

FIGHTING YOUR EMOTIONS

March 2007

Imagine walking onto an elevator and when you reach to press the button you see two buttons – SOAR and PLUNGE. Would you decide to stay on or get off and take the stairs? The media loves to bombard us with lots of descriptive words and adjectives to grab headlines and your attention, which ultimately impacts your emotions.

The stock market continues to be volatile and has underperformed its long-term historical average returns so far this decade. But, what is important to remember during these times are those famous words, “past performance is not indicative of future returns.” The stock market is one of many vehicles that offer the opportunity to hopefully increase your net worth over time through making smart financial decisions. But to do so requires rational decision-making, especially during uncertain times. There are two (of many) facets about the stock market that must be understood to be successful over time:

- The stock market, at times, may be a discounting mechanism
- The old adage “buy low, sell high” is as relevant today as in years past

Stock market prices reflect investors’ feelings of optimism and pessimism regarding the future. As a discounting mechanism, it usually turns down when there is uncertainty about the future, and likewise, it usually turns up during periods of greater certainty and confidence about the future. Applying this concept to today’s market means today’s prices are currently reflecting all the uncertainty and worry in the marketplace. As those fears subside over time, the markets should recover, and if history is any gauge, they will likely recover before any conclusive data shows things are getting better.

If you are planning on purchasing something, clothes for instance, and your favorite clothing store announces a large sale event, do you find you spend more or less as a result of the lower prices? If you are like our family, you typically spend more. Not only do your dollars go farther, but emotionally you feel you are getting a good deal through those lower prices. But if that is the case, why is it that when the stock market has a “sale” and prices decline, investors tend to sell shares instead of buying more? While every investor fundamentally knows to “buy low” and “sell high,” why do so many fail to do it? Investors should apply the same logic to the market as they would to the clothing store – consider buying more! (Of course, this argument assumes you own quality investments that have the potential to recover during a subsequent market upturn, as not all investments will do so.)

While prices in the stock market may continue to decline before they ultimately recover, it is important to do your best to fight any fearful emotions. Instead of getting off the elevator and taking the stairs, consider instead going shopping while prices are on sale.

Jeffrey D. Link is a Financial Advisor with Stifel, Nicolaus & Company, Incorporated, member SIPC and New York Stock Exchange, and can be contacted in the Raleigh, North Carolina office at (888) 825-6400.