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Reacting to
news headlines

Guide

Know how to act when you feel like you're about to react

Avoiding headline-driven investment decisions may
make it easier to prepare financially for your future.

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Keeping your emotions in check can help when it comes to making investment decisions.

Thanks to 24-hour financial news channels, the Internet and the mobile devices we all seem to have these days, there is so much more news and information about the markets available to us. While you might expect that it would help us get better investment results, the opposite is true for many investors.

This is because our emotions can take over and negatively affect our investment decisions. With this guide, we'll help you understand why this happens and what you can do to make better choices for your portfolio.

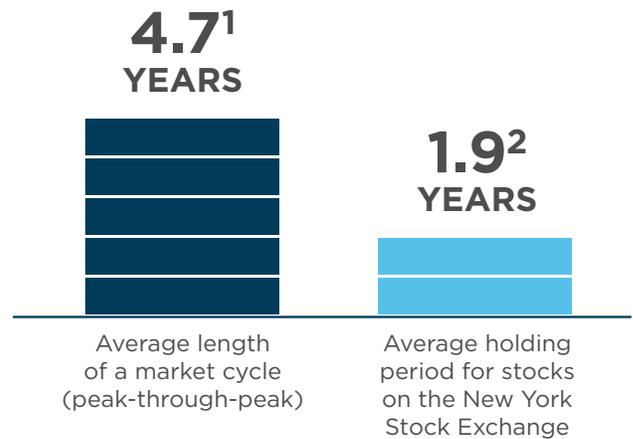
What's inside:

- 3** Financial news headlines lead investors to make irrational decisions, many times due to the psychological hard-wiring of the human brain
- 4** The average investor has underperformed major market indexes, often because of emotional reactions and trying to time the market
- 5** Investors can help themselves avoid emotional reactions by relying on several key investment principles and working with a financial professional



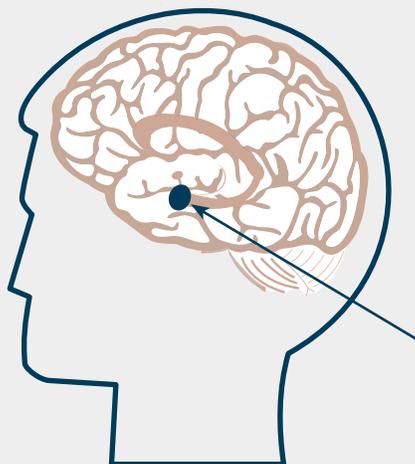
Bad news often increases investment activity

Media interest in the financial markets rises in times of market stress, with good reason. Their business models are driven by attracting more viewers or subscribers, and for a financial media platform, nothing attracts individual investors more than bad news. But all of that noise can push your emotional buttons, leading you to make hasty decisions and buy or sell your investments too quickly.



¹ National Bureau of Economic Research (NBER), Sept. 2010.

² Ned Davis Research, Dec. 2014.



There's a neurological connection

The same part of your brain that regulates your emotions — the amygdala — is also used when you make decisions. Because of that, it's very easy for your emotions to take over, especially in stressful situations.

amygdala

Portfolio performance suffers for individual investors

Individual investors frequently underperform market indexes. One reason is because they get caught in this vicious chain of events: news headlines drive their emotions, which cause them to make irrational investment decisions, which often lead to poor performance.

We're talking about a significant reduction in performance, too. While major stock and bond indexes have returned between 5% and 8% on average over the last 20 years, individual investors have earned just half of that over the same time.

ANNUALIZED PERFORMANCE: 1995 - 2014

Average Investor

2.5%

Investment-Grade U.S. Corporate Bonds

5.8%

Long-Term U.S. Treasury Bonds

7.0%

S&P 500 Index

8.2%

Source for index data: Morningstar.

Source for average investor data: Dalbar, Inc. QIAB study, 2015.

S&P 500 INDEX (DAILY PRICE RETURN)
GROWTH OF \$10,000 (JAN. 1995 - FEB. 2016)



Source: FactSet (Feb. 2016).

Past performance does not guarantee future results.

Reacting and trying to time the market takes a toll

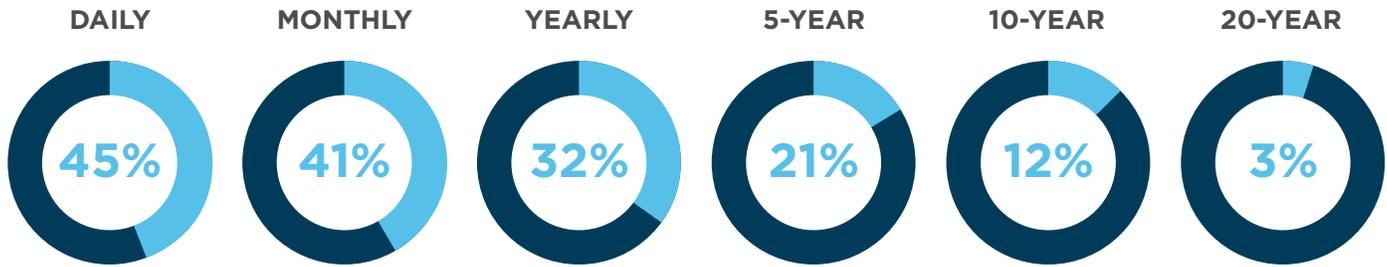
As individual investors react emotionally to news headlines, they tend to buy and sell investments frequently and at inopportune times. All of this movement in and out of the market means they run the risk of missing many of the best days in the market. And the more good days they miss, the more potential gains they give up.

Staying invested is a key strategy for success

To make the most of market opportunities, it's best to tune out the daily news and stay invested for your long-term goals. Although there will be down days for the stock market and negative headlines to go along with them, the likelihood of market losses drops dramatically over longer periods.

You can see this with the S&P 500 Index going back to 1929. Negative returns become much less likely when you stay invested for 10-year or 20-year periods.

PROBABILITY OF NEGATIVE S&P RETURNS (1929 - 2015)

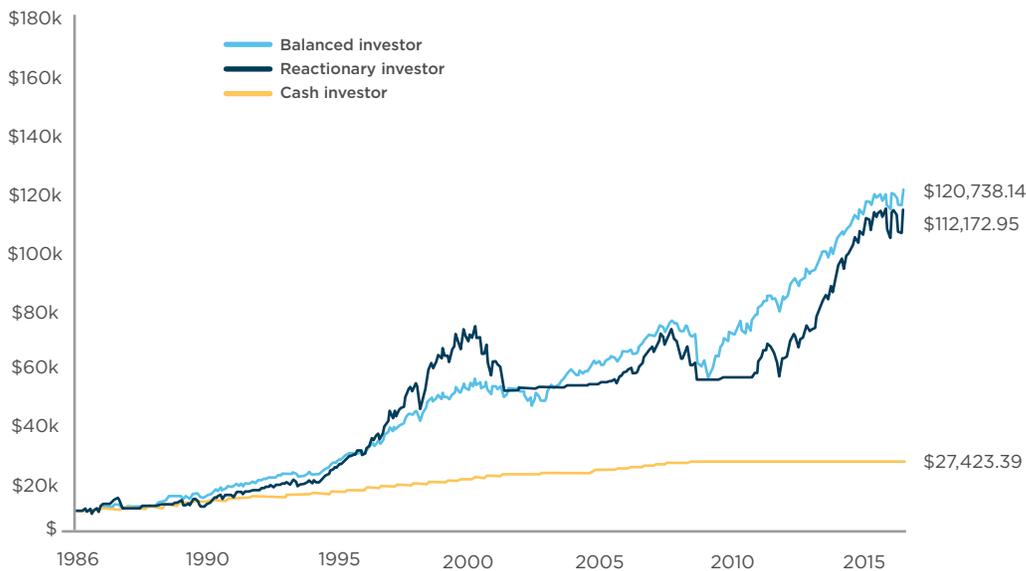


Source: FactSet (Feb. 2016).

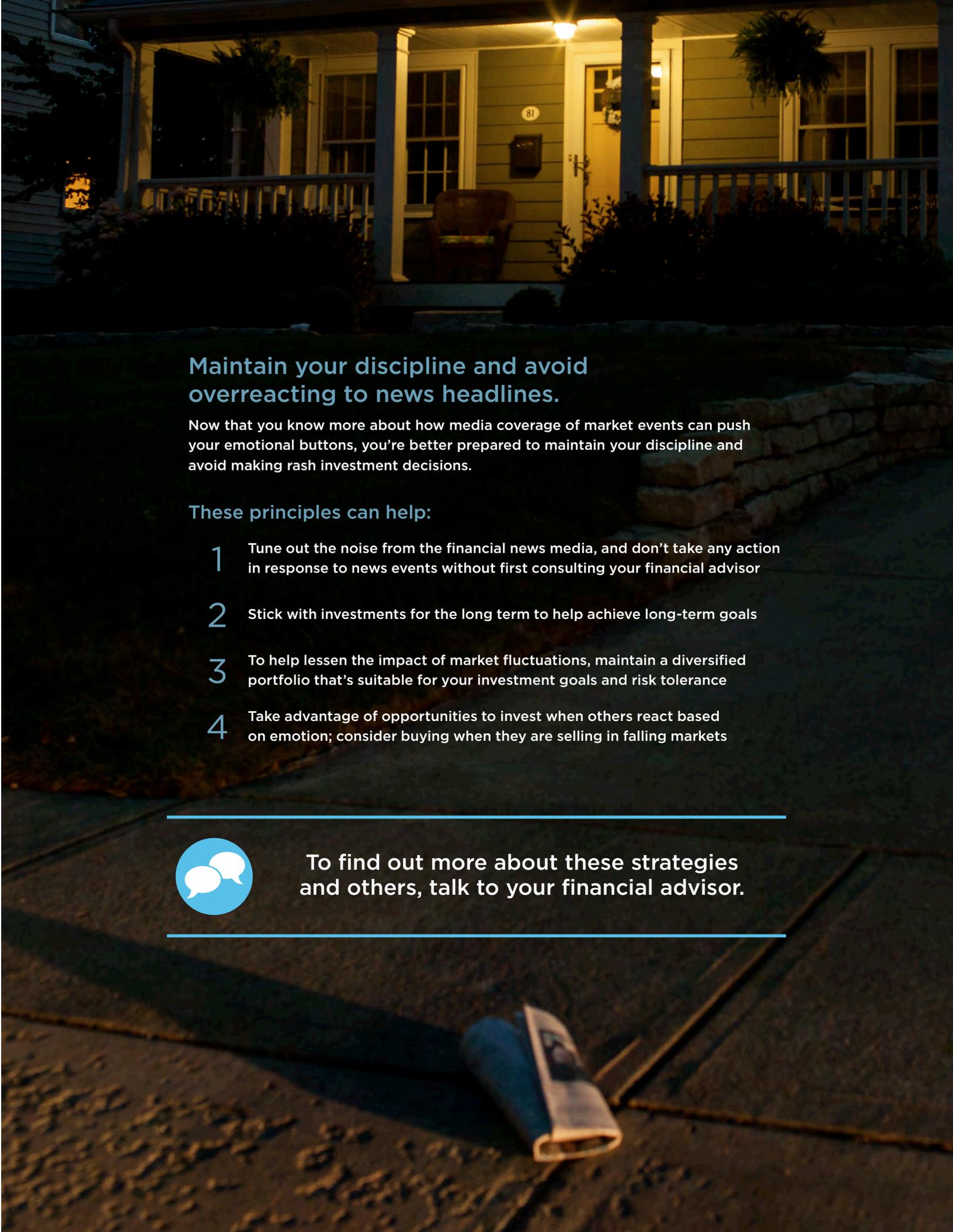
A balanced portfolio offers significant potential value

If you avoid the temptation to trade in or out of the market and stay invested in a balanced portfolio based on your long-term goals, you'll be in a better position to reduce the amount of risk you take on and may potentially increase the returns you realize over time.

COMPARISON OF INVESTING STRATEGIES—GROWTH OF \$10,000 (MARCH 1986 - MARCH 2016)



Source: Morningstar and FactSet.
Past performance does not guarantee future results.



Maintain your discipline and avoid overreacting to news headlines.

Now that you know more about how media coverage of market events can push your emotional buttons, you're better prepared to maintain your discipline and avoid making rash investment decisions.

These principles can help:

- 1 Tune out the noise from the financial news media, and don't take any action in response to news events without first consulting your financial advisor
- 2 Stick with investments for the long term to help achieve long-term goals
- 3 To help lessen the impact of market fluctuations, maintain a diversified portfolio that's suitable for your investment goals and risk tolerance
- 4 Take advantage of opportunities to invest when others react based on emotion; consider buying when they are selling in falling markets



To find out more about these strategies and others, talk to your financial advisor.



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Investing involves risk, including the possible loss of principal. Share price, principal value and return on investments will vary, and investors may have a gain or loss when selling their investments.

Asset allocation is the process of spreading assets across several different investment styles and asset classes. The purpose is to potentially reduce long-term risk and capture potential profits across various asset classes.

Market index performance is provided by a third-party source Nationwide deems to be reliable. Indexes are unmanaged and have been provided for comparison purposes only. No fees or expenses have been reflected. Individuals cannot invest directly in an index.

S&P 500® Index: An unmanaged, market capitalization-weighted index of 500 stocks of leading large cap U.S. companies in leading industries; gives a broad look at the U.S. equities market and those companies' stock price performance.

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