

## How To Make Good Decisions



**When it comes to investing, people have always been tempted to make decisions based on short term, external events. This is often, (though not always), a dangerous time to make big calls.**

In that case, given that most of us are financial planning for the long term, why make short-term decisions?

Even if you are in your 60's, 70's or even older, the odds are that you are planning your finances for several years into the future. For this reason alone, it is disingenuous to make decisions based purely on short-term events or situations.

Here are a couple of examples.

### **Making Decisions Based on 'The China Situation' or Whatever**

In the middle of 2015, stock markets began to slump, largely over concerns about the Chinese economy slowing down. (For the record, it didn't stop growing, it simply grew less quickly, which was not necessarily a bad thing).

Concerns over China spilled over into stock markets all around the world, and at the lowest point some markets lost over 20% of their value.



Since then, attention has turned to a multitude of other things, including most recently of course, the COVID-19 situation. There is little doubt that quite soon something else will be the cause for concern.

For most investors putting money away over the long term, these are just the latest blips in a continual wave of ups and downs in the market. When markets are wobbly, there are always some people who question whether this is a cue to sell their assets.

### **Making Decisions Based on Changing Legislation**

To use the UK as an example, the Chancellor always appears to be fiddling with pension regulations in one way or another in his Budget. The financial services industry and pension savers across the UK take a collective sharp intake of breath at such times.

Needless to say, I have had countless conversations with people over the past 25-30 years about whatever the current rumour is, and whether they should make a sea-change decision about investing, based on these possible new regulations or legislation.

I am not against taking advantage of opportunities as they present themselves, or that may soon be taken away. But again, in the grand scheme of things, short-term decision-making is usually a bad idea.



### **So How Do You Make Good Decisions?**

I think there are four ways to give yourself the best chance of making good decisions:

## 1. Decide on a Framework

Important decisions made in the heat of the moment are rarely good decisions. It is far better to take time, think things through, and come to a considered opinion. You can give yourself the best chance of doing this by deciding three things:

Who will make the decisions? If you are single this is easy, but if you're in a partnership you should decide which decisions can be made alone, and which require both of you to agree.

When will decisions be made? Dealing with a major life-crossroads is not smart at 11:30pm on a Saturday after a few glasses of Rioja. There is a much greater chance of a positive outcome if you are rested, alert, well-fed and not under the influence of alcohol.

Where will decisions be made? This might sound strange but if you're in a couple, neutral ground might be good. Get out of the house and go for a walk. Sit on a beach and turn your phone off - Basically, remove the distractions of our technology-driven life.

## 2. Limit your News Intake



24-hour news is not necessarily a good thing.

We hear about world events within minutes or even seconds of them happening, and we immediately form an opinion.

Sometimes, being permanently connected to the goings-on of the entire planet can be a real source of anxiety, so I suggest you consider limiting how much news you take in. You can do nothing about most of the events reported anyway, so why fill your mind with them, especially when you have important decisions to make, financial or otherwise.

### 3. Maintain Perspective

Investing is best done for the long term, and the old adage is true that time in the market makes more sense than timing the market. Money works best when left to compound and grow over time. (For more information, see my article [Is Market-Timing a Viable Investment Strategy?](#))

Remember the reasons why you are saving and investing in the first place. Probably, they are for the medium to long term. Let these goals and targets provide perspective when things get hot in the short term. If you're investing for twenty years, what difference does it make if the markets wobble for 2-3 months?

Having a clear plan for your money will help you rise above short-term concerns and make better long term decisions. Revisit your plan regularly and remind yourself why you are investing.

### 4. Enlist Help

We all make bad decisions. If you've made some bad ones in the past, don't dwell on them but move on and look forward, resolving to learn lessons for the future.

Generally, we function best when we're not alone; so don't be afraid to enlist the help of someone who can help you make good decisions.

I act as this person for many of my clients and this illustration from Carl Richards at BehaviorGap, which shows what I mean:



It doesn't have to be a professional adviser like myself who helps you avoid bad decisions, it can be any trusted friend, family member or colleague.

Just make sure they know what they are talking about and have some experience of making their own decisions. They should be prepared to tell you the truth, even if you don't want to hear it.

## **To Conclude**



Accepting that we all have a tendency to make bad decisions from time to time can be an excellent catalyst for putting things in place to ensure, or at least improve the chances of making better decisions in future.

If you are intentional about decision making, instead of wandering about from one crisis to the next, you can use your decision-making strength to be more confident that you can achieve your future financial objectives.