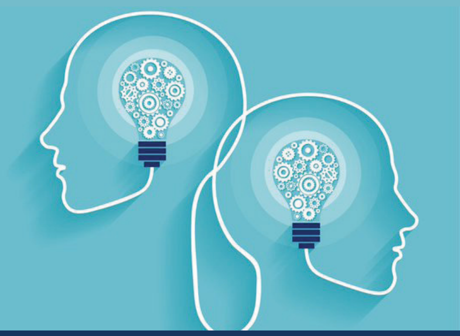
CORPORATE SELECTION
SUITE OF UMBRELLA FUNDS

Sponsored by LIBERTY

The psychology behind risk and investing

PART 2



Last month we had a look at some of the psychological biases that could be influencing your financial decisions. This month, we continue by helping you to understand a few more.

Once you have all the information, being aware of your own tendencies – whether you are risk averse or risk seeking – can help you make decisions that match both your personality profile and your risk profile.

WHAT YOU SEE MIGHT NOT BE WHAT YOU GET

Recency bias is a mental pitfall that is very easy to fall into. Simply put, we are more likely to base our decisions on things that happened to us recently, or that stuck in our memory, even if those things happen very rarely. For example, if there has been a lightning strike nearby, you are more likely to be afraid of another strike, even though it's highly unlikely to happen again.

Following from this, confirmation bias happens when you look for information that proves you right, and ignore everything that doesn't.

> **!** Make sure that your investment decisions are based on all the relevant information – not just the most recent information, or the information that serves your purposes.

DIGGING IN AND GETTING STUCK

If you have made a mistake – perhaps making an investment based on inaccurate or incomplete data, due to one of the traps already discussed – obviously you need to weigh your next steps very carefully. At this point, you may be vulnerable to what is known as the sunk cost dilemma:

Rather than admitting a mistake, our pride may lead us to throw good money after bad. It's not easy to admit defeat and move on – with the result that many investors stubbornly continue to hold out even when the chances of improvement are very small.

> **!** Don't let one bad decision lead to a series of mistakes. Sometimes it really is best to pick yourself up, dust yourself off, and walk away, rather than getting stuck even deeper.

Disclaimer:
The information contained in this communication, including attachments, is not to be construed as financial advice in terms of the Financial Advisory and Intermediary Services Act of 2002 or any other form of advice. No warranty is provided that the information is appropriate or suitable for any particular purpose.

InSite Innovative Education Solutions (Pty) Ltd 2019