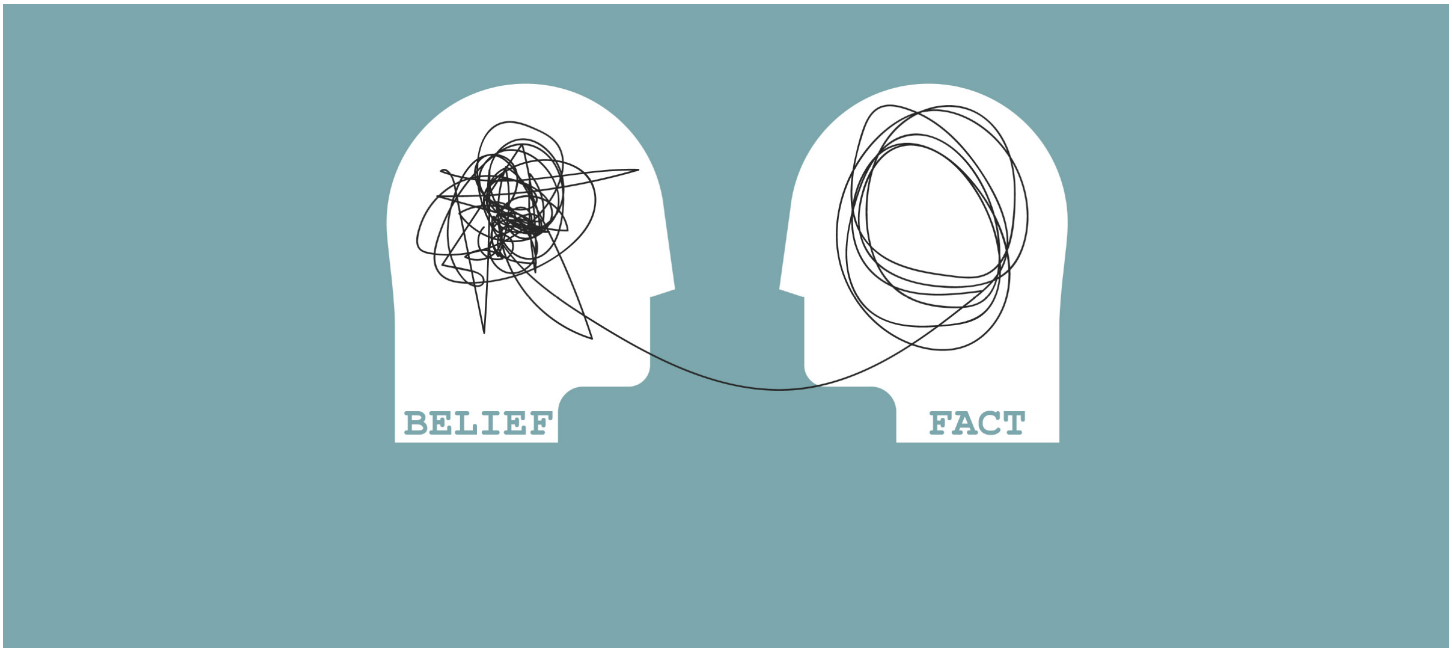


Say It Ainâ??t So

By John Curry

The 2015 movie *The Big Short* chronicles the market and economic forces that led to the financial crisis in 2007. Based on a Michael Lewis book of the same name, the filmâ??s all-star cast explains the crisisâ??s origins through the stories of a handful of analysts and investors who saw the meltdown coming, bet on it, and made a lot of money.

The movie opens with this pithy and prescient quote (erroneously attributed to Mark Twain): â??It ainâ??t what you donâ??t know that gets you into trouble. Itâ??s what you know for sure that just ainâ??t so.â?•

No doubt Adam McKay, the filmâ??s director, was making a statement about the massive financial risks hiding in plain sight in the mid-2000s while the rest of the world remained oblivious to the imminent collapse. In hindsight, a growing housing bubble, lax bank lending standards, and risky mortgage products were obvious warning signs.

But if these risks were there to be seen by everyone, why did so few people notice and sound the alarm? Why were the rest of us caught off guard?

The answer: The rest of us saw what we wanted to see, a growing economy with rising stock prices and real estate values. This phenomenon is known as *confirmation bias*, one of several behavioral biases that affect us all.

Confirmation bias is at work when we look for, interpret, and remember information in a way that confirms our existing ideas. No matter how impartial we believe ourselves to be, we cannot help but favor information that supports what we already believe (or want) to be true. It contributes to overconfidence in personal beliefs and can support or strengthen beliefsâ??even in the face of contrary evidence.

> For it is a habit of humanity to entrust to careless hope what they long for, and to use sovereign reason to thrust aside what they do not fancy.
> *Thucydides, Greek historian*

Find What Youâ??re Looking For

Many examples of confirmation biasâ??s influence exist in our day-to-day activities. For example, if you decide to buy a car and fall in love with the look of a particular model, you will certainly find ample evidenceâ??reviews, videos, celebrity endorsements, whateverâ??to confirm your desire. Conversely, if your dinner date suggests a restaurant that youâ??re not wild about, you can easily find ample evidence of poor service and bad food.

Confirmation bias can also create costly mistakes for investors. Imagine talking to a friend at a party. He shares with you his latest money-making stock idea and suggests that you check it outâ??but donâ??t wait too long, he says, or you might miss out on a big move. Because you are a savvy investor, you jump on the Internet and do your own due diligence.

Unfortunately, confirmation bias causes your brain to latch on to information that supports your friendâ??s suggestion. Meanwhile, it rejects data that goes against your beliefs. Your research complete, you make your trade the next day. A week later, the stock tanks on a disappointing earnings release.

Weâ??ve all done it, and itâ??s not our fault. Confirmation bias is tricky to detect in ourselves.

While the Internet certainly enables it, social media has amplified confirmation bias in recent years. Social media platforms like Facebook use algorithms to target users with content that they will agree withâ??and exclude content they are likely to oppose. The content presented strengthens oneâ??s views, resulting in what experts call *filter bubbles*, where an individual becomes closed off to new ideas, subjects, and information.

But confirmation bias is not all bad and, like many behavioral biases, likely developed to help our ancient ancestors cope with the world. It drives us to surround ourselves with people who share our values, traditions, religious beliefs, and political leanings. The upside is that this behavior leads to more enjoyable and fulfilling lives as we surround ourselves with like-minded people who validate the way we live.

But how can we know the difference between a positive effect and a negative effect? And what can we do to make sure we are making better decisions?



> *What the human being is best at doing is interpreting all new information so that their prior conclusions remain intact.*
> *Warren Buffett, American investor and philanthropist*

Hold on Loosely

The best cure for confirmation biasâ??s negative effects is to hold onto your opinions less tightly. But that, of course, is easier said than done. Here are a few tips and tricks that might help:

Stew on it. Donâ??t act immediately. Giving yourself time to conduct research, talk to experts, and seek out different or opposing points of view can reduce the risk of confirmation bias. Take it all in and refuse to jump to conclusions. Put it in the stew, let it simmer for a while, and draw your own conclusions.

Be humble and open to change. Recognize that you donâ??t know everything and practice humility when listening to others. As the saying goes, â??We have two ears and one mouth so that we can listen twice as much as we speak.â?• Give yourself permission to change your mind as you encounter new information on a topic.

Challenge your thinking. Confirmation bias partly explains why two people can see the same information or fact pattern and come to opposite conclusionsâ??and neither will be completely correct. Make it a personal policy to seek opposing views or other possible explanations to problems or topics youâ??re exploring. The more viewpoints the better. This will add nuance to your thinking and help you draw richer conclusions.

Find a sparring partner. Whether itâ??s your spouse, best friend, or a trusted colleague, find someone to become your thinking partner. Authorize him or her to challenge your views by playing devilâ??s advocateâ??and return the favor. Many people process their thinking by speaking, so having a trusted sparring partner to debateâ??one who wonâ??t judge youâ??can be a helpful way to expand your thinking.

In our role as financial advisors, we often act as thinking partner with our clients when they find themselves in a filter bubble.

Most recently, during the depths of the COVID-19-related market sell-off in March, we found ourselves helping clients manage fight-or-flight responses induced by their fears of lost money and stoked by an

inflammatory news media. The fire was further fueled by the virusâ??s then-unknown impact on lives and our healthcare system.

In most cases, our counsel and long-term perspective on the markets and investing helped expand clientsâ?? thinking enough to stifle their knee-jerk reactions. And time has brought new informationâ??on the virus, economy, and marketsâ??to the discussion that has tempered reactions.

Whether you are hoping to become a better investor, a better businessperson, or just a better thinker, overcoming behavioral biases is a challengeâ??but one worth accepting. If philosophers, astronomers, and scientists had been closed to new information, we would still believe the world is flat and that the sun revolves around the Earth.

Thinking for yourself doesnâ??t require you to follow every new idea that comes along. It simply means being humble enough to realize that no matter how much you know, a fair amount of what you know for sure just ainâ??t so.

Have questions? Need help? Call the CAPTRUST Advice Desk at 800.967.9948 or schedule an appointment with a retirement counselor today.

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