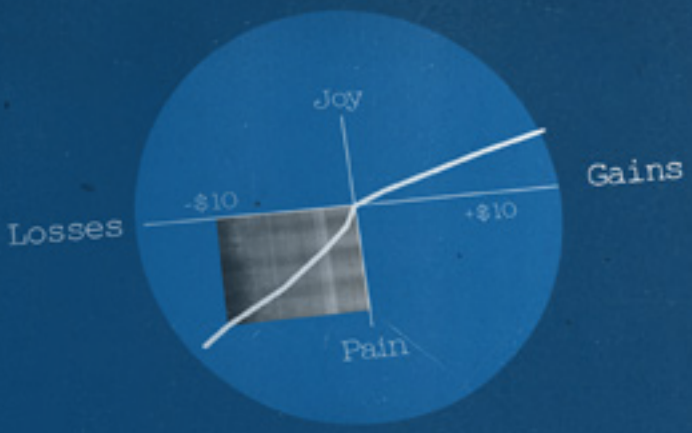
COLUMBIA THREADNEEDLE INVESTMENTS



LOSS-AVERSION BIAS:

HOW THE FEAR OF LOSING CAN HURT YOUR INVESTMENTS

For many of us, the pain of a loss is felt twice as much as the reward of a gain. If you have a 50/50 chance of winning or losing the same amount of money, it often doesn't feel worth the risk. For most people, the winning amount would need to be double the amount they could lose. Loss aversion can cause us to make rash decisions and prevent us from taking calculated risks.

This bias may cause you to sell winners too early and hold losers too long (also known as the disposition effect). It can also make you overly conservative and stagnant in your investment decisions.

? **Are you keeping large amounts of cash in your portfolio?** If the answer is "yes," then it's important to talk to your advisor about your biases.

HOW TO TALK TO YOUR ADVISOR ABOUT LOSS AVERSION

- **Ask how you can manage loss aversion behavior.** When you're fearful of an outcome, ask them to give you scenarios to consider together.
- **Have them explain the downside of having too much cash in your portfolio.** Even though it feels safe,and the money won't go down, it won't really go up either. And, you'll lose purchasing power over time because the things you buy will keep getting more expensive.
- **Always ask them to present the facts.** It's easy to become immobilized when there's something to lose, but knowing the facts can help avoid this.

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.

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