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Cockiness can ruin a portfolio

OVERCONFIDENCE is rampant among investors and can damage their financial returns, Vanguard Investments Australia head of retail Robin Bowerman says.

While confidence in the share market remains shaky, people's confidence in their own abilities is still as strong as ever, as most people think they are above average or at least average at most things they do.

"For example, how many people think they are a below-average driver?" he asked a recent Marinis Financial Group briefing. "People who tell you they are 100 per cent sure of something are usually wrong 20 per cent of the time."

Bowerman says there is an "illusion of control" among investors, with most seeing themselves as a driver rather than a passenger.

We remember our investment winners and downplay the losers, he says.

Overestimating our control over the results can lead to excessive trading and reduced performance.

"We have to accept the fact that we are investing in an uncertain world and understand the risks," he says.

"In January 2008, just before the global financial crisis, the only risk people could see was the risk of missing out."

