RBC Dominion Securities Inc.
KING CLARKE WEALTH MANAGEMENT's

August 1st, 2014

Quarterly Newsletter

Views and opinions
for the clients and friends of

Claudine King
Investment Advisor, CIM, FCSI
604-535-3833
Claudine.King@rbc.com

Heather Clarke
Investment Advisor, PFP
604-535-3856
Heather.Clarke@rbc.com

Sean Sullivan
Associate Advisor
604-535-3848
Sean.sullivan@rbc.com

Ruby Emms
Aassociate
604-535-3885
Ruby.Emms@rbc.com

SEVEN PSYCHOLOGICAL PITFALLS OF INVESTING - AND HOW TO AVOID THEM

Do you get anxious when the stock markets are volatile? Or do you feel optimistic that everything will turn out fine? Both reactions – natural parts of your psychological makeup – can actually impede your progress towards your investment goals.

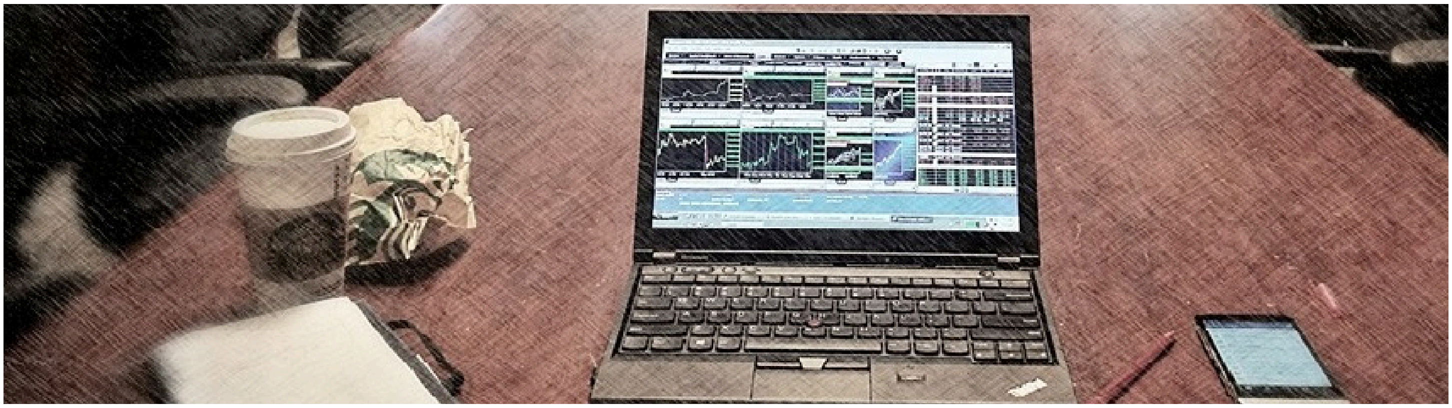
The good news is that you can gain some control over your psychological responses

– unlike the financial markets. Following are seven psychological pitfalls of investing – and how you can avoid them.

1. Optimism

People have a natural tendency to overestimate the likelihood of positive results on everything from the weather to investing. This largely explains why people are so often disappointed by their investment performance – they simply felt they would do better based on this psychological bias.

Avoiding the feeling of disappointment is only one good reason why you should consciously compensate for this natural optimism. If you base your financial goals on unrealistically positive expectations, you will almost certainly fall short of these goals. This can affect your anticipated retirement date, amount of retirement income, or the value of your estate.



How much should you compensate for this bias? Some people are better calibrated than others, but studies indicate that in general if you feel there is a 99% chance of something happening, the actual odds are closer to 85%.

2. Overconfidence

Another powerful psychological bias is overconfidence. Just as people tend to be overly optimistic about the probability of positive results, they also tend to be overconfident about their own talents. Some investors think that they can “outsmart the market” – and even control largely unpredictable events such as stock market volatility.

This leads to one of the most common pitfalls of investing – market timing. Confident in their own abilities, many investors try to time the market so that they always buy low and sell high – despite the fact that not even the most accomplished professional investors can do this consistently.

Recognizing this tendency towards overconfidence is the first step towards dealing with it. Try to be honest about your abilities, and if you find yourself falling into traps such as market timing, take a step back and rethink your approach.

3. Hindsight

Hindsight is the tendency to believe that after something has happened, you knew all along that it would – even though you didn’t. This tendency can lead you to believe that events are far more predictable than they really are, raising unrealistic expectations about how well your investments will perform and your advisor’s ability to foretell the future, among other things. If you find yourself confidently declaring that you “knew it all along” ask yourself whether you really did. As with optimism and over confidence, you may have to consciously compensate for hindsight.

4. Obsession

Do you follow the performance of your investments minute-by-minute on TV or the Internet? Do you dwell on short-term changes in the market value of your investments? Do you fixate on the negative performance of a single investment, even when your overall portfolio is doing well? These can all be signs of obsessive behaviour commonly displayed by investors.

Take a step back and look at the big picture. Are you on track to achieving your longer-term goals? Are you comfortable with the level of investment risk in your portfolio? If not, you may have to make adjustments to stop obsessing about short-term events.

5. Denial

When stock markets go down, investors can sometimes panic and sell what is still fundamentally a good investment. The flipside of this is denial – when investors continue to hold an investment that has gone bad, thinking it will eventually come back. It can be hard, but when an investment has fundamentally deteriorated, it may be time to sell. Having an investment discipline in place with specific, rational criteria for buying and selling can help you overcome this tendency.

6. Greed

The desire to “get rich quick” compels many investors to take bigger risks than they should, such as investing too much in a single investment. When the risk doesn’t pay off, it can jeopardize their financial security. That doesn’t mean you should never take a risk – it’s a normal part of investing. The key is to take well-calculated risks within a properly diversified investment portfolio, which is designed with your personal risk tolerance in mind. That way, when the occasional risk doesn’t pay off, the impact is mitigated by the other investments in your portfolio.

7. Herd instinct

When we see other people doing something, we have a natural tendency to think that it must be a good thing and we should do it too. This “herd instinct” is often behind sharp ups and downs in the financial markets. When other people are buying, propelling the market upwards, we buy too, sending the market even higher. Similarly, when other people sell in a panic, sending the market downwards, we sell too, fueling the decline. Unfortunately, this often results in buying at the height of the market euphoria, or selling close to the depths of the panic. Instead of following the herd, follow a disciplined investment strategy based on logic and reason.

Successful investing over the long term is less about how the markets are doing than how we react to what the markets are doing. Unfortunately, many of our natural psychological reactions – like denial, panic or greed – can impede our long-term success.

UNCORK YOUR SENSES

Tasting wine goes beyond appreciating flavours. In fact, to fully appreciate wine you need to engage four of your five senses: sight, smell, taste, and touch. If you count the beautiful sound of the cork popping, then it's all five.

Sight

Hold your glass of wine by the stem and tip the glass at a slight angle, preferably against a white background. Look at the clarity and colour of the wine. The wine shouldn't be cloudy or have sediments. Now look at the colour. For reds, it ranges from purple to mahogany or garnet. Usually, the older the wine, the darker the colour. If you're tasting white wine, the spectrum ranges from a green tinge to light brown or amber colour. Look out for dark brown hues, which may be a sign that the wine has aged too long. Now, swirl the wine in the glass

carefully and take note of the "legs" of the wine. The longer it takes for the wine to move back down the glass, the higher the alcohol. In the case of white wines, it also indicates higher sugar content.

Smell

When you're smelling your wine, don't be shy. Make sure your nose is in the bowl of the glass when you inhale. Warm up your nose and take a whiff. Now swirl the wine again in the glass. Swirling the wine will help release the aromas of the wine. Inhale again. This time, take a moment to think about the fragrances and try to identify them. What you smell can include: fresh fruit or berries, dried fruit, flowers, nuts, spices, herbs, and vegetation. You might also smell aromas from the barrels the wine was aged in, such as vanilla, cedar or oak. Finally, take another whiff and try to identify any scents that show the wine's age and maturity. The smell of leather, coffee beans, truffles or chocolate may be present.

Taste and touch

Take a small sip and swirl the wine in your mouth by taking in a small amount of air. Just like air helps release the aromas of the wine when you smell, they also help release the flavours of the wine in your mouth.

You'll notice three main phases:

•First impressions – when the wine is introduced to your palate

•Secondary impressions – this is the time to "chew" your wine for 10 to 20 seconds by continually swirling it in your mouth. At this point, you should be able to taste the berries and vanilla that you smelled.

•Finish – Once you've spit or swallowed your wine, it will leave an aftertaste. This is where your sense of touch comes in. With a good wine, you'll feel and taste the flavours and tannins long after you've swallowed. Most often, you'll notice tannins as a drying feeling or bitter taste in your mouth.

If you like it, it's good

After you've tasted the wine, ask yourself if you liked what you saw, smelled and tasted. If you did, then make a note of the bottle so the next time you have guests, you can share something you actually enjoy yourself. Because in the end, all you need to know about wine is what you like.

NEW ADDITION TO THE TEAM

RBC Dominion Securities welcomes Sean Sullivan to the King Clarke Wealth Management Group. Sean holds a Bachelor of General Studies with a Minor in Business from Simon Fraser University, a Commerce Diploma from Langara College and has earned the Certified Associate of Project Management designation from the Project Management Institute. He comes to us with over 5 years of experience in the Wealth Management Industry. As Associate Advisor, Sean's primary role is to relay investment strategies, monitor markets and carry out trades.

Sean spent 6 months in Japan teaching English and is currently studying Japanese at the Vancouver Japanese Language Institute. In his spare time you can find him practicing and recording guitar, working out at the gym or running at the track.

Sean grew up in Ottawa until age 15, at which point his family relocated to White Rock. He also lived in Vancouver for a number of years, where he worked full-time and attended University at night. He has now returned to White Rock to be closer to family.

Sean is committed to providing you with the same high level of service you have come to expect from the King Clarke Wealth Management Group.