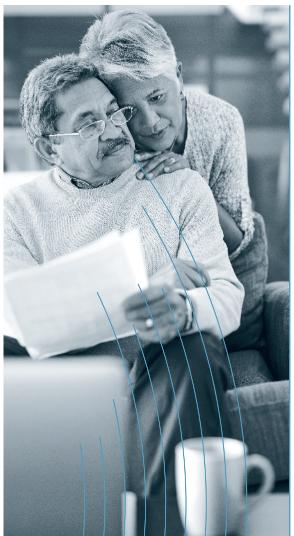
Emotional Investing: Five Ways to Ruin Your Portfolio



By Irene BUETTNER, CFP, CTFA
Senior Advisor Associate

INVESTORS' EMOTIONS OFTEN OVERPOWER THEIR ABILITY AND ACT RATIONALLY when they are under stress, whether they're excited about a market surge or panicking over a decline. It's called "emotional investing" and, buying or selling, it can wreak havoc on your investment portfolio. Taking a rational and realistic approach to investing during the most stressful of times is essential to preserving the integrity of your portfolio.

Let's look at five common investor emotions that can ruin a portfolio.

- **Greed.** It's natural to want to acquire as much wealth as possible in the shortest amount of time. But a "get-rich-quick" mentality makes it hard to maintain gains. Consider the internet-related tech boom of the late 1990s. Investors jumped to invest in virtually any business with a "dot-com" at the end of its name. Tech stocks became grossly overpriced, creating a bubble that burst in mid-2000, depressing the markets through 2001. Investors lost thousands. The dot.com boom and bust is but one example. More recently cryptocurrencies like Bitcoin and a variety of IPOs have curried favor as get-rich-quick investment schemes.

- **Fear.** Investors can be just as derailed by fear as greed. When stocks suffer large losses for a sustained period — or in periods of extreme volatility — investors can grow nervous and fearful. But fear can be as costly as greed. This played out in 2008 when stocks took a nearly 40 percent hit and investment portfolios lost more than a third of their value, but skittish investors took even bigger losses by dropping out of the equity markets in search of "less risky" investments, or even converted their investments to cash. They missed the quick recovery of 2009, and spooked investors who stayed on the sidelines have missed out on one of the longest and strongest market recoveries in history.

- **Too Conservative.** Fear can also make investors overly cautious and too conservative, curbing their chances of living the good life in their golden years. Because retirement can easily last more than 25 years, retirees must continuously grow their nest egg or face the risk of outliving those savings. Being too conservative not only keeps you from compounding your invested dollars but could leave you unable to keep up with inflation.

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- **Too Aggressive.** The gambling investor is particularly susceptible to the lure of "story stocks," companies with big ideas but few fundamentals to back up investors' hopes. They make impulsive buys based on hearsay or media reports that can be outdated, short-lived, or even based on rumors. These investors tend to display too great a confidence in the markets. They are risk takers with illusions — or delusions — of grandeur that can steal them from their investment goals and devastate their retirement hopes.

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- **Pride.** These investors are "do-it-myselfers." They sometimes think of themselves as the "smartest guys in the room." While they believe they are picking investments based on their rational analysis, they are typically responding emotionally to changes in market prices. They sell winning investments too soon and hold losing investments too long. Their overconfidence often leads them to underestimate their overall investment risks, which can lead to an unhappy ending. They tend to try to time the market, which is futile.

Avoiding emotional investing is sometimes easier said than done. But there are things you can do to avoid chasing unrealistic gains or overselling in panic. Understanding the risks associated with investing — and your own risk tolerance — can help you make more rational decisions.

Diversification and working with a trusted advisor can take the guesswork out of investment decisions and reduce the risk of poor timing. The data shows that following a well-defined investment strategy and staying the course through market volatility results in the best long-term performance returns.

Irene Buettner, CFP, CTFA

Senior Advisor Associate, HBKS® Wealth Advisors

Irene Buettner is an senior advisor associate and works with Greg Sorce in all aspects of his practice — primarily focusing on client service issues — in addition to working her own book of business. She began her financial services career as a cashier at Prudential Securities in 1998. In a few short years she became a registered customer service associate at Prudential and later at UBS Financial Services before joining the HBKS® team.