

BEHAVIORAL & FINANCIAL INSIGHTS

The Lure of Envy

The color green is attributed to many positive things in life. Green is often used as a symbol of prosperity and even represents life itself. But not all green is good. Being “green with envy” is a characteristic we should avoid like the plague.

Envy is a feeling of resentment aroused by another’s circumstances, good fortune, or outcomes. And it rears its ugly head frequently among participants in financial markets. It can creep up on any of us and can feel quite natural. But just because it may feel natural or like an innate part of who we are, that doesn’t mean it is beneficial.

In the past year there have been several stories of quick wealth that may make us envious. Supersized gains, especially among people who don’t necessarily know what they are doing, can tempt us to try to replicate such gains. We may regret our “boring” investment strategy and envision how much quicker we can reach our goals by purchasing high-flying, “sexy” securities. A common trigger to take action is “FOMO”: the **f**ear **o**f **m**issing **o**ut. When we imagine significant gains, dopamine receptors are activated, which makes us feel good – as if whatever we do will be right.

Check Envy at the Door

Envy, when not checked, often leads to unhappiness. It can influence risky behavior as we seek what others have achieved without giving adequate consideration to either the role of luck in the initial outcome or the probability that such luck will continue. We want it. We feel entitled to it. We are determined to get a piece of it.

The challenge is that there will always be someone, or some investment, that performs better than us. Hitting financial home runs and grand slams are exciting and activate many receptors in our brain. Building wealth through compounding is the equivalent of hitting financial singles and doubles...yawn-inducing.

Envy is shrouded in perpetual regret and disappointment. Sure, thinking of what “could be” may be exciting for a while. It may feel really good. But there is a cost to that feeling. Empirical evidence over decades shows that investors who chase what’s hot significantly underperform a more “boring” disciplined investment strategy.

Feelings such as envy, which are natural, make investing difficult. It’s one reason why patience and discipline are the greatest virtues an investor can develop. It may not be easy, but it is the best chance one has to achieve long-term financial goals.