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5 behavioral biases you must avoid

Together, let’s aim at making rational investment decisions.

Overconfidence

Overconfidence in stock markets exists in two forms: overconfidence in the decision investors make and overconfidence in the information investors receive.
In the former, investors often take risky bets and focus on one stock or a trend way more than they should.
In the latter, the investor blindly believes information they receive regarding any investment scheme, which seems quite attractive. To overcome this bias, have an objective approach towards your investments rather than an emotional one. Rely more on data than hearsay.

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Holding on bias

It’s the inability to let go of a bad investment even though it has the potential to bring your portfolio down. To avoid this bias, you may begin with setting certain rules and instructions for yourself that enable you to evaluate an investment fairly. For example:
You can set a limit price for selling and know that beyond a certain level, you will certainly sell your investment.

Bounded rationality & recency bias

Bounded rationality is the concept of making rational decisions with the limited or bounded knowledge we possess. Recency bias is choosing a stock or mutual fund that is being talked about the most or is ‘trending’. The way to solve this bias is to conduct full research and know which stock to invest in. Taking shortcuts like investing based on a random ‘top stocks’ list that you see on the internet or in news, aping a successful investor’s portfolio, or blindly investing based on a friend’s recommendation is not advisable.

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Confirmation bias

When investors unconsciously build arguments or seek information that supports their preconceived notions about an investment opportunity, they are said to be under confirmation bias. Here's you tackle this bias: While gathering information about a particular sector or stock and shortlisting a company, make sure you have all the facts in front of you. This means assessing the investment option objectively with both pros and cons.

Chasing past returns

Chasing past returns is one thing that will always view investments from the lens of the past. However, past performance is not reflective of future performance. Yet, investors fail to implement this in their investments. In fact, most seasoned investors bet on their investment decisions, which are based on past performance. There is so much volatility and uncertainty that even if you happen to find out the trend by any chance, the markets are unarguably unpredictable.

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Investing made easy.

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