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## Step Away from the Headlines: Advisors Say Being Easily Influenced by Recent News and Events is #1 Investing Misstep

*Advisors can play key role in helping clients understand common behavioral biases and establish guardrails to avoid emotional decision-making*

**September 23, 2019 (San Francisco, CA)** – Advisors say being easily influenced by recent news, playing it overly safe and seeking information that reinforces established perceptions are the most common behavioral biases that impact their clients' investing decisions. These are findings from the BeFi Barometer 2019 survey, new research sponsored by Charles Schwab Investment Management, Inc. (CSIM) in collaboration with the Investments & Wealth Institute and Cerulli Associates.

“Recognizing behavioral biases is an important first step to keep emotions in check and avoid missteps that may have a negative impact on long-term financial goals,” said Asher Cheses, Research Analyst, High-Net-Worth at Cerulli Associates. “Advisors who incorporate behavioral finance principles into their practice can help their clients put guardrails in place to avoid irrational decision-making and better adhere to a long-term financial plan.”

The top five behavioral biases that advisors observe significantly impacting their clients' investment decisions are:

- Recency bias (being easily influenced by recent news events or experiences): 35%
- Loss Aversion bias (playing it safe or accepting less risk than they can tolerate): 26%
- Confirmation bias (seeking information that reinforces their perception): 25%
- Familiarity/home bias (a preference to invest in familiar/U.S. domiciled companies): 24%

- Anchoring bias (a tendency to focus on specific reference point when making investment decisions): 24%

### **Behavioral Biases by Generation**

The BeFi Barometer 2019 survey results suggest that vulnerability to specific behavioral biases varies by client age. The advisors surveyed say they observe that the following biases are most prevalent within each generation:

- Millennials:
  - Framing bias (making decisions based on the way the information is presented): 54%
- Generation X:
  - Recency bias (being easily influenced by recent news events or experiences): 64%
- Baby Boomers:
  - Anchoring bias (a tendency to focus on specific reference point when making investment decisions): 75%
- Silent Generation:
  - Familiarity/Home bias (a preference to invest in familiar/U.S. domiciled companies): 84%

“With the prospect of increased volatility and lower returns on the horizon, advisors who understand the psychological or emotional factors that predispose investors to behavioral biases can differentiate their services in what is becoming an increasingly competitive environment,” said Omar Aguilar, PhD, Chief Investment Officer of Equities and Multi-Asset Strategies at CSIM and practitioner of behavioral finance in asset management for over 20 years. “Understanding how attitudes, preferences and biases can impact decision-making – and how those biases can differ by generation – can give advisors powerful insight when developing a long-term relationship and building portfolios for their clients.”

### **Mitigating the Negative Impact of Behavioral Biases**

Advisors say the number one approach investors can take to counter unconscious biases when making investing decisions is to take a long term view (62%). Advisors also say that implementing a systematic investment process (52%) and integrating goals-based planning (47%) are very effective techniques for mitigating the potential risks that an individual's unique emotional or cognitive biases may pose to their long-term financial goals.

The research also highlights that it is important for advisors to not only understand client biases, but also be cognizant of their own. Advisors ranked loss aversion (29%), overconfidence (17%) and confirmation (9%) as the top three biases that impact their own perspectives and decision-making.

### **Bridging the Gap: Taking Behavioral Finance Principles from Theory to Practice**

Notably, nearly three-quarters (71%) of advisors surveyed say they incorporate behavioral finance principles into their client communications and interactions, while just 58% say they apply the concepts to portfolio construction.

The survey results indicate that advisors are aware of the benefits of incorporating behavioral finance principles into their practices. Nearly half (46%) of surveyed advisors indicate that incorporating behavioral finance allowed them to better manage client expectations, while 40%

say this gives them the ability to reduce their client's short-term emotional decisions. Additionally, 30% of surveyed advisors say that incorporating behavioral finance helps keep clients invested during periods of volatility.

However, many advisors also say they lack the resources and tools to bridge the gap between the concept and practical application. Nearly two-thirds of advisors surveyed (65%) say the primary reason they don't integrate behavioral finance into their practice is because they have difficulty translating behavioral theory into implementation. More than half (54%) indicate a lack of software/tools.

"The survey revealed that advisors and their clients can benefit from more behavioral finance education, training, support and tools, which is why the Investments & Wealth Institute has focused on providing that educational knowledge base through our [certifications](#), [on-demand courses](#), and conferences, including our [Behavioral Advisor Forum](#), taking place in San Francisco this week." said Sean Walters, CAE, chief executive officer, Investments & Wealth Institute.

### **Behavioral Finance Week**

The Investments & Wealth Institute and CSIM will share more information and resources on behavioral finance throughout week of September 23, 2019. Dubbed Behavioral Finance Week, the goal of this educational initiative is to raise awareness about the impact behavioral biases can have on investors and advisors alike. Visit [www.schwabfunds.com/befibarometer](http://www.schwabfunds.com/befibarometer) and <https://content.investmentsandwealth.org/befiweek2019> for more information or join the conversation on social by using the #BeFiWeek and #BehavioralFinance hashtags.

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### **About the Study**

Charles Schwab Investment Management in collaboration with the Investments & Wealth Institute retained Cerulli Associates, a leading independent market research and consulting firm, to learn how advisors view and use behavioral finance when working with clients. In July 2019, Cerulli Associates conducted a survey of over 300 financial advisors. Respondents were members of the Investments & Wealth Institute and diversified among business models including Wirehouse, Registered Investment Advisor (RIA), and National/Regional broker dealers. Key findings from the survey, BeFi Barometer 2019, are discussed in this [white paper](#) and are available at [www.schwabfunds.com/befibarometer](http://www.schwabfunds.com/befibarometer) or at <https://content.investmentsandwealth.org/befiweek2019>.

### **About Cerulli Associates**

Headquartered in Boston with offices in London and Singapore, Cerulli Associates is a global research and consulting firm that provides financial institutions with guidance in strategic positioning and new business development. Our analysts blend industry knowledge, original research, and data analysis to bring perspective to current market conditions and forecasts for future developments. Cerulli's research product line includes the Cerulli Report series, the Cerulli Edge series, and Cerulli Lodestar.

### **About Charles Schwab Investment Management**

Charles Schwab Investment Management offers a straightforward lineup of core products and solutions for building the foundation of a portfolio. As one of the industry's largest and most experienced asset managers, they are a trusted partner for financial professionals, and

advocate for investors of all sizes with a steadfast focus on lowering costs and reducing unnecessary complexity.

CSIM is committed to providing insights and resources to help advisors implement behavioral finance into practice to enhance the client experience, deepen relationships, and improve client outcomes. To learn more, visit [www.schwabfunds.com/befibarometer](http://www.schwabfunds.com/befibarometer) for tools including our Biagnostics® toolkit, articles, podcasts and more.

**About the Investments & Wealth Institute®**

Established in 1985, the Investments & Wealth Institute, formerly IMCA, is a professional association, advanced education provider, and standards body for financial advisors, investment consultants, financial planners, and wealth managers who embrace excellence and ethics. Investments & Wealth Institute administers three certifications, [Certified Investment Management Analyst® \(CIMA®\)](#), [Certified Private Wealth Advisor® \(CPWA®\)](#), and [Retirement Management Advisor® \(RMA®\)](#). Through its publications, live events, online courses, assessment-based certificate programs, and advanced certifications, the Institute delivers premier-quality, practical education to advanced practitioners in more than 39 countries.

CSIM is not affiliated with Cerulli Associates or the Investments & Wealth Institute.

BeFi Barometer 2019 is a survey of 301 financial advisors to learn how advisors view and use behavioral finance when working with clients. Conducted by Cerulli Associates in July 2019. Respondents were members of the Investments & Wealth Institute® and diversified among business models, including wirehouse, registered investment advisor (RIA), and national/regional broker dealers. All data is self-reported by survey participants and is not verified or validated.

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