

Why Zebras Don't Get Ulcers: 7 Ways to Take the Stress Out of Your Investments

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A zebra's life is generally filled with short-lived physical stresses such as escaping hungry lions. Our lives, however, are filled with longer-term stresses such as managing our investments and planning our retirements. These psychological stresses can last much longer than simple physical stresses and can become ongoing or "chronic". Because the human body has not evolved to cope with sustained stress, physical repercussions such as high blood pressure and ulcers are a common result but psychological effects can be even more destructive.

Recent studies have shown that stress, regardless of whether it is physical or psychological, causes impaired judgment including short-sightedness, inefficient decision-making and "penny-wise / dollar-foolish" behavior. A qualified and professional investment advisor can help you prevent stress from your investments. Whether you manage your own investments or work with a professional, below are 7 ways you can limit your investment stress.

1. **Look at your brokerage statements as infrequently as possible.** Psychological stress resulting in short-sighted decisions can have serious financial consequences. Over short periods of time (meaning a few months or even several years) your investment performance may be significantly negative. Over a longer-term horizon (10 years or more), however, your investments will likely show significant gains. The more frequently you look at your statements, the more likely it is that you will be unhappy with the short-term performance of your investments. We humans also have a tendency to devote more attention to short-term negative events with the result that we tend to make rash, short-sighted decisions to "stop the pain". Here is an example: Recently an elderly woman in her 70s was tired of watching her investments decline month after month. This psychological stress influenced her decision to sell all of her stocks in February 2009 and put the money into a "safe" bank savings account. In her view even though she was not likely to make much in interest from her bank account, "at least it stopped going down". The stock market began recovering in March and overall is up almost 50% from that point. The investments that this elderly woman was counting on to keep providing for her retirement were seriously depleted, leading to more difficult choices in the future.

2. **Set an achievable goal that you have control over and stick to it.** Most people have little control over the performance of their investments. What they generally have more control over is how much they save. Rather than measuring your success by how much your portfolio has gone up or down you might measure success by whether or not you were able to hit your savings target. Consistent savings (especially earlier in life) is the key to making compound interest work for you and achieving your financial goals. A professional investment advisor can work with you to determine a realistic goal and more importantly, can help you to stick to the plan that you have created.

3. **Focus on the process, not the outcome.** Good decisions will generally lead to positive outcomes and poor decisions will generally lead to negative outcomes but this does not hold true 100% of the time. Star performers from all walks of life, professional athletes, successful entrepreneurs and even poker players know that no one can hit a home run every time. They focus on maximizing their chances to succeed and that means concentrating on making good decisions. Rather than immediately scrapping a successful process because of bad short-term performance, try to understand why something went wrong and whether it is a result of a faulty process or just normal variability in the outcome.

4. **Learn from your mistakes.** For every mistake you make, find one thing you learned from it and write it down. Not only will this help you avoid similar mistakes in the future but you will instantly transform some of the negativity associated with making a mistake into positive-energy. It is natural for us humans to question our ability to achieve our financial goals and many of us find ways to make excuses as to why we have not accomplished them. Being honest with ourselves about the causes of our mistakes and then learning from them puts us on a path to both financial and overall success in life.

5. **Stay emotionally uninvolved.** Humans are wired to filter information based on our likes and dislikes. One example of this is the so called “confirmation bias” effect where a person will generally give more weight to a viewpoint or piece of information that agrees with his beliefs and will give less credibility to an opposing viewpoint. These “filters” may be one of the reasons that asset bubbles, such as real-estate or technology stocks, are so prevalent throughout human history. The more we like something, the lower we perceive the risks to be and vice-versa. One of the ways to distance yourself emotionally from your investments is to approach them in the same way you would when buying groceries at the supermarket - objectively weighing things like cost, quantity and whether a brand name justifies a higher price. Experienced investment advisors generally understand that emotion is a dangerous partner when making large financial decisions. As such many advisors have inoculated themselves from the emotional tug-of-war that happens every day in the markets. They do this out of necessity - else daily life would become unbearably difficult. At the very least, having an advisor, who does not have any emotional strings attached to your finances, should allow him or her to stay relatively objective and increase the clarity of the decisions related to your investments.

6. **Beware of “anchoring”.** Anchoring is when humans fixate on arbitrary data points and it is a hallmark of human behavior. One interesting study asked participants to estimate the percentage of African countries in the United Nations and before answering, the participants watched a researcher spin a wheel of fortune numbered 1 to 100. When the wheel landed on a number in the lower end of the spectrum, the participants tended to pick similarly low percentages and when the wheel landed on higher end numbers, the participants tended to pick higher percentages. Some numbers that investors tend to fixate on are: recent stock price highs (“It was at \$80 not even three months ago and now it’s at \$20 so it’s definitely a good value!”); the price an investor purchased it at (“I can’t sell that stock because it’s still \$10 below where I bought it!”); and analyst target prices (“My broker’s firm has a target price of \$55 for this stock so I know that the stock is cheap!”). While there is no single solution to the problem of anchoring, many successful investment professionals, through years of experience, have developed methods to fight the urge to fixate on a certain piece of information. One well-known investor always asks himself when he owns a certain stock, “Would I buy the stock at this price?” As long as the answer is “yes” then he holds the stock and he sells when he would not initially buy it.

7. **Hire a professional.** If the previous six recommendations seem difficult to master, it is because low-stress investing is the exception and not the rule. Fighting against millions of years of evolution is a complicated challenge that many individuals do not want to do themselves. Find someone you trust, build a relationship and let them outrun the hungry lions for you.

About Nauticos Investment Advisors, LLC

Headquartered in Trumbull, Connecticut, Nauticos Investment Advisors, LLC is a unique provider of investment management and advice. Steven Rountos, Founder and Managing Principal of Nauticos Investment Advisors, LLC, has been providing investment advice to clients for over 10 years. Steven brings his extensive financial experience to bear when guiding clients through complicated financial decisions. The result of his in-depth knowledge coupled with his ability to simplify convoluted financial concepts help his clients sleep better and lead more relaxing lives. Steven always keeps a pair of Asics running sneakers in his car in case he happens to come across any hungry lions.