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132 Cans of Beans and Other Lessons in Behavioral Finance

by David Jester, CSRIC

A little over a year ago, you may remember, things changed. We'd heard about a virus. It was getting worse. We were unsure of how bad it could be. We found ourselves in lockdown. We scrambled to adapt to our new set of circumstances. The future was unclear (it always is, by the way).

I remember talking to a friend who'd purchased 132 cans of beans. We did similar things—our pantry still has an excess of canned tomatoes. We now keep a 6 mos. supply of toilet paper in the garage. We'll carry these feelings and habits for the rest of our lives—with the knowledge that everything can change suddenly.

> **...people think of themselves as rational creatures. When it comes to their money, however, most decisions are driven by emotion.**

Investing last year was a case study in "Behavioral Finance" (the study of how people behave when making financial decisions). One core tenet of this field is that people think of themselves as rational creatures. When it comes to their money, however, most decisions are driven by emotion.

In spring of 2020, markets experienced one of their swiftest declines in history. In a matter of weeks, values in retirement accounts dropped by half in some cases. Uncertainty about our health and predictions that this could lead to economic depression drove many to make hasty decisions. In their minds, all that they had saved was on the brink of collapse.

Our clients were not immune to these anxious feelings. I vividly remember two calls that came in that illustrate two very different outcomes. Both calls came from rational people who had weathered storms in their lives (even financial ones). This set of circumstances, however, was too much to bear.

As advisors these moments can be tough. We listen to the fears of people who have trusted us to help them in times like these. We do all we can by responding honestly, reminding the shaky voices on the other end of the line that we plan and choose investments for moments like these and that we have history as our guide.

We are most certain that markets will improve. Economies are generally resilient. Sometimes, it takes time. When we can inject enough rational thought back into the conversation, our approach works. When we can't beat the survival instincts coursing through our client's minds and bodies, it doesn't.

On both of these calls we listened and responded with conviction backed by history. For one, it worked.

My guess is that you know how the other call went. We were able to talk the client back a bit—they didn't pull everything out. However, they (now reinvested) are still in recovery mode. Unfortunately, this is an all-too-common outcome. For some, these decisions last lifetimes and beyond.

On calls such as these are where relationships with a trusted professional should be of most value. That said, when it comes down to it, if you're up for it, this isn't rocket science. When the next economic travesty comes, the solution is to breathe through your discomfort, accept uncertainty, and let your nervous feelings pass. When you are ready, make the decision that you believe in.

As a reminder, spend wisely & invest in good.

Until next time, David Jester

www.Forbes.com/advisor/investing/stock-market-year-in-review-2020/

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