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THE KEY TO REDUCING INVESTING MISTAKES?
UNDERSTAND YOUR INVESTING PERSONALITY

Merrill Lynch Investment Managers (MLIM) Survey Points to Four Distinct Investor Profiles: Measured, Reluctant, Competitive and Unprepared

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What Color Is Your Portfolio?

Investors Have Different Personalities But One Common Regret: "Not Starting to Invest Soon Enough" Viewed as Biggest Mistake

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MLIM President Bob Doll Says Financial Advice, Professional Money Management Are Critical to Countering Bad Individual Judgments

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PLAINSBORO, N.J., Nov. 9, 2004 — Make no mistake about it, your personality has a major influence on your behavior as an investor. That's among the key findings of a groundbreaking survey of investors released today by Merrill Lynch Investment Managers (MLIM), a leading global money manager with more than $470 billion in assets under management.

The nationwide telephone poll examined the investment mistakes of 1,000 investors and their related attitudes, beliefs and behaviors.

"Our survey underscores one of the fundamental precepts of professional money management: Keep your emotions out of your portfolio," said Robert C. Doll, president and chief investment officer of Merrill Lynch Investment Managers.

"In most human endeavors, individual psychology affects behavior and, ultimately, results," Doll said. "Anyone who has ever gone on a diet or started a workout regimen knows that. Investing is no different. Whether you're trying to shrink your waistline or grow your nest egg, discipline and self-awareness go a long way."

The poll was conducted between July 19 and August 9, 2004 by the research firm of Mathew Greenwald & Associates, Inc. Participants had to be solely or jointly responsible for financial and investment decisions for their household, and have at least $75,000 in investable assets and an annual household income of at least $75,000 (retirees did not have to meet this requirement). The margin of error (at the 95% confidence level) for the 1,000 investors surveyed is plus or minus 3.0 percentage points.

He Who Hesitates Loses Ground

Investors surveyed said that their biggest — and most painful — mistake was waiting too long to start investing.

Of the investors surveyed, 46% said they waited too long to invest. And of those, 25% said doing so was their most painful mistake.

Asked about major personal regrets, 28% of investors wished they had started investing earlier. That compares with 15% who wish they had worked harder in school and 9% who wished they had been more ambitious in their careers.

"If experienced investors deeply regret waiting too long to start investing, imagine how large an issue this is with the general population, many of whom haven't even begun to invest," Doll said. "The survey results are a wake-up call to people in their 20s and 30s: Get going. The benefits of compounding and investing over the long term are substantial; unfortunately, too many investors learn these important lessons in retrospect."

The second most common mistake investors cited was "holding a losing investment so long that you ended up losing a significant amount of money." Forty-one percent of investors said they had made that mistake — and 24% said it was their most painful mistake.

The next most common mistakes cited were "not putting enough money into your investments" and "waiting too long to sell a winning investment," both of which were mentioned by 36% of investors.

"Making mistakes comes with the territory," Doll said. "The best investors learn from them. When it comes to investing, past is not prologue and personality is not necessarily destiny."

Investors and Advisors Have Different Takes on Biggest Mistakes

Interestingly, companion Merrill Lynch Investment Managers research among professional financial advisors found a startling difference of opinion on investor mistakes.

Advisors believe failure to observe basic investing fundamentals like asset allocation or rebalancing are the biggest mistakes their clients make, but these sorts of long-term, big picture factors are well down investors' lists.

"Investors and advisors alike agree that waiting too long to invest and not investing enough are critical mistakes," Doll said, "but beyond those, investors tend to focus on the 'glamorous' mistakes like riding winners down, holding onto losers, buying on a tip or putting too much money in a single investment. These mistakes may make for interesting cocktail party complaints, but in the greater scheme of things, it's the bigger, systemic failures like ignoring their asset allocation that do the greatest damage to investors' portfolios."

According to study director Dr. Brian Perlman, CFO of Greenwald & Associates and a psychologist and Chartered Financial Consultant, "Too many investors focus on fighting the battle but not winning the war. Everyone makes mistakes. What many investors don't understand is the critical role careful planning and professional money management can have in preventing those mistakes from derailing their future financial security."

What, Me Worry?

Mistakes notwithstanding, investors generally believe they are doing a pretty good job.

Eighty-eight percent of investors surveyed describe themselves as very or fairly successful, 86% believe they will have a financially secure retirement, and 82% say they stick with a consistent investment strategy even when the stock market is volatile.

But there are some troubling counter-indications: Almost one-third (30%) of all investors have no financial plan and while nearly 60% of investors say they are very good at home or car maintenance, only 29% say they are very good at managing their investments.

In addition, when asked the reasons for the mistakes they make, 64% said "Mistakes just happen," suggesting they believe investing mistakes result from random events rather than poor planning.

"Investors are confident — whether they should be or not," Doll said.

The Four Faces of Investing

Analysis done by Merrill Lynch Investment Managers and Mathew Greenwald indicated distinct investing personalities.

"Our data analysis reveals four distinct investor personalities," said Greenwald's Perlman. "Each personality has a profound effect on the kind and frequency of mistakes an investor makes."

The investor personality types identified by the research are: measured, reluctant, competitive and unprepared. Of the 1,000 investors surveyed, 32% were identified as measured, 26% as reluctant, 17% as competitive and 11% as unprepared; 14% did not clearly fall into a category. Specific profiles include:

- **Measured Investors (32%).** Secure in their financial situation and confident they will have a comfortable retirement, they've achieved their success because they started investing early in life and invest and rebalance regularly. As a rule, these investors do not try to beat the market or overallocate to a single investment. Measured investors are the least likely to say they waited too long to start investing or have not invested enough. They are also least likely to be plagued by the emotions that commonly cause investment mistakes: fear (14%) and anxiety (13%).

  Mistakes Made: Even the most methodical and even-keeled investors make mistakes. Measured investors' dedication to their investments often makes it difficult for them to let go of losing investments. This was the most common mistake cited by measured investors (41%) and nearly one-third of them cited this as the most painful mistake they'd ever made.

  "In investing, steadfastness is a virtue — up to a point," said Hannah Grove, chief marketing officer for Merrill Lynch Investment Managers. "Discipline is admirable; sheer stubbornness and denial are not. Moderation is good in all things, including investing."

- **Reluctant Investors (26%).** These investors do not particularly enjoy investing, preferring to spend as little time as possible managing their investments (92% stated this, versus just 27% of the measured investors and 35% of the competitive investors). Still, reluctant investors say they are happy in their current situation and believe they will have a secure retirement.

  Reluctant investors have some notable strengths. Only 32% of them said they have held losing investments too long and only 25% of them said they have overallocated into one investment. Not surprisingly, reluctant investors are the most likely to have a financial advisor at 63%.

  Mistakes Made: Seventy percent of reluctant investors said they waited too long to start investing and 41% of them identified this as their most painful mistake.

  "The reluctant investor's low level of interest in investing means they are the least likely to become overly attached to an investment or put too much money into one holding," said Grove. "That said, lack of interest in your investments will prove more much more detrimental than beneficial over the long term."

- **Competitive Investors (17%).** Competitive investors enjoy investing, try to beat the stock market, and say they are both happy with their current financial situation and confident in the future.

  After measured investors, competitive investors are the most likely to have started investing early, to put enough money into their investments, and to invest regularly. This group likes to invest as much as possible and regularly rebalances (only 12% have gone more than 18 months without rebalancing). Overall, competitive investors demonstrate high knowledge levels when it comes to investing.

  Mistakes Made: Forty-six percent of competitive investors have a hard time letting go of losing investments. Thirty-nine percent said they had put too much of their portfolio to one stock or investment. Not surprisingly, competitive investors also tend to chase hot stocks. Competitive investors are most likely to be overconfident (39%) and greedy (34%), but they are least likely to feel apathy (18%) when it comes to investing.

  "Temperamentally, competitive investors have a great make-up and a strong constitution," Grove said. "They're more comfortable investing than not, even when the market is volatile. But all that enthusiasm for investing can be a detriment if left unchecked. Competitive investors can benefit from someone helping them maintain their analytical balance."

- **Unprepared Investors (11%).** Unprepared investors are not happy with their current financial situation. They are the most likely to lack confidence (47%) and be fearful (41%) or anxious (36%) about investing. In general, they have lower knowledge levels on financial topics and express the deepest regret about not investing sooner (57% see this as a major regret). They do not feel they will have a secure retirement — with reason.

  Mistakes Made: Unprepared investors are the most likely to say they waited too long to start investing (75%) — which they most commonly cite as their most painful mistake — and they are the most likely to say they have not put enough money into their investments (60%). They are very likely to hold on to losing investments too long (56%), allocate too much of their portfolio to one stock (45%) or chase a "hot stock." They are the least likely to rebalance their portfolios. While a smaller group among the relatively affluent sample in this survey, they may well be a much larger proportion of the general population.

"Unprepared investors are the folks who have fallen farthest behind," Perlman said. "In their angst to catch-up, they are making every mistake in the book. This is the type of investor who is best served by turning their financial lives over to a professional financial advisor. "

To Thine Own Self Be True…and Prosper as a Result

Experts at Merrill Lynch Investment Managers say it's critical for investors to understand their psychological makeup.

"Money is an emotional instrument," said Grove. "Emotions can get in the way of making the right investment decisions. Behavioral scientists have tended to look at investors as a whole, but each of us is influenced by different emotions.

"It is critical to understand each investor's psychological makeup so as to better understand and address the types of mistakes he or she is prone to make," Grove said. "If we can fathom our emotional tendencies, then we can take steps to anticipate and correct them."

Professional Advice Is Critical

Survey data document the value of professional advice. Investors who use advisors express a higher degree of satisfaction and success. Specifically, investors who use advisors:

- Are more likely to have a financial plan (82% vs. 51% of unadvised investors);
- Are more satisfied with their financial situation (78% vs. 67%);
- Are more than 50% more likely (34% vs. 22%) to say they're doing a very good job managing their investments;
- Have a better mix of investments (81% describe their mix of investments as good or better, vs. 68% of unadvised investors);
- Are less likely to go more than 18 months without rebalancing (13% vs. 20%).

"To us the question isn't whether or not you engage an advisor, but how you engage one," Grove said. "Even the most accomplished and experienced investors need a second set of eyes.

"Advisors bring a professional objectivity and perspective that most investors are hard-pressed to bring to bear on their own portfolios," Grove said. "Why do doctors go to other doctors for their own healthcare, and why are lawyers represented by other lawyers? For many of the same reasons accomplished investors should use an advisor: objectivity, specific expertise, and to minimize the chance of making a mistake.

"It's one thing to know what you need to do but it's another to have the time, discipline and dispassion to do it," Grove added.

Of the investors surveyed, 60% said they have a primary financial advisor. Men are significantly less likely than women to say they have a primary investment advisor — 50% of male investors say they have a primary financial advisor vs. 70% of women — perhaps reflecting a propensity for risk — taking and an aversion to help or counsel.

"The stereotype of the man driving a hundred miles out of his way to avoid asking for directions holds true," Grove said. "Unfortunately, when the destination is financial security, late starts and wrong turns are costly."

The Case for Professional Money Management

For advised- and self-directed investors alike, professional money management can eliminate or significantly reduce many of the most common investment mistakes, particularly those that are emotion-driven.

"The use of professional money management — from mutual funds to separately managed accounts — is critical to reducing the frequency and severity of mistakes," Doll said. "Professional money managers have checks and balances — from management oversight, to prospectus requirements, to risk management technology — to keep needless mistakes to a minimum."

Doll said the mistakes that may be mitigated by professional management are: holding onto losers, waiting too long to sell winners, overallocation into one investment, too frequent trading, and buying "hot" investments without doing research.

"Interestingly, from both an advised- and self-directed investor's perspective, many of the trends and innovations in investing over the last decade — from the emergence of risk management technologies on the management side of the ledger to product innovations such as TIPS, lifecycle or tax-efficient funds, and automatic rebalancing — have all come about in an effort to reduce investing mistakes."

What's an Advisor or Investor to Do?

The first step in eliminating or reducing investing mistakes is for investors to get a better understanding of their investing personality. To do that, Merrill Lynch Investment Managers has created an informational website for investors: **www.hindsight2insight.com.** The site includes a brief, specially developed quiz that allows investors to determine their investing profile. In addition, the site includes a wealth of information, including survey results, information on the most common investment mistakes and what to do about them, as well as information on how to work with a qualified financial advisor.

In addition, Merrill Lynch Investment Managers has created a companion program to help advisors work with their clients. Dubbed **Hindsight2insight℠,** the program includes a client-approved presentation and brochure highlighting the survey results, the investor personality types and the impact of, as well as solutions for, the most common mistakes.

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Merrill Lynch Investment Managers (MLIM) is one of the world's largest active money managers, with assets under management in excess of $470 billion as of September 30, 2004. The firm offers both institutional and retail investment products and services. MLIM and its investment advisory affiliate, Mercury Advisors, distribute an extensive array of innovative investment options for high net worth investors, including separately managed accounts, private investment portfolios, alternative investment products and open- and closed-end funds. The **Hindsight2insight℠** program is part of MLIM's longstanding commitment to understanding and addressing the needs of investors and their professional advisors.

Merrill Lynch (NYSE: MER) is one of the world's leading financial management and advisory companies, with offices in 35 countries and total client assets of approximately $1.5 trillion. As an investment bank, it is a leading global underwriter of debt and equity securities and strategic advisor to corporations, governments, institutions and individuals worldwide. Through Merrill Lynch Investment Managers, the company is one of the world's largest managers of financial assets. For more information on Merrill Lynch, please visit www.ml.com.

NOTE TO EDITORS: Merrill Lynch Investment Managers' special website — www.hindsight2insight.com — was developed strictly as an educational tool for investors. The site includes an interactive quiz as well as information on identifying and addressing critical investing mistakes. There are no advertisements or solicitations of any kind nor does the site capture the names or addresses of site visitors. We encourage you to visit www.hindsight2insight.com and to recommend it to your readers and/or viewers.