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Signature Estate & Investment Advisors LLC
Theodore E. Saadé, CFP®, AIF®, CMFC, Senior Partner

"Are you [financially] biased?"

By Theodore E. Saadé

Human nature often works against our financial best interests. Between January 1, 1993, and December 31, 2012, the average equity investor realized a 4.3 percent annualized return. During the same time period, the S&P 500 index averaged an 8.2 percent annualized return.[1] So, despite living in an age of constant communication, the average investor missed out on nearly *half* of the positive market performance over the past 20 years.

It's a distressing trend, particularly in light of the millions of baby boomers either entering or fast approaching retirement. And make no mistake: Those unrealized returns have a significant adverse impact: For instance, on a $2 million portfolio, without factoring in the effects of inflation or taxes, the higher annualized return would have resulted in an extra $5 million in portfolio value ($9,673,312 versus $4,642,118).

But it's not a lack of investor knowledge that's to blame for the underperformance. Our industry has educated investors about the increasing correlation between traditional asset classes, the growing importance of enhanced asset diversification with alternative investments and other more active tactical allocation strategies, such as hedge funds, as well as the critical need to structure investment portfolios to be more tax-efficient income generators.

Where we've missed the mark is on helping investors understand the powerful psychological biases that lead us to bad investment decisions.

BASIC EMOTIONS DRIVE BAD DECISIONS

In the 1980s, Nobel Laureate Daniel Kahneman established the foundations of behavioral finance—a field that's grown extensively over two decades thanks to the collaboration of Richard Thaler and Shlomo Benartzi, who identified five common biases that work against our financial aims:

- **Status quo bias:** Preferring your current state, often procrastinating and delaying decisions—even those in your best interest.
- **Present bias:** Placing a higher value on a benefit received today than one received in the future.
- **Confirmation bias:** Seeking information that confirms our beliefs while ignoring information contrary to them.
- **Availability bias:** Responding more strongly to information that's recent, easily obtainable and emotionally charged.
- **Clue-seeking bias:** Subconsciously looking for nonexistent clues (choosing the first thing on a list) when we're faced with complex decisions.

These biases work in tandem to divert us from our investment objectives. Our "lizard brains" take over, leading to poor decisions. We see a steep market drop, and our availability bias leads us to flee to cash and miss out on the recovery. Status quo bias and present bias team up in our retirement plans, leading us to defer less than we should in exchange for enhanced liquidity. And our confirmation bias and availability bias cajole us to buy the hot stock, despite its way over-inflated P/E ratio.

SIMPLE STEPS TO KEEP YOU ON TRACK

Just as with an addiction, the first step in overcoming these biases is to acknowledge the impact they have on your own financial decision-making. Don't acquiesce to the misperception that cognitive biases are something that "*other people*" suffer from—we *all* do.

Avoid snap decisions with any financial matter. Focus as much on your portfolio's tax-efficiency and diversification as on its return. Seek out contrary data and opinions. Turn off CNBC and stay focused on a process and a plan.

And above all, rely on your financial advisor. Establish a comprehensive plan that addresses both short- and long-term goals, and continuously monitor that plan. The best advisors don't distinguish themselves with hot tips or the latest investment trends; they maintain frequent, ongoing contact with you to help you keep on track toward your ultimate objectives.

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[1] *"The Importance of Asset Allocation," Robert Baird and Associates, 2013.*

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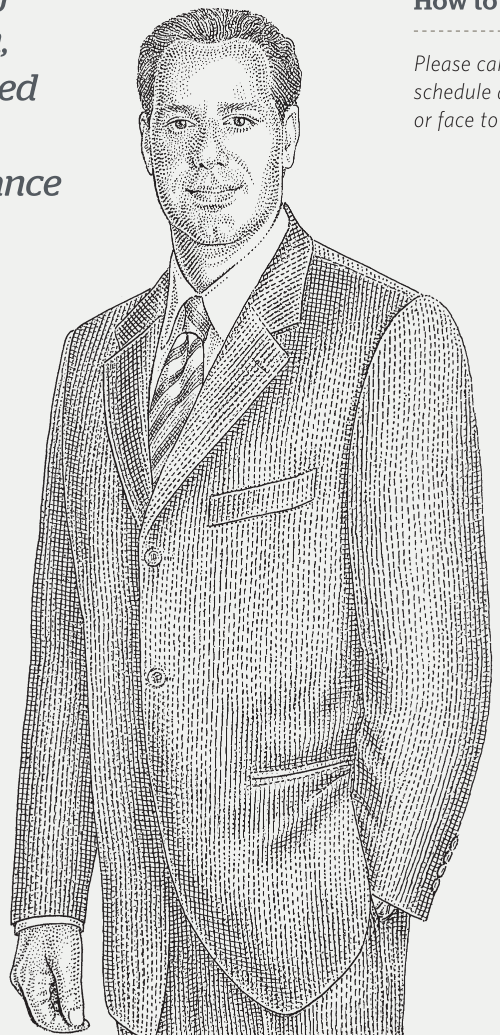
—Theodore E. Saadé



How to reach Theodore E. Saadé

Please call my office at 310.712.2323 *to schedule a meeting, either over the telephone or face to face.*

WHAT’S ON MY DESK…

Two computer monitors, a phone, an iPad and trade publications

I NEVER LEAVE HOME WITHOUT…

Kissing my wife and kids goodbye

MY HOBBIES ARE…

Traveling, skiing, exercising and spending time with my family

About Theodore E. Saadé

Theodore E. Saadé has been in the financial services industry since 1995. He joined Signature Estate & Investment Advisors LLC in 1997 as the firm was opening its doors. In just over 15 years, SEIA has surpassed the milestone of $4B in assets under management. Mr. Saadé is a Certified Financial Planner, Accredited Investment Fiduciary and a Chartered Mutual Fund Counselor. He received a bachelor’s degree in economics with a specialization in biochemistry from the University of California–Los Angeles. Mr. Saadé specializes in overall wealth management and investment strategies for affluent individuals, foundations and corporations. A long-time resident of Los Angeles, he is involved in multiple charities throughout Southern California.

Assets Under Management
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None required

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$2 million (estate planning)
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Largest Client Net Worth
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