# 23 Investor Traps Revealed


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# About the Author

**Michael Yardney** is a best-selling author and a successful property investor and developer.

His opinions as a property commentator are highly sought after and frequently quoted in the press. Many consider Michael as Australia's leading expert in wealth creation through property and he has probably educated more successful property investors than anyone else in Australia.

Michael was voted Australia's Best Property Investment Advisor by readers of Your Investment Property Magazine and Australia's leading property investment educator and mentor in the inaugural Investors Choice Awards.

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# What is standing between you and property investing success?

## It could be YOU!

Maybe you're too biased to be a successful property investor?

What do I mean by that?

Well...did you know that as property investors we can sometimes be our own worst enemy?

It's not because of the decisions we make, the opportunities we consider or the investments we miss out on, but rather, it's due to the way we think. That's because we're subject to cognitive biases — the way our brains sneakily convince us to make decisions that aren't always in our best interests.

In this special report you'll learn that we all exhibit innate subconscious behaviours that evolution has equipped us with to help us survive. While they served a purpose when we lived in cages and evolved, these behavoius have a way of sabotaging our efforts as investors, business people and entreprenuers

These "cognitive biases" may convince us to spend more, save less, and feel more confident in our decisions than perhaps we should. And the scary thing is, for the most part, we're powerless against them.

In this special report I'm going to look at some of the most common ones investors fall victim to.

# Confirmation bias

People tend to search for information that confirms their view of the world and ignore what doesn't fit.

In an uncertain world, we love to be right because it helps us make sense of things.

We do this automatically, usually without realising; partly because it's easier to see where new pieces fit into the picture puzzle we are working on, rather than imagining a new picture.

*"Read all you can from reputable sources"*

For example if we believe that a particular type of property or a specific region will make for good investing, then we tend to only seek out news and information that supports that position.

Confirmation bias also prevents us from looking objectively at an investment we've already made.

Once we've bought a property we look for information to confirm that we've made a good investment while as the same time ignoring information that may indicate the investment may be a questionable one.

## Investor takeaway

One way to counter confirmation bias is to read things you're going to disagree with. In other words read all you can from reputable sources, whether it's confirming your original view or not.

Another is to look for reasons your strategies could be wrong, rather than right.

# Anchoring bias

We have a tendency to use anchors or reference points to make decisions and evaluations, and sometimes these lead us astray.

Anchoring explains why you'll pay $6 for an hour of parking after seeing $10 at a car park down the street. The first number you see, especially when its a price that comes up in negotiation, colours any that come after it.

A high anchor influences you to spend more than you normally would.

***"It's natural for our brain to select an anchor as a shortcut"***

Property marketers, estate agents and car sales people use this principle all the time.

They start with a high asking price and then you feel good when you extract a discount from them. This is because the initial price you set for a house or car or more abstractly, for a deal of any kind, tends to have ramifications right through the process of coming to an agreement.

Whether we like it or not, our minds keep referring back to that initial number.

## Investor takeaway

As you can see it's natural for our brain to select an anchor as a shortcut around which it makes decisions.

It's important for you to evaluate any property deal based on its own fundamentals and all the information you have available form your research and due diligence at the time.

# Awareness bias

How are your investments performing – are you happy with the results you're getting?

There's a chance that even if they're not doing so well, you may not even recognise it.

In fact it's been shown the poorest performers in all arenas of life are the least aware of their own incompetence.

***"If you're the smartest person on your team you're in trouble"***

Lacking the capacity to realise how badly a task is performing is known as the Dunning-Kruger effect.

## Investor takeaway

If you're the smartest person on your team you're in trouble.

It's best to work with mentors and professional advisors.

As a property investor you should consider getting the independent property strategists at Metropole to not only help you formulate a property strategy that is proven and has stood the test of time, but also to help you annually review your property portfolio objectively.

# Positivity bias

Many people view residential real estate positively, considering it an asset class through which they can grow their wealth – and they continue to do view it in this light, even if their investments fail to prosper.

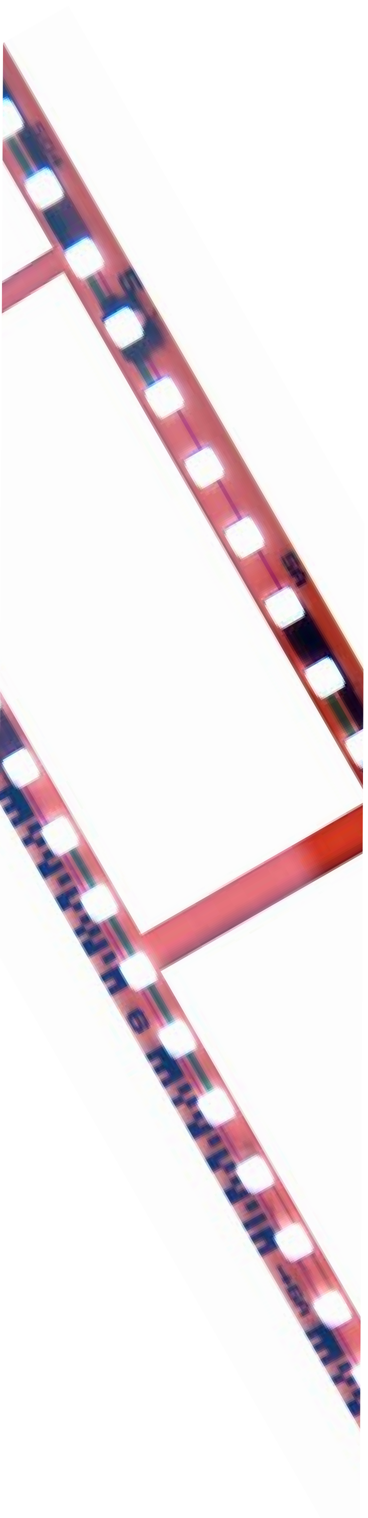
In the face of lack of capital growth, prolonged vacancies or inflated expenses, they still continue to believe that their investment will turn the corner “one day.”

*“Overconfidence is a real risk for property investors”*

The problem with this is that when all signs point to a dud investment, it likely is one – but positivity bias can stand in the way of an investor taking action to rectify the situation.

## Investor takeaway

Overconfidence is a real risk for property investors – one of the best things an investor can do is admit what they don’t know and get a good team of professionals around them.



# Negativity bias

Just as some investors can be overly positive this is the tendency to put more emphasis on negative experiences rather than positive ones.

People with this bias feel that ‘bad is stronger than good’ and will perceive threats more than opportunities in a given situation.

Psychologists argue it’s an evolutionary adaptation - it’s better to mistake a rock for a bear than a bear for a rock.

***“Fact is: there will always be property pessimists around telling us why not to invest”***

To keep our ancestors alive, Mother Nature evolved a brain that routinely tricked them into making three mistakes: overestimating threats, underestimating opportunities, and underestimating resources (for dealing with threats and fulfilling opportunities).

This is a great way to pass on genes, but a lousy way to promote quality of life or grow your wealth through property.

## Investor takeaway

Fact is: there will always be property pessimists around telling us why not to invest and reminding you of all the things that can go wrong and the reality of real estate is that it is a cyclical investment class.

However you can minimise your risks and maximise your upside if you educate yourself and become financial fluent, follow a proven strategy and get a good team around you.

# Status quo bias

This describes our tendency to stick with what we know, whether or not it's the best course of action. It could be as simple as buying the same name-brand groceries that you always have or as complex as holding on to that underperforming property.

People do this partly because they want to avoid costs, even when it's apparent that those costs will be offset by a larger gain, being the long-term growth of a better performing property.

Psychologists call this "loss aversion" and it explains why so many Australians are willing to stick their money in a plain old bank account earning minimal interest, rather than taking the "perceived risk" of a property investment.

> ***"We often weigh the potential losses from switching from the status quo more heavily than the potential gains."***

Most investment decisions have an alternative – one being to maintain the status quo and to do nothing.

## Investor takeaway

Psychologists have shown that most of us disproportionately stick with the status quo because "doing nothing is within the power of all men" as we often weigh the potential losses from switching from the status quo more heavily than the potential gains.

That's why all the successful investors, business people and entrepreneurs I know have mentors coaches and mastermind groups to help them see their blind spots and to encourage them to keep moving forward.

# Survivorship bias

The misconception here is that you should focus on the successful if you wish to become successful, while the truth is that when failure becomes invisible, the difference between failure and success may also become invisible.

***"Learn what to do, but also look for what not to do."***

You see...

If all you're looking at are other people's successes, you could be missing the most important lessons for getting ahead from those who got it wrong.

## Investor takeaway

If you spend your life only learning from "survivors", buying books about successful people and reading property investment success stories, your knowledge of the world will be strongly biased and enormously incomplete.

The trick when looking for advice is to not only learn what to do, but also look for what not to do.

# Bandwagon bias

This is the psychological phenomenon whereby people do something primarily because other people are doing it.

This tendency of people to align their beliefs and behaviours with those of a group is also called "herd mentality."

***"The herd is usually wrong."***

Herding is the phenomenon by which animals and humans herd or stick together as a mechanism to enhance our safety.

The bandwagon effect has wide implications, but is commonly seen during strong property markets where the media stirs up a frenzy and it's one of the factors that leads to asset bubbles.
But when it comes to financial matters we know "the herd" is usually wrong – most property investors never build a substantial portfolio.

I've seen numerous investment fads and fashions come and go (USA property investing; New Zealand property; time share; mining towns; vendor finance; hot spots etc, etc) and I've seen many investors caught up in the hype with the mistaken belief that if others are doing it, it must be a good investment.

But as it turned out...the herd was wrong.

## Investor takeaway

It pays to remember that just because everyone else is doing it, that doesn't mean you should follow the crowds. In fact smart investors tend to invest counter cyclically.

I've found "the herd is usually wrong" or if not they're late.

Unfortunately excellence is the exception rather than the rule and that's why I believe you should aspire to be unique and not part of the herd.
As Warren Buffet said: " Be fearful when others are greedy and be greedy when others are fearful."

# Restraint bias

This is the psychological phenomenon whereby people do something primarily because other people are doing it.

Following on from bandwagon bias, restraint bias is the tendency for people to overestimate their ability to control impulsive behavior.

Will you have that extra chocolate when you're watching your weight? Will you spend that extra hour on the Internet when you have more important things to do?

***"Real estate is a long-term investment."***

Our lives are full of temptations and some of us are better at resisting them than others. Psychologists say the very people who think they are most restrained are also most likely to be impulsive.

I've seen property investors plan to hold on during the flat few years that occur every property cycle knowing real estate is a long-term investment.

They might even have created a strategy or discussed a plan of attack to help guide their decisions under various circumstances. But, when the time arrives, panic kicks in... and they react just like so many others and sell up, often near the bottom - just before the cycle turns.

## Investor takeaway

If you're the smartest person on your team you're in trouble.

It's best to work with mentors and professional advisors.

As a property investor you should consider getting the independent property strategists at Metropole to not only help you formulate a property strategy that is proven and has stood the test of time, but also to help you annually review your property portfolio objectively.

# The Ostrich effect

When an ostrich is scared, the bird supposedly buries its head in the sand to stay ignorant of the approaching threat.

The (lack of) logic is presumably: “If I can’t see it, it doesn’t exist.”

Silly, right?

Maybe it isn’t as ridiculous as it sounds, considering that humans do it, too.

While we simply don’t have the neck length to literally stick our heads in the sand, people often deliberately look away from their money problems.

## Investor takeaway

Some investors avoid unpleasant information such as reading negative financial news or checking on the performance of their properties, while many Australians bury their heads in the sand about their future financial security and put off investing all together.

On the other hand successful investors read as much as they can, talk to others who have a different perspective and surround themselves with positive supportive people who help them form an objective view of what’s going on.

# Choice-supportive bias

Here you prefer the things you own (even if they have flaws) over the things you don't, because you made "rational" choices when you bought them.

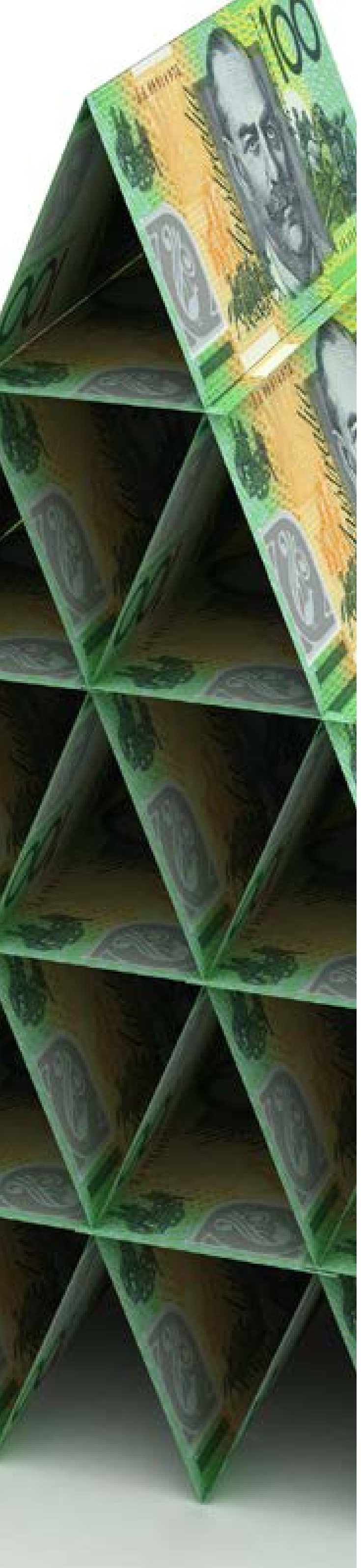
For example, if a person buys a computer running Windows instead of one from Apple, he is likely to downplay the faults of Windows while amplifying those of Apple computers.

It's just like when you're convinced the investment you've just made is great because you spend so much time, research and emotion in selecting it.

In fact you rationalise your past choices to protect your sense of self.

## Investor takeaway

Now you may not necessarily be wrong, but this is a bias you should be aware of in the future when reviewing the performance of your property portfolio.



# Clustering illusion

This is the tendency to see patterns in random events.

This is particularly true of gamblers who desperately try to ‘beat the system’ by seeing patterns of events in cards or the roulette wheel.

## Investor takeaway

We are ‘pattern machines’ and recognize people and things from their overall pattern rather than full detail. While this is very useful, it does also mean we can see patterns where there are none.

This selective thinking can lead to wrong conclusions when faced with the multitude of mixed messages we receive about the property market.

# Curse of knowledge

You suffer from the curse of knowledge when you know things that other people don’t and you’ve forgotten what it’s like to not have this knowledge.

For instance, in the TV show ‘The Big Bang Theory,’ it’s difficult for scientist Sheldon Cooper to understand his waitress neighbour Penny.

I see this in relation to property investment when I come across professionals who are successful in their own field and then believe they can translate that success into the arena of real estate.

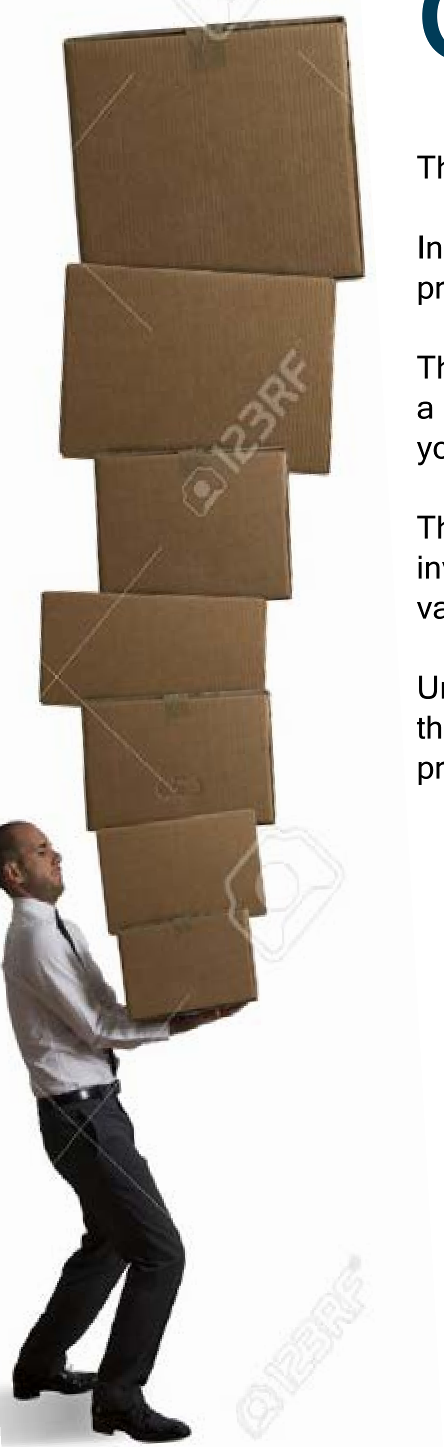
## Investor takeaway

Highly intelligent people often have difficulty asking for help or taking advice because they think they should be able to work things out for themselves. So they try to tweak, improve and fine-tune some one else’s property investment strategy interpreting it with their own biases, and then wonder why it doesn’t work so well for them.

On the other hand, I’ve found that many successful investors are “dumb” - they just find a strategy that has works well for their mentors and follow it implicitly.

If you’re the smartest person on your team you’re in trouble.

# Overconfidence



This is the downfall of many investors.

In fact one of the worst things that can happen to an investor is to get it right the first time they buy a property.

This often happens when you invest during a property boom because you tend to think you're smarter than you are.

*"The best defense against this is to continue to ask questions"*

This occurred recently when beginning investors bought in mining towns and property values initially rose significantly.

Unfortunately many are only now finding out that they weren't as clever as they thought as the value of their properties keep falling as the mining boom deflates and there are no investors to take these dud properties off their hands.

## Investor takeaway

As you can see there are a number of personal preconceptions that can influence our success as an investor as they cause us to interpret information incorrectly and therefore make less informed investment decisions.

The best defense against this is to continue to ask questions and be skeptical of your preconceptions, so you can be in the best position to enjoy strong profits from property, both now and in the future.

# Procrastination

This is deciding to act in favour of the present moment over investing in the future.

Of course we all procrastinate at times, but in the arena of property investment those who sat on the sidelines over the last few years waiting for the investment horizon to look clearer, have missed out on some fantastic opportunities.


# Hyperbolic discounting

This is the tendency for people to prefer smaller payoffs now over larger payoffs later, leading one to largely disregard the future when it requires sacrifices in the present.

We all fall for this at times, you know…. “Eat drink and be merry for tomorrow we may die.”

That’s because consequences that occur at a later time, good or bad, tend to have a lot less bearing on our choices today.

In fact financial institutions such as banks and credit card companies build their businesses on hyperbolic discounting, because borrowing money and paying interest are actions that spend future resources for benefit in the present.

I guess that’s one of the reasons Warren Buffett said “Wealth is the transfer of money from the impatient to the patient.”

# Hindsight bias

This is the tendency for people to overestimate their ability to have predicted an outcome that could not possibly have been predicted.

The problem is that too often we actually didn’t “know it all along”, we only feel as though we did.

Ultimately, hindsight bias matters because it gets in the way of learning from our experiences because if you feel like you knew it all along, it means you won’t stop to examine why something really happened.

Hindsight bias can also make us overconfident in how certain we are about our own judgments.

## Investor takeaway

It’s important to learn from our mistakes or missed opportunities so that you can become a better investor

# Illusion of control

Illusion of control is the tendency for human beings to believe they can control or at least influence outcomes that they demonstrably have no influence over.

One simple form of this fallacy is found in casinos: when rolling dice in craps, it has been shown that people tend to throw harder for high numbers and softer for low numbers.

In property it's the concept that you think you've got all your risks covered.

In my mind risk is what is left after you've thought of all the things that can go wrong.

# Information bias

This is the tendency to seek information when it does not affect action.

More information is not always better.

Indeed, with less information, people can often make more accurate assessments because too much can lead to analysis paralysis.

## Investor takeaway

Successful investors take action knowing they don’t know everything yet, but they know enough to get started and are prepared to learn the rest is long the way.

# Post-purchase rationalization

We all do some form of this at various points in our lives. We buy something. It’s not up to the standards we expected at all.

Yet, we want to believe that we didn’t waste our resources, so we try to rationalize the purchase.

This happens much more often with impulse buys than with carefully planned investment decisions, yet many investors get carried away and buy one of the first properties they see, or a get excited at a seminar and sign up for a property at the back of the room when they should have known better.

# Skill bias

It is a scary place to be when the knowledge you accumulate outweighs your experience – and the worst part is, most people don't even realise it when it happens!

There is so much information and education available to investors that many people feel they are qualified to make significant financial decisions, despite the fact that they have no experience to back them up.

Quite easily, novice property investors (and even those who have experienced moderate success) can begin to feel infallible and overconfident. This can lead to unfortunate shortsighted decisions, which can be very costly if the properties fail to perform as you'd planned.

# Personal history bias

Depending on your experience in life, your viewpoint will likely influence your attitude towards investing.

Research shows that the way you feel about a topic is generally pervasive and was most likely shaped by events experienced in your youth.

Someone who grew up in the Great Depression, for instance, would have a much different attitude towards money and investing than someone who grew up in a family that experienced financial prosperity during the 80's.

These influences will show in the risks they are willing to take and the investments that appeal to them.

# Bias bias

Failing to recognise your cognitive biases is a bias in itself.

Arguably this is the most damaging bias, because having blind spots means you're less likely to recognise any of these psychological influences in yourself.

When you think you're more objective than you really are, you may be at risk of having bias bias.

## Investor takeaway

The reality is that everyone comes into investing with their own predispositions and we are all prone to errors in judgment. The sooner you realise and acknowledge these tendencies in yourself, the more open you will be to improving and making better investment decisions.

This is probably the most important bias of them all - the belief that you are less biased than you really are.

If you read this report without realising I'm talking about you, you're suffering from bias bias.

# The bottom line

However our brains are designed with blind spots and one of their clever tricks is to confer on us the comforting delusion that we, personally, do not have any biases.

This is why so many of us are not only bad with money, but make the same mistakes over and over again.

**We're blind to our blindness.**

If you want to be part of that small group of investors who develops financial freedom through property investment why not get the independent team at Metropole Property Strategists on your side.

# What’s next?

So there you have it…an insight into how our mind plays tricks on us.

One of the common themes in this report was not to be the smartest person in your team.

So rather than doing it on your own, why not give us a call at Metropole Property Strategists on 1300 20 30 30 and we’ll help you.

You can find out more about us at www.metropole.com.au

# Have you considered getting a mentor?

I've been conducting Australia's longest running and most successful mentorship program for the last 15 years and I'm very proud of the results.

You can find out about the Science to Becoming Wealthy at www.michaelyardney.com.au.

When you join my program you'll find I share my insider secrets for success with you. And by the way…you need a lot more than real estate strategies.

In my Mentorship Program you get:

1. Access to me - including 1 on 1 sessions and by email
2. Structured learning - weekly video sessions that will teach you the science of getting wealthy
3. A mastermind group of likeminded people who are also doing the program
4. Access to my "inner circle" of contacts, knowledge and research

Remember, where you are right now is the result of the decisions you've made up until now.

Where you will be in ten years time will be the result of the decisions you make from now on.

The bottom line is, ten years from now will be ten years from now – whether you take action and build your property portfolio or not. Sure there will be obstacles along the way, they are part of what makes success possible.

I wish you tremendous personal growth, financial success and that you build your own multi-million dollar property portfolio. And I hope to see you along the way.

Spend your time…wisely.

**Michael Yardney**