The quest for financial wellness in an uncertain time

The coronavirus pandemic is impacting each of us in different ways and to different degrees. This is an incredibly stressful time as we adjust to enormous changes in our lives. It's normal to feel anxiety and stress, and it is also important to know that these feelings can affect our cognitive abilities, risk tolerance, and confidence — which leaves us vulnerable to making bad financial decisions.

Don't be unknowingly influenced

When we perceive a threat; our brain floods our bloodstream with hormones, such as adrenaline, which get us ready to protect ourselves. This is fine if we are being chased by a predator, but when our survival response kicks in for a threat to the markets and economy, it can wreak havoc on us and our financial lives and creates the potential for making bad decisions. Money is emotional. Money means different things for each of us based on our upbringing, life events, and perceptions, but at a basic level, it is associated with a fundamental sense of safety and security. So when confronted with a rise in uncertainty around near term economic prospects, our natural response is an overwhelming urge to "do something" in an effort to manage our feelings.

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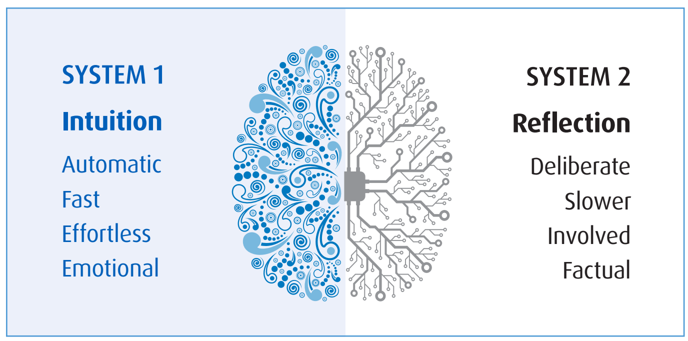

Source: Daniel Kahneman, *Thinking, Fast and Slow*

The desire to follow what others are doing, or what we *think* others are doing can be especially prevalent during these times. This herding behavior often occurs when we feel overwhelmed and unsure of what to do, and is not typically a conscious decision. This is our "System 1" jumping into action, in which our minds find ways to take a shortcut (automatic, quick, emotional and reactive which may lead to following the crowd) instead of taking mindful effort to solve a complex problem. And although our minds may naturally work against us in turbulent times, there are ways to help you sensibly manage towards long term goals.

Going against this urge is an uncomfortable challenge as it feels like you are going against your instincts — so acknowledge this sentiment, but realize that every day you need to make a decision to not let market volatility, or the daily infusion of stressful news overwhelm you. This involves engaging your "System 2" — the conscious, effortful and logical side of the brain.

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Here are a few strategies to consider:

Stay the course with your financial plan

- The recent impact to your financial objectives will vary dramatically based on whether you are just starting out on your journey, nearing retirement or business sale, or already in retirement or transition. What's important is to determine how your short-term cash flow needs have been impacted and how you can solve for those needs through spending adjustments as reasonably prudent, smart use of credit where applicable, and avoidance of dipping into long-term investments if possible (talk with your advisor for ideas — remember, you aren't alone).
- Once you've addressed your short-term needs, review medium- and long-term plans and goals. If those haven't changed, then recognize that you are still on track.

Stay the course with your investment plan

- The equity markets experience downturns regularly. In fact, there has been an intra-year decline each year over the past 50 years with an average pullback of around 14%. Despite these swings throughout the year, annual returns for the S&P 500 are positive over 70% of the time.[1]
- Additionally, the S&P 500 has been positive in the overwhelming majority of time periods since 1928, with longer holding periods corresponding to greater chances of positive results. Returns have proven to be positive 88% of the time over 5 year-and 93% over 10-year periods.[2]
- During spikes in volatility and subsequent recessionary environments, we can experience an official bear market (defined as a decline of 20% or greater in equity prices). These drawdowns can be difficult with typical drops of 25-35% (or extreme declines like the approximate 50% fall during 2008-09). However, recoveries can come quickly, and are often very strong with the average return of 16% in three months after the bottom, 28% after six months, and over 40% after a year.[3]
- While every event is unique, history suggests that a disciplined approach and staying invested provides value over time.[4]

Take control by:

1. **Creating game plan for short-term cash flow needs.** Create a cash flow statement, not a fun activity for many but it serves a great purpose in understanding what cash you need right away. Many banks' credit cards have the details already broken down. If called for, focus on what you can do in the short-term to limit non-essential discretionary spending until things recover. In addition, you can look for data aggregation tools that can automatically track all spending by linking credit cards and other accounts.
2. **Keeping your frame of reference** towards long-term investment results.
3. **Recognizing the emotional impact of your finances.** Learn what your triggers are around financial issues, write down your feelings about what is concerning you and if applicable share with your partner.
4. **Setting goals.** List out short-, medium- and long-term goals (if you have a partner do this separately and compare where you agree and possibly differ). This can take time, but here is an easy way to start:
    a. Get a piece of paper and draw a large box, filling the page. Then divide it into four quadrants, leaving enough room around the edges to write the following. At top of page in the middle write NEEDS, at the bottom in the middle write WANTS, on the left side in the middle write NOW, and on the right side in the middle write FUTURE.
    b. Make sure to keep an open mind — remember there are no "right goals," only YOUR goals. Consider the why for each of your goals (stay away from funding for now).
    c. If doing with a partner, try to understand each other's feelings on the goals (remember, money is emotional and so are goals — a good team needs to understand each other's perspectives).

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5. **Reviewing or creating your estate plan.** This includes reviewing the following: wills, powers of attorney for property and healthcare, living wills, revocable trust(s) and beneficiary designations. Also review and confirm that the fiduciary appointments made in your documents still make sense and that the proper succession plan is in place for those named to act. Inform your appointees and provide them a copy of documents and details as you are comfortable.
6. **Making time for YOU** and reducing the amount of time spent watching redundant news stories — catch up with family, friends, take a walk, listen to music, read or write in a journal — do something that brings you joy and centers you.

Finally, remember this too, like other storms, will pass. Focus on what you can control and know that short-term situations are just that: short term. Ultimately, a situation like this offers you an opportunity to better understand your feelings about money and investments, which will only help to improve your financial well-being over the long term.

In summary

Be aware of external influences, stay focused on the long term and learn how to keep your financial emotions in check. This requires learning what your personal triggers are and what helps keep you calm and centered. As always, engage your financial team now and in the future with any new insights you've found during the above exercises and If you do not have a financial game plan then work with your advisor to create one. **We are here to help.**

BMO Wealth Management

[1] Bloomberg, Standard & Poor's, BMO Wealth Management Strategy, J.P. Morgan Asset Management Chart #3040
[2] Bloomberg, BMO Wealth Management Strategy
[3] Bloomberg, FactSet, Morningstar Direct, BMO Wealth Management Strategy
[4] Bloomberg, BMO Wealth Management