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The Prudent Portfolio: Investors Should Avoid Letting Emotion Affect Financial Decisions

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By Kevin Peters

New York investors tend to worry about foreign conflicts more than do investors from other states.

That is just one of the results from a recent nationwide survey showing that investors polled in the tri-state area tend to be more bullish on prospects for the national economy than those elsewhere in the country.

The survey was commissioned by Morgan Stanley Wealth Management and was conducted by New York-based GfK Public Affairs in the first quarter of the year. It included interviews with 1,000 U.S. investors, age 25 to 75, with $100,000 or more in investable household financial assets.

It may be understandable that New York investors worry more about foreign conflicts because of the heavy presence of foreign nationals in the region, the United Nations and large number of consulates based in our area.

However, concern about events overseas should not cause investors to ignore overseas investment opportunities. Perhaps emotion is playing too great a role in financial decisions. Many investors, the poll showed, tend to steer away from non-U.S. investment opportunities, despite the higher economic growth rates in such countries as Brazil and China.

Clearly, past performance is never a guarantee of the future results. However, the continuing significant growth in a select group of developing nations suggests they should not be rejected automatically because of emotion.

The nationwide poll generally showed broad optimism about the markets. However, there were some interesting regional differences.

–Across the tri-state region, investors responding to the poll share concern over the downgrade in the federal debt, with the greatest concern in New York and New Jersey, both at 91 percent, while in Connecticut its 74 percent.

–Though the federal debt weighs heavily overall among those polled regionally, investors' concern about the debt's burden on our children differs from state to state. New York investors (51 percent) feel more strongly about the potential effects than their counterparts in New Jersey (35 percent) and Connecticut (26 percent).

–Additionally, New Jersey and Connecticut investors, 77 and 65 percent, respectively, are less concerned about the potential repeal or reduction of the home mortgage interest deduction than New York (84 percent) investors.

More than half of New York investors (53 percent)polled say their portfolios are better than a year ago versus Connecticut (42 percent) and New Jersey (48 percent) investors. Fifty-eight percent of New Yorkers expect their portfolios to be better by the end of this year, versus 56 percent in New Jersey and 41 percent in Connecticut.

The survey has important implications for investors and those advising them, particularly with the stock market continuing to linger around record highs recently. The views about non-U.S. investments, for example, suggest that advisers need to place greater emphasis on highlighting the solid opportunities in select overseas equities that are worth consideration.

Another example: High on the list of "good" investments for 2013 in the eyes of tri-state investors is gold (47 percent), perceived as a comparatively safe financial haven. The fact that gold was so highly rated again suggests a strong reliance on emotion when making investment decisions. The price of gold has tumbled since late 2011.

It often is a difficult task to remove emotion from investment decisions. But investment and emotion simply don't mix. It would be wise for the poll results to spur all investors to review their portfolios and consider where emotion played a role in investment choices. It may be time to make some changes.

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