



Are emotions driving your investment decisions?

We may feel that our investment decisions are grounded in solid logic and robust financial analysis. Yet studies indicate our emotions can influence us more than we realize.

Behavioural economists contend that emotions – even subtle ones – have the power to influence not only the investments you buy, but when you sell them¹. For instance, we sometimes hold on stubbornly to sinking stocks in hopes they will swing back. Or a recent bear market has us so spooked that we drag our feet about investing in solid offerings, even after a rebound.

Lisa Kramer, professor of finance at the University of Toronto's Rotman School of Management, isn't surprised by the strong connection between investment performance and feelings.

"There's no way to separate decision-making from the part of our brain that's involved with emotions," says Kramer, whose own research blends psychology and economics to study markets and financial decision-making. "So we have to think about how best to make decisions in light of the fact that we're emotional beings."

In fact, research out of Stanford University, Carnegie Mellon University, and the University of Iowa revealed that people who suffered an emotion-erasing brain injury actually earned more investing than a comparison group. Without fear, envy, greed or euphoria interfering in their decisions, they were able to think more rationally and reap the financial rewards².

Hidden internal biases can lead to making decisions that are at odds with long-term investment objectives. Here are a few to look out for.

We hate to lose. Studies suggest that losses are twice as powerful, psychologically, as gains³. To illustrate, if Person A loses \$100 on their morning walk and Person B finds it a few hours later, Person A feels much more pain than Person B feels happiness, even though the change they have experienced in their 'wealth' is equivalent. This means we may make irrational decisions because we over-emphasize avoiding a loss. As an example, we might be reluctant to sell a stock that has gone down in value and use the funds to buy one that is promising, because we are unwilling to first take the loss.

We spend to lift our mood. Feeling emotional after reading a sad article in the news, or watching a TV tearjerker? Studies show that people who feel sad devalue what they own and buy more in order to fill that void⁴. Seemingly inconsequential events can impact investment decision-making.

Today is just like yesterday. Known as the recency effect, people tend to focus on the present and assume the future will look the same. The tech bubble of the 1990s is a good example of this effect – too many people assumed the strong market would last forever.

Blame it on the sunshine. Sometimes biology, as well as psychology, affects how we make decisions⁵. Take Kramer's research into sun, mood and financial decision-making. After a decade of tracking daylight hours in Canada and internationally, she finds that a move into darker fall and winter months leads to a lower mood, leading investors to make more conservative decisions.



How to keep your emotions in check when investing?

Fortunately, if you're working with an Investment Advisor, you have access to an experienced professional who can help you make disciplined investment decisions no matter how the markets are performing.

Here are a few tips for keeping calm and carrying on between visits.

Think long term. If you're investing for your retirement, and it's 10 or 20 or more years away, why get wrapped up in the fluctuations of the current market? Annual rebalancing is important, but getting drawn into daily fluctuations can entice you to sell too soon and too often.

Make it a habit. Investing shouldn't be a knee-jerk reaction to market changes or hot stock tips. It needs to be consistent. Review your investments regularly and stay in touch with your Investment Advisor so that you can maintain a proactive approach to achieving your investment goals.

Think twice before talking to friends. Or, at least, stop comparing investments. It's easy to feel envious when a friend, family member or colleague is bragging about a stock they own that has shot sky high. It's even easier to consider buying the same hot stock too. But remember, there's a good chance that by the time you've heard about it, the opportunity has passed.

It's always a good practice to connect with us regularly to discuss your financial goals and to make sure your investment decisions are aligned with your investment strategy. As always, if you have any questions about your accounts or any of the information contained in this newsletter, please contact us.

1 This is Your Portfolio on Winter: Seasonal Affective Disorder and Risk Aversion in Financial Decision Making; Lisa A. Kramer, J.M. Weber; Social Psychological and Personality Science; Issue: 3(2); 2012; Pages: 193-199

2 Investment Behavior and the Negative Side of Emotion By Baba Shiv, George Loewenstein, Antoine Bechara, Hanna Damasio, Antonio R. Damasio Psychological Science. 2005, Vol. 16, Issue 6, Pages 435-439

3,4 Emotional Nuances Can Impact Investments (March 22, 2012), <http://www.advisor.ca/my-practice/emotional-nuances-can-impact-investments-74547>

5 This is Your Portfolio on Winter: Seasonal Affective Disorder and Risk Aversion in Financial Decision Making; Lisa A. Kramer, J.M. Weber; Social Psychological and Personality Science; Issue: 3(2); 2012; Pages: 193-199

5 proven tips for preventing the winter blues

It's that time of year again when freezing temperatures, gloomy skies and short days can heavily affect our moods and leave us with a case of the "winter blues." For some, it's a condition known as Seasonal Affective Disorder, but for most, the winter blues are simply a mild yet recurring feeling of glum.

Luckily, with a few simple lifestyle changes, you can boost your resistance to the winter blues, or even stave them off completely.

1. Fill up on fresh, healthy food

When the cold weather hits, our bodies start craving high-calorie foods and carbohydrates like potatoes and pasta. A University of Georgia study revealed that this leads to us





consuming an extra 200 calories per day during winter¹. It would take a 160lb person 40 minutes of fast walking to burn off 200 calories².

A super-charged appetite makes it easy to put on extra pounds, and if you're already feeling low, this may only add to your winter woes. Try planning your meals well in advance, to improve dietary discipline. Tackle your cravings before they strike by filling up on plenty of fresh fruit and vegetables.

2. Get moving and stay active

Exercise relieves stress and anxiety, both of which amplify the effects of the winter blues. And if you think you're too busy or not fit enough to enjoy the benefits of exercise, think again! A Harvard University study found that simply walking for 35 minutes a day, five times a week, improves symptoms of mild to moderate depression³.

3. Enjoy quality time with family and friends

When it's frigid outside, it can be tough to leave the warm comfort of home. The amount of time we spend socializing can plummet with the temperature. However, numerous studies^{4,5} have shown that socializing significantly increases our overall happiness. Motivate yourself by making regular plans to see family and friends. Better yet, pick activities that get you outdoors too (another proven happiness-booster!)⁶.

4. Discover the benefits of light therapy

The Canadian Mental Health Association reports that 60 to 80 per cent of people suffering from the winter blues find substantial relief with light therapy⁷. Light therapy involves sitting or working near a device that emits a bright light, similar to natural outdoor light. It's believed that light therapy aids in regulating the body's circadian rhythms. This can improve your quality of sleep and increase alertness during the day.

5. Plan your next vacation (and always be planning your next vacation)

In 2010, a group of Dutch researchers set out to measure how vacations affect happiness. They discovered that anticipation of an upcoming getaway has a powerful, positive effect on our mood, and vacations do more to increase happiness before a trip than after⁸. On average, the effect increases our overall level of happiness for eight weeks! The takeaway? Start planning your next vacation today!

Putting it all into action

While not everyone can avoid winter, we can all take steps to avoid the winter blues. Follow these tips and make the cold months a time to be enjoyed, not endured. With just a few simple lifestyle changes, you'll reach springtime feeling healthier and happier than ever.

1 de Castro JM (1991). Seasonal rhythms of human nutrient intake and meal pattern. *Physiology and Behaviour*. July 1991; 50(1):243-8.

2 Mayo Clinic, Exercise for weight loss: Calories burned in 1 hour. (Retrieved Jan-22-2015). <http://www.mayoclinic.org/healthy-lifestyle/weight-loss/in-depth/exercise/art-20050999>

3 Harvard Medical School, Exercise and Depression. (Retrieved Jan-22-2015). <http://www.health.harvard.edu/newsweek/Exercise-and-Depression-report-excerpt.htm>

4 Robinson J and Martin, S (2008). What Do Happy People Do? *Social Indicators Research* December 2008, Volume 89, Issue 3, pp 565-571

5 Csikszentmihalyi M and Hunter J, (2003). Happiness in Everyday Life: The Uses of Experience Sampling. *Journal of Happiness Studies*. June 2003, Volume 4, Issue 2, pp 185-199

6 Mayo Clinic, Season Affective Disorder, Lifestyle and Home Remedies. (Retrieved Jan-22-2015). <http://www.mayoclinic.org/diseases-conditions/seasonal-affective-disorder/basics/lifestyle-home-remedies/con-20021047>

7 Canadian Mental Health Association, British Columbia Division, 2012. Season Affective Disorder, section: What can I do about it? (Retrieved Jan-22-2015). <https://www.cmha.bc.ca/get-informed/mental-health-information/sad#F>

8 Nawijn J, Marchand MA, Veenhoven R, Vingerhoets AJ. (2010). Vacationers Happier, but Most not Happier After a Holiday, *Applied Research in Quality of Life*. March 2010, Volume 5, Issue 1, pp 35-47.