

## Timely Tips

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### The cycle of market emotions

You have probably heard of the investment cycle – where markets move and investment options go up and down – but have you heard about the cycle of our emotions?

When things are great we feel that nothing can stop us. When things go bad we look to take drastic action. Because emotions can be such a threat to our financial health, it is important that we are aware of them. This awareness can then protect us from the negative consequences of impulsive and irrational reactions.

See Exhibit 1

As investors, we all start with optimism. We commonly expect things to go our way; usually we expect a return for the risk of investing.

As our expectations are met we get excited about the possibility of even greater returns and the excitement becomes thrilling as the returns exceed our expectations.

We are at the top of the cycle when we experience euphoria. It is at this point however, that we are at maximum financial risk. When we believe everything we touch turns to gold, we fool ourselves into believing that we can beat the market, that we cannot make mistakes, that excessive returns are common place and that we can tolerate higher levels of risk.

The second phase of the cycle occurs when the market stops meeting our new lofty expectations and begins to turn. At first, we anxiously watch the market. Our anxiety turns to denial and then quickly to fear as the value of our investments decline. We start to act defensively and may think about switching out of riskier assets to more defensive shares or other asset classes such as bonds.

In the third phase of the cycle, the realities of a bear market come to the fore and we become desperate. Many of us panic and withdraw from the market altogether, afraid of further

Exhibit 1: The cycle of market emotions



losses. Those of us who persevere become despondent and we wonder whether the markets are ever going to recover and if we should be there at all.

Ironically, at these times, we commonly fail to recognise that we are actually at the point of maximum financial opportunity.

#### What are the consequences of this emotional roller-coaster?

Emotions turn rational investors into irrational ones. As investors, we need to remember that markets move and our investments will always go in and out of favour.

Developed, diversified, long-term financial plans are placed in jeopardy when investors are confronted by extraordinary events because we are guided by our emotions. This is where the role of the financial adviser is of utmost importance – your adviser will help you separate your emotions from reality and endeavour to steer you on the path of rational investing.

You can also help to avoid the emotional roller coaster by being aware of the emotions you are likely to

experience.

The five most common behavioural pitfalls are:

1. Overconfidence – when investors overrate their ability to select winning shares or investment managers.
2. Loss aversion – research indicates that a loss causes about twice as much pain as a gain causes pleasure. During periods of market volatility investors experience the sense of loss more acutely.
3. Chasing past performance – we see this time and time again, but unfortunately, individual investors who are abandoning a well-diversified portfolio for bonds, or even cash, may be jeopardising their future financial security.



### Did you know?

**20,396,043**

Was the total number of companies registered in Australia in 2009. NSW had the most registered companies with 6,722,179.

**146,654**

Was the total number of *new* companies registered in Australia in 2009. 47,128 of them were registered in NSW (the most of any state).

Source | ASIC

4. Timing the market – research shows that no one can accurately time the market.
5. Failure to rebalance – the risk/return characteristics of an investor's portfolio should be independent of what's happening in the market and this means selling high and buying low.



Remember, this is one element of investing that is typically not considered but it can potentially have a huge effect on where we put our hard earned dollars. Speak with your financial adviser about strategies that are right for you.

Source | Ventura

## The real cost of Trauma

**Trauma is not a 'nice-to-have' insurance, but an essential part of any robust wealth protection plan as the following case studies help to bring home.**

When life dealt John and Melissa a curve ball in terms of health, they each showed great endurance to recover from some serious traumatic events. However, the financial and emotional stress levels of these ordinary Australians and their loved ones could have been much improved with better levels of risk protection, especially Trauma insurance.

### 1. Melissa's accident survival story

Melissa was a 33-year-old sales executive when she fell off a platform while boarding a train six years ago. One leg had to be amputated above the knee; the other was seriously damaged. Melissa spent three and a half months in hospital, six months in live-in rehabilitation and two months in part-time rehabilitation.

During this time, Melissa's earnings reduced from a \$100,000-plus annual sales package to \$45,000 in compensation payments. Melissa found her old job too physically challenging and now works for a charity, earning \$42,000 per annum. She has moved back in with her parents and spends \$205 per month on massage and therapeutic treatments to help deal with 'phantom' pain.

Since the accident, Melissa has lost around \$250,000 in after-tax income and spent more than \$13,000 on treatments. Her state's no-fault traffic accident compensation scheme pays replacement costs for her prosthetic leg (\$70,000 every five years) and specialised shoes (\$300 every four months).

#### What difference could Trauma cover have made?

It's quite likely that Melissa could have claimed a partial Trauma benefit and a Total and Permanent Disability benefit – and thereby still realised her pre-accident goal of buying a house instead of moving back home.

### 2. John's journey to cancer recovery

John was in his late forties when a persistent eye infection led to being diagnosed with Chronic Myeloid Leukemia (CML). After four months of combined chemotherapy and immunotherapy treatments that were ineffective, John went on the waiting

list for a bone marrow transplant. He had the transplant 15 months later, recuperated in hospital for 19 days and spent three months undergoing intensive outpatient treatment. After five months on anti-rejection drugs, he was considered 'cured'. As the transplant drew closer, John and his wife Julie decided to sell their café business, which she'd run on her own since he became ill. After the operation, the couple lived off the business sale proceeds and what was left of John's two-year Income Replacement benefit, before applying for Centrelink benefits. Two years later, the couple restarted the catering business. During John's recuperation, the couple spent \$600 in six months on steam cleaning the house and \$100 per week extra on organic fresh foods. Stress caused Julie to go through premature menopause and two years of treatments and counselling (at a cost of \$110 per month).



#### What difference would Trauma cover have made?

While John remains clear of CML, he estimates that the illness cost his family about \$380,000 through the forced business sale and lost productivity. Trauma benefit would have helped alleviate the financial and emotional strain the couple, whose youngest son was still in high school, underwent when Julie had to stop working to care for John.

Source | Zurich

Contact your local adviser at:

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