

Emerald Connect | Emotion Based Investing

Hi, I'm Casey Frye.

And I'm Jerod Wurm.

We want to take a few moments today to talk about the hazards of emotion based investing.

Although most investors would say they're looking to buy low and sell high, the truth is as equity markets rise and fall and rise again, absent of a methodical plan and an approach investors can easily get caught up in the trap of emotional investing.

It's also true that checking long term investments on a daily basis or giving audience to short term prognosticators can really fan the flames of emotion based investing.

It can be a nauseating roller coaster of poor decisions that drive investors to buy high and sell low. It's actually a dreadful ride and it looks a little bit like this. First optimism. Things look intriguing, maybe there's some opportunity here. Excitement. I don't want to miss out. Thrill. I want more. This is amazing. And then there's euphoria. I'm brilliant. I'm going to be so rich.

This actually represent a point of potentially greater financial risk. I can't recount the number of times people have called at this point. The point of tremendous stock market appreciation to see if they should either get in or add more to their stock allocation. We see people select their 401K investment in a similar way. They look at the best performer over the last 12 months and figure that's the one to add money to. It's almost predictable. Imagine buying a car the same way. This weekend only, 20% up.

Moving on with this nightmare, Here comes the anxiety. The market drops a bit. Just a minor setback but I'm looking long term. Then here comes fear, that's OK. I've basically given back my profits and it maybe a little more. Here comes panic. "How could I have been so wrong?" They declare. Well, here comes despair. And the thought is, I'm losing everything. The in game produced by this fear, seems to be zero value, which gives way to selling.

This can represent a point of greater financial opportunity. And again, we can't tell you all of the times people have called at this point. The point of greater potential opportunity, to see if they should stop funding their 401K or hold off on making their IRA contribution. It's the only time American consumers are eager to forgo a sale.

Then there's the ever present newsletter dejour. Declaring the imminent end of the world with calamity and destruction. The likes of which no one has ever seen. While other newsletters are touting phenomenal returns that'll make you rich if you're in early before the secret gets out, greed and fear are both potent motivators and can easily be manipulated.

Long term, the equity markets tend to go up more than they go down. And they are not predictable in the short term.

In fact, attempting to predict when to get in and out, means you're trying to do the impossible twice.

In the absence of the much sought after crystal ball, we're forced to rely on a long term approach. The approach of diversification and planning, patience, time, periodic rebalancing to a suitable risk adjusted allocation, and capitalism. Warts and all.

At the end of the day, the capital markets are prices. The S&P 500 index is the fair market value of the largest 500 companies in America priced at an auction on a daily basis. If you like the price and you're a buyer, buy it. If you don't like the price you're being offered and you're a seller, wait for someone to offer you a better price.

In the same way that there's an ebb and a flow to breathing, inhaling and exhaling, there's an ebb and flow to capital markets as well. They tend to expand and contract and then expand again.

I've always liked this quote from Warren Buffett, "Be fearful when others are greedy and greedy when others are fearful."

If you're intrigued by our approach and you'd like to learn more, all of our contact information will be available at the conclusion of this video. And you can learn more by visiting our website.

We truly have the best job in the world. We get to lock arms with some of the most wonderful people on the planet and celebrate their successes along the way. We would welcome the opportunity to discuss your specific situation further, and unpack all of the ways we can help you with trustworthy advice and exceptional service. Until next time.

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