

# The availability bias: Media overkill

Fundamental Index® strategies may help combat the effects of the availability bias, a behavioral finance influence that can cause clients to evaluate investment opportunities based on immediate recollections.

## Frequency and recency matter the most where the availability bias is concerned.

According to the availability bias, the information that your clients immediately recall heavily influences their evaluations of a concept, event, topic, or decision-making opportunity. However, beliefs, expectations, and exposure to an issue may affect client recollections, distorting the potential for objective, rational investment selections.

## Last year's momentum-driven rally is likely top of mind for many Baby Boomers.

Mass media plays a pervasive role in shaping client expectations, with last year's nearly nonstop string of headlines about U.S. stocks breaking one record high after another likely influencing your clients' expectations for 2018. For example, many Baby Boomers viewed the stock market correction early this year as a buying opportunity instead of an event that underscored the importance of diversification.



Sources: Charles Schwab Investment Management; MSCI. Data from 01/02/17 to 05/31/18.

## Fundamental Index strategies may help investors reduce the effects of the availability bias.

As the chart above illustrates, momentum has remained a driving market force this year, in spite of increased volatility, tariff-related complications, and heightened geopolitical challenges. This market dynamic demonstrates the availability bias at work, as well as the potentially unsustainable emotional momentum that it can generate. Fortunately, the Fundamental Index methodology breaks the link with price- and market-driven emotion, potentially reducing the effects of the availability bias. By systematically identifying fundamental measures instead of potentially falling prey to flawed expectations, Fundamental Index strategies can serve as a valuable complement to cap-weighted index strategies.



Insights from  
Omar Aguilar  
CIO, Equities  
and Multi-Asset  
Strategies

## Key takeaways:

- The availability heuristic is a cognitive bias that influences your clients' decision-making processes.
- Many factors play a role in shaping your clients' expectations, including mass media.
- Fundamental Index strategies can complement market-cap index strategies by potentially reducing the effects of the availability bias.

Put the Biagnostics™  
process to work in  
your practice.

#### Identify and treat your clients' investing biases

Biagnostics is a framework to help advisors incorporate behavioral finance into their practice. The proprietary process is designed to create an emotionally and financially customized client experience by addressing behavioral biases and generational/life-stage challenges. With Biagnostics, advisors can use the principles of behavioral finance to identify and mitigate potential biases and trip wires in order to build better client experiences.

For more information, visit  
[schwabfunds.com/biagnostics](https://schwabfunds.com/biagnostics)

#### Charles Schwab Investment Management

As one of the nation's largest asset managers, our goal is to provide investors with a diverse selection of foundational products that aim to deliver consistent performance at a competitive cost.

Call us at **877-824-5615** for more information.

**Past performance does not guarantee future returns.**

**There can be no assurance that the Fundamental Index strategies will achieve their desired outcomes. Each investing strategy involves its own set of unique risks and benefits.**

Fundamental Index is a registered trademark of Research Affiliates LLC.

The MSCI USA Momentum Index calculates a risk-adjusted price momentum score for each security in the MSCI parent index and selects the top securities with the highest momentum scores.

The MSCI USA High Dividend Yield Index aims to capture the high dividend yield equity opportunity by including only securities that offer a meaningfully higher-than-average dividend yield relative to the parent index and that pass dividend sustainability and persistence screens.

Indexes are unmanaged, do not incur fees, and are unavailable for direct investment.

Diversification and asset allocation strategies do not ensure a profit and do not protect against losses in declining markets.

The opinions expressed are not intended to serve as investment advice (either under the Investment Advisers Act of 1940, or the Department of Labor's Fiduciary Advice Rule), a recommendation, offer, or solicitation to buy or sell any securities, or recommendation regarding specific investment strategies. Information and data provided have been obtained from sources deemed reliable, but are not guaranteed. Charles Schwab Investment Management makes no representation about the accuracy of the information contained herein, or its appropriateness for any given situation.

The views expressed are subject to change without notice based on economic, market, and other conditions. Some of the statements in this document may be forward looking and contain certain risks and uncertainties.

©2018 Charles Schwab Investment Management, Inc. All rights reserved. REF (0618-8V39) MKT102658SPR18-00 (06/18)  
00212573