



INVESTMENTS & EMOTIONS... OIL & WATER?

In this fast paced and increasingly digitized world, our society tends to become somewhat desensitized through sound bites, abbreviated communications, and a deluge of nonstop and generally unsolicited information.

Does this mean that people are becoming less emotional? On the contrary; if you base the answer to this question on the investment habits of the general public the answer is an astounding “no” and that can be unfortunate for those who are making important investment decisions.

There is certainly a place for emotions in the planning process when we are determining what we want to do with our resources over the long run. From family obligations and business ventures to retirement dreams and philanthropic endeavors, emotions are often the driving force behind our investment goals.

When it comes time to make the educated and strategic investment decisions necessary to achieve these goals however, we need to step away from emotion, sentiment, intuition, gut feelings, and sensitivity. These are the same things that we tell teenagers to avoid when they are choosing their first car or a college. We encourage to them to make qualified, sound decisions - it's easy to say.

When investing we need to focus on the fundamentals, the economic drivers, and the verifiable facts. Some of the basic considerations include capitalization, profitability, historical patterns, risk, leadership, expenses, market prevalence.... the list goes on. Maybe that's why most people spend more time picking out a new pair of shoes than they do when making important investment choices. It can be confusing and intimidating.

So what happens when emotions drive the decision to buy or sell? Frequently it means hanging on to a stock long after its value has deteriorated. People usually do this with companies that they have a local or personal connection to.

Take for example Washington Mutual Bank which was a Northwest Icon for more than a century before growing into a bloated national behemoth. They're old slogan “The Friend of the Family” echoed in loyal investor's ears as the stock price deteriorated from \$45 a share in 2007 to the ultimate demise of the company a little more than a year later. All of the warning signs were there but there were legions of investors who absorbed painful losses because they couldn't imagine that the big old bank would fail them. Many are still shell shocked from the experience.

There are countless companies just like this that have taken loyal investors to the grave. The indicators and red flags are almost always there. Usually the only remaining unattached investors are high risk speculators and the emotional followers.

We also tend to take quick action when we have a bad feeling about a company or an event. Usually it's the result of a news story, a highly publicized market dip or a rumor.

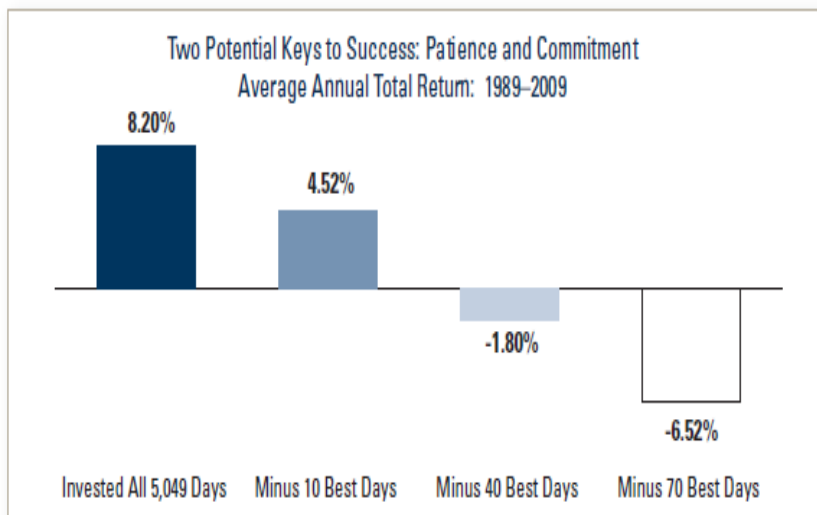
On the other end of the spectrum are the strong companies that experience temporary and seemingly catastrophic public trials. Events like the Tylenol scare in 1982, the Union Carbide disaster in 1984, the Exxon tanker disaster,



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and even the recent Toyota safety concerns come to mind. Each of these companies remained very strong on paper with strong earnings yet their stock plummeted during temporary setbacks. In recovery they tend to come back stronger than ever. Those investors who fled these companies and failed to reinvest at the low, missed a tremendous opportunity and sustained losses. Those who stuck with them experienced temporary paper losses until the recovery.

As the chart below indicates; missing just a handful of days during market recovery in a long term portfolio can have devastating effects on the investments. Investors often miss these days because they panic and/or try to time the market.



Past performance is no guarantee of future results. The investment return and principal value of an investment will fluctuate.

We all have bias's towards or away from certain types of enterprises and we should certainly not be obligated to invest in a company that participates in business practices which are contrary to our personal beliefs. Fortunately,

there are many solid investments throughout sectors which provide a variety of options for the construction of a solid long term portfolio.

When making investment decisions or executing complex transactions be sure to step back and see where your judgment is coming from. If the source looks more like a kitten than a lion, it may be time to rethink your decision making strategy.

If you're not comfortable with the process or feel that your judgment may be tainted by the feeling in your gut, that's a good time to step away and seek the advice of a trusted and experienced advisor.

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