

Framing Stock Market Losses: Staying head healthy while experiencing monetary pain

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One client, we'll call her Jane, lost 40% of her portfolio in the recent downturn. She is a mess. Her sleeplessness and anxiety make her feel wretched. And that's only the beginning. Her mood extends to others who, when they experience her negativity, don't feel so good either.

Another client, "Ellen," had a different response when her portfolio similarly fell off the cliff. She was initially frightened, but after a time decided to accept the diminished portfolio and work with it. She decreased her spending and even made it a challenge for herself. Soon after, she began participating in some charity work for people less fortunate than herself. This latter move really helped put her situation into perspective.

Both Jane and Ellen hope that their portfolios will recover. But, if it happens later rather than sooner, Ellen is OK. She has adapted. Jane hasn't. As a result, Jane is letting her current situation snowball into one that will become increasingly difficult to manage.

It all boils down to how each investor is dealing with the loss. Cortisol—a hormone that can be harmful to the brain—is released after the initial stress hormone, adrenaline. Although the actions of either hormone can be protective initially, cortisol stays around longer in the brain than adrenaline and adversely affects long-term memory. Furthermore, if the stress is sustained for hours, weeks or months, an even more detrimental effect can take place, one that doesn't go away. The brain is imprinted with the negative experience because of the sustained effect of cortisol and other stress hormones. Then, when there is a reminder of the previous stress, even though it is not harmful, it can instigate the earlier stress response in the emotionally injured person. Consider individuals who lost money in the great depression and are still market-cautious. Their emotional centers are stamped with the pain of previous loss. This is similar to Post Traumatic Stress Disorder, though the instigating factor is monetary rather than physical or interpersonal.

Other organs of the body don't escape when the body is constantly under stressful conditions. The immune system, the blood vessels, and the heart can all be adversely affected. As an interesting aside, rats that undergo sustained stress continuously explore their surroundings. It is as though they don't remember them. This memory deficit is analogous to the way people act under continuous stress—they also have memory problems. James McGaugh, director of the Center for Neurobiology of Learning and Memory at the University of California, Irvine summarizes it this way: "The memory is not lost. It is just inaccessible or less

accessible for a period of time.”

The upshot: Stress causes release of hormones that affect the body negatively over time when the stress is sustained. Money stress is no different. Ellen, by adapting to her new financial circumstances, is mentally and physically able to protect herself monetarily better than Jane. Additionally, Jane runs the risk of suffering long term negative physical effects from the sustained cortisol production.

The difference between the two investors is how they framed their losses.
