



Looking backward, investing forward

How investor experience shapes decision making

Simone Haslinger

There is a puzzle at the heart of investing that behavioural economists have spent decades trying to explain—why do intelligent, informed investors consistently make predictable, repeated mistakes? And why, even when they recognise those mistakes in hindsight, do they make them again?

A compelling answer comes from the work of Professor Ulrike Malmendier, a behavioural economist at UC Berkeley's Haas School of Business. Malmendier has spent her career researching how personal experience shapes financial decision-making in ways that are deeper, more lasting, and more resistant to correction than most investors realise.

Her findings are both fascinating and confronting.

The experience effect: Your investing history is your prison

Malmendier's most influential insight is what she calls the experience effect. The core idea is this—investors do not form beliefs about markets from data, statistics, or rational analysis alone. They form them primarily from what they have personally lived through.

This sounds obvious. But its implications are significant. It means that two investors with access to identical information—

the same data, the same research, the same historical record—will make different decisions based on nothing more than when they were born and what market environments they personally experienced during their investing lives.

Malmendier's research shows that investors who came of age during periods of strong equity market performance are significantly more likely to invest in equities throughout their lives, allocating more to stocks and holding positions for longer. Investors who experienced bear markets, recessions, or financial crises early in their investing careers show persistently lower equity allocations—often for decades afterward—regardless of what the data says in the intervening period.

This is not a short-term effect that fades as memories recede. It is structural. Personal experience rewires how people assess risk, what they believe is likely, and how they interpret new information. And crucially, it is largely impervious to correction from information alone. Showing someone the long-run historical equity risk premium does not reliably change behaviour that was formed by living through a crash.

Recency bias: The recent past crowds out everything else

Layered on top of the experience effect is recency bias—the tendency to weight recent experiences far more heavily than older ones when forming expectations about the future.

Malmendier's research shows this is not simply about memory or laziness. Recency bias is a feature of experience-based learning—recent experiences are weighted more precisely because they feel more relevant, more vivid, and more representative of the current environment than experiences from decades ago.

For investors, the practical effect is powerful and well-documented. After a period of strong equity market returns, investors increase allocations to equities, extrapolating recent performance forward. After a sharp drawdown, they reduce allocations or exit markets entirely—often at precisely the wrong moment. The behaviour is not random. It follows a pattern that is entirely predictable from the recent return environment.

This is why investor flows into equity funds tend to peak near market tops and trough near market bottoms. It is not irrational, exactly. Recent performance is real information. But it is systematically overweighted relative to its actual predictive value, and the result is a persistent tendency to buy high and sell low.

The availability heuristic: If you can picture it, you will overweight it

Closely related to the experience effect is what psychologists call the availability heuristic, or the mental shortcut by which people estimate the likelihood of an event based on how easily an example comes to mind.

Personal experiences are highly available. If you lived through the 2008 financial crisis, the experience of portfolios collapsing by 40% is immediately retrievable—vivid, emotional, detailed. If you did not, that same event exists as a data point in a table—real in principle, but not viscerally present in the way that shapes actual decision-making under pressure.

This asymmetry matters in both directions. Investors who experienced a major crisis are likely to overestimate the probability of another one, keeping excess cash or maintaining under-exposure to risk assets long after the environment has changed. Investors who have only experienced a prolonged bull market are likely to underestimate tail risk—the possibility of large losses simply is not available to them in the intuitive, emotionally weighted way that drives real behaviour.

The availability heuristic is also why narratives are so powerful in investment markets. A compelling story about why an asset class will perform creates vivid mental imagery that is more available, and therefore more speculative, than a balanced statistical analysis. It is not that investors are foolish. It is that the architecture of human cognition is working against them.

The systemic consequence: Herding and persistence

What makes Malmendier's research particularly striking is that these are not just individual quirks. They have market-level consequences.

When large numbers of investors share similar

formative experiences, as they do within generational cohorts, their biases aggregate. Depression-era investors collectively underinvested in equities for decades. Investors who came of age during the 1990s tech boom collectively overweighted technology and growth for years afterward.

The experience effect does not just affect individuals; it shapes the flow of capital across entire asset classes and creates persistent mispricing that can last for years. This is also why investor behaviour is so difficult to change through education alone. The problem is not a lack of knowledge. It is that personal experience has encoded beliefs at a level that is largely immune to being overwritten by information that was not lived.

Where systematic investing comes in

Understanding the experience effect makes the case for systematic, rules-based investing in a new light. The usual argument for removing human discretion from investment decisions is about consistency and discipline—avoiding the emotional mistakes that come from fear and greed in the moment. That argument is sound as far as it goes.

But Malmendier's research points to something deeper. The problem is not just that investors make emotional mistakes in real time. It is that their entire framework for assessing risk and probability has been shaped by their personal history in ways they are largely unaware of and cannot easily correct.

A systematic trend-following strategy does not have a personal history. It has no memory of the 2008 crisis that makes it overly cautious about equities. It has no recollection of the 2020–2021 bull market that makes it extrapolate upward momentum indefinitely. It does not overweight the energy shock of Q1 2026 because it experienced it viscerally. It observes price behaviour, applies rules, and responds to what markets are actually doing, not what a particular investing history suggests they should be doing.

There is a well-known observation from Kierkegaard that captures this from a different angle:

Life can only be understood backwards; but it must be lived forwards.

Human investors are perpetually trying to navigate the present using a map drawn from their personal past—a map that is always, to some degree, out of date. A rules-based system does not carry that map. It reads the terrain as it is.

The availability heuristic also maps neatly onto a common pattern in trend following's relationship with investors. Trend following may underperform in quiet, low-volatility periods, and these are precisely the periods when it is most tempting to reduce or exit allocations. The recent absence of dramatic trending moves makes the strategy's benefits feel less available, less vivid, less necessary.



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Simone is chief executive and is responsible for business development and strategy for the ECCM group. Simone joined ECCM with 20 years of investment banking experience. From 2010 to 2024, she worked with J.P. Morgan, including most recently as co-head of Equity Capital Markets. From 2005-2010 she was an equity capital markets executive with Deutsche Bank. Simone holds a Bachelor of Commerce (Finance) degree and a Bachelor of Laws degree from the University of New South Wales (UNSW). She is a Member of Chief Executive Women and an Affiliate of the Australian Institute of Company Directors.

**The quote**

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And then the tail event arrives—an energy shock, a geopolitical crisis, a regime shift—and the strategy does precisely what it was designed to do. For investors who reduced exposure in the quiet period, the benefit is unavailable for a different reason—they're no longer in it.

What this means in practice

The experience effect does not disappear because you understand it. Malmendier's research makes clear that knowing about a bias and being immune to it are very different things. The implication for investors is not that self-awareness is useless—it is that self-awareness is insufficient on its own.

Portfolio construction involving rules-based processes, pre-committed allocation frameworks, or systematic strategies removes the opportunity for experience-based biases to operate. This does something that willpower and education alone cannot—it creates a structural barrier between an investor's personal history and their portfolio decisions.

That is no small thing. It is arguably one of the most underappreciated sources of long-term outperformance available to investors who are willing to look for it. **FS**