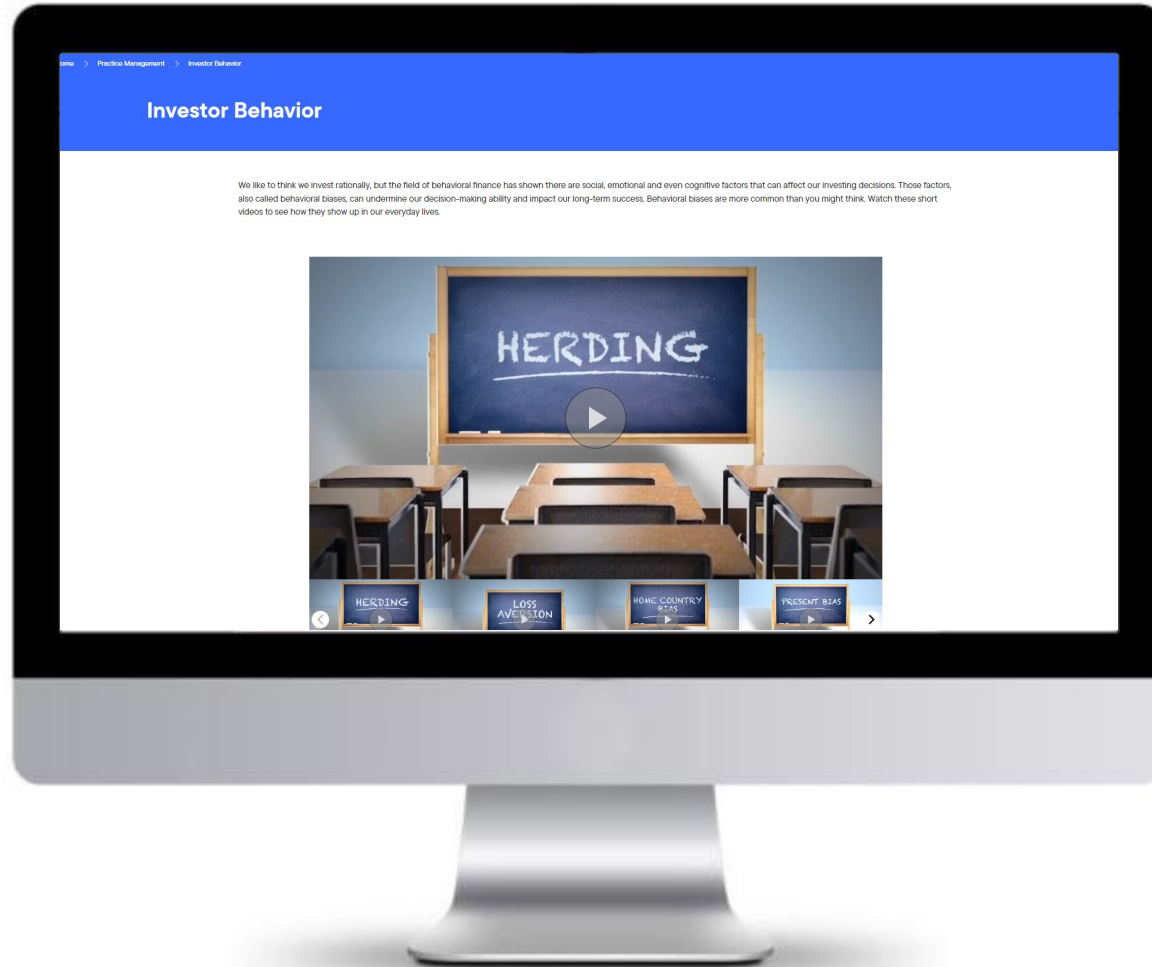
Expert coaching makes a difference



Your financial professional will help you:

- Build a long-term strategy
- Keep emotions in check
- Stay on track

Learn more about investor behavior



www.franklintempleton.com/investorbehavior



Providing you with a clear view of your financial future.

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