Understanding Investor Behavior

1. The importance of having the Right mix
2. Common Investing Behaviors
3. Overcoming the pitfall that Undermine success

The importance of having the Right mix

Asset Allocation Matters

A majority of financial advisors believe that effective asset allocation:

- Could cut investor losses in a bear market;
- Is more important to investment returns than individual stock selection;
- Should be the primary basis of a client portfolio.

Investors on Diversification

A majority of investors believe that they:

- Can create a proper Asset allocation plan;
- But have held on to an investment too long and;
- Believe it's harder to sell a winner than admit they're wrong to a loved one.

The Challenge of Diversification

A majority of financial advisors believe that:

- Very few investors rebalance as often as they should;
- Attention to top performers causes clients to lose focus; and
- Volatile markets can affect clients' adherence to a financial plan

Common Investing Behaviors

Investor Certainty Bias

In the example shown, an investor can choose option A, wherein there is an 80% chance of receiving $4000 and a 20% chance of receiving nothing (expected value: $3200). Or, the investor can choose option B and receive $3000 with certainty. The results were that 80% chose option B even though option A had a greater expected value and in 4 out of 5 cases, investors would receive $1000 more money.

	Amount $4,000	Probability 80%	Amount $3,000	Probability 100%
Expected Value	$3,200		$3,000	
Popularity	**20%**		**80%**	

The Importance of Feeling Secure –

Here's another example. Two groups were asked to form a portfolio of two investments, weighting each as they saw fit. The first group received returns based on monthly outcomes and the second group received returns based on yearly results, in both cases covering the same time frame. Even though the track record was identical over the period because the frequency of negative reports was 39% with the monthly returns and only 14% with the yearly returns, the amount allocated to stocks by each group differed significantly.

Loss Aversion Distorts Asset Allocation

	Investors Receiving: Monthly Returns	Investors Receiving: Annual Returns
Frequency of Negative Reports	39%	14%
Stock Allocation	**41%**	**70%**

Other behaviors that undermine success:

- Investor Loss-Averse Bias
- A Disproportionate Trade-Off
- The Impact of Negative Returns
- Misjudging Longevity
- The Reality of Retirement

How to Overcome the Pitfalls of Investing

One way to take the emotion out of investing is to invest in diversified portfolios with low-correlation assets. Here we follow five basic steps to maximize investor returns over the long run.

Essentials of a Well-Balanced Portfolio

The Strategy

- Step 1: Diversify Across Asset Classes
- Step 2: Blend Growth and Value Styles
- Step 3: Globalize the Portfolio
- Step 4: Rebalance
- Step 5: Maximize After-Tax Returns

Investment Strategies for Every Investor

For nearly four decades, Alliance Bernstein has provided investment services to a diverse group of clients, including some of the largest institutional investors in the world. Our primary business goal is to design diversified investment strategies that help our clients build and preserve wealth during their lifetimes.

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