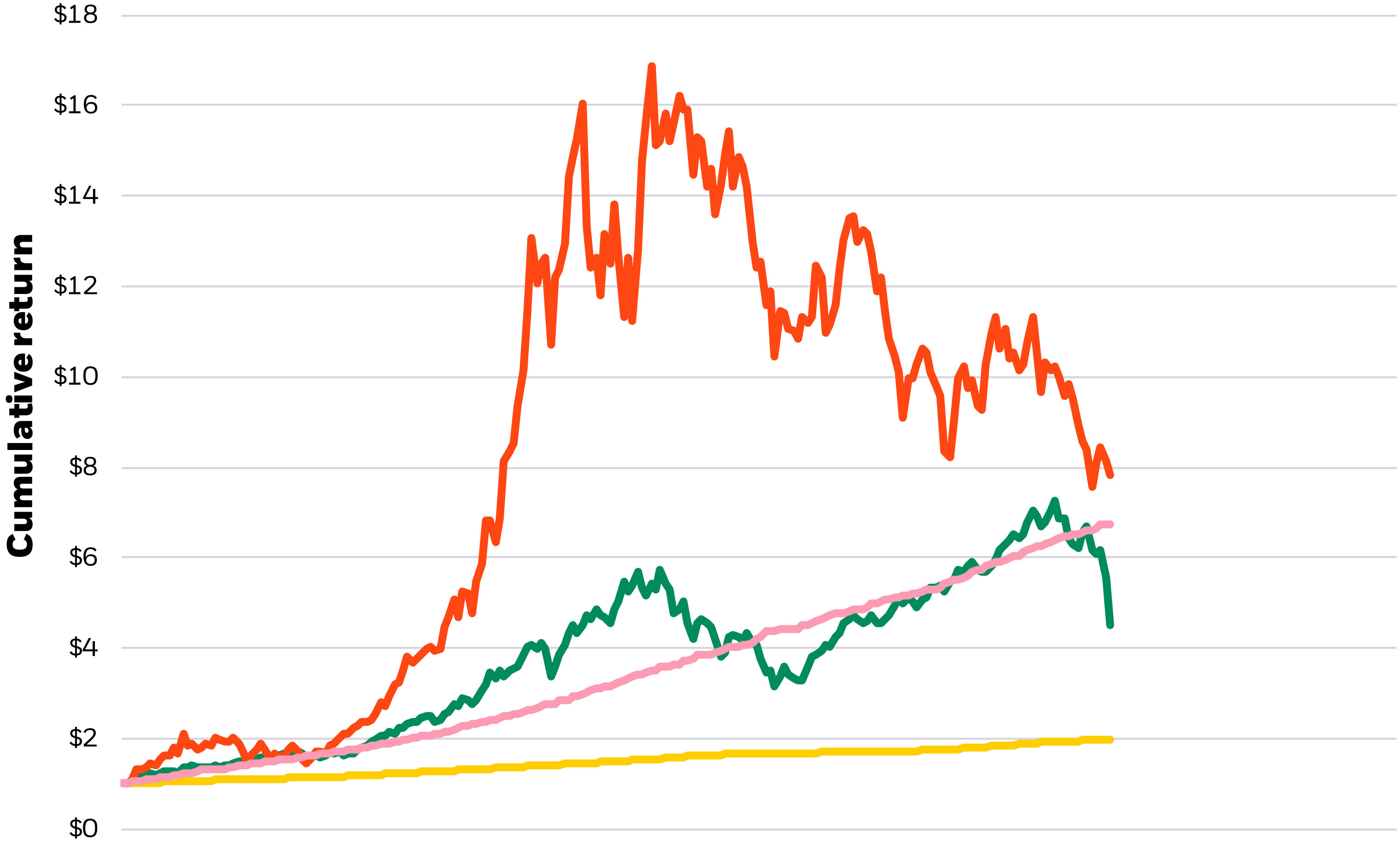
BlackRock®

The psychology of investing

Keeping calm amid market turbulence


THE WALL STREET JOURNAL.
Coronavirus Weighs on Americans: ‘I Don’t Think There Is an Easy Answer’
The New York Times
Latest Updates Maps Markets What You Can Do Newsletter
White House Projects Grim Toll From Coronavirus
The scientists leading the administration’s fight estimated the virus could kill between 100,000 and 240,000 Americans. New data suggests many as 25 percent of infected people may not show symptoms.
CNN BUSINESS
The global coronavirus recession is begin
London (CNN Business) – As restaurants, shops, airlines and factories shut down around t
from New York to Paris and Madrid, economists are warning that a global recession is r
a looming threat. It's here.
Dire economic data released by China on Monday showed that the country was pumm
the coronavirus outbreak in January and February. The world's second biggest econon
unlikely to recover any time soon.
Now, with governments and central banks in Europe and North America pursuing drast
measures to try to control the pandemic, Asia still on high alert, and financial markets in
meltdown, a growing number of experts say that a global contraction is beginning.
"Whereas 10 days ago there was some legitimate uncertainty about whether the global
economy was in the process of going into recession — 10 days later, there's no question that it
is," David Wilcox, former head of research and statistics at the Federal Reserve Board, told CNN
Business.

Which would you pick?



Lo, Andrew, 2017, *Adaptive Markets: Financial Evolution at the Speed of Thought* (Figure 10.3). Princeton University Press. For illustrative purposes only. Not meant to represent a specific recommendation for any security listed. Past performance is no guarantee of future results.

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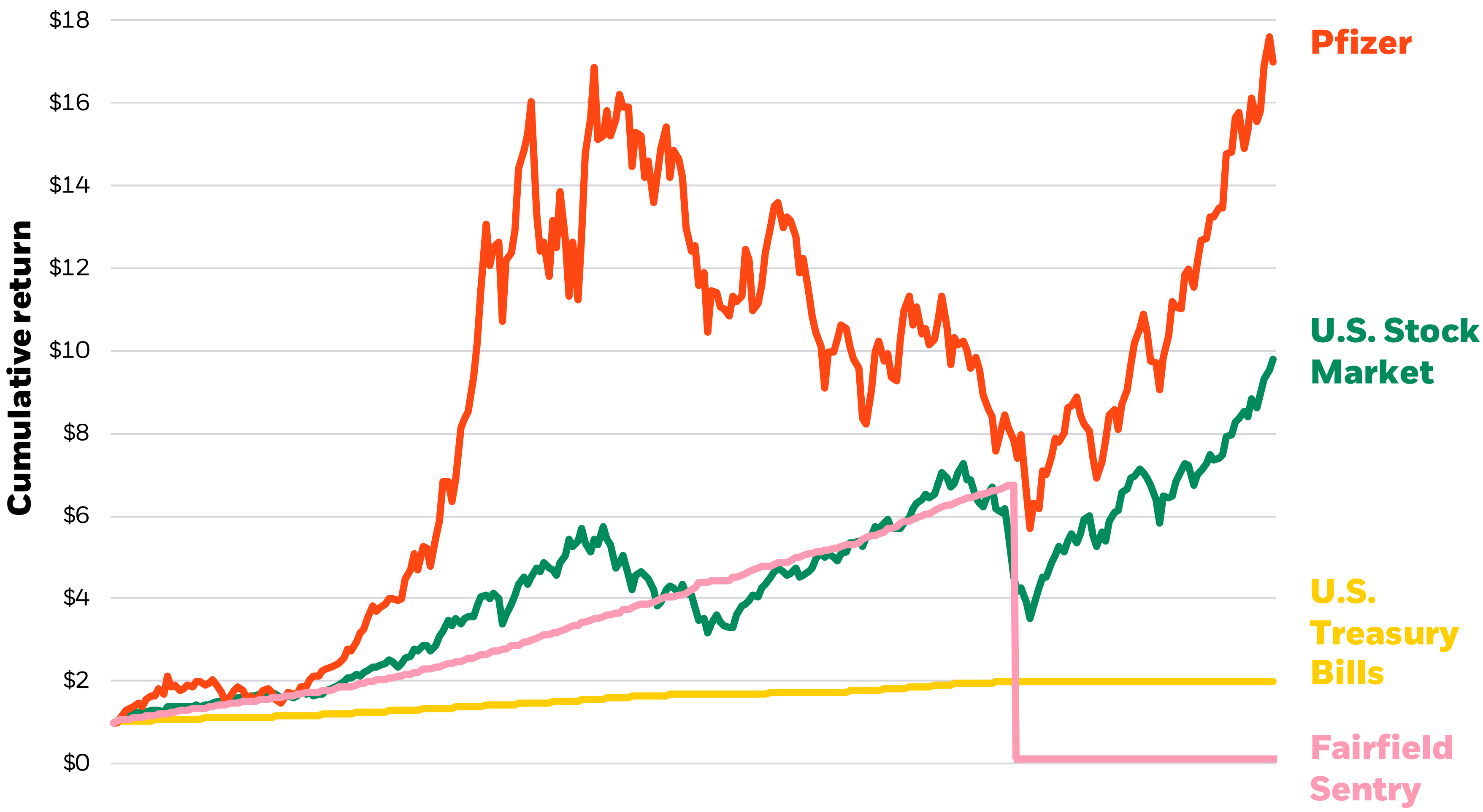
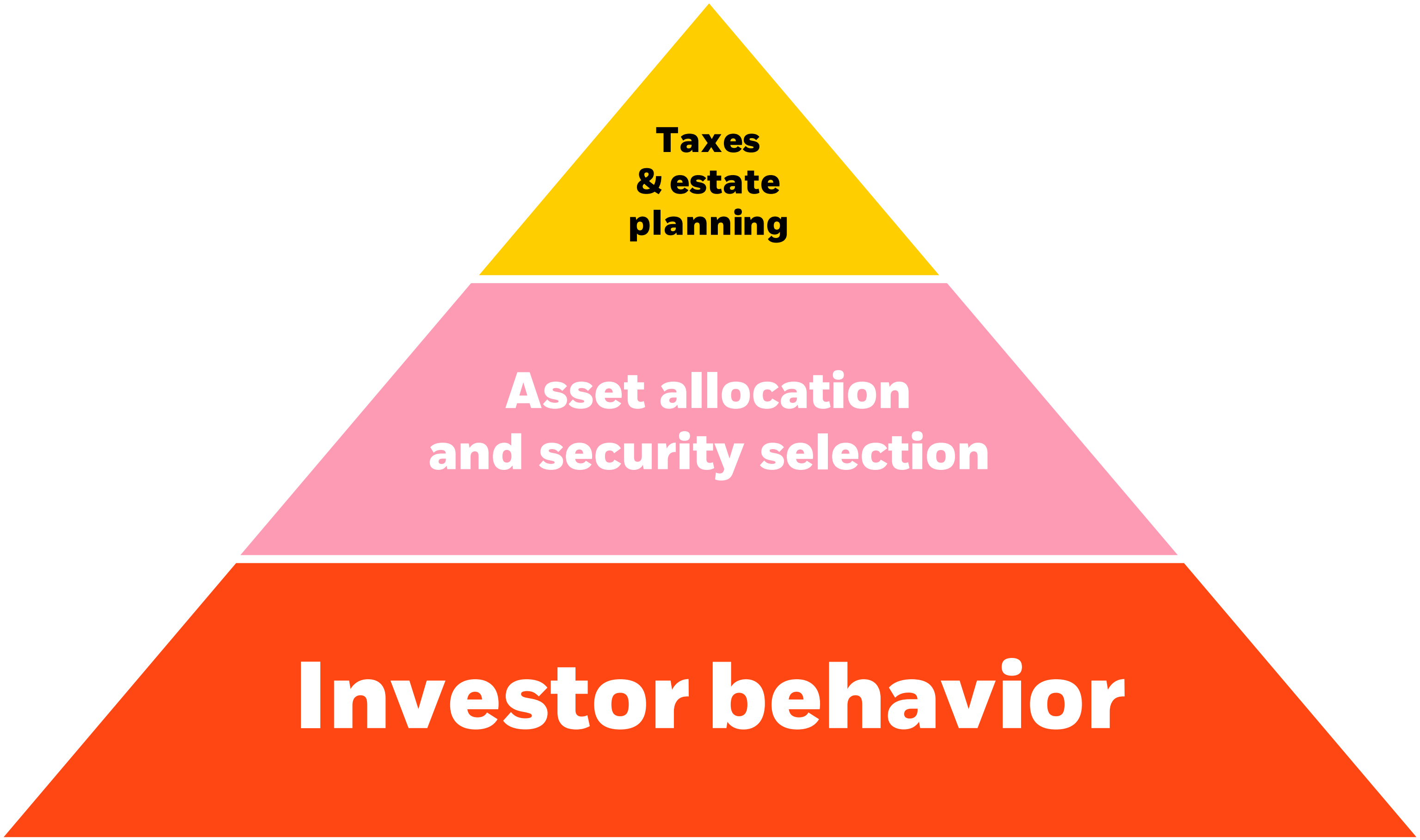


Lo, Andrew, 2017, *Adaptive Markets: Financial Evolution at the Speed of Thought* (Figure 10.3). Princeton University Press. For illustrative purposes only. Not meant to represent a specific recommendation for any security listed. Past performance is no guarantee of future results.

Keys to investment success



1720, Sir Isaac Newton lost a fortune in the South Sea Company, the hottest stock in England.

Newton concluded…

[That he] ‘can calculate the motions of the heavenly bodies, but not the madness of people.'

"We don't have to be smarter than the rest. We have to be more disciplined than the rest."

–Warren Buffett

Agenda

1

Envy

2

Loss

3

Building discipline

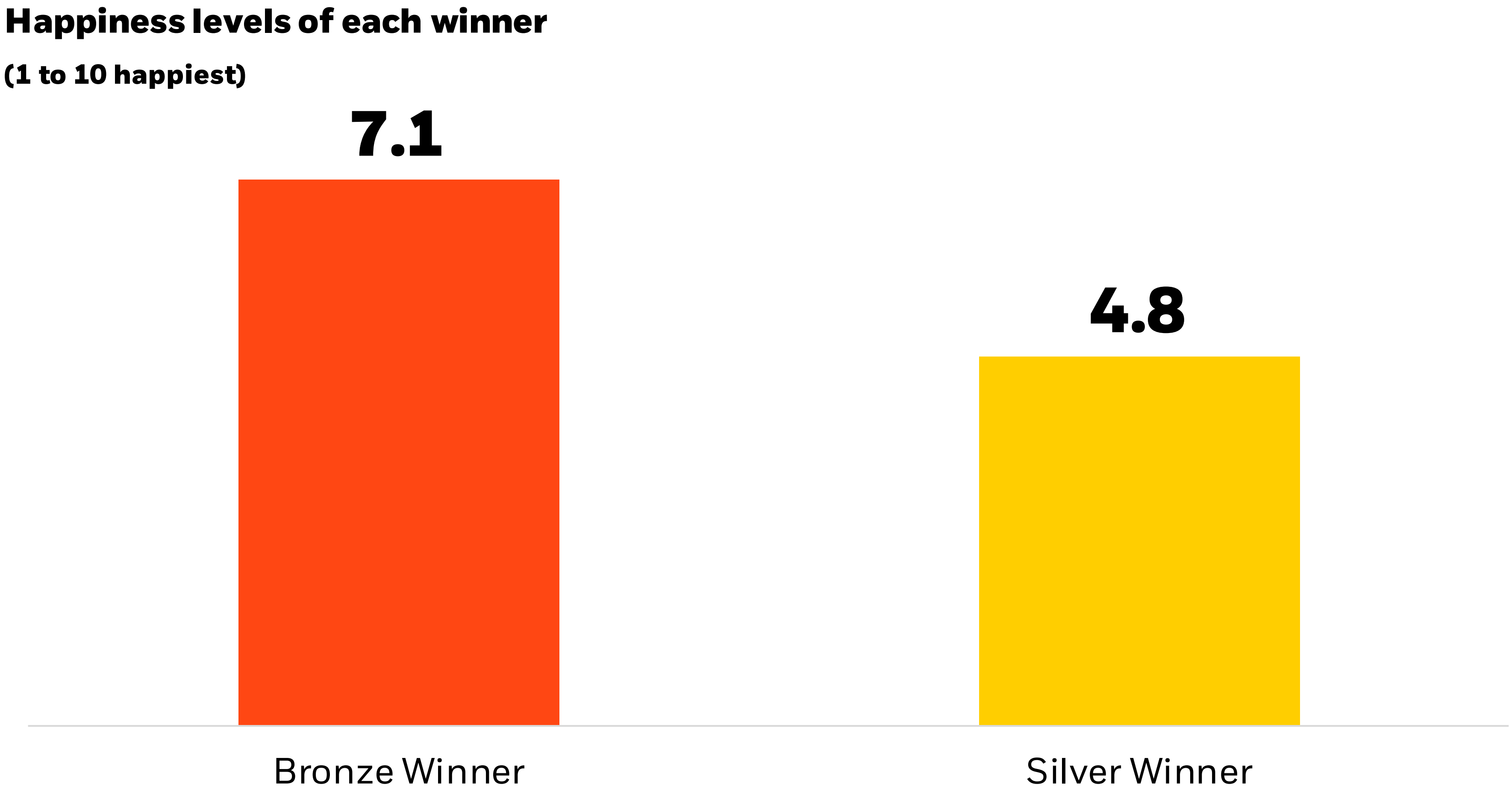
Envy

Regret

Lottery ticket effect

Miscalculating the risks

Bronze medal winners are happier than silver medal winners



Source: Journal of Personality and Social Psychology November 1995.

S&P Envy: A diversified portfolio is ripe for regret

40% U.S. stocks, 15% international stocks, 5% small cap stocks
30% U.S. bonds, 10% high yield bonds

Years	S&P 500	Diversified portfolio		
2000*-2002	-39.0%	-17.7%	▶	"I lost money"
2003-2007	82.9%	73.8%	▶	"I didn't make as much"
2008	-37.0%	-24.0%	▶	"I lost money"
2009-2019	351.0%	191.7%	▶	"I didn't make as much"
2020**	-19.6%	-13.1%	▶	"I lost money"
Total Return	**154.8%**	**175.6%**	▶	**"Diversification can work even when it feels like it's losing"**
Gr $100k	***$254,794***	***$275,556***		

Source: Morningstar as of 3/31/20. *Performance is from 3/31/2000 to 12/31/2002. Past performance does not guarantee or indicate future results. **Performance is YTD as of 3/31/20. Diversified Portfolio is represented by 40% S&P 500 Index, 15% MSCI EAFE Index, 5% Russell 2000 Index, 30% Bloomberg Barclays US Aggregate Bond Index, and 10% Bloomberg Barclays US Corporate High Yield Index. **Past performance does not guarantee or indicate future results**. Index performance is for illustrative purposes only. You cannot invest directly in the index.

Americans spend $73 billion on lottery tickets every year ($223 per person).

The odds of winning the Powerball lottery are 1 in 292,000,000.

Implications:

Single stocks

Next great company

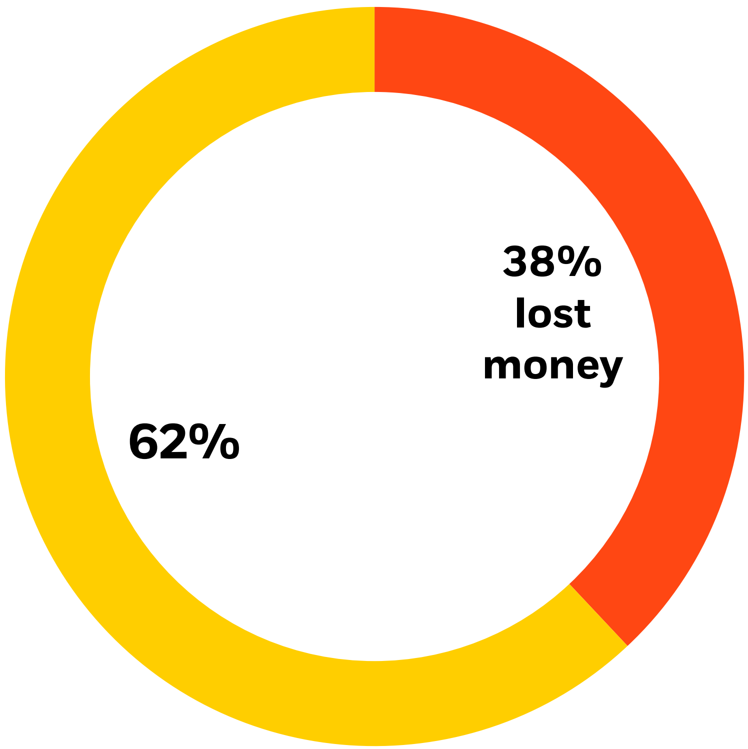
Hot investment trend

Source: US Census Bureau and North American Association of State and Provincial Lotteries as of 12/31/19. Past performance does not guarantee or indicate future results.

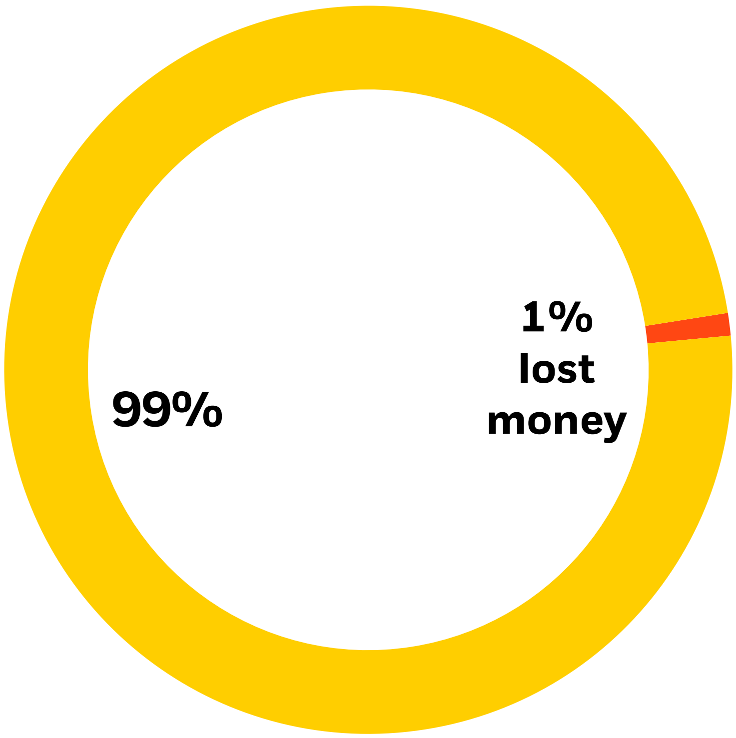
Individual U.S. stocks versus U.S. stock mutual funds

U.S. stocks are up 11.7% over the last 5 years

Individual U.S. stocks

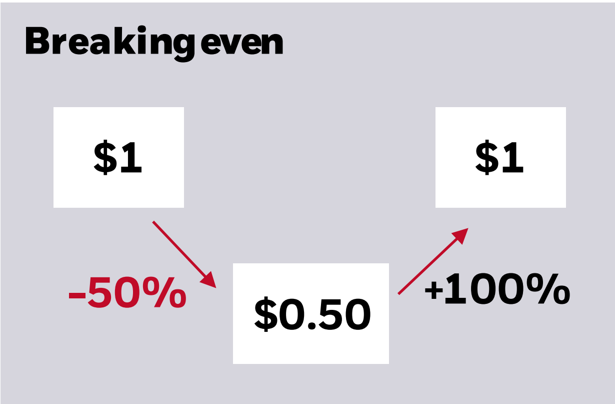


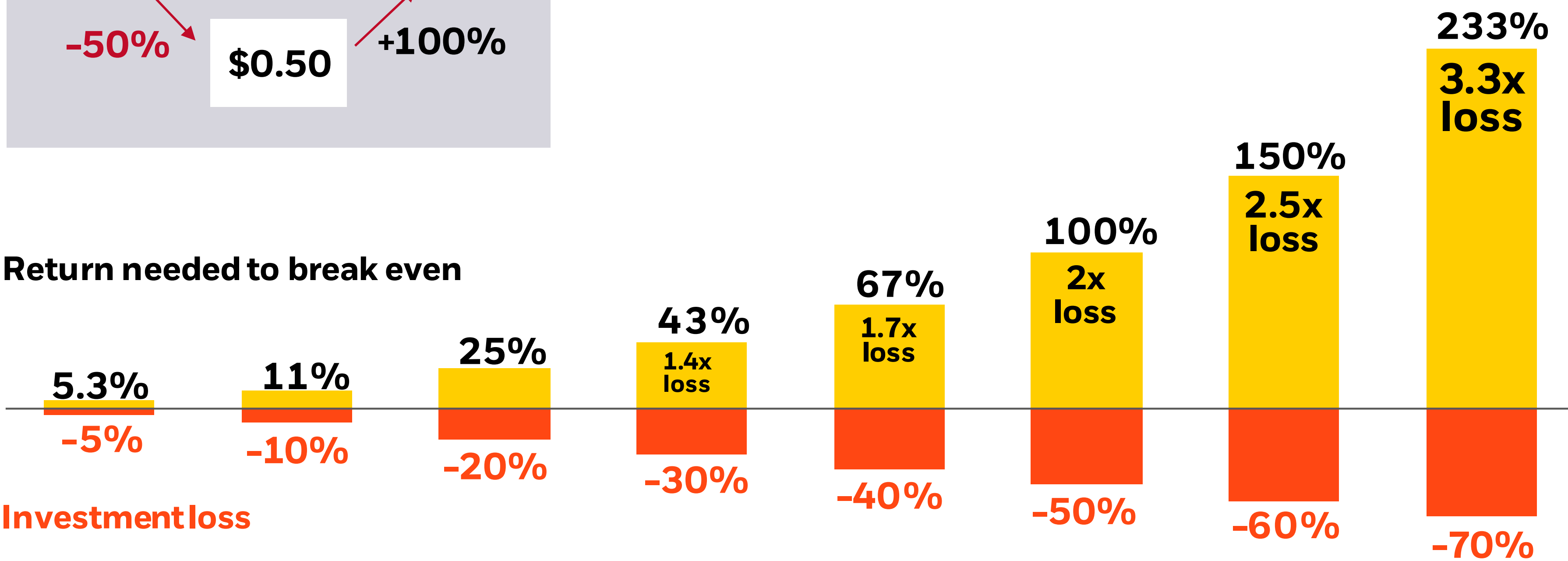
U.S. mutual funds and ETFs



Source: Morningstar as of 12/31/19. Mutual Funds and ETFs are the Morningstar US Equity Category, oldest share class only. US Individual Stocks are the Morningstar US Stock Universe, all securities on the NYSE and NASDAQ. Analysis does not include obsolete mutual funds, ETFs or stocks as defined by Morningstar. Performance is historical and does not guarantee or indicate future results.

Do we really know how severe the risks can be?





Source: BlackRock. For illustrative purposes only.

LOSS

Tendency to act

Sideline sitting

Following the herd

Our tendency to take action

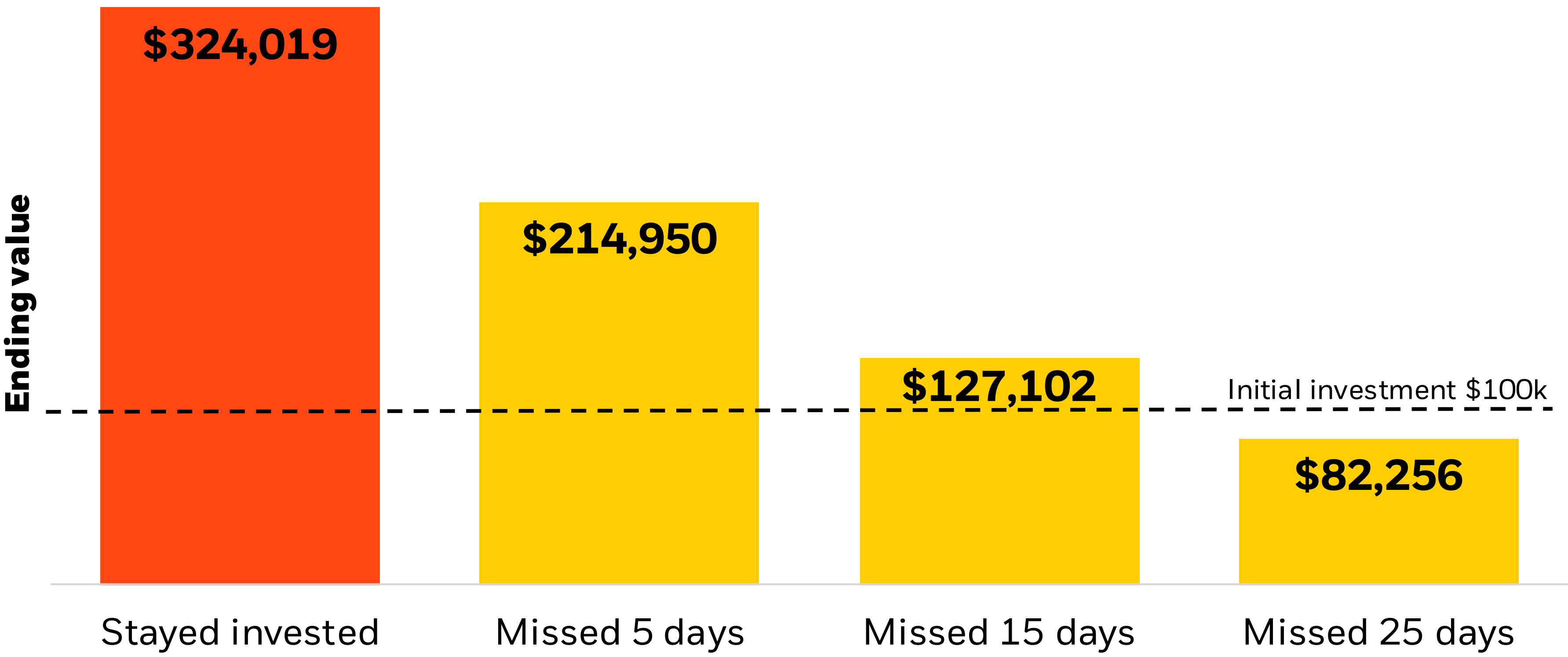
Statistics show that the best penalty kick strategy for goalkeepers is to stay in the middle. But they jump left or right 94% of the time.

Source: The New York Times Magazine, "Goalkeeper Science", 2008.

Time in the market vs. timing the market

Missing top-performing days can hurt your return

Hypothetical investment of $100,000 in the S&P 500 Index over the last 20 years (2000-2019)

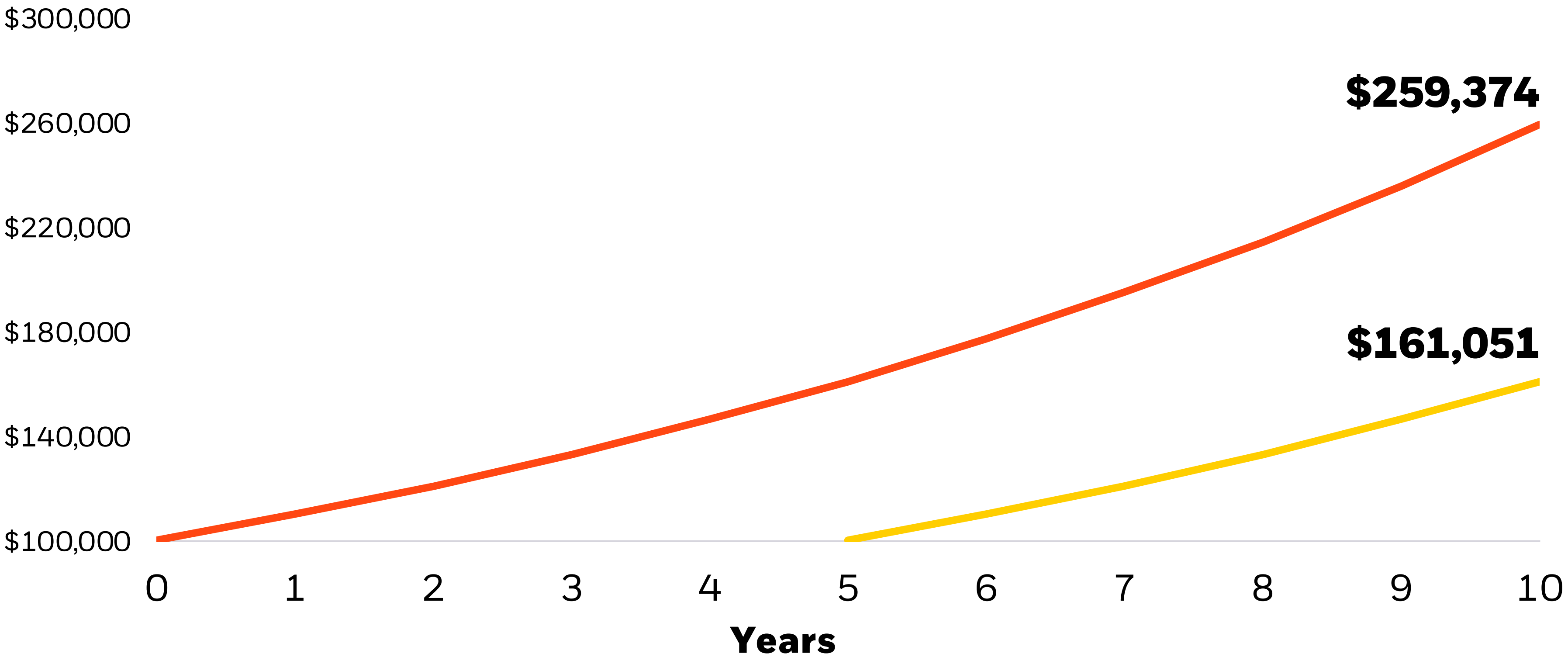


Source: Morningstar as of 12/31/19. Past performance does not guarantee or indicate future results. Index performance is shown for illustrative purposes only. You cannot invest directly in an index.

Waiting for the "right time to invest" can leave you behind

Compound interest… *"The eighth wonder of the world"* – Albert Einstein

Hypothetical growth of $100,000 assuming 10% annual yield

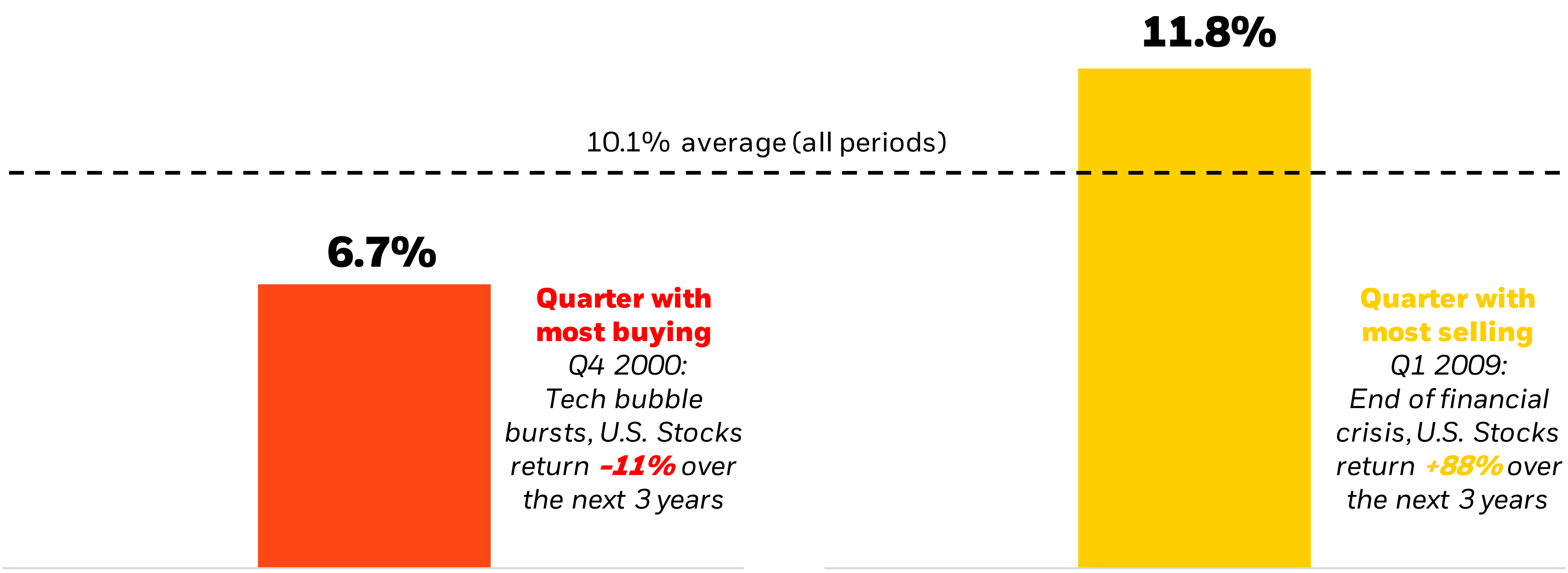


Source: BlackRock as of 12/31/19. For illustrative purposes only.

“Herding”: We confuse the actions of others with the right actions

The crowd often gets the timing wrong

Quarterly U.S. equity mutual funds and ETFs flows with 3-year performance average of the S&P 500 (1993–2019)



"Following the herd"
Return if buying when others were buying

"Against the herd"
Return if buying when others were selling

Source: Morningstar as of 12/31/19. “Following the Herd” represents the average of the following 3-year returns of the S&P 500 Index for each of the largest 20 quarters of inflows for US equity mutual funds and ETFs, as defined by Morningstar. “Against the Herd” represents the average of the following 3-year returns of the S&P 500 Index for each of the largest 20 quarters of outflows for US Equity mutual funds and ETFs, as defined by Morningstar. Past performance does not guarantee or indicate future results. Index performance is shown for illustrative purposes only. You cannot invest directly in an index.

“Be fearful when others are greedy. Be greedy when others are fearful.”

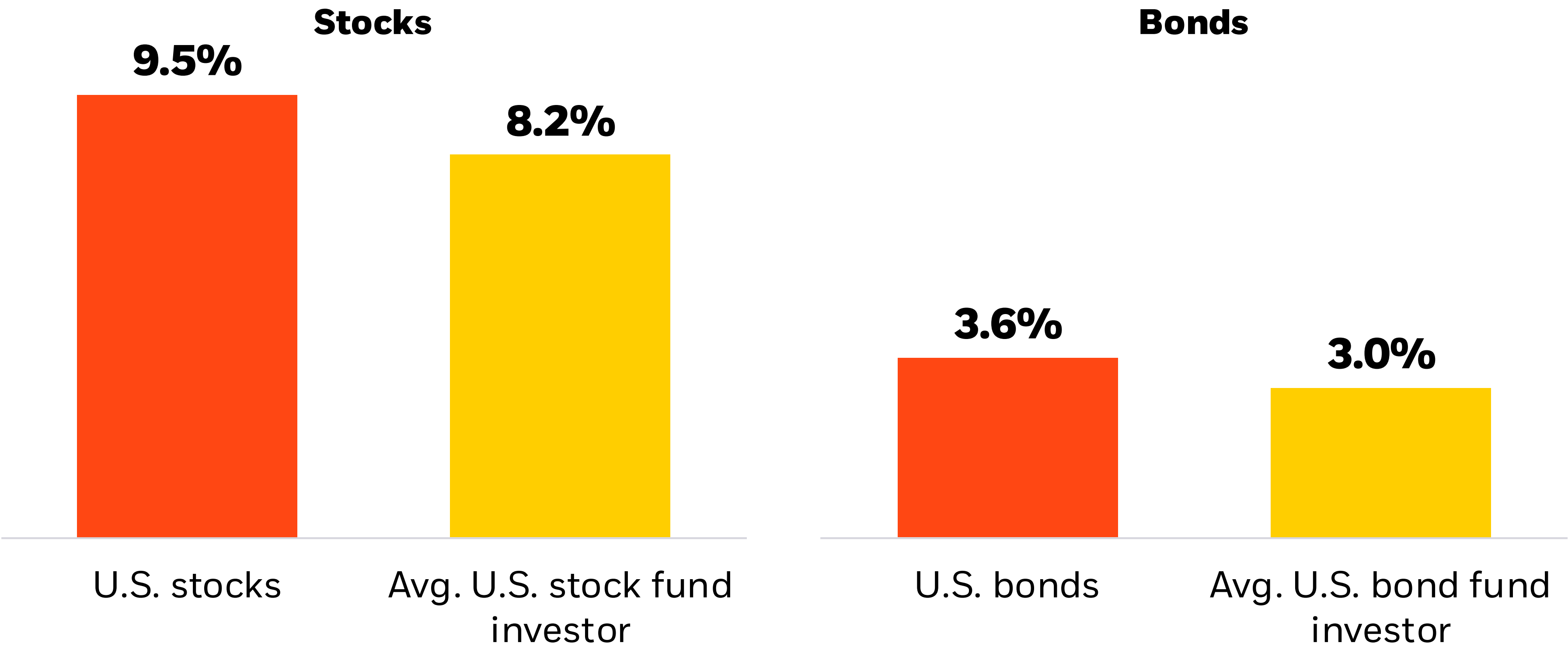
–Warren Buffett

Building Discipline

A lack of discipline erodes investment results

The average investor trails the market

Morningstar's "Mind the Gap" study annualized returns (2008-2018)*



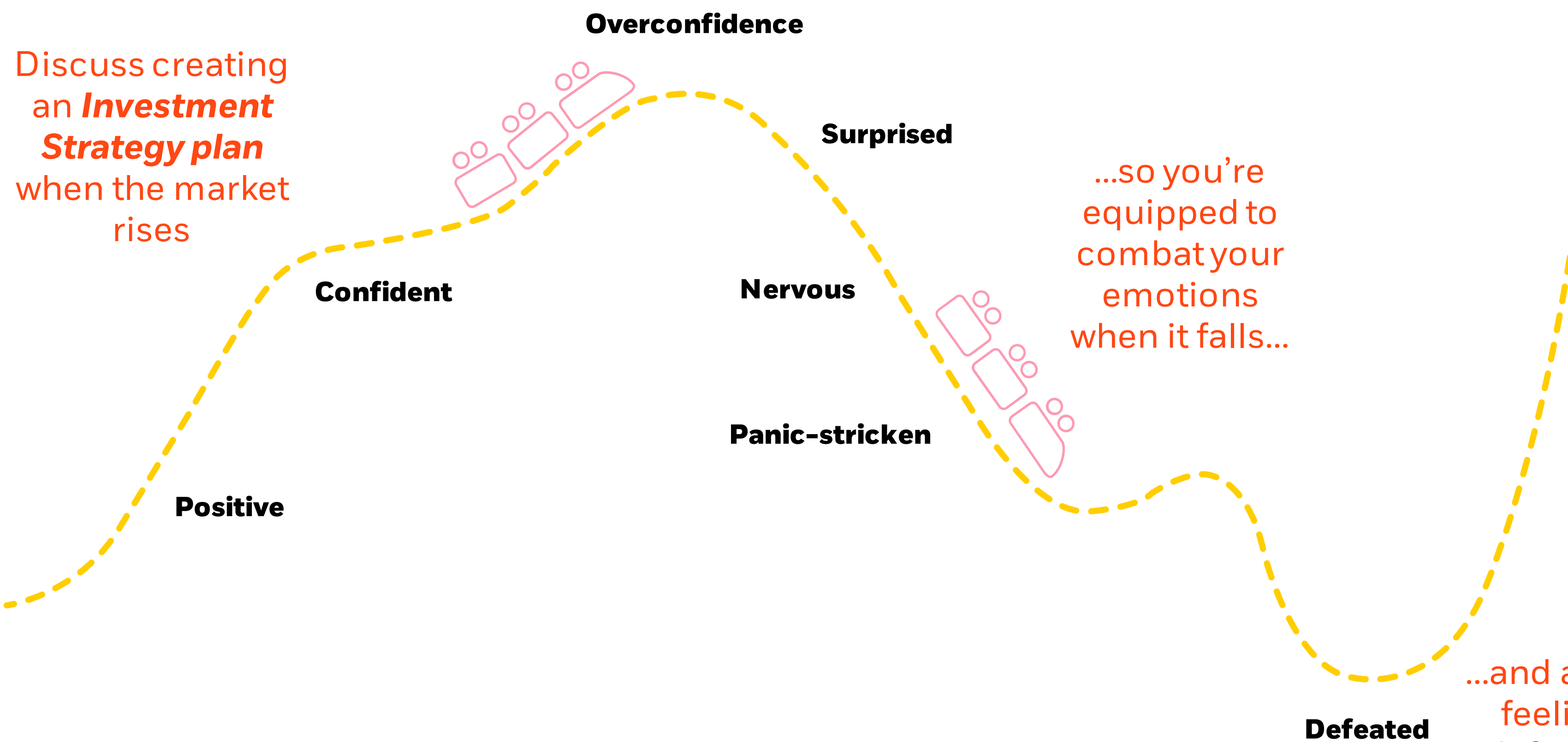
Sources: BlackRock, Morningstar, Informa Investment Solutions; *Morningstar returns based on performance between 4/1/2008 to 3/31/2018. Asset classes represented by the following indexes: U.S. stocks by the S&P 500 Index, Average U.S. stock fund investor by the Morningstar "Mind the Gap" Study U.S. stock s & sector fund average, U.S. bonds by the U.S. Aggregate Bond Index and Average U.S. bond fund investor by the Morningstar "Mind the Gap" Study U.S. taxable bond fund average. For illustrative purposes only. Index performance returns do not reflect any management fees, transaction costs, or expenses. Indexes are unmanaged and one cannot invest directly in an index. Past performance does not guarantee future results.

Talk to a financial advisor

Prepare for the worst before it happens

Riding the ups and downs of the market

Discuss creating an ***Investment Strategy plan*** when the market rises



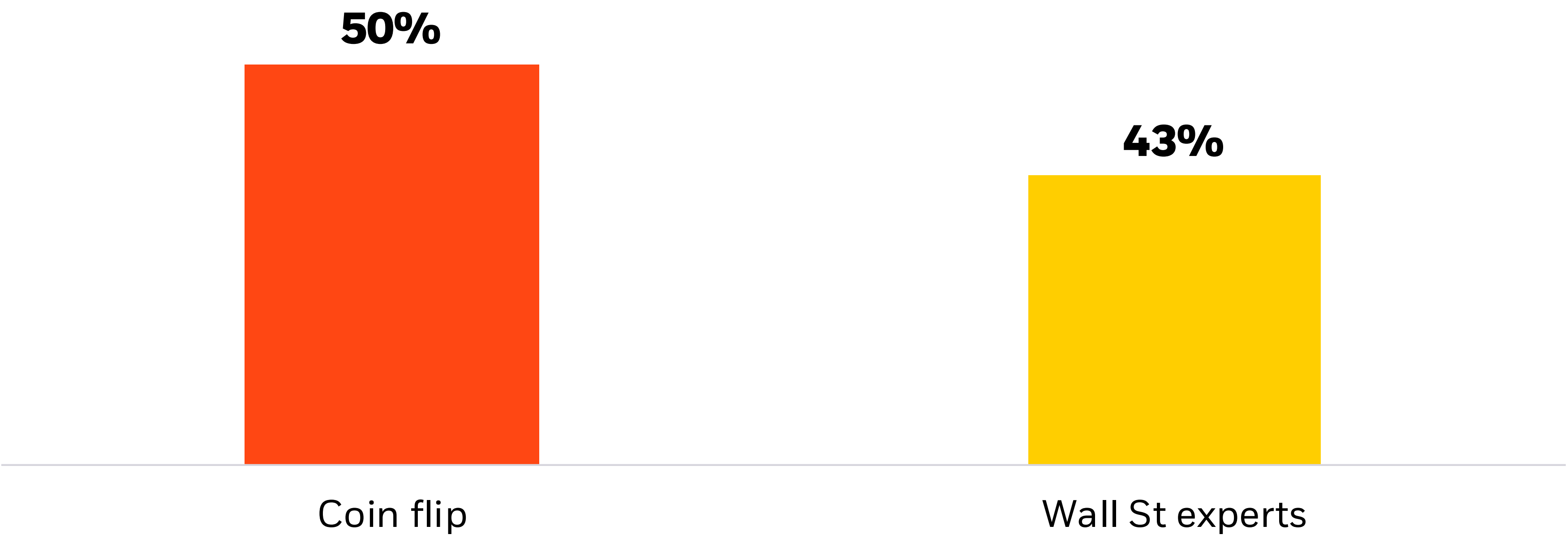
...so you're equipped to combat your emotions when it falls...

...and avoid feeling defeated

Hypothetical example.

Forecasting folly: Turn off financial TV & news

Predicting the direction of interest rates



***"It's tough to make predictions, especially about the future."* —** *Yogi Berra*

Morningstar, Federal Reserve Bank of Philadelphia as of 12/31/19. Past performance does not guarantee or indicate future results. Median annual forecast used; the median forecast for the direction of the 10 yr US Treasury Bond was correct in 12 of 28 years. "Wall Street experts" refers to the 40+ financial professionals and professors surveyed by the Federal Reserve Bank of Philadelphia.

The psychology of investing

1 **Proper investor behavior is critical to investment success**

2 **Common investor biases are a challenge** (for everyone)

- **ENVY:** Regret, S&P Envy, Lottery Ticket Effect
- **LOSS:** Compounding, Time vs Timing, Following the Herd

3 **Work with your financial advisor to build in discipline and ensure you are reacting to the market rationally**

- Be critical, even when times are good
- Be opportunistic, even when times seem bad

Become a disciplined investor, the sooner the better.


Save your emotions
for the moments
that really matter.

Important notes