PRIME CAPITAL
INVESTMENT ADVISORS

Emotional Investing

The Market Roller Coaster Between Fear and Greed

Prepare yourself because the following statistics are shocking! According to GoBankingRates, 1 in 5 Americans make financial decisions around emotion[1] and 34 percent of Gen Z learns about personal finance through TikTok and YouTube.[2] Why are these stats important? Well because, in general, the two biggest emotions people act on when they invest in the stock market are fear and greed. Fear will keep you out of the market when you should be in. Greed will put you in the market when you should be out. Investing based on these two emotions is the main reason why so many people are buying at market tops and selling at market bottoms.[3] It's hard to buy low and sell high when you're operating strictly on instinct with no strategy.

An emotion-driven investing style has no place in retirement. When you're younger, you can usually take more risk with your investment decisions. You have time to recover should your portfolio take a hit in a down market. However, as you get nearer to retirement, your runway of recovery is nearly gone as there are no more working years to replace bad investment decisions. All of this underscores why it is important to have a financial plan in place. Your plan will help you navigate volatile market conditions, avoid making emotional investment decisions and remain committed to your strategies.

Disadvantages of Emotional Investing in Retirement: Potential Loss

As human beings, we each have our own biases. These biases can influence the decisions we face in every area of our daily lives including opportunities, investments, and even how we perceive people. Acting based on bias can be positive and helpful – like choosing to only eat foods that are considered healthy. However, biases are often based on stereotypes, rather than validated knowledge of an individual or circumstance. If you're emotionally invested in a position, it's more difficult for you to analyze that investment objectively. In other words, you may fall victim to your own confirmation bias, which is the brain's tendency to search for and focus on information that supports what someone already believes, while ignoring facts that go against those beliefs, despite their relevance.[4] It's easier for you to justify staying in it longer than you should because you feel that.....

"Oh, that company has such a great product. They're such a great company. There's no way that they're going to lose long-term. I've been invested with this company for years. There's no way they're a bad investment decision for me."

This type of thinking can cause you a lot of issues in retirement. **It can cost you real income. It can even cost your beneficiaries their inheritance.**

MagnifyMoney researchers surveyed over 1,100 investors to see if emotions played a role in their portfolios and investment decisions, and given how we have described emotional investing thus far, the results aren't surprising.

- **66%** of investors have regretted an impulsive or emotionally charged investing decision.[5]
- Consumers who manage their portfolios generally have a harder time keeping emotions out of investing. [5]
- **58%** percent of investors agree that their portfolio preforms better when emotions are left out of the equation.[5]

We don't want to overstate this - emotional investing is a dangerous strategy once you've taken your last paycheck. Your risk needs to be managed more effectively in retirement.

The Advantages of Logical Investing: Maximizing Gain

If you invest mathematically as opposed to emotionally, the result is the potential for maximizing your gains and living a stress-free retirement. Just because you invest mathematically doesn't mean you need to neglect your emotions entirely. Investors can use their emotional intelligence to identify and recognize feelings that arise from their investment decisions while also using research and information to create a productive strategy. This approach will accommodate both maximizing potential gains and feeling confident about your long-term investment strategy.

A mathematical approach means you are strictly looking at investing based on the best earning potential that could maximize your retirement income. There are many people who have an unhealthy relationship with their money, stocks and portfolio. They check their investments daily, hourly, every couple of minutes to see how the market has responded, how it's turned their assets up or down. And on the other end of the spectrum, some people check out completely. If they don't look at it, they won't have to acknowledge what they may have lost.

Yes, you will be slow and steady in the race. You're not going to have those huge gains or windfalls (but people rarely do anyway). Instead, you could have more consistency in your returns over time. It will be more like driving a sensible sedan versus racing a red convertible with the top down.

It's Your Choice

The first step for you is to understand the environment that you're operating in and avoid both euphoric and depressive investment traps. The stock market goes through periods of market correction more often than you'd think and for various reasons. Sometimes the changes are related to excessive market valuations after an extended bull market. In other cases, they may be due to external events that overwhelm other fundamental factors that traditionally drive stock market performance.[6] These market ups and downs are precisely why developing a financial plan and then revisiting that plan as your life changes is critically important to your sustained financial success. A financial plan is constructed specifically to take into account the ebbs and flows of the market so that you are better prepared along the way.

The Bottom Line

Investing without emotion is easier said than done. We as an organization understand that it is easy to be overwhelmed by today's markets and the economic environment. If you are an investor riding the emotional roller coaster, contact us today to make sense of the market and discuss your current and ongoing strategies.

Contact Us

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Footnotes

1 https://www.gobankingrates.com/money/financial-planning/financial-survey-1-in-5-americans-make-financial-decisions-around-emotion-why-thats-bad-and-how-to-stop/

2 https://www.gobankingrates.com/money/financial-planning/34-percent-gen-z-learning-personal-finance-from-tiktok-youtube-survey-finds/

3 https://www.investopedia.com/articles/basics/10/how-to-avoid-emotional-investing.asp#:~:text=Investing%20based%20on%20emotion%20(greed,suboptimal%20decisions%20based%20on%20emotion

4 https://www.psychologytoday.com/us/basics/bias#biases-and-cognitive-errors

5 https://www.prnewswire.com/news-releases/66-of-investors-regret-impulsive-or-emotional-investing-decisions-while-32-admit-trading-while-drunk-301351321.html

6 https://www.usbank.com/investing/financial-perspectives/market-news/is-a-market-correction-coming.html