



# My brain made me do it:

strategies to help you make better decisions

Presenter Full Name

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# Welcome to “My brain made me do it”

Today, you’ll have an opportunity to:

**Investigate** how we typically make decisions

**Understand** how our decision-making process contributes to common investment mistakes

**Learn** how to train our brains to avoid those mistakes



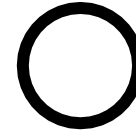
# Pop quiz

Fill in the blanks

Buy

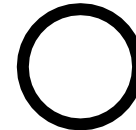


Low



High

Sell



Low



High

The fundamental principle of investing

# The battle of the brain

Good investing techniques



Intuitive vs. reflective



# Two schools of economics



## **Old school: classical economics**

Investors are rational people who have self-control

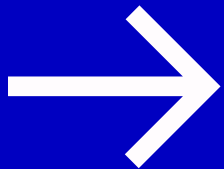
## **New school: behavioral economics**

Investors are not logical and are undisciplined

# How to train your brain

We want quick and easy decisions

When dealing with  
your dollars, do  
you really want  
quick and easy?



A new mindset  
is needed  
to overcome  
human nature





# Six common investing mistakes

**1** Loss aversion

**2** Anchoring

**3** Status quo bias

**4** Procrastination

**5** Hindsight bias

**6** Availability





# Mistake 1: loss aversion

Emotional bias

**People's tendency to strongly prefer avoiding losses over acquiring gains**

- The psychological impact of a loss can be twice as powerful as the impact of a gain
- Leads to poor investment choices

# Warning signs

“I can’t sell now—it’s down too far.  
It will come back eventually.”

“I don’t mind staying in cash — the markets  
have been crazy lately! I’d rather be safe.”

**Sound familiar?**

# How to remedy loss aversion

Don't just be prepared for market volatility — **expect it**

**Involve** impartial people

Create a disciplined plan — **and stick to it!**

**Develop** an emergency fund

**Establish** a dollar-cost-averaging plan\*

\* **Dollar cost averaging does not assure a profit or protect against loss in a declining market.** Such a plan involves continuous investment in securities regardless of fluctuating price levels. An investor should consider his/her financial ability to continue purchases through periods of low prices. Most investments generally fluctuate according to market conditions. Past performance does not guarantee future results.



# Mistake 2: anchoring

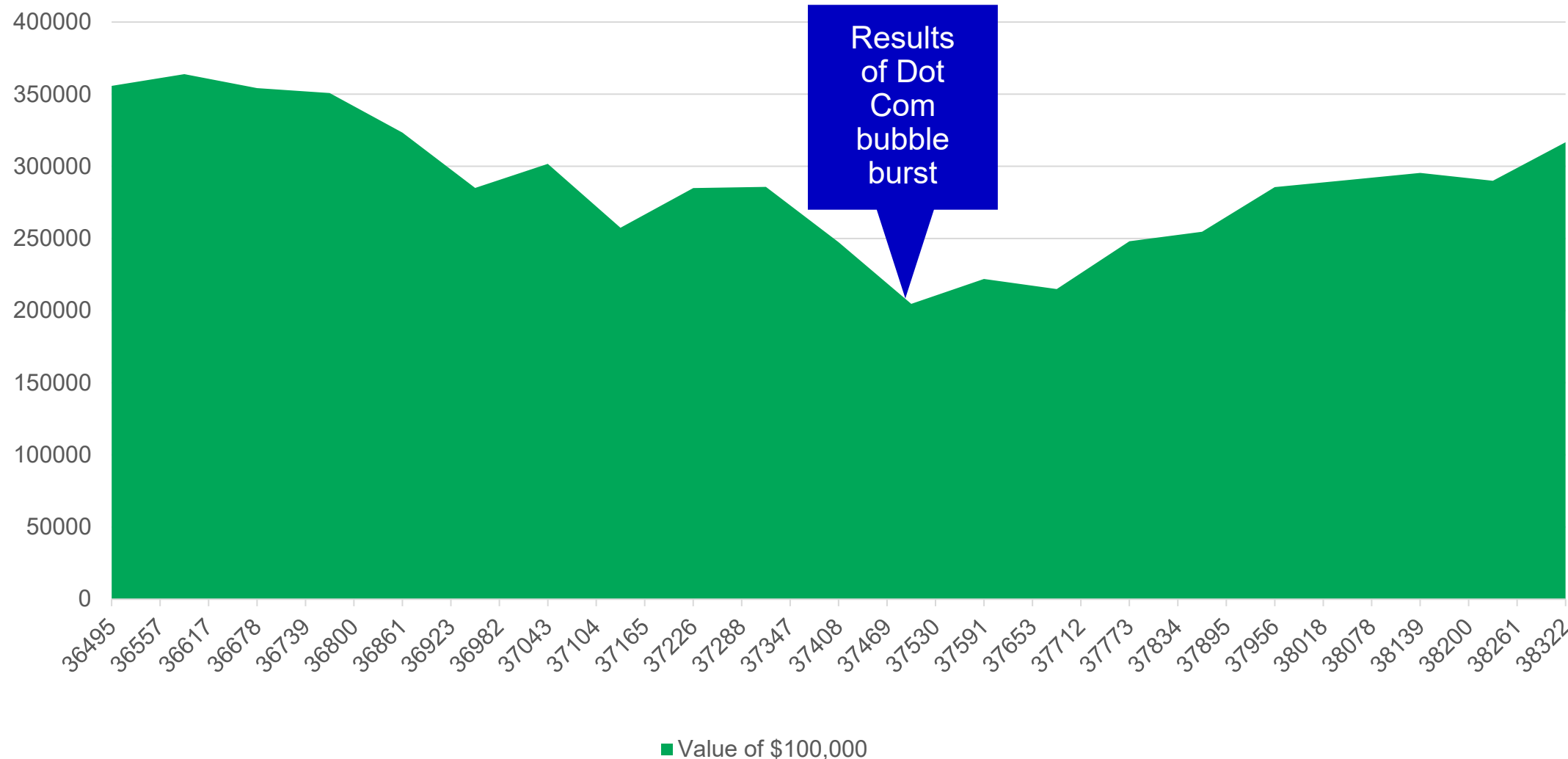
Cognitive bias

**Anchoring is how well you can concentrate and focus**

There's a common human tendency to rely too heavily, or anchor, on one trait or piece of information when making decisions

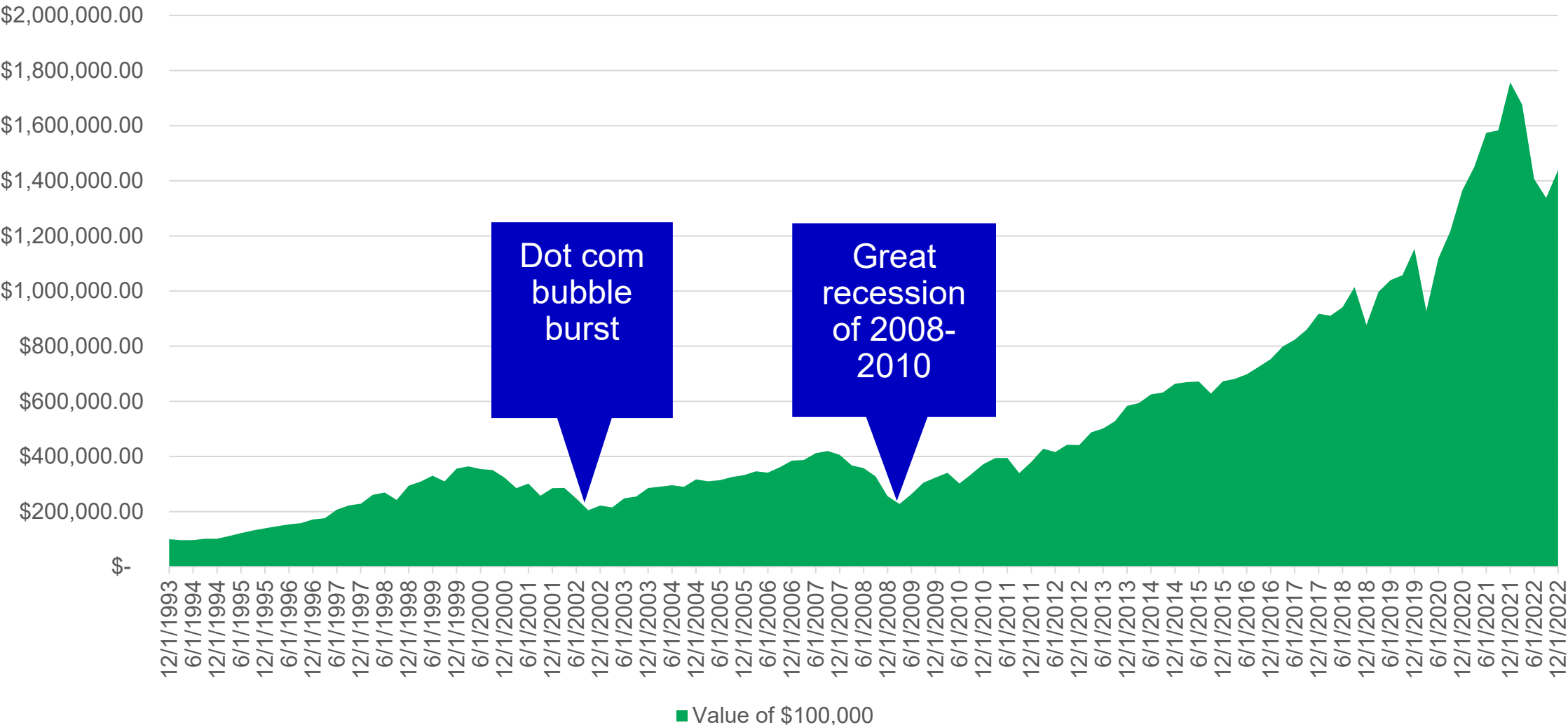
# Change your anchors

S&P 500 Index, 1999–2004



# Change your anchors

## S&P 500 Index, 1993–2022



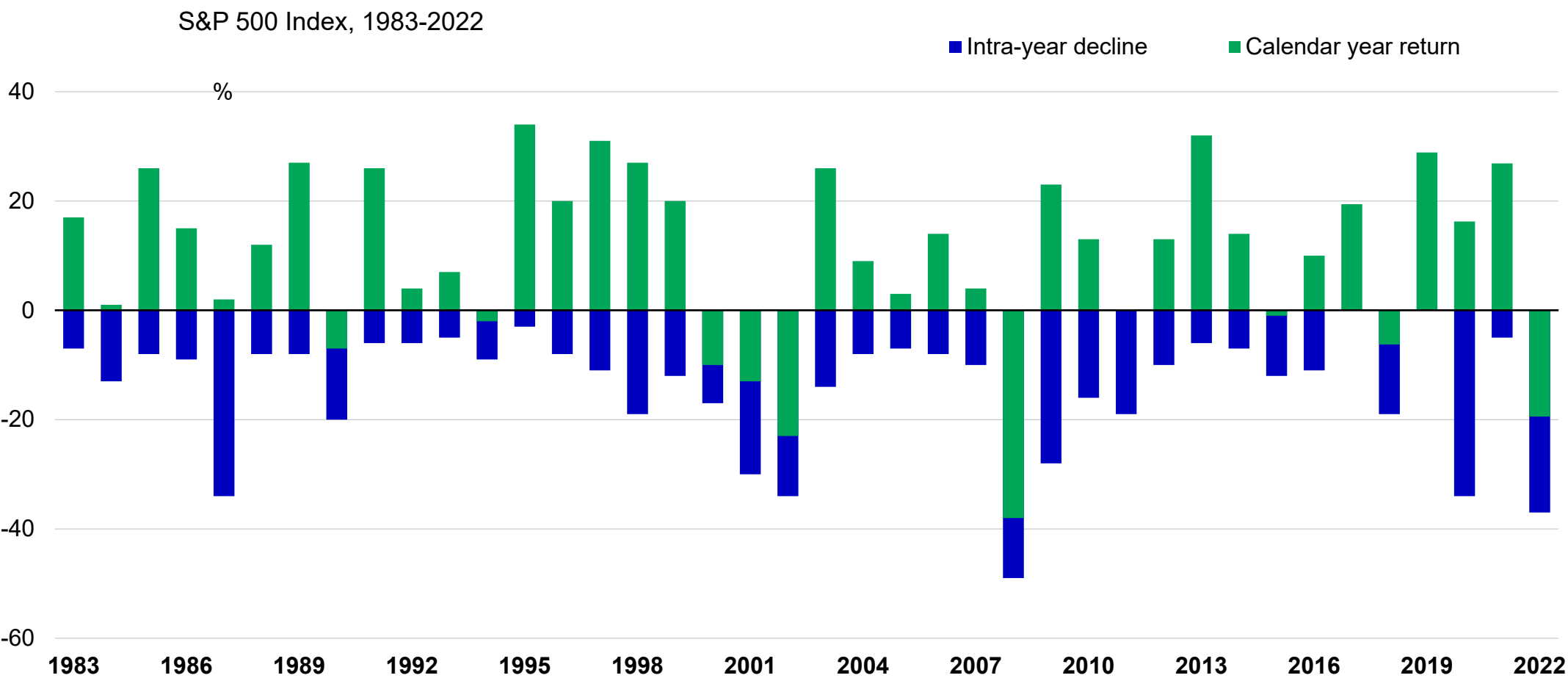
Investment Management

Source: John Hancock Investment Management, 2022. The S&P 500 Index tracks the performance of 500 of the largest publicly traded companies in the United States. It is not possible to invest directly in an index. Past performance does not guarantee future results. 12/1/1993 -12/31/2022.



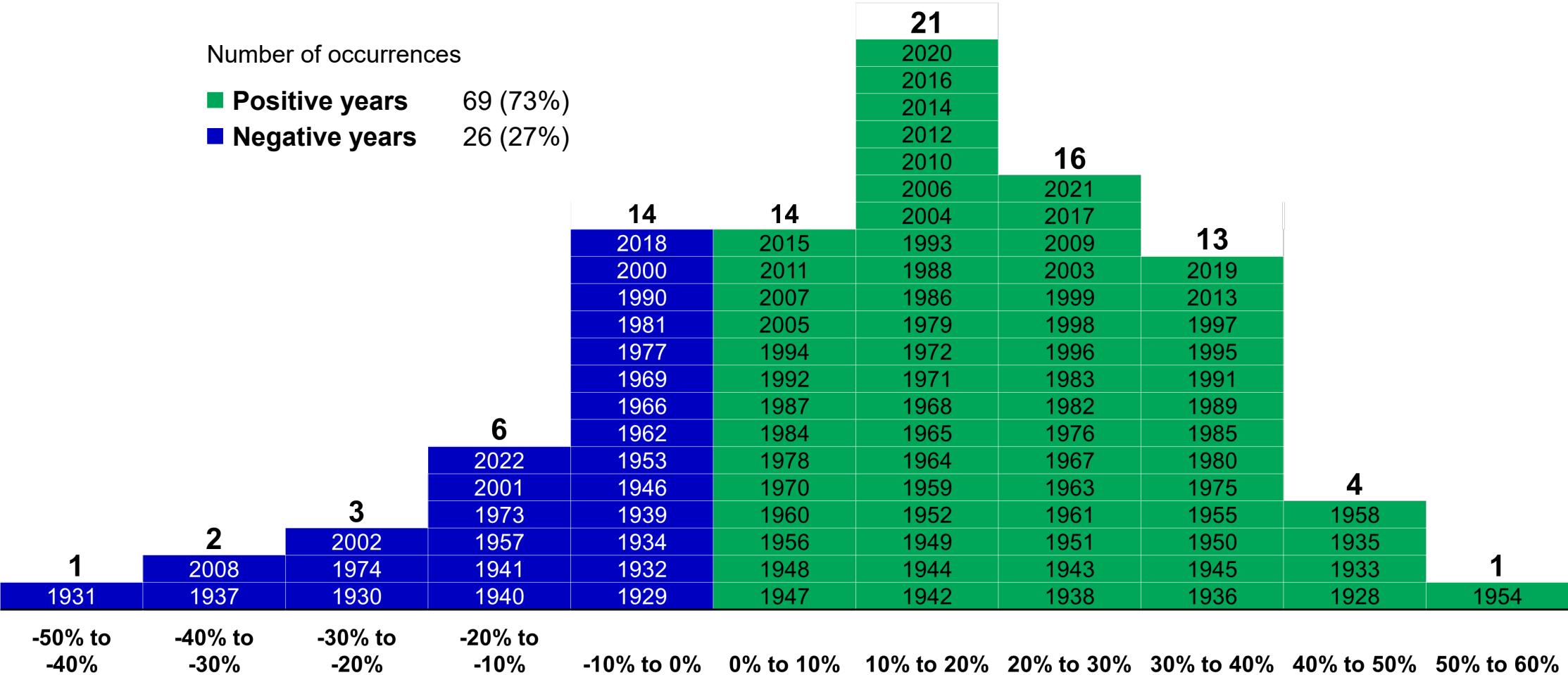
# Intra-year corrections are normal

The market will often experience setbacks before moving higher



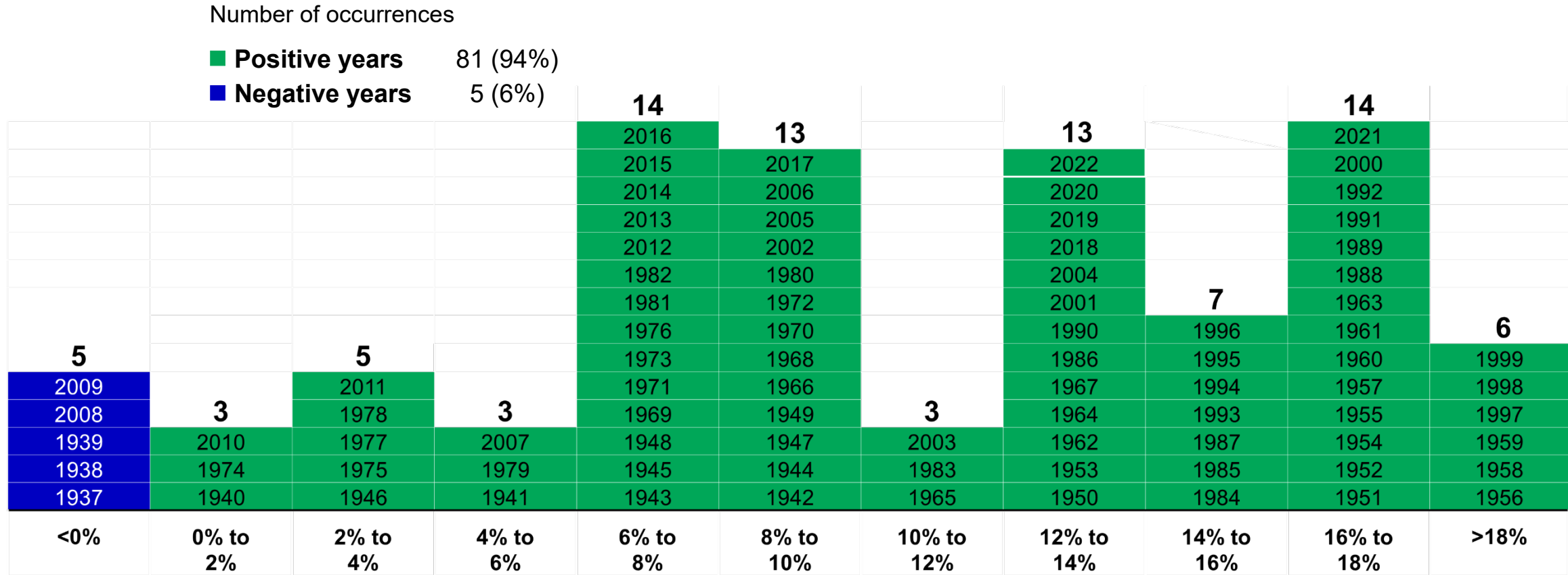
# In any given year, returns may be negative

Distribution of annual returns, S&P 500 Index, 1928–2022



# The longer you hold stocks, the better the chance returns will be positive

Rolling 10-year stock market returns, 1928–2022

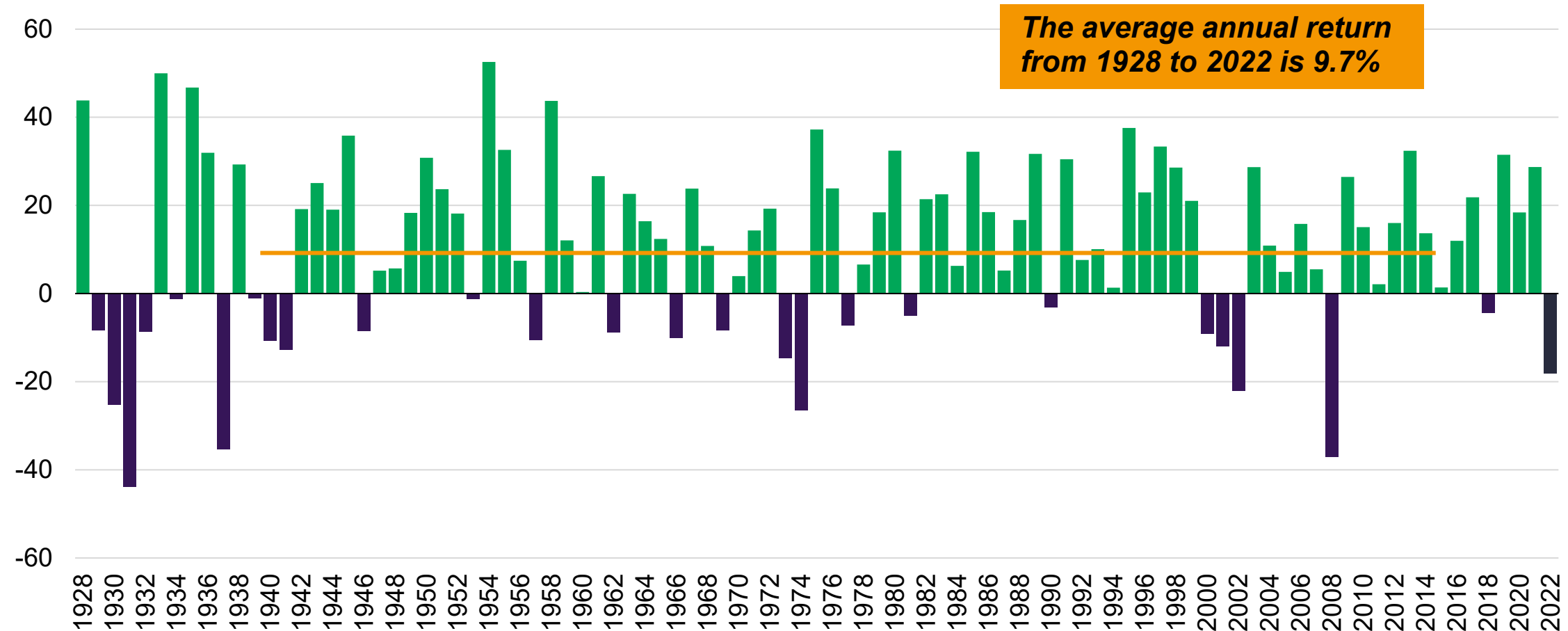


Source: The data is calculated by John Hancock Investment Management using information presented in Bloomberg, 2022. All rights reserved. Used with permission. Stocks are represented by the S&P 500 Index, which tracks the performance of 500 of the largest publicly traded companies in the United States. It is not possible to invest directly in an index. Past performance does not guarantee future results. Data begins in 1928 with the first 10-year period in 1937.



# It is a market of extremes

S&P 500 Index calendar year returns, 1928–2022 (%)



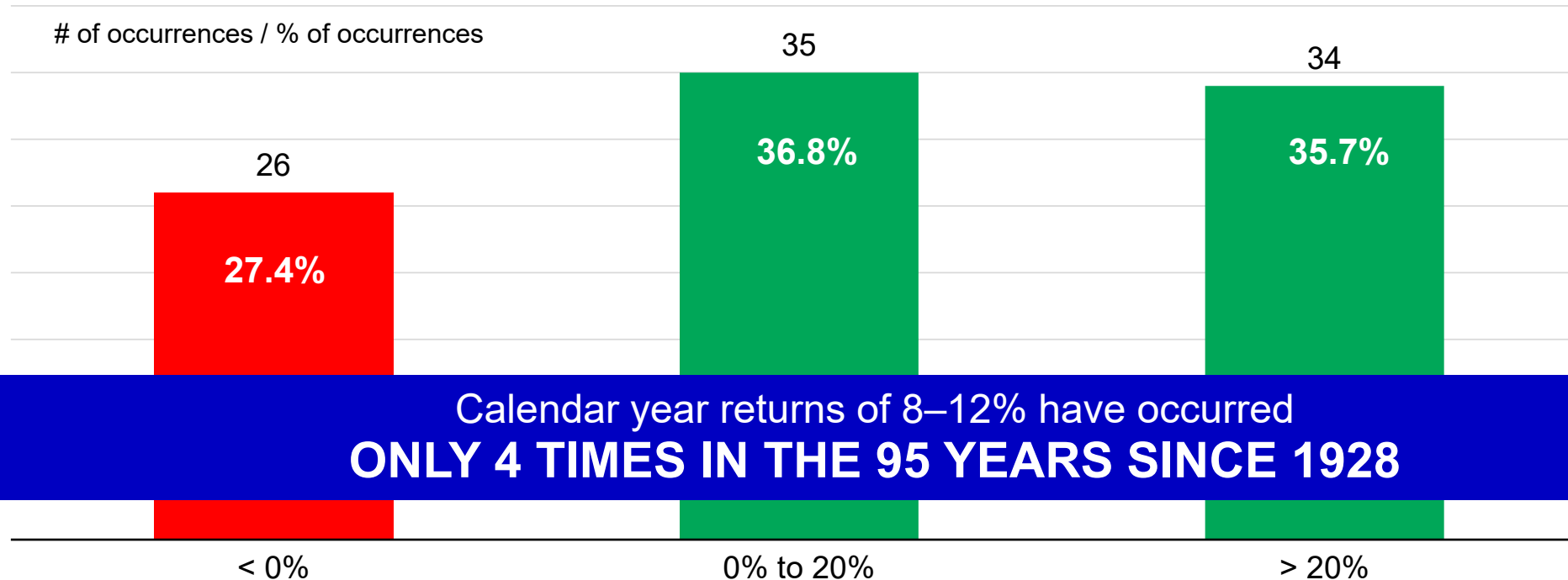
**The average annual return from 1928 to 2022 is 9.7%**

Source: Calculated by John Hancock Funds, LLC using information and data presented in Morningstar Direct. All rights reserved. Used with permission. Based on average annual percentage returns for the S&P 500 Index over 94 one-year periods from 1928-2022, assuming reinvestment of dividends and capital gains. The S&P 500 Index tracks the performance of 500 of the largest publicly traded companies in the United States. It is not possible to invest directly in an index. Past performance is no guarantee of future results.

# There is nothing average about returns

1928–2022

***What's the most common occurrence in the stock market in a calendar year?***



Source: Calculated by John Hancock Funds, LLC using information and data presented in Morningstar Direct. All rights reserved. Used with permission. Based on average annual percentage returns for the S&P 500 Index over 95 one-year periods from 1928-2022, assuming reinvestment of dividends and capital gains. The S&P 500 Index tracks the performance of 500 of the largest publicly traded companies in the United States. It is not possible to invest directly in an index. Past performance is no guarantee of future results.

## Warning signs

“I’m still down 10%. I just want to get back to where I started.”

“Six months ago, I had \$XXX, and now I have half that amount.”

**Have you ever said this?**



# How to remedy anchoring

Keep an open mind

**Seek** out information to give you perspective

**Change** your anchors

Let **progress** toward your goals be your benchmark

# Mistake 3: status quo bias

## Cognitive bias

**People tend not to change an established behavior unless the incentive to change is compelling**

- It's easier to do nothing
- Creatures of routine

Your initial portfolio allocation is tremendously important, as it has enduring impact.

# Warning signs

“I’ve had that investment for years, and it’s been good.  
No need to change it now.”

“More than half of my portfolio is invested in my company’s stock. I’ve heard that’s not such a good idea, but I don’t know where else to invest.”

**What can you do about it?**

# How to remedy status quo bias

Make a **schedule**

Revisit your plan at **regular intervals**

Involve others and hold yourself **accountable**

Learn what motivates **you**

**Reward** yourself for progress toward your goals



# Mistake 4: procrastination

Emotional bias

## Procrastination

- Positive bias toward the present
- Anxiety when starting a complex task
- People want to relax today and invest (or do anything) next week

Fruit or chocolate?

# Warning signs

“I really should join my company’s retirement plan.  
I’ll get to it next week.”

“Our child just turned 10. We really should open a  
529 account one of these days.”

**What can you do about it?**

# How to remedy procrastination

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Revisit your plan at **regular intervals**

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# Mistake 5: hindsight bias

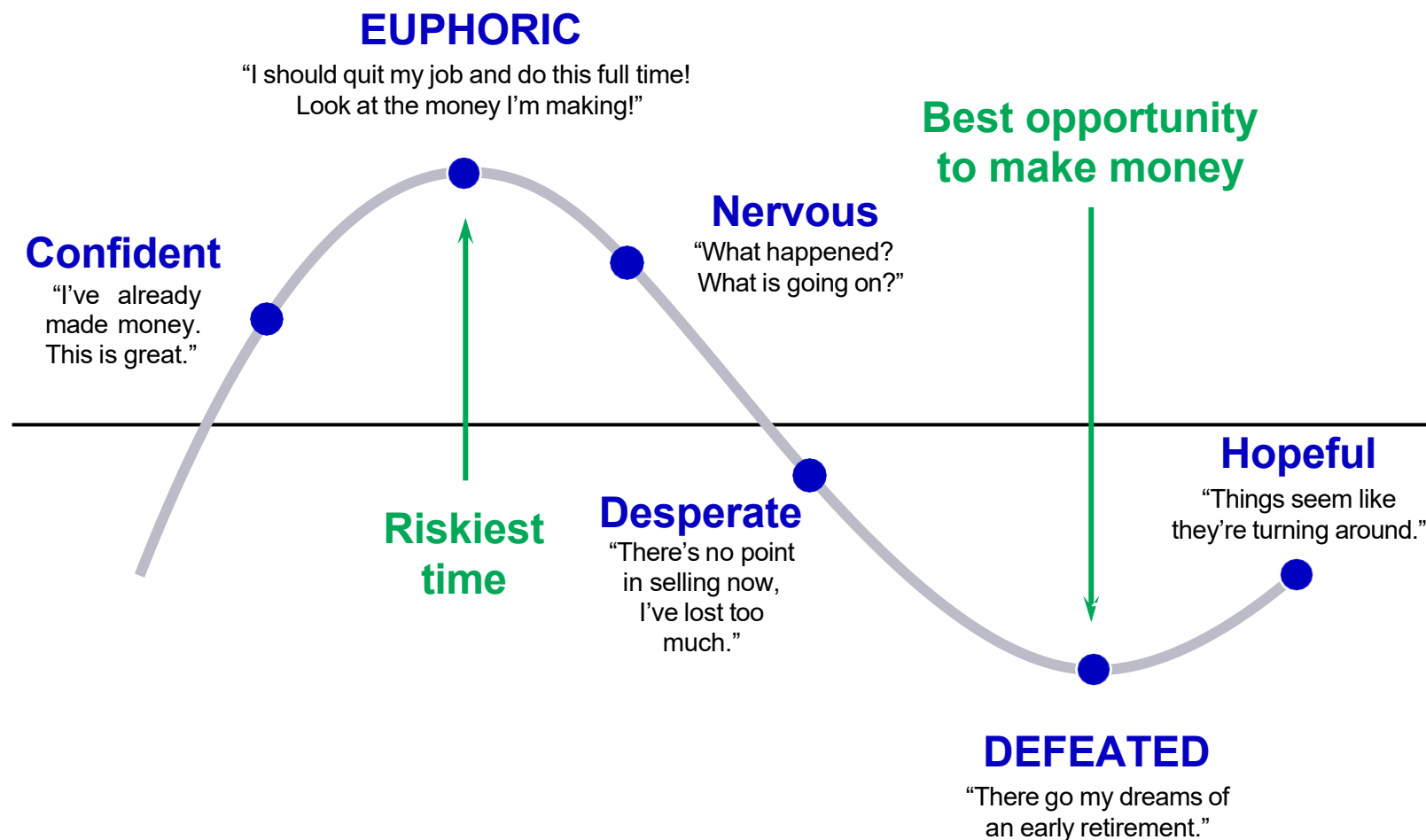
Emotional bias

**Hindsight** — locking the barn door after the horse has run away

- Taking action after it's too late
- The mortgage meltdown, banks tightening credit
- Past performance does not guarantee future results

It's why people start to eat right and exercise after a health scare.

# It's natural to feel emotional about your investments



This hypothetical scenario is for illustrative purposes only and is not a prediction of future market conditions.

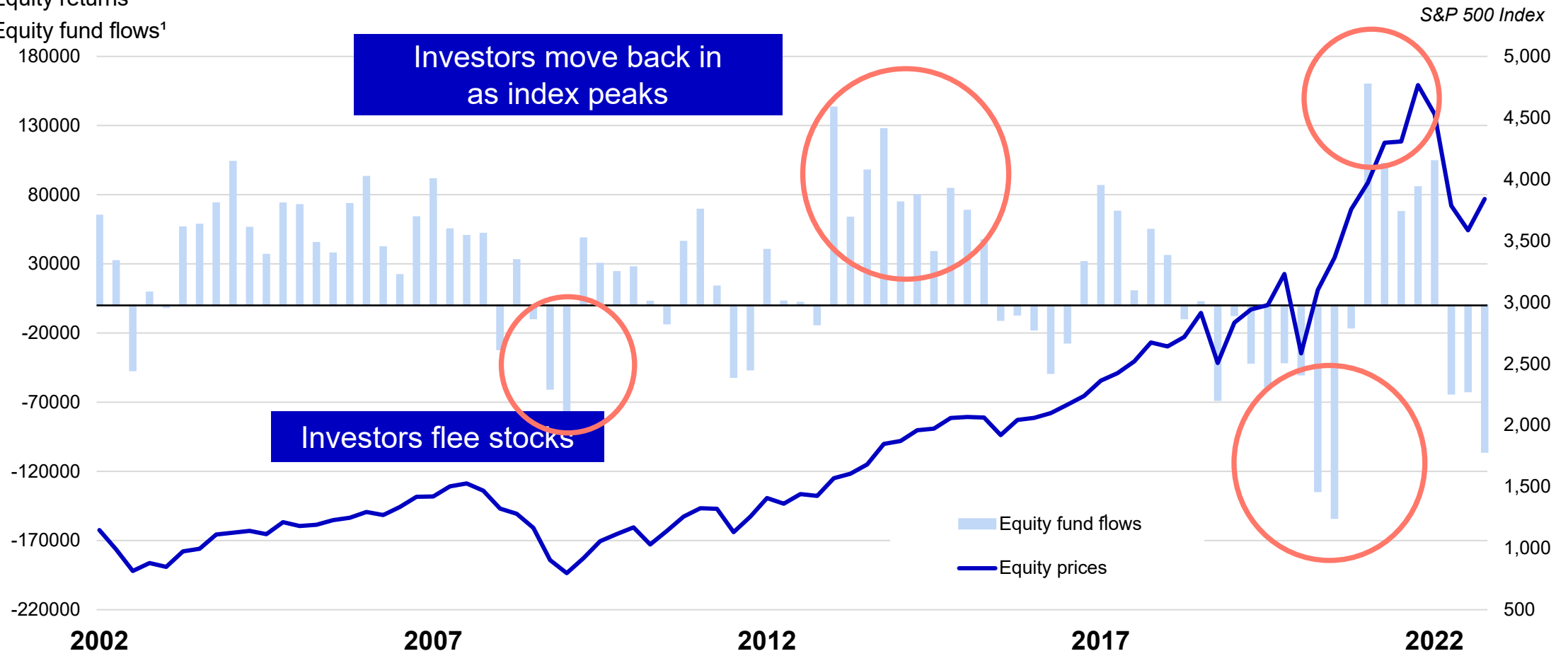


# Emotions tend to make investors abandon and reenter stocks at the worst times

Net fund flows (\$M), 2002-2022

— Equity returns

■ Equity fund flows<sup>1</sup>

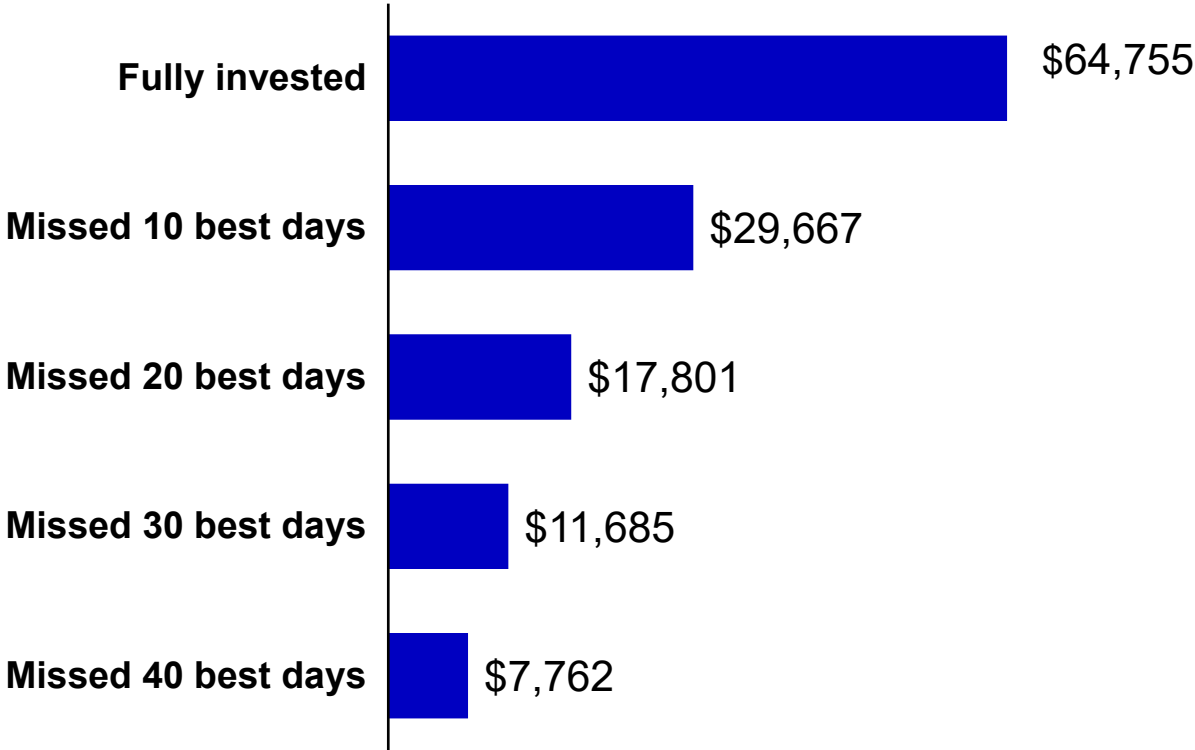


Source: Bloomberg as of 12/31/2022. The S&P 500 Index tracks the performance of 500 of the largest publicly traded companies in the United States. It is not possible to invest directly in an index. Past performance does not guarantee future results.

<sup>1</sup> Comprises U.S. equity, sector equity, international equity, and hybrid mutual funds and ETFs. ISS Market Intelligence, showing only the allocation, sector equity, U.S. equity, and international equity Morningstar groups, excluding fund of funds.

# The key is not missing the market's best days

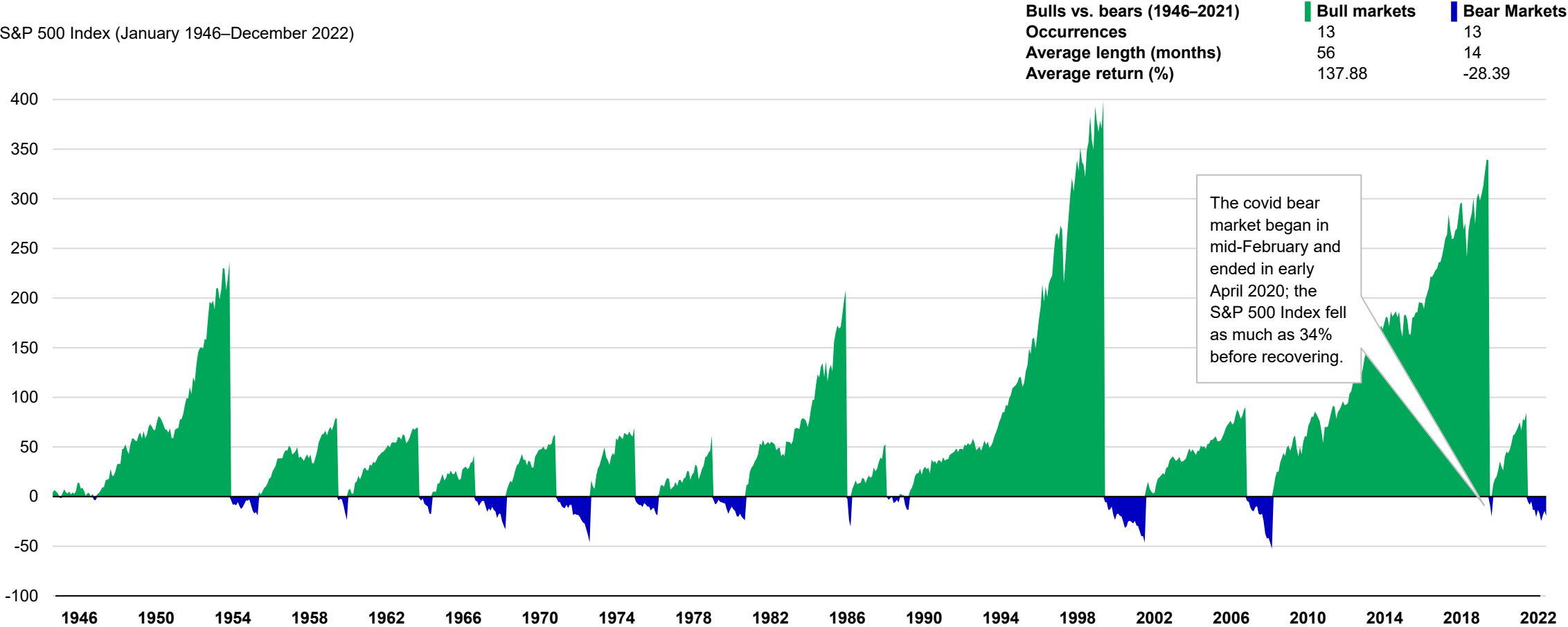
20-year growth of \$10,000, 2002–2022



Source: Bloomberg, as of 12/31/2022. This table is for illustrative purposes only. The S&P 500 Index tracks the performance of 500 of the largest publicly traded companies in the United States. It is not possible to invest directly in an index. This is a hypothetical example and does not reflect the performance of any John Hancock fund. Past performance does not guarantee future results.

# U.S. equities have historically recovered

Bull markets have outlasted bear markets for more than 70 years (%)



Source: Standard & Poor's, as of 12/31/22. The S&P 500 Index tracks the performance of 500 of the largest publicly traded companies in the United States. It is not possible to invest directly in an index. Past performance does not guarantee future results.

# Warning signs

“I don’t care what happens next.  
I’m moving to cash until things calm down.”

“The market has done great this year.  
I knew I should have invested more.”

**Next steps?**

# How to remedy hindsight bias

**Remember** that you did the best you could with the information you had

**Review** your plan to make sure it still works for you

Keep a **long-term perspective**

**Write a letter** to yourself



## One way to remedy hindsight bias

“ My financial professional and I have established a long-term plan. Sometime in the future, the market will correct to the point where I feel uncomfortable staying invested. I may feel scared and ask my advisor to get me out of the market.

But I know that my plan is sound and, if anything, it may be a good time to invest more. My long-term goals haven't changed and I'm committed to sticking to my long-term plan.”



# Mistake 6: availability

## Cognitive bias

People's tendency to use information that's on hand to make decisions

- The prevalence of media coverage reinforces availability
- Results in overestimating the probability of an event because it's associated with a previous memory

# Warning signs

“I see people with iPads everywhere.  
Apple must be a good stock to own.”

“This guy on TV says now is the time to buy gold.  
He must be right—he’s on TV!”

**Have you said something like this?**

# How to remedy availability

**Don't believe** everything you hear!

Remember, **bad news sells** newspapers

Experts (and your neighbors and friends) can be **wrong**

**Systematic investing** works in up **and** down markets

# What have we learned?

We're programmed to think intuitively

When it comes to money, you should be thinking reflectively

A new mindset is needed to overcome human nature

It helps to have a plan and a person you can trust to help you implement your plan





# Strategies to consider



- **Write** down your plan and refer back to it
- **Establish** what steps you will take in a crisis when you are not in a crisis
- **Start** dollar cost averaging\*
- **Expect** that your portfolio will go down at times
- **Make** appointments with your financial professional well in advance and on a regular schedule

\* **Dollar cost averaging does not assure a profit or protect against loss in a declining market.** Such a plan involves continuous investment in securities regardless of fluctuating price levels. An investor should consider his/her financial ability to continue purchases through periods of low prices. Most investments generally fluctuate according to market conditions. Past performance does not guarantee future results.



# Today, in “My brain made me do it,” we learned:

How we typically make decisions

How our decision-making process contributes  
to common investment mistakes

How to train our brains to avoid those mistakes

Contact your financial professional today—  
**don't procrastinate!**

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