

SWATANTRA KUMAR: FAMILIARITY BIAS

In our routine lives, familiarity bias often clouds our choices. For instance, while buying clothes, you might prefer buying the brands that you find familiar. You might be hesitant to choose a new or unfamiliar brand. That is because unfamiliarity makes you uncomfortable! Therefore, you tend to keep your choices confined to public options.

Similarly, while making investments, you are often inclined to buying investment products you know. For example, if you are working in the manufacturing sector, you might want to choose the Funds associated with that sector. When this sector experiences a slowdown, you run into the dual risk, one associated with your job, another, with your investment. Choosing fewer investments, you think you know about is called familiarity bias. Generally, this happens when you try to become your financial planner.

Here are a few tips to safeguard your portfolio from familiarity bias:



Do your research before investing.



Diversify your investments.



Seek financial advice.