

# Investor Behavioural Checklist

**RICHARDSON**GMP

## How to Use

1. Begin the Richardson GMP Behavioural checklist after you have finished your due diligence on the potential buy or sell of a stock, fund, strategy or asset allocation change.
2. Determine your Investor Type as this indicates which biases you may be more susceptible.
3. Complete checklist, for either buying or sell, which should help you realize if your decision is being swayed by a behavioural bias.

## Investor Type

**A** - Entrepreneurial, risk-taker, capital growth focused, hands-on, baby boomer, gen X

**B** – Risk-averse, dividend focused, preserve, passive, millennial, silent generation

<b>BUYING</b>	<b>Common Biases</b> – Confirmation, Availability, Regret, Illusion of Control, Recency, Framing, Herd, Overconfidence	<b>SELLING</b>	<b>Common Biases</b> - Loss aversion, Status Quo, Anchoring, Regret, Cognitive Dissonance, Recency, Endowment, Mental Accounting, Hindsight, Self-Attribution
<p><input type="checkbox"/> Have you actively searched out and considered contrary opinions on the investment? Consider a few scenarios under which the investment would not work out. <i>Simply reading contrary views will make you more objective and open to other views</i> (Confirmation bias - A)</p> <p><input type="checkbox"/> How important in your buy decision was recent price performance? <i>Historically on average, performance chasing hurts long term performance</i> (Recency - AB)</p> <p><input type="checkbox"/> Does this investment fit with your overall asset allocation strategy? <i>Should avoid being lured off course do to a compelling pitch or fad in the market place</i> (Herd, Framing – AB)</p> <p><input type="checkbox"/> Is recent news swaying your buy decision? <i>Ideal investments should be held for years, media is driven by selling daily soundbites</i> (Availability – AB)</p> <p><input type="checkbox"/> Are you buying because of a compelling ‘story’ that only highlights the positive attributes of the stock, fund or asset class? <i>We all like stories and the world is full of people selling ideas. Dig past the pitch to really understand the truth</i> (Framing – AB)</p> <p><input type="checkbox"/> Are you buying this because you are afraid of missing out on a popular trend? <i>Trends come and go, buying late can often hurt returns</i> (Herd, Regret - AB)</p> <p><input type="checkbox"/> Why do you believe the market is wrong and you are right about the investment being underpriced? <i>If you are buying, someone is selling. Do you really have an edge over them?</i> (Overconfidence, Illusion of Control – A)</p> <p><input type="checkbox"/> Can you clearly articulate the thesis on why you are buying this investment, and what your exit strategy is? <i>Doing this really helps codify your sell discipline and learn from experience</i></p>		<p><input type="checkbox"/> Are you selling to avoid realizing a loss in another investment? <i>Best to evaluate each investment's prospects from current market price, ignoring cost anchor</i> (Loss Aversion - B)</p> <p><input type="checkbox"/> Is the media driving your decision? Is it based on the recent results or a longer term perspective? <i>Invest for the long term and navigate (ignore) the noise</i> (Recency – AB)</p> <p><input type="checkbox"/> If you didn't own it, would you likely buy it at the current price? <i>Helps remove emotional attachment to the position</i> (Endowment - B)</p> <p><input type="checkbox"/> From today's price, do you believe there is more downside risk than upside opportunity? <i>Investing is a probability endeavor and probabilities are dependent on current price</i> (Cognitive Dissonance – AB)</p> <p><input type="checkbox"/> Was the original cost of the investment important in your decision? <i>An investment does not know or care what you paid for it</i> (Anchoring - B)</p> <p><input type="checkbox"/> Is selling now consistent with your initial exit strategy? <i>It is useful to reflect and incorporate your original thesis and strategy when it comes to selling</i> (Status Quo – B)</p> <p><input type="checkbox"/> If you decide not to sell a down investment, is it because you are afraid it may recover and you would have missed out? <i>On average, winners tend to continue winning and losers continue losing</i> (Loss Aversion, Regret - B)</p> <p><input type="checkbox"/> Are you considering selling just looking at the investment in isolation? <i>Good portfolio diversification has investments performing differently at different times</i> (Mental Accounting - AB)</p> <p><input type="checkbox"/> At what price would you consider buying the investment back? <i>This helps break the emotional attachment to your original cost</i> (Anchoring – AB)</p> <p><input type="checkbox"/> Are you blaming others for this investment not working out? <i>Learning from mistakes is critical for self-improvement</i> (Self-Attribution, Hindsight - A)</p> <p><input type="checkbox"/> Can you clearly articulate the thesis on why you are selling this investment? <i>This helps codify your investment process and learn from experience</i></p>	

# Investor Behavioural Checklist

## Tools to limit behavioural biases



1. Follow a systematic investment plan. This can include regular contributions and regular scheduled rebalancing. The goal is to reduce the impact of market volatility-driven emotion in the investment process.
  - a. Stops on a portion of investments can be used to limit regret and loss aversion (not recommended for entire portfolio)
  - b. Volatility rule – if market drops by x%, invest predetermined cash balance. Can reframe volatility as an opportunity
2. Ask an expert. Your advisor or trusted expert may be able to shed some light on behavioural mistakes you are making. And help devise strategies to avoid them now and in the future.
3. If you are finding yourself overwhelmed by emotion, take a break. Sleep on it or give it a day or two before deciding to trade.
4. Reduce media intake. This can reduce Availability, Herd and other biases.
5. Think of future self – reinforces taking longer term perspective and reduces risk of being lured off course or reacting to short term market moves.
6. Think really long term perspective - Most bull markets last 6-8 years, most bear markets last 1-2 years, your investment lifetime will likely span 60 years. How important is recent market moves, either up or down, on a 60 year journey?

## Behavioural Biases Defined

**Confirmation Bias** – Tendency to seek out and pay more attention to information in a way that fits with our existing thinking or preconceptions. Disregard contrary views or evidence.

**Loss Aversion** – Feel the pain of losses more than the pleasure of an equal sized gain. Causes investors to avoid realizing a loss.

**Herd Behavior** – Instead of using independent judgement we rely on group behavior or thinking.

**Framing** – Choices can be worded in a way that highlights the positive or negative aspects of the same decision, impacting how we decide.

**Availability Bias** – Making a judgement about the likelihood of an event based on how easily an example, instance or case comes to mind.

**Illusion of control** – Belief we can control the outcome even when it may be more random

**Status Quo** – Desire to not do anything or take any action, believing doing something is more likely to hurt us.

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