(UBS)

Don't just do something, stand there!

07 November 2024, 9:36 pm CET, written by UBS Editorial Team US Editorial Team

Events like the US election are often a catalyst for investors to think about making major changes to their portfolio. Such events give us a strong urge to do something—*anything*—to gain control over the situation. In behavioral finance, this type of anxiety is called "action bias," and it's a very common trait for investors.

Unfortunately, when it comes to investment adjustments, most decisions are bad decisions unless they reflect a legitimate change to your financial goals or circumstances.

Human nature, transaction costs, and tax costs are all working against us whenever we trade. Even when higher turnover does lead to higher returns, it also results in higher taxes and transaction costs— so you would expect higher turnover investors to have lower net returns, on average. With this in mind, the default should usually be to leave the portfolio on autopilot.

On the other hand, complete inaction isn't usually a good idea, either. Fortunately, many valuable portfolio management strategies—like rebalancing and tax-loss harvesting—can add value in most market environments with a high likelihood of outperformance. For example, unless you have rebalanced recently, it's likely that your stock allocation has "drifted" above your long-term asset allocation target at the expense of a smaller-than-target bond allocation. Moreover, there may be opportunities to implement a tax-loss swap in your bond holdings, given bonds' recent losses. These strategies may help to scratch the "itch" to take action.

If you do decide to make a portfolio or risk profile change, it can be helpful to write down your reasoning. As a general rule, it's okay to make adjustments to reflect new spending or retirement goals, or a fundamental change to the long-term outlook for markets—but don't just do it to feel more comfortable. Short-term comfort often leads to long-term regret.

UBS

Here are a few approaches to help you dispel action bias:

1. **Focus on what you can control.** There is a lot of wisdom in the Serenity Prayer, which asks for "the serenity to accept the things we cannot change, the courage to change the things we can, and the wisdom to know the difference." Investing requires us to accept short term volatility in exchange for long-term growth potential; even so, we do have tools to improve the risk-return dynamic—for example, building a well-balanced, diversified portfolio.
2. **Automate good action.** Talk to your advisor about setting portfolio management plans—like rebalancing if your portfolio goes more than 5% from your equity allocation target, or automatically harvesting tax losses—to gain the benefits without adding to the number of active decisions you need to make. Many portfolio management strategies work best when they are automated, or implemented by a professional, because they require small, frequent changes that are often counterintuitive and uncomfortable.
3. **"Quarantine" bad action.** The word quarantine comes from *quarantina,* an Italian word for the 40-day period that ships would need to be isolated during the Black Death plague. When you decide to make a big change to your long-term strategy or plan, give yourself some time to reconsider—maybe not 40 days, but at least a week.
4. **Focus on your goals.** We recommend using the UBS Wealth Way approach to design a portfolio that reflects your goals and your values. A purpose-based approach to investing can put risks and changes into context, helping you to think objectively about they may impact your probability of meeting your goals. When planning for the future, it's often helpful to envision your future self, and try to do your best for *them*.
5. **Manage risk.** Regardless of whether you are worried about politics, geopolitics, or something else, the bad news is that there is always a risk that we will experience market volatility, or even a bear market. The good news is that most investment portfolios have fully recovered their losses—even after the largest disruptions in history—within three to five years. Therefore, the best way to protect yourself against market risk is to build a Liquidity strategy that can fund your spending for three to five years, thus allowing you to maintain your lifestyle even if there is a recession or a market drawdown. See www.ubs.com/bearmarketguidebook for more research and strategies for managing risks.

For more, see **Don't just do something, stand there!**, published 6 November, 2024.

UBS Wealth Way is an approach incorporating Liquidity. Longevity. Legacy. strategies that UBS Financial Services Inc. and our Financial Advisors can use to assist clients in exploring and pursuing their wealth management needs and goals over different time frames. This approach is not a promise or guarantee that wealth, or any financial results, can or will be achieved. All investments involve the risk of loss, including the risk of loss of the entire investment.