Prosperity for Life

NEWS

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Keeping Emotions Out of Investing

Financial Advisor Tells Investors to Stay Cool during Market Volatility

WICHITA, KS (September 6, 2007) – Increasingly financial advisors are hearing investors making the same requests evidenced by investors just a few years ago. As stock market performance fluctuates, these investors' expectations – and anxiety – are also increasing. In many cases, their requests are driven by short-term performance rather than understanding the investments or market cycles.

According to professional financial advisor, John Barton, it's not uncommon for financial advisors to hear requests from clients wanting the "biggest and the best" investment ideas and options. "When markets rise or fall, it seems many investors forget the time-proven principles of investing in favor of trying to achieve exceptional – and usually unsustainable – returns," says Barton.

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"I hate to throw a wet blanket over these individuals' euphoria when the stock market goes up again, but many simply allow their emotions to get the better of them, causing them to take more risks than they probably should," says Barton. "Investors felt an over-confidence toward the market just a few years ago and we now know how that ended – with many of them losing their shirts."

According to Dalbar Associates, the average returns of most investment portfolios are significantly less than market indexes. Failing to manage one's emotions is often at the root of Barton's current concern. "Individuals have a difficult time controlling their emotions when it comes to their money," he says. "Too many buy investments that have already experienced significant appreciation in hopes of cashing in on superior returns only to find the stock or investment sector falls out of favor. At that point they often sell, thereby incurring significant losses."

"While much of the public views financial advisors as a source for investment recommendations, a more important roll is to help investors manage their emotions and avoid making costly investment mistakes. This is not only true in down markets but also when market conditions roar upwards," says Barton.

While there are many time-tested principles of investing, Barton suggests four that should help investors avoid making irrational investment decisions.

Think Twice, Act Once

Realize investment performance is "relative." What may appear to be underperformance of certain investments may actually be a good thing. Because asset classes behave differently based on market cycles and economic conditions, diversifying between different groups will cause certain investments returns to appear more or less attractive at any point in time. Most experts agree that a portfolio where all assets are "moving in the same direction" is probably not sufficiently diversified and therefore subject to greater volatility and, in some cases, loss in value. "Exercise caution when making investment decisions. Understand the roll each investment plays in your overall strategy," says Barton.

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Get Real!

Too many investors assume the only criteria for successful investing is to achieve exceptional returns year in and year out. Not only is this unrealistic but possibly unnecessary. A better approach may be to determine what level of return is necessary for you to achieve your goals rather than always "swinging for the fences." While this approach may not provide for stimulating "cock-tail" chatter, it may result in more consistent portfolio performance and less jangled nerves.

Know the Source

Too many investors base investment decisions on "questionable" sources. "When it comes to making recommendations, too often I find myself competing with my client's brother-in-law or favorite investment magazine. While these can sometimes be viable sources of information, they are not only 'suspect' but also poorly understood. Investors will do themselves a huge favor by doing their own research when making investment decisions rather than emulating what others are doing," says Barton.

Be Advised

Researching investments is often time consuming, and the results can be misunderstood. "I'm often amazed by the results of non-clients' efforts at portfolio construction and management. Too often their portfolios are under-diversified and inefficient. In other words, they are either taking too much or too little risk to achieve current returns," says Barton. When it comes to making well-informed decisions about investments, an experienced financial advisor can help you manage your emotions and aim for returns consistent with your goals.

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NOTE:
When you need a knowledgeable professional to speak on complicated financial topics in an easy-to-understand manner, please call John Barton.