THE PSYCHOLOGY OF INVESTING

Audio script

iShares by BlackRock

[Music in background throughout]

Frame 1:

On-screen copy:
The Psychology of Investing

Please see important information at the end of the video.

[iShares by BlackRock and Merrill logos are shown]

Frame 2:

[Music in background continues and video transitions to new frame. iShares by BlackRock and Merrill logos are shown above information about each company.]

On-screen copy:
About iShares: iShares unlocks opportunity across markets to meet the evolving needs of investors. With more than twenty years of experience, a global line-up of 900+ exchange traded funds (ETFs) and $3.27 trillion in assets under management as of December 31, 2021. iShares continues to drive progress for the financial industry. iShares funds are powered by the expert portfolio and risk management of BlackRock, trusted to manage more money than any other investment firm.

iShares is not affiliated with Bank of America Corporation.

About Merrill: Merrill Lynch Wealth Management, which is part of Bank of America Corporation, is a leading provider of comprehensive wealth management and investment services. Merrill specializes in goals-based wealth management, including planning for retirement, education, legacy, and other life goals. Merrill is one of the largest wealth management businesses in the world, with approximately $2.9 trillion in client balances as of March 31, 2021. Client balances consists of the following assets of clients held in their Merrill accounts, including assets under management (AUM) of Merrill entities, client brokerage assets, and assets in custody of Merrill entities, as well as loan balances and deposits of Merrill clients held at Bank of America, N.A. and affiliated banks.

Please see important information at the end of the video.

Frame 3:

[Background music fades out and voiceover audio begins. Image of dominoes appears over colored box with arrow pointing to the right.]

On-screen copy:
The psychology of investing

Voiceover audio:
Hi everyone, thank you for tuning into this session on the psychology of investing. When it comes to investing, most of us immediately think about the different investments we can pick. We'll ask ourselves: "which stock will make me the most money this year? What can I invest in that will help reduce my taxes?".

Frame 4:

[Video transitions to new frame as voiceover audio continues. Pyramid depicting what the three keys to investment success begins to build. Top portion of the pyramid is first to appear.]

On-screen copy:
Keys to investment success

Taxes & estate planning

Voiceover audio:
Essentially, what we want to know is:

[Second/middle section of the pyramid, that depicts the three keys to investment success, appears under the first portion of the pyramid.]

On-screen copy:
Asset allocation and security selection

Voiceover audio:
“what portfolio do I need to create to reach my goals?”. But investment success doesn’t begin with our portfolio. Even the ideal, hypothetically perfect investment strategy will fail if its owners keep making changes to it.

[Last and bottom section of the pyramid, that depicts the three keys to investment success, appears under the second/middle portion of the pyramid.]

On-screen copy:
Investor behavior

Voiceover audio:
Investor behavior in times of volatility can be especially impactful to the bottom line. Whether that volatility be what we experienced at the beginning of the COVID crisis or what we are experiencing now in response to rapidly rising inflation.

The main message today is this: the way you behave as an investor can often have a big impact on your financial outcomes. Today, we’re going to walk through some of the common mistakes that investors can make when they mix their emotions with their decision making, and then how to prevent them.

Frame 5:

[Video transitions to new frame as voiceover audio continues. A line chart representing the cumulative return for four different investments. Each investment is depicted by a different colored line: green, blue, yellow, pink. The green line tends to spike and be inconsistent — ranging from about $1 to about $17 back down to about $7. The blue line is also inconsistent, but ranges from about $1 to about $6, down to about $3 and back up to about $7, before dropping to about $4 again. The yellow line has a steady upward trend, gradually increasing from about $1 to about $7. Lastly, the pink line has a slow, but steady upward trend, gradually increasing from about $1 to about $2.]

On-screen copy:
Which would you pick?

Voiceover audio:
If you had to put your money in one investment today, which would you choose? The green line? The yellow? Blue? Or the pink one? Studies have shown that investors are most likely to pick the yellow graph. As human beings, we are wired to be drawn to reward, and fearful of risk. We like this steady and sure growth of our money. If we had a choice, we would choose this investment every time. Now, let’s reveal what these investments were.

[The current lines in the line chart change and each is shown what it represents. The green line, which represents Pfizer, decreases to about $6 before raising back up to about $17. The blue line, which represents the U.S. Stock Market decreases about $4 before steadily raising to about $10. The yellow line, which represents Fairfield Sentry has a huge decrease dropping to about $1 and remaining steady at about $1. Lastly, the pink line, which represents U.S. Treasury Bills continues to slowly trend upward remaining around $2.]

Voiceover audio:
Green represents Pfizer stock, blue is the S&P 500 index, pink represents U.S. Treasury bills, and yellow represents Fairfield Sentry. Has anyone ever heard of Fairfield Sentry? How about Bernie Madoff? Fairfield Sentry was the feeder fund to Bernie Madoff's "investment firm". The one investment that went up with seemingly no risk turned out to be one of the biggest frauds in US history. And history has shown that there are no magic bullets. Investing involves risk. And as human beings, it can be tough to manage our emotions when markets go up or go down. In this video, we'll show you how to recognize your emotions, explain why those emotions can affect your money, and how to work with a financial professional or develop disciplines to put into practice to best position yourself to meet your financial goals.

Investing isn't about being smart. Here's a story that illustrates what I mean.

On-screen disclosures:
Lo, Andrew, 2017, *Adaptive Markets: Financial Evolution at the Speed of Thought* (Figure 10.3). Princeton University Press. For illustrative purposes only. Not meant to represent a specific recommendation for any security listed. Past performance is no guarantee for future results. **Index performance is for illustrative purposes only. Index performance does not reflect any management fees, transaction costs or expenses. Indexes are unmanaged and one cannot invest directly in an index. Past performance does not guarantee future results.**

Frame 6:

[Video transitions to new frame as voiceover audio continues. Image of an iceberg and moon, at night, appears.]

Voiceover audio:
Isaac Newton is considered one of the most important scientists in history. Even Albert Einstein said that Isaac Newton was one of the smartest persons that ever lived. Newton developed the theory of gravity, the laws of motion (which really forms the basis for physics), new math, calculus, and made breakthroughs in developing the modern telescope. In 1720, far before Bernie Madoff, and far before bitcoin, Sir Isaac Newton lost £20,000 (well that's more than $3 million in today's money) by investing in what was called the South Sea Company.

[Block of text appears in the upper-left side of the frame]

On-screen copy:
1720, Sir Isaac Newton lost a fortune in the South Sea Company, the hottest stock in England.

Voiceover audio:
There's more to that story though. He had actually earned £7,000 (or close to a million dollars in today's dollars) from the same stock a few months earlier. But he bought back in after the stock skyrocketed thinking he was missing out, eventually leading to his tremendous losses.

[Block of text appears in the bottom-right side of the frame]

On-screen copy:
Newton concluded… [That he] 'can calculate the motions of the heavenly bodies, but not the madness of people.'

Voiceover audio:
Newton concluded this… he 'could calculate the motions of the heavenly bodies, but not the madness of people.'

When it comes to investing, it's important to try our best to separate our emotions from our decision making, as hard as that may be. When external factors are around us and they're rough, it can enhance the fear of loss that we naturally have with our investments that we internally have to reconcile. All of the media that we're constantly bombarded with now doesn't really help and is typically even the cause of that feeling.

Frame 7:

[Video transitions to new frame as voiceover audio continues. Slide with a large quote from Warren Buffet appears.]

On-screen copy:
"We don't have to be smarter than the rest. We have to be more disciplined than the rest." – Warren Buffett

Voiceover audio:
The big takeaway, as Warren Buffet said: "We don't have to be smarter than the rest. We have to be more disciplined than the rest."

So let's talk about the psychology of investing, and how to build in that discipline. By understanding the psychological factors of behavioral finance, we can better understand why investors often make buy and sell decisions that contradict investment best practices and rational investing. More importantly, by understanding common investment behaviors that lead us astray, we can learn how to recognize and avoid these tendencies.

Frame 8:

[Video transitions to new frame as voiceover audio continue. Image of money on a fishing hook appears over colored box with arrow pointing to the right.]

On-screen copy:
Agenda

Envy

Voiceover audio:
'Envy' (or the fear of missing out or the regret of what could have been) and

[Image of an upset man over colored box with arrow pointing to the right, appears to the right of the current image/colored box.]

On-screen copy:
Loss

Voiceover audio:
'loss' (so, losing money, where losses feel twice as bad as gains feel good) are common investing challenges that prevent average investors from becoming ideal investors.

[Image of a worker laying cinder blocks appears over colored box, appears to the right of the current image/colored boxes.]

On-screen copy:
Building Discipline

Voiceover audio:
This video will illustrate these common behavioral biases and show you how to implement disciplined strategies to inspire a smoother, more disciplined approach to investing. First, let's start with envy.

Frame 9:

[Video transitions to new frame as voiceover audio continues. Image of money on a fishing hook appears on the right to indicate start to sub-section 1.]

On-screen copy:
<u>Envy</u>
Regret
Lottery ticket effect
Miscalculating the risks

Voiceover audio:
Envy is that emotion that gets us thinking "what if?" Also known as FOMO, or the fear of missing out. The fact that most people regret what could have been can be very damaging if that starts to take over their emotions, affecting their thoughts about their investment plan.

Rational people would regret only bad final outcomes, but most people regret what could have been.

Frame 10:

[Video transitions to new frame as voiceover audio continues. Bar chart representing the level of happiness for Olympic Bronze and Silver medal winners grow. Bronze Winners raise to a happiness level of 7.1 and Silver Winners raise to a level of 4.8.]

On-screen copy:
Bronze medal winners are happier than silver medal winners

<u>Happiness levels of each winner (1 to 10 happiest)</u>
Bronze Winners: 7.1
Silver Winners: 4.8

Voiceover audio:
For example, a study looked at Olympic medal winners and found that bronze medal winners were actually happier than silver medal winners. Why? A silver medalist likely thinks about how close they were to achieving gold. A bronze medalist, though, might imagine how close she was to not receiving any medal at all. Depending on the alternative, a person feels either relief or regret. While relief is a positive emotion, regret can be a painful and bitter experience. While you might not stand on a podium anytime soon, the reactions of medal winners gives us insight into a universal truth: happiness is relative. In an ideal world, we need to imagine that regret we would feel if we had an emergency but didn't have the savings to cover it. But that can be hard to do.

On-screen disclosure:
Source: Journal of Personality and Social Psychology November 1995

Frame 11:

[Video transitions to new frame as voiceover audio continues. A table representing how S&P 500 and diversified portfolio have each been affected throughout the years, appears on the left of the frame. A smaller graphic indicating how people either lost money, diversification worked, didn't make as much, or diversification can work even when it feels like its losing for each year, appears on the right side of the table.]

On-screen copy:
S&P Envy: A diversified portfolio is ripe for regret

Diversification portfolio: 25% U.S. large stocks, 19% U.S. mid cap stocks, 7% international stocks, 5% U.S. small cap stocks, 4% emerging market stocks, 25% U.S. bonds, 15% high yield bonds

Years 2000-2002* has an S&P 500 of -40.1% and a diversified portfolio of -15.7%. "I lost money"
Years 2003-2007 has an S&P 500 of 82.9% and a diversified portfolio of 87.1%. "Diversification worked"
Year 2008 has an S&P 500 of -37.0% and a diversified portfolio of -26.6%. "I lost money"
Years 2009-2019 has an S&P 500 of 351.0% and a diversified portfolio of 220.1%. "I didn't make as much"
Q1 2020† has an S&P 500 of -30.4% and a diversified portfolio of -23.1%."I lost money"
Q2 2020-2021‡ has an S&P 500 of 119.0% and a diversified portfolio of 66.6%. "I didn't make as much"
Total Return for S&P 500 is 374.6% and for diversified portfolio is 375.0%. "Diversification can work even when it feels like its losing"
Gr $100K for S&P 500 is $474,550 and for diversified portfolio is $474,970

Voiceover audio:
Investors with a diversified portfolio may feel envious when comparing their investment performance to that of the broader U.S. stock market. We call this S&P Envy. And it's easy to see how this S&P Envy comes about- and its more than just the last 11 years. It's the inability for investors to connect the dots of investment returns over various market cycles. In a bear market, a diversified portfolio still loses money- that never feels good. Then in the bull market rebound you might trail the index.

[In the table on the left, that represents how S&P 500 and diversified portfolio have each been affected throughout the years, the row for the year 2008 that has an S&P 500 of -37% and a diversified portfolio of -26.6%, is highlighted.]

Voiceover audio:
For example, in 2008 you lost more than 20%, one of the worst years ever for a diversified portfolio.

[In the table on the left, that represents how S&P 500 and diversified portfolio have each been affected throughout the years, the row for the year 2008 that has an S&P 500 of -37% and a diversified portfolio of -26.6%, highlight is removed. Then the row for years 2009-2019 that has an S&P 500 of 351.0% and a diversified portfolio of 220.1%, is highlighted.]

Voiceover audio:
And then in the 9 years from 2009 to 2019, the diversified portfolio trailed US stocks by 160%.

[In the table on the left, that represents how S&P 500 and diversified portfolio have each been affected throughout the years, the row for years 2009-2019 that has an S&P 500 of 351.0% and a diversified portfolio of 220.1%, highlight is removed. Then the row for year Q1 2020 that has an S&P 500 of -30.4% and a diversified portfolio of -23.1%, is highlighted.]

Voiceover audio:
Bringing back to this historic first quarter of 2020, you then found yourself losing money yet again in a very sudden, very severe market drawdown, and this was followed by a huge comeback for the remainder of the year.

[In the table on the left, that represents how S&P 500 and diversified portfolio have each been affected throughout the years, the row for year Q1 2020 that has an S&P 500 of -30.4% and a diversified portfolio of -23.1%, highlight is removed. Then the row for year Q2 2020-2021 that has an S&P 500 of 119.0% and a diversified portfolio of 66.6%, is highlighted.]

Voiceover audio:
You can see where this S&P Envy comes from – the diversified portfolio never feels like it's quite winning. You lose money, you trail the market, you lose money, you trail the market. A diversified portfolio is difficult to own – it never feels like you are ahead, often leading to a feeling of regret. We start to wonder to ourselves, "Why am I losing money? I thought my portfolio was diversified?" or "Why does my portfolio always underperform? I think I'm leaving too much money on the table." But the punchline is that if you add up all of these periods, the diversified portfolio actually works even when it feels like it's losing. This kind of regret and not understanding why we build portfolios the way we do, can lead to bad investment decisions.

On-screen disclosure:
Source: Morningstar as of 12/31/21. *Performance is from 9/1/2000 to 12/31/02. †Performance is from 1/1/20 to 3/23/20. ‡Performance is from 3/24/20 to 9/30/20. Diversified Portfolio is represented by 25% S&P 500 Index, 7% MSCI EAFE Index, 5% Russell 2000 Index, 25% Bloomberg US Aggregate Bond Index, 19% Russell Mid Cap Index, 15% Bloomberg US Corporate High Yield Index, 4% FTSE Emerging Stock Index. Past performance does not guarantee or indicate future results. Index performance is for illustrative.

Frame 12:

[Video transitions to new frame as voiceover audio continues. An image of pool balls appears with a colored bar at the top left of the frame.]

On-screen copy:
Americans spend $73 billion on lottery tickets every year ($223 per person). The odds of winning the Powerball lottery are 292,000,000.

Voiceover audio:
Another example of envy: most people will tell you that buying a lottery ticket is a poor plan for financial success. But why are we willing to play even when we know the odds aren't in our favor? We are often willing to accept this high probability of poor returns for a small chance of earning large returns. This is called the "lottery effect."

[A colored bar at the bottom right of the frame.]

On-screen copy:
<u>Implications:</u>
Single stocks
Next great company
Hot investment trend

Voiceover audio:
This is also why investors are willing to concentrate positions in single issue stocks or invest in the next "hot" startup company or the latest investment trend. The excitement of large returns clouds our better judgment and we make decisions that reduce our overall chance of success. We run into serious risks when we get caught up in the "lottery ticket" effect.

On-screen disclosure:
Source: US Census Bureau and North American Association of State and Provincial Lotteries as of 12/31/19. Past performance does not guarantee or indicate future results.

Frame 13:

[Video transitions to new frame as voiceover audio continues. A donut pie chart representing the individual U.S. stocks animates in on the left-hand side of the frame. After the first donut pie chart finishes animating on the left-hand side of the frame, another donut pie chart representing the U.S. mutual funds and ETFs animates in on the right-hand side of frame.]

On-screen copy:
Individual U.S. stocks versus U.S. stock mutual funds

U.S. stocks are up 18.5% on average over the last 5 years
<u>Individual U.S. stocks</u>
62% did not lose money
33% lost money

<u>U.S. mutual funds and ETFs</u>
99.9% did not lose money
0.1% lost money

Voiceover audio:
If you've succumbed to S&P Envy and started "stock picking" individual stocks, there was a roughly a 1 in 3 chance that you picked a stock that would have lost money from 2017 to 2021. Whereas if you invested in a basket of securities like a mutual fund or an ETF, only 0.1% of those funds lost money over that same 5-year period.

And as it turns out, limiting losses (especially big losses) is the true key to investing success. Warren Buffet has said that the first rule of investing is not to lose money, and that the second rule of investing is to not forget the first rule. It's all about the math.

On-screen disclosure:
Source: Morningstar as of 12/31/21. Mutual Funds and ETFs are the Morningstar US Equity Category, oldest share class only. US Individual Stocks are the Morningstar US Stock Universe, all securities on the NYSE and NASDAQ. Analysis does not include obsolete mutual funds, ETFs or stocks as defined by Morningstar. Performance is historical and does not guarantee or indicate future results.

Frame 14:

[Video transitions to new frame as voiceover audio continues. A black box representing what you have to earn in order to break even animates in.]

On-screen copy:
Do we really know how severe the risk can be?

Breaking even
$1 - 50% = $0.50 = $1

Voiceover audio:
If you start with $1 and lose half (so 50%) you are left with $0.50; what do you have to earn to be up to break even?

You need to double that or be up 100% to get back to par.

[On the bottom of the frame, below the black box representing break even, a double-sided bar chart begins to animate in. The top of the chart represents the return needed to break even percentage. The bottom of the chart represents the investment loss percentage. Only two examples are built out on the left side of the double-sided bar chart.]

On-screen copy:
Return needed to break is 5.3% and the investment loss is -5%
Return needed to break is 11% and the investment loss is -10%

Voiceover audio:
But what if you were only down 10%? Some might think you would need 20%. But really, a loss of 10% requires an 11% gain to recover- that's quite manageable. But it goes to show that it's not a linear progression like we think.

[To the right of the current two examples on the double-sided bar chart, the remaining 6 examples animate in across the bottom of the screen.]

On-screen copy:
Return needed to break is 25% and the investment loss is -20%
Return needed to break is 43% and the investment loss is -30%; A 1.4x loss occurs
Return needed to break is 67% and the investment loss is -40%; A 1.7x loss occurs
Return needed to break is 100% and the investment loss is -50%; A 2x loss occurs
Return needed to break is 150% and the investment loss is -60%; A 2.5x loss occurs
Return needed to break is 233% and the investment loss is -70%; A 3.3x loss occurs

Voiceover audio:
In fact, as the losses grow larger, the size of the return needed to recover increases at an even faster pace. Look back at the 50% loss (where you needed a 100% gain to recover) an additional 10% loss from there (so from 50% to 60%) requires a 150% gain just to get back to even. And an additional 50% needed to get back to breakeven from a 50% loss to 60% loss. With individual securities, it's very possible to see a large drop in value, but it's much less likely in a diversified portfolio. When you give into envy, the results can make you lose sight of this important fact.

On-screen disclosure:
Source: BlackRock. For illustrative purposes only.

Frame 15:

[Video transitions to new frame as voiceover audio continues. Image of an upset man appears on the right to indicate start to sub-section 2.]

On-screen copy:
Loss
Tendency to act
Sideline sitting
Following the herd

Voiceover audio:
If you're not suffering from envy, good job: you're probably constantly trying to minimize your losses. But on the other side of the spectrum, people will do irrational things to avoid losing things. This is where we run into loss. The overwhelming fear of losing your money can be just as harmful as not fearing it enough. Sometimes, it can feel even worse. When things are already looking rough, it can enhance the fear of loss that we naturally already have with our investments. If we give into it, we may start to wonder what's the worst-case scenario and what that may look like.

All of us have a natural tendency to take action and try and fix our problems, you know to take control, rather than doing nothing. But taking action in these times isn't always necessarily the best solution.

Frame 16:

[Video transitions to new frame as voiceover audio continues. An image of a soccer goalkeeper diving to block a ball appears with a colored bar at the top left and at the bottom right of the frame.]

On-screen copy:
Our tendency to take action

Statistics show that the best penalty kick strategy for goalkeepers is to stay in the middle. But they often jump left or right 94% of the time.

Voiceover audio:
To draw an analogy here: Imagine yourself as a goalkeeper in soccer. Studies have shown that statistically, you are more likely to stop a penalty kick by staying in the middle. That's not to say you should always stand in the middle, but we are often emotionally geared to fix or do something when we are feeling anxious. This is why behaviorists call "action bias," or thinking that value can only be realized through action, or to the tendency to act as opposed to practicing restraint. This is especially critical during market lows. Investors who were focused on their goals and less about what the market was doing likely did better than those who acted out of fear.

Taking action or "trying to fix" your investment portfolio often leads investors to trying to time the market.

On-screen disclosure:
Source: The New York Times Magazine, "Goalkeeper Science", 2008.

Frame 17:

[Video transitions to new frame as voiceover audio continues. A bar chart representing a hypothetical investment of $100,000, in the S&P 500 Index between the years 2001-2021 animates across the frame.]

On-screen copy:
Time in the market vs. timing the market

Missing the top-performing days can hurt your returns

Hypothetical investment of $100,000 in the S&P 500 Index over the last 20 years (2001-2021)
If the initial investment is $100k, then the ending value for staying invested is $616,317
If the initial investment is $100k, then the ending value for missing 5 days is $389,264
If the initial investment is $100k, then the ending value for missing 15 days is $213,370
If the initial investment is $100k, then the ending value for missing 25 days is $134,392

Voiceover audio:
Missing just the 5 best days over the last 20 years could have cost your portfolio more than $100,000 – nearly a third of its potential value. So overreact to any one bad day, and you could miss out. So the story here is this: don't let your fear of loss drive your investment decisions. Since we can't predict when the best days will be, staying invested is often the best strategy. It's all about time in the market, not about timing the market.

On the other side of this, when people get fearful with their investments, they tend to pull out of markets completely, fleeing to cash. These "sideline sitters" might say: "I don't want to make any changes right now, my stocks have done well", or something like this, "With the markets hitting new time highs, I have missed it and I'll wait for a better time." But there is no "best time" to invest (really unless you're a fortune teller). Instead, it's important to get invested sooner rather than later in order to take advantage of the power of compounding gains.

On-screen disclosure:
Source: Morningstar as of 12/31/21. Past performance does not guarantee or indicate future results. Index performance is shown for illustrative purposes only.

Frame 18:

[Video transitions to new frame as voiceover audio continues. Line chart representing hypothetical growth of $100,000 assuming 10% annual yield animates on the frame. A line representing growth over 10 years grows, starting at $0 over 0 years and ending at $259,374 over 10 years. After the first line representing 10 years is finished growing, as second line representing growth over 5 years grows, starting at $0 over 0 years and ending at $161,051 over 5 years.]

On-screen copy:
Waiting for the "right time to invest" can leave you behind

Compound interest… "The eighth wonder of the world" – Albert Einstein

Hypothetical growth of $100,000 assuming 10% annual yield
10 years – $259,374
5 years – $161,051

Voiceover audio:
In this hypothetical example here where your money grows 10% each year, the difference between investing for 10 years versus 5 years isn't just 100% more – it would be 261% more - almost three times as much. Albert Einstein once said that compound interest is "the eighth wonder of the world… he who understands it, earns it; he who doesn't, pays it."

It may seem counterintuitive, but it can be helpful sometimes to take a contrarian approach.

On-screen disclosure:
Source: BlackRock as of 12/31/21. For illustrative purposes only.

Frame 19:

[Video transitions to new frame as voiceover audio continues. Slide with a large quote from Warren Buffet appears.]

On-screen copy:
"Be fearful when others are greedy. Be greedy when others are fearful." – Warren Buffett

Voiceover audio:
As Warren Buffett famously put it, “be fearful when others are greedy. Be greedy when others are fearful.” This was especially true before and after the financial crisis in 2008. Investors ultimately lost as they rode the highs of the market in 2007, and perhaps they pulled out of markets during the depths of the crisis where there was so much uncertainty – then they missed out on what turned out to be a historic bull market.

Frame 20:

[Video transitions to new frame as voiceover audio continues. Image of a worker laying cinder blocks appears on the right to indicate start to sub-section 3.]

On-screen copy:
Building discipline

Voiceover audio:
So, it’s easy to lose ourselves in our emotions. If we go one way and get too aggressive and we take a lot of risk, we can really harm ourselves. At the same time, it’s just as easy and just as harmful to be too conservative. That just leaves a very narrow, disciplined middle-ground for us to navigate. So let’s explore why it’s so important to be disciplined, and what we can do to get there.

Frame 21:

[Video transitions to new frame as voiceover audio continues. An image of two business women working appears with a colored bar at the top left of the frame.]

On-screen copy:
Make a plan

Voiceover audio:
It starts with making a plan. Yogi Berra once said, “if you don’t know where you’re going, you’ll end up somewhere else”. So, making a plan in advance and sticking to it gives you a blueprint to respond to a situation that helps remove emotion and doubt. Another avenue, and this might work for some, is consulting with a financial professional. Experts have suggested that when you’re trying to break a bad habit, it’s really helpful to tell someone else so that they hold you accountable. They can keep you disciplined and on schedule when you may feel like deviating. When it comes to investing, for some, the perfect person for that job is a financial advisor. Many people think of financial advisors as “money managers”: people who can make your money work as well as possible. And that’s true. But just as importantly, they act as an intermediary, a stop gap, between you and your investments. In reality, a financial advisor’s primary job is not to worry about your portfolio, but to guide you through the wealth-building process by helping you avoid common mistakes.

Frame 22:

[Video transitions to new frame as voiceover audio continues. A visual graphic of a roller coaster animates on the frame to depict the ups and downs of the market. The roller coaster starts with Positive at the bottom, building up to Confident, peaking at Overconfidence, slowly going down to Surprised, continuing down to Nervous, continuing down to Panic-stricken, with the roller coaster going slightly upwards, to dropping back down to the final stage of Defeated, before a trending upward line grows.]

On-screen copy:
Prepare for the worst before it happens

Riding the ups and downs of the market

Discuss creating an Investment Strategy plan when the market rises

…so you’re equipped to combat your emotions when it falls…

…and avoid feeling defeated

Positive; Confident; Overconfidence; Surprised; Nervous; Panic-stricken; Defeated

Voiceover audio:
Whether you're doing it yourself, or you're working with an advisor, sticking to a disciplined plan can help to make the emotional rollercoaster ride of the markets smoother and less volatile. That's the power of preparation at work. Creating an Investment Strategy Plan, a plan that will help dictate your investment strategy, regardless of the noise of the day and regardless of external forces, this can help act as an anchor. That way, when your emotions start to influence you, there are guidelines that can be followed to stop any impulsive actions. Ben Graham, considered the father of value investing, and mentor to Warren Buffett, said, "For indeed, the investor's chief problem, and even his worst enemy, is likely to be himself".

On-screen disclosure:
Hypothetical example.

Frame 23:

[Video transitions to new frame as voiceover audio continues.]

On-screen copy:
Forecasting folly: Turn off financial TV & news

Voiceover audio:
As we mentioned, no one can predict what will happen next in the markets, not even expert analysts on Wall Street or on TV.

[A bar chart begins to animate in the frame. On the right side of the chart, a bar representing Wall St experts grows to 45%.]

On-screen copy:
Wall St experts 45%

Voiceover audio:
In a survey, only 45% correctly predicted whether interest rates would go up or down,

[After the first bar on the right side of the chart, representing the Wall St experts is completed growing, a bar grows on the left side of the chart. The bar on the left side of the chart representing Coin flip grows to 50%.]

On-screen copy:
Coin flip 50%

Voiceover audio:
less than the chance of getting heads from a flip of a coin. We can't control the future, only ourselves and how prepared we are to face it. So let's turn off the TV, or at least don't overweigh what news sources are telling you.

[After the two bar charts are finished growing, a quote from Yogi Berra animates underneath the bar chart]

On-screen copy:
"It's tough to make predictions, especially about the future." – Yogi Berra

Voiceover audio:
And I'll quote Yogi Berra again, where he once said, "It's tough to make predictions, especially about the future."

On-screen disclosure:
Morningstar, Federal Reserve Bank of Philadelphia as of 12/31/21. Past performance does not guarantee or indicate future results. Median annual forecast used; the median forecast for the direction of the 10 yr US Treasury Bond was correct in 13 of 29 years. "Wall Street experts" refers to the 40+ financial professionals and professors surveyed by the Federal Reserve Bank of Philadelphia.

Frame 24:

[Video transitions to new frame as voiceover audio continues. A box animates on the screen showing the first key point to the psychology of investing.]

On-screen copy:
The psychology of investing

1 Proper investor behavior is critical to investment success

Voiceover audio:
So to recap: Recognize these common mistakes and the tendency to repeat them. Be willing to be critical, even when times are good and opportunistic when times are bad. Invest for the long term –don't try to time the market.

[Under the first box that depicts the first key point to the psychology of investing, a second box animates on the screen showing the second key point to the psychology of investing.]

On-screen copy:
<u>2 Common investor biases are a challenge (for everyone)</u>
ENVY Regret, S&P Envy, Lottery Ticket Effect
LOSS: Compounding, Time vs Timing, Following the Herd

Voiceover audio:
Create an investment strategy plan that outlines how much loss you are willing to take and with what conditions should be met in order to make buy and sell decisions,

[Under the second box that depicts the second key point to the psychology of investing, a third box animates on the screen showing the third, and final, key point to the psychology of investing.]

On-screen copy:
<u>3 Build in discipline with an investment strategy plan or by working with a financial professional to ensure you are reacting to the market rationally</u>
Be critical, even when times are good
Be opportunistic, even when times seem bad

Voiceover audio:
or work with a financial advisor to keep you in check and ensure you are acting and reacting as rationally as possible.

[Underneath the three boxes that depict the three key points to the psychology of investing, a line appears stating a key phrase to keep in mind when it comes to investing.]

On-screen copy:
Become a disciplined investor, the sooner the better

Voiceover audio:
In the end, how we behave has a huge impact on how our portfolios behave, and often times the more we try to step in the worse we can make it. So work recognize and mitigate the impact your emotions can have on your investments.

Frame 25:

[Video transitions to new frame as voiceover audio continues. An image of a mother and daughter roller skating together appears with a colored bar at the bottom left of the frame.]

On-screen copy:
Save your emotions for the moments that really matter.

Voiceover audio:
When I was a kid, there was always these commercials with the tagline, “the more you know”. Well, the more you know about behavioral biases, the better the outcome for financial success.

Frame 26-27:

[Video transitions to new frame as background music continues]

Voiceover audio:
Visit iShares.com to view a prospectus, which includes investment objectives, risks, fees, expenses and other information that you should read and consider carefully before investing. Investing involves risk, including possible loss of principal.

On-screen copy:
IMPORTANT NOTES
Carefully consider the Funds’ investment objectives, risk factors, and charges and expenses before investing. This and other information can be found in the Funds’ prospectuses or, if available, the summary prospectuses which may be obtained by visiting www.iShares.com or www.blackrock.com. Read the prospectus carefully before investing.

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