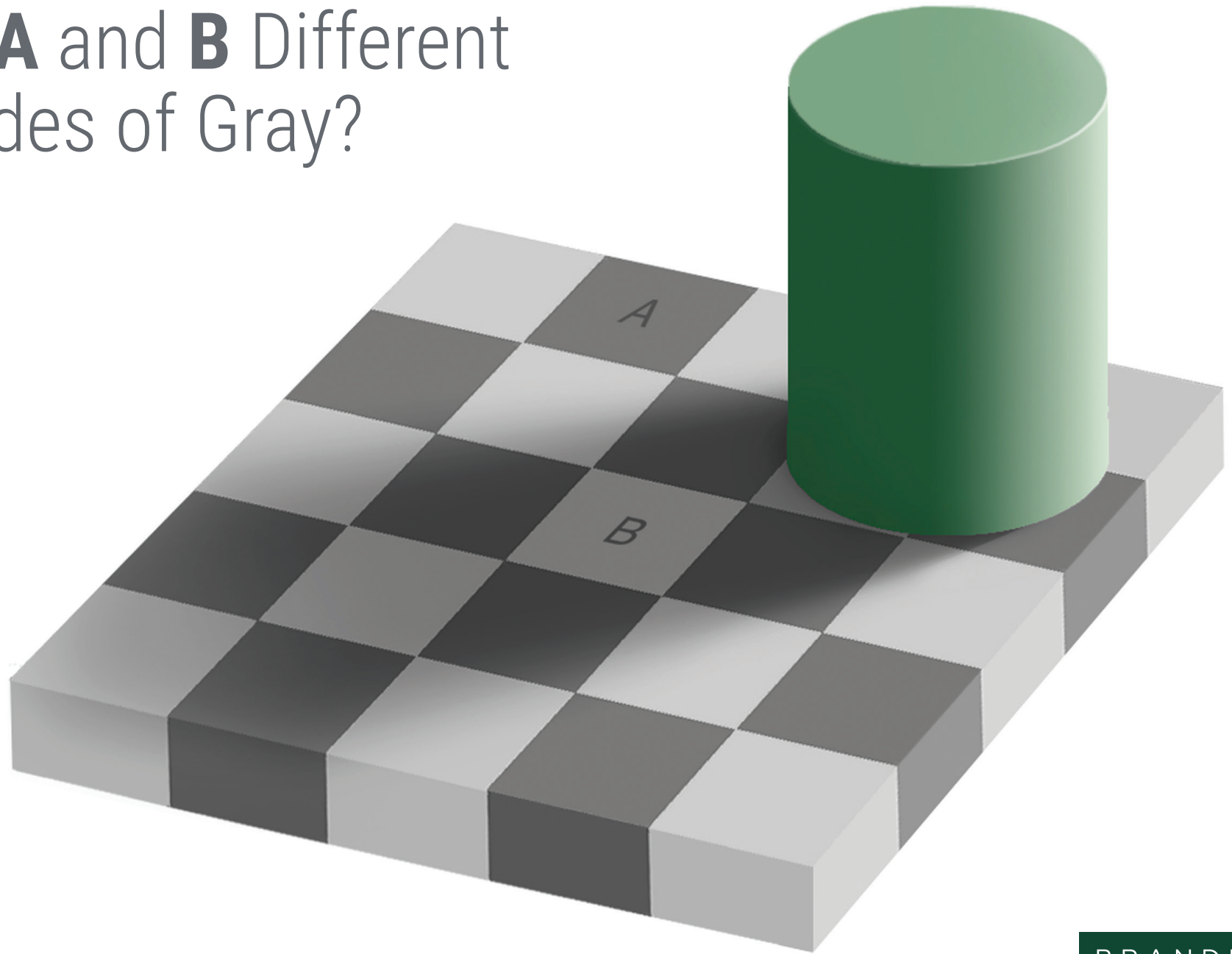


Are **A** and **B** Different Shades of Gray?



SOURCE: Edward H. Adelson, 1995

What Can This Checkerboard Show Us About Investing?

We can't always trust our first instinct.

This checkerboard optical illusion helps illustrate a “heuristic,” or a mental shortcut that our brains may use to make decisions. Investors’ use of heuristics can lead to unintended consequences and may be detrimental to the pursuit of long-term goals, as explained below.

How to Use this Checkerboard

1. Look at the checkerboard. Are squares A and B the same or different shades of gray? They certainly look different.
2. Peel squares A and B off the sheet; they are stickers. Place both in the margin side by side. When squares A and B are next to each other, what do you see? Are they the same or different shades of gray?
3. At first glance, most people will say the squares are different shades of gray. However, this is an optical illusion. From a different perspective, we see that A and B are the same shade.

Key Takeaway: The Lesson for Investors

As the checkerboard shows, things aren't always what they seem. What looks right or feels right at first may prove to be wrong after a closer, more rational inspection.

This may be especially true for investing. For example, even if we have a well-thought out investment plan for the long term, short-term market events can trigger heuristics. We may feel the need to react to developments and make changes quickly to our plan.

Instead of trusting our first instincts or acting based on a heuristic, we urge investors to be thoughtful, rational and to keep a long-term focus.

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