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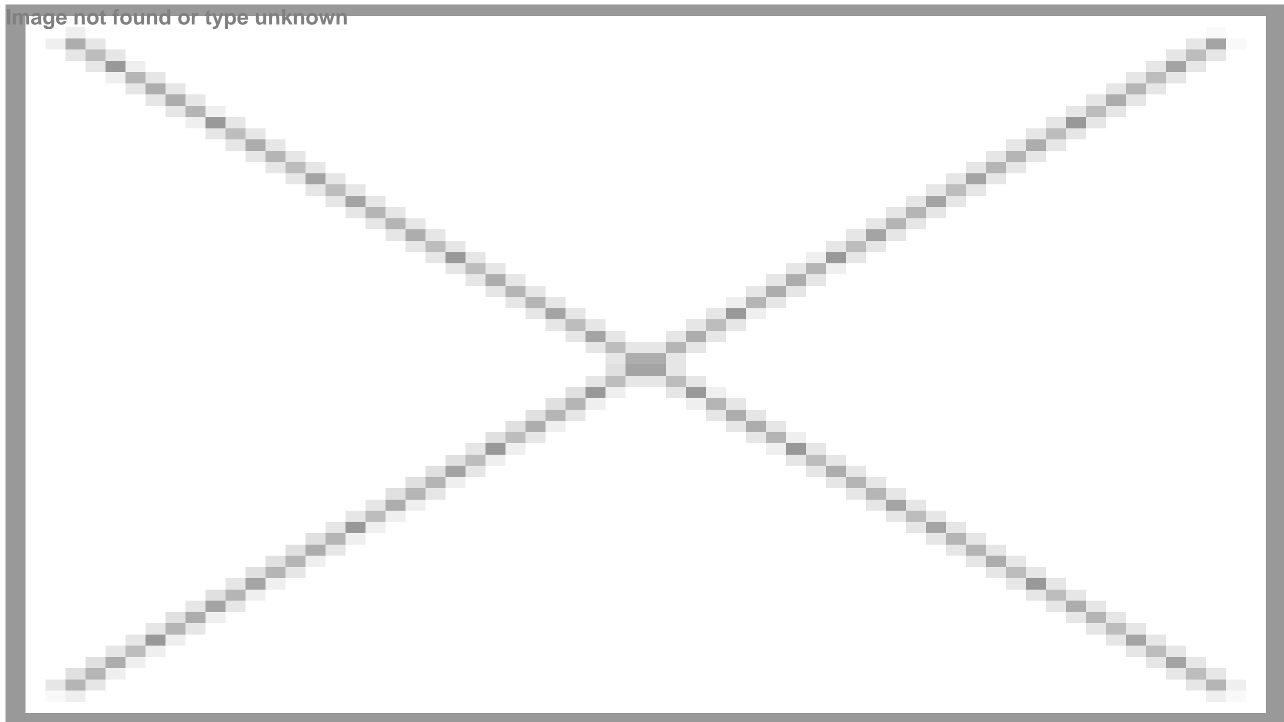
Three Common Stress Responses to Financial Uncertainty and What to Do About It



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As a wealth advisor, I’ve witnessed the various ways people react to financial related stress. While I’m sometimes surprised at an individual’s response, I remind myself that people have deeply ingrained beliefs and patterns about money.

There is a large body of research that explores the relationship between money and emotions, financial archetypes, and money psychology. The Money Coaching Institute® holds that there are eight money types or archetypes: the Innocent, Victim, Warrior, Martyr, Fool, Creator/Artist, Tyrant and the Magician.[1] In his book, *It's Not About the Money: A Financial Game Plan for Staying Safe, Sane, and Calm in Any Economy*, Brent Kessel outlines eight archetypes as well: the Saver, Pleasure Seeker, the Star, the Idealist, the Empire Builder, the Caretaker, the Innocent and the Guardian.

During the COVID-19 Pandemic, I have noticed clients acting in ways that are consistent with many of these financial archetypes. It’s a universal truth that we learn things about ourselves during difficult times. So, perhaps now is the time to better understand your relationship with money so you do not let your stress behaviors derail your financial game plan.

Below are the three most common behaviors I have observed in the wake of COVID-19, as well as the respective financial archetype for each stress response:

Typical Stress Response?	Financial Archetype?
Take excessive amount of risk for hopes of a large payoff	The Fool/Pleasure Seeker
Sell investments in favor of cash	The Saver
Refuse to inspect situation or make changes	The Innocent

Considerations for the Fool/Pleasure Seeker
Coming off the heels of the best 50-day rally in history for the S&P 500, many investors are experiencing FOMO (fear of missing out), especially those that choose to sit in cash. Some people are now looking for a quick profit by going all in on one or a handful of stocks.

If you find yourself fighting the urge to do this, or day trade your accounts, perhaps you fall into this archetype, and you are not alone. According to *Yahoo Finance*, there has been a surge in new account openings, accompanied by an increase in searches for 'day-trading techniques'.[2] A recent *CNBC* article explains that the Robinhood app now has 10 million users, and Fidelity has opened 1.2 million new accounts in the first few months of 2020.[3]

In fact, the CEO of Barstool Sports, Dave Portnoy, has amassed a social media following for his stock picks and daily trades. If you are not familiar with Barstool Sports, Wikipedia describes it as a sports and pop culture blog, not an investment advisor! Portnoy explains in an interview with *Fox Business* that he is having fun trading his own money and plans to continue doing so until sports betting is back online.[4]

While there is nothing wrong with speculative investing, it is not prudent to do so with retirement money, especially if you are the fiduciary for a pooled, trustee-directed retirement plan.

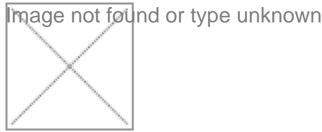
For tax purposes, we recommend placing speculative investments in non-retirement accounts so that you can write off any losses. More importantly, we recommend limiting speculative investments to no more than 5% of your portfolio. For the person with $1 million in a 60/40 portfolio, we recommend using no more than $50,000.

Considerations for the Saver
It sounds counterintuitive, but a bear market is a good thing for long-term investors because you are buying investments at discounted prices. If you ever consider moving your investments into cash during these periods, consider the following information:

Dating back to the early 1970s, a portfolio consisting of 60% stocks and 40% bonds (60/40) experienced a negative return 9.5% of the time when looking at rolling three-year returns. A less aggressive portfolio, 40/60, only lost money 3.3% of the time when looking at rolling three-year returns. However, when looking at rolling five-year returns for the same portfolios, both

had a positive return 99% of the time.[5]

Moreover, a JP Morgan Asset Management study shows that missing 10 of the best stock market days can reduce your return by over 3.5%, and most of the best days follow the worst days, which is typically when investors throw in the towel.



If you are more than five years away from needing to tap into your investments, do not let your emotional desire for stability and certainty cloud your judgement when times get tough. Going to cash may give you certainty in knowing your investments will not lose any more money in the short term, but it can also lock in significant losses.

For the clients that cried uncle in March of this year, some have locked in losses of 20% or more!

Considerations for the Innocent

For those investors that couldn't bring themselves to look at their investments when things went haywire earlier this year, they actually did themselves a favor since the stock market has skyrocketed after falling over 30% in a little over a month.

Studies show that the less frequently you look at your investments, the better your accounts typically perform.[6] Taking the "Ostrich Approach" (burying your head in the sand) may work from time to time and spare investors some heartburn, but it does have the potential to do lasting harm, specifically for retirees.

If you are drawing from your investments for retirement income, your portfolio needs to be allocated in a way to minimize the "sequence of returns risk." [7] The best way to do this is to position your portfolio to minimize the potential loss during the crucial early years of retirement.

If you are withdrawing from your accounts, any downturn will be exacerbated by selling investments at low prices. By employing a dynamic withdrawal strategy, you can mitigate the negative impact of withdrawing money in a down market. Rather than taking money out of your account by selling all your investments pro-rata, consider selling bonds during a stock market sell-off and trimming stocks during a bull market.

Retirees also need to monitor withdrawal rates to ensure their portfolio will survive a long retirement.   For investors who retired within the past 10 years, they may have falsely developed the impression that their lifestyle is sustainable. Taking the "Ostrich Approach" may have worked so far, but not monitoring your withdrawal rate is a recipe for disaster. Assuming no change to your annual withdrawals, a 30% decline in portfolio value would increase your withdrawal rate by ~43%, potentially taking years off your portfolio's longevity.

Understanding why people react in different ways can help you be a more compassionate spouse, parent, friend or business partner. Once you become more aware of your "money type," you can leverage the positive traits to empower you to achieve your goals and dreams, while preventing the negative consequences from derailing your financial game plan.

**If you would like to find out more about your own money type, take The Money Coaching Institute's free online quiz here:

https://moneycoachinginstitute.com/money-type-quiz/ [2]

Have more questions about stress and financial uncertainty? Click here [3] to send us a message.

The information provided is for informational purposes only and should not be construed as investment or legal opinion. Please consult a tax or financial advisor with questions about your specific situation. Past performance is not a guarantee of future returns.

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1. https://moneycoachinginstitute.com/understanding-money-types/ [4]
2. https://finance.yahoo.com/news/were-seeing-a-surge-in-searches-for-day-trading-techniques-investopedia-212212184.html [5]
3. https://www.cnbc.com/2020/06/17/robinhood-drives-retail-trading-renaissance-during-markets-wild-ride.html [6]
4. https://www.foxbusiness.com/markets/barstool-sports-dave-portnoy-gamblers-trading-stocks [7]
5. *information based on Ibbotson Large Cap Stocks and Corporate Bond historic performance. The 3 year rolling return data dates back to 12/31/1972 and the 5 year rolling returns date back to 12/31/1972.
6. https://academic.oup.com/qje/article-abstract/112/2/647/1870948?redirectedFrom=fulltext [8]
7. https://www.blackrock.com/pt/literature/investor-education/sequence-of-returns-one-pager-va-us.pdf [9]

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