my money **At a Glance**

Helping You Understand Financial Planning and Investments

Are you letting your emotions drive your investment decisions?

At some point, we've all made a spontaneous, emotional decision that we later regret. Maybe it was dancing on the table at the office party or sneaking a spin on your son's skateboard.

While this slip in judgment may have bruised your ego or elbow, hasty, emotional investment decisions can have negative, long-term consequences.

Financial experts note that, while investors should focus on making logical, careful decisions that support a long-term goal like retirement, a person's personality type or emotions can cloud their investment decisions, leading to choices that are not in their best interests.

For example, when markets turn bad – which they are prone to do eventually – some investors might sell their investments at a low point, incurring losses. Feeling burned by the markets, many of them re-invest in seemingly less risky assets that produce lower rates of return, thus reducing their portfolio's future growth potential.

What can we learn from our behaviour?

To better understand investor habits, a number of economists have pursued a psychology-based study of market performance, known as behavioural finance. Their theories suggest that, while most market predictions are based on the assumption of rational investors, in fact investors are highly susceptible to emotional factors that influence their judgment.

One example is the Lemming Effect. Investors make the mistake of chasing performance, by buying the hottest investment – often based on a tip from a non-expert – without realizing that past performance is no guarantee of future returns. Thus, like the lemming, a rodent known for fatal mass migrations, investors are disappointed when their investment – bought with the "herd" at its peak – fails to achieve its promised returns.

Emotional and personal tendencies can also account for investors who avoid decision-making in times of uncertainty. Confused by news of volatile markets and contradictory forecasts from financial experts, they behave like ostriches and hide from the chaos around them.

The result: they might allow their retirement contributions to pile up in a stable, but low-earning money market mutual fund. With life's hectic pace, it's easy to ignore the issue rather than taking the time to wisely decide how to allocate the funds among investments that match one's needs. Unfortunately, making a "non-decision" to choose the seemingly safest path could ultimately reduce – not improve – their financial security in retirement.

Relax, self-awareness is half the battle

So what to do if your emotions rule your investment decisions? The first step to recovery is to become self aware and pledge to change. Start by thinking about your own personality type. Are you prone to impulse shopping, even when you shouldn't? Do you cheat on your diet at stressful moments?

As an investor, do you worry about your retirement savings without rationally reviewing them to make careful, thoughtful decisions? Do you grow anxious when you hear unsettling financial news, or have you made a rushed investment decision based on advice from a non-expert? These signs suggest you may let your emotions trump your logical side.

Step one: make a plan

The best way to avoid irrational choices is to have a well thought-out personal plan. Investors should work with their financial institution or a qualified advisor to develop an investment plan that charts their personal and financial goals. As part of the planning stage, you should also carefully and honestly consider issues like your true comfort level with risk and any challenges with sticking to the plan.

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Tools to help

Convenient online resources are available on Sun Life Financial's Plan Member Services website, **www.sunlife.ca/member**, to help you perform your "check-up."

After you sign in using your access ID and password, you can use the asset allocation tool, the **Investment risk profiler**, to determine your investment risk tolerance. Under the **Resource centre** drop-down menu, select **my money tools**, followed by **Continue**.

By entering your current income, additional savings, and investment risk tolerance, the **Retirement planner** can help you create a solid financial plan. Simply select **Retirement planner** under the **Resource centre** drop-down menu.

Are you an emotional investor?

Acting emotionally can hurt your nest egg, so remember these tips:

- **Create a financial plan** that charts your long-term goals.
- **Be honest with yourself and your advisor** when discussing your tolerance for risk.
- **Regularly review your plan and portfolio** to assess your progress, not just in crisis.
- **Don't sweat the small stuff:** Try to ignore daily market ups and downs and focus on the big picture of maintaining a healthy, long-term portfolio.
- **Don't act in haste:** Carefully consider your investment options before buying or selling anything.
- **Consider whether you need to consult an investment advisor** to get a logical, long-term perspective on your portfolio.

A well-constructed plan should address these issues and provide a clear road map that identifies your objectives, the amount you should be contributing regularly, and the types of investments that complement your goals.

Depending on your goals, investing timeline, and risk profile, a diversified, balanced portfolio may be the right option. Based on the concept of "not putting all your eggs in one basket," a balanced portfolio helps the investor balance risk and return by investing in a combination of equities and fixed income securities, perhaps spread among different world markets.

Step two: review your plan and portfolio

With an investment plan in your pocket, it's crucial that you stick with it, knowing that saving for retirement is a gradual, long-term process that requires discipline to see it through.

At the same time, don't become complacent. Just as a driver shouldn't put complete faith in their car's cruise control, nor should you ignore the plan or assume that your savings are under control.

Wise investors revisit their plan at least once a year and compare it to their investment statements to ensure the two align. This is important, since life is not a straight path, but rather a journey with turns and surprises. You may find that your financial goals shift, or that changes in the economy or the financial markets require you to reconsider some of your assumptions.

Step three: consider the value of calm, qualified advice

With these tasks completed, you should feel relief that you are on the right track. But what to do if markets begin to churn and you start to feel jittery or your emotions bubble to the surface?

It's time to consider a call to a qualified financial advisor who can knowledgably explain what is happening in the financial markets, review your financial plan with you, and help make intelligent decisions about your portfolio. This third-party advice is invaluable, because a trained advisor has no emotional attachment to your money and can give you rationale counsel, when your own judgment may be cloudy.

Experts note that in most cases, an investor with a long-term time horizon and a sound investment plan shouldn't need to make portfolio changes in times of crisis, but an experienced financial advisor can help you decide for certain.

It can be done: through will power, a plan and advice

While it's never easy to curb our emotions, it's possible to ignore our negative impulses, whether that means skipping the dessert aisle, resisting the urge to try a skateboard stunt, or, most importantly, make thoughtful investment choices to build your retirement nest egg.

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