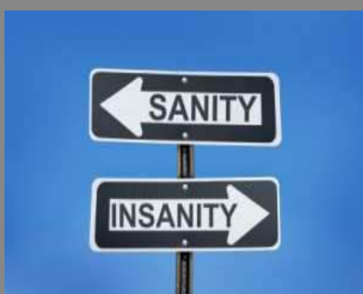
Jay Mooreland

Behavioral Economist

PERSONAL QUALIFICATIONS

- Master of Science in Applied Economics
- Bachelor of Science in Business Finance
- CFP® Professional
- Investment Adviser Representative
- 13+ years Professional Experience



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The Perils of Myopic Investing

Myopia - Defined

When we hear the word myopia (or myopic), we most likely think of someone who can't see far without the use of corrective lenses. That is a correct definition pertaining to ophthalmology, but there are other definitions that pertain to myopic *behavior*. Dictonary.com lists the following definitions: unable or unwilling to act prudently; lacking tolerance or understanding. Myopia is a cognitive behavioral bias that affects many investors, influencing them to take a short term view of their investments. Since this bias is cognitive, its influences could be reduced or eliminated through recognition and education.

Consequences of Myopic Behavior

Most investors have a long term time horizon (10 – 20 years or more). Even if they are in the distribution phase, their portfolio most likely will continue for some time, generating income while remaining invested. Investors with a long term horizon should not be influenced by short term market movements and news, but myopic investors are. This not only causes undue stress for investors, but could also influence them to trade more often and abandon their long term investment strategy as they respond to short term events. Advisers with myopic clients are likely to get more calls during volatile times and may require a lot of handholding. This bias is even more problematic if the myopic investor is also loss averse, known as myopic loss aversion.

Reducing Effects of Myopia

The following tips may be useful in helping clients overcome the influence of myopia:

1) Explain the random and misleading nature of short term security pricing
    a. In a one year period, 80% of a security's return is based upon random fluctuations in price. Over a five year period the return is based upon the company's cash flows.[1]
    b. A hypothetical portfolio that has a return of 15% and standard deviation of 10% will produce positive annual returns 93% of the time. However, that same portfolio will produce positive daily returns <u>only</u> 54% of the time.[2]

2) Illustrate the rationale of using long term metrics to measure long term matters
    a. When measuring the distance from NY to LA we measure in miles, not in inches. Similarly our long term investments should not be measured with short term results.

3) Recognize the role of financial media
    a. News organizations provide news of the <u>day</u>. Long term investors should not be influenced by daily, and often changing, headlines.
    b. The media's primary role is to increase their audience by making news seem extraordinary and important – frequently done by eliciting emotions of fear or greed.

1. Montier, James, 2010. *The Little Book of Behavioral Investing.* New Jersey, John Wiley & Sons
2. Taleb, Nassim, 2004. *Fooled by Randomness.* New York, Random House

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