

BEHAVIORAL & FINANCIAL INSIGHTS

The Power of Adaptation

The surreal lives we are all living at the moment led me to think of just how grateful I am for the power of adaptation — the change in behavior that allows us to become better suited for our current environment or situation. Humans have demonstrated time and time again just how skilled they are at adapting to an ever-changing world.

For many, the thought of change is often more daunting than the actual change itself. When we imagine a catastrophic event, such as becoming paralyzed, we imagine an unfulfilled life – no way can we envision ourselves being happy. Yet studies show that not only are many paraplegics happy, they also adapt to their “new normal” and find purpose in their lives. On the flip side, imagining we won the lottery can produce strong feelings of euphoria. However, with the passage of time, lottery winners are found to be no happier than they were prior to the windfall; they too adapt to their “new normal,” and life goes on.

Adapting to Social Change and Economic Disruption

Our crisis vocabulary and mental imagery have expanded, and we have now become intimately familiar with social distancing, pandemic, furlough, flattening of the curve, PPE, Zoom, Dr. Fauci, and virtual everything. We’ve become socially accustomed to living like hermits as we self-quarantine and to dressing up like robbers with masks and gloves when we venture out. We have been so reprogrammed that we now view it as an act of aggression when a person walking towards us on a street in our neighborhood doesn’t respect our invisible six-foot boundary.

Anytime we turn on the TV or check social media, we are given a stress-inducing update. However, even prior to the virus, the media was already bombarding us with reports of trade wars, tariffs, speculation on taxes, etc. These all represent uncertainty and ensuing change, which a bipolar stock market often responds to in an emotional, knee-jerk, fashion.

Nevertheless, history has shown that well-run companies tend to find ways to adjust to long-term economic shifts. The best are successful in adapting to potentially devastating short-term disruptions. Changes in policies and procedures, along with temporary behavioral shifts, will pose a challenge for many companies and a number of industries in the short-term, yet most will find a way to adapt in the long-run.

The Takeaway: Choosing Your Perspective

For speculators — those who focus on price movements over short periods of time — “change” and “surprise” are the enemy. There isn’t much help I can provide this group other than to advise them to stop speculating and to start investing.

On the other hand, patience has proven to be one of the greatest virtues an investor can develop. There will inevitably be short-term pain as companies adapt to the unprecedented current situation. Those adjustments, however, may very well lead to future improvements and compounding efficiencies for companies and organizations — the financial benefits of which will be realized by those who invest with a long-term perspective.