

Episode 174: The Psychology of Investing: Understanding Market Reactions

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SPEAKERS

Alex Murguia, Briana Corbin, Wade Pfau, Daniel Crosby, Bob French

Bob French 00:00

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Briana Corbin 00:41

You know, what's more unpredictable than the stock market trying to stay calm while watching it this week, on retire with style, Wade and Alex are sitting down with Dr Daniel Crosby, a leading voice in behavioral finance, to help make sense of why investors panic, what the media has to do with it, and how you can keep your cool when the markets lose theirs.

Wade Pfau 01:05

Hi everyone. Welcome to retire with style. I'm Wade. I'm here with Alex. Hey, Alex, and we're joined this week by Daniel Crosby, PhD, Dr Daniel Crosby, who's the chief behavioral officer at Orion. You may remember the name Orion, I think, from the very early days of the podcast. We've had some folks from Orion on the podcast before. That's a company that works with financial advisory firms to really provide all the back office and software and structure and support. But we're happy to have Daniel here today as the chief behavioral officer, who has a new book out the soul of wealth, 50 reflections on money and meaning. And we actually were first going to talk about that book, but we're going to make a two part episode, or two episodes, I should say, with Daniel first, to just get his thoughts on what's going on with the financial markets right now, because that's really his specialty, how to think about, from a behavioral perspective market volatility, and then next week, we'll get into a deep dive with the soul of wealth, 50 reflections on money and meeting. So we now have two PhDs in psychology. I'm the one left out of the group here between Daniel and myself. So kind of hand the floor over to Alex to talk about things with Daniel. Thanks for having us. Thanks for being on the show. Daniel.

Daniel Crosby 02:25

My pleasure. Guys. Hey,

Alex Murguia 02:27

Daniel, yeah, I really appreciate you jumping on and as we were saying right before this, the timing couldn't have been better, although, in retrospect, that's kind of a weird phrase to say, because we've been down 15 20% there's good news and bad news, no, but that being the case, Daniel, the last few episodes, I did my version of me putting on the Daniel Crosby hat and doing my, you know, tap dancing around. What's going on with the markets volatility and reactions. But we're very fortunate that we had you in queue, frankly, for the podcast, and we'd be remiss not to get your thoughts on on the markets, not necessarily obviously what's happening now and forecasting what's going to happen next, but what we could be doing as investors in terms of the next best possible step and how to digest this information in a manner that doesn't give us bouts of insomnia, if you will. I'm sure we've been speaking to clients. I'm sure you have been in code red, you know, having phone calls throughout with advisory firms how they should be speaking. And you know, this podcast is largely consumers, and I think we'd be doing them a great service if we get into what to be thinking about right now. And I don't have many questions, other than listening to you and and going off of those.

Daniel Crosby 03:53

So, Alex, it's funny, you know, I'm gonna, I'm gonna say something I probably shouldn't hear right out of the gate, but you talked about insomnia. There you go. I got up last night. I got up last night, you know, to pee, let's be honest. I got up to the bathroom, and I checked my phone to see what time it was, and the bond market was going crazy. I mean, the bond market was looking very abnormal. And then I had the hardest time going to bed, and I was up every two hours, and I was up at 430 so I'm dealing with insomnia today. So the first thing that I want to say is, if you've been rattled by this, the pros get rattled too. Like, I think there's we, we need to sort of normalize that. Like, yeah, this is, this is scary. I think we as financial professionals sometimes do a lot of hand waving and trying to talk people out of feeling what they're feeling. But it is scary like it's it's discomfoting to see your portfolio go down. It's hard to see your hard earned cash go, you know, be diminished for things that are out of your control. But, you know. One of the things that I that I mourn about my job, is that I have to keep my finger on the pulse of financial markets. And the listeners of this show do not, and I think in a lot of ways that you would be better off if you did less of that, or at least you did it in a more educated way. So Alex, you know, we're both. We're both shrinks. We were both. We had some of our shrink paraphernalia. We were just comparing there. Wade,

Alex Murguia 05:27

who's this bigger? Yeah,

Daniel Crosby 05:32

that was very, that was very 41. Of you, Alex. But you know, one, one of the things my one of my first rotations when I was in grad school was at an eating disorder clinic. And one of the things that has always stuck with me was the first bit of training we did was not around it wasn't around nutrition counseling or talk therapy or anything else. It was teaching the young women we worked with to be informed consumers of media and informed consumers of the way that sort of the beauty industrial complex marketed, marketed to them and tried to make them feel bad and use, you know, Crash dieting and weird lighting and airbrushing and all these things to sell something. All of those same things are at play for consumers today and consumers of financial news media. So if you can avoid the financial news altogether, which I cannot, sadly, I

would say to do it. But in so far as you are going to be keeping abreast of what's going on, I think you got to stay conscious of motive, right? Like what's what's being sold here, you got to stay conscious of the the background of the person giving the information. I was watching a news channel the other day at the gym. I won't say which one they had a wrestler on talking about the economy, and it's like, wow. So we're taking our cues from, you know, from professional wrestlers now,

Alex Murguia 07:05

Hey, have you seen the ninja boys portfolio? You think twice? I think twice, right? Wade, and Wade's a big time wrestling fan, so I think you, I think you're trading on very, very dangerous waters now, going after weight zeros. Wade, is this true? Yeah, Wade, tell him. Give him some drop, some knowledge on your wrestling, uh, acumen here, yeah,

Wade Pfau 07:29

that's a whole different topic. But no than the Nature Boy Ric Flair, I think, has not really saved his money so he doesn't have a portfolio. No, is it

Alex Murguia 07:36

true that you're big into wrestling? Oh, that's true. Oh, my God, he knows, like, names, like, what

Wade Pfau 07:43

likes from professional wrestlers. So

Daniel Crosby 07:45

I have, I have gravely misjudged, and need to have my PhD in Psychology revoked for being a poor judge of character. But, yeah, I think, I think we need to be very thoughtful about our media diet, like, as a as a first step, I think we need to be very thoughtful about our media diet. Are we Doom scrolling? Are we being Are we more immersed in it than we need to be? You know, this is going to be a long time coming. We just hit a 90 day pause on the tariffs, like, we'll see if it's actually 90 day pause. But you know, even that 90 days, there's going to be a lot of uncertainty, a lot of back and forth. And I think people would be wise to, you know, leave the media at arm's length to the extent possible. And if you're going to consume media, be thoughtful about the messaging. Understand that high emotion is used to sell stuff. And, you know, sell movements, sell an agenda. Be cognizant of that emotional messaging and be thoughtful about the messenger. So that's, that's sort of my first caveat there is to be thoughtful about what you're what you're putting in your mind at a time like this.

Alex Murguia 08:53

What about if someone to say, Yeah, but Daniel, the there's going to be a complete restructuring of global trade if things go along the lines of what we're talking about, you're asking me to pretty much put my head in the sand and check in and whatever. Six months I'm not saying, you know, I agree with it, disagree or anything like that. And with my comment that I made just now, I'm just playing devil's advocate a little bit. How would you respond to someone listening saying, yeah, yeah. But not really. So

Daniel Crosby 09:22

it's it's interesting, it's hard for us to think this way, because we think that more is more, right? We think that more is more but there are certain domains where more information leads to

impoverished decision making. We actually see this in markets, right? That the amount of information people consume is inversely correlated with their performance. We see this sometimes in sports betting, right? People who have two or three pieces of information about sort of the basics of the offense of the D. Of a team make better decisions than people who have 90 bits of information about that team, because it becomes hard to wait what matters and what doesn't? You pair this with the political motivations of the two parties, the fact that we're more partisan than we've been basically ever and the fact that everything is always being spun and pitched right, and it becomes very hard to figure out what matters. And so I think that there are a few timeless truths, like diversification is a timeless truth that's not going anywhere. We can always be sure that we're going to own the thing that's going to do best, and let's be honest, let's do worst in the next market cycle. But figuring out the particulars of what global trade restructure is going to look like, or if it's even going to happen, is just a fool's errand, and it's one of these things, because most places in life, more gets you more you know, you read more books, you're smarter, you lift more weights, you're stronger, you watch more financial news, you are worse off, the literature suggests. And it's a weird thing to get your head around, but it's true.

Alex Murguia 11:14

No, no, 100% agree with that. I mean, I watch it, but I watch it almost for current events and to get a sense of what clients are listening to. So then where we can kind of, quote, unquote objection handle right away, before things are asked, or so we can be out in front of it. But to your point, I mean, listen, I What's the signal and what's the noise? And over the next 90 days, I think you're going to be overwhelmed with noise versus signal, and use this coming in randomly. And you know, it is what it is I IN. A few episodes ago, we did a thing. We looked at it, looked it up very quickly. But just to give you a sense of how crazy things are, from 2015 to 2025 Wade, correct me, if I'm wrong, I'm gonna guesstimate here roughly. But the Dow Jones returned about 24,500 points. Net up. It was up over that period, 24,500 points. This is a loaded question. What I'm about to ask you. So to get to that 24,500 points in absolute points, and what I mean by that, if it goes up 500.1 day and down 500 points the next, that's 1000 points. All right, even though it netted zero. So to net 24,500 points, what do you think was the absolute number of points that moved? You know, between 2015 to 2025, this is a loaded question. So you assume it's going to be a high number. It is a high number. Yeah,

Daniel Crosby 12:31

it's good. It's going to be a big number. I mean, we had fifth. We flipped from, we flipped from red to green, 15 times today before lunch. Yeah,

Alex Murguia 12:40

yeah, exactly. So imagine how many points it moved right, yeah. And so I'll spare you the draw the mystery here, it moved 490,000 points, yeah, to get to a net of 24 five. That's like a 20 to one ratio. I mean, think about it. It moves 20 absolute points to get to one. You know, their whole two steps forward, one step back, kind of thing, whatever it really is 20 it's just crazy in terms of the amount of movement it needs. And you're getting this to the extreme over the next you had it over the last two weeks, and I'm sure it's not going to stop over the next, whatever, 90 days. What would you tell somebody that's viewing the markets today, looking for signal and saying, oh, okay, we hit a bottom because it's, you know, the NASDAQ, I think, was up 10% the Dow is up five plus percent. The Russell 2000 is up nine plus percent. What would you what would you kind of suggest to them, if they're, if they're finding extreme relief in today's

movement, from the standpoint of, okay, we're out of the woods or try. They're trying to find signal

Daniel Crosby 13:43

in that. Yeah, yeah. Well, far, far be it from for me to ruin someone's good day. But

Alex Murguia 13:49

leave it to me, Daniel, leave it to me. Don't worry about it.

Daniel Crosby 13:53

I will, I will say a couple of things about this. You know, Alex, you and I talked about this before you, you said it in slightly different words than than I wrote about it in my book, but it's very much the same message in every in every market, good, bad, and in between, the truest words in investing are this too shall pass, right? And the thing that I love about that phrase is that in times of exuberance, it chastens us. It should make us more humble to say, like, look, I mean, the last two years have been incredible. We've gotten toward whatever, 25% a year, yeah, for the for the last two years. And you have to, even as you're enjoying those nice returns and seeing that account grow, you have to tell yourself, look, this isn't normal. This is, you know, this isn't how it usually is. And then when we, you know, reach low points like we were at earlier today, you have to remind yourself, like, look, things will tick back up as they most, most certainly have here, at least in the short term. You know, the thing that, the thing, the thing that I think about, though, that is so difficult for. People is uncertainty. When you look at the psychology, when you look at the psychology of uncertainty, we hate it more than than even bad news. If you think about someone who's receiving a medical diagnosis, someone who's like getting a cancer diagnosis, the point of maximum stress, they've measured this. The point of maximum stress is not when they get the news that you have cancer or even terminal cancer. That is not the point of maximum stress. The point of maximum anxiety is when you're waiting for the biopsy, like you think something may not be right. You're waiting to get the results back. And that's where we are today with this new 90 day pause, is we've got, you know, we've got a quarter, effectively, of uncertainty to deal with. Now, when you look at how people deal with uncertainty, they often do one of a couple of things, right? They'll just sort of rip the band aid off, you know, like, forget it. I don't want to have to think about it. Let's go to cash. You know, it's sort of one, one extreme. Another extreme is sort of these forecasts and go, Oh, you know, this is the art of the deal, and I understand exactly what's happening, and sort of having an over optimistic and an overconfident view that you know exactly how it's going to play out. And I would suggest to you that the truth is somewhere in the middle, right? You're you can't just assuage that anxiety by selling everything and going to live in the woods, and neither do you know perfectly. You know the the moves of two global superpowers, duking it out here, and then trying to come to some very complicated decisions. So the truth, like most things, is that that middle place that's a little messy and a little hard to sit with, but it's important to sit with

Bob French 16:50

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Alex Murguia 17:17

Now, what are some things folks can do to sit with that in a little more calming manner.

Daniel Crosby 17:25

Yeah. So one, one thing sometimes, Alex, the the research into psychology, the solutions seem remarkably simple. I call these river I call these River Jordan problems. In my book, you know, it's from the biblical story, there's a, there's a man with leprosy name, and in the Bible, he goes to the holy man and he says, Hey, you cure me of leprosy. And the holy man goes, Hey, go, you know, go bathe in the river Jordan, and you'll be good. And naman goes, What the heck? Like, that's not even a nice river. And you know, the his his servants come back to him and say, hey, look, if he if he had asked you to do something tough, you would have done it. Just go bathe in the river and see if it works. And he does, and it works. A lot of times we're that because one of the most profound things that we can do is literally sleep on it. Like I published a podcast today that that cited research that showed that people who waited 48 hours between sort of a stimulus feeling, you know, feeling anxiety, 48 hour wait, between feeling that negative feeling about your money and then acting on it in a way that's counter to your plan, they made dramatically better decisions than people who sort of impulsively followed the plan. That's not a sexy piece of advice to sleep on it, but it is empirically valid. It's been shown time and time again to work. Other thing I would go ahead.

Alex Murguia 18:46

No, I was good. That reminds me of something I don't know. I took it from somewhere. It could very well been yourself. It's from the appointment in Samara. No, not just kidding. I had to put another one in there. No, it was about the when you question yourself, like, are you making the best decision? Will this? Will you regret this decision? 10 minutes from now? Yeah, will you regret it 10 months from now? Will you regret it 10 years from now? And I think that that's a little bit in line with what you're saying, in the sense of, have a little time, take a breath, and even though you may have an immediate relief right now from that anxiety, the valence of the anxiety you're going to have 10 months from now for making that decision is going to cost you.

Daniel Crosby 19:27

Yeah, that's a that's a great that's a great exercise. Another one that I like to do with folks who come to me and are very worried is, I say, you know, I don't push on it directly, because, again, that worry is natural, like I feel it. Yeah, exactly. But I say, hey, you know, what advice are you giving to your kids, or what advice would you give to someone else? Because a lot of times you'll find, you know people, you know, my kids are asking them, the market has gotten bad enough that my kids kind of know that something's going on, and they say, Hey, what's going on in the market? What are you doing? And I go, Oh, hey, no, don't worry about it, you know. Just keep buying like, you know, you just you get it out. These things come and go. A lot of times, we give much better advice to other people than we give to ourselves. So another thing that I always encourage people to do is, like, think about, what would you tell a stranger? What would you tell like, what would you tell your kid or a loved one to do? That's probably better advice than following whatever's in your head.

Alex Murguia 20:23

It's interesting though, that that reminds me of, like in the last week's episode, we spoke about that, that sort of the mindfulness model, when we got into that, that sort of recognize, allow, investigate, and non identify with that. And I think the non identify with that is kind of analogous to what you're saying. Like, how would you speak to your kids? Because by default, where

you're kind of doing, if you use a process like that, the mindfulness, you're externalizing the feeling, and you're also saying it's okay to feel that way. There's nothing wrong with it. It would be rational for you to be somewhat anxious. We're not like, you know, you know, mark the market volatility. Think of it as kryptonite? Yeah, you're going to be tested. And it's one of those things that if you step outside of yourself and become on the outside looking in, I think you ready yourself for making better decisions in the same manner that you're comfortable telling your kid, hey, look, don't worry about it, because you're automatically externalizing the advice. Yeah,

Daniel Crosby 21:19

I think it pays to think back on your own personal history. I mean, you know, here we are in 2025 going through this. 2022 was brutal, like 2022 was rough, you know, 2020 was really, really rough, apocalyptic, yeah, yeah. Think back. Think back, if you're honest with yourself, unless you're just far less neurotic than I am, right? Like, if you're honest with yourself, there was a moment in 2020 where I think we were all like, Oh, geez. Like, this is like, this is bad. When

Alex Murguia 21:53

you started seeing like, forest animals going to the city, you saw video. When you started seeing video clips like that. You're like, wow, right? Weren't you like, Oh my goodness. Like, like, when we were gonna solve global warming in two months, because everyone shut down everything and no energy was being like you, you're like, Wait a

Daniel Crosby 22:13

second. What the heck? I watched the whole documentary on the rewilding of certain places, really, yeah, during COVID, because, you know, it's like, yeah, when, when we've all been shut in our house for a year and the animals are taking back over, you know, maybe we should panic and yet, look at what the market's done between then and now. I think it pays to revisit times in your own personal history where you felt like this before, and then what was the what do I wish I had done then do that? Now, absolutely.

Alex Murguia 22:43

Look in Oh, eight, that's when you had the financial like, the big financial crisis. And to me, one of the main stools the legs of capitalism, which was, you know, money flows, where it needs to be, that kind of thing that pretty much dried up completely, right? And so that was a that's not a markets go up, markets go down. Don't worry about it. That was like, Look, there's something inherently, potentially systematically going on here with capitalism that will need a rejigging, right? Yep, that was bad. You know, from that standpoint this, I mean, you can make the case global trade, this and that, but I right now it's not even close to being anything like that. And yeah, if you really think about it, we made it through that, and you made it through that through discipline. And so it the trick. The trick here is trying not to sound like you're just full of platitudes. You know, really, because it's one of those things, because it could sound patronizing at some point, but it still doesn't make it any less correct, that that's what you should be doing, which is just maintain your discipline and go from there. Well,

Daniel Crosby 23:47

you know, Jason, Jason's like the the sort of the famed, the famed writer, the famed financial writers with the Wall Street Journal for a long time, you know he, he talks about, I'm going to

misquote him here, but he says, basically, my whole job is to say the same two or three things over and over again in different ways. And, you know, tell new stories that it's a little difficult, right? I mean, it gets a little difficult to say, but

Alex Murguia 24:14

kind of where you and I spoke about it right before the podcast, right before we hit record, remember, we're like, Okay, this is the trick we

Daniel Crosby 24:23

get any less true. I mean, we've, you know,

Alex Murguia 24:26

the cars did it through like five albums, the same song 20 times. So I think we can manage here

Daniel Crosby 24:33

for Green Day, right? Yeah, exactly.

Alex Murguia 24:36

Violent fans, you know, go down the list. It's the same, really, the same song, yeah. I mean,

Daniel Crosby 24:42

they've looked, they've looked now in 19 different countries, and the more you look at your portfolio, the worse you do. The more you trade, the worse you do. I mean, this is like in every country where it's looked at, and it's monotonic, right? So we'll use that word on the podcast. It's step wise. You know, if. You divide it into deciles, you know, the most active decile to the least active decile. It just steps down. And the less you do, the better you do. And it's

Alex Murguia 25:09

prefer to use scaffolding on this scaffolding, but we'll let it go, or whatever successive approximations. How's that? But, yeah, I'll leave this for this final thought that I think will make a good transition for the soul of wealth. Frankly, yeah, at the end, our messaging is, look, it's very difficult to fight the inherent biases that we have and the like. And if you're only listening to this for 40 minutes or what have by no means do we think the this intervention is going to change behavior that you live with 24/7, for years and years on it, but we do think having a framework to work within is something that's effective, and for us, we always fall back on, okay, the markets like this. How is the financial plan? Because it helps. It helps fight against certain dynamics that you inherently have right such as you know, when you backcast, when you begin to effectively have more of a rules based system in place, when you start thinking about things in your future self, externalizing it like that that tends to really ground you, and it serves as a nice again counterweight to to to to anxious behaviors that are going to be maladaptive. Ultimately, I you know, how do you feel about that, from the standpoint of the benefit of having a framework by a financial plan, and then obviously, I think that opens up the whole avenue for the soul of wealth from a holistic standpoint. Yeah.

Daniel Crosby 26:44

I mean, I wrote a whole book. I wrote a whole book on why you should just automate everything. Basically, you know, I mean the systems, systems and processes just be discretion. I mean, we are wired. We are wired to do this wrong. And, you know, the way that we are wired, and the

things that feel most natural to us, capital markets fly in the face of all our wiring. We're wired for immediacy, right? We're wired for immediacy, and capital markets take patience wild. We're wired for certainty. Capital markets, especially this one, are full of uncertainty. You know, we're, we're wired for immediate gratification and capital markets. You go, Hey, you have to set it aside for a rainy day and hope that it's, you know, more than than it is today. So I mean every, every sort of natural human tendency we have runs counter to the best practices and the two best ways, I know are automated. You know, automation and system, systematizing your process and working with a working with an advisor, these are, these are the two best things that you can do. I think because you get that, you get that, that automation, but you also get that encouragement. And when you pair those things together, I think you have something really powerful, right?

Alex Murguia 28:05

Well, that's great, Daniel, and thank you for again, this was an impromptu session, simply because the timing of this was uncanny relative to what was happening in the markets, and we had a few episodes on just how to digest this from an emotional standpoint, and what a way to put a to bow, what a way to put a bow on it with you giving your two cents, I think we could have done any better. So I really appreciate the time to really speak about this. And you know, I think it'll be a good segue into actually thinking about your wealth and the value behind that and how to align all of that with the book, Soul of wealth. Yeah,

Daniel Crosby 28:43

yeah. Thank you. All right.

Alex Murguia 28:47

Wade. You want to sign us off? I

Wade Pfau 28:48

was just taking that all in. Thank you, Daniel. And we'll catch everyone next time on retire with style. We'll, we'll have Daniel Crosby, PhD back again with us to talk about his book, The soul of wealth, 50 reflections on money and meaning. So you may have a chance with that week notice to get a copy of the book, and you'll be more informed for the podcast next week. Catch you next time on retire with style.

Bob French 29:12

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