

# Re-focusing investors' attention away from losses can reduce negative emotional response

December 2 2014, by Fran Webber

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According to a recent report from the Federal Reserve Board, 31 percent of Americans surveyed said they had no retirement savings, and almost half were not actively thinking about planning for retirement. Studies show that many Americans do not invest because they distrust the market and fear financial losses. Now, a University of Missouri researcher has found a way for financial planners to help decrease their clients' worries, which stem from the fear of losing money.

Michael Guillemette, an assistant professor in the MU College of Human Environmental Sciences and a certified financial planner, examined how investors react to financial losses under varying levels of distraction. Participants were tested to see if their [investment choices](#) differed when they were asked to remember additional information meant to distract them from those investment decisions.

"In terms of making investment choices, a higher level of distraction didn't matter," Guillemette said. "However, while [participants'](#) choices weren't affected, their physiological, or emotional responses to investment losses decreased when they were more distracted. "This shows how physiological loss aversion, or the tendency to react to [financial losses](#) more than comparable gains, may be reduced by not focusing on the losses."

Guillemette says it is important for financial planners to make sure they are not beginning client meetings by focusing on the investment performance aspect of a financial plan.

"When a client's financial portfolio is doing well, a financial planner may be inclined to begin the meeting by talking about positive investment returns," Guillemette said. "However, a financial planner should remember that if meetings always begin with a discussion on investments, that clients will expect a similar discussion when their portfolio has experienced losses. This research shows that instead of beginning meetings with discussions on recent investment performance, financial planners should focus on other value-added aspects of financial planning such as estate planning, insurance, taxes and long-term retirement goals."

Guillemette first asked participants to remember numbers that were two or seven digits long before asking them to make investment decisions using small monetary amounts and monitored participants' levels of emotional arousal during the experiment. Guillemette found that participants' investment choices did not change when they were distracted by remembering a higher level of digits. However, participants' emotional responses to investment losses were lower when they were distracted with trying to remember the strings of longer numbers.

Guillemette recommends that investors who do not use financial planners can reduce their [emotional responses](#) to losses by simply viewing their [investment](#) returns less frequently. He says a one-year portfolio evaluation period has been found to maximize investor satisfaction.

The study was published in the *Journal of Personal Finance*.

Provided by University of Missouri-Columbia

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