Long-term, historical academic evidence demonstrates that over time there are certain “factors” that can provide somewhat higher expected (albeit never guaranteed) returns vs. simply holding a capitalization-weighted market index. Some of these factors that can potentially add a premium return include value stocks, small company stocks, and stocks of companies who have demonstrated consistent profitability.

However, many who attempt to add these premium factors to their portfolios don’t ever reap the rewards of these higher expected returns because they are impatient and get lured into chasing recent performance of whatever has been “hot” of late. Behavioral psychologists identify this behavior as *recency bias*.

In the following brief, three-minute video we discuss some of these factors with Morningstar and how investors often end up with subpar performance because of their own behavior.