DARNALL SIKES
WEALTH PARTNERS

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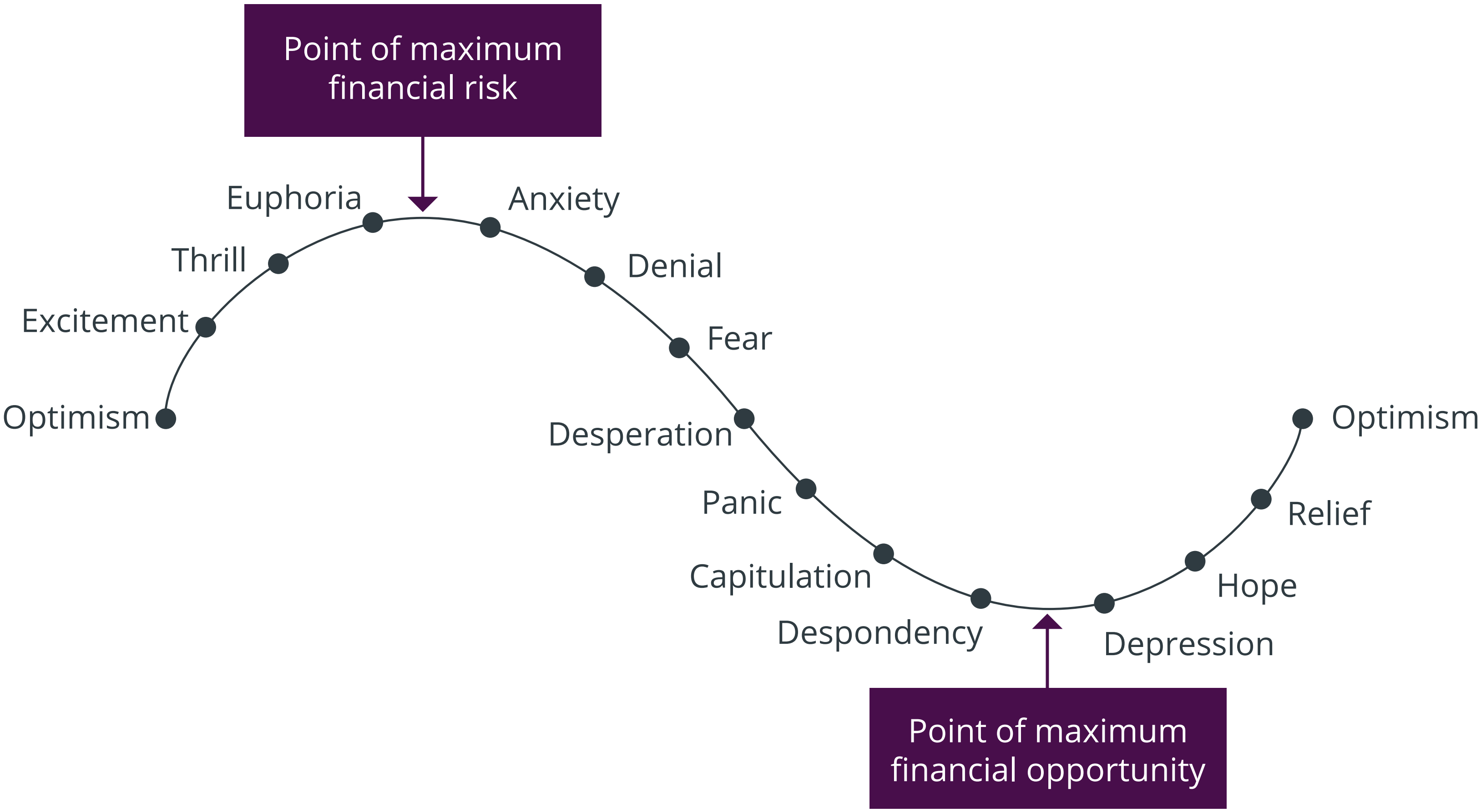
Cycle of Market Emotions

The markets affect how you feel and likewise human emotions affect the stock market. Having an understanding of the role emotions play in the market cycle can help you avoid making decisions based on feelings that may trigger an impulse to buy and sell at the wrong time.



Stage 1

The Upturn – Optimism, Excitement, Thrill and Euphoria

"Wow, I feel great about this investment."

When you enter the market you feel optimistic about investing and confident your risk will pay off in the long run. As the market goes up, your emotions become increasingly positive until they peak with a feeling of euphoria when returns are highest.

Stage 2

The Downturn — Anxiety, Denial, Fear and Desperation

"Temporary setback. I'm a long-term investor."

As the market starts to dip and your investments lose value, uncertainty will make you feel nervous. You may anxiously watch the market until denial takes over and you regain confidence in your long-term investment strategy. When the market doesn't improve you will become increasingly fearful of losses as you are unsure how far the market will fall.

Stage 3

The Bottom — Panic, Capitulation, Despondency and Depression

"Maybe the markets just aren't for me."

At the bottom of the cycle continuing decline and losses lead to panic. Despondency and depression make you lose hope in the market as you wonder how you could have been so wrong. Ironically, it is when you feel most discouraged about your investments that you that you have the most to gain — the point of maximum financial opportunity.

Reminder: Feelings of depression and desperation may make you rethink your risk tolerance and tempt you to throw in the towel. Avoid the urge to sell when your portfolio is worth the least. Instead, consider buying while prices are at their lowest.

Stage 4

The Upturn — Hope, Relief and Optimism

When the market begins to recover you will feel hopeful that it will continue to climb. As conditions continue to improve, hope and relief may also be met with skepticism, as you wonder if the growth will last. As the market recovers and returns to a baseline, you will regain optimism once again feeling enthusiastic about your investment opportunities.

As you ride the emotional roller coaster of the stock market, it is important to remember the inverse relationship between your feelings and investment opportunities at the peak and valley of the market cycle. While everyone experiences the same emotions as they watch market performance, successful investors avoid the innate emotional tendency to buy high and sell low. Working with a trusted advisor who knows your long-term financial goals can help you overcome temptation and stick to your plan when emotions run high.

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