

## Overconfidence in Investing: The Perils of Trying to Time the Market



### Overconfidence in Investing: The Perils of Trying to Time the Market

Have you ever been driving down the road and thought to yourself, "Wow, I'm a much better driver than all of these other people"? If so, congratulations, you're part of the 80% who believe they're better than average drivers. (1) Obviously, not all 80% of us (that's right, I think I'm an above-average driver too!) can be right, but I bet you're still sitting there convinced it's not you who's wrong, but those other people who don't know how to drive. I don't bring this up to criticize anyone's driving, but to make a simple point that it's human nature to be overconfident in one's abilities.

Of course, it's important to have confidence in yourself when it comes to pretty much anything, and especially when it comes to investing. Overconfidence, however, is a very different beast. Studies show it leads to more frequent trading, lower returns, less diversification, and taking on excessive levels of risk. (3) The simple fact is that overconfidence leads to non-optimal decision making and lower investment returns.

I could list any number of second-hand stories where an investor makes an aggressive move based on an outcome that they're confident will come true, only to get burned by that confidence. Don't get me wrong, there's nothing wrong with making an aggressive move based on something you're confident in (assuming you have the research to back up that confidence), but issues arise when you ignore diversification and risk management to make that move. But instead of me telling you stories, let's look at a hypothetical scenario you could have faced just a few years ago.

Here are the first few sentences from a January 2, 2023, Bloomberg article titled "Here's (Almost) Everything Wall Street Expects in 2023."

It may be one of the most anticipated recessions of all time, but that doesn't mean it won't hurt.

Barclays Capital Inc. says 2023 will go down as one of the worst for the world economy in four decades. Ned Davis Research Inc. puts the odds of a severe global downturn at 65%. Fidelity International reckons a hard landing looks unavoidable. (4)

Even now, reading that gives me goosebumps. I don't care how long you've been investing or in the finance industry, reading that would give anyone pause. It'd be entirely reasonable to think you should get out of the market to avoid whatever 2023 has to offer. But if you did, you'd have missed a 26% return in the S&P 500. (5) What's worse is that now you have to decide when to re-enter the market. In order to make



**HFS Wealth Advisors**  
HFS Wealth Advisors

[330-659-7140](tel:330-659-7140)  
[hfswealthadvisors@hfswa.com](mailto:hfswealthadvisors@hfswa.com)  
[www.hfswa.com](http://www.hfswa.com)



**Patrick Hammer, MSFS, AEP®**  
Sr. Client Advisor and President Partner

[330-659-7140](tel:330-659-7140)  
[hfswealthadvisors@hfswa.com](mailto:hfswealthadvisors@hfswa.com)  
[www.hfswa.com](http://www.hfswa.com)



**Todd Rohrer, C(k)P® AIF®**  
Client Advisor

[330-659-7140](tel:330-659-7140)  
[trohrer@hfswa.com](mailto:trohrer@hfswa.com)  
[www.hfswa.com](http://www.hfswa.com)

that decision, you might decide to read the 2024 version of the Bloomberg article mentioned above, where they mention a "mild recession" being the consensus, and some firms calling for a shift to fixed income, with BNY Mellon Wealth proclaiming "bonds [will] have their moment." (6) There's no telling what you might have done after reading that (especially after being burned by the same article the year prior), but what I can definitely tell you is that the economy didn't go into a recession (not even a mild one), and bonds most definitely did not have their moment, posting a 1.25% return versus 25% for the S&P 500. (5)

The ultimate point is that being overconfident and making large allocation swings (like moving to all cash) tends to be the wrong decision. Not only is it notoriously difficult to project stock market returns (even Wall Street can't seem to get them right), but it also creates a need to decide whether to change your allocation back or keep things the same. The odds of timing both sides right aren't in your favor.

A better reaction to a prediction you're confident in would be to make small shifts that would benefit from that prediction coming true. Instead of going all cash in 2023, keep an extra 5% in cash, or move your portfolio to have more fixed income. Sure, in this case you would've lost out on some returns, but you likely would've slept better at night, and you certainly wouldn't have missed the entire 26%. (5)

It's one thing to make a tactical move based on a prediction you're confident in, and it's another to go all in based on that confidence. The former is an investment strategy, and the latter is akin to gambling. That's why Wall Street can project a market downturn and a recession but won't ever tell their clients to sell everything and go to cash.

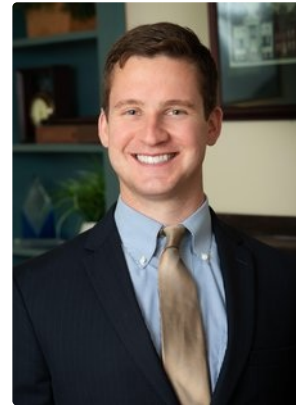
Written by: Ben Bulchik

These are the opinions of Ben Bulchik and not necessarily those of Cambridge, are for information purposes only, and should not be construed or acted upon as individualized investment advice. Investing involves risk. Depending on the types of investments, there may be varying degrees of risk. Investors should be prepared to bear loss, including total loss of principal. The strategies discussed herein are not designed based on the individual needs of any one specific client or investor. In other words, it is not a customized strategy designed on the specific financial circumstances of the client. However, prior to opening an account, Cambridge will consult with you to determine if your financial objectives are appropriate for investing in the model. You are also provided the opportunity to place reasonable restrictions on the securities held in your account.

Cambridge does not offer tax or legal advice.

Securities offered through Registered Representatives of Cambridge Investment Research, Inc., a broker-dealer, member FINRA/SIPC. Advisory services offered through Cambridge Investment Research Advisors, Inc., a Registered Investment Advisor. HFS Wealth Advisors and Cambridge are not affiliated.

- 1) <https://pubmed.ncbi.nlm.nih.gov/3730094/>
- 2) <https://online.mason.wm.edu/blog/what-is-behavioral-finance>
- 3) <https://www.investopedia.com/overconfidence-bias-7485796>
- 4) <https://www.bloomberg.com/graphics/2023-investment-outlooks/>
- 5) Kwanti Portfolio Analytics  
<https://www.bloomberg.com/graphics/2024-investment-outlooks/>



**Justin Hamlin, CFP®, AEP®**  
Client Advisor  
[330-659-7140](tel:330-659-7140)  
[jhamlin@hfswa.com](mailto:jhamlin@hfswa.com)  
[www.hfswa.com](http://www.hfswa.com)

Schedule a meeting

These are the opinions of HFS Wealth Advisors and not necessarily those of Cambridge, are for information purposes only, and should not be construed or acted upon as individualized investment advice. Investing involves risk. Depending on the types of investments, there may be varying degrees of risk. Investors should be prepared to bear loss, including total loss of principal. The strategies discussed herein are not designed based on the individual needs of any one specific client or investor. In other words, it is not a customized strategy designed on the specific financial circumstances of the client. However, prior to opening an account, Cambridge will consult with you to determine if your financial objectives are appropriate for investing in the model. You are also provided the opportunity to place reasonable restrictions on the securities held in your account.