

CHART OF THE WEEK: ART AND SCIENCE

April 9, 2020

CHART OF THE WEEK

Investment Management is as much an art as it is science. For anyone not in the financial industry, that may be a hard concept to grasp, considering all the numbers scrolling across CNBC or Bloomberg on a weekday. Yes, the foundation of the industry is heavily driven by data. But once you factor in the money aspect of investment management, that introduces the behavioral components of fear and greed. A John Maynard Keynes quote comes to mind: "The market can stay irrational longer than you can stay solvent."¹ This suggests that data is indeed important in the long-term, but in the short-term, emotions can overtake the rational mind.

The chart of the week to the right shows us that the largest number of investors in the past seven years are expecting higher stock prices (data). The chart on the next page provides an interesting perspective on the emotional aspects of investing (behavioral).



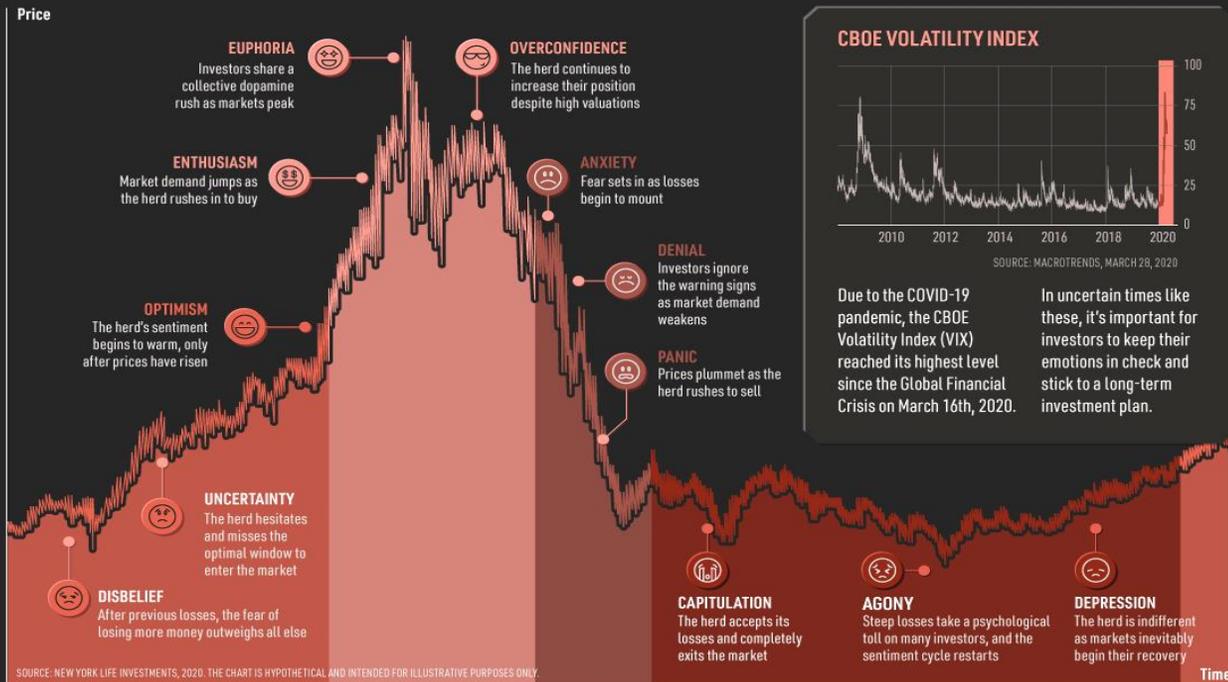
Source: [ZeroHedge](#)

The big question is where are we on the chart to the right? COVID-19 seemed to come out of left field, was ignored by many at the outset, then quickly became the object of our national focus. This led to a four-week waterfall crash in stock prices. We've barely had time to experience anxiety. Denial and panic do not seem to have set in yet. The chart on the first page potentially suggests we may have skipped the anxiety phase and jumped straight to denial. It also suggests many investors are expecting this weak period to just "blow over," with an upward trend resuming. This suggests overconfidence.

Either way, we continue to believe that stretching for additional risk by assuming the worst is over is probably *not* the best course of action. Continue working with your wealth advisor to review your risk tolerance and remain focused on your long-term financial plan.

THE PSYCHOLOGICAL PITFALLS OF A MARKET CYCLE

In order to achieve their long-term investment goals, investors must make rational, informed decisions. Yet, many fall victim to the emotional roller coaster of a typical market cycle. Below, we illustrate the mentality of the herd.



Rational investors recognize the attractive valuations early in this stage and act confidently



Disciplined investors restrain themselves from participating in panic buying



In the face of volatility, **long-term investors** stick to their convictions and avoid making rash decisions



Having weathered the storm, **rational investors** once again see an attractive opportunity



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Source: [VisualCapitalist](https://www.visualcapitalist.com/)

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¹ <https://www.maynardkeynes.org/keynes-the-speculator.html>

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