

BEHAVIORAL & FINANCIAL INSIGHTS

Feelings: When Good Instincts Backfire

In everyday life, our feelings help us survive and thrive. Fear keeps us out of danger. Excitement pushes us toward opportunity. Intuition helps us make quick decisions when time is of the essence. These emotional instincts are useful, sometimes even lifesaving.

But when it comes to investing, the very feelings that serve us well in other areas can work against us.

Feelings & Investing

Take fear, for example. In life, if something feels dangerous, it's often smart to back away. But in investing, fear during a market downturn can prompt investors to sell, often at a loss, transforming a temporary market decline into a permanent financial loss.

Likewise, when markets are rising, fear can resurface in another form: "The market's too high – the fundamentals don't support it. It's due for a pullback." While following such feelings may seem right, they often come at a significant cost.

Excitement can be just as deceptive. Investors are tempted to chase what's "hot", buying into the latest trend because it has been going up in value. Emotional excitement may tempt us to buy in at a high price, often resulting in regret when the trend suddenly reverses. FOMO, or the fear of missing out, tends to follow a similar pattern.

And then there's intuition. In relationships or careers, our gut instinct can be helpful. But investing tends to reward discipline, not instinct. The market often moves in ways that feel irrational. Relying on your gut often means reacting to noise, not fundamentals.

Becoming a More Successful Investor

Successful investing is about replacing reactive emotion with a thoughtful process. It doesn't mean ignoring your feelings, but it does mean recognizing when they may be leading you astray. Just as you wouldn't buy a car or home based solely on emotion, you shouldn't make portfolio decisions that way either.

In life, feelings are triggered as guides. In investing, however, they need to be questioned and checked. That's one of the key reasons we're here – to help ensure your financial decisions are grounded, intentional, and aligned with your long-term goals.

This commentary was composed by Steven W. Lieberman and The Behavioral Finance Network

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