Three Peaks

WEALTH MANAGEMENT

Current Trends of the 11 S&P500 Market Sectors

Communication Services
Negative

ConsumerDiscretionary
Negative

Consumer Staples
Negative

Energy
Positive

Financials
Negative

Healthcare
Negative

Industrials
Negative

Materials
Negative

Real Estate
Negative

Technology
Negative

Utilities
Negative

Do you Suffer from Herding Bias?

Investing biases are irrational preferences that affect investing decisions and subsequent outcomes. They are errors in logical thinking. Biases distort our ability to make rational decisions based on objective facts or evidence.

"A lots of people with high IQ's are terrible investors because they've got terrible temperaments…temperament is more important than brains. You need to keep raw irrational emotion under control"

-Charlie Munger, American Billionaire & Businessman

Understanding Bias is critical to preserving investment returns and achieving one's financial objectives. This is the first in a series of educational content on Bias.

Broad Market Trend Indicators

Long Term S&P500 Market Indicator
Negative

Medium Term S&P500 Market Indicator
Negative

Long Term NASDAQ Composite Indicator
Negative

Medium Term NASDAQ Composite Indicator
Negative

The Russell 2000 Medium Term Composite Indicator
Negative

Developed International Markets Indicator
Negative

Emerging International Markets Indicator
Negative

US Bond/Fixed Income Indicator
Negative

Gold Trend Indicator
Negative

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What is Herding Bias?

Herding is said to be perhaps the most pervasive bias investors fall victim to. It describes an investor following the trend of their peers piling into a particular stock or fund. We often hear herding described as "jumping on the bandwagon."

Humans naturally want to be part of a community. Following the crowd, or at least being influenced by what the crowd is doing is human nature. Sometimes this isn't necessarily a bad thing such as following traffic patterns or leaving burning buildings. In regards to stock selection, the investor may be able to turn a quick profit if they can get in on the "trend" early enough to ride the wave upward.

In many cases herding can be very detrimental and irrational. Taking investment action simply because others are taking the same action, or holding onto a company because Gramps said to never sell it. Herding can result in bubbles and panic selling such as the Dotcom bubble and subsequent crash is a perfect example. The crowd ran stock market valuations too high in no way reflected the fundamentals resulting in major loses for investors as things collapsed.

At Three Peaks Wealth we avoid herding bias by pay little attention to the news pundits, and other sensationalized headlines, however, we also try to benefit from herd mentality by follow a disciplined trend analysis which allows us to take action ahead of the crowd by being early to trends, or exiting trends when the data changes negatively.

What is trend analysis? Very simple, stocks go up when there is more buyers than sellers. Stocks go down when there is more sellers than buyers. Trend analysis is the implementation and study of market/stock trends to improve investment results. While no strategy is perfect we continue to have great results by not following the (herd) crowd.

Trend following also allows for a concise "buy" strategy, and more importantly what most investors lack, a concise "sell" strategy. It is all very non-emotional.

Next month we will look at Confirmation Bias.

Important Disclosures

The proprietary market indicators and all other information contained herein is for informational purposes only, is not personalized investment advice and should not be construed as a recommendation to purchase or sell any security, sector, or strategy to any individual or entity. Information may change at any time, without notice. There is no assurance that the view or opinions discussed will materialize

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Past Performance should not be considered as an indicator of future results.

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