FOCUS ON STAYING THE COURSE BY PUTTING EMOTIONS ASIDE

Interest rate hikes, political unrest, market volatility, natural disasters—sound familiar? These are just some of the events that contribute to the market "noise" that can play on investors' emotions. You've likely felt that pang of concern over one or more of these events at some point. The key takeaway—keeping your emotions in check can help you avoid putting your portfolio at risk and missing out on valuable opportunities.

Perhaps you've already come across a media report or article that explains the reasons for, and drawbacks to, emotional investing. People's "intuitive expectations are governed by a consistent misperception of the world," wrote behavioural economic pioneers Daniel Kahneman and Amos Tversky in 1970. In other words, investors tend to falsely believe a knee-jerk reaction can somehow help them to avoid loss and profit more.

In reality, however, it's quite rare to consistently predict or time financial markets, and future performance is often largely unpredictable. To boot, money-related decisions tend to be a highly emotional part of our lives.

Realize you're human and prone to emotional forces

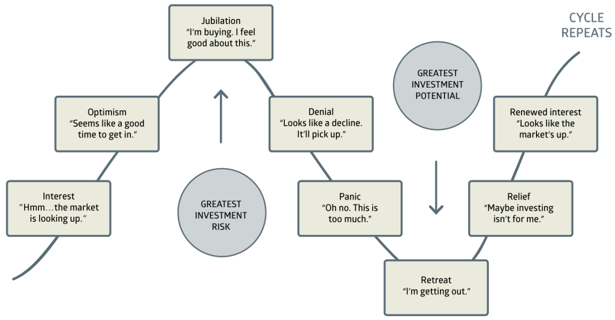
What can you do to ensure emotional responses don't negatively impact your portfolio's performance? First, remember that no matter how knowledgeable you are about financial markets, the best route to long-term success is discipline. This means following your financial plan and realizing your limitations. Warren Buffett reflected this well when he said, "The most important quality for an investor is temperament, not intellect."

Let's put Buffett's words into action. Here are some emotional traps investors can fall victim to, as well as different approaches to help manage these traps.

Getting swept away by swinging markets

The emotional reaction investors have during volatile markets can be like a roller-coaster ride. It begins as the market heats up and investors fall victim to a fear of missing out. Investors then jump in en masse as the market reaches its peak, only to experience a loss when the market inevitably declines. This pattern of jumping in and out of the market for fear of negative returns ultimately causes investors to miss out on potentially higher returns during a market uptick.

A roller coaster of investor emotions



A different approach – Market cycles and the predictable reactions by investors repeat themselves. As an investor, it's important for you to realize the cyclical nature of the economy and financial markets, and to stay calm and rational throughout market gyrations. As your advisor, we can provide you with helpful perspectives on how to stay the course and keep your sights on your long-term financial plan.

Avoiding loss at all costs

Investors have a penchant for avoiding the pain of loss, which has been proven to far outweigh the pleasure experienced by achieving a gain. This bias is known as "loss aversion," and it's the reason investors focus on stocks that are losing money—even if their overall portfolio is doing well.

Investors aim to evade feelings of regret after making a choice that has a negative outcome. Their reaction is often to refuse to sell a losing investment in an effort to sidestep having to confront a poor decision. Ultimately, investors cling to the hope that the investment will return to its original price, while risking an even greater plunge in its value.

A different approach – If you find yourself in this situation, try to avoid being persuaded by small losses and stay focused on your long-term investment plan. One solution is to check your investments less frequently, perhaps on a quarterly basis. As your advisor, we're here to provide reasoned strategies to help you mitigate risk.

Falling prey to selective thinking

Poor decisions are often made by investors when they seek out information that confirms their opinions, while ignoring alternative points of view. This is known as "confirmation bias" and results in a one-sided view of the market that can lead to ill-advised decisions.

For instance, an investor hears about a company on the verge of making a breakthrough and chooses to research the company by only reading news that confirms his or her opinion. As a result, the investor completely ignores news of the intensifying competition that the company faces.

A different approach – Consider news and advice from various sources, including some that offer different opinions. Collaborating with us about investment decisions is prudent. We have access to world-renowned research and can provide a balanced opinion based on your wealth goals, risk tolerance and time horizon.

Work with a professional to keep you on track

Lasting financial success is possible if you remain aware of your limitations and stick to a solid investment plan. Knowing this highlights the immense value of having an advisor on your side. We have the experience and tools to keep you on track toward meeting your short- and long-term financial goals.

Once your plan is in place, we become more than simply your investment experts. We can help keep your emotions in check, ease your anxiety during periods of market volatility and provide perspective on the benefits of long-term investing.

Please contact us today to learn more about tuning out market noise and keeping behavioural biases at bay, so you can stay focused on meeting your financial goals.