



## Your Brain on Distressing Financial News

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How long can you hold your breath? 30 seconds? A minute? What about how long you can go without blinking? Okay, one more: How long can you go without being moved by the latest headline news? Impeachment unrest, Hong Kong protests, Brexit stress, climate change, inverted bond yields, the price of oil. It's a lot. There is so much out there to stress over and worry about right now.

Look, it's important to stay informed. We encourage you to consider how current events may shape the actions you'd like to take in your larger life.

Don't bury your head in the sand. But, inverted-yield curves and all, nothing we've seen lately has altered our recommendations on how to pursue your personal investment goals while accounting for the risks involved.

We believe there is more danger in abandoning a robust investment plan in order to try to time when to get out and when to get back into the markets. Such actions potentially derail your financial plan and investment goals.

Remember, the investment portfolio that was developed for you was built with the anticipation of an eventual recession in mind. Investing carries risk, but that's all part of what goes into the strategic allocation of your assets in the first place.

As a client of Ferguson-Johnson Wealth Management, you may be blinking back tears of boredom right now. We've beat this drum time and time again about how important it is to stick with your globally diversified [investment portfolio](#). While we implore that you try to remain calm in the face of breaking news, we know that doing so is not easy. We suffer from the same emotions.

It is not simply an issue of mind over matter. In fact, your mind is the very thing that will trick you into losing your resolve. The mind is adapted over millennia to recognize danger and act. When a wolf approaches, you fight or you flee. It's probably not wise to stand around and wait out a mauling. Unfortunately, that instinct and behavior applied to investing doesn't typically work out quite as well.

It would be reasonable to assume that the emotions felt when confronted with a dangerous animal aren't analogous to the emotions felt when being presented with news that causes you to fear for your financial well-being. After all, the first one involves a life-preserving reflex. The second one involves... actually, the exact same thing.

Whenever you watch markets digest a never-ending feed of the latest crummy news, similar instincts are firing in your brain. Unless you're in a few specific lines of work, risks to your investment portfolio present a far more immediate concern to most people than the prospect of standing toe-to-toe with a Grizzly Bear.

Daniel Crosby, a behavioral psychologist, explains in his book, "[The Behavioral Investor](#)":

"Emotional centers of the brain that helped guide primitive behavior like avoiding attack are now shown by brain scans to be involved in processing information about financial risks. These brain areas are found in mammals the world over and are blunt instruments designed for quick reaction, not precise thinking.<sup>1</sup>"

Here's a fun look at just how persuaded our brains can be by innocuous changes in the way information is presented: A [recent study](#) found, when negative returns were presented in red instead of black (such as, -14.7% instead of -14.7%), study participants were significantly more likely to be more pessimistic about what future markets had in store.

Two exceptions included participants who were color blind, or from cultures where red is associated with good fortune<sup>2</sup>.

Your existing, well-reasoned portfolio remains your best ammunition against your big, biased brain in looking past the news of the day. Even so, when the news gets to be too much, we're here for you. If you want to talk about the implications of recession or the myriad other headlines that assault you all day, every day – let's talk about it.

Give yourself a break, pick out a few pumpkins, and breathe in the crisp autumn air.

<sup>1</sup> Crosby, Daniel. "The Behavioral Investor". Harriman House. Published October 16, 2018.

<sup>2</sup> Bazley, William J. and Cronqvist, Henrik and Mormann, Milica Milosavljevic, *Visual Finance: The Pervasive Effects of Red on Investor Behavior* (March 13, 2019). Swedish House of Finance Research Paper No. 17-16; SMU Cox School of Business Research Paper No. 18-4; University of Miami Business School Research Paper No. 2992812. Available at SSRN: <https://ssrn.com/abstract=2992812> or <http://dx.doi.org/10.2139/ssrn.2992812>