Musings about stock investments

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QUESTION: How do you feel about putting money into stocks?

Podnos: I like the adage that the best time to invest is when it makes you sick to your stomach to even think about doing so. Think about late 2008 and early 2009, when the American stock market had dropped about 40 percent relatively quickly and large financial companies were failing. I think that many of us "knew" that it was a great time to invest more money, but very few could bring themselves to do so.

Psychologist Daniel Kahneman writes that we think in two ways: fast and slow.

Our fast thinking is related to quick subconscious feelings, while our slow thinking is more analytic and logical. When the market is screaming higher (think 1999 for stocks, 2006 for real estate), we get excited and caught up in the rush to buy. That is our fast thinking/feeling that we are listening to. If we stop and slow down, we "know" that buying when everyone else is doing so may not be a good idea. Those that lined up early in the morning to pay a full inflated price for real estate in 2005-6 may have had some "slow" doubts, but acted anyway.

Conversely, our feeling of fear was acting in 2008-9. "Everybody" was getting out and we wanted to do the same to eliminate the pain. Those with discipline (or disciplined advisors) were able to ignore their fast brain and to know logically that stocks at a lower price were less risky than they had been when more expensive.

How do you deal with your fast feeling brain? My advice is to look away. If you are investing for long term results (and there is no other good way to invest in stocks), you must stick to your plan and goals. You must ignore short term changes in price, regardless of how quick or large. If you are particularly gifted (or have a good advisor) you might even consider buying when the market drops a great deal.

I often ask new families that I am to work with how they handled the market drop in 2008-9. If they tell me they paid little attention, I categorize them as slow (good) type thinkers. They'll be a pleasure to deal with. If they tell me that they were sick with worry and perhaps sold at the bottom, I know we need to do some behavior modification-or perhaps pick a lower volatility portfolio (which is also likely to have lower long term returns).

Examine your own emotions. If you were handed a nice lump sum today to invest for a retirement more than ten years away, would you have any qualms about putting it to work immediately? If so, it is time for a talk with your advisor.

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