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Mission Statement:

To have a positive impact on the lives of our clients and their families by applying conservative financial planning principals, unique strategies and always exceptional service.

Investor Psychology: Behavioral Biases That Can Lead to Costly Mistakes

Turbulent Times: Bear Markets Come and Go

The CARES Act Suspends Federal Student Loan Payments

Rod's Notes

We are open

For clients and prospective clients that feel comfortable with it, we are open for face to face meetings. Please forgive me if I do not greet you with a handshake. We are taking extra steps to clean and sanitize surfaces in the office. If you don't feel comfortable with a face to face meeting, we can certainly communicate over the phone and/or online Zoom meetings. Either way, I am looking forward to seeing you!

Office hours

I will be taking a much-needed vacation in Big Bear from July 1st to July 13th. Please feel free to email me at rod@rodchamberlin.com or leave a voicemail and I will call you back within 48 hours. These last few months have been stressful for everyone. I hope you can take some time to get away and do something you enjoy. I call it "sanity maintenance", and I could use some about now.

Talking points

1. Change is the law of life. And those who look only to the past or present are certain to miss the future." -*John F. Kennedy*
2. "The best thing for us to do in our present situation would be to leave the city. We should go and stay on one of our various country estates, having as much fun as possible. There we will have a clearer view of the heavens, which are so much more attractive to look at than the walls of our empty city." - *"The Decameron" by Giovanni Boccaccio, written in 1351 after the Black Death*
3. Because of the stay-at-home order, California highway police say that overall traffic levels are down 35% from last year. However, the number of speeding tickets for driving faster than 100 mph has increased 87%, with one motorist caught doing 165 mph.-*Los Angeles Times, April 22, 2020*
4. Colleges in the United States earn roughly \$600 billion per year-equivalent to the combined annual revenue of the tech firms Google, Apple, Microsoft, Facebook, Netflix, and Twitter.-*The Wall Street Journal, June 18, 2020*

Investor Psychology: Behavioral Biases That Can Lead to Costly Mistakes

The field of behavioral finance focuses on the emotional and cognitive aspects of investing. In recent decades, well-known economists have advanced the theory that investors' decisions can be driven by human emotions such as greed and fear, which helps explain why asset prices sometimes fluctuate erratically.¹

It can be difficult to act rationally when your financial future is at stake, especially when unexpected events upset the markets. But understanding certain aspects of human nature, and your own vulnerabilities, might help you stay levelheaded in the heat of the moment.

Every investment decision should take your financial goals, time horizon, and risk tolerance into account. That's why it's important to slow down and try to consider all relevant factors and possible outcomes.

Here are six behavioral biases, which could also be called mental shortcuts or blind spots, that might lead you to make regrettable portfolio decisions.

1. Herd mentality. Many people can be convinced by their peers to follow trends, even if it's not in their own best interests. When investors chase returns and follow the herd into "hot" investments, it can drive up prices to unsustainable levels and create asset bubbles that eventually burst. Joining the crowd and fleeing the stock market after it falls, and/or waiting too long (until prices have already risen) to reinvest, could harm your long-term portfolio returns.

2. Availability bias. People tend to base their judgments on information that immediately comes to mind. This could cause you to miscalculate risks or expected returns. In the same way that watching a movie about sharks can make it seem more dangerous to swim in the ocean, a recent news article can shape how you perceive the quality of an investment opportunity.

3. Confirmation bias. People also have a tendency to search out and remember information that confirms, rather than challenges, their current beliefs. If you have a good feeling about a certain investment, you may be more likely to ignore critical facts and focus on data that supports your opinion.

4. Overconfidence. Some individuals overestimate their skills, knowledge, and ability to predict probable outcomes. When it comes to investing, overconfidence may cause you to trade excessively and/or downplay potential risks.

5. Loss aversion. Many investors dislike losses much more than they enjoy gains. Because it actually feels bad to experience a financial loss, you might avoid selling an investment that would realize a loss, even though it might be an appropriate course of action. An intense fear of losing money may even be paralyzing.

Market Moods

Retirees and higher-net-worth investors were more likely than other groups to say that their daily mood is sensitive to changes in their investment portfolios. The following chart illustrates the percentage of U.S. investors who say the performance of their investments affects their daily mood (a little or a lot).



Source: Gallup, 2019

6. Anchoring effect. When making decisions, people often depend heavily on the first information they receive, then adjust from that starting point based on new data. For investors, this translates into placing too much emphasis on an initial value (or purchase price) or on recent market performance. Investors who were "anchored" to the financial crisis may still be fearful of the stock market, even after years of strong returns. Another investor who has only experienced years of gains might be inclined to take on too much risk.

Even the most experienced investors can fall into these psychological traps. Having a long-term perspective and a thoughtfully crafted investing strategy may help you avoid expensive, emotion-driven mistakes. It might also be wise to consult an objective third party, such as a qualified financial professional, who can help you detect any biases that may be clouding your judgment.

All investing involves risk, including the possible loss of principal, and there is no guarantee that any investment strategy will be successful. Although there is no assurance that working with a financial professional will improve investment results, a financial professional can provide education, identify strategies, and help you consider options that could have a substantial effect on your long-term financial prospects.

1) "From Efficient Markets Theory to Behavioral Finance," *Journal of Economic Perspectives*, Winter 2003

Turbulent Times: Bear Markets Come and Go

The longest bull market in history lasted almost 11 years before coronavirus fears and the realities of a seriously disrupted U.S. economy brought it to an end.¹

Bear markets are typically defined as declines of 20% or more from the most recent high, and bull markets are sustained increases of 20% or more from the bear market low. But there is no official declaration, so often there are different interpretations and a fair amount of debate regarding when these cycles begin and end.

Between February 19 and March 23, 2020, the S&P 500 fell 34% and then took just 15 days to bounce back above the 20% threshold that would technically mark the beginning of a new bull market.²

Still, most investors wait to see if volatility subsides and higher prices persist before they cheer the exit of a bear market. And in the midst of the pandemic, without a clear economic picture, it could be more difficult than usual to tell whether any market advance is a short-term rally or the start of a longer upward trend.

Historical Perspective

The CBOE Volatility Index (VIX), a closely watched measure of stock market volatility and investor anxiety, hit all-time highs in March 2020.³

If you are losing sleep over volatility driven by disheartening news, it may help to remember that the economy and the stock market are cyclical. There have been 10 bear markets since 1950 (not counting the one that began in 2020). Each of these declines was triggered by a different set of circumstances, but the market recovered eventually every time (see table).⁴

On average, bull markets lasted longer (1,955 days) than bear markets (431 days) over this period, and the average bull market advance (172.0%) was greater than the average bear market decline (-34.2%).

The bottom line is that neither the ups nor the downs last forever, even if they feel as though they will. There are buying opportunities in the midst of the worst downturns. And in some cases, people have profited over time by investing carefully just when things seemed bleakest.

Bear Markets Since 1950	Calendar Days to Bottom	U.S. Stock Market Decline (S&P 500 Index)
August 1956 to October 1957	446	-21.5%
December 1961 to June 1962	196	-28.0%
February 1966 to October 1966	240	-22.2%
November 1968 to May 1970	543	-36.1%
January 1973 to October 1974	630	-48.2%
November 1980 to August 1982	622	-27.1%
August 1987 to December 1987	101	-33.5%
July 1990 to October 1990	87	-19.9%*
March 2000 to October 2002	929	-49.1%
October 2007 to March 2009	517	-56.8%

*The intraday low marked a decline of -20.2%, so this cycle is often considered a bear market.

Making Changes

If you're reconsidering your current investment strategy, a volatile market is probably the worst time to turn your portfolio inside out. Dramatic price swings can magnify the impact of a wholesale restructuring if the timing of that move is a little off.

Changes in your portfolio don't necessarily need to happen all at once. Having appropriate asset allocation and diversification is still the fundamental basis of thoughtful investment planning, so try not to let fear derail your long-term goals.

The return and principal value of stocks fluctuate with changes in market conditions. Shares, when sold, may be worth more or less than their original cost. Asset allocation and diversification are methods used to help manage investment risk; they do not guarantee a profit or protect against investment loss.

The S&P 500 is an unmanaged group of securities that is considered to be representative of the U.S. stock market in general. The performance of an unmanaged index is not indicative of the performance of any specific investment. Individuals cannot invest directly in an index. Past performance is not a guarantee of future results. Actual results will vary.

1-2,4) Yahoo! Finance, 2020 (data for the period 6/13/1949 to 4/7/2020)

3) MarketWatch, March 31, 2020

The CARES Act Suspends Federal Student Loan Payments

On March 27, 2020, Congress passed the Coronavirus Aid, Relief, and Economic Security (CARES) Act. Included in the legislation are new rules for student loan relief.

The legislation provides a six-month automatic payment suspension for any student loan held by the federal government. This six-month period ends on September 30, 2020.

If you have a federal student loan, you don't need to contact your loan servicer to request a suspension; the six-month freeze will be applied automatically to any eligible federal student loan. However, you can choose to keep making your monthly student loan payments during the six-month suspension period if you wish.

Interest will not accrue during the six-month suspension period. In effect, the interest rate is set to 0%.

Only Federal Loans Qualify

Only student loans held by the federal government are eligible for payment suspension. This includes Direct Loans (which includes PLUS Loans), as well as Federal Perkins Loans and Federal Family Education Loan (FFEL) Program loans held by the Department of Education. Private student loans are not eligible.

Impact on Public Service Loan Forgiveness Program

Under the Public Service Loan Forgiveness (PSLF) Program, borrowers who work in an eligible public service job and make 120 on-time student loan payments are eligible to have the remaining balance on their federal Direct Loans forgiven.

Under the CARES Act, the six-month freeze on student loan payments will not affect the 120-month running period for purposes of the PSLF program. In other words, each month of the suspension period will still count toward a borrower's 120 payment tally, even if the borrower does not make any payments during the six-month period.

How to Contact Your Loan Servicer

Your federal loan servicer is the company that handles your loan's billing and provides related services. If you want to contact your loan servicer for any reason you should try to do so online or by phone. If you don't know the name of your loan servicer or how to contact the company, you can visit studentaid.gov/login or call 1-800-4-FED-AID for assistance.

The opinions voiced in this material are for general information only and are not intended to provide specific advice or recommendations for any individual. To determine which investment(s) may be appropriate for you, consult your financial advisor prior to investing. All performance referenced is historical and is no guarantee of future results. All indices are unmanaged and cannot be invested into directly.

The tax information provided is not intended to be a substitute for specific individualized tax planning advice. We suggest that you consult with a qualified tax advisor.

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