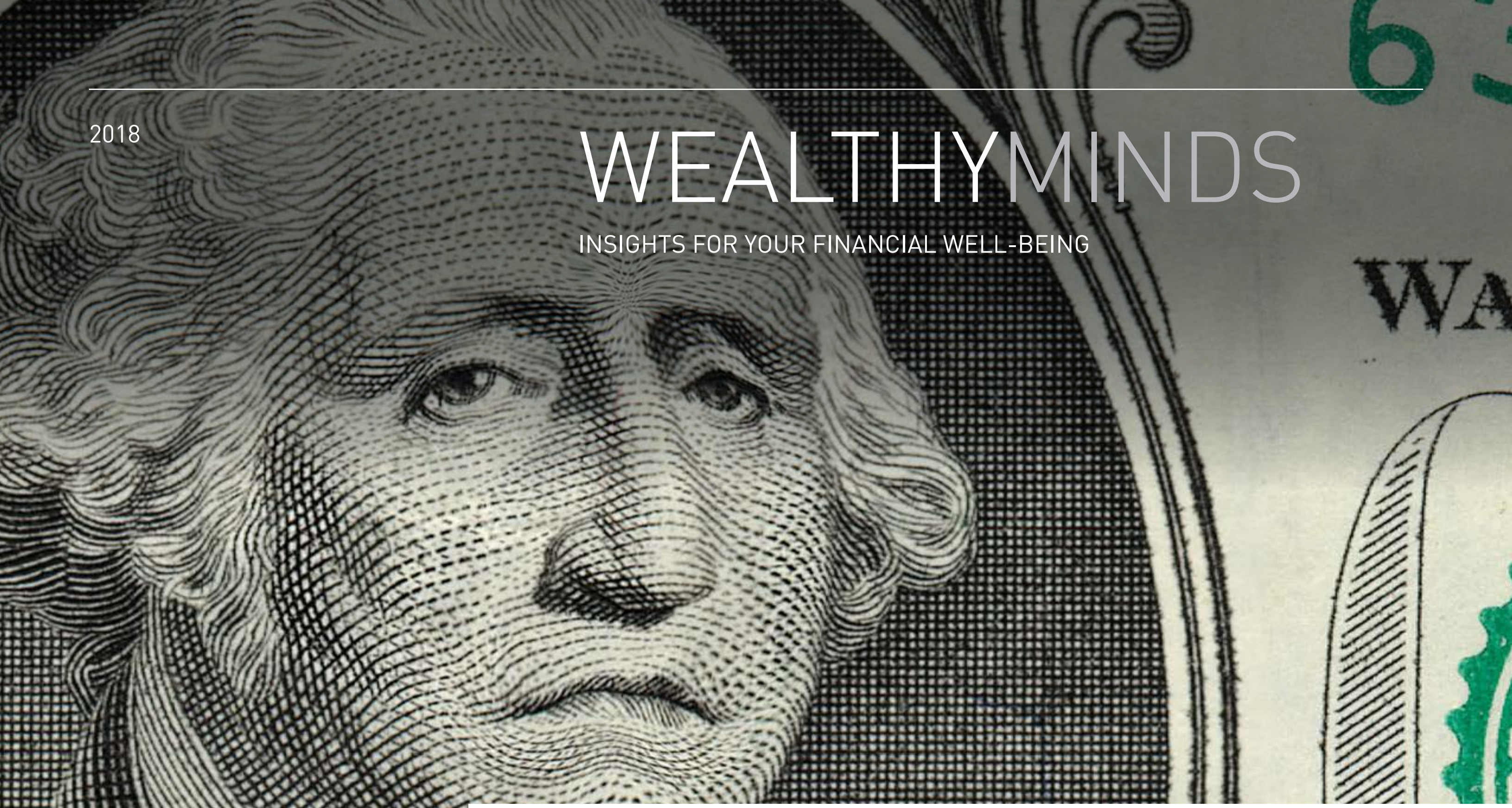


2018

WEALTHYMINDS

INSIGHTS FOR YOUR FINANCIAL WELL-BEING

THE IMPACT OF EMOTIONS ON INVESTING: WHAT'S YOUR MOOD GOT TO DO WITH IT?

People's United Advisors®

THE IMPACT OF EMOTIONS ON INVESTING: WHAT'S YOUR MOOD GOT TO DO WITH IT?

AVOID THE ROLLERCOASTER

The investing experience is not just emotional– **it's often wracked with the particular emotions that lead us to the exact wrong action at the exact wrong time**.

It's seemingly a black box issue: separating fact from emotion in the markets.

Headlines and data points, trends and directional changes all compete readily for our attention. Yet each of these really each fall into one of two categories: fact or emotion.

Emotional input, the "mood" of the market, tends to drive day-to-day market swings. But the facts, the real data on things like company earnings and GDP trajectory—those tend to be the engine behind long-term investment returns. As advisors, our job is to sort and reconcile these sometimes-countering inputs.

But there's another dimension to the markets: the investor experience. Each investor has their own experience with investing and the markets. And for most people, the experience has little to do with facts. Instead, it's often dominated by emotion.

The Rollercoaster of Investing

The investing experience is not just emotional—it's often wracked with the particular emotions that lead us to the exact wrong action at the exact wrong time. Here are four emotions that we often see:

- **Anxiety.** Today's investors have not one but two recent major market downturns in their memories: the Great Financial Crisis and the dot.com bust. It's not uncommon to have a recession every decade, but these two most recent were also particularly extreme. Pair these memories with today's constant news stream, another anxiety inducer, and it makes sense that anxiety is prevalent.

  Pitfall: *Anxiety tends to make investors too quick to sell investments, or to invest more conservatively than their financial condition otherwise warrants.*

- **Overconfidence.** The flip side of that coin is that rising stock markets often lead to overconfidence. We're all prone to assume that whatever happened recently (like stocks going up) is also what's most likely to happen in the near future.

  Pitfall: *Overconfidence encourages investors to mistake good luck or good timing for skill, and to over-invest in recent winners.*

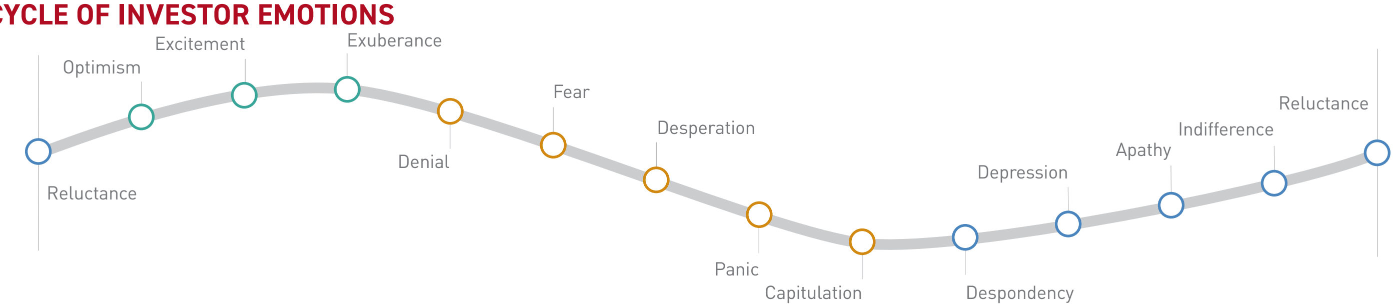
- **Uncertainty.** Uncertainty is an objective fact of investing—no one knows what exactly the future holds and how each investment will pan out. But when it is the dominant state of mind, its chief outcome is procrastination. We see this among investors who fail to set up their 401(k)s, but also among CEOs who delay company capital investments in the name of uncertainty.

  Pitfall: *Uncertainty can lead investors to stay too long on the sidelines, delaying investment action in the name of "waiting for the right time."*

CONTINUED

THE IMPACT OF EMOTIONS ON INVESTING: WHAT'S YOUR MOOD GOT TO DO WITH IT?

CYCLE OF INVESTOR EMOTIONS



- **Relative benchmarking:** One of the most prominent issues with investors is that they judge their results on a relative basis, rather than as an absolute. For instance, you might be happy with a 10% portfolio return, until you discover that a different investment returned 20%. In reality, even the best investment is likely to outperform some of the time and lag in other times, making relative comparisons moot.

  Pitfall: *Relative benchmarking can drive investors to sell underperforming investments at just the wrong time, while buying into recent outperformers that are about to lag.*

How an Advisor Can Help

There's considerable academic and industry research to suggest that working with an advisor can increase your likelihood of a good financial outcome. You might assume this is mainly due to investment "alpha"—that the advisor will direct you toward investments that outperform the market or some appointed benchmark.

But the possibility of investment alpha is only one driver, and probably not the dominant one, behind better outcomes. The more salient point is that an advisor can offer you objective guidance through an experience that is frequently emotional. An advisor's key role is to direct you to carefully consider your long-term goals and risk tolerance, and to take a holistic view of your wealth rather than treating each invested dollar equally. An advisor can also help you position for tactical opportunities, and to consider the long-term rather than the short-term. When it comes to our emotions, sometimes a third-party has a clearer view of reality than we have on our own.

People's United Advisors can help.

Please contact us at 1.800.772.8778 or visit peoples.com