ANDERSON
WEALTH MANAGEMENT GROUP
of Wells Fargo Advisors

Are your personal biases derailing your investment goals?

Your investment portfolio may need variety to help fit your needs. Too much of one kind of asset, or too little, and you're likely to find yourself without the pieces that can potentially help you meet your long-term financial goals.

The trick is to guard against making decisions based on trends or biases you might not be aware you have. Tracie McMillion, head of Global Asset Allocation for Wells Fargo Investment Institute, took a closer look at some of the biases that can cloud your thinking:

Identify your biases

Even savvy and knowledgeable investors can be blind to their own biases — tendencies that can thwart smart decision-making. Common investment biases include:

Sector bias. All too often, professionals gravitate toward stocks in industries that they're most familiar with. Doctors, for instance, may load up on health care stocks.

- **Risk:** You may lose out on potential earnings in other industries and unduly expose yourself to downturns in industry-specific markets.
- **Consideration:** The key is to diversify among sectors. Work with your investment professionals to gain an understanding of how assets in various sectors may potentially help a portfolio perform better as a whole over the long term.

Company bias. From favoring a family business to maintaining too much loyalty to a long-time employer, this bias can weigh down a portfolio with one company's stock.

- **Risk:** Sinking too much of your retirement savings into one brand can leave you exposed to company-specific volatility risk that can be sizable. It can even expose your portfolio to the possibility that that one company may cease to exist.
- **Consideration:** Diversification may potentially help buffer the effects of severe problems at an individual company level.

Bias toward recent events. Called "recency bias," this tendency relates to how investors respond to everyday market activity. With investment information and the news of national and international events at our fingertips 24/7, many of us are very tuned in to what's happening in the world — and in the financial markets.

As human beings, we tend to project what has just happened into the future, reacting to upward and downward trends by buying and selling stocks as if yesterday's good or bad news will continue into the future.

- **Risk:** Letting short-term news drive your investment decisions could cause you to abandon your personalized, long-term investment plan.
- **Consideration:** Self-discipline. Work with your financial team to create a personal investment philosophy statement — and stick to it. This customized strategy should account for your desired asset mix, risk preferences, liquidity needs, and time horizon. And it can help you keep your cool when the headlines start to heat up.

Home country bias. Investors — be they American, Italian, or Brazilian — typically feel most comfortable when they choose to invest in companies headquartered in their home countries. After all, they're usually the companies that such investors read about in local or national media and the companies that they do business with as consumers most often.

- **Risk:** Home country bias may translate to missed investment opportunities. Heavy reliance on U.S. stocks, bonds, and real estate can keep you from expanding your investment strategy to take advantage of global investment opportunities.
- **Consideration:** We believe it's a good idea to see to it that most of your assets have some global component. And remember that while currency exchange rates may introduce risks to your portfolio, they also may pave the way toward enhanced returns.

Some additional caveats

In addition to these biases, we see other habits and attitudes that can affect our clients' portfolios. You may not be susceptible to all of these tendencies, but being aware of them can help keep your investment strategy on track:

- **Overconfidence.** Do you think you can beat the Street? Striving to micromanage your portfolio stock-by-stock or trying to outsmart the market in a short time frame is a common, but often flawed, tactic in our view. Instead, trust your plan and don't try to anticipate short-term market movements.
- **Aversion to loss.** Is there an asset you just can't bear to sell because it has lost value? Well, with each passing day, you could be putting off the inevitable, and in our view, you

may be robbing yourself of access to investment dollars that could be working for you elsewhere. Ask yourself if it's time to move on.

- **Anchoring.** This tactic comes into play when you hold on to an investment because you are comparing its current value to a reference value, such as a top-dollar price point from the past. Anchoring thinking might go something like this: "I just want the stock price to return to the high it hit two years ago before I sell." But by mooring yourself to a potentially unrealistic expectation, you may find that your investment plan doesn't move forward.
- **Favoritism in asset classes.** Are you showing preference for one type of asset over others? Do you have "rules" against investing in certain asset types? Showing favoritism may unnecessarily exclude a choice — including a new investment strategy — that could serve you well. Our goal is to help clients make their investment plans personal without allowing such unintentional biases and tendencies to creep in. The overall solution comes back to self-control during volatile times. Work with your investment team to maintain objectivity, manage risk, and stay focused on long-term goals rather than toward short-term investment — or emotional — rewards.

More about creating your personal investing philosophy

To help provide focus and direction, every investor should consider establishing a personal investment philosophy. For couples, the philosophy statement should reflect their mutual investment goals and their unified strategy as a household.

Here's a short list of action items that can get you started on formulating your personal investment strategy.

- **Determine how much cash you need** to hold to your commitment to your long-term investment plan. Before and during retirement, you may need to tap cash holdings to pay for living expenses, emergencies, or other major planned expenses, such as a son's or daughter's wedding. We call the amount of cash that you may need to access "your sleep-well number" — the figure that may allow you to feel more at ease regarding your investment plan.
- **Commit to diversification of your investments.** Not to sound repetitive, but this tactic can help you deal with market ups and downs. Just as you need an overcoat in winter and a swimsuit in summer, various assets simply tend to perform better during different economic cycles. So position yourself for different financial seasons with a diversified

combination of fixed income, equity holdings, real assets, and alternative investment strategies.

- **Actively manage risk.** Don't forget to revisit and rebalance your portfolio about once a year and when you experience a major life event. Reallocation can help your portfolio stay on plan and reduce risk or enhance return potential when markets have moved significantly.
- **Weave goals into your overall plan.** Many investors who have significant resources also have aspirations of making their world a better place. To understand how you spend your investment dollars, consider asking a financial advisor to run screens on your complete portfolio, including investments, charitable trusts, and asset transfers. Then collaborate on any adjustments needed to help the overarching investment plan operate within your customized preferences.

As always, if you have any questions on this topic or any others, feel free to contact any of us at any time.

We are happy to help.

Tay Jacoby-Fries
Financial Advisor, RICP®

Anderson Wealth Management Group | of Wells Fargo Advisors
California License #0N12781

9755 SW Barnes Road | Suite 295 | Portland, OR 97225
Ph: 971-394-2669| Fax: 971-394-2664

tay.jacobyfries@wellsfargoadvisors.com
www.andersonwmg.com

Andrew C. Anderson
Financial Advisor

Anderson Wealth Management Group | of Wells Fargo Advisors
California License #0B03182

9755 SW Barnes Road | Suite 295 | Portland, OR 97225
Ph: 971-394-2669| Fax: 971-394-2664

andrew.anderson@wfadvisors.com
www.andersonwmg.com

Kristin A. Quinn
Senior Registered Client Associate

Anderson Wealth Management Group | of Wells Fargo Advisors
9755 SW Barnes Road | Suite 295 | Portland, OR 97225
Ph: 971-394-2669| Fax: 971-394-2664

Kristin.Quinn@wfadvisors.com
www.andersonwmg.com

Katy Fackler
Senior Client Associate

Anderson Wealth Management Group | of Wells Fargo Advisors
9755 SW Barnes Road | Suite 295 | Portland, OR 97225
Ph: 971-394-2669| Fax: 971-394-2664

kathleen.fackler@wfadvisors.com
www.andersonwmg.com

This article was written for Wells Fargo Advisors and provided courtesy of Andrew C. Anderson, Financial Advisor and Tay Jacoby-Fries Financial Advisors in Portland, Oregon at 971-394-2669.

Investment and Insurance Products are:
- **Not Insured by the FDIC or Any Federal Government Agency**
- **Not a Deposit or Other Obligation of, or Guaranteed by, the Bank or Any Bank Affiliate**
- **Subject to Investment Risks, Including Possible Loss of the Principal Amount Invested**

Wells Fargo Advisors is a trade name used by Wells Fargo Clearing Services, LLC, Member SIPC, a registered broker-dealer and non-bank affiliate of Wells Fargo & Company.

©2023 Wells Fargo Clearing Services, LLC.

PM-06272025-6182621.1.1