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SIGNATURE ESTATE & INVESTMENT ADVISORS, LLC®
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CHECK YOUR BIASES

FEATURE

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Why do some 401k plan participants invest equally across all the available plan options, regardless of their financial goals or comfort with risk?

Why do so many investors panic and sell after the market has already dropped 20%?

Why do employees often hold large concentrated allocations in their own employer's stock, even when they know that they're increasing their overall investment risk by doing so?

Why do people tend to buy stock in a company whose products they like and use, regardless of whether or not the company's fundamentals are strong?

The answer to these and countless other investment "head-scratcher" questions relates to our human emotions and the cognitive biases that affect all of us. These biases not only impair our ability to remain emotionally disconnected from our money, they have the potential to derail even the most carefully constructed investment portfolios and financial plans. One very tangible emotion felt by many investors, particularly when markets are declining, is stress. John Coates, a former trader turned neurologist, studied the effect of persistent exposure to stress on investment decision-making ability.[1] He tested the cortisol levels of professional traders and found that it took a mere eight days of elevated market volatility to cause cortisol levels to skyrocket by 68%. What exactly was the impact of that rise? It led to a remarkable 44% decline in the trader's appetite for risk. Coates was eventually able to calculate that individuals lose roughly 13% of their cognitive capacity when placed under stress.

With markets at or near all-time highs, and the current economic cycle eclipsing the longest in U.S. history, stress and cognitive biases have the potential to be more damaging than ever – causing even the most seasoned investors to trade at the wrong time for the wrong reasons. So, let's take a closer look at some of the most common of these cognitive biases, and how investors can overcome them to achieve better outcomes:

1. Familiarity bias

Studies show that investors tend to prefer stocks in companies that they buy products from, work for, have a family connection to, or which are located near their home. Because of this familiarity bias, investors often perceive that an investment is less risky than it actually may be. The most evident and widespread example of this is home bias.

While the U.S. boasts one of the largest economies in the world, it still only accounts for less than one-fifth of global GDP. Yet, many U.S. investors hold a disproportionate amount of assets in domestic equities. Beyond that, home bias is also

1 Endogenous steroids and financial risk taking on a London trading floor

continued on page 3...

"I believe successful wealth management is the result of an ongoing collaboration between investor and advisor, built upon trust and maintained according to the highest standards of integrity and expertise.

Brian D. Holmes, MS, CFP®, CMFC, AIF®, *President & CEO*

ABOUT SEIA

Signature Estate & Investment Advisors, LLC® (SEIA) is a Registered Investment Advisor firm offering Investment Supervision and Financial Planning Services tailored to align the unique needs of affluent individuals and corporations. Fundamental experience and professionalism enable the financial advisors, with SEIA's research and support staff, to design a financial plan or investment portfolio to align the client's goals.

THE SEVEN INVESTMENT BIASES TO WATCH OUT FOR

1. Familiarity bias
2. Confirmation bias
3. Loss aversion
4. Hot hand fallacy
5. Sunk cost fallacy
6. Overconfidence
7. Status quo bias

HOLIDAY GREETINGS TO YOU & YOURS

As we embark on a new decade we look back on the last 22 years with gratitude and appreciation. The wonderful strides and growth SEIA has enjoyed is because of you, our clients.

In line with the vision of our President and CEO Brian Holmes along with our partners, we once again are expanding our philanthropic efforts.

With that in mind, SEIA will be making donations to select charities throughout the area that are focused on helping so many in need, particularly underprivileged youth.

We thank you for your support with our charitable endeavors and look to the future with hopeful expectations.

Holiday Greetings, and Best Wishes to You & Yours.

SAVE THE DATES

Jan 30
Waldorf Astoria, Beverly Hills

Liz Ann Sonders
Senior Vice President,
Chief Investment Strategist
Charles Schwab & Co, Inc.

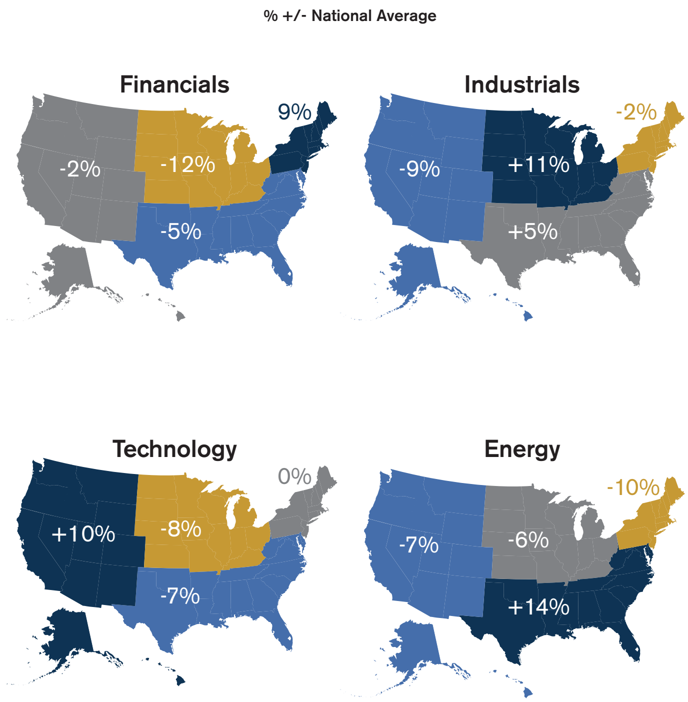
Feb 16
Genesis Invitational at the Riviera Country Club

Mar 6-8
Hoag Classic

Newport Beach Country Club
Your choice of dates, while available

Please contact your SEIA financial advisory team for more information.

INVESTOR ALLOCATION BY REGION:
likelihood of owning stocks in an industry vs. national average[2]



evident regionally. For example, investors in the northeast U.S. tend to have a greater allocation to Financial companies in their portfolios; likely a result of their proximity and familiarity with financial institutions based in New York and Boston.

How to combat: *Stick to a more structured, disciplined investment strategy to help minimize the impact of subjective influences such as home bias and familiarity bias.*

2. Confirmation bias

As individuals, we tend to seek out information that conforms to our current beliefs. Whether it's subscribing to particular news feeds or surrounding ourselves with like-minded social media friends, it's easier than ever to slip into an echo chamber of uniform thoughts, beliefs and information that supports our current opinion. People love to be told what they already "know," and get uncomfortable when you tell them something new. It's simply human nature to prefer having our existing beliefs confirmed rather than having to question why one might be wrong.

How to combat: *Always challenge your prior conclusions. Seek out contrary opinions. And make a concerted effort to consider both sides of every debate equally.*

3. Loss aversion

For most of us, the fear of experiencing a loss far outweighs the pleasure associated with experiencing a similar gain. Nobel Laureate, Richard Thaler, found that we feel the pain of a loss twice as much as we feel the joy from an equal-sized gain. The result is that we tend to avoid risk when and where possible. It's a phenomenon that the media is all too aware of – intentionally leading with scary or sensational stories to grab your attention by exploiting this bias.

How to combat: *While information is more readily available than ever, the sheer quantity doesn't necessarily make it useful. In fact, parsing through the noise may be harder than ever. Employ a healthy skepticism when consuming media and seek out contrarian perspectives. You just may find that less is more when it comes to information.*

4. Hot hand fallacy

This refers to the notion that a string of recent successes will likely be followed by more success. Certainly, the concept of momentum does exist in the investing world. But once an individual investor begins to think they have a hot hand, other behavioral biases like overconfidence and recency bias tend to creep in and lead to suboptimal outcomes.

Case in point: since the 2008 financial crisis, U.S. Growth stocks have had the metaphorical 'hot hand', consistently outperforming International and Value stocks by a wide margin. This has caused some investors to throw in the towel entirely on International and Value. Prudent investors, however, know that certain geographies and styles can experience long periods of relative underperformance, only to quickly and spectacularly take the lead when the tide turns.

How to combat: *Try to separate skill from luck when assessing performance by looking at longer-term metrics. When determining expectations for future performance, review asset classes and investment styles over decades, not quarters or years.*

5. Sunk cost fallacy

Have you ever invested more into a stock that has fallen, convincing yourself that by buying additional shares you'll be able to recoup your earlier losses? Welcome to sunken cost fallacy. Simply put, the more you invest in something, the harder it psychologically becomes to abandon it.

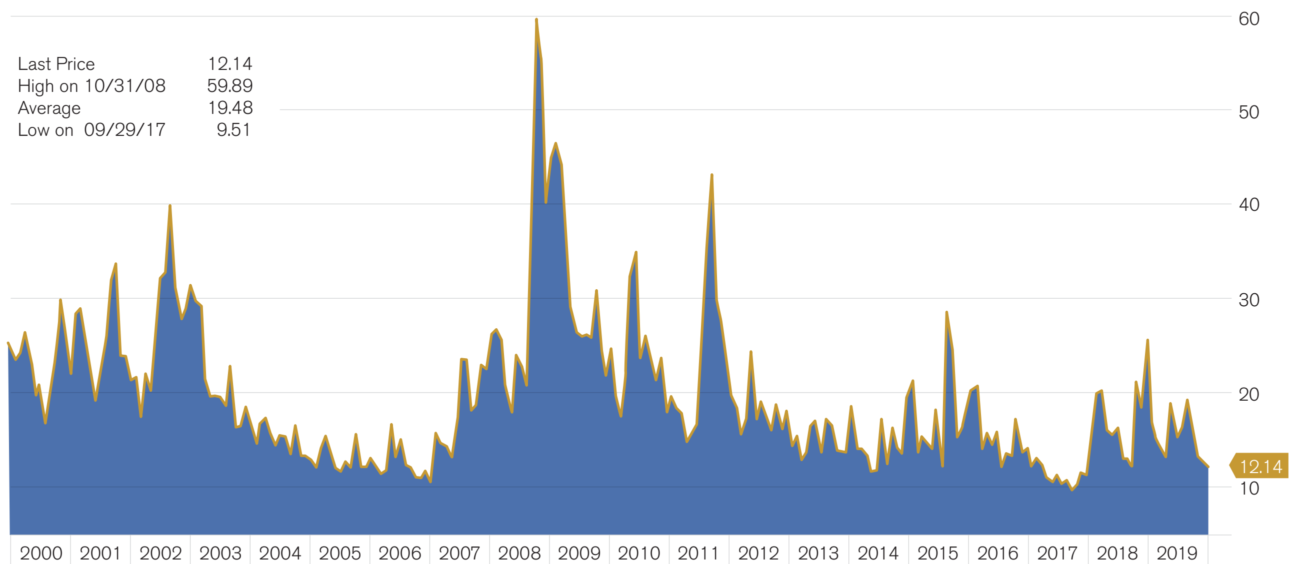
How to combat: *Strive to keep the big picture and your total portfolio (not just one position) in mind whenever making investment decisions. Often, it's best to just cut your losses and move on.*

6. Overconfidence

Ask a room full of people, how many of them think they're a better than average driver. Though a statistical impossibility,

2 Source: IMF, Openfolio, Strategic Insight Simfund, JP Morgan Asset Management. Investor allocation by region is based on data collected by OpenFolio. Average sector allocations at the national level are determined by looking at the sector allocations of over 20,000 brokerage accounts, and taking a simple average. Portfolio allocations are then evaluated on a regional basis, and the regional averages are compared to the national average to highlight any investor biases.

VIX INDEX (CBOE Volatility Index)[4]



undoubtedly far more than half of the audience will raise their hands. We naturally tend to be overconfident, and are prone to revising our beliefs only when it suits us.

In fact, studies have demonstrated that most investors consistently overestimate both the future and past performance of their investments. Looking solely at investors who believed they had outperformed the market, research shows that fully one-third of those individuals actually lagged by at least 5%, and another quarter lagged by more than 15%![3] Our overconfidence creates an alternative reality to protect us from feeling bad. However, this tendency often leads to investors holding undiversified portfolios and taking excessive risks.

How to combat: *Emphasize process, guidelines, and rules when structuring your financial plan and investment policy. Those rules will help you systematically buy and sell, even when it may not feel good. And discuss with your advisor what actions you'll take when the next market correction comes along. By identifying responses, before a stressful event happens, you may feel a greater sense of control when one actually occurs.*

7. Status quo bias

Humans are inherently creatures of habit who are averse to change. We prefer the current state of affairs. It's the reason many portfolios end up with hundreds of holdings over time, also known as the endowment effect. But these sentimental attachments to a stock or portfolio can be problematic when it introduces undue investment risk or results in a suboptimal asset allocation. A long, drawn out economic cycle with relatively low volatility (like the one we're currently experiencing) can lull investors into a false sense of complacency.

How to combat: *Sit down with your advisor, take out a blank sheet of paper and sketch out what your ideal portfolio would look like (based on your goals, risk tolerance, and preferences) if you were starting from scratch. If that portfolio measurably differs from your current portfolio, there's a chance your current portfolio may be suboptimal. Keep in mind that volatility can return without warning, so now's the time to have your portfolio and financial plan stress-tested and ready for whatever the future may hold.*

Just as with an addiction, the first step to overcoming emotions and cognitive biases is to acknowledge the impact they have on your financial decision-making. But acknowledging them isn't enough. You also need to commit to taking proactive steps to avoid them. It starts by working with your financial advisor to develop a well thought out financial plan and an investment policy statement that defines your ability and willingness to take on risk and acknowledges the history of financial market returns and the inevitability of bear markets.

The best advisors don't distinguish themselves with hot tips or following the latest investment trends; they maintain frequent, ongoing contact with you to help keep you on track toward your ultimate objectives.

3 The Behavioral Investor by Dr. Daniel Crosby,
4 Bloomberg

SEIA ACCOLADES & ACCOMPLISHMENTS

As we wrap up 2019 and prepare for the start of a new decade, we wanted to take a moment to recognize the accolades and accomplishments of several members of the SEIA family who have recently received community and/or firm acknowledgment for their many contributions:

Jennifer Kim,
MS, CFP®, CMFC®, ChFC®, CLU®,
Senior Partner

A Senior Partner at SEIA, Jennifer was recently selected to be a 2019 Women of Achievement Award honoree by the Century City Chamber of Commerce. This annual award honors women in the community whose professional dedication, charitable involvement and commitment to excellence are an inspiration to all.

In addition to becoming one of the most successful women in a male dominated industry (while raising four children in the process), Jennifer's extensive charity and community involvement includes:

- Working with Covenant House California to help homeless children and youth;
- Serving on the Parent Association board at St. James' Episcopal School (where she also started the Girl Scouts seven years ago and still serves as troop leader);
- Past president of the Women's Auxiliary Council of the Korean American Museum; and
- A member of NGA (Needlework Guild of America-Hancock Park Branch), helping local children and women in need with clothing, shoes, linens and personal care items.

We feel incredibly fortunate that Jennifer has been an integral member of the SEIA team since our firm's inception in 1997.

John P. Keenan,
CFP®, AIF®, C(k)P®,
Senior Partner

John was recently named a Senior Partner at the firm. Working out of our Tysons Corner, VA office, John and his team have successfully built a thriving practice providing financial planning, succession planning and estate planning services to high net worth business owners (particularly those serving as government contractors) throughout the Washington D.C. area.

A much sought-after speaker by organizations focused on corporate growth, John has been an integral part of the SEIA organization for nearly 20 years, and continues to be a driving force behind our ever-expanding national presence.

Len Hirsh,
MBA, CFP®, AIF®,
Financial Advisor

Len recently moved his Advisor practice to SEIA's Redondo Beach office and expanded his team with the hiring of Heather Johnson, who comes with years of experience working at another Redondo Beach-based, full-service, financial planning firm. Some of Len's specialties include non-discretionary investment management, alternative investment strategies, and helping clients with concentrated stock and ETF positions. In addition to establishing a larger presence in the South Bay area, Len's team will continue to work with their clients situated across the country.

At SEIA, the commitment and compassion of each individual team member remains a hallmark of our firm and the single greatest catalyst for our continued growth. We thank you for the trust you place in us, and wish you all a joyous and peaceful holiday season and a prosperous 2020.

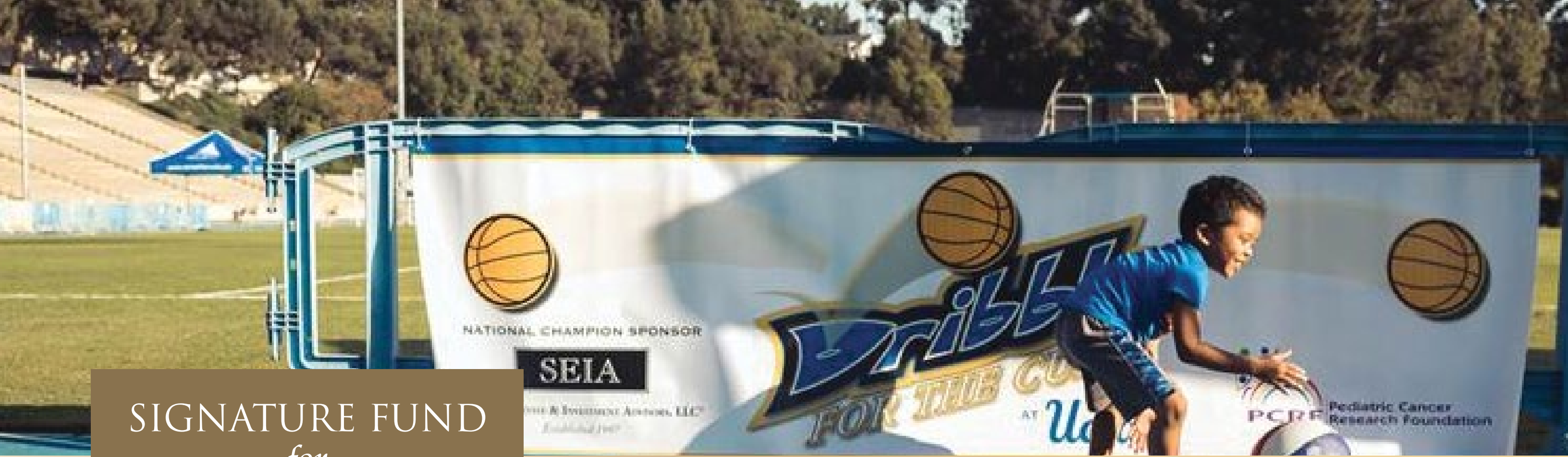
ZERO COMMISSIONS

Recently, many major online brokerages have eliminated their online stock commissions for Registered Investment Advisory clients. Schwab eliminated their standard $4.95 online commission to $0 on Oct 7th, 2019. Fidelity soon followed and dropped their online fees to $0 on November 4, 2019.

The zero fee commissions only apply to trades in US equities, ETF's, and options. Options contracts, Alternative Investments, some Mutual Funds, Bonds and Asset Based Priced (ABP) Accounts will still incur minimal commission / transaction costs. In order to qualify for the zero commissions, trades must be placed on the custodian's platform or online and be enrolled in electronic delivery.

Since Schwab & Fidelity's announcements to eliminate some online commissions, three other major online brokerage firms followed suit and cut their commissions to zero. Zero commissions will benefit SEIA's clients by allowing them to keep more of their money and focus on their long-term goals.

If you have any questions regarding Zero Commissions please contact your SEIA financial advisory team.



SIGNATURE FUND *for* GIVING

The Signature Fund for Giving ("Fund') is dedicated to enhancing SEIA's relationship with our partner organizations to empower our community's youth. We are here to collaborate with these organizations to assist in achieving their missions and remain committed to our next generation as part of SEIAs legacy.

The Signature Fund for Giving accomplishes its mission of empowering our community's young people by utilizing our combined efforts of fundraising, supporting employee volunteer participation, and through generating in-kind donations.

Since inception, the Fund has raised $718,960 and has granted $640,265 including $221,834 to our four partner organizations. Our partners include A Place Called Home, Toberman Neighborhood Center, Children's Hospital of Orange County, and Second Story.

If you have any questions regarding our Fund or how to participate, we invite you to contact Hayley Wood at 310-712-2323 or hwood@seia.com.

DRIBBLE FOR A CURE, UCLA

The UCLA Athletic Department and Bruin Basketball are dedicated to giving back to their community and helping others in need. SEIA was proud to participate with PCRF for the 12th consecutive Dribble for the Cure event at UCLA Drake Stadium. Over 1,200 kids, families and student athletes joined the Men's and Women's Basketball lineup on Sunday, October 13th to support the Cancer Research Program at UCLA Mattel Children's Hospital.

SEIA

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