canada life™

Loss-aversion bias

What is it?

The tendency to feel losses more than gains. The feeling that losses seem twice as bad as gains.

How does it play out?

Loss-aversion bias can lead people to:

- Worry, fear or panic about their investments, and potentially shelter their money or withdraw from the market altogether.
- Invest with a lower risk tolerance that might not fit their situation.
- Stay invested in holdings that no longer have a place in their overall portfolio, which could throw off their strategic asset allocation and impact their ability to reach their goals.

How can you help clients manage this bias?

✓ **Education.** Talk through your clients' concerns and explain what loss aversion is. Then work with them to help them focus on their long-term financial plan, and how it can help them realize their potential. Remind them that investing is best done early, often and for the long term.

✓ **Establish a "set-it and forget-it" habit.** A savings plan can keep clients on track even if they're wary of market fluctuations. Pre-authorized contributions can help establish a habit of contributing regularly, cutting down on the time they spend worrying about potential short-term losses.

✓ **Show how you can minimize losses in their investments.** Whether that means bringing more diversification to their portfolio, incorporating lower-risk investments or using alternatives, options or other risk-management strategies, show what you can do to help manage risk.

✓ **Reframe the conversation.** When a client doesn't invest with the right amount of risk for their situation, it can put their long-term financial goals in jeopardy. Although it might seem odd, when clients avoid short-term risk, it may actually put them at risk of not achieving what matters most, their goals.

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