



Don't let your habits hold you back, start making choices that help your financial future

In collaboration with the Amundi Investment Institute.

The hidden cost of overconfidence

"Overconfidence is the greatest enemy of success."

Chinese proverb



What is overconfidence bias?

Put simply, it is when you have more confidence in your skills, judgments, or decisions than is justified.

Common forms of overconfidence include¹:

- **Overestimation:** thinking that you are more capable than you actually are.
- **The illusion of superiority:** believing that you're better than others.
- **Overconfidence:** being overly confident that your judgments, decisions or estimations are accurate.

Research suggests that **Men** are generally **more prone** to overconfidence bias than women².



Examples of overconfidence bias

- **Nearly 90%** of drivers believe they are better than the average driver, which is statistically impossible³. This **overconfidence can lead to risky behaviour** such as using a mobile phone while driving, underestimating road hazards, etc.
- Amateur gamblers are often overly confident in their predictions: they estimate their **success rate at 70%**⁴ when in reality it is **less than 60%**.

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The cost of overconfidence

Too many transactions

- Overconfident investors often overestimate the accuracy of the information they have, which leads them to trade more frequently than necessary on the financial markets.
- Households that trade very often earn on average 7 percentage points less when compared to the least active households⁵.

Lack of diversification

- Overconfident investors often tend to hold a small number of stocks in their portfolios. They generally overestimate their ability to pick the "best" investments, which they believe will outperform the market.
- The more active investors typically hold less diversified* portfolios, with about five stocks on average versus eight for those investors that trade more infrequently⁶.



Time for action!

Limit the impact of overconfidence in your financial decisions.

Being aware of this bias is the first step toward avoiding costly mistakes and making better financial decisions.



? Ask yourself these questions:

- "Do I trade a lot because I overestimate how reliable my information or analysis is?"
If so, take a step back and set yourself some simple rules. For example, limit the number of your investments you make each month or wait 24 hours before confirming a trade, and ask yourself if each trade is really necessary.
- "Is my portfolio focused on a small number of stocks that I think are 'the best'?"
Diversify* your investments to reduce the risk that comes from overconfident convictions.

*Diversification does not guarantee a profit or protect against a loss.

Investment involves risks.

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SOURCES AND REFERENCES

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4. Fischhoff, Baruch, Paul Slovic, and Sarah Lichtenstein (1977) [Knowing with certainty: The appropriateness of extreme confidence](#)
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6. Goetzmann, William N., and Alok Kumar (2008) [Equity portfolio diversification](#)

IMPORTANT INFORMATION

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