

Winters presents the yearly returns of the Cheng's funds. He explains that there is a greater chance of achieving higher returns and capital growth by investing a large percentage of the \$800,000 cash position in the ABC Equity Fund. The most recent annual performance by asset class and the new percentage allocations recommended by Winters are shown in Exhibit 2. After reviewing the equity fund return statistics, Cheng agrees to a higher allocation to the ABC Fund.

Exhibit 2

Fund	Yearly Return	New Percentage Allocation	Standard Deviation
ABC (US Equity)	10.65%	75%	8%
XYZ (US Bond)	3.26%	10%	2.5%
PQR (REIT's)	5.5%	10%	12%
IEQ (Int'l Equity)	-4.9%	5%	18%

B. **Identify** and **describe** the behavioral bias influencing Cheng's decision to accept Winter's recommendations.

3 minutes (Answer 4-B on page 27)