

A common flaw we all have is *Recency Bias*. Here is the AI definition:

Recency bias is a behavioral flaw in which investors place disproportionate weight on recent events or short-term market performance, often at the expense of historical data and long-term trends. This cognitive error leads individuals to believe that recent patterns—such as a market rally or downturn—will persist into the future, even when objective probabilities suggest otherwise. As a result, investors may make impulsive decisions like chasing "hot" stocks or sectors that have recently performed well, or panic-selling during market declines, assuming that negative trends will continue indefinitely.

Another way of saying this is:

We weight what has happened in the recent past as more likely to continue than what has happened historically.

This was brought to my mind by something I read recently. Let's start with a quiz...

The NASDAQ Composite includes all seven of the "Magnificent Seven" stocks.

STOCK	MARKET SIZE (Trillions)
NVIDIA	\$ 3.9
Microsoft	3.7
Apple	3.2
Amazon	2.4
Alphabet (Google)	2.2
Meta (FaceBook)	1.8
Tesla	1.0

For the past two years, the returns for the NASDAQ Composite and the Utilities Sector Fund have been

	2023	2024
NASDAQ Composite	43.4%	28.6%
Utilities Sector	(7.2)%	23.3%

QUIZ QUESTION: Since inception in 1971, has the NASDAQ outperformed the Dow Jones Utilities?

ANSWER: NASDAQ Composite

DJ Utilities

10.7% per year 10.0% per year

Note: As recently as 2022, the *DJ Utilities* had a **higher** return.

Most investors would answer NASDAQ because of the recent performance of the *Magnificent Seven*. This is the Recency Bias.

The recent performance of the *Magnificent Seven* brings back memories of the Tech Bubble in 1998-2000.

	NASDAQ	Dow Jones
	Composite	Utilities
1998	39.3%	14.4%
1999	84.3	(9.3)
2000	(41.0)	45.5

Many investors got carried away by the internet hype in 1998-1999. It was very hard to look at the 1998-1999 returns and not have been seduced into selling Utilities to buy the NASDAQ.

*** BUY STOCKS LIKE YOU SHOP ***

When we shop, we are excited when prices go down, not up. Buying stocks should be the same. We look for the bargains that will allow us to increase our dividend stream.

Instead of the Magnificent Seven, we are more excited by high-quality, beatendown stocks paying above-average dividend yields.

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