

Keeping Emotions Out of Investing: It's Like Déjà Vu All Over Again

Staying Cool in a Volatile Stock Market *By Jim Coleman*

Years ago, when asked to comment on the performance of home run legends Mickey Mantle and Roger Maris, New York Yankee catcher Yogi Berra was quoted as saying "It's like déjà vu all over again." Recent investor behavior has some financial advisors sharing this point of view when asked for investment recommendations.

Increasingly, financial advisors are hearing investors, many young and inexperienced, making the same requests evidenced by investors just a few years ago. As stock market performance fluctuates, these investors' expectations are also increasing. In too many cases, their requests are driven by short-term performance rather than understanding the investments or market cycles.

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.

No one wants 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. Investors felt an overconfidence 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 current concern for advisors. Individuals have a difficult time controlling their emotions when it comes to their money. 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.

While there are many time-tested principles of investing, here are 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 investment 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 role each investment plays in your overall strategy.

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 cocktail 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 advisors find themselves competing with someone'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.

Be Advised

Researching investments is often time consuming, and the results can be misunderstood. The efforts at portfolio construction and management by do-it-yourselfers can be frightening. 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. 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.

About Jim Coleman -- Jim Coleman has been in the financial services industry for over 20 years. He founded Coleman Financial Advisory Group, a Waterbury-based financial services firm, in 1990. He specializes in providing comprehensive financial planning, asset management and estate planning services.

Mr. Coleman received a Bachelor of Science degree from Northeastern University in Boston, with a double major in finance and marketing. He is an active member of the National Ethics Bureau, an organization dedicated to raising ethical standards within the financial industry. Coleman is also a member of the Financial Planning Association,

the largest organization of professionals dedicated to championing the financial planning process.

Coleman's passion is finding solutions to financial problems and further educating his clients and the community. Listeners in Connecticut rely on Coleman to deliver sound, accurate financial

advice as host of *All About Money*, a radio talk program. He writes a financial planning column this newspaper, and recently authored a book titled *Educated Investing: Your Guide to Surviving and Thriving in the Fast-Paced Global Markets of the 21st Century*.

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