

P E R S P E C T I V E S

An excerpt from "Perspectives" - Volume 10 - Issue 6

Behavioral finance

Trust your instruments over your senses

By Stan Clark - Senior Investment Advisor

Just over 20 years ago, on the evening of July 16, 1999, John F. Kennedy, Jr. crashed his plane into the Atlantic Ocean. Kennedy was an experienced pilot who had flown the route many times. What happened – and how does it relate to behavioral finance?

According to the U.S. National Transportation Safety Board, the probable cause of Kennedy's accident was his "failure to maintain control of the airplane during a descent over water at night, which was a result of spatial disorientation."

Spatial disorientation can happen like this: A pilot is flying in dark or hazy conditions where he cannot see the horizon, and cannot tell using his eyes alone if he is level or not. He becomes distracted for a moment, and while he's distracted, his plane gently tilts. The tilt happens gradually, so he doesn't notice. To him the plane still feels level.

If the pilot follows his instruments and changes back to level flight, he will then feel as if the plane is leaning the other way. This experience is known as the leans, because of the compelling urge to change from the level flight back to the tilted one. But a pilot who is well-trained in flying with instruments will resist that feeling. He will trust his instruments, and keep the plane level.

However, a less experienced pilot can be overwhelmed by his feelings. He may, as JFK, Jr. did, override his instruments and mistakenly change back to the tilted position. Things then go from bad to worse. The plane's tilt causes it to point down, speed up and lose altitude. The pilot takes more actions that feel right – but are in fact opposite to what he should be doing. The plane enters a spinning nosedive, called a *graveyard spiral*, and crashes.

Our feelings, emotions and intuitions are powerful, and have compelling influences on us. They have evolved over hundreds of thousands – in some cases, millions – of years. While indispensable to us, these senses sometimes lead us astray. Just as our senses were not developed to deal with flying, they were also not developed to deal with many other modern phenomena.

Take investing. The world of investing can play tricks with your mind, just as darkness, haze and clouds can obscure your vision when flying. The modern world's information overload; our complex

Having a set of rules, guidelines and strategies to guide your decisions will help you avoid being overly influenced by your emotions.

interrelationships with each other in personal matters and in business; and the media's influence on us – all of these are as different from what our ancestors faced as flying is from walking. Just as our senses can point us in the wrong direction when flying, our feelings, emotions and intuition can lead us astray in investing.

That's why it's important to have a set of investment instruments to guide us. That's also why it's important to follow and trust those instruments – especially when they are telling us something different from what we feel with our senses.

Having a set of rules, guidelines and strategies to guide your decisions will help you avoid being overly influenced by your emotions. It will help you determine which way is up and which way is down in the world of investing. And that can make the difference between reaching your long-term goals – or falling short. ■



Stan Clark is First Vice-President, Portfolio Manager and Senior Investment Advisor for the Stan Clark Financial Team at CIBC Wood Gundy. Stan has direct responsibility for the team and oversees all areas of financial planning, investment selection and investment management.



CIBC
Wood Gundy

The Stan Clark Financial Team

Where planning, investing and behavioral finance meet

Phone: (604) 641-4361 Toll free: 1 (800) 661-9442 Fax: (604) 608-5211 Email: StanClarkFinancialTeam@cibc.ca www.stanclark.ca

Stan Clark is an Investment Advisor with CIBC Wood Gundy in Vancouver, BC. The views of Stan Clark do not necessarily reflect those of CIBC World Markets Inc. This information, including any opinion, is based on various sources believed to be reliable, but its accuracy cannot be guaranteed and is subject to change. Clients are advised to seek advice regarding their particular circumstances from their personal tax and legal advisors.

If you are currently a CIBC Wood Gundy client, please contact your Investment Advisor. CIBC Wood Gundy is a division of CIBC World Markets Inc., a subsidiary of CIBC and a Member of the Canadian Investor Protection Fund and Investment Industry Regulatory Organization of Canada.