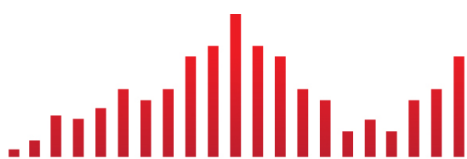


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PERSONAL QUALIFICATIONS

- Master of Science in Applied Economics
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THE EMOTIONAL INVESTOR

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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*. Dictionary.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. Investors who demonstrate myopic tendencies are likely to get more anxious during volatile times and may require a lot of reassurance. 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 investors 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.
 - 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 only 54% of the time.
- 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 day. 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.