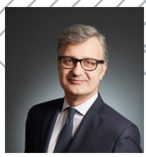

You have the business discipline – what about your investments?

Gino Ciavarella, CIM
Portfolio Manager

While your professional success is unquestionable, have you applied the same skill, discipline and perseverance to managing your investments?

The dark days of winter are a great time for reflection, so take a moment to look in the mirror.

Here's what I think you'll see. You've met every challenge in a very demanding profession – and you understand first hand the discipline needed for professional success. Yes, it takes a lot, but few professions are as rewarding. You've earned the respect of others – and a valued place in your community. In short, your success is well-deserved.

So, with that positive reflection in mind, here's my question: while your professional success is unquestionable, have you applied the same skill, discipline and perseverance to managing your investments?

There's a good chance you haven't, and I say that with good reason. It has nothing to do with your professional credentials and has everything to do with your human credentials.

Investing for success: How psychology works against us

Behavioural finance is the study of the influence of psychology on the behavior of investors. This area of study has shown that investors are not always rational, have limits to their self-control, and are influenced by their own biases. It's human nature – and those tendencies have likely influenced your investment decisions as well.

Take our aversion to losses. The Nobel Prize winning research of psychologists Daniel Kahneman and Amos Tversky showed that the pain people feel from a loss is about twice as strong as the pleasure felt from an equivalent experience of gain. It's a key reason why many people take emotional actions after a loss – such as exiting equity markets entirely – that are contrary to their long-term investment goals.

In his book, Finance for Normal People: How Investors and Markets Behave, Professor Meir Statman sets out the following description of people as investors, based on his research on behavioural finance:

"We want more from our investments than the utilitarian benefits of wealth. We want the expressive and emotional benefits of hope for riches and freedom from the fear of poverty, nurturing our children and families, being true to our values, gaining high social status, playing games and winning, and more."

Whoa – there's clearly a lot more riding on our investment decisions than just seeking higher returns for lower risk. Is it any wonder that we might act emotionally or irrationally to certain investments or market events?

Get the expert, rational advice you need

Your route to investment success does not run through the minefield of emotion-based market timing, hot stock tips and suspect investment schemes. A successful roadmap is a fairly simple one: a financial plan, regular reviews, and an investment advisor to help you manage your decisions.

As Warren Buffet famously said:

"Investing success doesn't correlate with IQ.... what you need is the temperament to control urges that get others into trouble."

The current market in 2018 provides a great example. We've experienced new highs thanks to tax reform only to see it all unravel with a reiteration of rising interest rates by the Fed, slowing global GDP growth (including the world's second largest economy, China), trade wars over tariffs, collapsing emerging markets, and debt concerns in Italy and many other countries. There's been very little good news, and that makes many of us uncomfortable and tempted to take actions.

As those who "took action" in 2008 discovered after exiting the market, this can be a very bad decision. And that's where planning makes a difference. Those who have committed to a financial plan have "pre-agreed" on how they will act and react to a bear market. And rash decision-making is never part of that plan. Which begs the question – **how will you handle the next market downturn?**

This is a critical area in which our firm, Cumberland Private Wealth Management – can help. Don't let the lack of good advice and a disciplined investment strategy diminish your well-earned success. Today's markets remain challenging – a little planning and advice can go a long way to keeping you on track.

ARE YOU IN CONTROL?

- 41% of high net worth investors wish they had more self control over their investing decisions.
- Emotional trading can cost an investor about 20% in returns over a 10-year period.

Barclay's: Risk and Rules: The Role of Control in Financial Decision Making, 2011