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It’s all about remembering what you need

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When markets are going up, we feel annoyed if we have not participated in that rise. When they fall, we feel annoyed that we invested at all! This phenomenon is known as the psychology of missing out – as humans, we fear being left behind. This occurs in everyday life as well as when we make investment decisions.

Following a period of strong or poor equity market returns it is important to remember why we have invested and our ultimate objective. At Tacit we have a three-pronged approach to helping an investor understand which of our strategies are most suitable for them. These three elements provide a longer-term perspective of a client’s requirements and ability to reach any given objective based on equity market history.

The first of these is your ultimate objective for any investment. Do you need to grow it, receive an income from it or maybe an element of both. Understanding your objective and time horizon to achieve this is vital.

Second is your attitude to risk. Behavioural studies show us that investment losses hurt significantly more than the gains which make us feel good. Loss aversion is vital to understand as it leads to poor decisions being made at incorrect times, for example, selling out of your investments following the falls in markets in 2008 would have locked in significant losses and been, in hindsight, a very poor investment decision. Understanding how you might react to such a scenario helps you and your advisors mitigate these risks.

Thirdly, and very importantly, your capacity for loss. This is a technical term but in simple language it is best described as your ability to incur short term losses in your investment portfolio whilst trying to achieve your longer-term objective. For example, an investor that requires a set income from their investments has a lower capacity for investment losses than somebody that is currently saving and adding to their investments.

It is vital to remember that everyone is an individual and therefore the answers to the above three elements will vary from one person to the next. When markets have been rising it is easy for an investor to forget about their own objective and chase short term returns just as when they are falling it is easy to panic and sell to lock in losses. Human behaviour dictates this to be the case and unfortunately, we cannot change human behaviour.

At Tacit we have learnt that understanding these three elements prior to investing and then reminding investors of their situation is vital to ensuring our clients achieve their individual longer-term goals. This leads to some challenging conversations at times such as this, but we do not, and will not, apologise for always putting our clients’ best interests first. Marrying our knowledge of markets with an individual’s requirements sits at the heart our whole decision-making process.

2000. Please note, tax and estate planning services are not regulated by the FCA.