

Solutions

Bad behavior

A simple line animates on screen. There is a fork in the road.

Did you know that being “hungry” may affect your decision making? In fact, humans may make rash decisions while under stressors such as hunger, lack of sleep, anxiety or fear.

The line moves to the side when a dinner plate appears. The line weaves through the screen as a tired eye, a frazzled brain and a fast beating heart appear on screen.

It all stems back from the days of our ancestors. We evolved to economize on scarce resources and our brains consume a lot of our energy. Thinking too much wastes energy and spending too much time considering a threat could mean the difference between life and death.

The words “A long time ago” appear. Then a brain pops up. A “Loading” bubble appears around the brain as it thinks. Then a big lion creeps up on the brain as it thinks.

Nowadays, we aren’t threatened by carnivorous predators, but our brains still engage in those age-old survival techniques in the modern world!

The brain observes a falling market graph and begins to panic.

When considering information, we use two systems of thinking. System one is primal, fight or flight system that keeps us safe in stressful situations and allows us to act fast when we sense danger.

Zoom inside the brain to reveal a simple system. Two predators appear and system one jumps into action.

System two, on the other hand, is a slower, analytical form of thinking. It helps us solve complex problems, but it’s slow and very energy intensive.

System two is shown as a bigger, more intricate system inside the brain.

Unfortunately, evolution didn't give us an automatic override and many times fear and anxiety leads us to make system one decisions when system two would be more appropriate.

"System two" neurons are on screen. The declining graph appears again, and the neurons disappear. Replaced by "System one" which is a simple rapid-fire neuron pattern.

When it comes to investing, analytical thinking and well thought out decisions are the keys to building a diversified portfolio.

But when we're exposed to certain elements like volatility and falling markets, fear and anxiety trigger system one to take over and cause a hasty decision.

A coin pops up and appears inside the brain. A declining graph runs through the brain and the coin falls down into the heart. The heart starts beating rapidly.

To make matters worse the brain creates shortcuts to avoid engaging the energy intensive "system two."

The brain appears on screen. Flashing red.

These shortcuts can lead to what's known as cognitive biases. These biases can take us down the wrong path when it comes to investing, and market volatility can bring out the worst in us.

The words "Cognitive biases" appear under the brain as it flashes red.

Investors tend to overreact during volatile markets, relying on system one and shortcuts. This can lead to poor investment decisions that can damage portfolios.

The flashing brain falls off screen and lands on a declining market graph. The brain starts to follow the volatile path.

Whether you're an informed investor or a beginner, working with an advisor can help you take the emotion out of investing and focus on your overall goals.

The brain starts to flash green. The path smoothens out and starts to slowly climb again.



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