What Kind of Investor Are You? – Managing Market Volatility

Market volatility affects different investors in different ways. Identifying the type of investor you are and how you may react to market cycles may better help you separate good from bad decisions.

In the current economic environment, four distinct investor biases have emerged. See which profile most closely mirrors your own so you can take appropriate action.

Bias: The Snake Bite Effect

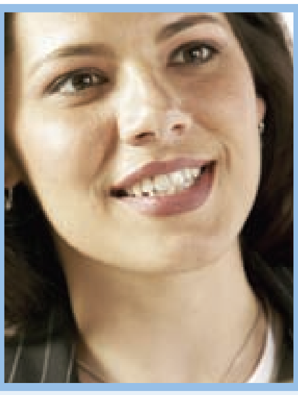
"The market is down; I can't afford further losses. Move me to cash!"

Morton has been an active investor with a moderately aggressive investment allocation for more than 30 years. In the late 90's he had substantial technology exposure and did not have the chance to sell before the bubble burst. For the last five years he has set his sights on retiring in 2010. The market volatility over the last year has caused him to experience the same feelings he had eight years ago. He recently spoke with his advisor and instructed him to move everything he had to cash. Morton refuses to reinvest any portion of his assets at this point.

Morton is demonstrating what is called **"The Snake Bite Effect".**

Action Steps:
- Consider your risk tolerance and your retirement goals.
- In light of the current markets, consider investments with a lower risk/return potential.
- Understand that equities have been one of the most efficient ways historically to create and preserve wealth.

Bias: Recency



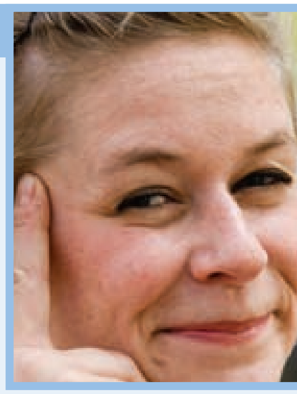
"Banks & Brokerage firms are going under, I need to sell everything I own with exposure to financials and buy something that is performing well."

In September 2008, as the government struggled to resolve the sub-prime crisis, Janice asked her Financial Advisor to liquidate any holdings that exposed her to the financial services industry. She saw the takeover of many industry leaders as a signal of a continuing crisis. Janice feels there is money to be made and is looking to make up her losses in asset classes that have done well recently.

Janice is demonstrating what is called the **"Recency Bias".**

Action Steps:
- Discuss investment options that fit your short- and long-term goals.
- Look for investments with a higher risk/return potential which will allow for greater accumulation and diversification.
- Understand that planning is more important than timing.

Bias: Mental Accounting



"The level of risk in my investments depends on what the money is used for."

Patricia has been diligently saving for retirement, which is more than 10 years away. She has her 401K, two IRA's, a cash account and a savings account. In her mind each account has its own purpose. Last month she reallocated her cash account in light of the current markets. She left her retirement accounts alone because those are meant to be long-term investments. With the recent market volatility Patricia is not sure if she is still on track to meet her retirement goals.

Patricia is demonstrating what is called **"Mental Accounting".**

Action Steps:
- Verify that your overall risk in all your investments is appropriate.
- Look at every account no matter what the purpose and make sure your investments align with your overall objectives.
- Remember that the market moves in cycles. Reviewing your long-term plan will help you withstand turbulence.

Bias: Overconfidence

"The markets are currently priced at very attractive levels. I want to move a large amount of cash in as I feel the tide is going to turn."

Kyle is an active investor who watches the markets daily. He also recently experienced a windfall while on vacation in Las Vegas. Convinced of the gambler's fallacy "luck runs in streaks", he decides to invest the winnings. He feels that securities are cheap and that his lucky streak will continue. Kyle calls his advisor and tells him he wants to move his windfall into the markets.

Kyle is demonstrating what is called **"Overconfidence".**

Action Steps:
- Discuss the benefits of diversification.
- Work to distinguish true bargains from those that are cheap for a reason.
- Remember that nobody sees the next bull market coming.

Regardless of where you fit in this spectrum, your **Financial Advisor** can help you get past the natural tendency to let emotion influence your decisions, and build your **investment plan** on a **solid foundation.**

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