COLUMBIA THREADNEEDLE
INVESTMENTS

OVERCONFIDENCE:
WHAT HAPPENS WHEN YOU GET TOO COMFORTABLE IN YOUR INVESTMENTS

If someone asked you to rate your driving skills, what would you say? Most people would rate themselves above average. Statistically speaking though, the majority of people aren't. So why the overwhelming slant? Overconfidence — the most significant and common human bias.

Sometimes it's good to have an exaggerated sense of self because it can increase ambition, morale, resolve and persistence. But when it comes to investing, overconfidence may contribute to excessive trading in the stock market. And this can lead to unnecessary risks.

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Do you take larger risks in the market because you've been successful in the past? If the answer is "yes," then it's important to talk to your advisor about your biases.

HOW TO TALK TO YOUR ADVISOR ABOUT OVERCONFIDENCE

- **Ask how overconfidence can lead to a poorly diversified portfolio.** Successful investors usually overestimate their own contributions because they're confident in the stocks they own. But decisions informed by knowledge, not a sense of self, usually do better in the long run.
- **Discuss the signs of overconfidence.** Over-trading, low diversification or a high-risk portfolio may mean that you need a more analytical perspective.
- **Ask them to explain the facts.** Tell them you want disconfirming information and practice weighing your options carefully.

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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