Monday, October 31, 2022

Enjoy Your Ride

Opened in May 2005, Kingda Ka at Six Flags Great Adventure in Jackson, New Jersey, holds world records among operating roller coasters for tallest coaster and biggest drop and the U.S. record for fastest coaster. Kingda Ka reaches a top speed of 128 miles per hour in just 3.5 seconds and ascends 456 feet before plummeting 418 feet. The ride lasts a whopping 28 seconds.

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While that may sound thrilling to some, no doubt others are terrified about the prospect of pulling 5 Gs—an acceleration fast enough to cause riders to black out—from the height of a 40-story building. During peak summer, up to 1,400 thrill seekers per hour get to experience Kingda Ka.

Got Veloxrotaphobia?

How do you feel about roller coasters? Do you enjoy the thrill of trying out a new coaster with unknown twists, turns, and inversions? Or do you suffer from *veloxrotaphobia*—more commonly known as *coasterphobia*, the fear of being on a roller coaster?

The good news is that you have a choice. Peer pressure aside, if you find yourself at Six Flags Great Adventure, you can choose not to ride Kingda Ka. Instead, you can try out one or more of the other 13 coasters operating in the park. Presumably, you can find one to your liking. Or you can keep your feet firmly planted on the ground.

The stock market—with its breathtaking rises, falls, dips, and corkscrews—has been a metaphorical roller coaster

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over the past couple of months, even the past couple of years. But, like at Six Flags, you have the ability to dial in the level of thrills you can stomach with your investment strategy.

Dialing It In

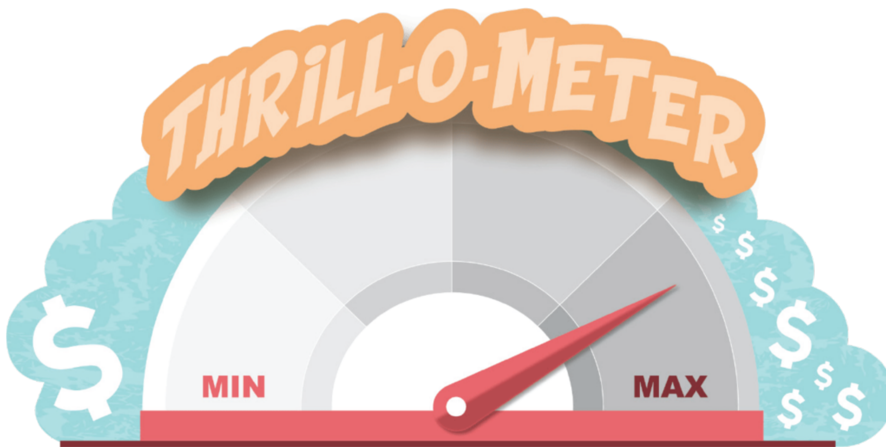
Finding the right mix of stocks, bonds, cash, and other investments is critical. Building a portfolio with too many thrills can create anxiety and lasting fears about market losses, causing you to knee-jerk react when the inevitable market turmoil hits or, worse, deter you from investing at all. And too few thrills may keep you from fulfilling your financial needs due to insufficient returns over time.

The impact goes beyond strictly financial. "If a client goes to sleep every night worrying about their portfolio, it's not a good sign," says CAPTRUST Principal and Financial Advisor Justin Pawl. "That's no way to go through life. Investments represent savings from the past and future financial security, so it's understandable that clients have an emotional reaction to the fear of losing both."

Therein lies the challenge of getting it right—balancing the need for returns with a ride that the client can stomach. While every investor wants outsized returns, remember: Those returns don't come without risk. "The key is for clients to understand their risk tolerance and for their portfolios to reflect that tolerance," says Pawl. Of course, finding the right risk level for yourself and your financial goals is easier said than done.

Part Science, Part Art

Financial professionals and academics have explored many ways to divine investors' risk tolerance, including questionnaires, software, and simulators. Monte Carlo simulators, for example, illustrate risk by using historical or projected returns and are excellent tools for helping investors understand the impact their decisions have across many potential future market outcomes— many of which will be very good.



An investor who is in thinking mode is likely to see the benefits of a riskier strategy and weigh the probabilities in a rational way. That's why "even the best tools, like Monte Carlo simulations, may actually lead to higher perceived risk tolerances," says Jim Underwood, CAPTRUST senior director and portfolio manager.

While some tools are better than others, even the most sophisticated tools fail to capture the emotional element of investing. They depend on the parts of your brain responsible for rational thinking and do not fully capture the impact of your fight-or-flight response when market turmoil strikes.

"The emotional reaction to market volatility is the primary risk for investors, because unlike roller coasters, where the rider is buckled in to ensure they finish the ride, investing doesn't have any seat belts," says Underwood.

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"I think investors most often get the emotional part of investing through downturns wrong, because when markets are selling off, it is always accompanied by a lot of negative information," says Pawl. "Investors underappreciate the toll it will take on them because, on top of declining account values, all the news is bad. Breathless 'breaking news' media reports, conversations with friends and colleagues about how awful the market is, and sensational internet forums add fuel to the fire."

It's important to remember that volatility is not risk, says Pawl. "Crystallizing losses in a down market, creating a permanent capital loss, is risk." This emotional reaction happens when the amygdala— the part of your brain responsible for the fight-or- flight response—activates, releasing stress hormones and preparing your body to either fight for survival or to flee to safety.

When emotions are running high, the decision-making process becomes compromised, and it's easy to lose sight of the analysis and discussion that led to your portfolio strategy.

Finding Perspective

"Unfortunately, risk tolerance is often only knowable after the fact, when you have exceeded it," says Underwood. As always, you can employ strategies to help manage your emotions and set the stage for future market volatility.

Talk it through. Experience—living through numerous market cycles—matters and highlights the value of a financial advisor or other trusted sparring partner who can provide perspective when your amygdala kicks in. Many people process their thinking by speaking, so talking through your feelings and anxieties can be a helpful way to expand your thinking. The more viewpoints, the better. Open discussion will add nuance to your ideas and help ensure you are thinking rationally. Your brain literally cannot process fear when you're having a rational conversation with a friend.

Rerun your plan. Just after a market pullback is always a good time to revisit your financial plan. A sound financial plan will take into account a wide range of market scenarios. Knowing, for example, the portfolio hurdle rate needed to fund your important life goals can provide both the information required to dial in an appropriate level of portfolio risk and the confidence that you're on the right track. You may find that it will be quite easy to achieve your goals, so you can worry less about market pullbacks and won't need to take an extraordinary amount of investment risk to get there.

Reflect while it's fresh. History is also a good teacher and can help blend the art and science of risk taking. "We've just been through a big market pullback, and while we're not back to previous highs, markets are likely to recover," says Underwood. "Is it time to ride the same roller coaster again, or should you find one that is designed to be less thrilling?" Make sure you don't pass up the opportunity to reassess your feelings while the memories are still fresh. "A week after you ride, the thrill is gone," he says.

If the drops, dips, and winding turns of our recent roller- coaster stock market make your head spin, you may be on the wrong ride. But don't head for the hills. Remember that you can find a less thrilling ride, one that you will be comfortable revisiting. At a minimum, you should take this opportunity to reflect on your feelings to better learn the art of fine-tuning your risk tolerance.

Have questions? Need help? Call the CAPTRUST Advice Desk at 800.967.9948 or schedule an appointment with a retirement counselor today.

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