Market Insights: New Developments, What to Consider, and Top Questions Answered

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TRANSCRIPT

SPEAKERS:

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Jim Armstrong: I'm Jim Armstrong with Fidelity. Thank you for joining us today. Over these past few weeks, which definitely felt like years, a lot of us have been tested in many ways as we've wrapped our heads around a reality that's just uncomfortable. When it comes to our money, that anxiety and uncertainty has changed our assessments in our ability to invest and perhaps made us question our decisions to stay invested. That's what we're talking about today. How our brain handled the idea of a global pandemic or fears about job loss or personal health and why those same brains might be pointing us in the wrong direction and what we can do about it.

Now, remember, the views and opinions in this webcast are those of our speakers. This discussion is for educational purposes and should not be considered investment advice.

Now, during today's update, we'll hear from Andy Reed. He's the vice president of behavioral economics. In that role Andy studies how we make financial decisions, we make mistakes and how we can make better choices when it comes to our choices.

We're also joined by Leanna Devinney. She's an assistant branch manager and has worked one on one with customers for years. And now she leads a team of people doing just that, helping them find and build financial plans for themselves and their families under all kinds of circumstances.

Leanna, Andy, thank you for being here joining us remotely as we've become accustomed.

Leanna Devinney: It's the new norm. Thank you. Glad to be here.

Andy Reed: Hanging in there. Thanks. .

JIM: Excellent. So today's Thursday, May 7th. Andy, let's start with you. My guess is some people might be surprised to find out that somebody with a PhD in development psychology would work at Fidelity. Can you talk a little bit about what you do and why it's so particularly relevant now?

ANDY: Sure thing. I will count myself among the surprised. I would say at a high level development of psychology is really understanding change, change in people's lives, their thoughts, feelings, actions, change across time and change with age. What we've seen in the last few weeks in the market volatility and pandemic is a whole lot of change for a whole lot of people in a short period of time.

My role at Fidelity is to understand the nature of these changes and really figure out what can we do to help clients continue to make good decisions about the future in the face of unprecedented change.

JIM: Yeah. The use of that word unprecedented really keys in on what I was going to ask you next. This idea of what we're going through now really doesn't have an analog or anything to refer back to. But it's given us a lot to process, personally, professionally and financially. Underneath it all there's this mix of fear and uncertainty. Does that sound right to you?

ANDY: Absolutely. We hear this in everyday conversations around the virtual water cooler. We also see this at a high level in our customer data. As market volatility peaked in mid march, we saw a similar peak in customer concerns. They used words like worried, anxious, nervous. That's understandable. After all, we're going through this unprecedented black swan event, and we don't have a lot of control over it. We know we're fairly powerless when it comes to affecting the market or the pandemic. It's hard to know how to feel.

In recent weeks we've seen a bit of a shift in emotions of investors. Less concern about sort of the stock market itself but more concern about the broader financial situation, state of the economy, people's job security, and in particular their family's health and safety. So that the nature of our concerns and anxieties might be shifting, but the level of anxiety and stress remains quite high.

Uncertainty and anxiety they are two sides of the same coin when it comes to decision making. Half is emotional and half is rational. We want to make decisions with the rational side of our brain. We want to make calculated, patient, controlled decisions. We want to do the math and choose the right option. That's only half of the picture when it comes to decision making. The other half is the emotional side of the mind. This is the part of the brain that really wants to make quick, snap judgments based on gut feelings. It's fast. It's efficient. It's effortless. We can do it almost while we're sleeping, but it doesn't always lead to the right choice. There's this tension in the two sides of the mind when it comes to decision making.

ANDY: Now what we're seeing, again, people want to make rational decisions especially when it comes to investing. It's about the facts, the numbers, the future. They want to be patient and make the right choice, but their emotions are running so high it dominates their decision making and leads to choices that might feel good in the short term, but in terms of long term, consequences are less than optimal.

JIM: That was my emotional side wanting to make a connection between what you were saying there and what Leanna is hearing firsthand from Fidelity's customers, investors like us who are unsure what they want to do but feeling that they have to do something.

LEANNA: It's exactly what Andy referred to. It's the emotions that come in, and we have these feelings of stress and anxiety. And during these unprecedented times, it causes us to react in the short term. We see time and time again that these emotions can impact our investing.

So we show this chart often, and we use it with our clients. What it does is it shows the average investor compared to the index. It shows that for stocks we can see here in the green and then the fixed income on the other side. And you can see on both the average investor underperforms giving up almost 2% per year on the equity side and 4% on the fixed income.

This is due to the emotions. And we see emotions on both sides. It's not just fear. It will be fear due to a market dip, but also it's excitement due to a market rise where we're acting with those short term emotions. So I've heard a range of client emotions the past few months. Some reacting due to fear. Some have asked to invest more.

The challenge is the ability to stay disciplined. That's the hardest part. So it's really important to have that all weather plan. It's so critical. In many of our client conversations, those that have a plan and investment strategy aligned to their goals, they have been able to stay disciplined. Those that have their accounts managed by the professionals, they're finding times like these it's exactly why because it helps alleviate some of that stress because the managers are able to act unemotional during these times.

JIM: I love that idea of discipline, Leanna. I think that's a key element here. Andy, I want to ask you, we know that our brains just really are not equipped for super long term thinking, but that's a critical part of investing and staying invested. So how do we overcome or mitigate that reality?

ANDY: Yeah. It's a bit of a cruel joke that we have to make 21st Century decisions based on ancient brains but here we are. The challenge is this. Our brains evolved to adapt to really like immediate, tangible threats in our environment. If there's a predator nearby, you better engage that fight or flight response and take action immediately. And so that allows us to make really snap decisions that could be good for our immediate short term survival.

Nowadays we have to make decisions based on threats that are ambiguous, nebulous. They're not tangible. They're informational or invisible to the naked eye such as the current pandemic, so we're not well equipped to handle this. So that fast fight or flight system can lead us astray in this context. It's not designed to handle the current situation. But we have to make, again, these important decisions based on really, really complicated information that have consequences, not for the short term, but for well into the future.

And here's the challenge. The way our brains are set up under normal circumstances we can control our emotions to some degree. We can regulate how we're feeling. We can focus on the future. We can engage in sort of this rational, long term thinking as seen on the left here. But when we're under stress, something really interesting happens where the emotional side of the brain basically dominates. It actually suppresses our ability to engage the rational side of the mind.

As a result, under stress we're much more likely to make these impulsive, short term, and some would argue irrational choices. So the question is, how do we counteract these biases and make better long term decisions in the heat of the moment? It's really no easy task.

A couple strategies that appear to help. I think one of them Leanna alluded to before is having a plan in place. We find in study after study people who have a clear financial plan experience less stress. And they seem to be better able to withstand the current situation, the current crisis. The second, though, is seeking a second opinion, getting out of your own head. In particular from a trusted professional, really seems to help people, as again Leanna alluded to before, make a less emotional and more rational decision.

If nothing else, taking the time to speak to a professional gives yourself a chance to for these really intense, immediate emotional or high emotions to subside a bit. So it's a little bit of an emotional break, if you will.

JIM: Got it. Leanna, from your perspective does that mesh with what you're hearing from clients and what you're telling them, you and your team, in terms of action steps and things to do so they can feel like they're taking some ownership over the situation?

LEANNA: It does absolutely. So when it comes to staying invested and disciplined, it is a challenging part, but professional financial managers can help steer you out of harm's way. But there's also good tips for everyone. I think what Andy just mentioned, there's times where we felt that we're able to act rational. We can do it and being informed, but, again, sometimes those emotions come up.

So I'll hear so often that there's clients in the past who have said, I'd be really highly tolerant of risk and be able to stay the course, but they may be now panic selling. I saw this a lot. Clients talking

about in 2008 they were able to stay the course but that was now 12 years ago, and clients are in many different phases of life. So they didn't panic back then, but they're panicked now due to where they are.

So this chart, it will show actually from 1950 to 2010 what the median of returns were the year following and then three years, five years, ten years. You can see they were all positive. And the one year following we had really strong numbers. So we help our clients with that plan getting that second opinion but also really helping educate our clients so they feel well informed. And those that have a plan it's an opportunity to maybe revisit and ensure that the investment mix is still suited to the specific goals that you have. Like retirement, like college, or income planning.

Again, when we're in the moment and we're seeing those accounts go down, it is hard to think with that rational side. So it is going back to that plan.

JIM: What seems to underlie that whole answer, Leanna, is this idea of thinking about what might be happening in the future. Andy, I want to ask you specifically about the role of future regrets or maybe being afraid you're going to do something to induce future regret. How does that impact our decision making today?

ANDY: That's a great question. Regret is a powerful motivator. It's a subset of a much bigger picture around emotions, the fact that we pay much more attention to negative things than positive things in the environment. Now back in the day if you think about human evolution, this was probably beneficial to our survival. You want to pay attention to the threat. You don't have to worry about the fluffy bunny if a predator is nearby. It may be doing more harm than good in certain circumstances.

To put it slightly differently, there's this established phenomena in psychology and behavioral economics. The simplest way to explain it is bad is stronger than good. We pay more attention to negative things than positive things. Losses hit us harder than gains do. For example, if you look at this chart showing a few days' worth of returns at the peak of volatility in mid March. Upon immediate first glance, the loss days might stand out and they might really impact you and really grab your attention. There are just as many gain days as loss days. Your attention is biased by the quality, the emotional quality of the information, and it might lead you to make an irrational decision.

So let's play this out. Imagine on March 12th you reacted to the market's dramatic decline and you sold off all your equity. You might feel a temporary state of relief. But about 24 hours later when you see that the market's pretty much rebounded almost all the way, that might turn into regret.

So that that's the challenge. Regret can be a powerful motivator. It can help us learn from mistakes and avoid future mistakes, but it doesn't necessarily lead to better decisions. For example, one of the things we've seen in recent years invade our popular terms is this FOMO, fear of missing out.

We've seen it recently in terms of people stocking up on toilet paper because they're following the herd and not the experts. They don't want to miss out if everybody was buying it.

There was this rush to buy bitcoin a few years ago because everybody and their grandma was buying it rather than to miss out on the dramatic increases. Those are decisions that may or may not be in your long term best interest, but that doesn't mean the regret is all bad. For example, you could leverage this fear of missing out to engage in better decision making, more adaptive rational choices. So if the fear of missing out on potential gains motivates you to engage more, to do more research, to talk to professionals, that could lead to better outcomes in the long run.

You can also sort of turn this fear of missing out on its head and use it to motivate yourself to reevaluate your situation. So, for example, if you're concerned about whether or not to jump into the market right now, you might ask yourself, well, ten years from now, how am I going to feel about this choice? If I look back on it, will I regret staying out or jumping in? The reality is we have a hard time thinking about our future selves. We think about it as a different person like a stranger. Any chance we have to think really concretely and put ourselves in our future shoes is one we should take advantage of when possible.

LEANNA: It's really well said. And I love how you said we look at that past chart and we see bad stronger than good. And it all stems from this study of myopic loss aversion. We talk about this study often with clients, and it shows that we feel the pain of a loss two times more than that of a gain. And it really varies from person to person. And over time, speaking with clients, they've shared with me they feel it even more than two times.

I think when we get to the root of it, it's the feeling of loss, what is it stemming from as to why we're investing in the first place. It's that feeling maybe that FOMO, fear of missing out, of not being able to retire or send that child to college. And that's why so often we really talk about creating that plan specific to your goals and staying invested and, again, staying disciplined so that it does come true. But it's really helpful to understand the why behind it. And these feelings are so natural and normal.

JIM: I think a lot of what you both have been describing so far today has been really helpful in terms of reinforcing the behaviors that might keep someone on the right path. Andy, what about the case where somebody has made a decision, let's say, to get out of the market? What do you say to those folks who are scared or anxious about getting back in? How do they get over that hurdle?

ANDY: That's a great question. The first thing I would say to those people is you're not alone. The first two weeks of market volatility we saw a dramatic increase of people who jumped out of the market who said, I'm worried about market volatility and that's why. That's the first thing, that is, you're in good company to a degree.

The second thing I would say is there's actually a lot of people who are sort of on the sidelines. Believe it or not at the peak of market volatility more were asking should they jump in or get out. There were ten more searches on should I buy stocks rather than should I sell stocks. That took me by surprise. What I think it suggests is that there's a bit of guarded optimism among investors right now.

Here's the thing. If the reason why you're not jumping into the market is emotional, then there are a few strategies that you might consider engaging in. I would say at the highest level those two strategies are change your mood or change your mind.

You could basically target the underlying emotions that you're feeling. If you're stressed, worried, if you're anxious, the best medicine is really positive emotions. In particular, prosocial emotions like gratitude, pride and compassion seem to undo all of the negative effects of these negative emotions. So they help broaden our perspective. They help us see the big picture. They help us focus on the positive and overcome this negative bias and ultimately help us make decisions that are better for our own futures when it comes to financial decision making.

It's relatively easy to cultivate these emotions. You could start with a gratitude journal. Just taking time out of your day to think about what are you grateful for in your life. In terms of pride and compassion, there are simple actions you can take. Just reaching out to a loved one, seeing how they're feeling, donating to charity, volunteering, these are all incredibly powerful ways to put ourselves in a better emotional state.

More broadly I would say there are a couple of things that are really challenging us right now with respect to the current situation, which is that we're socially isolated and we're relatively sedentary. I think the three of us are all in a room alone sitting down. So I think we're perfect examples of that. Social isolation sedentary behavior is bad four our mental health and physical health and make it harder to make better decisions. To the extent you can be socially active is more beneficial potentially to the financial decisions that we're able to make.

On the other side of the coin you have the cognitive approach, so changing your mind. So if you're just immersed in doom and gloom news, just shift your attention. Just don't focus on it. I know it's hard but maybe it's like a moth to a flame, right? We're hard wired to pay attention to and engage with negative information even when it's not good for our well being and in particular not good for our decision making. I would say go on the information, on a news diet. Broaden your frame of reference. If you log on your portfolio and you see the past 24 hours have been brutal, don't look at the past day, look at the past year, look at cumulative performance. If you're really investing for the long term, then your focus should be on the long term.

Third change your perspective. Research suggests average individuals that are encouraged to adopt the perspective of somebody more knowledgeable and to think like a trader, they actually make better decisions, and they show less loss aversion which is a profound bias that affects our decision making. The goal is to put yourself in a state of mind that's more conducive to these patient, rational decisions that optimize long term outcomes as opposed to making a decision that feels good in the short term but actually does more harm over time.

Now that being said, I would say this is really sort of the scientific 10,000 foot view. I'm curious, Leanna, if you could speak to what you're seeing at the individual client level?

LEANNA: Absolutely. I think what you said, the shift your attention and changing perspective, it really comes to how our clients think and naturally so of investing through a recession. So I'd say for those listening that have gotten out either fully or partially or just feel uneasy remaining invested, this is a helpful chart as it shows investing during and through recessions. So it's that natural part of the brain that wants to wait until our anxiety has subsided. You can see here in the blue we have seen strong gains start inside the recession, and we see that strength follows one year, three, five, ten years later.

So I think, again, what you mentioned, shifting your perspective and kind of understanding and reminding of the norm that recessions actually are normal, and they happen on average every six to seven years. There are different phases of the economy and it's cyclical, so we will see this again. So our most successful clients again have that all weather plan I've referred to earlier navigating through times like this.

For those that have professional managers, I think it's helpful to see here that they're able to invest unemotionally, and they're also managing through the lens of where we are in the economy looking at just this chart here. So that's the investing side of it.

JIM: And I think it's so important to this discussion because it's one of the things Andy first talked about when we were starting off today, this idea there are external factors over which we don't have control, but we try to do things to take control of a situation when we're under stress, and we know that that kind of response can lead to bad outcomes.

So Andy, I'm curious, could we train ourselves to think in more positive ways particularly about investing?

ANDY: Yeah, that's a great question. I would say the challenge is we don't like feeling powerless, and we don't like being idle. And so for a lot of people when they're stressed out, when they're worried, when they're anxious, regardless of the source, the motivation is I should do something about this, I should take action and take back power and hopefully achieve better outcomes. What I would say we don't want to necessarily fight the urge to action that might be a losing battle. At the end of a long day at work, you're stressed out your will power is sapped. You just had dinner.

You really want dessert. The question is, is it more effective to say, I'm just going to skip dessert, that's probably an uphill battle. Instead say, I'll go with a healthy dessert. I'll eat something that tastes good but puts me on a better track for the future. That's what we recommend.

If you're worried about job security, as many people are right now, instead of diving into the doom and gloom news about the latest unemployment numbers, maybe this is a good way to evaluate your emergency savings approach and contribute more. If you're worried about your family's health, as most if many if not most of us are, instead of diving into the news checking out the latest COVID 19 stats and fretting about the future, maybe this is a good time to evaluate your estate plan.

Third, if you're worried about your investment performance, rather than just obsessively checking your portfolio which is research shows actually leads people to be more fearful and risk averse, maybe it's a good time to assess your financial plan. So I would say it's not a matter of not taking action. It's a matter of taking healthy actions. Again, this is really all in theory. This is what the science suggests. So I would turn to Leanna to say what works in practice.

LEANNA: It's very well said. I do have that sweet tooth after dinner, but when it comes to financial planning the apple is the way to go. And I think we really help our clients build that plan and stay in that middle column you had just shared and really feel informed and comfortable and confident in their plan. Here are the ways we help our clients take control. So it's retirement planning so that you listen to the lifestyle you want when the paycheck goes away. It's sending kids or grandchildren to college. It's volatility stress testing. So going through scenarios of times like these and stressing your plan through poor markets, the good and the bad.

How we can maximize your savings and the income you need, ensure that you withdraw a healthy amount in retirement as people are living longer, that's the withdrawal strategies. Charitable giving, estate planning is leaving a legacy to loved ones potentially. And then tax efficient investing. So that's a way that we can help maximize your investing and make sure you're keeping more of what you earn and not losing to taxes.

So these are all the ways that we help our clients take control. And those that have gone through this have shared that they feel in control no matter what happens next. So that's the good news behind it.

JIM: Awesome. Great. Thank you both again so much for spending some time with us today sharing your knowledge and again, taking time to be with us. Thank you, everyone in the audience, for watching. During uncertain times like this, it's natural to wonder if they're still on track to achieve those goals. Those are real concerns as we discussed. That's precisely why building a financial plan is so important.

During times like these, those plans can serve as a guiding light and remind you what you're investing for. Those who built that plan and those we're professionally managing your portfolio, we hope that you remain confident in that plan, and please know that we're here for you to discuss any questions or concerns that you have.

For clients who might be interested in working with us to build a financial plan and manage your investments, please call us or visit Fidelity's website to learn more information. Also feel free to bookmark this page so you can navigate back here for next week's webcast. Huge thank you to Leanna Devinney and Andy Reed. And thank you for joining us. Stay safe. Be well. And we hope to see you again next week.