

BEHAVIORAL & FINANCIAL INSIGHTS

The Allure of Pessimism

If you are an optimist like I am, you may be inclined to read no further. After all, why would someone who chooses to see the glass half-full want to dwell on negativity or pessimism? I urge you to read on.

As we enter the final stretch of the emotionally charged presidential campaign, we need to prepare ourselves for an avalanche of pessimism and the likely uptick in market volatility that tends to go hand-in-hand with such pervasive negativity. Election talking points seem to be more about slinging mud and emphasizing the negative than focusing on what we should be grateful for and painting a picture of future prosperity.

Why do politicians tend to focus so much on the negative? The bottom line is that pessimism is an effective communication tool. It results in a greater emotional response, which gets us to “tune in” and may even make information easier to recall. Since politicians want us to tune in and remember their message, it’s simply a means to *their* desired end.

Pessimism is particularly influential since it is often linked to a sense of urgency, and is further coupled with something to fear – i.e., “*XYZ must be changed right now or else something really bad is going to happen.*”

So, how do we rise above the negativity? There are two effective ways to help us avoid getting caught up in the pessimism and negativity that will undoubtedly grow between now and November 3rd: 1) Simple avoidance, and 2) Information filtration.

We can avoid the negativity by tuning it out, or better yet, simply turning it off. Taking a break from the talking heads, social media, and other forms of communication that can get you emotionally charged may not be easy, yet it’s an amazingly effective strategy.

Since getting “unplugged” may be particularly difficult as we’ve all become more technology-dependent, consciously filtering the incoming information is of the essence. Negativity and pessimism have the greatest impact in the short-term by eliciting an emotional response. Therefore, we can effectively filter out the noise by maintaining a long-term perspective. Detrimental policy changes may inadvertently be made in the short-term, but history has shown that adjustments will be made along the way in order to achieve long-term prosperity. Investors who focus on the long-term aren’t concerned where the market will be over the next few days, weeks, or even months – they are looking beyond that. By adjusting the timeframe in our focus, we can remain well-balanced and avoid the costly mis-step of “emotional investing”.

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