

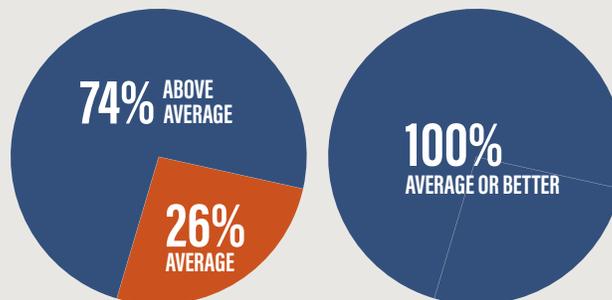
# Overconfidence

## Psychology of an Investor

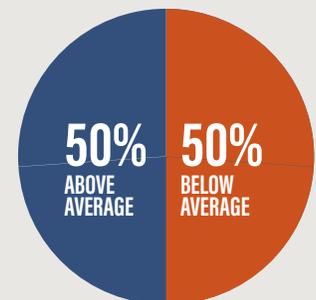


In a 2006 study entitled “Behaving Badly,” researcher James Montier found that 74% of the 300 professional fund managers surveyed believed that they had delivered above-average job performance. Of the remaining 26% surveyed, the majority viewed themselves as average. Incredibly, almost 100% of the survey group believed that their job performance was average or better. Clearly, only 50% of the sample can be above average, suggesting the irrationally high level of overconfidence these fund managers exhibited.

OVERCONFIDENCE



LOGICALLY



Confidence implies realistically trusting in one’s abilities, while overconfidence usually implies an overly optimistic assessment of one’s knowledge or control over a situation.

As you can imagine, overconfidence (i.e., overestimating or exaggerating one’s ability to successfully perform a particular task) is not a trait that applies only to fund managers. Consider the number of times that you’ve participated in a competition or contest with the attitude that you have what it takes to win—regardless of the number of competitors or the fact that there can only be one winner.

Keep in mind that there’s a fine line between confidence and overconfidence.



### Overconfident Investing

In terms of investing, overconfidence can be detrimental to your stock-picking ability in the long run. In a 1998 study entitled "Volume, Volatility, Price, and Profit When All Traders Are Above Average," researcher Terrance Odean found that overconfident investors generally conduct more trades than their less-confident counterparts.

Odean found that overconfident investors/traders tend to believe they are better than others at choosing the best stocks and best times to enter/exit a position. Unfortunately, Odean also found that traders that conducted the most trades tended, on average, to receive significantly lower yields than the market.

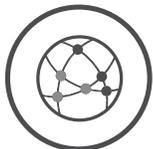


### Avoiding Overconfidence

Keep in mind that professional fund managers, who have access to the best investment/industry reports and computational models in the business, can still struggle at achieving market-beating returns. The best fund managers know that each investment day presents a new set of challenges and that investment techniques constantly need refining. Just about every overconfident investor is only a trade away from a very humbling wake-up call.

Contact your financial advisor to learn more about INVESTMENT ESSENTIALS or please visit [amgfunds.com/essentials](http://amgfunds.com/essentials) for more information.

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