Don’t Let Brexit Drive Your Investment Strategy

Keep your emotions in check when making long-term investment decisions.

Learn to keep your emotions off the table when you invest.

Now that Brexit is more than speculation, most investors are waiting with bated breath. While more is sure to come, we are already seeing some effects of this history-making moment. The British Pound already dropped to a 30-year low. London’s stock market plunged. And pundits are having a heyday, adding even more uncertainty and confusion to the mix.

What does all this mean for your portfolio? Clearly, no one knows for sure. But no matter how markets react in the next few months, you should follow this advice: Don’t let fear of the unknown – or your emotions – make your investing decisions for you.

Why we let emotions drive our investments. We tend to let our emotions take the wheel regardless of the circumstances. We become overly excited and ready to invest at the worst possible times. And when it comes to deciding how to invest, we often rely on poor advice, a hunch or worse – speculation we heard on the nightly news or the radio. Then, on the flip side, we sometimes let our fears and emotions keep us out of the game altogether. According to a recent Bankrate survey, 18 percent of respondents who don't invest at all cite distrust and fear as the basis of their decision-making process. If you think investing emotionally leads to ugly results, consider how not investing at all plays out in your portfolio. (Hint: Investing zero dollars will always net you zero.)

By and large, we rely on intuition to guide our investment decisions instead of facts, historical trends and academic research. Sadly, these mistakes can be costly over the long run. According to Taylor Schulte, a certified financial planner for Define Financial in San Diego, it’s the immediacy of our investment decisions that causes us to make irrational mistakes or avoid investing altogether. “Unlike physical real estate we own, the real-time value of our stock and bond portfolio is put in front of us every day,” Schulte says. In other words, it's become far too easy to hop on the internet or your smartphone to see where your portfolio stands at any given time.

Of course, that knee-jerk reaction you feel when one of your investments takes a tumble is only natural. What isn't natural (or profitable) is letting that knee-jerk reaction drive your decisions. If you sell out every time you experience a loss, you'll never have the chance to win.

Still, fear isn’t the only driver behind overly emotional investing. “The most poisonous emotional cocktail I see clients and other advisors make is mixing overconfidence and investing,” says Aaron Hatch, a certified financial planner and co-founder of Woven Capital in Redding, California. He says that too much confidence can be just as catastrophic as fear when it comes to your portfolio.

Sometimes investors see a few lucky hits in the market as a newfound skill instead of luck. In this case, it pays to be realistic and remind yourself that you're probably not the next Warren Buffet. “Even professional mutual fund managers who are paid extremely well and spend more than 40 hours per week, month after month, year after year, have a hard time consistently beating the markets over the long term," Hatch says.

How to take the emotion out of your investment strategy. Whether you're worried about how international events might affect your portfolio or just fearful in general, the best investment strategy is one built for the long term. In other words, once you map out a lifelong investing strategy with your financial advisor, you should have confidence in that strategy regardless of the bumps you'll endure along the way. "Smart investing tells us, based on tons of academic research, that we're better off staying the course and focusing on the long term," says Grant Bledsoe, a certified financial planner and founder of Three Oaks Capital Management in Lake Oswego, Oregon. "Since we can't predict which way the market will turn next, we're better off sticking to our guns and riding it out."

To take the emotion out of the equation, consider keeping your portfolio at arm's length, maybe checking once per week or once per month, but not logging into your smartphone app or online brokerage account on a regular basis. Schulte also suggests reading books from respected authors who have stood the test of time. While that may not be as sexy as watching the stock market live or hearing from your favorite pundits, you may be able to reduce your anxiety about money and investing by educating yourself.

And while it can be fun to "play" the markets, investors should refrain from playing or risking too much on a handful of bets. "It is much more prudent to keep your investments rather boring by broadly diversifying across big companies and small companies, domestic companies and foreign companies, and between stocks and bonds," Hatch says.

At the end of the day, investing is a game of consistency – one where the investors who take the longest approach usually win. And when it comes to emotional investing – whether out of fear or confidence – the only way to win is not to play.

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