

ANCHOR BIAS

WHY IT'S NEVER A GOOD IDEA TO TRY TO PREDICT THE MARKETS



When we meet someone new, we immediately form an opinion of them. This is an anchor – and we subconsciously use it to make future judgments. Anchoring bias is when we rely too heavily on an initial piece of information to make a decision.



Have you ever based your investment decisions on a recent high or low point in the markets? If the answer is “yes,” then it’s important to talk to your advisor about your biases.

HOW TO TALK TO YOUR ADVISOR ABOUT ANCHORS

- ▶ **Before making an important decision, share what’s informing it.** Information is always changing, and it’s important to update your analysis accordingly.
- ▶ **Ask if you’ve ever shown anchoring biases.** If you’ve based your decision on anchors like the purchase price of a company, the answer is probably “yes.”
- ▶ **Discuss what some reasonable anchors might be,** and think about what you would do if those anchors changed.

Markets are always changing, and while no one can predict the future, it’s important to not stay rooted in the past. The best way to do that is to stay flexible and open to new information.

Most importantly, continue the **conversation with your advisor**. Check in often so you can avoid common investor behaviors like this one, and move closer to reaching your goals.