MORNINGSTAR®

How to become an emotionally intelligent investor

When markets are going crazy and you're hearing lots of noise in the media, it's hard to stand your ground.

After all, as humans, we're hard-wired to avoid the pain of loss. And, if everyone else is reacting to the noise, there must be some truth to it, right?

But in fact, investors often shoot themselves in the foot when trying to 'time the market' because:

- When the market is going up – **we're greedy**. We want in on the next best thing. But we can often end up paying too much.
- When the market is going down – **we're scared**. We're panicking – **we want out**. We end up selling for less than we bought, cementing our losses and missing out on the opportunity to take advantage of any future upswings and corrections.

In today's hyper-connected world, it's increasingly hard to tune out the noise. So, having a trusted investment partner by your side, who understands your values and goals, and can help you avoid costly 'emotionally-charged' decisions is a very smart move.

Are you stopping yourself from reaching investment success?

As humans, we're naturally drawn to things that others like and find valuable. This can lead to being impulsive because we don't want to miss out. This is also known as "FOMO" – or the fear of missing out.

- But, supply and demand dictates that if demand is high the price goes up, causing us to buy at inflated prices, paying too much.
- If we chase returns because we're tempted by recent news and hot tips, we can veer off course from our ultimate goals.

We also have a tendency to give in to fear (whether real or perceived).

- The pain of losing money outweighs the pain of missing out on potential gains.
- This can often cause us to sell when the market is going down and lock in our losses.

Also, the way we've been taught to measure investment success is often by comparing the performance of our investments to arbitrary benchmarks like the 'ASX 200' Index or even other people's investment performance.

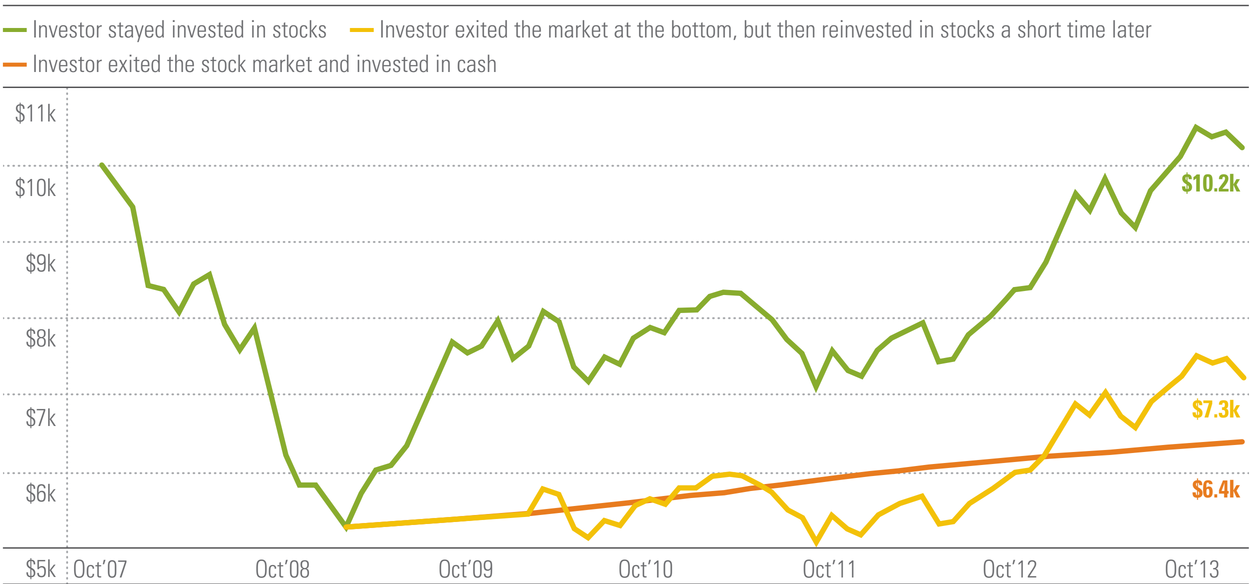
- The only true measure of investment success should be based on our own goals and whether we're achieving them.

The significant cost of acting on emotions^

What would you do?

In October 2008, the market hit rock bottom. Many investors panicked and sold, locking-in their losses. Many who acted on emotion mainly moved their money into cash or tried to time the market by reinvesting into the stock market a short-time later.

However, as illustrated below, those who stayed the course and had the foresight to take advantage of high-quality assets on sale, during the worst financial crisis of our time, ultimately benefited the most from the inevitable market upswing.



Time to flip your thinking on its head

When this happens	You want to	You should
You've been given a hot tip from a friend and they are bragging about how much money they have made.	Buy up immediately! But, if you've been given the hot tip – it's probably too late. Prices are likely high and overvalued.	Resist the urge. Remember – smart investors don't chase returns, they chase value and investments that directly fit their goals and strategy.
You've read a report that the market has crashed. Huge losses everywhere.	Sell. Get out. You don't want to lose more money.	Hold. You're investing for the long term. In fact, as counterintuitive as it may seem, now could be the time to discuss with your adviser how to take advantage of quality investments that are currently on sale (i.e. buy low).
There's been a lot of media coverage about a new type of investment – and you want to know why you're not in on it.	Call your adviser and demand for this new investment to be included in your portfolio, so you can make more money.	Don't act on impulse or 'FOMO'. Smart investors stick to their game plan, ignore the noise and hype about any investment – and spend the time to do research with their adviser to assess if it fits their goals and portfolio strategy.
You're positive the market is going to: A: Crash B: Recover	Call your adviser saying you've got a good/bad feeling about the markets.	Remain invested in a well diversified, valuation-driven portfolio. This has the flexibility to be defensively positioned when markets are overheated while being able to take advantage of opportunities that may arise. Stay your investment course – sell when overvalued and buy when undervalued.

Being an emotionally intelligent investor involves:

- ✓ Tuning out irrelevant information and noise
- ✓ Resisting the urge to follow the herd (crowd) and be willing to stand alone
- ✓ Having the strength to stay the course and stick to the plan

The Emotionally Intelligent Investor's Mantra

Note: read over and over again!

1. I'm clear on why I'm investing in the first place and what my goals are.
2. I invest to secure my future, not to access short-term gains or avoid short-term losses.
3. I have a plan and will stay true to my investment strategy and agreed timeline.
4. I ignore the noise because I make my investment decisions independently and am not afraid to go against the crowd.
5. I'm wary of 'popular' investments because the prices are likely to be inflated and are not good value for money.
6. I diversify so that I'm not left exposed and reliant on any one thing to grow my wealth.
7. I am fearful when others are greedy and greedy when others are fearful.
8. Often the best investments are those that are out of favour due to temporary but recoverable issues.
9. I'm open to a bargain. When quality assets are on sale, I will consider buying because research has found the value in it.
10. I partner with a trusted adviser to help me stay the course.

Talk to your adviser

Your financial adviser is there to support you, keep you focused on your goals and help you make emotionally smart investment decisions.

^The market is represented by the S&P/ASX 200 index, which is an unmanaged group of securities and considered to be representative of the Australian stock market in general. Cash is represented by the UBS Bank 0+ Years index. An investment cannot be made directly in an index. The data assumes reinvestment of income and does not account for taxes or transaction costs.