How emotions can hurt younger Americans' potential stock market gains

You've probably heard stories of how living through the Great Depression deeply affected some people. Though they were young at the time, for the rest of their lives they saved food packaging, like pickle jars and plastic bread bag clips, just in case another era of privation was around the corner.

While being thrifty and keeping emergency supplies on hand are prudent ideas, having behavior that's driven by anxiety is not. For example, an acquaintance once related a story about depression-era folks they knew that could not use their back porch. That's where they stored the stacks of styrofoam trays they'd been saving over the years from their supermarket meat department purchases.

They told their grandchildren that they had once gone without and they were not going to let it happen again.

One of the most powerful of all human motivations is the aversion to loss. And research is showing that another financially painful event—this time the Great Recession of 2008—is continuing to have an effect on the way some Americans invest. Sadly, it's caused younger people, especially, to sit out a decade of growth for their retirement savings.

Vanguard Group analyzed the behavior of 4 million retail investor households, publishing the results in a white paper titled "Risk-Taking Across Generations." One of its most surprising findings was that young adults who started investing with Vanguard *after* the financial crisis were more than twice as likely to hold no stock as those who began investing *before* the crisis struck.

According to their analysis, almost a fifth of millennial investors (those approximately 23-38 years old) had no money in stocks, and thus have missed the potential stock market returns available from the latest multi-year bull market run.[1]

Financial correspondent Felix Salmon points to a recent study in which less than one in ten adults (who were 18 or older in 2008) could correctly gauge the market's growth over the past decade. The majority of survey respondents guessed that the market had gained 0% - 49% over that period. Eighteen percent of those surveyed thought that it had lost value. And only 8% gave the correct answer that the market had grown 200% since the end of 2008.[2]

There are several things for an informed and engaged investor to take away from these findings.

First, be wary of financial advice from friends and family. They are most likely wonderful people who care deeply about your future. But chances are they don't have an accurate understanding of global markets.

Second, don't let emotions like fear and loss aversion prevent you from acting in your own self-interest. Those who've stayed out of the market for years because they've been overly concerned about another crash have forfeited their opportunity to pursue substantial gains.

It makes the best sense to take advantage of the inflation-beating returns of the market while at the same time keeping a truly diversified allocation that takes into account future volatility.

Your trusted advisor can not only help you create a plan that's tailored to your specific situation, but also help you stay on track when human psychology goes against you.

Sources:

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2. https://www.axios.com/americans-stock-market-polling-growth-d127104a-a200-4dbc-94ed-d1fddc22b51b.html