Managing Investor Behavior

Across the Investor Lifecycle

Presented by:

Andrea Loin

Associate Director, Marketing

Symmetry Partners

Your Comprehensive Business Partner

SYMMETRY

Partnering with Independent Advisors since **1994**

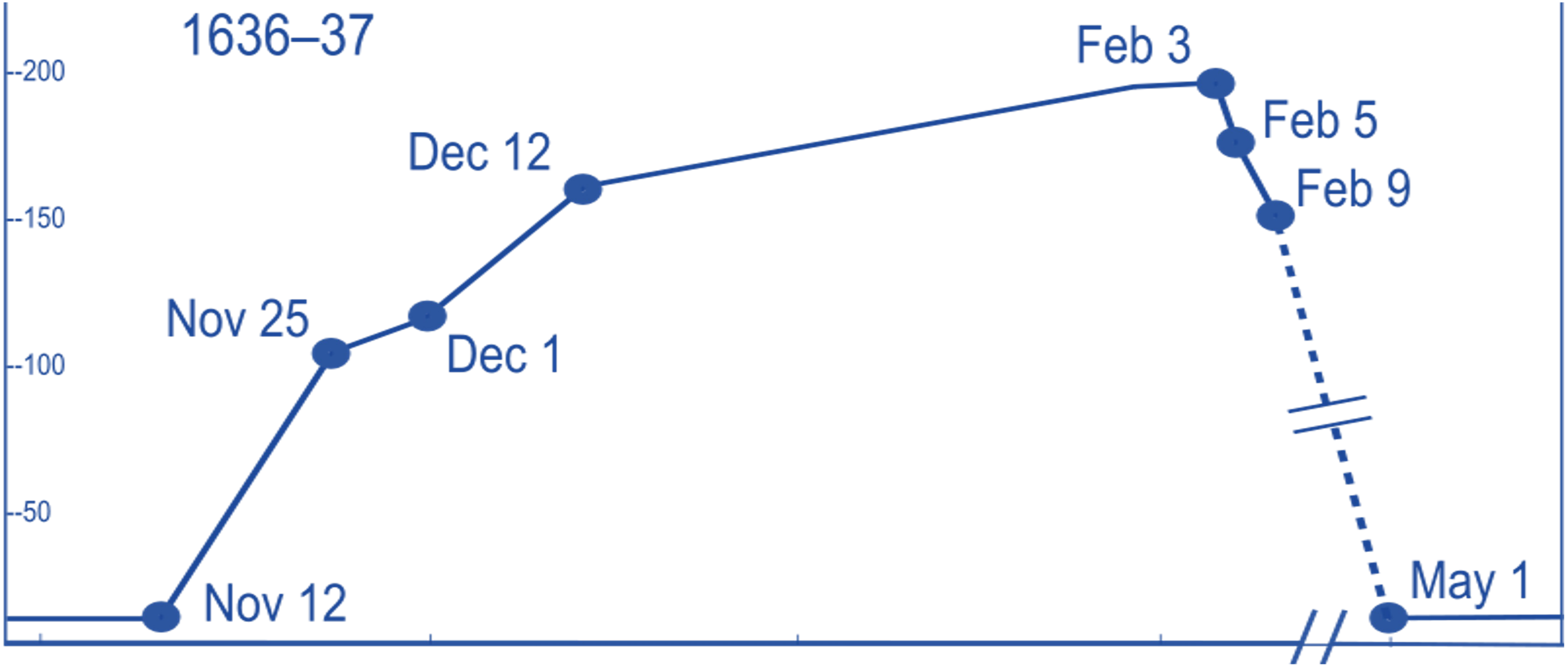
Headquartered in **Glastonbury, CT**

75 Full-time Employees

$10.1 Billion in AUM and Advisement*

1 Evidence-Based Investment Philosophy

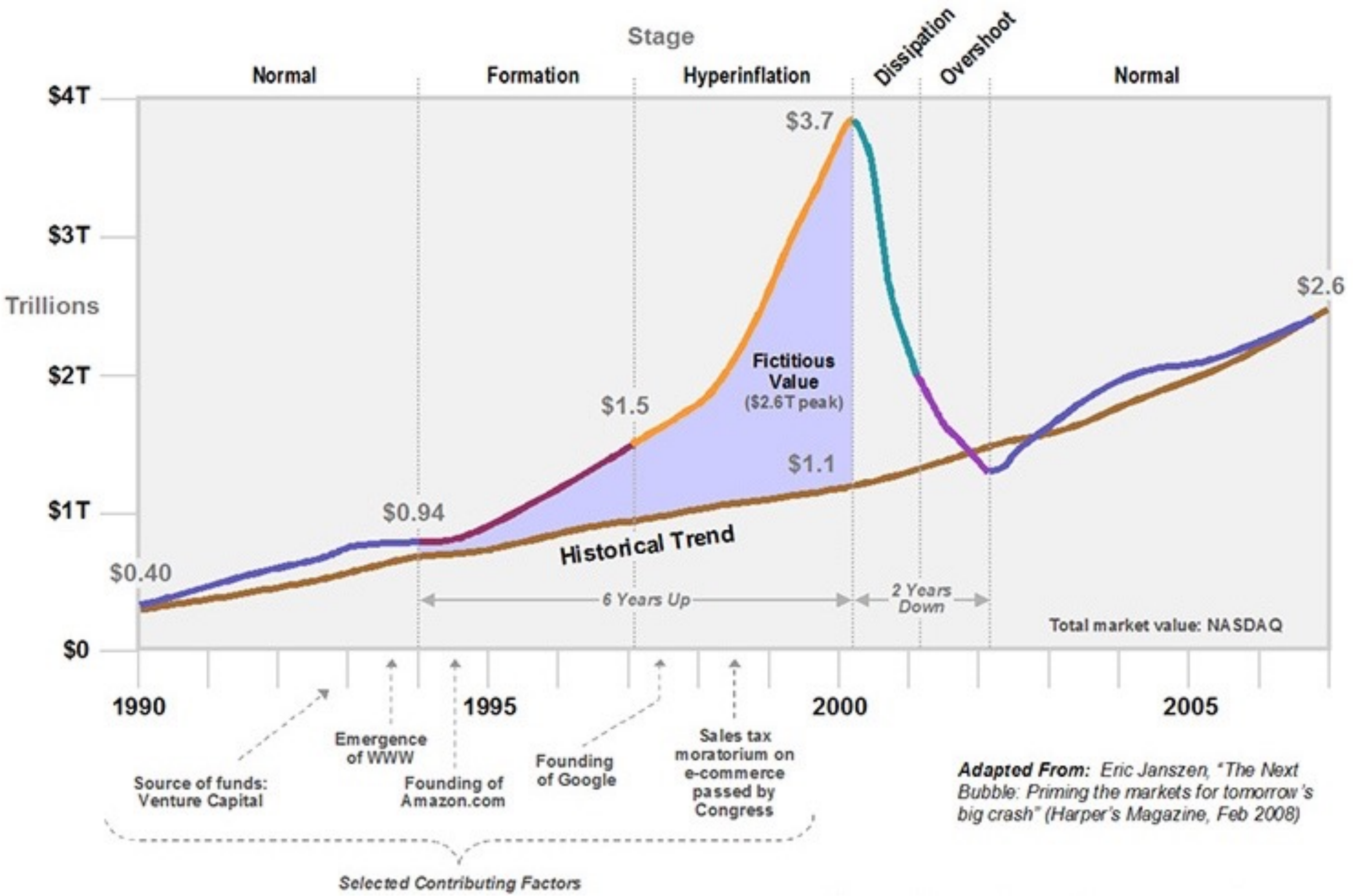
*As of 12/31/21. Assets under advisement is where Symmetry acts as a sub-advisor.



Source: “Memoirs of Extraordinary Popular Delusions and the Madness of Crowds,” by Charles Mackay, 1852. Past performance does not guarantee future results. All data is from sources believed to be reliable but cannot be guaranteed or warranted.

Dotcom Bubble

1994 – 2002



Adapted from Kampas Research: www.kampasresearch.com.
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SAVOR THE WORLD

kozmo.com

boo.com
COLLECTIVE WISDOM

eToys.com

GO
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govWorks.com

SPACE.COM

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PSEUDO

Daily $ Value of 1 Bitcoin

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11/2014 – 8/1/2022

Past performance does not guarantee future results.
Source: www.coindesk.com

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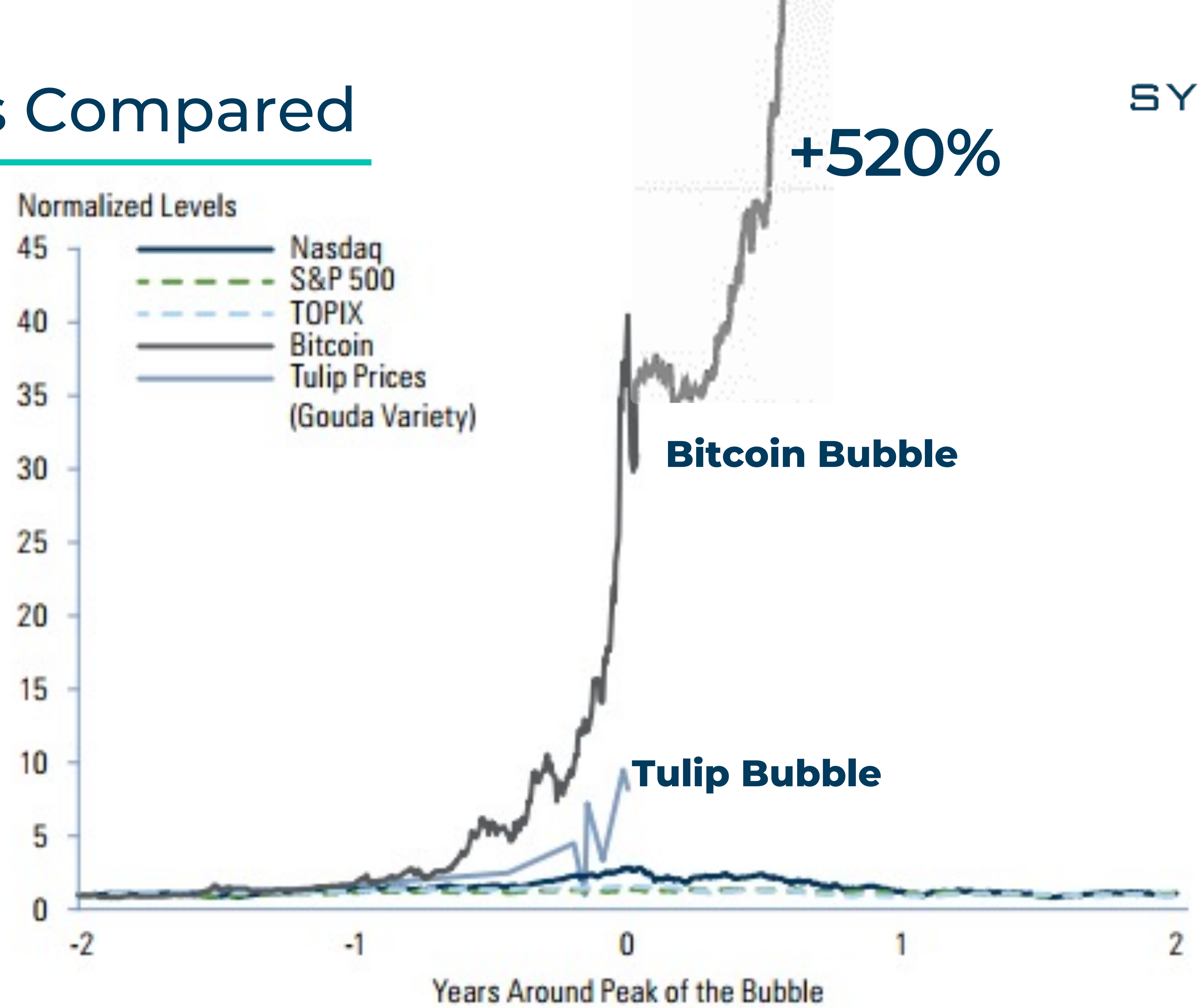
Bubbles Compared



Source: Goldman Sachs 2018 Outlook: (Un)Steady as She Goes. Past performance does not guarantee future results. All data is from sources believed to be reliable but cannot be guaranteed or warranted. And www.coindesk.com 12/31/2021

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"I got out of tulips after the market collapsed, but I'm slowly getting back in. Especially pink ones."

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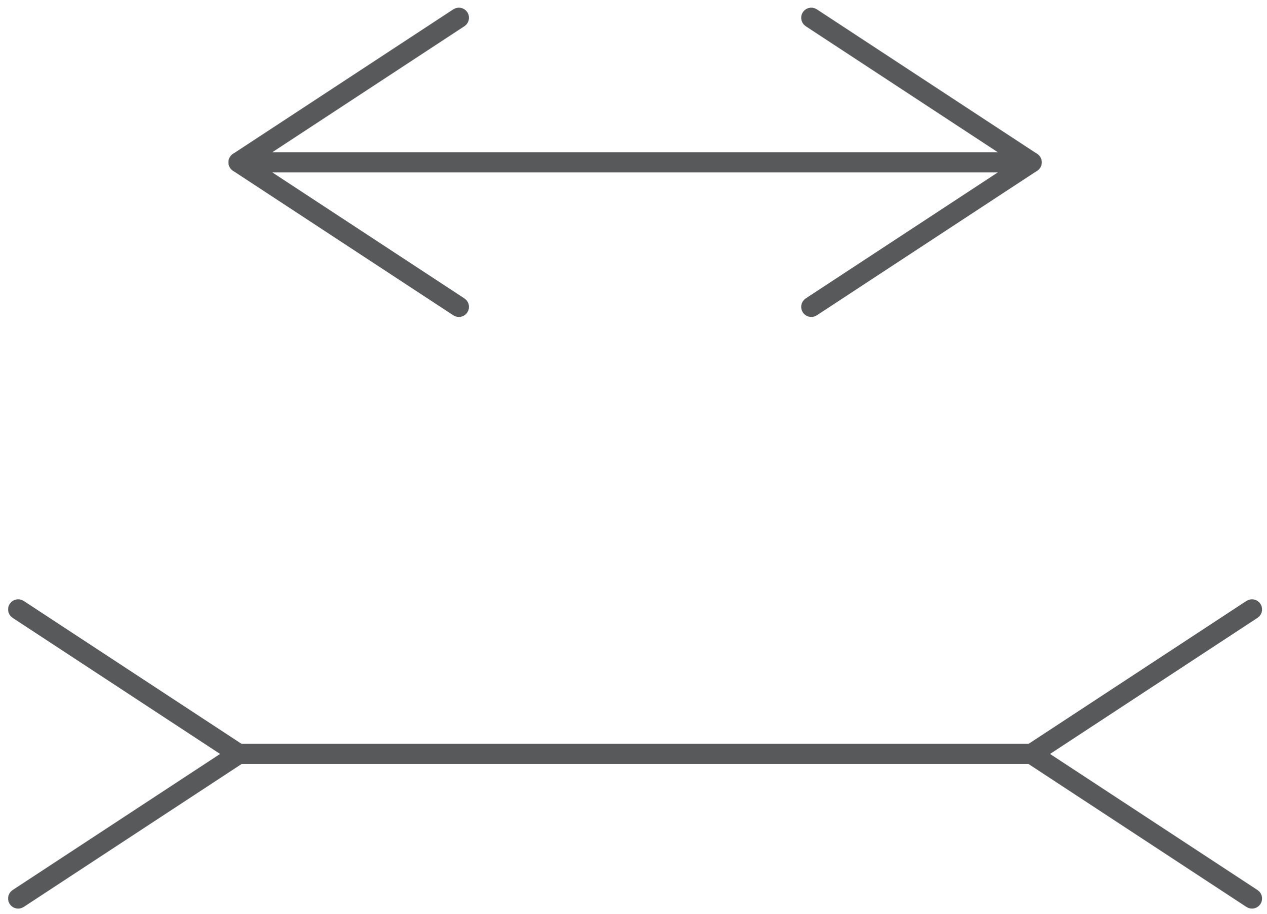
Nick Murray

The dominant **determinant** of real-life, long-term investment outcomes is not investment performance, it's **investor behavior**.

The Brain's 2 Systems

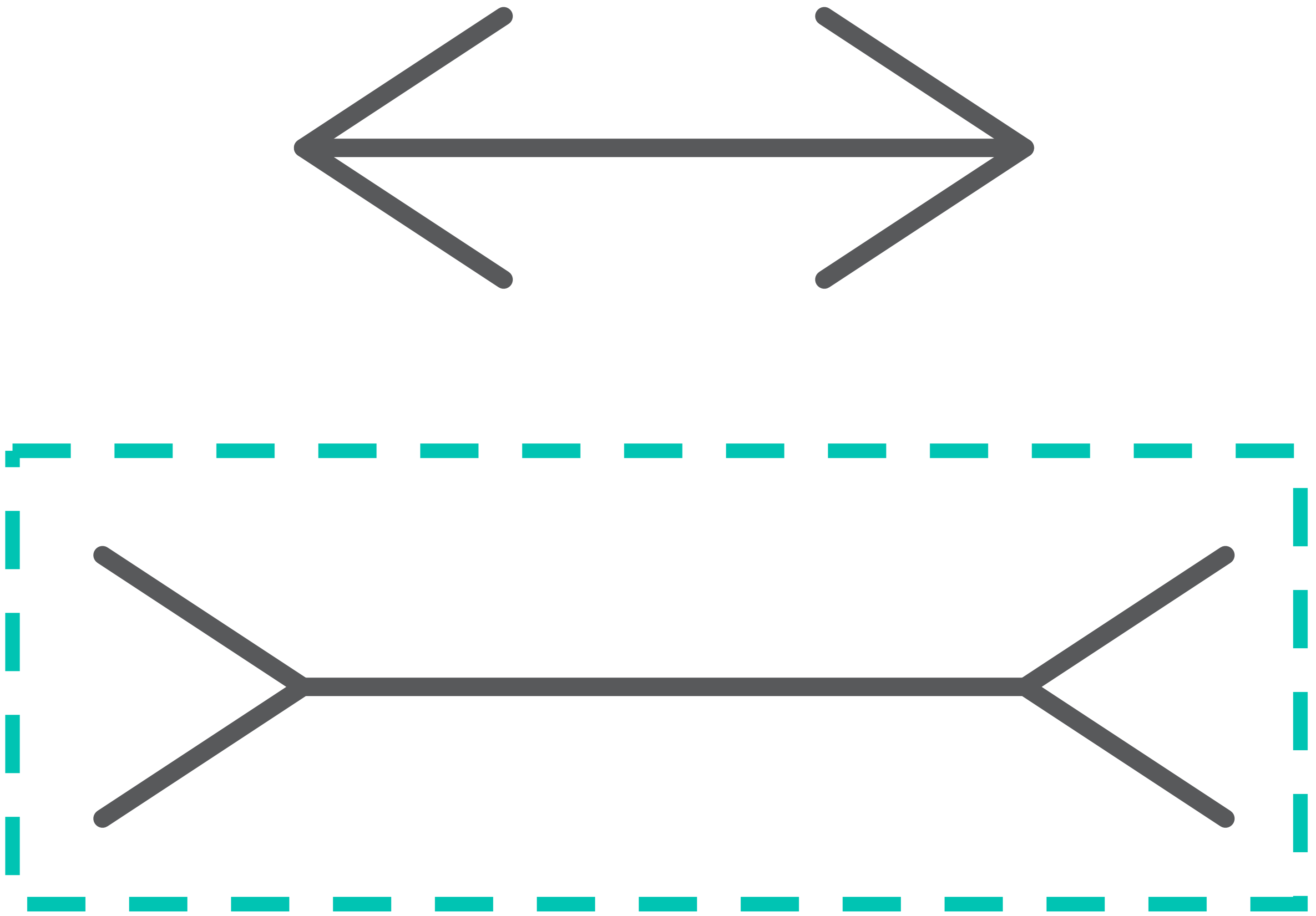
Which Line is Longer?

The Müller-Lyer Illusion



Which Line is Longer?

The Müller-Lyer Illusion



System 1

Fast and Intuitive

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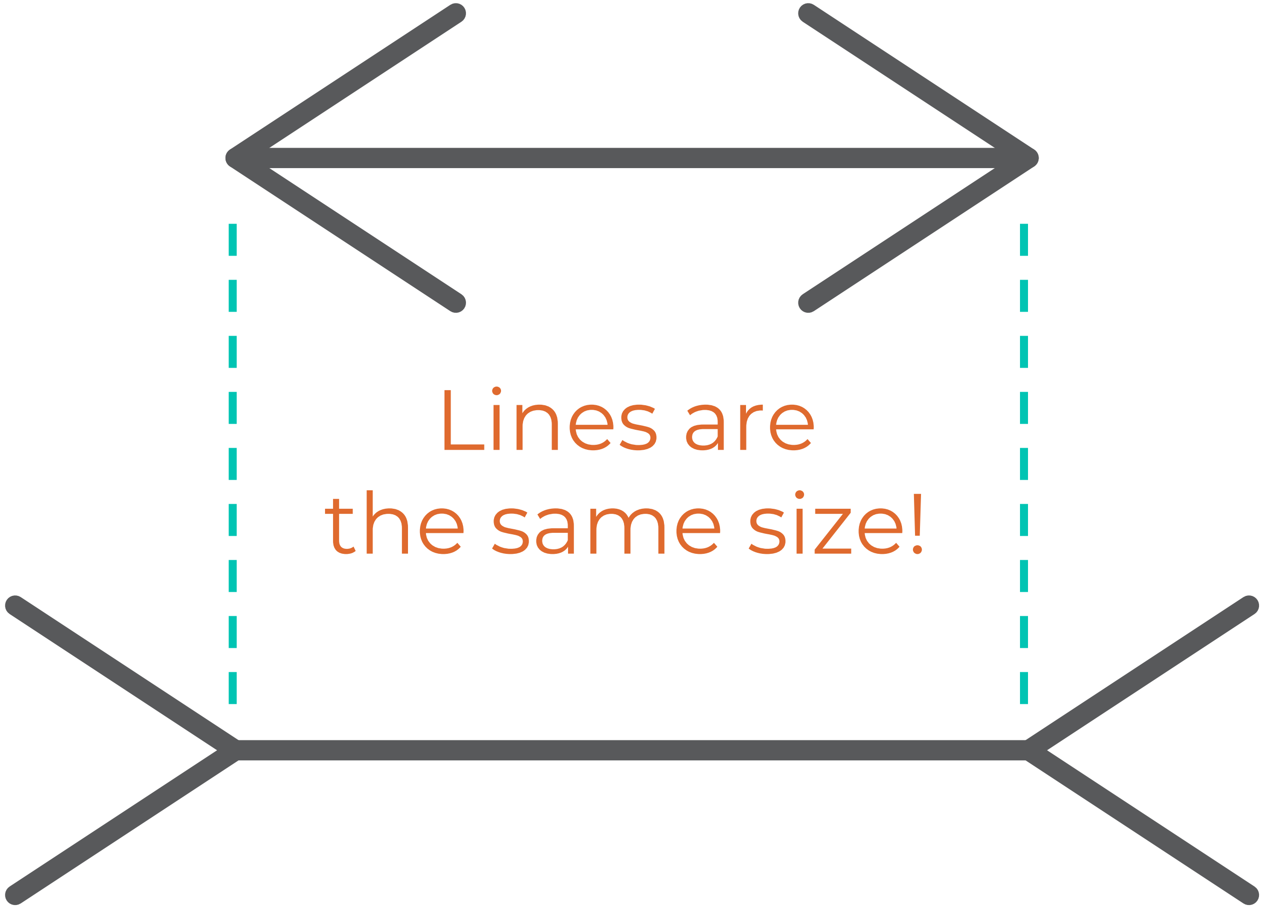
Which Line is Longer?

The Müller-Lyer Illusion

System 2
Slow & Analytical



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+

= “Predictably Irrational” Biases

What is Behavioral Finance?

Traditional Finance…

- Both markets & investors are rational
- Investors have perfect self-control
- Investors are not confused by cognitive errors or information processing errors

Behavioral Finance….

- Investors are treated as “normal” not “rational”
- Investors have imperfect self-control
- Investors are influenced by their own biases & make wrong decisions

Biases are Emotional & Cognitive

Restraint Bias

Loss Aversion

Bandwagon Effect

Primacy Effect

Overconfidence

Dunning-Kruger Effect

Action Bias

Projection Bias

Optimism Bias

Bias Blind Spot

Hindsight Bias

Semmelweis Reflex

Confirmation Bias

Herding

Anchoring Bias

Focusing Bias

Authority Bias

Availability Cascade

Choice Supportive Bias

Pareidolia

Behavioral Confirmation Effect

Hyperbolic Discounting

Impact Bias

Status Quo Bias

Von Restorff Effect

Some Biases More Common than Others

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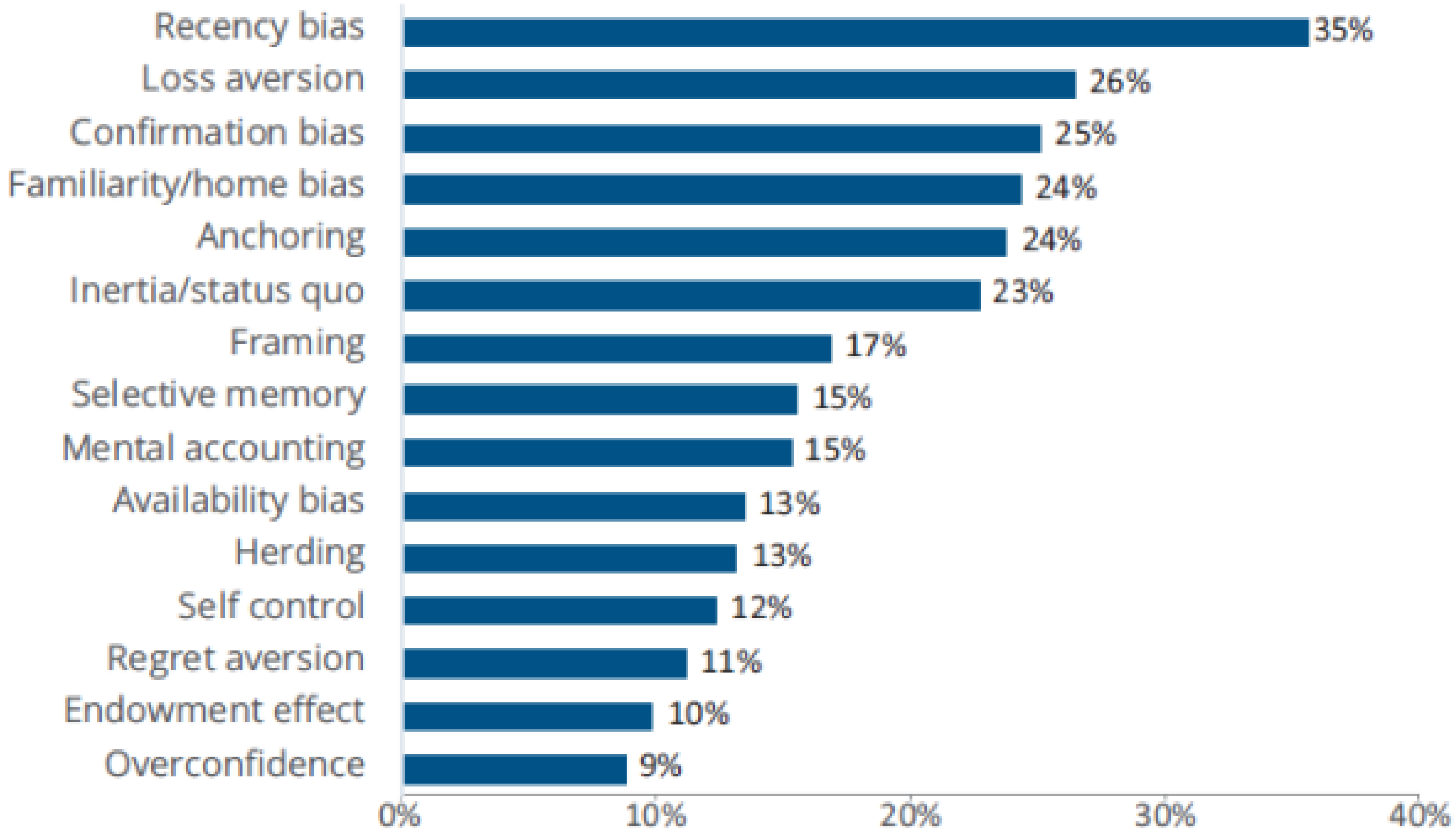
Most Significant Behavioral Biases Affecting Client Investment Decisions



Source: Cerulli Associates, in partnership with the Investments & Wealth Institute (formerly IMCA). 2019

Recency Bias

Tendency to be easily influenced by recent news, events, or experiences

Loss Aversion

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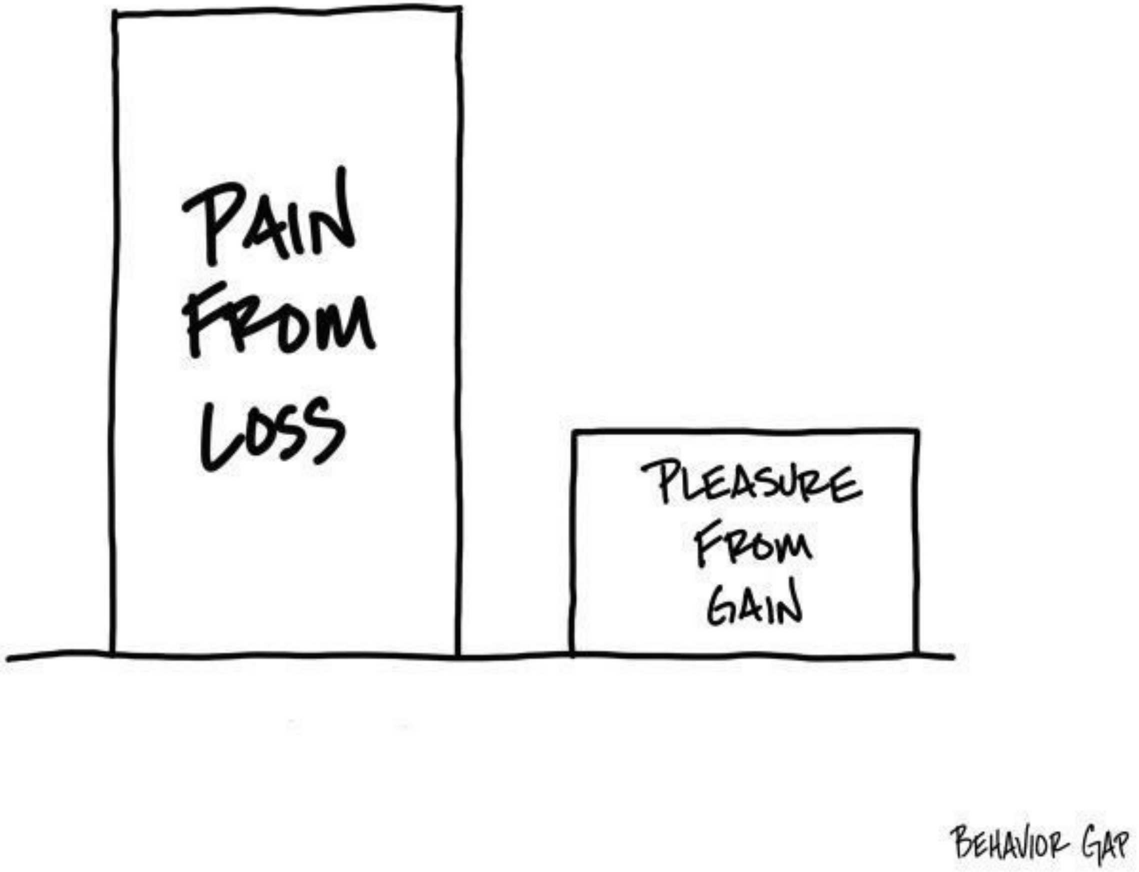
Tendency to prefer avoiding losses vs. achieving gains. Often causes clients to accept less(or more) risk than they can tolerate



Confirmation Bias

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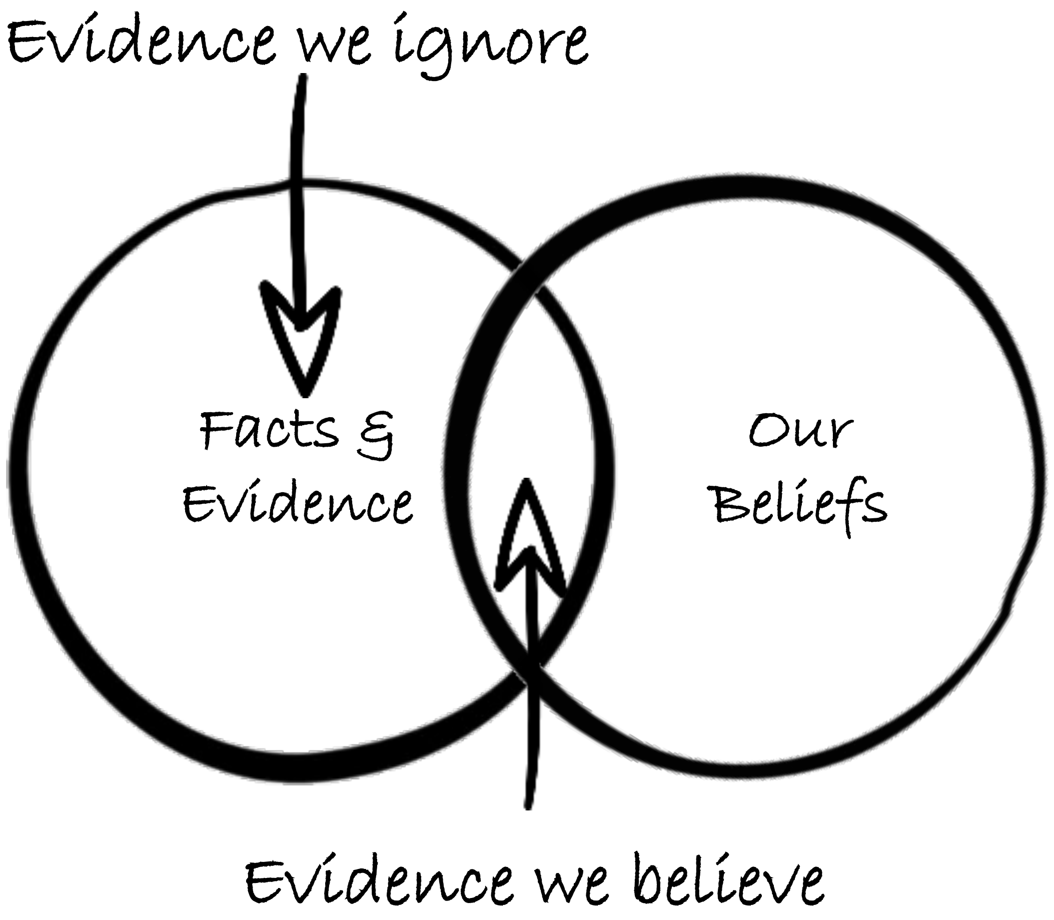
Tendency to seek information that reinforces pre-existing beliefs, while ignoring contradictory information

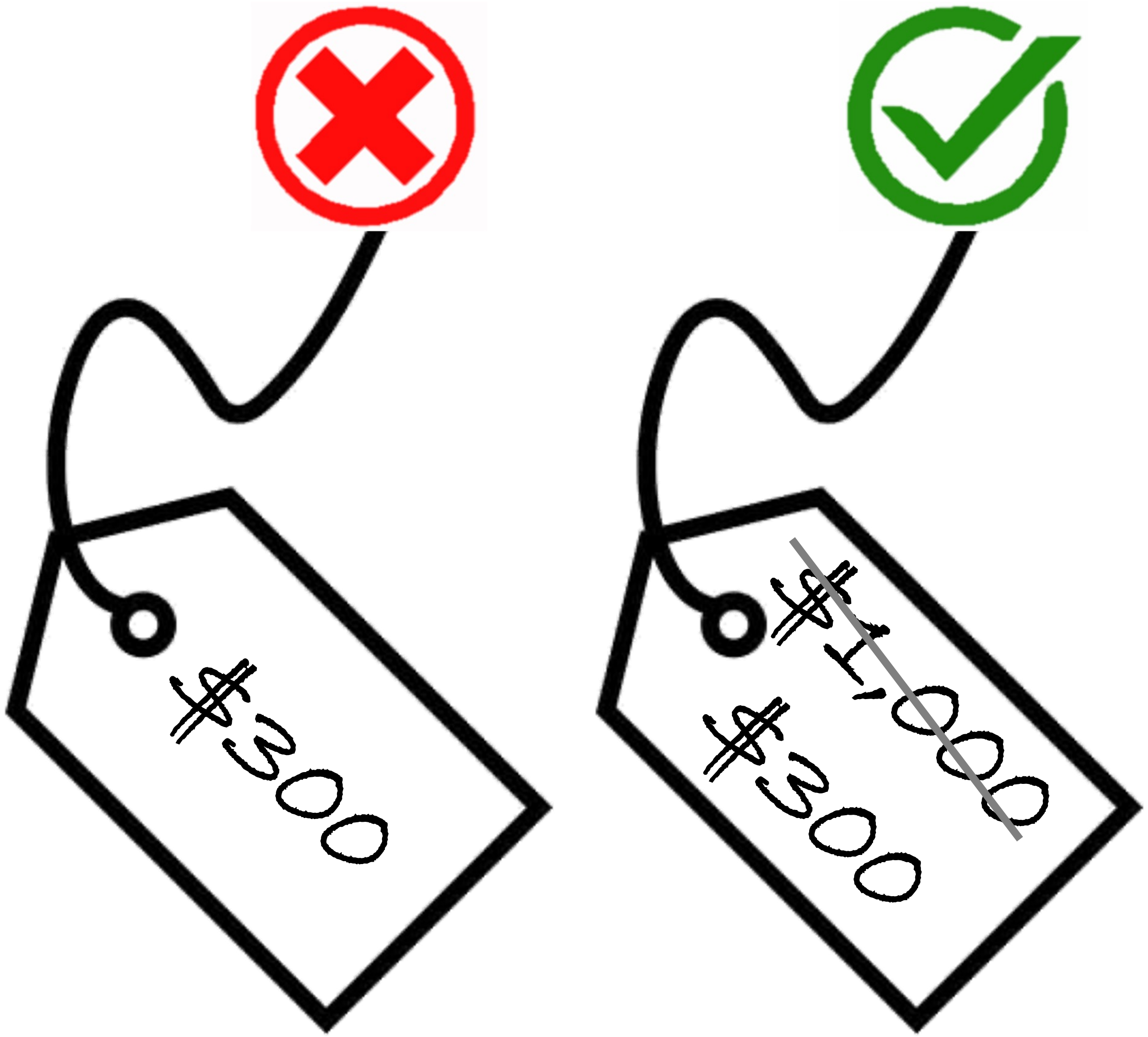


Familiarity/Home Bias

Tendency to make decisions based on our own or familiar experiences

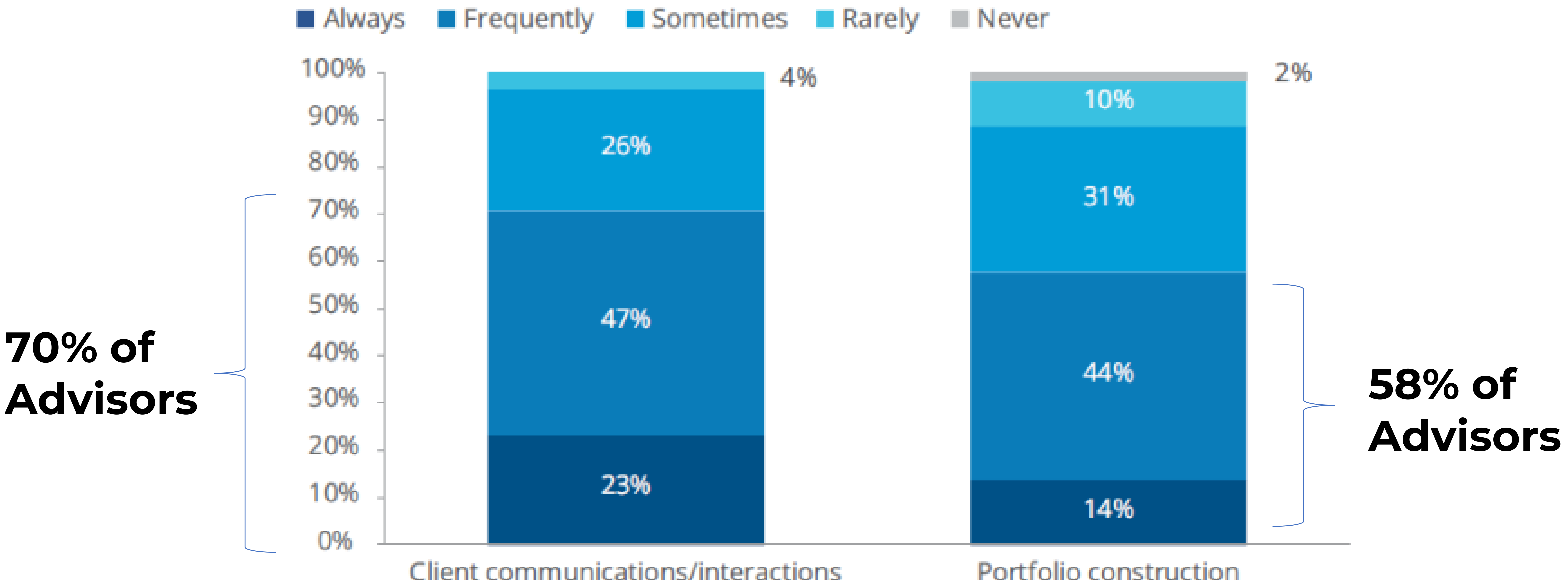
Anchoring Bias

Tendency to focus on specific reference point when making investment decisions



Behavioral Advice Implementation

Many Advisors are Using Behavioral Approaches



Sources: Cerulli Associates, in partnership with the Investments & Wealth Institute (formerly IMCA) | Analyst Note: Respondents were asked how often they incorporate behavioral finance into their advisory practice with respect to client communications and portfolio construction. 2019

Investments vs. Investor Outcomes

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January 1, 2000 – December 31, 2009

S&P 500 Annualized Return:	-1%
CGM Focus Fund Annualized Return	18%

Fortune Magazine, June 9, 2008

Source: "Best Stock Fund of the Decade: CGM Focus," The Wall Street Journal, 12/31/2009,

"Perfect" Portfolio of the Last Decade…

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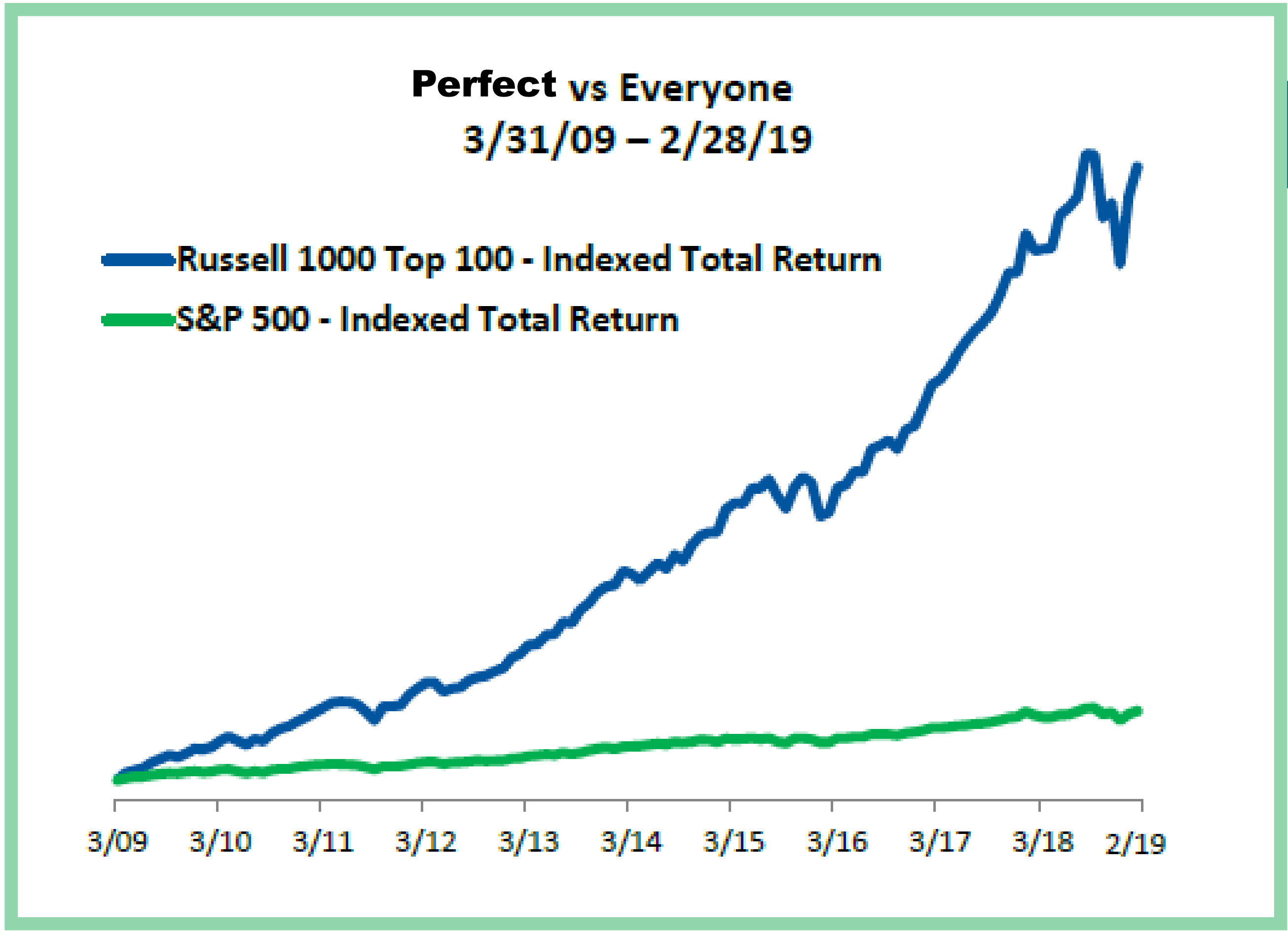
… Suffered Big Declines



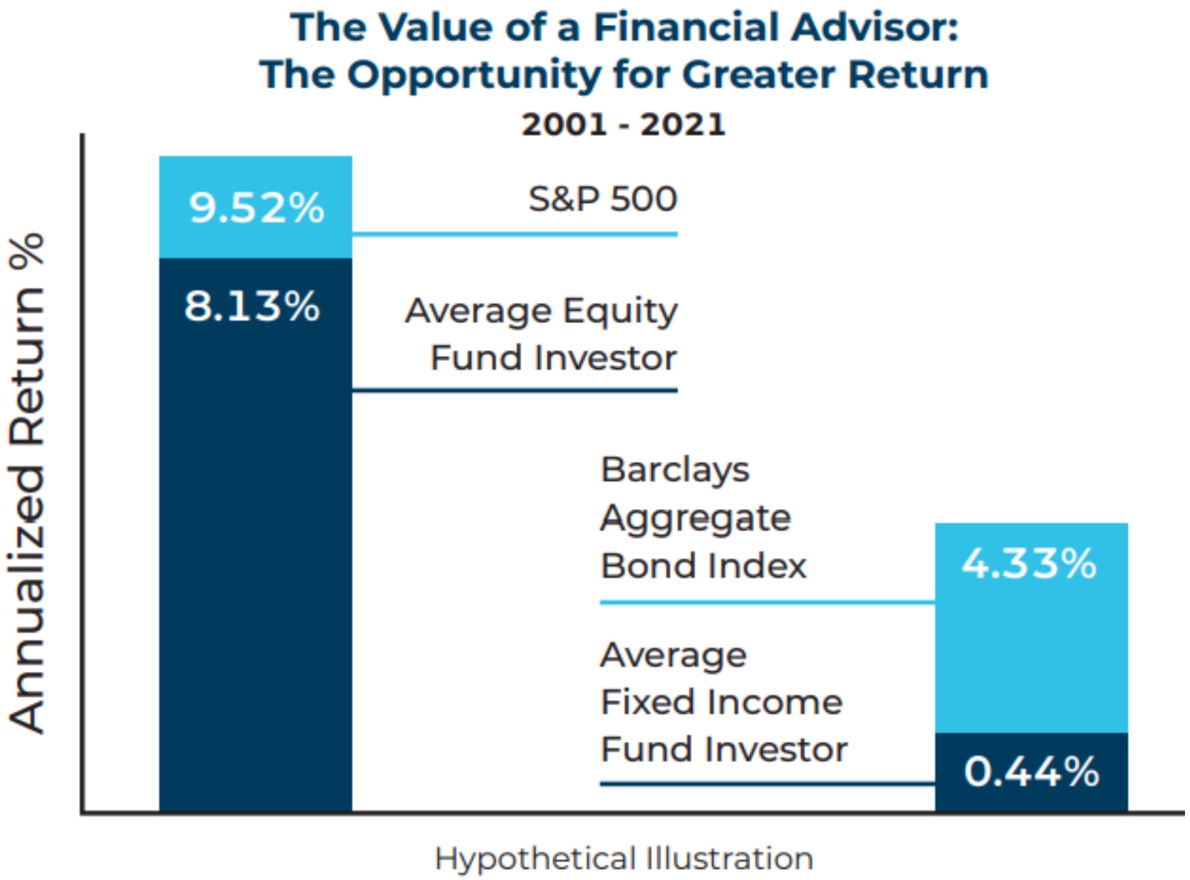
Comparing Stats

Metric	CAGR	Standard Deviation	Sharpe Ratio	Worst Drawdown
Perfect Portfolio	54.23%	25.28%	1.84	-22.14%
Russell 1000	16.83%	13.13%	1.23	-17.07%
S&P 500	16.67%	12.9%	1.24	-16.26%

Source: Alpha Architect and Bloomberg, "The Perfect Bull Market Portfolio Might Have Blown Up Your Firm," 3/8/19

Your Critical Role as Advisor

- Ongoing Education
- Client Meetings
- Portfolio Selection
- Financial Planning



Past performance does not guarantee future results. For additional information regarding Symmetry Partners, the Dalbar study and the S&P 500 index, see the disclosure information at the end of presentation labeled Critical Role of the Advisor Disclosure

Source: "Quantitative Analysis of Investor Behavior, 2022" DALBAR, Inc. www.dalbar.com

Advisor Contact is Low

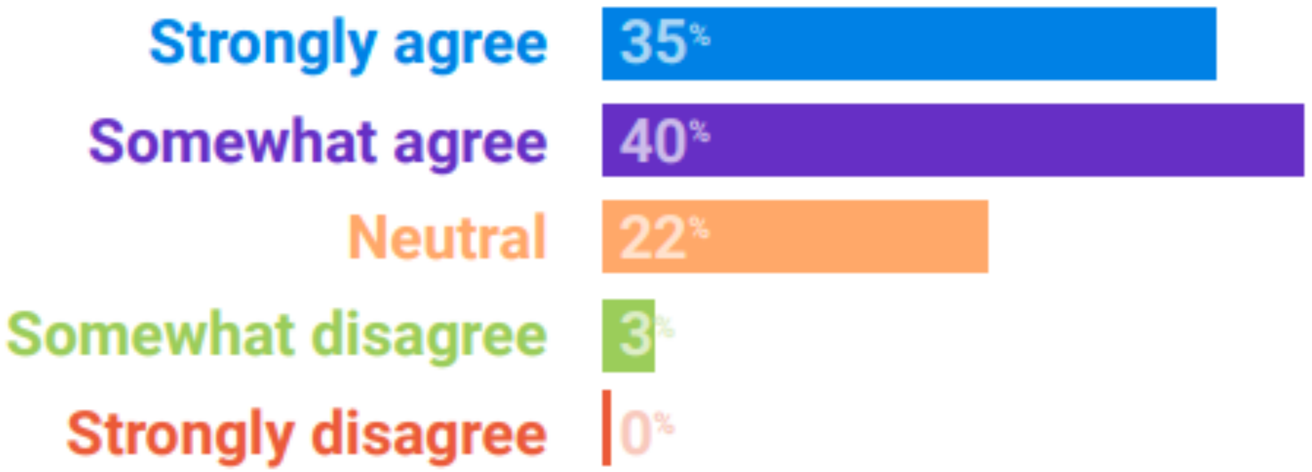
My Advisor contacts me...

28% Very infrequently
36% Infrequently
32% Frequently
4% Very frequently

Source: *How Can Advisors Better Communicate With Clients?*, Y-Charts, 2019

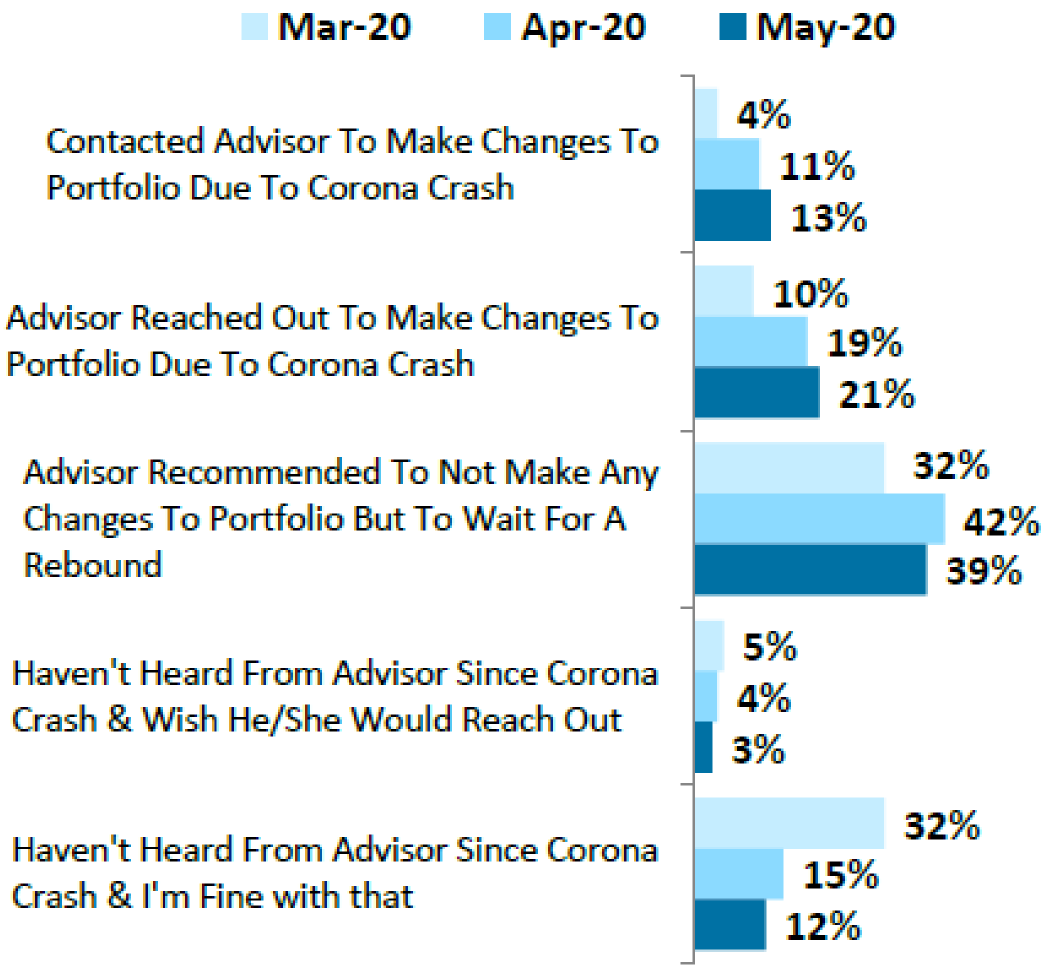
Proactive Contact is Important

It's important for my Financial Advisor anticipate questions I might have & reach out proactively...



Source: *How Can Advisors Better Communicate With Clients?*, Y-Charts, 2019

Advisor Contact During Corona Crash



Each month @
40% of Advisors
did <u>not</u> proactively contact clients

Source: Spectrem Group, "Corona Crash: What Advisors Should Be Saying To Investors Now," March -May 2020.

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Recent Downturns

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Are you saying something like this?

Wealth never disappears; it just shifts. I'm **telling my clients to be very defensive**. That includes **reducing their stock exposure considerably**, as well as **shifting the equities** they're invested in **to consumer staples and utilities**. In a downturn, people may not go on vacation, but they're certainly going to pay their light bill. Also **upping clients' allocation to cash and gold-**-gold does well in this environment

Ivory Johnson, CFP®, ChFC Delancey Wealth Management, LLC

https://www.cnbc.com/2022/06/14/what-financial-advisors-are-telling-their-clients-as-markets-tumble.html

Recent Downturns

Or this?

My recommendation to clients is to **stay the course. Trust the plan**. Our financial plans are not contingent on the short-term swings in the markets. **We plan for volatility and help clients through all phases of accumulating, protecting and living on their assets**.

Clients in the accumulation phase should just keep buying. Those in retirement have enough "safe" or "risk off" assets to get them through the next five to 10 years without having to touch their riskier assets, like stocks. **For anyone who doesn't have a trusted advisor to help them through volatile markets like we are now experiencing, I would say they need a plan at the very least.**

David E. Barfield, CFP, Datapoint Financial Planning LLC

https://www.thinkadvisor.com/2022/06/21/what-advisors-are-telling-clients-about-buying-the-dip-advisors-advice/

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David Booth

The most important thing about an investment philosophy is that **you have one**.

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Investor Behavior

By Lifecycle Stage

Stages of Wealth Management

Age & Communications

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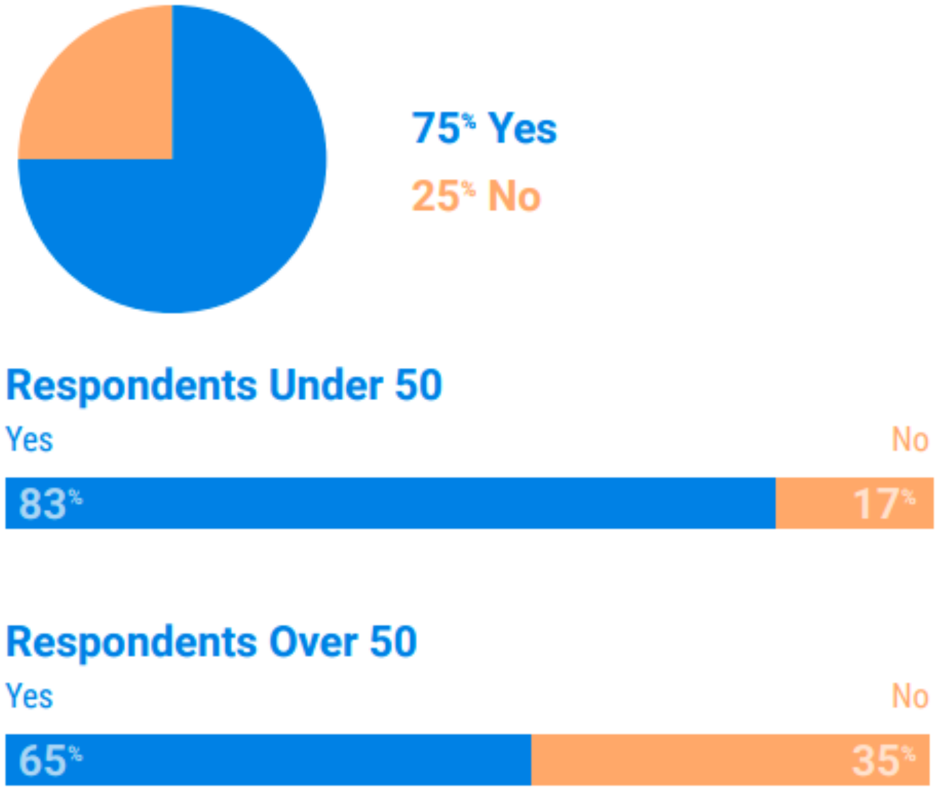
Relevant Info

Would you like your Advisor to send you interesting statistics, visuals, and/or articles relevant to your portfolio?

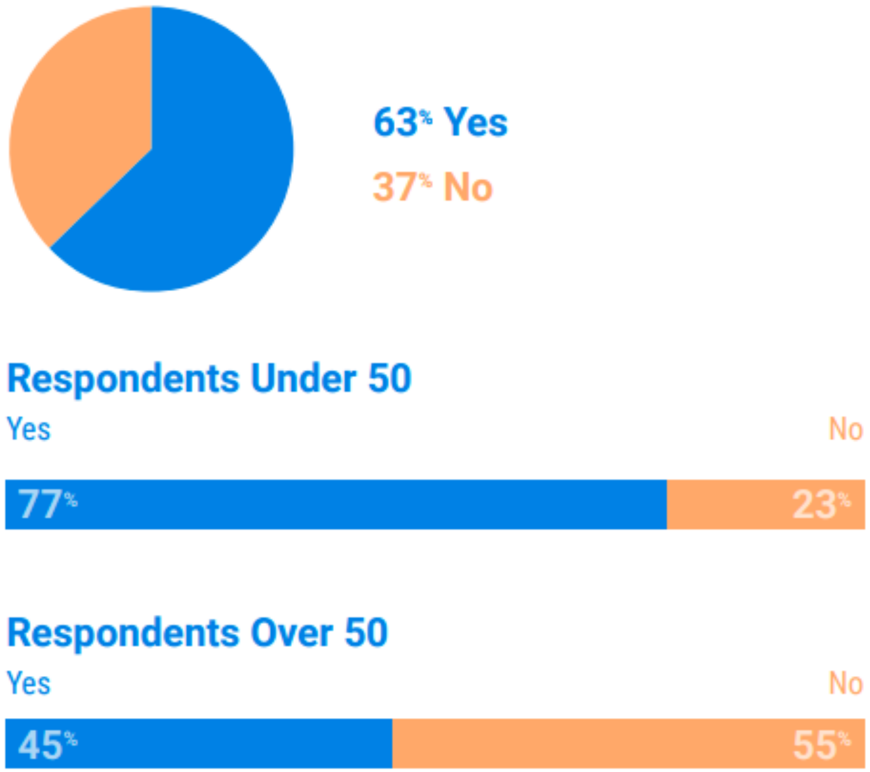


Source: *How Can Advisors Better Communicate With Clients?*, Y-Charts, 2019

Age & Communications

Frequent & Personalized

Would more frequent and/or personalized contact with your Advisor result in you having more confidence in your financial plan?



Source: *How Can Advisors Better Communicate With Clients?*, Y-Charts, 2019

Advisor Value Differs by Lifecycle

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Under age 40 Millennials care more about lifestyle and work/life balance.	Ages 40-64 Gen X is goal-oriented.	Ages 65+ Boomers are more conservative and focused on preservation.
Top 2 Most Important Value Statements for Each Generation		
• We help you make more informed and effective financial decisions...feel relieved, confident, self-assured and empowered—and good about your wealth • We take great joy in helping clients attain the lifestyle they're striving for, maintain that lifestyle for the rest of their life and for generations to come	• We help you reach your goals with tailored solutions that meet your needs • We help you make more informed and effective financial decisions...feel relieved, confident, self-assured and empowered—and good about your wealth	• We focus on capital preservation and income • We are a registered investment advisor with a fiduciary duty to your interests

Source: Advisor Value Propositions: How Advisors Showcase Their Value to Investors—and What Investors Secretly Think, BNY Mellon Pershing, 2019

Most Common Generational Biases

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Millennials (>41)	Generation X (41 - 57)	Baby Boomers (57 - 75)	Silent Generation (75+)
Framing	Recency bias	Anchoring	Familiarity/ home bias
Herding	Mental accounting	Loss aversion	Loss aversion
Confirmation bias	Confirmation bias	Overconfidence	Selective memory
Self control	Self control	Confirmation bias	Anchoring
Availability bias	Regret aversion	Mental accounting	Framing

Source: Cerulli Associates, in partnership with the Investments & Wealth Institute (formerly IMCA). 2019

Growth/Accumulate Phase

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Millennials (>41)	Generation X (41 - 57)
Framing	Recency bias
Herding	Mental accounting
Confirmation bias	Confirmation bias
Self control	Self control
Availability bias	Regret aversion

Results

- May believe the hype
- May play it too safe
- May act impulsively
- May buy or sell at the worst of times

Growth/Accumulate Phase

SYMMETRY

Millennials (>41)	Generation X (41 - 57)
Framing	Recency bias
Herding	Mental accounting
Confirmation bias	Confirmation bias
Self control	Self control
Availability bias	Regret aversion

Your Role

- Communicate about risk management techniques
- Advise against "what's happening now" – emphasize long-term focus
- Pre-emptively coach against "following the crowd"

Protect/Consolidate Phase

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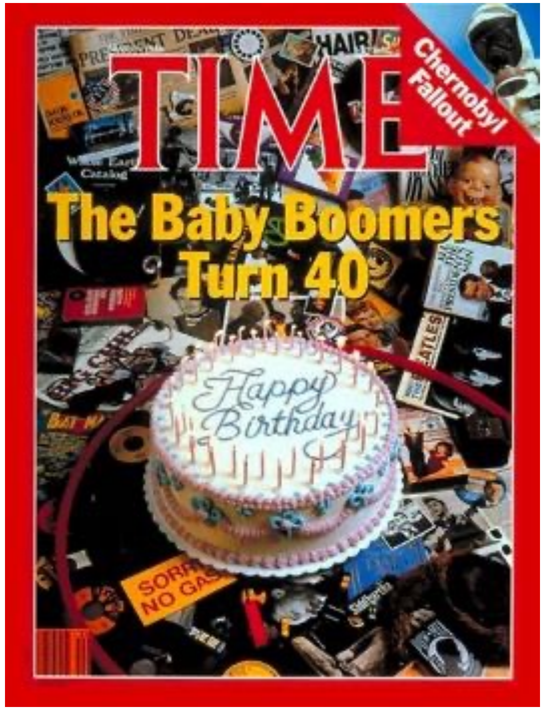
Generation X (41 - 57)	Baby Boomers (57 - 75)
Recency bias	Anchoring
Mental accounting	Loss aversion
Confirmation bias	Overconfidence
Self control	Confirmation bias
Regret aversion	Mental accounting



Results

- May have unrealistic expectations of market returns they can achieve in their relatively short investing time frame.
- May assume too much risk given their wealth and their goals
- May not take enough risk given their goals

Protect/Consolidate Phase

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Generation X (41 - 57)	Baby Boomers (57 - 75)
Recency bias	Anchoring
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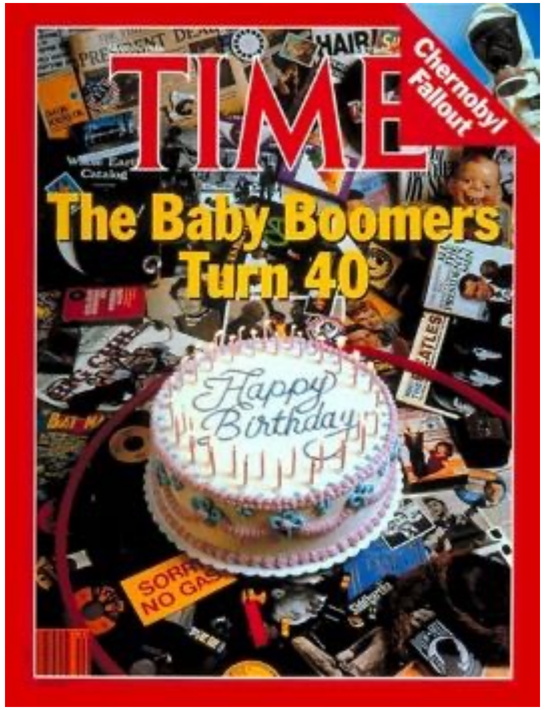
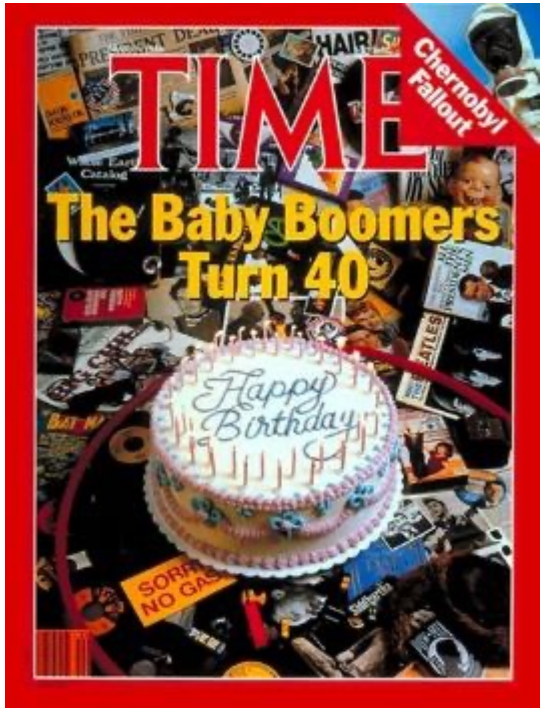


Your Role

- Coach against taking unnecessary risks – help client envision comfortable, realistic retirement
- Where appropriate, discuss need for more risk vs. tradeoffs
- Focus on client's long-term plan

Distribute/Spend Phase

Baby Boomers (57 - 75)	Silent Generation (75+)
Anchoring	Familiarity/ home bias
Loss aversion	Loss aversion
Overconfidence	Selective memory
Confirmation bias	Anchoring
Mental accounting	Framing



Results

- “Out of date” plan or investment philosophy might have served them well to date, but no longer be appropriate
- May play it too safe in regards to “Risk” given rising costs and perhaps longer life expectancy than originally planned

Distribute/Spend Phase

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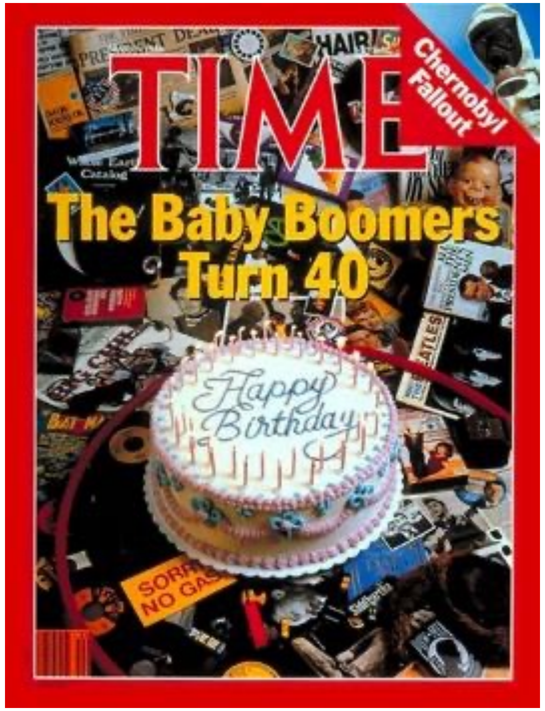
Baby Boomers (57 - 75)	Silent Genera-tion (75+)
Anchoring	Familiarity/ home bias
Loss aversion	Loss aversion
Overconfidence	Selective memory
Confirmation bias	Anchoring
Mental accounting	Framing

Your Role

- Communicate about changing trends and risk of outliving one’s assets – encourage allocation adjustments if called for.
- Coach against fear associated with making a wrong decision which can be associated with too many choices



Age & Investment Decisions

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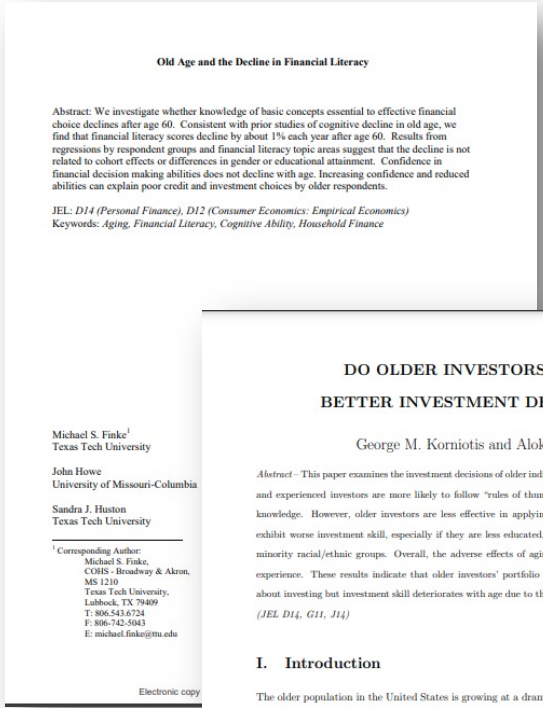
The Science

- Older (75+) investors hold **less risky portfolios**, exhibit stronger preference for **diversification, trade less** frequently, & exhibit **weaker behavioral biases**...This reflect greater investing knowledge
- However, financial literacy scores **decline about 1% annually after age 60**, but **confidence in decision-making does *not* decline** with age
- Older investors' **investment skills deteriorates sharply around age 70**. They earn **about 3-5% lower annual return** on a risk-adjusted return basis.



Old Age and the Decline in Financial Literacy

Abstract: We investigate whether knowledge of basic concepts essential to effective financial choice declines after age 60. Consistent with prior studies of cognitive decline in old age, we find that financial literacy scores decline by about 1% each year after age 60. Results from regressions by respondent groups and financial literacy topic areas suggest that the decline is not related to cohort effects or differences in gender or educational attainment. Confidence in financial decision making abilities does not decline with age. Increasing confidence and reduced abilities can explain poor credit and investment choices by older respondents.

JEL: *D14 (Personal Finance), D12 (Consumer Economics: Empirical Economics)*
Keywords: *Aging, Financial Literacy, Cognitive Ability, Household Finance*

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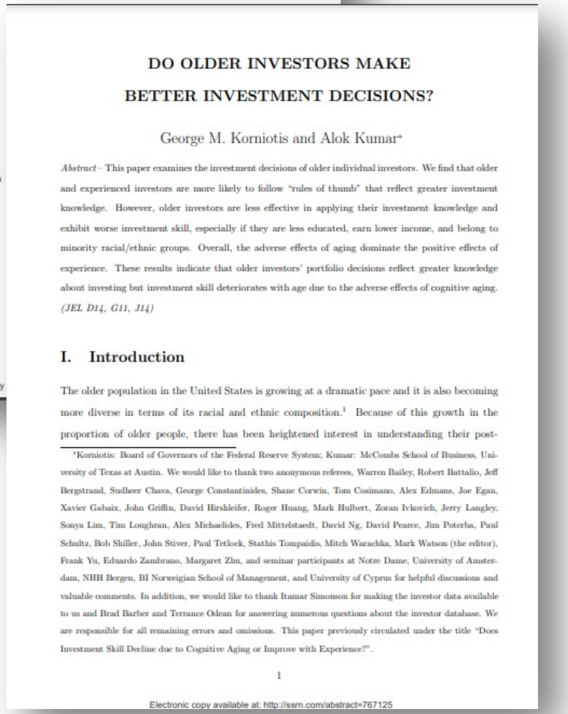


DO OLDER INVESTORS MAKE BETTER INVESTMENT DECISIONS?

George M. Korniotis and Alok Kumar*

Abstract – This paper examines the investment decisions of older individual investors. We find that older and experienced investors are more likely to follow "rules of thumb" that reflect greater investment knowledge. However, older investors are less effective in applying their investment knowledge and exhibit worse investment skill, especially if they are less educated, earn lower income, and belong to minority racial/ethnic groups. Overall, the adverse effects of aging dominate the positive effects of experience. These results indicate that older investors' portfolio decisions reflect greater knowledge about investing but investment skill deteriorates with age due to the adverse effects of cognitive aging. *(JEL D14, G11, J14)*

I. Introduction

The older population in the United States is growing at a dramatic pace and it is also becoming more diverse in terms of its racial and ethnic composition.[1] Because of this growth in the proportion of older people, there has been heightened interest in understanding their post-

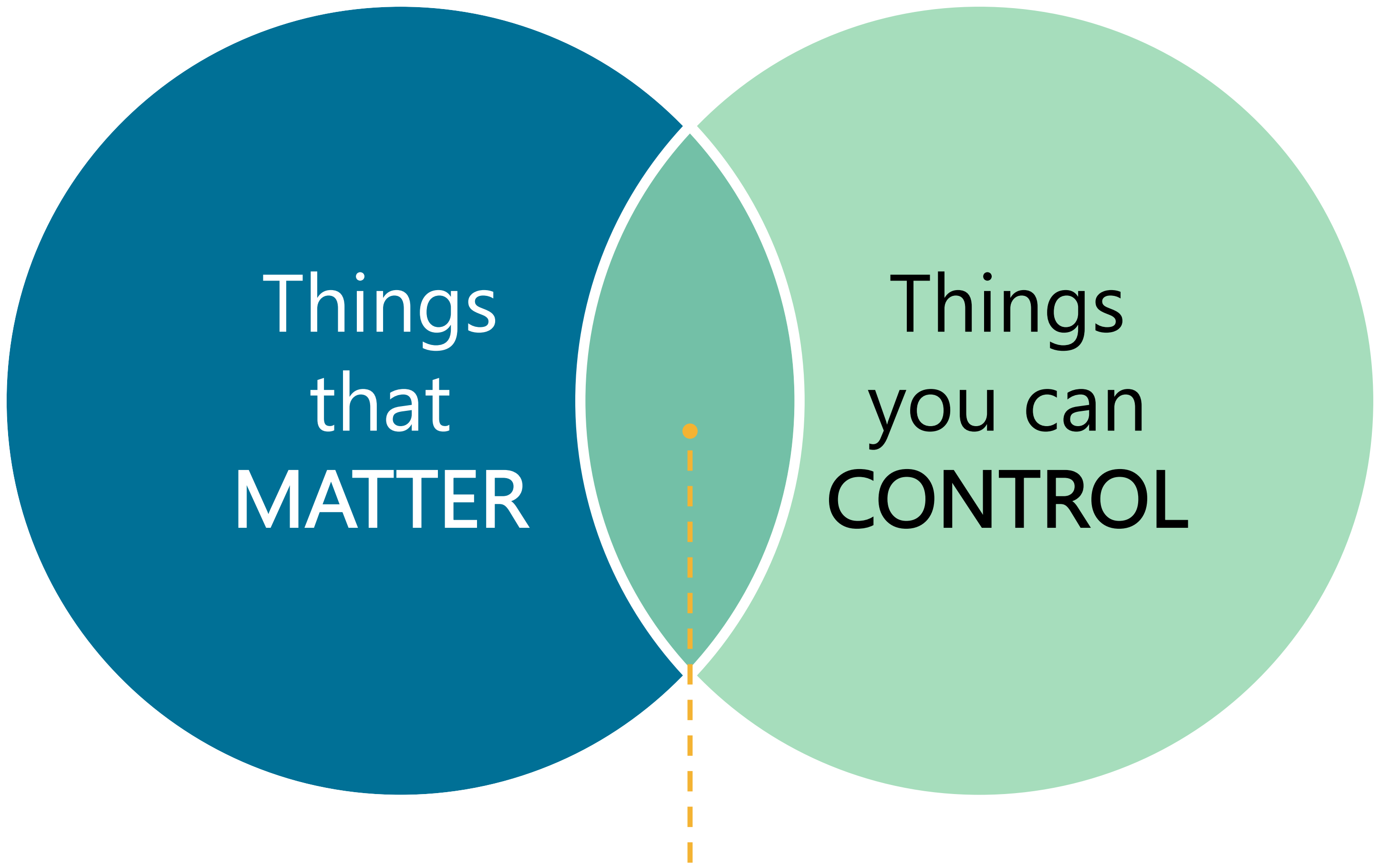
*Korniotis: Board of Governors of the Federal Reserve System; Kumar: McCombs School of Business, University of Texas at Austin. We would like to thank two anonymous referees, Warren Bailey, Robert Battalio, Jeff Bergstrand, Sudheer Chava, George Constantinides, Shane Corwin, Tom Cosimano, Alex Edmans, Joe Egan, Xavier Gabaix, John Griffin, David Hirshleifer, Roger Huang, Mark Hulbert, Zoran Ivkovich, Jerry Langley, Sonya Lim, Tim Loughran, Alex Michaelides, Fred Mittelstaedt, David Ng, David Pearce, Jim Poterba, Paul Schultz, Bob Shiller, John Stiver, Paul Tetlock, Stathis Tompaidis, Mitch Warachka, Mark Watson (the editor), Frank Yu, Eduardo Zambrano, Margaret Zhu, and seminar participants at Notre Dame, University of Amsterdam, NHH Bergen, BI Norweigian School of Management, and University of Cyprus for helpful discussions and valuable comments. In addition, we would like to thank Itamar Simonson for making the investor data available to us and Brad Barber and Terrance Odean for answering numerous questions about the investor database. We are responsible for all remaining errors and omissions. This paper previously circulated under the title "Does Investment Skill Decline due to Cognitive Aging or Improve with Experience?".

Source: https://www.forbes.com/sites/michaelcannivet/2019/01/26/how-investing-ability-changes-with-age/?sh=438176c37f43

Behavioral Bias Mitigation

Most Effective Techniques

Source: Cerulli Associates, in partnership with the Investments & Wealth Institute (formerly IMCA). 2019



What you should FOCUS on

Benefits of Behavioral Approach

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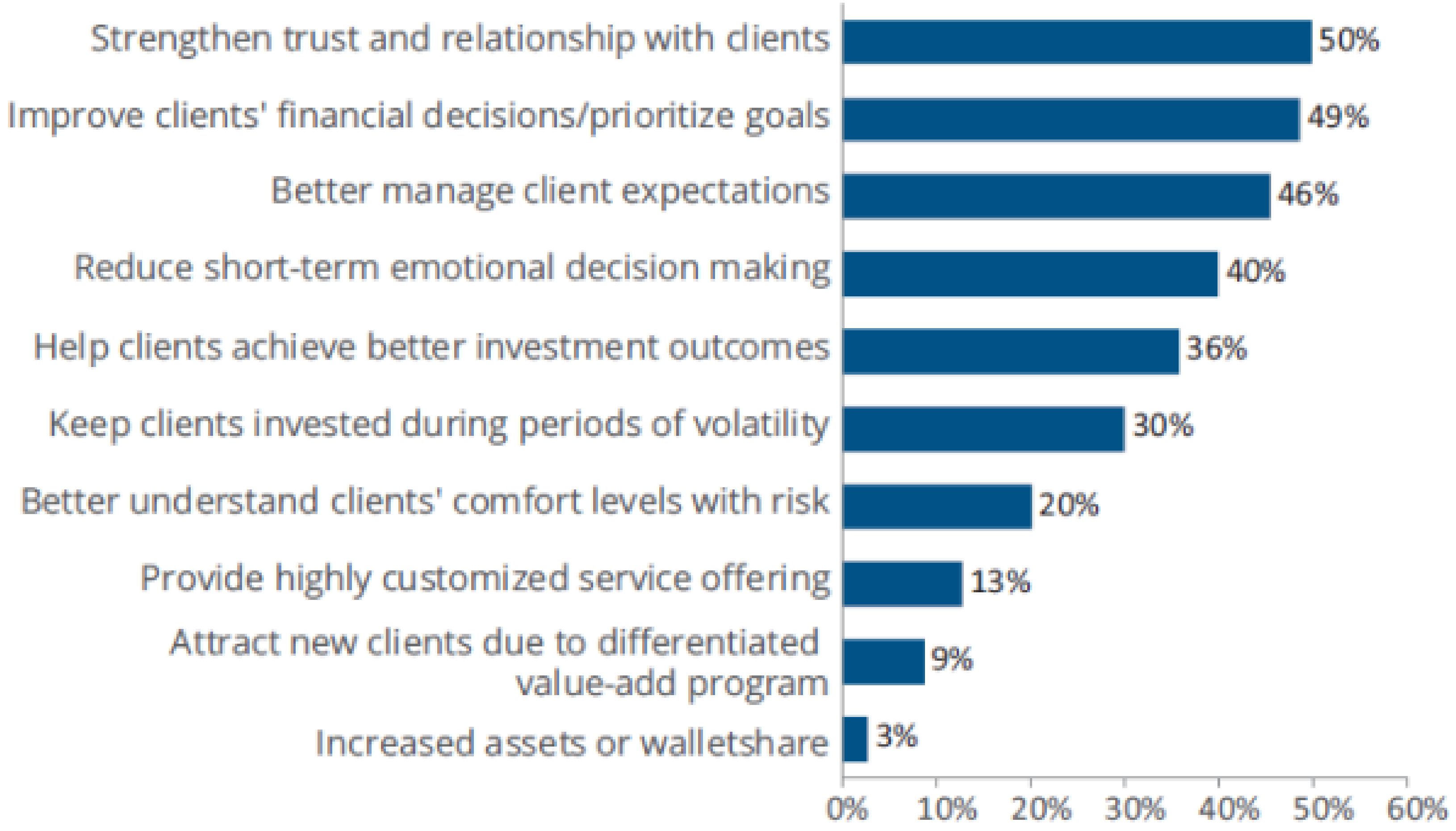

Source: Cerulli Associates, in partnership with the Investments & Wealth Institute (formerly IMCA). 2019

Nick Murray

We will never be allowed to charge enough for **first-rate planning** and **behavioral coaching**.

While anything we charge for timing and selection is too much, **because we can't consistently deliver them**.

SYMMETRY®

Thank You

Andrea Loin

Associate Director, Marketing

Email: aloin@symmetrypartners.com

“Scrappy,” the Symmetry bull is a symbol of our firm’s belief in the long-term power of markets.

Disclosures

Symmetry Partners, LLC is an investment advisory firm registered with the Securities and Exchange Commission. Symmetry charges an investment management fee for its services. All Symmetry Partners' fees can be found in the ADV Part 2A located on the Symmetry Partners' website, www.symmetrypartners.com. Diversification seeks to reduce volatility by spreading your investment dollars into various asset classes to add balance to your portfolio. Using this methodology, however, does not guarantee a profit or protection from loss in a declining market. Different types of investments and/or investment strategies involve varying levels of risk, and there can be no assurance that any specific investment or investment strategy will either be suitable or profitable for your portfolio. You and your advisor should carefully consider your suitability depending on your situation.

Source: "Quantitative Analysis of Investor Behavior, 2019," DALBAR, Inc. www.dalbar.com

Equity benchmark performance and systematic equity investing examples are represented by the Standard & Poor's 500 Composite Index, an unmanaged index of 500 common stocks generally considered representative of the U.S. stock market. Indexes do not take into account the fees and expenses associated with investing, and individuals cannot invest directly in any index. Past performance cannot guarantee of future results.

Average equity investor performance results are calculated using data supplied by the Investment Company Institute. DALBAR is an independent, Boston-based financial research firm. Investor returns are represented by the change in total mutual fund assets after excluding sales, redemptions and exchanges. This method of calculation captures realized and unrealized capital gains, dividends, interest, trading costs, sales charges, fees, expenses and any other costs. After calculating investor returns in dollar terms, two percentages are calculated for the period examined: Total investor return rate and annualized investor return rate. Total return rate is determined by calculating the investor return dollars as a percentage of the net of the sales, redemptions and exchanges for each period.

Indices are unmanaged. Investors cannot directly invest in an index. Indexes have no fees. Historical performance results for indexes generally do not reflect the deduction of transaction and/or custodial charges or investment management fees, the incurrence of which have the effect of decreasing historical performance results. Actual performance for client accounts may differ materially from index portfolios.