Clark Capital Management Group

NavigatorInsights

Gain over Pain: Helping Investors Stay in the Game

Our Two Primary Motivators Are Not Equal

Psychologists assert that all human motivation can be divided into two categories: gain and pain. Anytime we actually *do* something, we do it because we want to avoid pain or achieve gain.

I recently attended a presentation hosted by Steve McClatchy, leadership coach and author of *The New York Times* bestseller *Decide*. According to McClatchy, "Actions driven by gain produce far more significant positive results in your life and your business than tasks that you do to prevent pain."[1]

"Prevent pain" activities are the have-to-dos — paying bills, taking out the trash, responding to a negative email from a client, etc. If we don't do them, there will be negative consequences.

Gain activities don't have to be done, but if they are, they can improve our overall health, wealth and happiness. If we don't focus on gain activities, such as building strong relationships with family and clients or investing time in things we truly care about, we may never achieve our life goals.

But it's not that simple. Pain-driven activities typically get our attention first — they are the nagging, annoying tasks we simply can't avoid. Time and time again we sideline gain activities in favor of preventing pain.

Helping Clients Overcome Loss Aversion

As financial professionals, it is our job to help ensure that our clients prioritize gain ahead of pain while also obtaining some level of comfort with pain. In our industry, we're all familiar with the idea that investors are driven by fear and greed. But let's put aside the negative connotations of greed for a moment and stay focused on the concepts of pain and gain.

One thing we know about the markets is that they are sure to go up and down. Loss aversion is a well-established cognitive bias in behavioral finance. While investors love to make money, they hate losing money much more. Time and again, investors underperform the benchmarks and do not achieve their long-term goals because they sell out of the market at the wrong time in order to avoid pain.

Running from Danger

Ironically, clients would have the same emotional response to a bear market as they would have to an actual bear chasing them in the woods. In either scenario, adrenaline spikes, areas of the brain responsible for rational decision-making are reduced, and the body turns on systems that can help a person run away from danger and preserve their safety.

The ability to conserve energy from systems that aren't absolutely necessary in favor of contributing energy to systems that can help us run away from danger made a lot of sense to our ancestors on the plains of the Sahara thousands of years ago. Unfortunately, those same systems can wreak havoc on our decision-making capabilities, and even our health, if they aren't kept in check.

Focusing on Growth and Safety

At Clark Capital, we focus on risk management so that clients can avoid making emotional decisions driven by loss aversion. One way we help investors prioritize gain over pain in their investment portfolios is by giving them the option to take a small piece of their portfolio and hedge it by using volatility instruments that track the VIX, such as ETFs like VXX, VIXM, and individual options contracts. For advisors and clients who choose to overlay a hedging strategy on a portfolio, the majority of the portfolio is focused on providing long-term gains.

The comfort of knowing that a small portion of the portfolio is invested in vehicles that typically go up when the market goes down can help investors focus on their life goals, such as funding a child's education, buying a second home, or leaving a legacy.

1. http://alleer.com/wp-content/uploads/2013/08/DECIDE_Excerpt.pdf

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