Overconfidence Bias

• Clear Definition: Overconfidence bias is a tendency for a person's subjective confidence in their judgments to be greater than the objective accuracy of those judgments. In trading, it manifests as investors overestimating their knowledge, skills, and ability to predict market movements, which often leads to excessive trading, under-diversification, and underestimation of risks.

• Actionable Coping Strategies:

1. Review Your Losses: Before starting a trading day, review your last few losing trades. Analyse the errors you made and what you missed at the time. This keeps past mistakes fresh in your mind and can bring an inflated sense of confidence back down to a more realistic level.

2. Maintain an Investment or Trading Journal: Document your investment decisions, the reasoning behind them, and their outcomes. This practice allows you to objectively evaluate your past performance over time, identify patterns of overconfidence, and learn from your mistakes.