Decisions can be challenging
Fight or flight
SIX BARRIERS TO INVESTMENT SUCCESS

Uncovering your behavioural biases
Today’s discussion

- Availability Bias
- Herding
- Loss Aversion
- Present Bias
- Anchoring
- Home Country Bias
Availability Bias

Our thinking is strongly influenced by what is most relevant, recent or dramatic.
Where is the danger?
The lasting impact of a down market

S&P 500 Index Annual Returns and Franklin Templeton US Investor Sentiment Survey Results

2/3 of U.S. investors thought the market was down or flat.¹

¹ Source: Morningstar.
² Source: 2010 Franklin Templeton Investor Sentiment Survey conducted in partnership with ORC International of at least 1,000 US adult respondents.

This chart is for illustrative purposes only and does not reflect the performance of any Franklin Templeton fund. Past performance does not guarantee future results.
Average Annual Total Returns
20-Year period ended December 31, 2017

This chart is for illustrative purposes only and does not reflect the performance of any Franklin Templeton fund.

Source: S&P 500: Morningstar; Average Equity Investor Annualized Return: “Quantitative Analysis of Investor behaviour, 2017,” DALBAR, Inc. Indexes are unmanaged and one cannot invest directly in an index. Most recent data available.
Herding

We follow the crowd because we fear making mistakes or missing opportunities.
It’s hard to go against the crowd
Bubbles throughout history

- Tulipmania: 1636–1637
- Roaring 20's: 1929
- Dot-Com: 2000–2002
- U.S. Real Estate: 2006–2012

The problem of going with the flow

S&P/TSX Composite Index Performance vs. Equity Funds
20-Year Period Ending March 31, 2018

This chart is for illustrative purposes only and does not reflect the performance of any Franklin Templeton fund. Past performance does not guarantee future results and results may differ over future time periods.

Sources: Morningstar Research Inc. and Investor Economics.
Loss Aversion

We prefer avoiding losses because the associated pain feels stronger than the reward felt from a gain.
We learn the pain of loss early
Cash Increases During Market Pullbacks

**Fear drives investors into cash**

Global Financial Crisis/
The Great Recession
August 2007–July 2009

Collapse in Oil Prices
August 2014–May 2016

= $78B\text{CAD}$

= $101B\text{CAD}$

Source: Strategic Insight Inc.
Perceived safety may come at a cost

Money Market Funds’ Average Yield Before and After Inflation
January 31, 2000 – June 30, 2018

This chart is for illustrative purposes only and does not reflect the performance of any Franklin Templeton fund.
Sources: Morningstar Research Inc. and Statistics Canada.
Present Bias

We overvalue immediate rewards at the expense of long-term goals.
Delaying gratification is challenging
National savings rate has declined

Canada Personal Savings Rate
Annual Percentage of Disposable Income (December 31, 1981 – December 31, 2016)

Source: Statistics Canada.
Retirement savings are meagre

Retirement Assets
Canadian households ages 55–64

Investor Economics (now a division of Strategic Insight) based on their Investor Economics Household Balance Sheet Report—Canada 2017 (data through December 2016)
Anchoring

We have a tendency to rely too heavily on one piece of information when making decisions.
Expectations frame our feelings about decisions
Anchors influence performance expectations

Franklin Templeton U.S. Investor Sentiment Survey Results

- 20% Average annual return in a year the stock market is up 20%
- 15% Average annual return over a 5-year period
- 8% Average annual return over a 5-year period

Source: 2015 Franklin Templeton Investor Sentiment Survey conducted in partnership with ORC International of at least 500 US adult investors.
The full picture tells a different story

S&P 500 Index vs. an 8% average annual return
Growth of a $10,000 investment for the 30-year period ended December 31, 2017

This chart is for illustrative purposes only and does not reflect the performance of any Franklin Templeton fund. Past performance does not guarantee future results.

Source: Morningstar.
Home Country Bias

We favour things from our home markets.
Home sweet home
Investors may be out of step

Potential for Greater Allocation to Foreign Investments by Canadian Investors

- **World Market Capitalization**¹: 3%
- **Canadian Retail Investors**²: 82%

1. Source: Bloomberg, as of March 31, 2018
2. Source: Investor Economics as of March 31, 2018
Investing close to home: What You’re Missing

Staying Close to Home Doesn’t Always Get You the Right Diversification

In summary

• Availability Bias
• Herding
• Loss Aversion
• Present Bias
• Anchoring
• Home Country Bias
Expert coaching makes a difference

Your personal trainer will help you:

• Build a long-term strategy
• Keep emotions in check
• Stay on track

Your financial advisor will help you:
Franklin Templeton Investments
A Trusted, Long-Term Partner in Investment Management

Focus on Investment Excellence

Global Perspective Shaped by Local Expertise

Strength and Experience
Learn more about investor behaviour

franklintempleton.ca/investorbehaviour
All investments involve risks, including possible loss of principal. Stock prices fluctuate, sometimes rapidly and dramatically, due to factors affecting individual companies, particular industries or sectors, or general market conditions. Special risks are associated with foreign investing, including currency fluctuations, economic instability and political developments.


Franklin Templeton Investments Canada is a business name used by Franklin Templeton Investments Corp.