



## OLD NORTH STATE TRUST, LLC

### **Realism, Preparation and Teamwork: Olympic Lessons for Investors**

Watching the Winter Olympics recently has inspired us to think about something fundamental in human nature. It's about how competition, and the prospect of winning or losing, affects the way we approach our investing behavior.

As the whole world watched the games from South Korea, most of us thought about the running medal count, as we do for every Olympics. All those numbers – not just how many golds, silvers and bronzes each nation had picked up, but also how actual achievement matched up with expectations – were a huge focus for participants, spectators, and commentators.

Such an intense focus on numbers was contrary to what, ideally, is the central Olympic ideal. What we mean is that one of the Olympics' main ideas is the spirit and amazing stories of hope and inspiration that are always a part of the games.

Of course, everyone wants their country to be the best. We want our athletes to be the best, to win the most medals, earn the most gold, etc. And yet, at the Olympics, where every competition takes place at the highest level, everybody can't possibly come out on top.

This same paradox is true with investments. We all want to outperform the markets, all the time, under all conditions. We all want to see our hard-earned assets grow, grow, grow: always up, never down.

Neither of those dreams is always possible. In fact, both are impossible. And yet it's so easy to fall into the trap of thinking reality doesn't apply to us.

We've come to expect our athletes to be at the top of every Olympics. If it doesn't work out that way, we want to know why not. We've come to expect the market will always stay up. When that doesn't happen, we demand to know why our advisor isn't outperforming whatever benchmark we're focused on.

Always winning at competitive sports? Always beating the markets? Both objectives are statistically impossible on a recurring basis. So, we need to take a step back and see what we can learn from these facts. The challenge is to reconcile simple reality with how we think about our goals, and just as important, how we feel about them.

For many of us, the Winter Olympics will always be associated with ABC Sports' memorable phrase, "The thrill of victory and the agony of defeat."

So, what do we get from the fact that in our financial lives we could also be facing both the thrill and the agony?

We suspect at least some investors might have felt some empathy, maybe during the 2007-2008 market meltdown, for that hapless ski jumper: the one who took such a disastrous tumble at the beginning of every week's "Wide World of Sports." In fact, that agonizing feeling is more likely for most of us than the sort of euphoria an athlete feels while standing on the gold-medal podium.

The fact is, the thrill of victory is never as strong as the agony of defeat.

It's been well established in psychology that people's pain at losing something is significantly greater than their pleasure at gaining something of the same value. In other words, an investor is likely to be far more bothered at losing \$1,000 in a market downturn than he'll enjoy gaining that thousand back when the market goes up.

In economics, this principle is called "loss aversion." According to some studies, the psychological impact of losing money may be twice that of gaining. This has a lot to do with how investors think about risks; it takes a special sort of courage to assume a risk, in the hopes of a big gain, rather than playing it safe to minimize the possibility of a loss. A savvy investor can understand this fact, but still have trouble overcoming it. That's one important reason having an experienced, cool-headed advisor can be so valuable: to help us overcome those psychological biases that can work against our own best interests.

That's not the only significant lesson investors can draw from world-class athletic competition. For example, consider the many tales of human endurance by which determined athletes have overcome seemingly overwhelming odds to achieve greatness. A financial analogy to this might be the patience and determination it takes to stick with a carefully worked out investment strategy rather than panicking at day-to-day market fluctuations.

Then there is the matter of preparation. An Olympic athlete isn't made in a day. Physical conditioning and practice, practice, practice are analogies in sports to the essential research and evaluation that go into successful investment planning.

Finally, let's not forget teamwork. That's obvious in team sports like, say, bobsledding or hockey. It's also important for individual athletes, who rely on coaches and trainers to help them prepare physically and stay motivated psychologically, both before and during competition. In the financial world, we benefit from having analysts and other trained professionals in our corners.

Now that another Olympics is behind us, this all boils down to one simple admonition. Use all the endurance, training, and teamwork at your disposal to help you embrace the thrill of victory every bit as strongly as you work to avoid the agony of defeat.

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