ACG Insights: Patience Over Panic

Executive Summary

- **Reacting to every market move can be costly – History shows that missing just a handful of the best trading days can significantly reduce returns, making patience a key investment advantage**
- **Behavioral biases drive impulsive decisions – Fear, overconfidence, and herd mentality often push investors to act irrationally, underscoring the importance of self-awareness and discipline**
- **A thoughtful, long-term approach wins – Filtering out noise, stress-testing portfolios, and sticking to a well-diversified strategy can help investors navigate uncertainty and achieve better outcomes**

Introduction

The phrase "Don't just do something, stand there."—made famous by the White Rabbit in "Alice in Wonderland"—is both a whimsical and profound reminder of the importance of restraint. In a world that often urges quick action, particularly in high-stakes or high-pressure situations, the message challenges the human tendency to react immediately to new information. In fact, there are many instances where pausing might be the most strategic approach. In the realm of investing, individuals or investment committees may feel compelled to react to a constant stream of news, including rapid-fire headlines about inflation, tariffs, a possible recession, and geopolitical and technological changes. The temptation to act quickly can be strong. But sometimes, standing still and resisting the urge to act can yield far better results in the long run.

Exhibit 1: Follow the White Rabbit[1]

The Perils of Reacting to Every Headline

Market volatility can trigger strong emotional reactions, leading investors to question their strategies. When markets decline sharply, the instinct to sell or de-risk a portfolio can be overwhelming. However, making investment decisions based on short-term market moves often leads to costly mistakes.

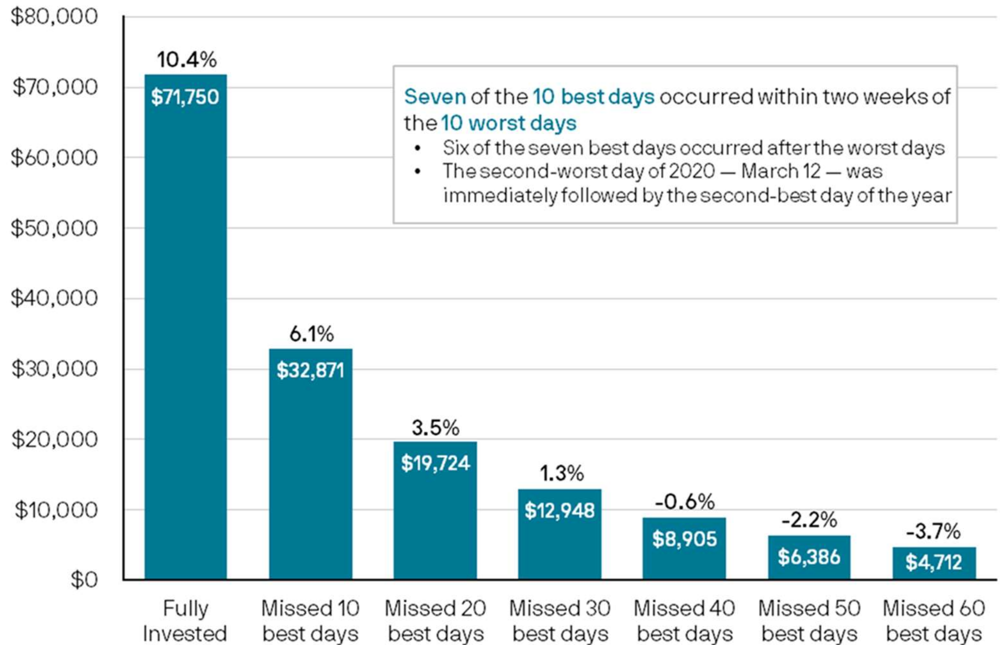
Exhibit 2 illustrates the long-term impact of missing the best trading days in the stock market by analyzing the performance

[1] ACG. Alice in Wonderland

of a theoretical $10,000 investment in the S&P 500 from 2005 through 2024. In this example, a fully invested hypothetical portfolio of $10,000 would have grown to $71,750, achieving an annualized return of 10.4%. However, missing just the 10 best days reduced the final value to $32,871, and missing the 60 best days resulted in a significant decline to $4,712, an annualized return of -3.7%!

A fundamental feature of markets is that the worst periods often create conditions for the strongest recoveries. During the COVID-19 crash in March of 2020, the second-worst day of the year, March 12th, was followed by the second-best day of the year. Attempting to time the market based on short-term news cycles frequently leads to costly mistakes, as investors tend to exit during downturns and re-enter after recoveries have begun, locking in losses while missing potential gains.

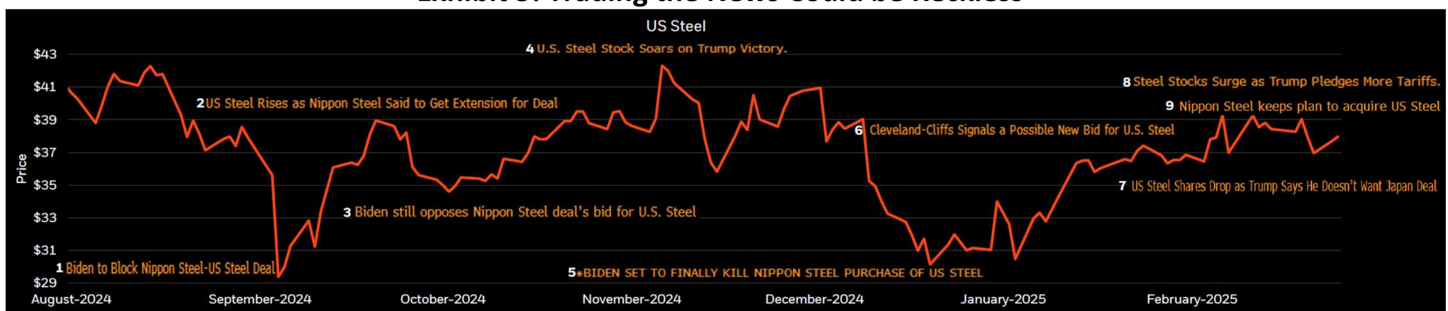
Exhibit 2: Returns of the S&P 500 (Performance of a $10,000 Investment)[2]



For illustrative purposes only. Past performance is no guarantee of future returns.

In addition to broad market indices, company-specific news can cause unforeseen swings in individual stocks. Exhibit 3 tracks U.S. Steel's volatile price movements from August 2024 to February 2025, showing how announcements regarding the Nippon Steel acquisition and shifting political stances drove significant fluctuations. For instance, the stock plummeted when President Biden opposed the deal but later soared following Donald Trump's election victory and tariff pledges. These abrupt reversals highlight the difficulty of predicting market movements based on short-term events. Investors who sold during downturns—such as when Biden was expected to block the deal—would have locked in losses, missing subsequent rebounds when market sentiment shifted.

Exhibit 3: Trading the News Could be Reckless[3]

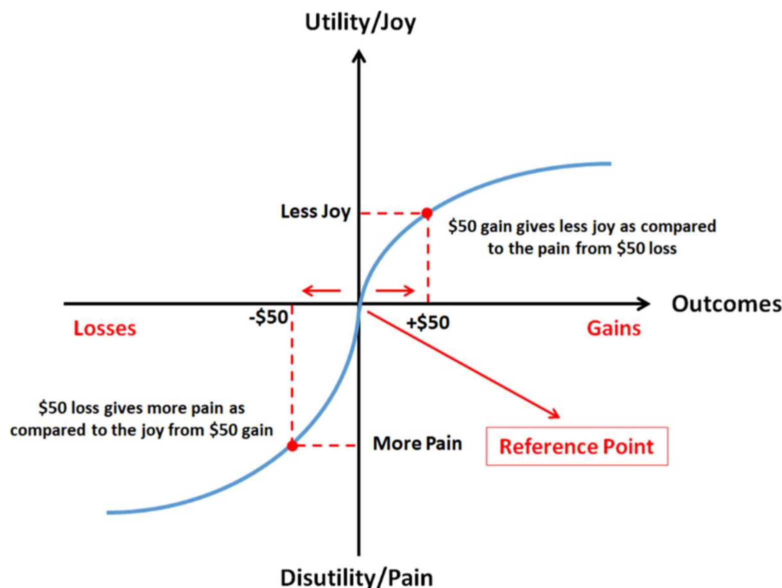


[2] J.P. Morgan Asset Management using data from Bloomberg. January 3, 2005 – December 31, 2024
[3] BlackRock, Bloomberg as of 2/25/2025

Why is it so Challenging? Enter Behavioral Finance

Hopefully, by now, there is at least a cognitive appreciation for not acting rashly to rapid market moves or alarming headlines. But why do investors find this so difficult in practice? Over the last 50 years, **behavioral finance** has emerged as a fusion of psychology, economics, and finance to explain why investors often make irrational decisions—especially under uncertainty. Stress and fear amplify psychological biases, pushing investors away from rational analysis and into reactionary decision-making.

Exhibit 4: Prospect Theory[4]



One of the most influential theories in behavioral finance, **prospect theory**, reveals that losses feel psychologically more painful than equivalent gains feel rewarding. This "**loss aversion**" can cause investors to panic-sell in market downturns or hold onto declining assets too long, hoping to avoid the pain of realizing a loss. Compounding this effect is **herd mentality**, the instinct to follow the crowd, especially in volatile markets. Investors often assume that the majority, even when acting irrationally, must know something they do not. The fear of missing out on a rally or being caught on the wrong side of a crash often leads to emotionally driven decisions.

At the same time, **overconfidence bias** leads many investors to believe they have superior insight into market movements, causing them to trade excessively or take on undue risk. This illusion of control can be particularly dangerous in times of uncertainty, as investors underestimate volatility or dismiss warning signs. These are only a few of the many types of behavioral biases that plague investors.

Practical Steps to Stay Disciplined

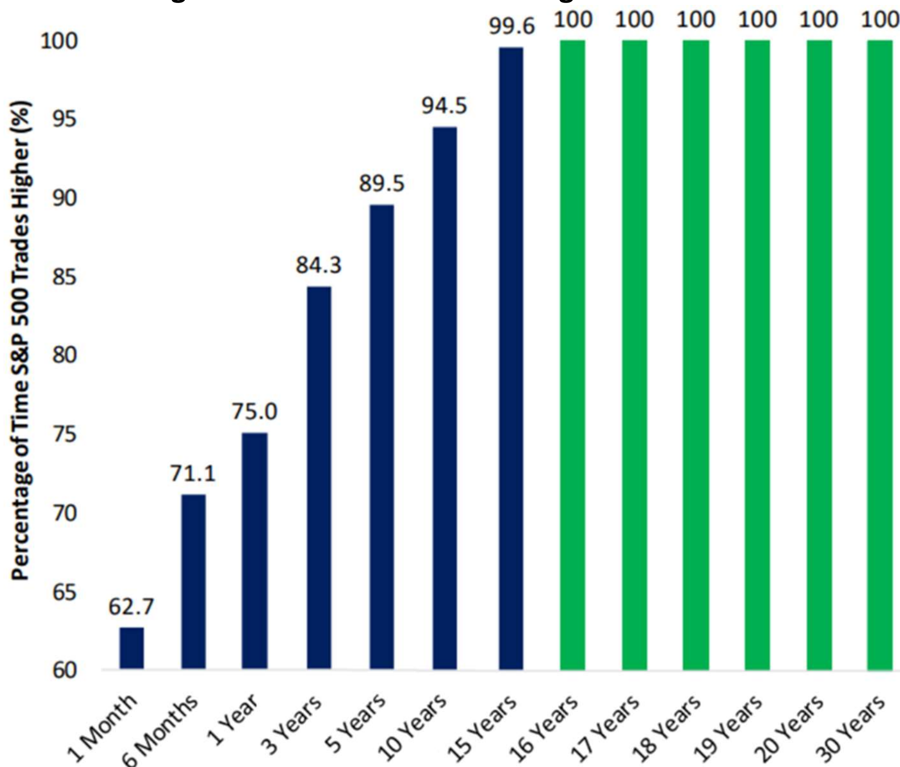
Understanding behavioral biases is essential, but putting that awareness into practice is the real challenge. Emotional tendencies—fear, greed, and overconfidence—are hardwired into human psychology, making it difficult to resist the urge to react. While it is unrealistic to eliminate these instincts entirely, investors can take steps to mitigate their influence. Have prior hasty decisions resulted in investment regret? Self-reflection, along with analyzing historical data on past investment decisions, can reveal an individual's or committee's risk-taking style. If you find systematic flaws, like risk-seeking with assets that are going down in value (hanging on to them for too long), think about improving your approach to combat biases.

In addition to behavioral finance, established best practices such as maintaining a well-diversified portfolio and adopting a long-term perspective form the foundation of prudent investing. Exhibit 5 illustrates that historically, the longer an investor stays in the market, the higher the probability of positive returns. While the S&P 500 has

[4] Economics Online.

been higher only about 63% of the time after one month, that percentage jumps to 84% after three years and 95% after ten years. Most strikingly, a 20-year or 30-year holding period has historically resulted in a 100% likelihood of gains. Of course, past performance is no guarantee of future results, but these historical base rates reinforce the importance of staying invested rather than reacting impulsively to market fluctuations. Instead of chasing fleeting trends, grounding investment decisions in fundamental analysis and a strategic allocation framework can help weather volatility and improve long-term outcomes. In the words of the late Charlie Munger, "The big money is not in the buying and selling, but in the waiting."

Exhibit 5: Percentage of Time S&P 500 Trades Higher Over Various Time Frames[5]



Another approach that can enhance clarity and mitigate anxiety is stress-testing a portfolio against worst-case scenarios. Stress tests can help investors understand their true risk tolerance and avoid emotionally charged decision-making. Working with a financial advisor or consultant can further refine this process, providing objective insights and data-driven assessments. Advisors can help investors model potential drawdowns, identify blind spots, and construct strategies that align with their long-term goals. By taking a proactive approach to risk management, investors can build confidence in their investment strategy, reducing the temptation to react impulsively to short-term market turbulence.

There is one final tactic to consider. The sheer volume of information available today far exceeds what is necessary for sound investing. The 24-hour news cycle thrives on urgency, often magnifying short-term events beyond their true significance. As with dietary practices, reducing consumption while emphasizing quality can lead to better long-term outcomes. Consider how the information you engage with influences your decision-making. Are certain news sources, social media trends, or market predictions triggering stress or impulsive reactions? If so, it may be time to reassess your information diet. Filtering out the junk food and focusing on

[5] *www.bespokepremium.com*

meaningful, well-researched insights can help prevent knee-jerk decisions that harm long-term results. By combining self-awareness, disciplined strategy, risk management, and a healthier approach to information consumption, investors can navigate uncertainty with greater confidence and improve long-term outcomes.

Conclusion

In investment decision-making, there is often more wisdom in standing still than in reacting impulsively. This does not mean abandoning the need for action altogether, but rather taking the time to evaluate the broader context before making decisions. As history has shown, both in times of crisis and periods of rapid change, those who resist the pressure to act immediately and instead focus on long-term goals tend to fare better in the end. So, the next time a fire hose of headlines threatens to disrupt your investment strategy, perhaps the best course of action is not to react immediately but to stand there—and take a moment to think.

Exhibit 6: Committee in Need of an Information Diet[6]

Glossary[7]:

Term	Definition
Behavioral Finance	An economic theory that states investor's illogical decisions are caused by psychological factors or biases.
Herd Mentality	Investors in groups follow the behavior of others with the presumption that other people have done their research.
Loss Aversion	Investors feel a loss as mentally or emotionally more severe than a corresponding gain.
Overconfidence Bias	A cognitive error that causes people to overestimate their abilities and knowledge, leading to poor decision making.
Prospect Theory	Irrational tendency to be less willing to gamble with profits than with losses. This means selling quickly when we earn profits but not selling when holding a loss.

[6] OpenAI – DALL-E 3

[7] www.*investopedia.com*

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