How to recognize and overcome behavioral biases when investing

Discover your hidden biases

Review these common behavioral biases that might be influencing your investment decisions, and ask yourself if any resonate with you.

ANCHORING

Relying on an initial piece of information as the primary reason for a decision

HERD MENTALITY

Following what other investors are doing

OVERCONFIDENCE

Believing that your own judgment is more reliable than it really is

CONFIRMATION BIAS

Seeking out opinions that agree with your own

RECENCY BIAS

Placing more weight on recent events than past events to inform future outcomes

LOSS AVERSION

Being more sensitive to a loss than a gain of the same amount

ENDOWMENT EFFECT

Valuing investments you own more highly than the current market value

REPRESENTATIVENESS

Ignoring real probabilities in favor of an event or individual piece of information

These biases all stem from human nature, which means nearly every investor is susceptible to them at some point. But there are steps you can take to mitigate the potential negative effects of bias on your own investment performance.

1 DEVELOP A FINANCIAL PLAN

Create context for all investment decisions that follow.

2 FOLLOW A PROCESS

Ensure well-defined, repeatable actions that remove emotion from your decisions.

3 STAY THE COURSE

Stick to your plan no matter what happens in the market.

Source: Morningstar Direct, Mind the Gap 2023.

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INTERNATIONAL HEADQUARTERS: THE RAYMOND JAMES FINANCIAL CENTER
880 CARILLON PARKWAY // ST. PETERSBURG, FL 33716 // 800.248.8863 // RAYMONDJAMES.COM