Minding Your Money: Why Behavioral Finance Is Key for a 100-Year Portfolio

7 MIN READ

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SUPER
AGE

Mental shortcuts — think biases and behavioral patterns — could be leading you to investment traps. Here’s how to break free.

Your savings and investments aren’t just a dollar amount. They represent your hard work over a lifetime — the hours traded to earn your money and the discipline exerted to keep it.

When planning for a **100-year life**, you want both your health and **wealth to last**. You might be a savvy investor and have a run of good luck, but one misstep can still sabotage your portfolio and long-term gains.

Often, it’s not about how much you’ve earned, but your behavior once you’ve earned it. As much as we want to believe that we’re clear-eyed and steady in our financial decisions, our cognitive biases can get in the way. This is so common that an entire field, **behavioral finance**, is dedicated to studying how these biases and thought patterns influence financial decision-making.

Understanding these biases and their insidious nature may help you avoid common investing traps that can wreck your portfolio. And that should be top of mind if you plan to make your money last for the long-haul.

How Your Behavior Can Hurt Your Portfolio

Managing your investments isn't just financial, it's behavioral and emotional. People make decisions every day that can put their long-term financial health at risk.

For instance, during a recent crypto craze, some people reported **investing their life savings**, then losing devastating amounts. During sharp market drops, some people panic sell — in fact, one **2024 study** of nearly 190,000 investors found that up to 10% partially or fully panic sold their portfolios during periods of market volatility. If you've been following the latest **stock market** activity — currently on an upswing, but recently down as a result of the war in Iran — you may recognize the impulse.

Common cognitive biases could explain the differences in these decisions, and serve as the foundation for their outcomes.

5 Common Cognitive Biases in Behavioral Finance

These five common cognitive biases could influence your behavior with investments, affecting your long-term success.

1. Herd instinct

Some investors follow the herd instead of doing their own due diligence based on their time horizon and risk tolerance. So when it seemed like everyone was hopping on the crypto train or selling their stock, it made sense that others would follow.

Here's the thing: When an asset is surging and dominating headlines, it feels safe to pile in because everyone else is. When it crashes and panic sets in, selling feels equally rational. But by the time a trend is visible enough to generate that kind of collective momentum, you're rarely getting in early — you're getting in late.

Following the crowd doesn't reduce risk. It just makes the risk feel more socially acceptable.

2. Loss aversion

Looking at your investments when the markets are doing well can of course feel good. But when things are down, they may not just feel bad. They may, in fact, feel terrible.

Losses tend to feel much worse than the rewards of equivalent gains. In fact, one **report** by Scientific American found most people, offered the chance to flip a coin and either win or lose $20, will not take their chances. The potential gains would need to be double the potential losses before most people agree to the terms.

Because of loss aversion, some investors may hold on too long to certain stocks, while selling others too early. Panic selling is often fueled by loss aversion.

"People extrapolate that this near-term volatility that we experience is going to last forever. So my stocks are going to continue to go down, and I have to relieve the pressure," said Jesse Hansford, certified financial planner and a behavioral financial advisor at **Professional Planning & Wealth**. "I would say in general, it produces bad portfolio decisions."

In the moment, your nervous system might feel activated. It may even read as a risk to your safety and security. Instead of **sitting with that uncertainty** and watching the markets drop, it's common to want to take action. It's important to remember that action — in this case selling a stock — is what realizes your losses and makes them permanent.

"When there feels like a loss of control in what is happening with the money that I've earned over this time and had the discipline to save, I'm going to take the reins on this thing again," adds Hansford.

3. Status quo bias

There’s a saying: “Better the devil you know than the devil you don’t.” It captures the essence of the status quo bias perfectly. Many people would prefer to keep things as they are instead of making a change.

So, whether you need to take action or stay put, you’re likely to go on autopilot and default to what you’ve always done — even if it’s at the expense of an alternative that may be the more beneficial choice.

For example, you might have your available cash in a savings or investment account with a lower yield when other high-yield savings or financial products exist. That resistance to change, despite evidence that change would result in a better outcome, could set you back over time.

4. Familiarity bias

Our brains and nervous systems love the consistency and familiarity of staying in our comfort zone. That can play out in our cognitive biases as well. When it comes to investments, you may prefer what’s familiar to you over what’s unfamiliar.

That can work in our favor at times, but not always. Yes, it may help us curb the impulse to make financial decisions with our gut, but it may also mean missing out on learning and investment opportunities when a better alternative presents itself.

5. Sunk cost fallacy

Have you ever stuck with something longer than you should, even if you know it’s not working? That’s the sunk cost fallacy at play. Whether you’ve spent years building a relationship only to find it’s the wrong fit, sunk thousands into an investment, or plugged away at what now feels like a dead-end job, you might avoid making a difficult change for fear of letting go of what you’ve already invested in it.

Some people continue on, believing it’s too difficult to stop doing that wrong thing. But in many cases, this mentality keeps us stuck when the alternative might be far healthier for our mind, body, or money. Evaluating your reasons for sticking with something, and determining whether the value is worth the effort (regardless of what you’ve already invested in it) can help you make more clear-eyed choices.

How to Manage Your Money (Without the Emotional Traps)

They may seem obvious when spelled out, but every single one of us can fall prey to these cognitive biases. Our mental gymnastics can be impressive, but they can also take a financial toll. Three key failsafes can help you avoid those cognitive pitfalls.

Focus on asset allocation

Hansford says that asset allocation is key. Some of your funds might be in more volatile instruments, while others are in low-risk ones. That combination can help you ride out these fluctuations, while still having an anchor to safety.

But not investing at all isn’t really an option, especially if you’re planning for a long life. “The longevity concern in money management, or in a financial plan, is the consequence of running out of money before we run out of time,” adds Hansford.

Tip: Review your asset allocation, risk tolerance, and time horizon with the help of a financial advisor.

Get outside support

The problem with biases is that they’re hard for us to recognize when we’re in them. It

can take an enormous amount of self-reflection to talk ourselves out of doing something.

“It’s either going to take some sort of disciplined approach to hit the pause button and take a self-assessment, and really question, ‘Am I thinking about this rationally, or am I thinking about this emotionally?’” said Hansford.

If you’re making a major decision with your money that could affect your long-term portfolio, take a moment to pause and get outside support.

“I would suggest, whether it’s an advisor, a friend, a spouse, or a trusted mentor, one ought to bring a big decision to someone else who can offer a candid response to them. I tell clients all the time, ‘Your money has no emotional meaning to me,’ and so I can offer you something that’s just purely in the numbers,” said Hansford.

Tip: Take a 48-hour cool-down period before making any big financial decisions. Journal about the feelings that might come up, and identify which cognitive biases could be influencing your behavior. Then share those thoughts with a trusted partner, friend, or **financial advisor**.

Remember your values and goals

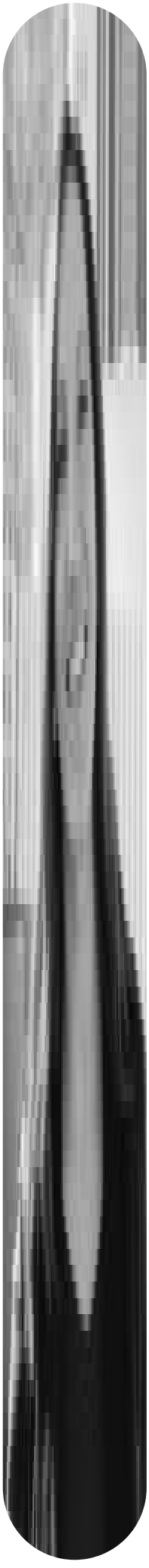
You might feel the need to act now based on how you feel today. But how would your older self feel, living with the consequences? Always refer back to your values and goals, so you can stick to the long-term financial plan even if it feels uncomfortable now. Remember, your chief aim is for your money to support you through a long, healthy life.

Tip: Whatever your age is, add 30 years to it. Imagine you’re that age. What do you want life to look like? What do you want it to feel like? What activities do you want to be doing? Tie those goals to your financial plan now, for a better future later.

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