Wild Ride in Markets Driving You Up the Wall?

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Flash Points:

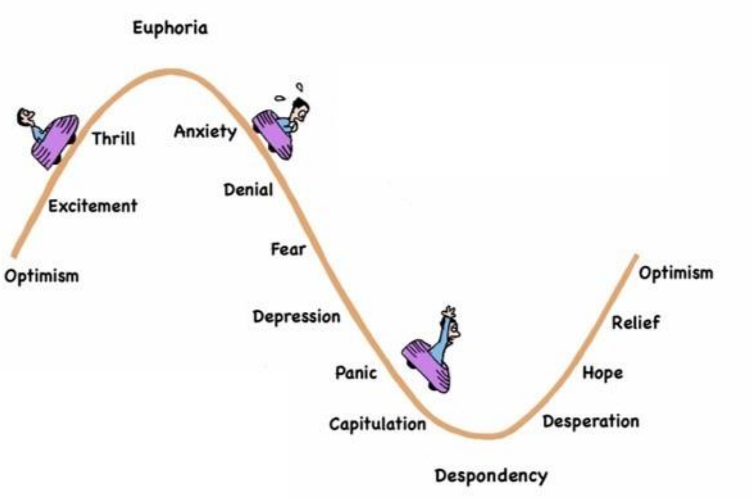
- Investing is a discipline that can be taxing on the mind
- Markets are bound to recover, but your health may not
- Feeling emotionally invested with your portfolio is normal, it's how you react that matters
- Everyone's relationship with money differs according to their own experiences. Consider where you place its value in your life and what is important to you

Are Markets Making you Sick?

Investing can be a mentally stimulating excursion. At once a highly regimented art form deeply rooted in technical analysis & financial theory, but also reliant on gut feel, grit and plenty of gumption.

So when markets vault and fall, some investors can get overwhelmed and be swept away by the volatility.

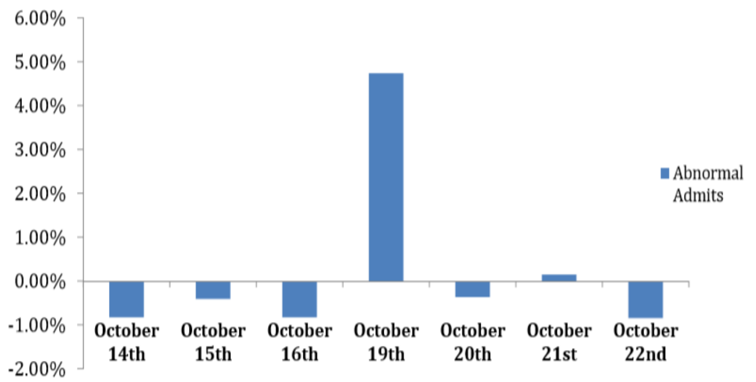
Studies have shown that stock market volatility has a direct correlation to increased hospitalisation rates and incidences of mental health disorders.



A research produced in 2014 which tracked hospitalisation health records close to three decades (1983 – 2011) found that daily fluctuations in stock prices has an almost immediate impact on the physical health of investors, with sharp price declines increasing hospitalization rates over the next two days.

In a chilling example, on October 19, 1987 otherwise known as Black Monday, the US stock market plunged by over 25% which led to hospital admissions spiking by over 5% on the same day.

Chart 1: Abnormal Hospital Admissions and the 1987 October Crash



Source: "Worrying About the Stock Market: Evidence from Hospital Admissions" by Joseph Engelberg and Christopher Parsons, University of California- San Diego, October 2014

Sounds alarming, but that's what the data shows.

However, the important lesson here is that whilst markets are bound to recover and benchmark gauges will recoup their losses, your health may take a turn for the worse and deteriorate beyond the normal course of recovery.

In conjunction with **World Mental Health Day**, *Affin Hwang Asset Management* spoke to experts about the link between mental health and investing, as well as the importance of financial wellness as part of a holistic health plan.

Quelling Anxiety and Panic Attacks

So is there is a link between periods of high volatility and mental health afflictions like anxiety or panic attacks?

Rajen Devadason a licensed financial planner with Manulife Asset Management Services Berhad and also CEO of corporate mentoring consultancy RD WealthCreation Sdn Bhd believes that there could be a link between the two, but he notes that it is important not to mix them both as the two conditions are not mutually exclusive.

“I think the strength of that relationship is only moderate. I’ve helped clients meet their life and financial goals as a financial planner for 17 years. In that time there have been many market meltdowns and the occasional market ‘meltups’. Most people deal with such volatility without tipping over into mental illness,” says Devadason.

Though he adds that such emotions are a natural occurrence and can be jittery particularly for someone just starting out on their investment journey.

”Everyone, mentally healthy or not, of course, is susceptible to heightened levels of anxiety when uncertainty abounds. It is part of the human condition,” he gently affirms.

Rajen Devadason, CFP

Rather, he thinks it is how one reacts that is more important. He advises investors to approach their investments from a portfolio-perspective and derisk when market conditions turn volatile.

“From a financial planning perspective, in my opinion the best way to stabilise emotions during times of extreme volatility is to gradually raise cash and fixed income (bond) allocations within a portfolio, especially through judicious harvesting of excess profits during market highs, to provide ballast and stability for eventual downturns. It is fascinating how stabilising a portfolio can also stabilise emotion,” he said.

The general rule of thumb to investing is whether you can still sleep comfortably at night without having undue worry about your portfolio. If you find yourself constantly awake, chances are you may be taking more risk than what your own circumstances allow.

Trust the Allocation, Not your Gut

Some say investing produces a natural high and releases dopamine in the body especially when an investment call proved to be right one.

But studies on behavioural finance has shown that periods of irrational exuberance can affect how investors make decisions in a bull market and even influence how much risk they would be willing to take otherwise.

But how much should they listen to these impulses and what their body is telling them? After all isn’t gut feel and instincts a big part of investing?

Devadason advises, “It is my belief that emotions lose us money while strategies make us money. Having said that, there is nothing wrong with going with a gut feeling, particularly if you have been involved in investing for decades and thus honed your gut to give you useful input.”

“But for those just starting out, listening to an uneducated ‘gut feel’ can have them selling out at the wrong time, meaning market lows, and buying on irrational exuberance, at market highs just before a likely collapse.

In my opinion, in most cases novice investors would be better advised to educate themselves through extensive reading on financial planning, economics, investment and business.

"They should also be humble enough to seek the counsel and guidance of licensed financial planners, trusted unit trust advisers and private bankers as they gradually learn to first save and then invest. They should only venture into speculating if they have strong emotional and financial reserves," says Devadason.

Lessons from History

Controlling your emotions is certainly no easy feat especially when the stakes are high and there is money on the table. As an investor, how can one then detach themselves from their own emotions (whether rational or not) and invest to achieve their financial goals?

According to Devadason, we have the benefit of history behind us to provide us with an extensive vantage point to invest.

"Time and experience grant us context. We need to learn about history. I would recommend taking the time to research the last several centuries' worth of booms and busts and also reading about the lives and great investment decisions of individuals like John Templeton, Peter Lynch and Warren Buffett," Devadason says.

"When we take a long view of history, the one standout lesson is that 'this too shall pass!'. Trump will either get impeached or he will finish off his current term as president. He might even aim for a second term. No one knows what the future holds.

"For most of us, though, the appropriate investment time horizon for our decisions is 30 to 50 years. Against such a backdrop, the actions of Trump and his policies that has been a source of volatility in markets now will just be another blip in history," he states.

If all of life can be described as a series of lurches from one crisis to the next. Devadason advises, "We need to learn to screen out the noise and pay attention to the actual signals that the global economy is sending out to us."

"Those signals tell us that in general, in light of large scale megatrends that life is good; humanity will thrive; wise investors will prosper, while those who give in to fear will more often than not end up poorer than savvy, courageous and patient investors," he continues.

The Medical Perspective

When talking about holistic wellness, it typically revolves around emotional, physical and spiritual wellness. It's only recently that the financial wellness equation has been emphasised more in recent medical research papers and discussions.

Dr. Vincent Wong Choong Wai, consultant psychiatrist says that increased affluence and wealth trends have blurred the lines between our wants and needs, as well as how we perceive what is essential to us or is merely desirable.

"The late Billy Graham, a US evangelist commented in one of his public speeches that as a teenager growing up in the 1930's, his family had lived modestly with no cars, no TV, and certainly no internet. But they also had no complaints. His family were happy, thankful and contented. The fact of the matter is that there are many material things that we can do without in the 21st century.

Dr. Vincent Wong Choong Wai

"But the social and peer pressure of modern living has also made us constantly compare ourselves and to keep up with the Joneses; prodding us to work harder, earn more, and live more affluently. The Harvard Grant study on health and happiness by prominent professor of psychiatry Robert Waldinger at Harvard Medical School has shown that we only need a certain sum of money to meet our needs.

"Beyond that, any excess wealth will no longer increase the happiness index. Therefore, we need a good balance of biological (physical), psychological, social, financial and spiritual well-being," Dr. Wong said.

Improve your Relationship with Money

So, how does one cultivate a healthy relationship with money? We all have different backgrounds and upbringing that can shape our experiences with money and whether we view it as a means or a goal.

Common phrases like 'don't do it for the money', 'money is the root of all evil' or 'passion is enough to sustain me' can be unhelpful sometimes in making sweeping generalisations about money.

Dr. Wong emphatically states, "Money is not evil but only a medium of exchange. It is where we place the importance of money in our lives that is important. We need to also be able to distinguish clearly between our needs and wants. Financial freedom and security is important as well as meaningful relationships with family and friends. As the saying goes 'money can buy a ring but not love'."

He also cautioned against destructive type of money behaviours like compulsive spending and gambling addiction that can spiral out of control and become problematic.

"The key features that meet the criteria for addiction includes increasing amount of money and time spent on such activity, emotional distress when the habit is being curtailed, a constant mental preoccupation with such activity and lastly negligence of responsibility to oneself and his or her family members. This often becomes disruptive to the patient's daily functioning that can cause distractions diverting someone from their work or studies," said Dr. Wong.

On prescribing treatment, Dr. Wong says it is important to address the symptoms of cravings and the underlying causes of the addiction that could be due to chronic stress, an unhealthy lifestyle or relationship issues.

Treatment may include medication to reduce craving and counselling to promote motivation to modify monetary habits, as well as problem solving for specific personal issues.

Do you need Financial Therapy?

It's not big in Malaysia yet, but in the US there are licensed financial therapists who act as both financial planners and psychologists.

By combining the two fields, financial therapists provide professional advisory services and counselling to help people cope with financial challenges and also address any emotional baggage that hinders them from achieving their life goals.

Dr. Wong is confident that as the level of awareness gradually builds surrounding mental health and the stigma on such illness diminishes, more individuals would feel comfortable about coming forward and seeking professional help.

"We have sports psychologist in Malaysia, we certainly need financial psychologist too. I mean why not? The field of mental health awareness is still at its infancy stage in Malaysia, but it certainly has been growing fast in recent years," Dr. Wong said.

He stresses the importance of financial literacy which he believes should be inculcated into the education system. "Malaysia's household debt to GDP ratio remains one of highest in the region. Sound financial literacy, planning and management is important in this age especially with increased life expectancy to cope with rising cost of living and healthcare expenditure," said Dr. Wong.

Investing in Mental Health

As more stakeholders turn the spotlight on mental health issues in the country, it's important for all of us to do our part in challenging stereotypes and widely-held notions that we have about mental illnesses.

Mental illness is more than just an 'invisible' affliction. It has real and significant effects. In a 2017 report by the World Health Organisation (WHO) it stated that depression and anxiety could cost the global economy by up to US$ 1 trillion per year in lost productivity.

It's important that we take some time to educate ourselves then, whether it's to help ourselves or someone that we know who may be facing such a challenging moment in their lives.

A strong support structure is important in getting well and it is no weakness on anyone's part to seek help. There are many options one could turn to today whether it is therapy, rehab programmes, counselling or even peer and workplace support.