Homestead
Advisers | Funds

# Our Perspectives:
# **Avoiding the Pitfalls of Emotional Investing**

*Our emotions can sabotage our good intentions when it comes to making investment decisions. Homestead Advisers has tips for taking the emotions out of your financial actions.*

## The Strategies to Avoid Emotional Pitfalls:

- Use automatic investment plans to remove emotion
- Keep visual reminders of long-term goals (e.g., family photos)
- Work with a financial advisor for an objective perspective
- Stay committed to your long-term plan

### Q. How do emotions materialize in investors?

Our client services team experiences how emotions play a role firsthand in investment decisions through interactions with shareholders. The emotion that prompts the most calls is anxiety; our investors see a piece of bad news or feel worried about politics or even seeing a weak return on their account statement for a particular quarter. Often, the questions revolve around concerns like, "I'm worried about x. Should I sell my investments?"

### Q. What is your response when that happens?

Regardless of the exact market environment, our team's answer for shareholders is: Focus on long-term goals. We can never be certain about what the market will do next, good or bad, and research shows that nearly everyone gets market timing wrong. In fact, the investors who set up their accounts with long-term goals in mind and then forget about their investments may have strong returns! We encourage investors to go back and review their overall goals and remember why they set up their long-term plan before making any changes.

### Q. Has emotion been a bigger driver in the current political environment?

While election cycles and new administrations can be times of high emotions, the volume of shareholder calls has been steady. We've seen a balanced mix: some investors feeling that stocks would go down, and others feeling that stocks would go up, regardless of their political views.

However, one thing we think has made investing decisions more emotional is modern-day technology and constant availability of news. Investors may turn on cable news or social media and be bombarded with headlines and opinions telling them it's a good time to invest or a terrible time to invest.

### Q. Do you see other ways that emotions play into financial decisions?

Another emotion-driven tendency is the idea of holding a lot of cash, "just in case." We can understand why that gives investors some peace of mind. But we also remind them of the costs of inflation. When you hold cash, the purchasing power falls over time because inflation is driving prices up a little every year. It doesn't feel like a loss, but it is.

## Q. How can people work around emotional pitfalls?

While technology can aggravate investor emotions, it can also help remove emotions from the process. One tool our team favors is the use of automatic investing plans, which can make scheduled purchases, redemptions or exchanges for you.

Research suggests that investors make better decisions when they keep a picture of a family member next to their computer — a visual reminder to go back to their original goals for their accounts. There's also evidence that using a financial advisor may help investors make better decisions, mainly because they have an outside resource to help prevent emotional reactions. We are always happy to be that resource to our shareholders.

Investing involves risk, including the possible loss of principal. ***Past performance does not guarantee future results.*** An investment in a mutual fund is not insured or guaranteed by the Federal Deposit Insurance Corporation or any other government agency.

***Investors should carefully consider fund objectives, risks, charges and expenses before investing. The prospectus contains this and other information about the funds and should be read carefully before investing. To obtain a prospectus, call 800.258.3030 or visit homesteadadvisers.com.***

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