The Stan Clark Financial Team's

PERSPECTIVES

In this issue...

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In this issue I continue exploring our all-too-human tendency of *confirmation bias*. Unaware of the dangers in this bias, we favour information that supports our beliefs. Michael Chu introduces a new series, "Behind the Numbers," about the investment strategies our team uses. Citing the fascinating book *The Happiness Curve*, Elaine Loo reveals that – surprise – we actually get happier as we age! And in this season of giving, Sylvia Ellis writes about CIBC Miracle Day, December 4, when we donate our fees and commissions to children in need.

Stan

CIBC Wood Gundy

Behavioral finance

Confirmation bias is normal – but dangerous for investors

By Stan Clark - Senior Investment Advisor

Last month we discussed how *confirmation bias*, an all-too-human tendency, results in our selectively searching for, interpreting and remembering information that confirms our initial views – while overlooking contrary data. Confirmation bias could just as well be called *selective unconsciousness*, because we don't consciously intend to deceive ourselves. The tendency arises, unconsciously, from our human nature.

In this issue, I'd like to discuss how confirmation bias, though natural to us as humans, can be dangerous to us as investors.

Confirmation bias is pervasive. It affects what we believe and how we act – sometimes with unfortunate results, leading us to make serious investment mistakes.

Most of us approach investing subjectively. It's no coincidence that, over the long term, many investors also underperform market averages. Confirmation bias is one reason subjective investing doesn't work well.

Say I'm an analyst. I'm trying to figure out whether ABC Corp is worth investing in. I am initially biased in ABC's favour. Maybe I once worked for them, or a friend recently joined them, or my sister swears by an ABC product. Whatever the reason, my first impressions are positive.

So, when I start researching ABC, confirmation bias goes to work. I think I am being unbiased, but it's hard for me not to favour information supporting my first impressions. When I tour ABC, I notice things that support my bias. Unconsciously I ignore or downplay things that don't. I notice the fancy new machines the company has installed. Yet I overlook the atmosphere of employee discontent.

Not only am I selective in the information I find; I interpret facts to support my case. Let's say the CEO has spent her whole life at ABC. I can easily interpret that as positive: She's loyal; has lots of direct experience in the company; knows ABC inside and out. Now let's say the CEO has worked at several different companies. I can spin that positively, too: She is widely experienced; sought after by other companies; flexible.

Our minds are adept at creating arguments to support what we want to believe. When it's time to make my forecast for ABC Corp, I cannot help but create a favourable one.

If all analysts and investors were evenly distributed in their first impressions, then we would expect the same number of people to be positive or negative about any given company. But a surprising number of analysts and investors are predisposed to think favourably about companies that have been doing well for the past few years, and to view unfavourably companies that haven't performed as well. Confirmation bias causes them to favour and buy overvalued stocks. And, unfortunately, to sell undervalued stocks – the exact opposite of what leads to good investment returns.

> *Our minds are adept at creating arguments to support what we want to believe.*

The Internet has made confirmation bias even more prevalent. It's easy to find information or opinions supporting almost any point of view. Add thousands of different TV and radio stations, magazines, newspapers and blogs to the mix, and it's not hard to find a select, steady stream of media that support our biases.

What's the moral of this story? If we approach investing subjectively, we must be aware that confirmation bias exists and will likely have a negative effect on our buying and selling decisions. Counteracting this bias is hard work. That's why it makes sense to use a disciplined, objective approach to investing – to take bias right out of the equation. ■

Team Talk:

Elaine Loo

Associate Investment Advisor

Elaine and family at Osaka Castle, Nov 2019

Any vacations this year?
Yes, in fact we just came back from a family trip.

Where did you go?
Japan!!! We went to Osaka, Kyoto and Tokyo for 2 weeks. It was amazing! The weather was perfect, not too cold and not too hot with lots of dry days for all the walking we did, and we did A LOT of walking.

What were your favorite parts of the trip?
My favorite was Kyoto. It was so amazing seeing the old part of Japan, with their traditional buildings and the occasional spotting of a Geisha. My kids' favorite was definitely the food and all the toys. But for me, I would say the food ranks at the top. Their favorite was the 7-11 convenience stores and the Cup Noodle Museum! My husband loved the temples, especially the Golden Pavilion. Everyone there was so helpful and kind, especially when we looked like lost tourists! It was definitely a great cultural experience for the family.

Investing

Behind the Numbers: Introduction to a new series on our strategies – and how they work

By Michael Chu, Investment Advisor

The Stan Clark Financial Team uses rules-based strategies that we believe will help you achieve higher returns with lower risk. In this new series of articles, "Behind the Numbers," we'll discuss what's behind our strategies and how they work. We'll explore a variety of topics, from the rationale behind specific variables to how we rank companies, and finally to how we integrate the strategies into your portfolio. We hope that this series will give you a better idea of our investment process.

In 1997, more than 20 years ago, a computer shocked the world by beating Garry Kasparov – considered the best chess player of all time. Since then, computer-vs.-human achievements have continued to stack up. These days, we're hearing a lot about computers taking over all sorts of human jobs. So, for our investment strategies, should we just do what the computer says?

"If you can't beat them, join them," goes the old saying. After that epic chess match in 1997, Kasparov suggested a new game where human players could make use of computers for help, but the humans still had the final decision. Surprisingly, the final four players were not computers or humans – but human-machine pairings. In other words, humans aided by computers were the winners.

Today, with computers' capabilities continuing to improve, we believe that those who can synergize with computers and data will be best positioned to do well. As that chess tournament showed us, we can't rely solely on computers to do our thinking. On our team we instead embrace a combined intelligence, where decision-making is enhanced by computer-aided people. The beauty of this approach is that computers and people can capitalize on each other's strengths while compensating for each other's weaknesses. With respect to our investment decisions, computers help us greatly but we still apply our intuition and experience in making the final decisions.

We use wide range of strategies or methods to determine what to invest in for your portfolio. Our stock strategies cover approximately 3,000 companies between Canada and the U.S. For our international strategies, we rank 23 different countries located around the world.

With that many potential investments to consider, we have to scour a lot of information to determine which are best suited for your portfolio. Some of the data we look at include: price-to-earnings ratios, dividends, book values, price trends and more.

To do this effectively, we need accurate and timely data. We work with independent financial data vendors who provide us with data that has been reviewed by more than 40 accountants and analysts. They verify the data for consistency and accuracy. For example, if a company has a one-time event that temporarily boosted earnings, we want to factor that out when evaluating growth prospects.

Our data providers also give us ratings and earnings estimates from many analysts in Canada and the U.S. These are industry experts providing their detailed company fundamental analysis. Having multiple analysts means that, when evaluating a company, we're not reliant on just one expert's opinion. This allows us to remove the personal biases of any single analyst – the result being a more objective view.

One of the key points to our strategies is avoiding the proverbial "black box" – a system where the inputs and outputs are defined, but not the internal workings or processes.

At this point, it may seem that we have a lot of information to process. But a benefit of having defined rules is that we can automate the process as much as possible. If we were doing everything by hand, it would take weeks to do all the calculations. With our computer systems, we can rank thousands of companies, and re-evaluate them on a daily basis as new information comes in.

One of the key points to our strategies is avoiding the proverbial "black box" – a system where the inputs and outputs are defined, but not the internal workings or processes. An example of this is the subjective decision-making of the human mind. We know what goes in and what comes out, but we aren't always sure how biases and emotions can affect the output. This gives us inconsistent results – exactly what we want to avoid when dealing with investments. By having a rigid and clearly defined process, we achieve consistency in our decisions, which should give us better results over time.

While we try to make our strategies as objective as possible, we're still very involved in making the final decisions. In upcoming issues of *Perspectives*, we'll take a deeper look at our investment process. ■

Michael Chu is a Portfolio Manager and Investment Advisor for the Stan Clark Financial Team at CIBC Wood Gundy. Michael is a specialist in investment research and information technology.

Financial Planning

The paradox of aging: Why getting old makes you happier

By Elaine Loo, Associate Investment Advisor

A friend of mine recently celebrated her 30th high school reunion. Most of her former classmates were too busy, or else did not care, to attend. Still, those who did go made up a decent-sized group. They reminisced about "the old days" of being their 20s. They were an ambitious bunch back then, determined to: be on top of the world; get the big job; have an extraordinary family and lots of money; or achieve some other form of greatness.

Many did achieve these goals. But today, in their late 40s, how do these alumni feel? Are they happy? After all, kids are a handful, work is stressful, parents are getting older – not to mention the overwhelming demand of countless other obligations. The night ended relatively early with common excuses, e.g., "I'm so tired," or "Got my kid's hockey in the morning."

Despite meeting their goals, the old friends confided to each other that they felt life had peaked; that they were heading into a slump, if not there already. "Downwards from here, man," my friend heard throughout the evening.

Sure, being middle aged isn't supposed to be easy. That's no surprise. But as we get older, are things destined to get worse?

Enter award-winning journalist Jonathan Rauch, author of *The Happiness Curve – Why life gets better after 50*. Rauch's research shows that happiness follows a U-shaped trajectory, i.e., what he calls the happiness curve. It declines from the optimism of youth, bottoms out in middle age and then begins to rise again.

How does Rauch define happiness? He says there are two kinds. *Affective happiness* is how you feel at the moment: "What's your mood right now?" The second, *evaluative happiness*, is how satisfied you are with your life: "How do you compare with the best possible life you could imagine for yourself?"

Happiness is sixfold

Happiness generally revolves around six factors, Rauch suggests: social support, generosity, trust, freedom, health and income. You may notice that the first four factors involve social interaction. Research shows that there is a strong link between life satisfaction and being connected to others. Perhaps the truest form of wealth is social, not material. Another secret to happiness, he says, is "not to compare yourself to people who are more successful than you: compare downwards, not upwards." Sound advice, but not always easy to follow in reality.

Rauch discusses many studies about happiness. Most of them make sense, like the six factors mentioned above. One thing may surprise most of us. Age has an effect on happiness – but not a downward effect, as one would expect. Remember Rauch's theory of the U shape? To recap: Life satisfaction tends to decline gradually after early adulthood, bottom out in middle age, then gradually rebound after. This phenomenon has proven consistent for men and women, across many countries and even in apes!

So, why does getting older make you happier? After all, no one is cheering over sore joints or needing reading glasses. Rauch discusses a number of reasons older people feel happier:

1. declines in stress after 50;
2. better control of emotions;
3. feeling less regret;
4. positive effects and growth of wisdom.

He believes that age doesn't just change our bodies; it also changes our values. The focus shifts from thinking about the future to living in the present: taking each day as it comes, savouring the positive, dwelling less on the negative, accepting and not overreacting.

In summary, life is complicated, but *The Happiness Curve* gives us an interesting and helpful perspective. When you look at your life in your 40s, you ask, "Is this all?" Later, in your 50s, your view changes to, "Actually, this is pretty good." You shift gears from being focused on accumulating to being appreciative for what you have. Everyone is different, but for those of you in your 40s, hang in there. And for everyone else, enjoy! ■

Elaine Loo is an Associate Investment Advisor for the Stan Clark Financial Team at CIBC Wood Gundy. She is responsible for the day-to-day monitoring and maintenance of client accounts and investment portfolios.

CIBC Miracle Day

Making a difference for kids in need

By Sylvia Ellis, Senior Estate Planning Advisor

This year, the annual CIBC Miracle Day will be held on December 4. On that day, we at the Stan Clark Financial Team will donate all fees and commissions to the CIBC Children's Foundation.

CIBC founded the Children's Foundation, a registered Canadian charity, in 1984 with the belief that by working with our clients, employees and children's charities, we can make a difference for children in need.

CIBC covers all administrative costs associated with running the Foundation. That means 100% of all funds raised on CIBC Miracle Day go to children's charities across Canada. In 2018, CIBC raised $5.7 million for kids in need. Since inception, CIBC Miracle Day has raised over $100 million for children's charities across Canada – and $250 million globally.

The Foundation has three areas of focus:

- help for high-needs children
- healthy, active living
- well-being and enrichment.

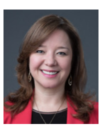
With its goal of improving the quality of life for children in need, CIBC Children's Foundation is dedicated to helping them prepare for future successes. By focusing on health, education and well-being, the Foundation provides these children with the opportunity to participate in programs that might not otherwise be accessible to them. Such enrichment opportunities are vital in supporting young people in the formative years, encouraging personal and professional growth.

The Stan Clark Financial Team is proud to be a part of CIBC Miracle Day. As we do every year, we invite you to suggest causes that are close to your heart. Last year at your suggestion, we directed funds to 14 charities, including:

- **Sunshine Foundation** – Since 1987, Sunshine has been fulfilling custom-made dreams for Canadian kids living with severe disabilities or life-threatening illnesses.

- **BC Adaptive Snowsports** – Formed in 1973, Adaptive Snowsports enhances the quality of life for children and youth with physical and cognitive disabilities, and for their families and volunteers, by providing opportunities to experience the joy, freedom, and health and wellness benefits of adaptive sports.
- **Cassie + Friends** – The only charity in Canada dedicated 100% to the pediatric rheumatic disease community, Cassie + Friends has raised over $1.5 million since 2007. These funds help transform the lives of kids and families affected by juvenile arthritis and other rheumatic diseases. Working with patients, caregivers, healthcare professionals, researchers and other friends, the charity provides life-changing support, education, community and research to help kids and families face the ups and downs of life with a chronic condition.
- **HEROS** – The Hockey Education Reaching Out Society is a volunteer-driven charity that uses the game of hockey to teach life skills and empower Canada's marginalized youth. By providing a safe and stable environment for young people to succeed, connect and learn, HEROS guides its participants to become constructive citizens within their communities.
- **The Bloom Group** – Originally founded on Vancouver's Downtown Eastside in 1961 as the St. James Community Service Society, Bloom's mission is to support the most vulnerable people in our community through the provision of housing, health and social services.

We thank you in advance for your support! And, as noted above, we warmly encourage you to let us know about any Canadian children's charities you would like us to consider. ■



Sylvia Ellis is the Senior Estate Planning Advisor for the Stan Clark Financial Team at CIBC Wood Gundy. Sylvia provides support to the team in projecting and planning client financial affairs.

MIRACLE DAY

HELPING KIDS RISE ABOVE

SCFT Trivia

Play our trivia – support the cure!

For every correct entry we receive in our trivia contest, the Stan Clark Financial Team will contribute $1 to CIBC's "Run for the Cure" to raise money for breast cancer research. Each correct entry will also be entered into the draw for this month's prize. Email or phone in your entry today.

Answer all four questions to be entered into the draw for this month's prize. Hint: You can find the answers inside this newsletter.

1. The Internet has made confirmation bias even more prevalent because:
   a) online advertising is the most convincing type
   b) most sites advocate the same point of view
   c) it's easy to find information or opinions supporting almost any point of view
   d) with constant Internet access, people are becoming more thoughtful.
2. In our investment process, the Stan Clark Financial Team uses the approach of a combined intelligence, where decision-making is enhanced by computer-aided people:
   a) true b) false.
3. According to Jonathan Rauch, author of The Happiness Curve: Why life gets better after 50, seniors enjoy life because:
   a) the many programs for retirees at community centres keep them busy
   b) they take each day as it comes, savouring the positive, dwelling less on the negative, and not overreacting
   c) they love surfing the Internet
   d) they have more time to garden.
4. Funds raised on CIBC Miracle Day, December 4, go to the CIBC Children's Foundation to support children's charities across Canada. The Foundation has as its focus:
   a) help for high-needs children
   b) healthy, active living
   c) well-being and enrichment
   d) all of the above.

Email answers to: **stanclarkfinancialteam@cibc.ca**
or call (604) 641-4361

One prize winner will be chosen by a draw from all those who submit correct answers. The draw will take place on December 30, 2019.

Trivia challenge runs December 1 - 27, 2019. No purchase necessary. There is one prize to be won. Simply complete the trivia questions correctly to be entered in the draw. Limit 1 entry per person.

Chances of winning depend on number of eligible entries and whether you correctly answer the trivia questions. Open to adult Canadian residents (excluding Quebec). For full challenge rules, write to: The Stan Clark Financial Team, CIBC Wood Gundy 400-1285 West Pender St, Vancouver, BC V6E 4B1. © Stan Clark 2019

CIBC Wood Gundy

The Stan Clark Financial Team

Where planning, investing and behavioral finance meet

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