

5 Stressful Investing Behaviors to Avoid

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If responding to your clients' seemingly irrational and self-destructive (or at least portfolio-destructive) requests are increasing your stress, you're not alone. Maintaining client relationships and dealing with their demands was one of the top five stressors identified by advisors in our recent [Advisor Wellness survey](#).¹ Your otherwise-intelligent clients may be making poor decisions thanks to the influence of inherent biases we're all subject to. Fortunately, you can work to counteract these biases in yourself and your clients.

Here are five common behavioral biases savvy investors should be aware of:

1

RECENCY BIAS

People tend to overemphasize the importance of recent events and believe they are more likely to recur simply because they are readily remembered. This can cause investors to chase recent returns, rather than focusing on their long-term goals.

2

ILLUSION OF CONTROL

Investors might overestimate their ability to control or influence events or outcomes. For example, investors exhibit this bias when they believe they can consistently time markets or pick the best investment funds.

¹ [FlexShares Advisor Wellness Index Survey](#), December 2017.

3

LOSS AVERSION

Investors tend to prefer avoiding losses more than acquiring gains. As a result, they often fear short-term negative returns caused by volatility even when, over the long term, the expected return is positive. This can cause a misalignment between the portfolio and an investor's true risk tolerance, or result in costly market timing.

4

FAMILIARITY BIAS

People tend to favor the familiar over the unfamiliar. They may prefer stock from companies they're familiar with, rather than those they haven't heard of, regardless of projected performance or value. Familiarity bias also can lead to a **home bias**, for example, when investors prefer to invest in companies domiciled in their home country, even though doing so may produce inferior results to those they might obtain by diversifying globally.

5

MENTAL ACCOUNTING

Mental accounting is the tendency to separate assets into "sub accounts" or groups. For instance, an investor may feel he or she can take more risk with inherited money than with earned money. This can interfere with optimal asset allocation and hurt performance.

EDUCATE YOUR CLIENTS ABOUT BEHAVIORAL BIAS

Helping your clients understand the concept of behavioral biases and how to counter these natural tendencies may help them stay the course with their long-term investment plans. But it's important to be sensitive in how you approach the discussion. No one likes having their behavior questioned in the moment, and failing to plan your approach could actually create relationship stress. (Our recent paper, [How to Talk to Your Clients about Behavioral Bias](#), may help you plan your approach.) If you do it well, you may face less stress at work.

IMPORTANT INFORMATION

Before investing carefully consider the FlexShares investment objectives, risks, charges and expenses. This and other information is in the prospectus, a copy of which may be obtained by visiting www.flexshares.com. Read the prospectus carefully before you invest. Foreside Fund Services, LLC, distributor.

Please remember that all investments carry some level of risk, including the potential loss of principal invested. They do not typically grow at an even rate of return and may experience negative growth. As with any type of portfolio structuring, attempting to reduce risk and increase return could, at certain times, unintentionally reduce returns.

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