An investor education initiative

It's time to do nothing

Have you ever tried to stay calm on a roller coaster? It's just not possible. Your heart rate isn't going to slow down while you're hurtling along the track, upside-down, 100 feet above the ground.

That's our current reality. We are watching our investments get hit in a volatile stock market coupled with low interest rates on fixed income instruments. Adding to the uncertainty is the fact that a pandemic is ripping through the social fabric of the country.

In the midst of this chaos and panic, it's normal to feel anxious and be scared. Fear is a natural response to threat. But anxiety and fear lower cognitive abilities, risk tolerance, and confidence, so it's not the ideal emotional state – for an individual or an investor.

Expect to feel unsettled.

The emotions we feel are more than just financial and job uncertainty. The threat of disease upsets us in a different way than does an economic threat. We can acknowledge and recognize those emotions. We're not foolish for feeling them, so understanding where they come from can hopefully help us manage them.

Expect to be tired.

When our environments change--like when we work from home and lockdowns prevent us from stepping out--our habit triggers are disrupted. Previously, we could rely on habits that controlled our eating, our daily schedule, and so on. But for many of us, the pandemic has taken a rototiller to our daily lives and our habit triggers; now, our minds need to think through many more decisions. Above and beyond these unsettling times, the lack of our normal habits can make us feel even more unsettled and tire us out mentally.

Expect to get triggered.

What's our first line of defense when battling germs? Even before our immune systems, the initial defensive line against disease is our behaviour. This behavioural immune system is a set of psychological tendencies that motivate people to avoid situations that may make them sick. You can think of the behavioural immune system as a smoke detector for your kitchen. If it catches signs of danger, it sounds the alarm for you to leave the area. We don't have to be around a person who is sick to activate our behavioural immune system: Just thinking about being sick or seeing pictures of sick people is enough to elicit a response.

In everyday life, this can be beneficial: Collective action is a powerful tool to stop the spread of disease. But unfortunately for investing, we are also susceptible to "crowd psychology" when the risk of disease is high. And the crowd isn't feeling optimistic. Investors are understandably worried . Our behavioural immune system may lead us to err on the side of caution by believing that what other investors are doing must be the right course of action for us.

Solution…

India has plunged into the most deadly phase of this global pandemic. The virus has unleashed havoc and is setting wrenching records.

It would be best to do nothing right now. You are most probably not in a good state to be reviewing your investments. Focus all your attention and energy on staying healthy and safe. And being there for family, friends and neighbours who are struggling.

If you do want to visit your portfolio, remember that the power of compounding and diversification remain constants amidst the chaos. So use time to your advantage. That means first avoiding 'un-doing' the power of time in your portfolio by panicking. Quality investments have seen dramatic drops in value in the past, and they've recovered.

Use volatility, as a gut check, to point you in the right direction. If you feel that your portfolio value has fluctuated too much, that probably means that you're taking on too much risk. Reconsider your risk tolerance and recalibrate your long-term asset allocation decision, or the mix between stocks, bonds and other asset classes, and ensure that it's appropriate for the level of risk that you can comfortably take on as opposed to making a short-term tactical change in your portfolio.

The above is based on the insights of Morningstar's behavioural finance experts – Steve Wendel, Sarah Newcomb and Stan Treger

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Source: Morningstar