The field of behavioral finance studies how our personal emotions and financial preconceptions can influence our decision-making processes when it comes to money.
The data supporting behavioral finance is not without controversy.
However, having a passing familiarity with this concept can help you remember to take a step back and ask yourself, "What am I basing this decision on?
Am I making the most objective choice based on the knowledge I have?"
This hypothetical graph shows how an investor should behave during a market cycle.
Ideally, "buy low, sell high" is the recommended investment strategy to follow.
Unfortunately, investors have shown a tendency to "buy high, sell low."
It's tempting to buy when prices are rising.
There's a feeling of excitement and an emotional reaction to get in on the action.
But by then it may be too late because most of the gains may already have been made.
It's also common to become anxious and want to sell during a downturn.
But is this the best move?
Fear of loss and the thrill of making money can be powerful emotions.
But reacting to these emotions rather than following a sound financial strategy may not guide you in the right direction.
If you find that your emotions are driving your investing behavior, it may be time to discuss your options.
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