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THE EMOTIONAL COST OF IRRATIONAL BEHAVIOUR

While we all like to think that we are capable of making rational decisions, it appears that when it comes to investing, a switch inside even the most sensible person seems to flick, and rationality disappears in a cloud of emotion.

Being an investor is not easy. We have to contend not only with the erratic and unpredictable nature of markets but also the sometimes erratic and irrational way in which we will be tempted to think and behave. While understanding that being rational makes sense, putting it into practice can be exceedingly difficult.

Irrational investing manifests itself in many different ways: chopping and changing one's investment plan influenced by what has just happened to the markets; trading shares in an online brokerage account; trying to pick market turning points, i.e. when to be in or out of different markets; being tempted into buying flavour of the month investment ideas or products; or chasing fund performance. The list of irrational decision-making opportunities is long and undistinguished.

And the result, the 'emotional cost' of our behaviour on our returns can at times, be extremely large. The temptation to try to

get in (or out) at the right time is huge yet investors have a woeful track record of timing when best to jump in and out of markets.

You see you have to get two decisions right when trying to time the market. The first is when to get out and the second is when to get back in again and the problem is that markets work pretty efficiently at reflecting new information into prices (of e.g. company shares and bonds) quickly, and thus every decision you make is a bet against the aggregate view of all investors trading in the markets.

The solution? Own a sensibly diversified portfolio, which allows you to stay invested throughout the inevitable episodes of market turmoil that will arise from time to time.

At Cre8 our systematic approach to investing means our portfolios are globally diversified and cost effective. We believe in the value of maintaining a diversified portfolio to mitigate risks and maximise returns.

If you are interested in knowing more about how I work and you have investments of over £200,000 why not give Jo a ring on 01562 745730 to arrange a no obligation 30-minute free meeting in our office.

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