

# PERSPECTIVES

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Behavioral finance

## Trust your instruments over your senses

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**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

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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. ■



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