



# Claro Advisors, LLC.

Quarterly Newsletter  
April 2019



## Quarterly Newsletter

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### CLARO NEWS AND ANNOUNCEMENTS

Spring has sprung and with it comes renewed optimism of the United States economy, at least that is what Mr. Market told us. First quarter returns were the best in decades, a sharp correction from the downward spiral of the markets in the 4th quarter last year. Keeping us alert and humble, as he always does. Current investment opportunities remain muted, in our opinion, as valuations normalized to long term historical averages. We use this outstanding quarter as an opportunity to rebalance accounts in line with your current risk tolerance and financial goals. Please give us a call if you'd like to review.

Another tax season has passed and some of you know how tough it was this year with all the changes. If you haven't already connected us with your CPA or tax professional, and would like to, please do. Often times, having your "team" in communication is helpful. It can be as simple as facilitating document transfers, paying estimated taxes or helping with strategy. We are here to make your life easier.

In Claro news, our group remains the same at 12 team members. Some of you might have heard from our new client service manager, Emily. She works closely with Allison, both of whom are a delight to work with. They are here for any service item that needs attention. And, as you might have seen from a previous email, my wife gave birth to our son Chance in March. He is healthy and doing well and we are so grateful to have him home. We are thankful for the outpouring of your thoughtful gestures.

Thank you for your continued business, we so appreciate the trust you've instilled in us and remain committed to acting in your best interest, always.

Please enjoy this recent blog post from one of our team members, as well as this [feature piece on Claro Advisors](#) which was published on April 23, 2019.

- Ryan Belanger, Managing Principal



## HOW TO AVOID BAD FINANCIAL DECISIONS

By Bob Dockendorff JD, LL.M

### Less Bias, Better Judgement



Charlie Munger is Warren Buffet's right-hand man.

In 1995, Munger gave a now famous speech at Harvard titled "The Psychology of Human Misjudgment" regarding common flaws in human decision making, and why we should be weary of them. There is a great shortened, animated video of that speech [here](#).

Using good judgment to make smart decisions is paramount to successful results, and financial decisions are no exception. It is well documented that investor behavior, defined as the mental processes and emotions that cause investors to buy or sell, is the decisive factor in long term results, rather than knowledge, skill or luck. We might classify these behavioral missteps as the lack of good judgment in financial decision making.

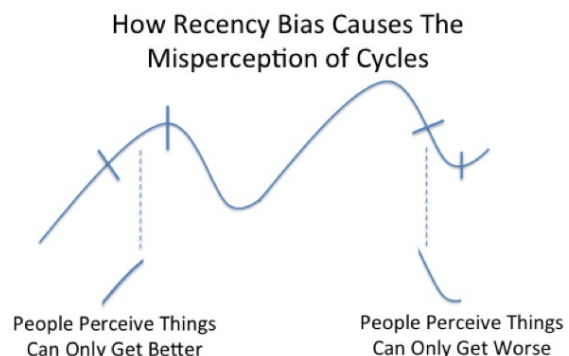
But investor behavior is just one of the many areas where sound judgment and decision making have a major impact on long term success. It turns out that many elite investors, entrepreneurs and executives across the globe see good judgment as the necessary final step to true success. While intelligence, factual acumen, hours of hard work and study, and years of experience can obviously help to make better decisions, they are often not enough to consistently make good decisions over the long term. We also need good judgment.

As advocated by Charlie Munger and others, the path to good judgment is through the use of mental models. Mental models are the "latticework" of human experience and knowledge in which provide a contextual structure for any given situation. This is can be thought of as a systematized or codified version of what we commonly refer to as "perspective".

Mental models are very helpful in one regard: They seek to limit common unconscious cognitive biases that affect everyone. Cognitive biases can create many pitfalls, and as Charlie Munger believes—it's amazing how much success one can achieve by simply avoiding the pitfalls.

From a purely anecdotal perspective, I have a few key areas where I see biases creep in and create pitfalls for clients. They are:

**Recency Bias in Individual Stock Trading Decisions:** When clients have exposure to individual stocks, either through personal trading accounts or company equity plans, I often see recency bias—the phenomenon where folks emphasize recent events vs. those from the past which are equally as probable in the near future. If a stock has done very well over the past three months, investors forget about the 40% drop that had occurred 15 months prior. Despite a similar drop being just as likely in the future, investors





## Keeping Up With

# THE JONESES

Syndrome” as all their toys are taken away—they become angry, like a dog having a bone ripped out of its mouth.

**Liking Distortion Leads to Product Sales** – Successful sales-people are generally fun and likeable. They charm you with their engaging personality, funny stories and can prey on your fears (no matter how irrational). The financial advice world, despite many recent improvements, is still crawling with charismatic salespeople and brokers seeking to lock you into a contract that very few humans could every fully understand--like Variable Universal Whole Life Insurance or Structured Products. As Munger explains with “Liking Distortion”, people buy from people they like and avoid people they don’t. But many times, the people you like are selling bad products/advice because you didn’t listen to the less charismatic fiduciary financial planner. “People buy from people they like” is always true but jokes and rounds of golf won’t make up for terrible financial advice.



I’m sure entire books have been written about the subject of common biases clouding financial decisions, but this is a quick summary of my own experience with clients. Next time you make a financial decision, be wary of how your brain might hurt your judgment.

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*You may watch an abridged and animated version of Charlie Munger’s now famous speech at Harvard in 1995, titled “The Psychology of Human Misjudgment” on YouTube [here](#).*



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