

Important information

- The value of investments can go down as well as up, so you may get back less than you invest.
- This information is not a personal recommendation for any particular investment. If you are unsure about the suitability of an investment you should speak to an authorised financial adviser.
- This document may not be reproduced or circulated without prior permission. No statements or representations made in this document are legally binding on Fidelity or the recipient.
- Investors should note that the views expressed may no longer be current and may have already been acted upon.

Making decisions under pressure

System one vs system two



Making decisions under pressure

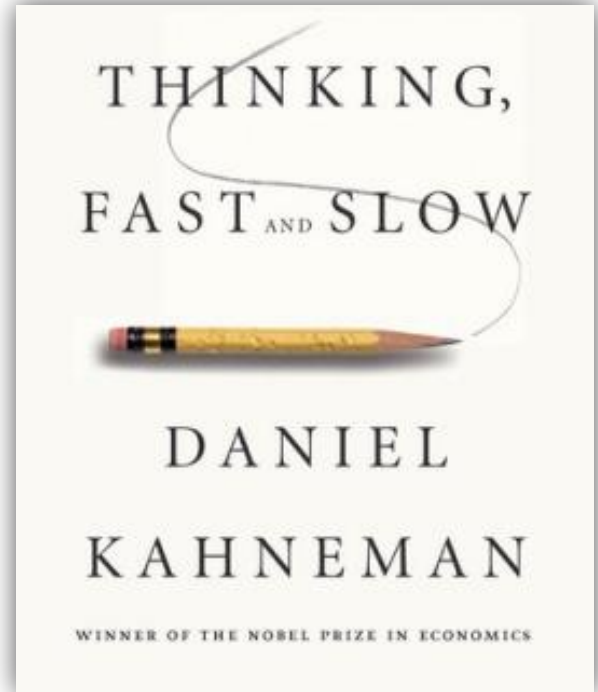
System one vs system two

“Steve, a young American, is very shy and withdrawn, always helpful but with little interest in people or in the world of reality.

A meek and tidy soul, he has a need for order and structure, and a passion for detail.”



Is Steve more likely to be a librarian or a farmer?



Source: Thinking, fast and slow; Daniel Kahneman

Confirmation bias

“What the human being is best at doing is interpreting all new information so that their prior conclusion remains intact.”

Warren Buffett

- We selectively filter and focus on information that supports our existing beliefs and opinions.
- We're **twice** as likely to seek information that confirms what we already believe.



Anchoring & framing

The giant redwood

What is the greatest recorded height of a giant redwood tree?

The average guess is 100 ft (30.5m), do you want to change your answer?

Often, our judgements come as a result of anchoring to completely random numbers



Information overload

Paralysis of choice

Knowledge vs wisdom -
more information isn't
necessarily better; it's what
you do with it that matters.



*“This case is quite sufficiently complicated to start
without the further difficulty of false information.”
Sherlock Holmes; The Problem of Thor Bridge*

Home bias & Baader Meinhof

Preference for the familiar

Our brains are comfortable with the safe and familiar; but suspicious of novelty.

Mere exposure effect:

repeated exposure to a word or stimulus can affect our preferences and cause us to form a more positive view.



Nudge theory

Easy intervention

- An image of a fly was fixed to the inside of each urinal at Amsterdam's Schiphol airport
- The target focused the user's mind and nudged them to take care
- Cleaning bills were significantly reduced

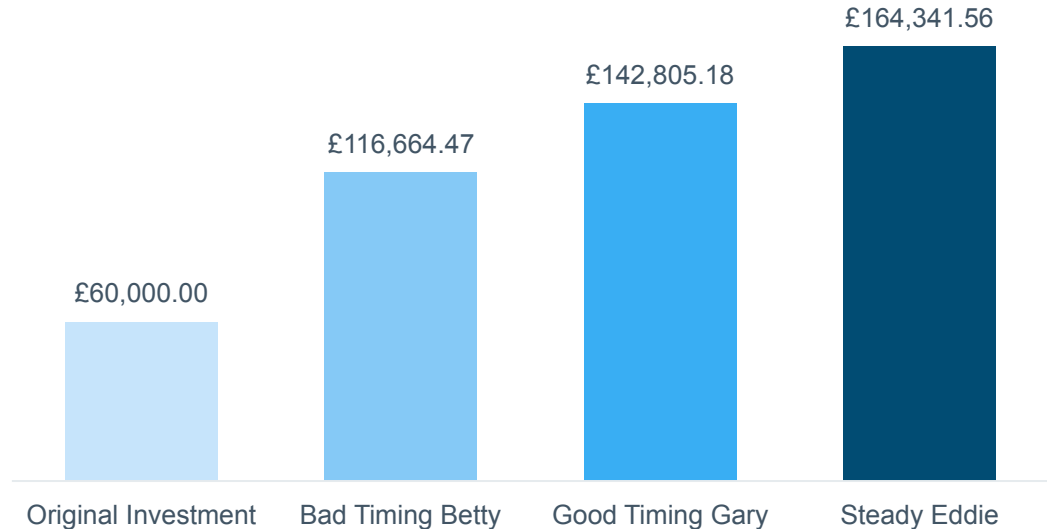


Preparing for bias

Limiting negative responses

- Regular investing plans
- Clear, **defined** investment process
- Pre-mortem thinking
- Infrequent rebalancing
- Limited trusted sources
- Argue the opposite view
- The 10-10-10 rule
- Recognise, don't overcome
- Don't just do something, sit there

The perils of market timing



Source: Fidelity International. Three hypothetical investors investing the same amount over a thirty year period (01.02.1989 – 01.02.2019) into the FTSE All Share. One invests regularly and the other two time their investments.

Useful reading

Thinking, Fast and Slow

Daniel Kahneman

The Art of Execution

Lee Freeman-Shor

Thinking in Bets - Making Smarter Decisions When You Don't Have All The Facts

Annie Duke

Nudge

Richard Thaler, Cass Sunstein

The Psychology of Intelligence Analysis

Richards J Heuer

The Information Diet: A Case for Conscious Consumption

Clay Johnson

Additional information

This information must not be reproduced or circulated without prior permission.

This information is not a personal recommendation for any particular course of action.

All views expressed are those of Fidelity International. Fidelity, Fidelity International, the Fidelity International logo and F symbol are registered trademarks of FIL Limited.

Issued by Financial Administration Services Limited, authorised and regulated by the Financial Conduct Authority.

UKM0319/23860/SSO/0619