



# Understanding Cognitive Bias: How It Shapes Your Decisions

Cognitive biases are mental shortcuts our brains use to process information and make decisions quickly. They are not inherently good or bad—rather, they are shaped by various factors such as exposure, education, and upbringing. Understanding these biases allows us to make more intentional, informed choices rather than being unknowingly influenced by subconscious patterns.

## The Benefits of Recognizing Cognitive Bias

- **Enhanced Self-Awareness:** Gain insight into the subconscious factors influencing your decisions.
- **Improved Decision-Making:** Understanding biases enables more objective and informed choices.
- **Empowerment:** Knowledge of biases fosters confidence in managing decisions without being swayed by irrational fears or trends.
- **Long-Term Success:** Mitigating biases supports the development of a disciplined, long-term strategy aligned with your personal goals.

## Examples of Common Biases

### Familiarity Bias

We tend to prefer what is known and comfortable, even if better options exist. This can limit growth and prevent us from exploring new opportunities.

*Example:* Choosing the same product, service or approach repeatedly, even when new options could provide better outcomes.

### Herd Mentality

Following the crowd often feels safe, but it can lead to decisions driven by emotions rather than logic.

*Example:* Jumping into a popular stock or investment because others are doing so, rather than analyzing whether it aligns with your financial goals.

### Loss Aversion

The pain of losing feels stronger than the pleasure of gaining, often leading to overly cautious decisions.

*Example:* Avoiding necessary financial risks because the fear of loss outweighs the potential benefits of long-term growth.

### Sunk Cost Fallacy

Continuing with a course of action simply because of past investments (time, money, or effort), rather than evaluating its actual benefit.

*Example:* Holding onto an underperforming investment simply because you've already put significant money into it.

## How to Work with Your Biases

- **Do your own research** (not just on social media) to ensure well-rounded decision-making.
- **Consider your own thoughts and feelings** rather than just following external influences.
- **Seek out differing perspectives** to challenge assumptions and broaden understanding.
- **Resist the lure of the familiar** by being open to new information and opportunities.
- **Give careful thought to true risk tolerance** instead of letting fear dictate financial choices.
- **Look past loss to keep moving forward**, focusing on long-term objectives rather than short-term setbacks.

By recognizing and working with your biases, you can make strategic, confident, and informed decisions that align with your long-term success.

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