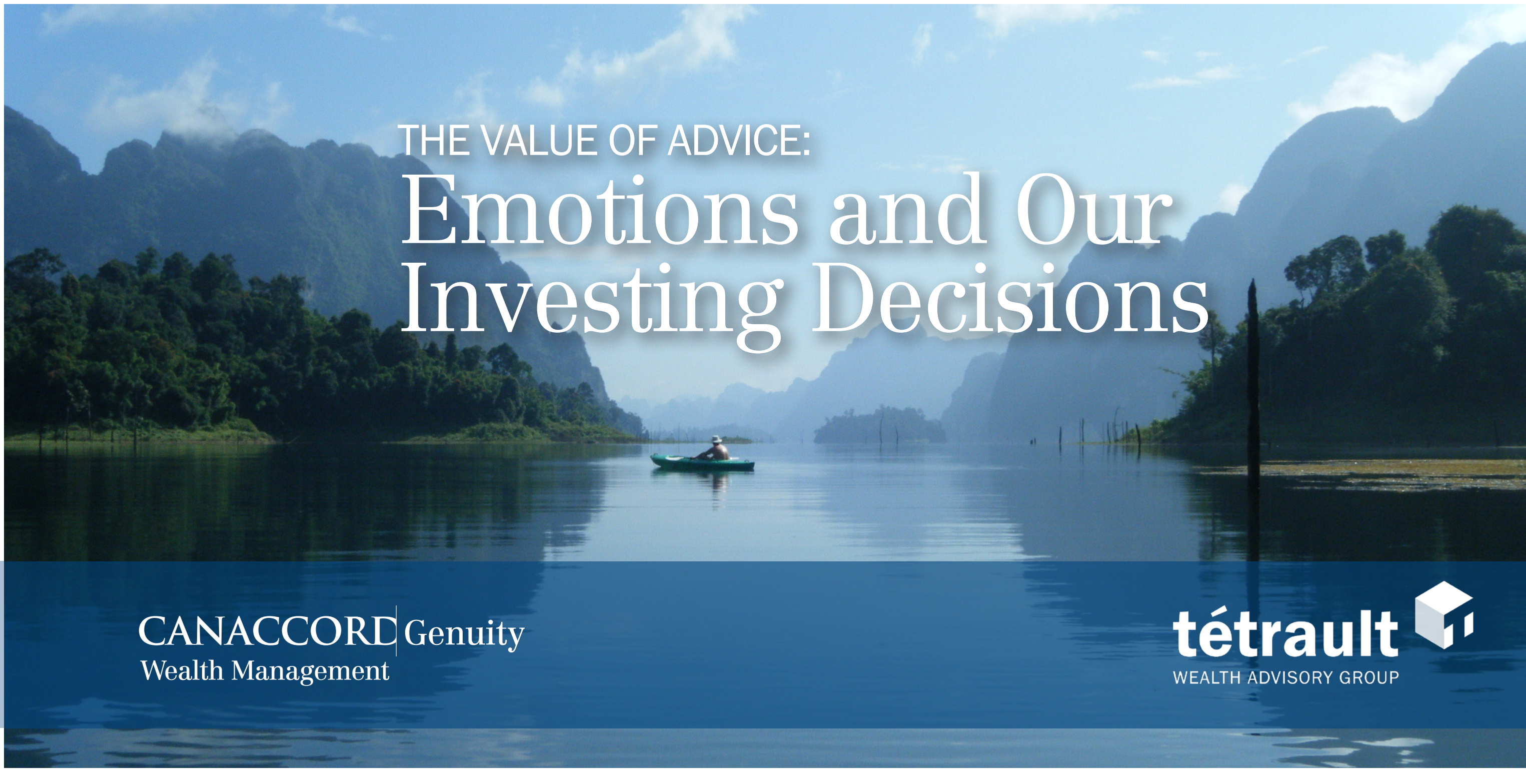
THE VALUE OF ADVICE:

# Emotions and Our Investing Decisions



CANACCORD Genuity Wealth Management

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It's no surprise that human emotions can often have an impact on investing. Understanding the psychology behind why we make certain decisions can provide some perspective as we pursue the task of wealth building.

Richard Thaler, a University of Chicago professor, is one of the pioneers of behavioural economics, a field that studies how emotional factors can affect economic decision making. Neuroeconomics explains that we are not biologically wired to make the best financial decisions because the part of our brain that tells us to act rationally can easily be overtaken by powerful emotional impulses. Thaler points out that people tend to be in one of two emotional states: hot or cold. Irrational decisions tend to be made when we are in our hot state. This may explain why we make certain choices: when we aren't hungry (cold state) we might choose a healthy salad. But once dinner rolls around and we are hungry (hot state), we may select a big bowl of pasta instead. We often overestimate the self-control that is necessary in a hot state.

Likewise, our brains can react the same way when we are investing. Some examples? We may be fixated on a particular sell-price target and refuse to sell a losing position — called anchoring — even though new information changes the target. Or, we may be led into herd behaviour, mimicking the actions of a larger group, even when we would not necessarily make the same decision on our own. This may be one reason why investors sometimes fall into the trap of buying high and selling low. Behavioural finance can also help to explain other peculiarities of human behaviour, such as why we may overlook the importance of saving or why we don't always put away enough for retirement, even though we know how important it is.

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How can we use this knowledge to improve our own investing ways? Being aware of our emotions can help to better regulate them. Those who study behavioural economics claim that many of the world's best investors have mastered the art of treating their own feelings as reverse indicators. Excitement becomes a cue that it's time to consider selling, while fear tells them it might be time to buy. Equally important, decisions should be made before entering into potentially emotional situations. This may include sticking to a financial plan during difficult times, refusing to succumb to emotions when the media gets heated or avoiding the urge to procrastinate when updating power of attorney or estate plan documents.

### How Investment Advisors Help

Human emotion can be one of the investor's worst enemies. According to one study that attempted to quantify the impact of human emotion, between 45 and 55 percent of an average investor's underperformance can be attributed to psychological factors.*

As advisors, one of our more important roles is to help remove the emotion from investing. We encourage a disciplined approach that emphasizes quality, patience and participation to serve investors over the longer term. We implement risk mitigation techniques to help support portfolios throughout any market period, which may include rebalancing to a certain asset mix, limiting the size of any one holding and maintaining quality criteria for assets.

**We are here to provide support and keep you on course, so that human emotion doesn't impact your investing ways.**

Source: *Dalbar, Quantitative Analysis of Investor Behaviour, 2013.

**Contact us today.**

**204-259-2859**
**robtetrault.com**

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