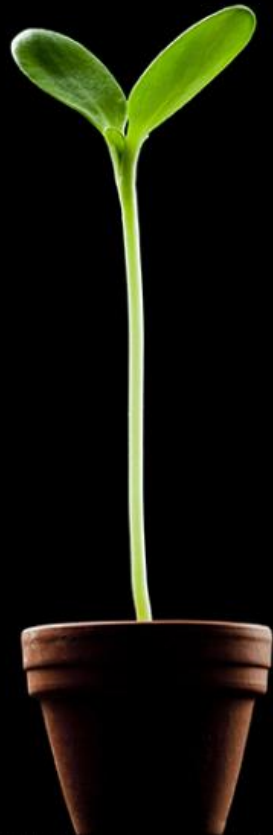


PROTECT

Guarding against mindless investing



[[AD_HOC:Presentername]]
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Important information and disclosures

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.

Diversification and strategic asset allocation do not assure profit or protect against loss in declining markets.

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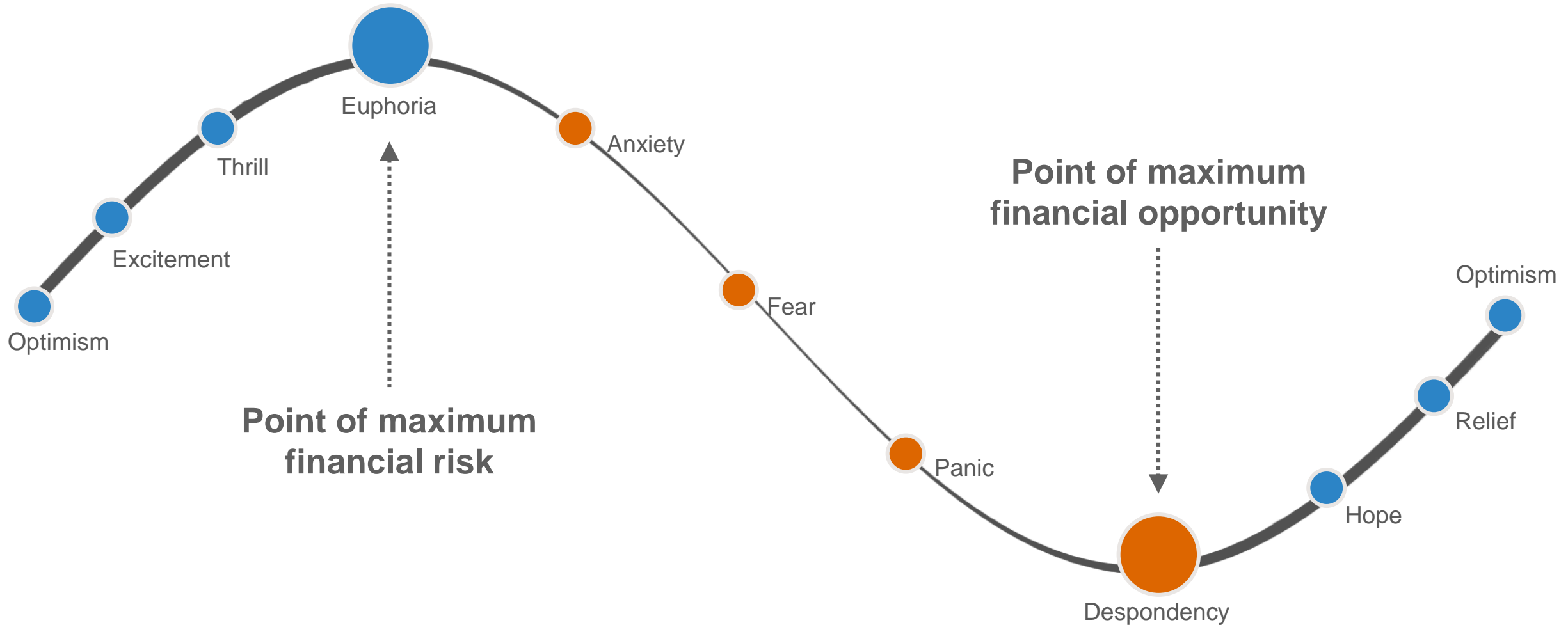
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Being a good investor is hard



For illustrative purposes only

Agenda

1. Humans are human
2. Common behaviors to watch for
3. The value of working with an advisor

Humans are human



Pop quiz

- > A bat and a ball together cost **\$1.10 total.**
- > The bat costs **a dollar more** than the ball.

How much does the ball cost?

~~10c~~ 5c



Pop quiz

> If it takes **five minutes** for **five machines** to make **five widgets**...

How long would it take
100 machines to make
100 widgets?

~~100~~

5



Pop quiz

> Now, calculate this, without a calculator.

$$378 \times 24$$

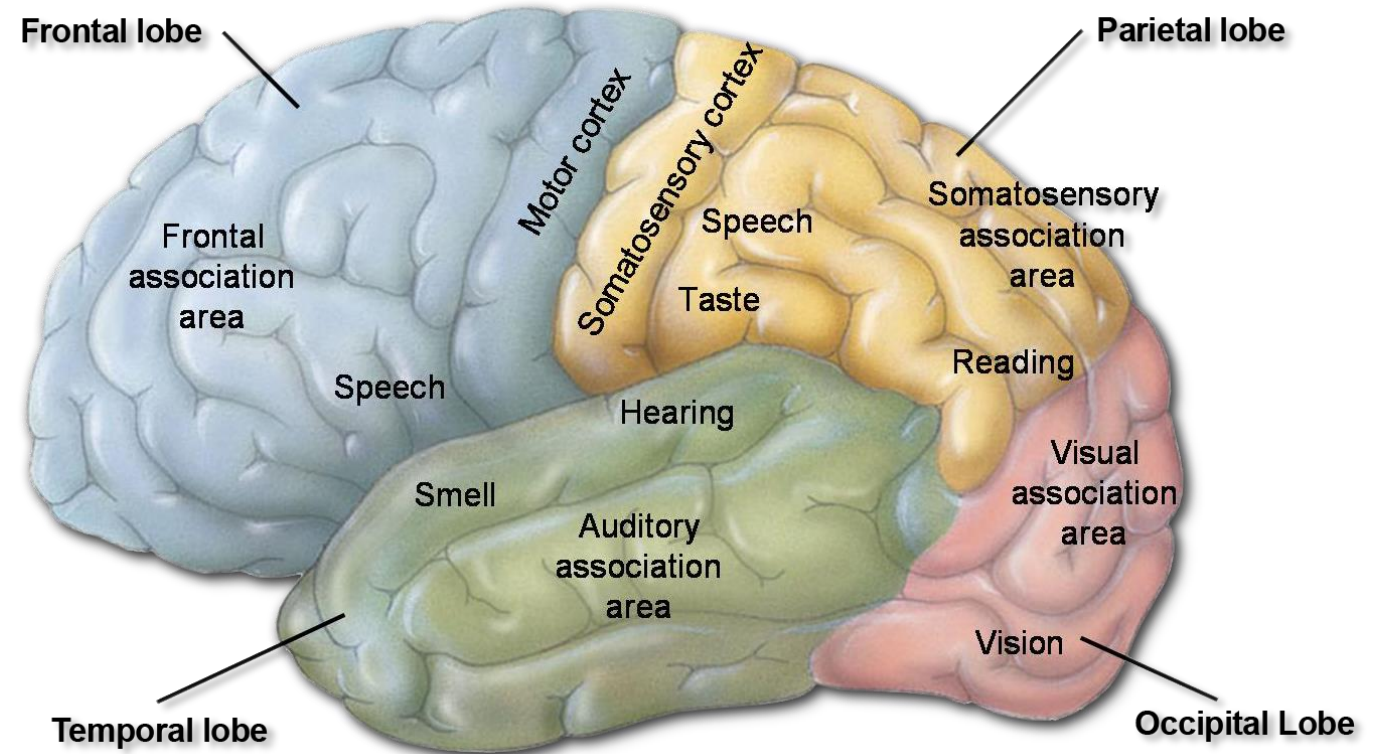
9,072



Houston, we have a problem

But sometimes our brain fails us...

- > Gives us wrong answer
- > Abandons us altogether



BLINK

Intuitive / Automatic

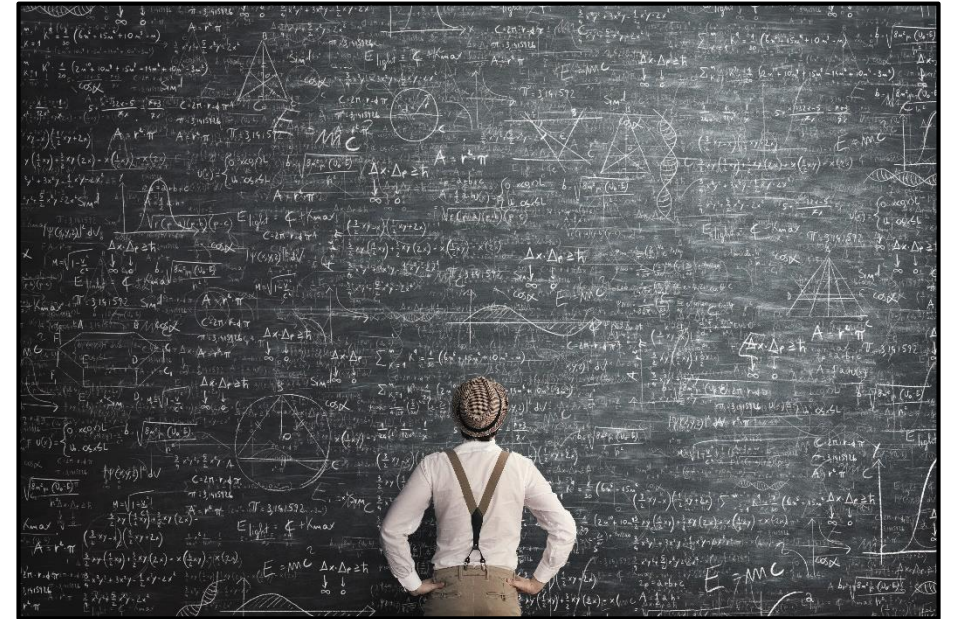


- > Effortless
- > Associative
- > Fast
- > Unconscious

HUMANS

THINK

Reflective / Rational



- > Effortful
- > Rule-following
- > Deductive
- > Slow

ECONS

Common behaviors to watch for



3 Common human behavioral mistakes to watch for

Helping avoid the pitfalls of humanity

Overconfidence



Herding



Familiarity



Behavioral mistake #1

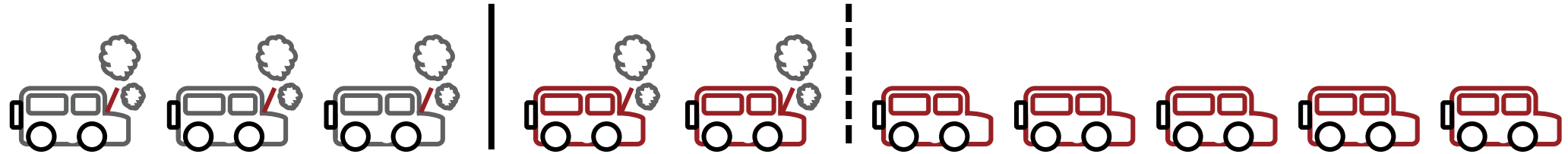
Compared to other drivers,
are you an

- ☐ above average,
- ☐ average
- ☐ below average

driver?



Behavioral mistake #1: Overconfidence



73% of drivers rate themselves as above average

Why does this happen?

Overestimate
our skills

Underestimate
the risks

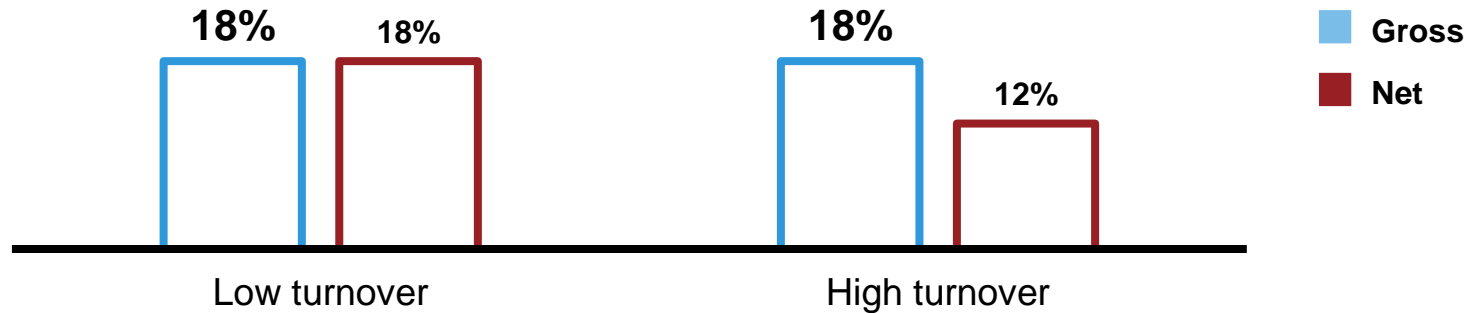
Exaggerate our
ability to control

Source for driver statistics: AAA Vehicle Technology Survey—Phase III, December 2017. file:///C:/Users/SoGilbert/Downloads/AV-Consumer-Survey-III-Fact-Sheet-FINAL-1.pdf Accessed on March 23, 2018.
Source for typical behavior: John R. Nofsinger, *The Psychology of Investing*, Pearson, 5th edition 2014.

Behavioral mistake #1: Overconfidence

High portfolio turnover

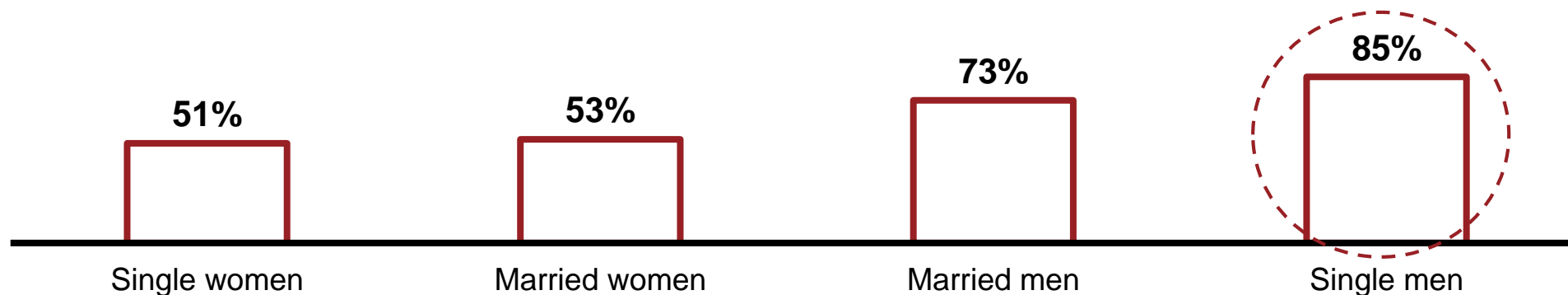
Gross & net return depending on portfolio turnover¹



Wealth implications:

- > Higher transaction costs
- > Lower net returns

Annual portfolio turnover²

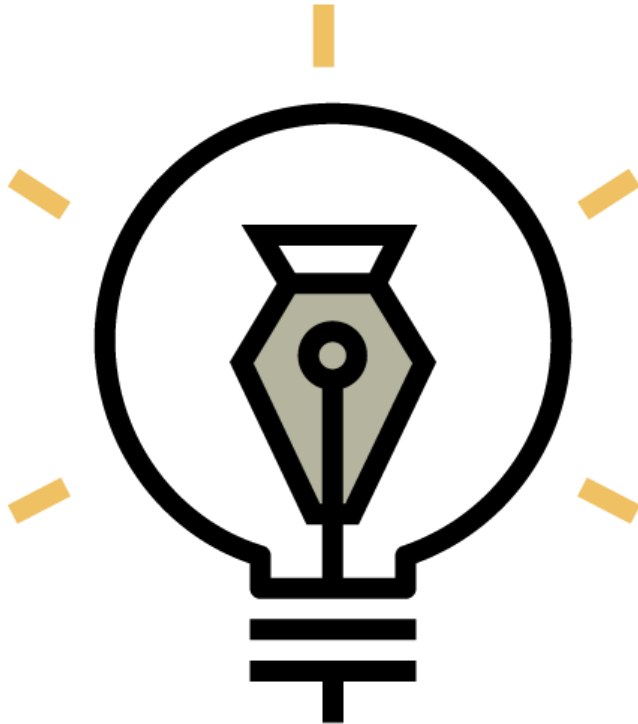


1. Source: Terrance Odean, Brad Barber, "Trading Is Hazardous to Your Wealth: The Common Stock Investment Performance of Individual Investors," Journal of Finance LV (2000): 773-806.

2. Source: Brad Barber, Terrance Odean, "Boys Will Be Boys: Gender, Overconfidence, and Common Stock Investments," Quarterly Journal of Economics 116(2001):261-292.

Behavioral mistake #1: **Overconfidence**

Avoid trading too often



**Check your
impulses and
rationale. Seek
perspective from
someone you trust.**

Behavioral mistake #2

Do these look familiar?



Why does this happen?

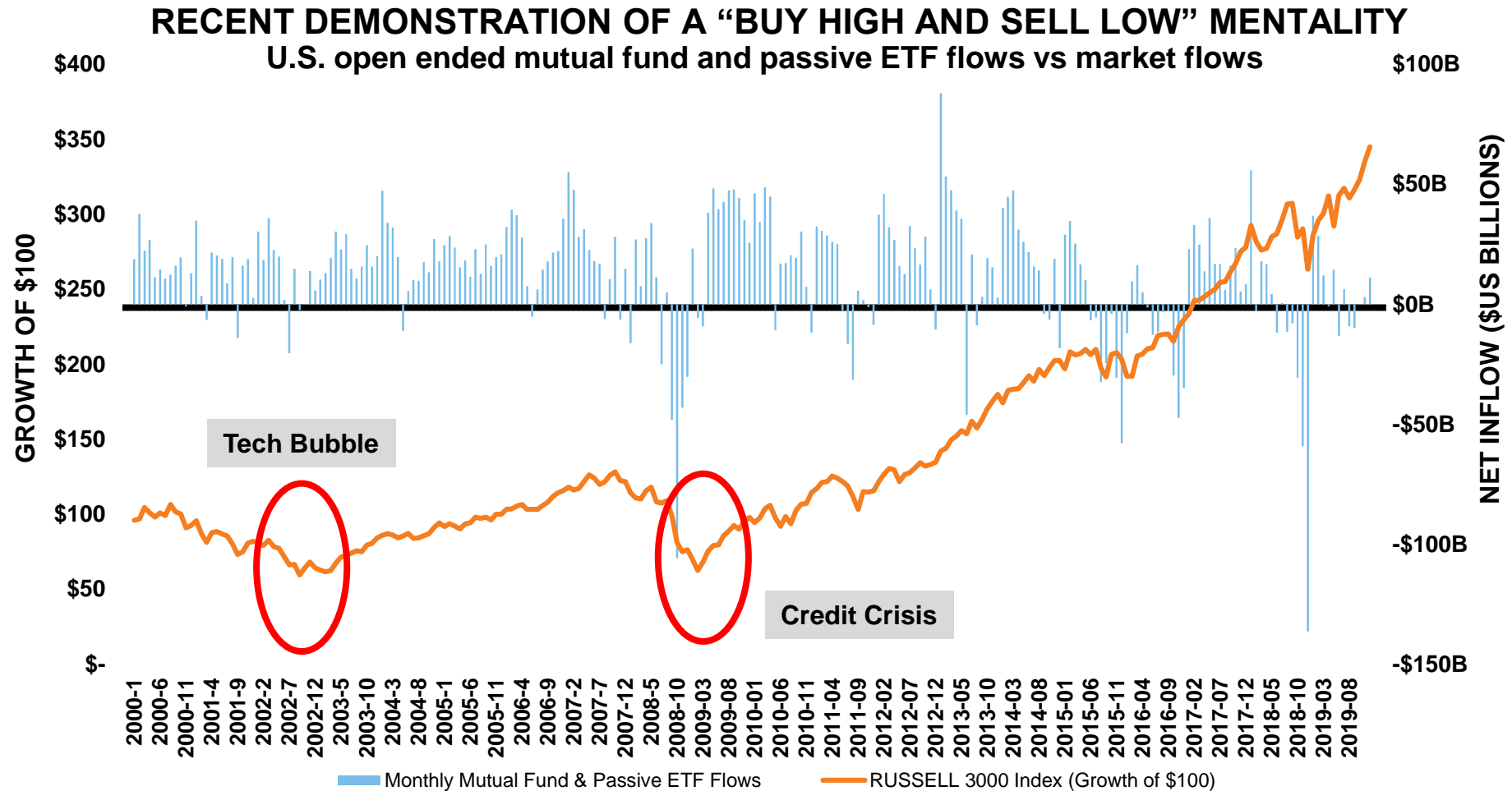
We are social

Perceive safety in numbers

FOMO

Behavioral mistake: Herding

Humans chasing returns



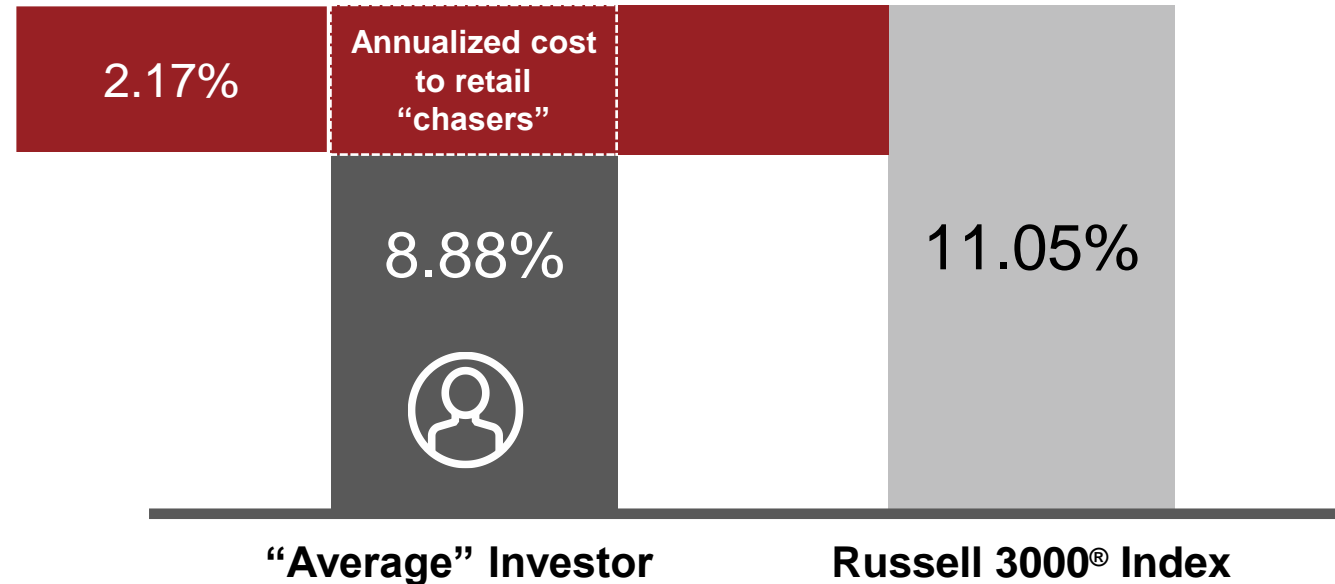
Data shown is historical and not an indicator of future results. | Sources: Monthly mutual fund, passive ETF flows and Russell 3000® Index, Morningstar, Direct | Data as of December 2019. Index performance is not indicative of the performance of any specific investment. Indexes are not managed and may not be invested in directly.

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Chasing performance

Wealth implications

THE HIGH COST OF INVESTOR BEHAVIOR 1984-2019



Source: "Average" Investor – Russell Investment Group, Thomson Reuters DataStream. Return was calculated by deriving the internal rate of return (IRR) based on ICI monthly fund flow data which was compared to the rate of return if invested in the Russell 3000® Index and held without alteration from January 1, 1984 to December 31, 2019. This seeks to illustrate how regularly increasing or decreasing equity exposure based on the current market trends can sacrifice even market like returns. Indexes and/or benchmarks are unmanaged and cannot be invested in directly. Returns represent past performance, are not a guarantee of future performance, and are not indicative of any specific investment.

Behavioral mistake #2: Herding

Avoid buy high and sell low



**Bring focus back to
your goals and
disciplined process.**

Behavioral mistake #3

Has this ever happened to you?



Why does this happen?

We are creatures of habit, prefer familiarity

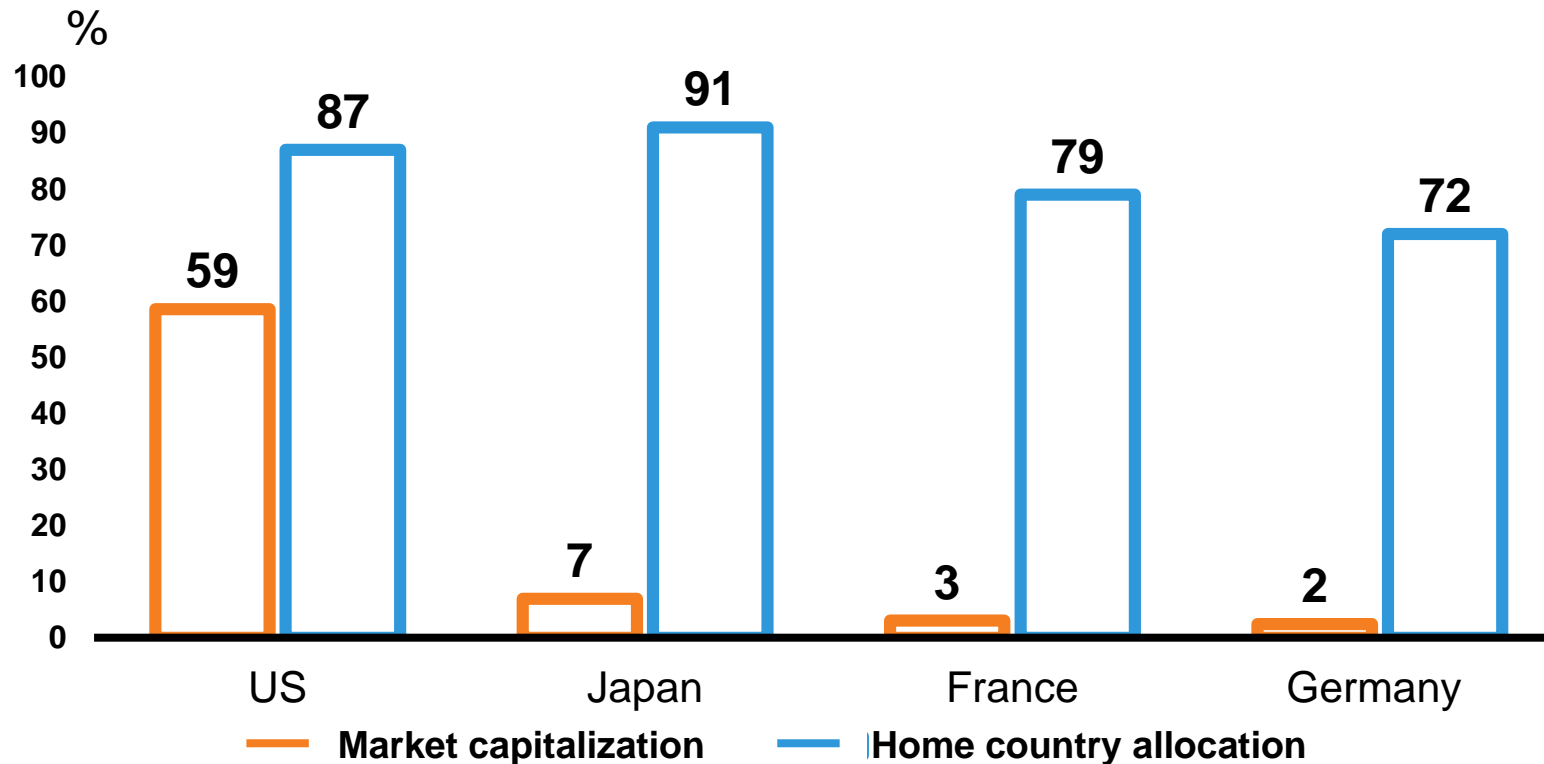
We like the concept of choices, but are easily overwhelmed

We are biased by what we think we know

Source: Royalty-free image license purchased from Getty Images. Image number: 88636504.

Behavioral mistake #3: Familiarity bias

Overweight home country market



Wealth implications:

- > Miss out on potential return opportunities
- > Concentration can lead to unintended increase in risk

Behavioral mistake #3: **Familiarity bias**

Avoid overweighting your home country



**Diversify
and cast a
wider net**

Jeopardizing the health of wealth

Summary

Overconfidence

Humans tend to over-estimate or exaggerate our ability to successfully perform tasks



Herding

Humans tend to mimic the actions of the larger group



Familiarity

Humans tend to prefer what is familiar or well-known



can lead to...

Trade too often

Buy high, sell low

Overweight home country

can be managed...

Check your impulses and rationale. Seek perspective from others.

Focus on long-term goals and emphasize a disciplined process

Diversify and cast a wider net

The value of working with an advisor



The value of an advisor relationship

Financial Planning

Financial Therapist

Rebalancing Strategy

Investment Advocate

Tax Coordination

Financial Quarterback

Get started today!

Guarding against mindless investing



Be aware of the pitfalls of your own humanity



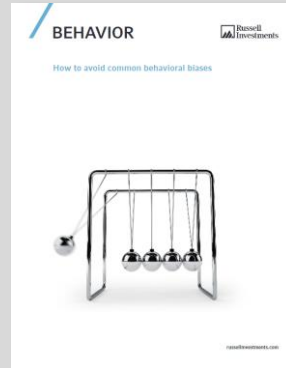
Invite others to the conversation



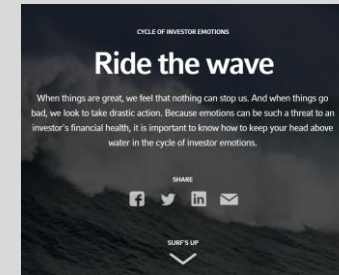
Actively work with your advisor to help avoid behavioral mistakes

More powerful resources and tools

Take advantage of our business solutions resources below



Behavioral Bias
Brochure



Cycle of Investor
Emotions



Scan the code with your cell phone camera to access these resources and tools

Thank you.

Any questions?

