

Recency Bias: Why Yesterday's Market Headlines Shouldn't Drive Tomorrow's Decisions

Have you ever felt tempted to invest in something simply because it has been performing well recently?

Or avoided an investment because markets have fallen and the news feels overwhelmingly negative?

If so, you're not alone. This tendency is known as **recency bias** — the human instinct to give disproportionate weight to recent events when making decisions about the future.

It's completely natural. But when it comes to investing, it can quietly work against long-term outcomes.

Why Our Brains Prefer the “Now”

Human beings evolved to react to immediate information. If something appears to be going well, it feels safer. If something appears to be going badly, it feels riskier.

In everyday life, this instinct is useful. In financial markets, it can be misleading.

Markets move in cycles. Periods of strong performance are often followed by slower growth or volatility. Periods of uncertainty can be followed by recovery. Yet during the moment itself, the recent trend can feel permanent.

In 2022, for example, global markets experienced notable volatility as inflation rose and interest rates increased. Headlines were cautious, sentiment was subdued, and many investors felt uneasy. Yet history shows that markets have repeatedly navigated difficult environments over time.

The lesson is not that markets always rebound quickly — they do not — but that short-term movements rarely tell the full story.

The Danger of Chasing Performance

When markets are rising strongly, it can feel uncomfortable to “miss out.” When markets are falling, it can feel prudent to step aside.

However, making decisions primarily based on recent performance can lead to:

- Buying after prices have already risen significantly
- Selling during periods of temporary decline
- Constantly adjusting strategy based on short-term noise

A disciplined approach focuses less on what happened last month and more on whether an investment strategy aligns with long-term goals.

Value vs Momentum

Recent performance is visible and measurable. Long-term value is less obvious and often requires patience.

Assessing long-term potential involves considering:

- Business resilience
- Economic conditions
- Diversification
- Risk exposure
- Time horizon

Even then, outcomes are uncertain. Markets incorporate vast amounts of information, and no investment is guaranteed to succeed.

The objective is not to predict short-term movements, but to make decisions that are coherent, structured and aligned with your personal objectives.

Emotional Discipline Matters

Investing inevitably involves periods of optimism and periods of doubt. A well-constructed financial plan is designed to accommodate both.

Rather than asking, “What has done well recently?”, a more useful question might be:

“Does this strategy still reflect my long-term goals and risk tolerance?”

That shift in thinking can reduce the influence of recency bias and help maintain perspective.

A Structured Approach

Many investors benefit from:

- Diversification across asset classes
- Clear long-term objectives
- Defined risk parameters
- Regular review rather than reactive change

This does not eliminate volatility. It does, however, help reduce the risk of emotional decision-making.

Final Thoughts

Recency bias is not a flaw — it's part of being human. The challenge is recognising when it may be influencing financial decisions.

Markets will always experience periods of enthusiasm and periods of uncertainty. A thoughtful, long-term approach is often more resilient than reacting to the latest headline.

Important Information

This article is provided for general information purposes only and does not constitute personal financial advice.

The value of investments can fall as well as rise and you may get back less than you invest. Past performance is not a reliable indicator of future results.

If you would like to review your investment strategy to ensure it remains aligned with your objectives and risk tolerance, please contact us to arrange a consultation.