INVESTOR UPDATE

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Emotions Impact Investments.

Get to Know Some Common Traps Set by Human Nature

Market prices move up and down—and can even be described at times as erratic. And we don't always know why.

In many cases, fluctuations are simply influenced by emotions, like enthusiasm or fear. As a result, investors can find it difficult to stay calm and make rational decisions, especially when the unexpected disrupts the financial markets.

Researchers who study behavioral finance examine how cognitive biases in human thinking can affect investor behavior. Understanding human nature might help you recognize and overcome some common psychological traps.* Here's a closer look:

Following the crowd

We all want to be in on the latest trends, even if it's not in our own best interest. But following the crowd can be one root cause of "bubbles" (this is when an asset price or price range exceeds the asset's intrinsic value). It's sometimes referred to as "irrational exuberance" and is essentially a herd mentality that can create excessive demand for "hot" investments. The downside can be that investors often chase returns and drive up prices until they become very expensive relative to long-term values.

Confirmation bias

This is about our need to search out and remember information that confirms, rather than challenges our existing beliefs. When it comes to investments, if you have a good feeling about a certain investment, the risk is that you may be likely to ignore critical facts and focus on data that reinforces your point of view.

Availability illusion

Under the availability illusion, people weigh judgments toward recent information, making new opinions (or in some cases investment decisions) that lean toward only the latest news. It's like watching Jaws and suddenly being afraid to go in the water.

Overconfidence

Simply put, overconfidence may cause an investor to trade excessively and/or ignore risks.

The agony of defeat

People hate losing, and it can be particularly painful dealing with financial losses.** Therefore, investors may avoid selling an investment that would realize a loss even though the sale may be the right thing to do.

Panic

Needless to say, panic occurs when fears rise. When people panic they withdraw deposits, sell stock and try to liquefy their assets. Acting irrationally and with haste can often cause lasting financial problems.

TIP

Slow down and realize that emotions impact our investment direction. Talk with your Oppenheimer Financial Advisor who is there to help you gain perspective and stick with a thoughtfully crafted strategy—and help you avoid potentially expensive, emotion-driven mistakes.

*The Economist, "What's Wrong with Finance?" May 1, 2015 **The Wall Street Journal, "Why an Economist Plays Powerball," January 12, 2016

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