

LOSS AVERSION

## Making Emotional Decisions Can Undermine Your Portfolio

SOMETIMES THE DECISIONS WE MAKE ABOUT OUR INVESTMENTS ARE DRIVEN BY HOW WE FEEL RATHER THAN WHAT WE KNOW ARE SOUND INVESTMENT CHOICES.

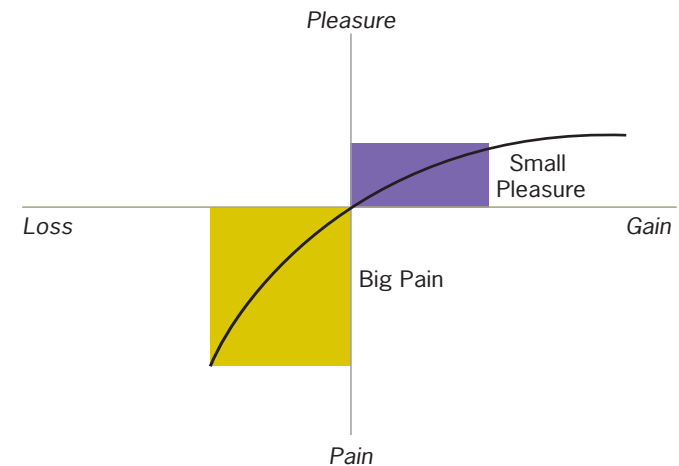
One of investing's timeless principles is to buy low, and sell high. However, when it comes time to do so, many investors find it very difficult to adhere to that tenet. Recently, AllianceBernstein surveyed 1,000 investors on this very topic.\*

- > *61% confessed that* it's harder to sell a winning investment than ask for driving directions.
- > *52% admitted to* having trouble sticking to an asset allocation program during market gyrations.

What's at play is a phenomenon called "loss aversion." And here's how it works:

- > *Buying low entails* investing in a security that is underperforming —some might call it a loser.
- > *Investing in a stock* that's lagging, regardless of its potential to grow, is not a comfortable feeling. We all want to be aligned with the winners.
- > *It's also a common* impulse to want to rid your portfolio of the investments you perceive to be the "losers." It's basic human nature to dislike losing money; no one wants to see their investments decline.
- > *For most of us*, the pain of a given loss significantly exceeds the pleasure of an equivalent gain.

### LOSS AVERSION



### □ The Result?

We sell low, and we buy high, and never reap the potential benefits we should from our investments.

\*Source: Telephone survey conducted by Mathew Greenwald & Associates, Inc., on behalf of AllianceBernstein Investment Research and Management, Inc. We conducted telephone interviews with 1,000 investors. All investors surveyed were solely or jointly responsible for making financial and investment decisions for their households, had a household income of \$75,000 or more and household investable assets of \$75,000 or more.

OVERCOMING LOSS AVERSION

## 4 Steps You Can Take To Reach Your Goals

### 1. *Know your plan and stick to it.*

Few drivers would travel across country without first getting the car tuned up and consulting a map. The same can be said for your investments. Chart a course and stay on track to reach your goals.

Set realistic goals, create a plan, allocate your investments and diversify your portfolio effectively to optimize returns in any market. Keep focused on your goals and avoid letting emotion steer you off course.

### 2. *Smart diversification means investing in uncorrelated assets.*

Effective diversification dictates having investments in different types of uncorrelated securities in your portfolio. Uncorrelated investments perform well in different market environments. That means poor performance by one security is offset by good performance in another—thus, providing a cushion to enhance overall return. In simple terms, it means not having all your eggs in one basket.

### 3. *Learn to see market dips as opportunities.*

Smart investors realize that underperforming parts of their portfolio can be an opportunity to invest more. This is simply the tried-and-true principle of “buy low, sell high” at work.

### 4. *Focus on the forest, not the trees.*

It is the return of the entire portfolio that matters, not the individual parts. Stay focused on how your investments are performing as a whole, rather than each one, to get over the inevitable bumps in the road toward reaching your goals.

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