

What Animals Can Teach Us About Investing

In the animal kingdom, there are three responses to a threat: Flight, Fight and Freeze. Depending on the threat, an animal will use one of those three strategies in the face of danger. Humans have the same responses to threats and so do investors.

Currently, we are in a time of market volatility. Some would call it a downturn; some would call it an opportunity, and some would just throw their hands up and shake their heads.

Let's look at those basic strategies to the threat of economic uncertainty reflected by downturns in the stock market:

Flight: The investor is scared the market will keep going down so they panic, cut their losses and hope when the market starts going up, they will jump back in at the right time. Thereby, locking in losses and becoming more and more frustrated with the people in charge of our government. Their slogan is "Nobody looks out for the little guy!"

Freeze: These investors just keep plugging away in their 401k. For example, they take the good with the bad and hope that because the market has historically gone up over time, they will do well in the long run. Besides, they have better things to do than worry about the market. What's a market anyway? Their slogan is "This too shall pass."

Fight: These investors see the downturn as an opportunity to buy cheap. They put extra cash in the market by increasing their 401k contributions, for example, and hope that the market gets a little worse before it gets better so that they can capitalize on downturns and upturns in the market cycles. Their slogan is "you don't make money when you sell – you make money when you buy."

Which one of these are you? All the strategies are appropriate depending on your risk tolerance, time horizon, and financial situation. Want some answers? Talk to us. We're here to help.