

# BEHAVIORAL & FINANCIAL INSIGHTS

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## **Beware of the Costanza Investment Strategy**

Seinfeld fans love the irrationality and craziness of George Costanza; many of us can relate to some of his antics. While he may be quirky, he has given investors some great advice on how to be better investors. He didn't give any explicit advice, but he taught us about human behavior, and how our responses can help or hurt us as investors.

### **The Amygdala – “Fear Center”**

In season five, episode 19, George teaches us a lesson about how the amygdala works.

He is at a birthday party acting completely rationally, when he detects a fire. All of a sudden, he rushes for the door, knocking over an elderly lady and peeling a kid off the door so he can get out first.

We observe that when the amygdala activates, we may end up acting in a way we said we would never act. For investors, the amygdala is a powerful influence, persuading us to “sell low”. What defense will you employ the next time markets sell off significantly? After all, the amygdala is a natural biological response – and it's quite powerful.

### **Opposite George**

In season five, episode 22, George realizes that every instinct he has turns out to be wrong. Have you ever felt like that in investing? He then decides to do the very opposite of the initial thought or feeling that comes to him, and experiences great success.

I'm not suggesting we throw out every initial thought we have, but we can become better investors by analyzing prior mistakes.

### **The Takeaway – The greatest likelihood to achieve your goal is to trust your plan**

A large function of my role is to ensure that financial decisions are made thoughtfully and deliberately. This has been relatively easy over the last few years due to abnormally low volatility. The day will come when the market sells off significantly. On that day, we will be at the mercy of our amygdala and impulses that may influence us to make costly decisions.

That is why now is the time to think about your response plan. Clients of *The Private Client Group* can rest assured – they have a financial plan and a skillfully constructed investment portfolio. This is about ensuring your “behavioral plan” is well synched with these plans, to avoid a knee-jerk Costanza reaction when we have the next downturn.

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