Thanksgiving: Don’t Blow Your Investment Diet
Don Cloud

Oftentimes when we’re on a diet, and we see a wonderful feast, it’s easy to forget the long-term goal and to succumb to short-term gratification. With Thanksgiving around the corner, I see family and friends quickly go from tasting just one extra bite of mashed potatoes to their third piece of Grandma’s totally delicious (and totally fattening) chocolate caramel pie with sprinkles. Being in the industry I’m in, I immediately see the correlation with people and their appetite for risk in their investments. Bear with me, and I’ll explain how people can blow their investment diet.

First, you succumb to temptation. Since 2009, we’ve experienced the second largest market rally since World War II. [1] It’s easy to get caught up in the great “feast” so to speak, and forget what the sting of recession feels like. It begins to seem like you can’t lose. Everything looks appetizing. Investments you wouldn’t dream of risking when you first started begin to seem more strategic. When you’re at Thanksgiving dinner, those buttered garlic cheese rolls aren’t *too* bad.

Next, you start to make exceptions. You grab that garlic buttered roll just like you buy some risky investments because you think, what’s the harm? You’ve trusted yourself so far and have been successful, why hesitate now? According to the DALBAR Quantitative Analysis of Investor Behavior, “Investment results are more dependent on investor behavior than on fund performance. Mutual fund investors who hold on to their investments have been more successful than those who try to time the market.” [2] Risky buying and selling might have negative consequences.

Finally, regret sinks in. It’s the morning after Thanksgiving and you’ve accidentally eaten enough calories for a month. The first thing you say to yourself is “I’m never doing that again…” Same thing happens when all that price appreciation in your investments finally goes south. You look at the numbers and say, “I can’t take this kind of risk ever again…” And the horrible cycle begins all over again. The feeling stinks, but it happens to most investors, especially in retirement. Unfortunately, retired investors can’t go back to work and make it back. Referring back to the DALBAR Analysis, after thirty years of investments, the average investor makes about 3.98% in returns while the S&P 500 makes 10.16% [2]. That’s almost triple, and it’s all because of investors over extending their risk. Investors that are willing to create and stick to a long-term plan stand a better chance of avoiding investment missteps.

Remember your risk appetite. Remember why you set limits in the first place. It’s hard after a long winning streak to remain disciplined, but be cautious of what you buy and what you eat, and you’ll feel much better for it in the end.

completeness. All information and ideas should be discussed in detail with your individual adviser prior to implementation.

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Sources

[1] http://fortune.com/2017/03/09/stock-market-bull-market-longest/

[2] "DALBAR's 23rd Annual Quantitative Analysis of Investor Behavior" *DALBAR,* 2017, pp. 3 & 5