Belmores Wealth Management

Keeping **your cool** when the markets **heat up**

Investing isn't just a numbers game. It's an activity that stirs various emotions from hope and optimism to fear and anxiety.

Whether the ASX is surging or stumbling, emotional responses to market movements can shape outcomes just as much as economic fundamentals. Understanding those responses is crucial to building resilience, especially in unpredictable times.

These patterns underscore the importance of long-term perspective, especially in a market shaped by both global sentiment and uniquely local factors.

How emotions enter the equation

We like to think our financial decisions are rational, but the truth is more complex. Investors aren't robots crunching numbers in isolation. We are influenced by news cycles, cultural values and personal stories from friends, family and colleagues.

When markets rise, euphoria and FOMO can drive hasty buying decisions. During downturns, anxiety and regret can push investors to sell at a loss, despite having sound long-term strategies.

This pattern has played out across decades, from the dot-com bubble to the COVID recovery. And remember that emotional investing isn't just a beginner's problem. Even seasoned investors can be swept up by sentiment if safeguards aren't in place.

What's more, emotional responses can vary depending on individual risk tolerance, stage of life and even personality traits like conscientiousness or impulsivity.

Psychologists have long observed how financial stress activates similar responses to physical threats, triggering fight-or-flight instincts rather than thoughtful analysis. That's why even well-informed investors may react defensively when facing market instability.

Financial decisions don't exist in a vacuum. They're bound up with identity, security and future aspirations. Emotions are often the hidden driver behind market behaviours.

The good, the bad and the balancing act

Emotional investing isn't all risk. In the right conditions, it reflects conviction, clarity and purpose. For example, values like patience and belief in the future can help investors stay committed during market dips.

Life changes such as home ownership, welcoming a child or retirement can bring useful emotional clarity to financial decisions. And ethical investing often stems from emotions such as care and connection to community.

When used with discipline, emotions can reinforce sound decisions rather than undermine them. Investors who use emotional clarity to establish long-term goals tend to feel more confident, even when short-term volatility strikes.

That said, emotions can also derail strategy. Panic selling during downturns, overconfidence after gains and herd mentality all pose risks.

The 2022 market correction saw many Australians pull out of super investments prematurely, missing the rebound that followed.

These reactions stem not just from fear but also from a desire to act, even when patience may be more effective.

Learning from behavioural finance

Behavioural finance gives us tools to interpret emotional reactions. Biases like loss aversion, recency bias and anchoring affect decision-making in subtle but powerful ways.

These include:

- **Loss aversion –** People often feel the sting of losses more intensely than the joy of equivalent gains, which can lead to overly cautious or reactive choices.
- **Recency bias –** Recent events weigh heavily on perceptions, leading investors to expect trends will continue simply because they've just occurred.
- **Anchoring –** Fixating on a past portfolio value or arbitrary benchmark can skew rational assessment.

Recognising these tendencies helps investors avoid knee-jerk decisions and design portfolios that stay aligned with goals over time. It's not about eliminating emotion; it's about becoming aware of how it operates and mitigating its effects through smart responses.

After all, markets are always shifting. Emotions will always emerge. The goal isn't to shut them out, but to understand them and develop structures to keep emotions from steering the ship. When investors learn to pause, reflect and act with intent, they not only improve outcomes but feel more confident in their journey.[i]

If you'd like to explore strategies to build emotional resilience in your portfolio, or tools to help remove bias from investment decisions, please give us a call.

Strategies to stay grounded

Here are practical ways to help manage emotional influences in different market cycles:

- Set clear goals and time horizons to provide an anchor during uncertain and volatile times. Understanding the reason for your different investments, such as retirement, education or succession planning, may help maintain focus and commitment
- Recognise your emotional triggers and personal biases. Think about how you've reacted in the past to market events to understand how to manage future choices
- Automate contributions and portfolio rebalancing where possible to reduce the risk of knee-jerk reactions to market fluctuations
- Use the power of dollar cost averaging to remove the risks of trying to decide the best time to buy and sell shares. Investing a fixed amount at regular intervals, such as monthly contributions, can mean a lower average share cost over the long term
- Speak to us, we can be objective about your investments when your emotions are threatening to derail your portfolio
- Diversify to spread your investments across different asset classes, industries and areas to reduce potential volatility and losses
- Regularly review your portfolio to keep it on track and prevent emotional attachments to specific assets
- Align your investments with personal values and life priorities

These strategies aren't just for crises; they can help investors stay focused and empowered in different phases of the market cycle.

i https://www.stockbrokers.com/education/trading-psychology-stages-investor-emotions

Belmores Wealth Management
70 Belmore Street
Yarrawonga VIC 3730
P 03 5744 1221
F 03 5744 2553
E bwm@belmores.com.au
W www.belmores.com.au