



The Psychology Behind Your Stock Market Pessimism

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Over the course of the last few columns - and during my recent talks at the Investment U Conference - I've laid out my case for viewing the future of the economy and the stock market optimistically.

Yet Editorial Director Andrew Snyder **polled our readership** and found that only 38% of you agree with me.

Why are so many investors pessimistic about the future?

At a recent talk I attended at the Cato Institute in Washington, D.C., Dr. Steven Pinker, the Johnstone Family Professor of Psychology at Harvard University and author of many books, including *The Better Angels of Our Nature* (an excellent summary of why this is the most peaceable era in our species' history), offered several explanations.

The first and perhaps primary factor is the nature of the media, where virtually everything newsworthy is bad news. People don't want to hear about the buildings that don't burn, the planes that don't crash or the surfers who aren't bitten by sharks.

The story of the modern world is one of long-term incremental improvement. Unfortunately, that doesn't make a terrible headline.

In addition, the world now has 1.75 billion smartphones. That means we have 1.75 billion news reporters, taking photos and videos of terrible things happening around the world in real time and immediately posting them on the Internet.

Every day there are billions of generous, humane, kind and loving acts that we never get the opportunity to see. But horrible behavior and tragic accidents we see almost instantly - and the media recycles them endlessly throughout the day.

Another reason for our fearful outlook is our own evolutionary past. We are descended from people on the plains of Africa who, when they heard a rustling in the grass, assumed it was a dangerous predator and hustled up a tree. The ones who shrugged and figured it was just the wind didn't leave nearly as many descendants.

We are hard-wired to be hypersensitive to danger and risk.

For example, Pinker suggested that attendees ask ourselves how many really good things could happen to us today after we left the conference. He told us to let our imaginations run wild.

Then he asked a different question. How many bad things could happen to you today? We all agreed the list was far longer and more dramatic.

As another thought experiment, he asked us to imagine how much better we could feel than we are feeling at that moment. Then he asked us to imagine how much *worse* we could feel.

You could practically feel the audience begin to recoil.

And that's the whole point. We feel pain much more acutely than pleasure. We also feel loss much more acutely than gain.

For example, imagine that you have just locked in a \$10,000 return in the stock market. How good do you feel?

Now, imagine you have just realized a \$10,000 loss. Just the thought is enough to make you feel somewhat sad, angry, foolish or ashamed. This fear of loss is what keeps so many from ever risking anything in the stock market, even though the risk of long-term loss is far less than the danger of short-term fluctuations.

Pinker also mentioned a factor behind our pessimism that I'd never considered: the psychology of moralization.

People compete for moral authority - for who gets to be considered more noble - and pessimists are generally seen as more morally engaged than optimists. Individuals who ruminate about negative developments - climate change, income inequality, the erosion of the family, the growth of the federal debt - appear more morally engaged than optimists who seem apathetic.

Both good and bad trends are always underway, of course. But the objective truth is that most things are getting better for most of us.

Human beings have never lived longer. Standards of living have never been higher. Educational attainment has never been greater. A higher percentage of the world population is at peace than ever before. Violent crime is in a long-term cycle of decline. U.S. household net worth is at an all-time high. And financial markets - which look forward not back - are optimistic about the U.S. economy, the U.S. dollar and U.S. corporate profits.

So if you believe the world is going downhill, it's worth taking a moment to consider whether the problem is truly the state of the world... or simply the way you're looking at it.

Good investing,

Alex