



Fiduciary Pension Partners

## Steering Participants Through Market Mania



Discussions on market volatility often conjure up stories of anxious selloffs, as nervous investors rush to liquidate positions, hoping to avoid further losses. However, it's crucial to recognize that market volatility has two sides. While upturns are more favorable, they bring their

own psychological challenges for investors. The exhilaration of a tech surge or a post-crisis rally can be as disorienting as a market seemingly in freefall. As stocks rise and portfolios grow, investors may grapple with a different set of emotions, but the end result can be equally detrimental to long-term financial health when certain biases set in.

**Overconfidence:** Investors riding the wave of a bull market may develop a skewed perception of their own investment skills. This can lead to ignoring diversification, failing to objectively assess new information, and taking on excessive risk, assuming that past success guarantees future results.

**Herd Mentality:** Collective behavior can amplify market movements, both upward and downward, as prudent analysis gives way to mob psychology. The tech bubble of the late 1990s and the housing market crash of 2008 serve as stark reminders of how herd mentality and "irrational exuberance" can distort market valuations and inflate bubbles until they burst.

**Recency Bias:** Weighing recent events more heavily than historical ones can distort an investor's perception of the market, causing them to expect the continuation of current conditions. After a prolonged market rally, investors might neglect the potential for a downturn, overlooking the cyclical nature of markets.



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**Underestimating Market Risk:** Viewing investments positively during growth periods can lead to underestimating market risk. Adequate risk assessment includes preparing for the possibility of market corrections and ensuring that investment decisions align with one's risk tolerance and long-term objectives.

**Fear of Missing Out (FOMO):** This fear can drive investors to make impulsive decisions, such as entering a soaring market at its peak out of fear of missing further gains, only to be caught in the inevitable downturn.

All of these biases cloud judgment, potentially leading to risky investment behaviors that undermine long-term financial goals. However, plan sponsors can help mitigate some of the downstream negative impacts of raucous rallies.

Potentially helpful strategies include offering education around the ebb and flow of historical market cycles, encouraging regular one-on-one financial advising, and including instruments in the investment lineup that take emotion out of portfolio management — such as target date funds. Implementing automatic rebalancing can help keep investments aligned with target allocations based on an individual's risk profile. Email alerts to employees during periods of high volatility (both up and down) can help educate participants about the nature of market fluctuations and underscore the importance of adhering to a prudent, long-term investment strategy.

Plan sponsors have the opportunity to help cultivate a holistic understanding of finance and the markets, providing a framework for participants to make informed choices and navigate the complexities of investing with greater confidence and clarity. A proactive approach can help foster a culture of financial wellness that transcends market cycles.

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