**Cycle of Market Emotions**

Aug 08 2022

**Getting emotional about investments can easily lead to poor decisions** as investors fall prey to negative thoughts and fears. The chart below helps to illustrate the emotional aspects of investing.

The human **brain constantly searches for trends or patterns** in things, trying to make sense out of even random events and data. This essential life skill is not very helpful when it comes to investing.

Investment (stock) markets tend to follow random walks and therefore have **no predictable patterns**. The patterns and trends that investors think they see are only in their minds, not the data. Over the short and long term, investment prices are formed by investors reacting to new (often unpredictable) information making it impossible to accurately forecast before the fact.

**Many studies have clearly demonstrated that individual investors**, on average, tend to purchase shares near market highs and sell shares near market lows. This behavior is the reason why the returns that individual investors receive tend to be less than the aggregate returns reported by the funds.

Many observers attribute these results to the emotional reactions of individuals to the ups and downs of markets and corresponding prices.

**Rather than riding the emotional roller coaster illustrated below,** it makes more sense to develop a sound investment policy and stick with it. In times of uncertainty, a wise financial strategy can provide guidance and perspective.
[1]

## Questions about your personal financial strategy?

Contact our office! **[2]**

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