



KEEP CALM AND STAY RATIONAL – BEST STYLES X BEHAVIOURAL FINANCE | JULY 2025

Why simple is not always better

In the first two articles of our series, we followed our two decision-making angels, the “rational angel” and the “instinctive angel”, as they grappled with emotional biases and the limits of knowledge. We continue our reflection by looking at our brain’s tendency to simplify and streamline the data available to us, and the self-deception that our instinctive angel derives from that simplification.

At its very core, our brain is wired to simplify, streamline and summarise the enormous amounts of sensory information it received at every moment. Our instinctive angel keeps busy regulating our body

temperature, moving our muscles and tendons to make us walk to the supermarket and coordinating our fingers to delicately pick up the last grain of rice with our chopsticks, or that rebellious green pea that refuses to jump onto the fork. Sensory information our brain has learned to interpret for long time will, of course, be processed faster and be preferred – which is why a European will initially struggle using chopsticks when they first encounter them only as adults.

This gauging, keeping and discarding of information extends, of course, to all other information we consume. Familiar information – text written in

our mother tongue, the names of the players of our favourite football club, the daily car route from home to work and back – will be easily, instinctively processed. Unfamiliar or unexpected information – language written in another script, the arcane rules of an unpracticed sport, a sudden roadblock – require additional brain power. Given our brain’s preference for efficiency (some might call it laziness), it will try to avoid having to process such information and veer back to familiar terrain. In this article, we will look at how such simplification leads to inefficient decisions both in real life as well as in investing, and how Best Styles avoids these pitfalls.

Home is where the heart is – Framing and Home Bias

The human brain is a creature of habit. There is nothing it likes better than the comfort of home. This doesn't mean it might not be curious from time to time – a holiday in Thailand or Venice may add a moment of thrill, as may a dish of Korean barbecue or Lebanese falafel – but in general it likes the family setting, the home town, the home country. This manifests itself also in our consumption patterns – in particular when large amounts of money are at stake.

Thus, it should come as no surprise that consumers prefer car brands that originated in their home country, despite the global competitiveness of the automotive industry. German consumers tend to stick to German car makers like Volkswagen Group, Mercedes and BMW, while French consumers gravitate to Renault and Peugeot, Italians to Fiat and Swedes to Volvo. Similar patterns can be seen in Japan, Korea and the US. While it might be argued that locally implanted brands know their local customers



best, and thus are able to cater to their particular tastes, Home Bias also plays a role. Indeed, in countries without an established car brand, a wider variety of cars appeals to consumers: in Poland, for instance, Toyota is the dominant car brand, while Fiat and Volkswagen do well in Brazil.

A similar phenomenon can be seen with airlines, where flag carriers (the former national airlines) retain a degree of loyalty amongst the passengers of their home countries despite often cheaper alternatives.

Home Bias is also a well-known trait of investors – part of larger bias called framing. Given the enormous amounts of data in financial markets, investors have the tendency to cling to those markets they know best: their home market. By cropping and shifting the frame through which they consider their investment universe, they retreat to the supposed safety of the stocks and other financial instruments they hear about the most in the news. A 2023 study by Barclays estimated that UK equities represented approximately 25% of British investors' allocation, despite the UK market only representing 4% of the global market capitalization (Source: **Overcoming home bias when investing | Barclays Private Bank**).

Familiarity is only one reason why investors might stay close to home. Currency risk should not be underestimated as a consideration (though excessive hoarding in one's own currency brings its own risks), and the perceived political dangers of foreign investments may reduce one's appetite to venture into Emerging

Markets. Nevertheless, home bias and similar framing biases reduce investors' opportunity sets and possibilities for diversification, thus potentially hurting them over the long haul.

Not all numbers matter – The dangers of Anchoring

Imagine inviting your dear other half, a good friend or an important client to dinner at a celebrated restaurant. The first item you see on menu, written in bold letters and marked as "signature dish" is a 120 euros wagyu beef. The alternative locally sourced salad for 55 euros suddenly looks quite enticing. Similarly, the wine card will propose a choice of beverages from 15 euros per bottle to over 1000 euros. While the occasion might not warrant the most expensive millésime on the menu, you don't want to appear stingy either, and thus select a bottle in the lower middle of the range.



In both instances, the restaurant might have carefully anchored your expectations, by intentionally placing

very expensive items in a prominent fashion – thus setting a basis for your expectations – and making other items appear relative cheaper. After all, in any other context, you might balk at that 55 euro salad, but compared to the beef, it almost looks like a bargain! The restaurant knows fully well that only a few customers will go for that beef – and thus it's the salad that will drive their revenues. The wine card plays a similar trick, but twice: it anchors your upper bound with those premium vintages, but it also anchors a lower bound with its cheapest wine – in the knowledge that in most cases one person in a dining group will be tasked with selecting the wine, and will not want to appear too miserly.

Anchoring is also pervasive in the world of finance. Round numbers, for instance, frequently make the news: the DAX surpassed the level of 24.000 in May 2025; Nvidia became the first company to surpass 4 trillion USD in market capitalization in July 2025. In truth, the 24.000 mark should not be more or less relevant for a DAX investor than the 24.100 or the 23.900 mark. Nor is the 4 trn USD Nvidia headline particularly noteworthy given the erosion of purchasing power of the USD (and other currencies) over the past decades – at the very least, investors should consider inflation-adjusted numbers when comparing current market capitalization records to past ones. Yet, these and other similar financial news drive investors' attention – and may lead their instinctive angel to draw simple conclusions about financial markets without going through the trouble of analysing the full set of relevant data.

Complexity tamed – how Best Styles avoids Framing and Anchoring biases

Best Styles is a systematic core equity solution that builds portfolios relative to its benchmark, for instance the MSCI World Index for our Best Styles Global Equity strategy. As part of this disciplined process, we do not deviate too much from the benchmark's regional and sector weights. However, the allocation will move over time along with the broader market.

This way we avoid home bias but also a preference for certain sectors, a "natural habitat" some fundamental investors may have. We also cast a very wide net when it comes to investment opportunities: we have data for more than 30,000 stocks in our systems, and although many of those stocks will not be eligible for specific portfolios, we generally consider far more stocks for investment than are part of the benchmark.

Both the size of the investment universe we consider and the orientation at the market's regional and sector weights allow for a high degree of diversification. In addition, we also evaluate stocks based on different investment styles and do that objectively. For instance, we do not "frame" a stock as Value or Growth but take all its characteristics into account all at once. In our portfolios we aim to have higher exposure to complementary investment styles, adding another, even more important level of diversification.

When we evaluate companies, we take great care to ensure the quality of data and to make relevant information comparable. We rank stocks on that basis and hence the evaluation we make is always relative and not fixated on the individual number. We strive to build a portfolio that is more attractive than the broad market, represented by the benchmark, and if anything, this is our anchor which, by its nature, will change over time as markets move.

Due to the computing power we have at our fingertips, we also have less need for simplification or shortcuts to speed up our processing or decision making. That does not excuse us from implementing our models skilfully and using resources efficiently, but it allows for scalability that the human brain does not have. Once a model is deployed, there are no more shortcuts to be had.

Overall, a systematic investment approach like Best Styles is less prone to (human) behavioural biases that can negatively influence investment decisions. It is far from simple, and biases in the data can be controlled for. However, it is also important to note that no systematic approach can capture everything that is driving the market, and that the accountability of a (human) portfolio manager is the ultimate safeguard for investors.

Investing involves risk. The value of an investment and the income from it will fluctuate and investors may not get back the principal invested. Past performance is not indicative of future performance. This is a marketing communication. It is for informational purposes only. This document does not constitute investment advice or a recommendation to buy, sell or hold any security and shall not be deemed an offer to sell or a solicitation of an offer to buy any security.

The views and opinions expressed herein, which are subject to change without notice, are those of the issuer or its affiliated companies at the time of publication. Certain data used are derived from various sources believed to be reliable, but the accuracy or completeness of the data is not guaranteed and no liability is assumed for any direct or consequential losses arising from their use. The duplication, publication, extraction or transmission of the contents, irrespective of the form, is not permitted.

This material has not been reviewed by any regulatory authorities. In mainland China, it is for Qualified Domestic Institutional Investors scheme pursuant to applicable rules and regulations and is for information purpose only. This document does not constitute a public offer by virtue of Act Number 26.831 of the Argentine Republic and General Resolution No. 622/2013 of the NSC. This communication's sole purpose is to inform and does not under any circumstance constitute promotion or publicity of Allianz Global Investors products and/or services in Colombia or to Colombian residents pursuant to part 4 of Decree 2555 of 2010. This communication does not in any way aim to directly or indirectly initiate the purchase of a product or the provision of a service offered by Allianz Global Investors. Via reception of this document, each resident in Colombia acknowledges and accepts to have contacted Allianz Global Investors via their own initiative and that the communication under no circumstances arises from any promotional or marketing activities carried out by Allianz Global Investors. Colombian residents accept that accessing any type of social network page of Allianz Global Investors is done under their own responsibility and initiative and are aware that they may access specific information on the products and services of Allianz Global Investors. This communication is strictly private and confidential and may not be reproduced, except for the case of explicit permission by Allianz Global Investors. This communication does not constitute a public offer of securities in Colombia pursuant to the public offer regulation set forth in Decree 2555 of 2010. This communication and the information provided herein should not be considered a solicitation or an offer by Allianz Global Investors or its affiliates to provide any financial products in Brazil, Panama, Peru, and Uruguay. In Australia, this material is presented by Allianz Global Investors Asia Pacific Limited ("AllianzGI AP") and is intended for the use of investment consultants and other institutional /professional investors only, and is not directed to the public or individual retail investors. AllianzGI AP is not licensed to provide financial services to retail clients in Australia. AllianzGI AP is exempt from the requirement to hold an Australian Foreign Financial Service License under the Corporations Act 2001 (Cth) pursuant to ASIC Class Order (CO 03/1103) with respect to the provision of financial services to wholesale clients only. AllianzGI AP is licensed and regulated by Hong Kong Securities and Futures Commission under Hong Kong laws, which differ from Australian laws.

This document is being distributed by the following Allianz Global Investors companies: Allianz Global Investors GmbH, an investment company in Germany, authorized by the German Bundesanstalt für Finanzdienstleistungsaufsicht (BaFin); Allianz Global Investors (Schweiz) AG; Allianz Global Investors UK Limited, authorized and regulated by the Financial Conduct Authority; in HK, by Allianz Global Investors Asia Pacific Ltd., licensed by the Hong Kong Securities and Futures Commission; in Singapore, by Allianz Global Investors Singapore Ltd., regulated by the Monetary Authority of Singapore [Company Registration No. 199907169Z]; in Japan, by Allianz Global Investors Japan Co., Ltd., registered in Japan as a Financial Instruments Business Operator [Registered No. The Director of Kanto Local Finance Bureau (Financial Instruments Business Operator), No. 424], Member of Japan Investment Advisers Association, the Investment Trust Association, Japan and Type II Financial Instruments Firms Association; in Taiwan, by Allianz Global Investors Taiwan Ltd., licensed by Financial Supervisory Commission in Taiwan; and in Indonesia, by PT. Allianz Global Investors Asset Management Indonesia licensed by Indonesia Financial Services Authority (OJK).