



As part of our commitment to help members with their super, Russell Investments provides the following article to outline some common pitfalls that lead to harmful investment decisions.



## AvSuper investment education – Behaviours that threaten your financial security

### Watch out for behaviours that could threaten your financial security

For most investors, recent market volatility has caused some anxiety and concern. In fact, the most important variable in your investing success - and the only thing you can control - is your behaviour.

### Common behaviours that threaten financial security

We're all emotionally involved with our money at some level. Fear, greed, indecision and regret are the emotions most frequently linked to harmful investment decisions.

When planning for the future, instant gratification often causes people to overemphasise immediate rewards at the expense of long-term needs. It's very easy to make a decision today about your investments without comprehending the long-term opportunity cost of that decision. We often assume that long-term financial commitments can be put off for another day. But in reality the earlier you act, the more options you are likely to have when you reach important life milestones.

You may recognise your own past decisions in a handful of other frequent behavioural tendencies.

Naïve diversification contributes to unnecessary risk. This typically comes from investing money without evaluating risk tolerance or return expectations. The classic case is holding several managed funds without understanding their overlap and having a lack of true balance across global asset classes. As an example, you may invest across several investment managers, but if their underlying investment processes are similar, how diversified is your portfolio?

Overconfidence in our investment skills can also be detrimental to making market profits. When markets advance, investors often start to think their success is the result of skill, rather than cyclical luck. And sometimes, we ignore evidence or indicators that are contrary to what we may believe to be in our own best interest.

Another contributor to financial difficulties is the tendency to overweight recent events. It causes misguided decisions at both good times and bad, as fear and greed override long-term prudence. This is why some investors move in and out of their investments at inopportune times, mistaking growing value for risk and vice versa.

Investors often also fear loss more than they seek gain. Loss aversion makes it difficult to put your money to work outside of a "safe" investment (e.g. term deposits), and causes people to plan for worst-case scenarios to minimise losses rather than trying to maximize wealth.

Then there is the ultimate cause of going nowhere - fear of regret. Frequently, even when a clear course of action is appropriate, people prefer to do nothing or remain indecisive for fear of making the wrong decision.

### Crash of 1987 - a time to sell, or a time to buy?

On October 19, 1987, or "Black Monday," the US Dow Jones Industrial Average lost 22.6% in one trading session. It was even worse with markets in the United Kingdom, Hong Kong, and Australia all losing more than 25% by month-end. Yet only two years later, the US market had recovered all of its losses and went on to rise dramatically over the next 10 years.

Two years is not a long time from the standpoint of a long-term investment plan. Even someone who is about to retire could still have an investment horizon of more than 25 years. Ultimately, Black Monday represented an excellent buying opportunity for investors with the courage and commitment to act on that perspective.

Of course, not all of us can be so coolly rational. Counterproductive emotions sometimes determine our decisions, and fear and greed can be wickedly difficult to ignore.

GPO Box 367 Canberra, ACT 2601  
Email: [avsinfo@avsuper.com.au](mailto:avsinfo@avsuper.com.au)  
Freecall: 1800 805 088  
Phone: 02 6268 4722 Fax: 02 6268 4469

AFSL No. 239078 | ABN 84 421 446 069

This information is of a general nature only and does not take into account your personal objectives, situation or needs. Before making a decision about AvSuper, you should consider your own requirements and the relevant Product Disclosure Statement (PDS). For a copy call us or visit the AvSuper website, [www.avsuper.com.au](http://www.avsuper.com.au). AvSuper Pty Ltd (ABN 46 050 431 797, AFSL 239078) is the Trustee of the AvSuper Fund (ABN 84 421 446 069).

[www.avsuper.com.au](http://www.avsuper.com.au)

## How can you avoid counterproductive behaviour?

### Determine your risk tolerance

Are you an aggressive investor? Or more conservative? Can you tolerate wide swings in the market, or are you willing to accept potentially lower returns for lower volatility? Determining your risk tolerance is one of the first steps you should take in setting out your investment plan.

### Stay diversified

The very point of diversification is to limit downside losses in difficult markets. If a market correction happens and you're properly diversified, you'll be less likely to lose a substantial amount - and thus less likely to sell at the bottom.

### Think long-term

Realise that in the history of sharemarkets, very few events have had a meaningful impact on long-term returns. Even after major events such as 911 and JFK's assassination, the US sharemarket (S&P 500) stood higher two years later. Broadly speaking, in time companies (and markets themselves) tend to recover from events that may seem overwhelming in the near-term.

### Get information

In difficult times, fear is a natural reaction. One of the best ways to deal with it is to get information. Ask your financial professional questions like, "How do you feel about the economy? How do you think it'll impact the market? Should I adjust my portfolio?" The more you learn, the better you'll feel about your ability to make constructive decisions under stress.

### Act with courage

To paraphrase Winston Churchill, courage is the value that makes all others possible. When faced with a difficult market decision, ask yourself, "What would I do if I were going to be brave?" The answer may just be the best move you can make.

So this, of all times, is an excellent opportunity to avoid panicking.

Fear is a great motivator - but a bad guide. A better strategy is to stay calm. People who act coolly will make better decisions than those that act emotionally.

## What can you do to move past counterproductive behaviours?

1. You may benefit from the help of a financial professional. Along with determining a prudent strategy for your investments, a professional helps protect you from common pitfalls. Their value is demonstrated partly in providing "don't do that" or "it's OK to do that" guidance.
2. Use a documented investment strategy as you may not be as likely to deviate from it - even when markets test our emotions with wild swings.
3. Rather than trying to time your entry points into the market, utilise dollar-cost averaging to contribute to your accounts at regular intervals. Most superannuation investments benefit from this investment strategy as you are drip feeding funds into your account on a monthly basis. Although it does not assure a profit or protect against loss in a declining market, it provides consistency.
4. Use funds that automatically rebalance, or schedule at least an annual rebalancing of your funds that forces you to sell some investments that have grown in value and buy some that have been out of favour. Remember, the idea is to buy low and sell high.
5. Resist impulse when markets are racing or retreating. Make sure your decisions are aligned with your long-term objectives.

FS6000.1 10.2008