



the well-th report

emotional investing

WITH ALEX MIELE



The Illusion of Control: Acknowledging and Managing the Emotions of Investing

Starting a career in wealth management in 2008 has the potential to shape an individual's entire outlook on the industry. That is just what it did for Alexandra J. Miele, CFP®, Managing Director and Partner with The Andriole Group, based in Madison, Connecticut. As an advisor witnessing some of the most volatile periods in recent history, Alex has shaped her career around taking the time to teach her clients the importance of identifying and acknowledging one's emotional biases during volatile periods. As we continue to face the complexities of a global health crisis, today's COVID-19 environment seems to be particularly conducive to emotionally charged decision making. Even seasoned investors may be prone to making significant, emotionally charged changes that could haunt their financial situations for years to come. Fortunately, there are ways both advisors and clients can recognize when emotions are beginning to drive decision making before potentially jeopardizing carefully constructed long-term financial plans.

The first step in Alex's process is ensuring her clients and prospective clients understand how human nature may affect otherwise rational decision-making.

"As human beings, we must accept the reality that we may not be able to plan for someone's financial future solely based on draconian mathematical calculations," she explains. "We each have emotional biases surrounding money that we have either been taught or have developed over time that may cloud our decision-making and ultimately, our long-term financial success."

No One Is Immune

When Alex was starting out in 2008 and witnessed the market meltdown, she saw firsthand how some clients hurt their long-term financial picture by making drastic decisions about their investments.

"During periods of crisis and uncertainty, even my most intelligent clients can throw out every rational investment lesson we have discussed during periods of normalcy," Alex says. However, when she encounters a client letting their emotions get the best of them, Alex adds, "I try to slow everything down,



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taking the issue step by step so that I can understand some of the human biases that may be tugging at a client's heartstrings."

Alex shares that she has one client who she has worked with for over a decade who was easily able to withstand the market volatility of the 2008-2009 financial crisis, the 2011 Flash Crash, and the December 2018 market drop – all without any concerns. However, as COVID revved up, Alex's client fell into a full-fledged panic, ready to liquidate everything. Knowing this was not this client's usual

behavior, she pressed the client to meet via Zoom to find out more about what was going on. During an emotional conversation, Alex learned that the client's daughter, in her 40's, had just been diagnosed with a terminal illness and was going to be financially dependent on her mother, due to lack of benefits through her employer.

As Alex recalls, "It wasn't about the markets, it wasn't about what was being said in the headlines, it was about a situation close to her that had radically changed her financial reality. I had to ask myself, 'How do we address this immediate and, traumatic change in her life, with a backdrop of media chaos amidst a global health crisis?' She's in her 80s and is scared for her daughter."

As Alex talked through the situation with her client, they decided to make marginal changes to reduce risk in the client's portfolio to accommodate the very real potential need for additional cash withdrawals in the coming year. The client was reassured; now several months later in a recovering market, she is incredibly thankful that she didn't lose hundreds of thousands of dollars by letting emotions get the best of her.

What is usually at the heart of most emotionally-charged investing decisions – from Alex's experience – is a client dealing with some sort of trauma. "I tend to work with women who are dealing with finances on their own for the first time," she shares. "Whether

that is someone who has been through a divorce or an unexpected loss of a spouse, acknowledging that they're coming from a place of trauma and starting off really slow, in terms of risk-taking, is key to that client's long-term success."

According to the Allianz Reclaiming the Future study, when survey respondents were asked "Which do you fear the most: outliving your money in retirement, or death?" a surprising 61% of respondents said they were more scared of outliving their assets than they were of dying. Among people aged 44-49, that number climbed to 77%. As life expectancies have increased, pension plans have disappeared and Social Security benefits have dwindled, the weight of planning for one's financial future has felt heavier and heavier. Sprinkling a global or national crisis on top – like COVID-19 – can have an even greater impact on an individual's propensity to make emotionally-charged investment decisions.

There's Always a Silver Lining

In the context of the here and now amidst the COVID-19 pandemic, most of Alex's clients are ready for some stability day-to-day. But Alex has noticed how people's mindsets have changed due to the volatility stemming from the pandemic. Her clients have been re-prioritizing what is important to them. From clients who have chosen to expand their homes to ensure they have a safe place to gather with their whole family, to individuals who want to increase their philanthropic efforts when it comes to those most drastically affected by COVID-19 in their communities, many of Alex's clients are revisiting and redefining their core values.

"We have had several clients ask us to help facilitate exit strategies for vulnerable family members escaping COVID 'hot' states or nursing facilities." Alex says. "While the clients' investments are still a key part of the conversation, the discussion quickly moves to how our clients are going to keep their families and communities safe through this tumultuous and unprecedented time." And in the context of behavioral investing, and strong relationships – it's important for advisors to be there for it all.

DID YOU KNOW

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EMOTION VS. REASON

Step 1.

Acknowledge your emotional state of being separate from your finances

- Have you had a change in role? Earner to caregiver?
- Have you had a change in expenses?
- Have you had a change in income? Job loss or income reduction?

Step 2.

Recognize your personal financial pain points

- Assess your liquidity risk. Do you have enough cash?
- Assess your market risk. How much might your investments fall?
- Assess your inflation risk. Can you live the way you live today 20 years from now?

Step 3.

Identify a source of truth

- Select and evaluate your financial team
- Identify your trusted friends and family members
- Trust your circle!

How You Can Handle Emotional Investing

One of legendary investor Benjamin Graham's tenants of investing states "the investor who permits himself to be stampeded or unduly worried by unjustified market declines in his holdings is perversely transforming his basic advantage into a basic disadvantage. That man would be better off if his stocks had no market quotation at all, for he would then be spared the mental anguish caused by other persons' mistakes of judgment." This is the thinking behind the oft-given advice to not check your 401k on a daily basis, when retirement is years away. However, in our world of unlimited real time data transmission, this advice can be far more difficult to adhere to than during the time of Graham's writings. If you are an investor and you are finding yourself constantly feeling anxious about the ups and downs of the market, Alex advises not to wait until your situation is so overwhelming that it feels like you have no choice but to take drastic measures. If there is something bothering, you - even if it feels small - a trusted advisor will always take the time to listen.

You should look to work with an advisor with whom you feel comfortable having these tough conversations and be confident in them hearing you and helping you through tough times.

the key in these discussions is to try to focus in on what the facts are – not conjecture, not what-ifs. Of course emotions are tied up in financial decisions when they relate to family and "life", but having those conversations that get to the root of the worry help keep long-term financial plans on track.

"For many of us in this industry, our clients are more than just clients," Alex says. "They are part of our families, and when the world feels like it is crumbling around us, we need them to understand they can trust us with the intricacies – and sometimes difficult aspects – of their lives."

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