



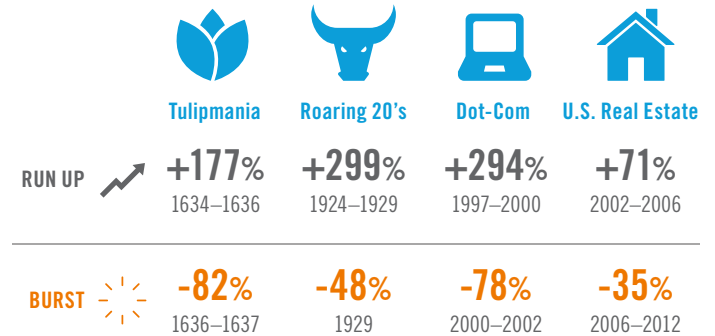
HERDING

We follow the crowd because we fear making mistakes or missing opportunities.

The wisdom of crowds?

Throughout history, investors have faced strong temptation to join the investment bandwagon based on emotions, rather than a sound financial strategy. The illustration to the right shows four well-known financial bubbles. During the run up of these bubbles, investors bid up the prices of tulip bulbs, stocks and real estate to unsustainable levels. But, even more quickly than they expanded, these markets burst and contracted leaving the herd scrambling.

BUBBLES THROUGHOUT HISTORY¹



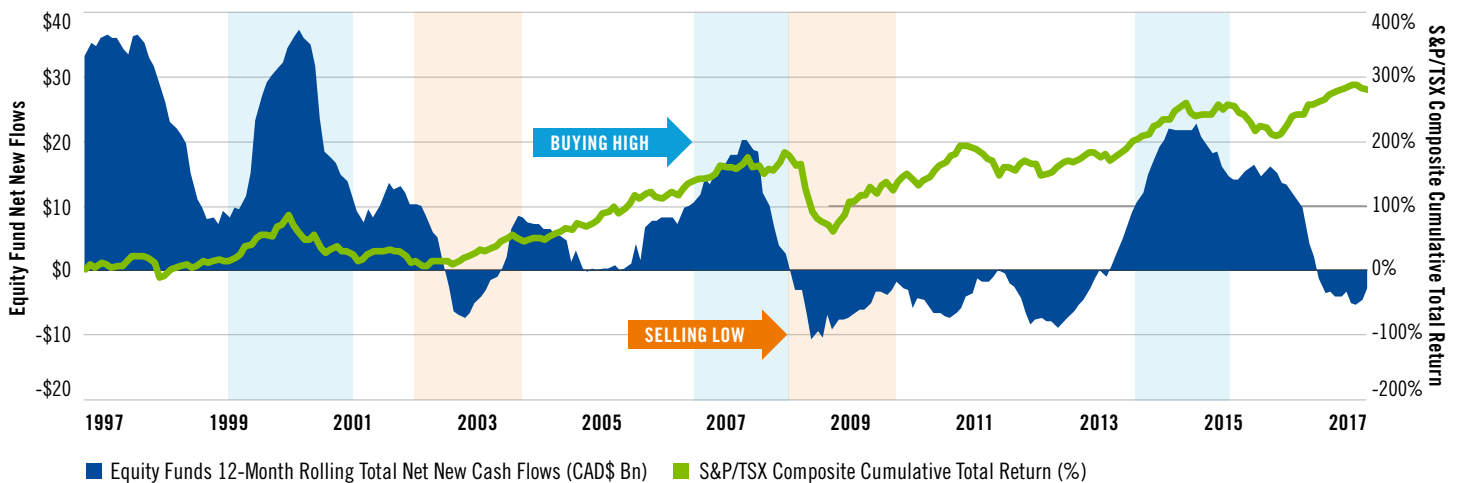
The problem of going with the flow

In the chart below, the green line represents the performance of the S&P/TSX Composite Index since 1997 and the blue shading represents equity fund flows. When the S&P/TSX Index performed well during the Internet Boom, there was an influx of money into equity funds (buying high). Conversely, when the market pulled back during the Global Financial Crisis, investors withdrew their money from equities (selling low).

INVESTORS FOLLOWING THE HERD HAVE HISTORICALLY BOUGHT HIGH AND SOLD LOW

S&P/TSX Composite Index Performance vs. Equity Funds²

20-Year Period Ended June 30, 2017



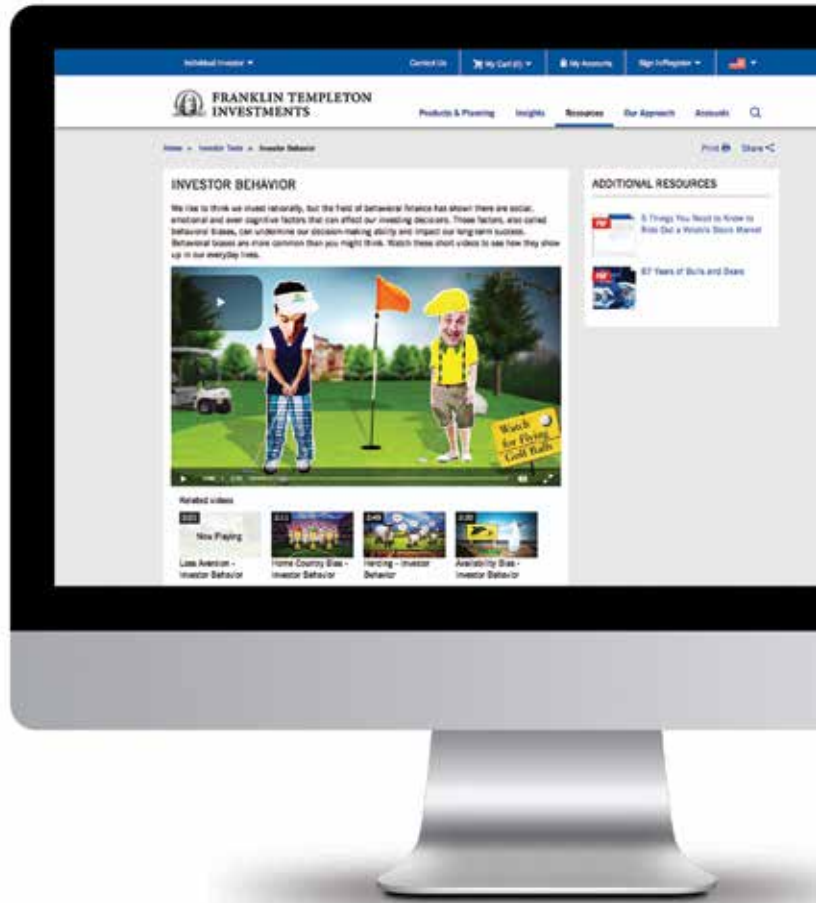
These charts are for illustrative purposes only and do not reflect the performance of any Franklin Templeton fund.

Past performance does not guarantee future results.

1. Sources: Tulipmania Dec. 1634–May 1637: Thompson, Earl A. "The Tulipmania: Fact or Artifact?" Public Choice, 2007; Roaring '20s Dec. 1924–Nov. 1929: Dow Jones Industrial Average; Dot-Com Jan. 1997–Oct. 2002: NASDAQ Index; Real Estate Jan. 2002–Mar. 2012: Case-Shiller Housing Index.

2. Sources: S&P 500 Index: Morningstar; Equity Fund Flows: ICI. Flows are represented by monthly rolling 12-month net new cash flows. Indexes are unmanaged and one cannot invest directly in an index.

For videos highlighting how behavioural biases can impact our everyday lives, visit www.franklintempleton.ca/investorbehaviour



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