

# Introduction to Behavioral Investing

Behavioral economics begins with a simple but powerful observation: people are not always rational. Traditional economic theory often assumes that individuals make decisions logically, free from bias, emotion, or error. However, investors and policymakers are human and subject to overconfidence, fear, loss aversion, herd mentality, and countless other tendencies that defy textbook assumptions.

The field of behavioral economics does not reject economic models outright. Rather, it reframes them, reminding us that models are only as useful as their reflection of real-world behavior. When treated as precise forecasts of how perfectly rational actors will behave, these models can mislead, creating poor predictions and costly mistakes. When used as starting points, however, and layered with a more realistic understanding of human behavior, they become far more valuable.

This Behavioral Investing series will explore key behavioral principles and show how Crawford's investment philosophy is intentionally designed to work with, rather than against, human nature. We believe acknowledging behavioral tendencies, both the mistakes others make and the biases and impulses we ourselves must resist, is essential to building resilient investment strategies. By structuring our processes, teams, and incentives to maximize intelligence around investment ideas and minimize emotional reactions to market noise, we strive to turn human nature from somewhat of a liability into a source of opportunity and discipline.

On one hand, behavioral economics underscores that financial markets are not always efficient. Human irrationality, whether driven by fear, overconfidence, or herd behavior, often leads to security mispricings. This reality creates opportunities for professional investors to take advantage of the mistakes made by others. Value investing itself is rooted in this principle: if markets were perfectly efficient, there would be no opportunity to purchase undervalued companies at attractive valuations. At Crawford, we believe behavioral inefficiencies can be particularly pronounced in high-quality companies that experience temporary drags on fundamentals or lapses in investor sentiment. Our rigorous, bottom-up research process is designed to identify and capitalize on these moments, exploiting short-term overreactions and allowing us to purchase high-conviction, high-quality businesses at what we believe are reasonable valuations before a reversion to the mean occurs.

On the other hand, acknowledging behavioral tendencies and structuring processes to reduce their likelihood is just as important for guarding against our own mistakes. Left unchecked, biases can lead to sub-optimal decision-making and poor investment outcomes. That is why we have deliberately engineered

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research and investment processes that resist common behavioral pitfalls. We view behavioral economics not simply as a diagnostic of what others do wrong, but as a guide to building strategies that align with human nature. By structuring processes, teams, and incentives to withstand the temptation to react emotionally to market noise, we believe we can both exploit inefficiencies created by others and deliver behaviorally successful outcomes for our investors.

At Crawford, we believe our process is behaviorally sound. While we are proud of the return streams our strategies generate relative to their benchmarks, the deeper value lies in the experience our investors have along the way. By design, our portfolios have historically captured less downside than the broader market, helping clients stay invested through challenging periods. In addition, every strategy incorporates an income component that provides a source of positive return even in falling markets. These characteristics, paired with the fact that our investment strategies are centered on meeting real-world objectives, help our investors avoid the potential for committing a behavioral error and acting irrationally. Thus, they remain invested and continue compounding returns over the long run.