Don't Eat the Marshmallow!

Staying Disciplined During Turbulent Markets

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Key Takeaways

- Turn off the news and remain focused on your goals.
- Keep the purpose of the stock market in perspective.
- Be aware of your impulses before you act.
- Create and stick to your long-term investment strategy.

Recently, I was reminded about a TED Talks video entitled *Don't Eat the Marshmallow*. It was about an experiment known as "the marshmallow test," first conducted at Stanford in the late 1960s. A four-year-old child is seated at a table and given a marshmallow. Then, they're told that if they wait 15 minutes to eat it, they can have a second one.

How many four-year-olds have the patience to hold out for the second marshmallow? Not many. Only about 33% of the kids in the study waited the full 15 minutes. Why does this matter? Follow-up studies 15 years later showed that the ability of those four-year-olds to delay gratification was a strong predictor of future success—better grades, less substance abuse, and better social skills.

Delayed Gratification and Financial Well-Being

There are financial planning implications to this story—how delayed gratification can lead to financial success. Consider the decision to spend a dollar today versus saving it for the future. The more willing and able you are to live below your means and save, the more likely you will be to achieve your long-term goals.

Delayed gratification is equally important for investing. While you might be tempted to "cut your losses" during turbulent markets, staying disciplined in your investment strategy is generally a better approach to long-term investment success. Historically, markets have rebounded relatively quickly after a significant downturn, and it's virtually impossible to forecast market bottoms consistently. Of course, staying focused on the future isn't easy with all the negative news. It takes patience and perseverance.

Resisting the Impulse

Just as successful four-year-olds found ways to resist the temptation to eat the marshmallow, we can find ways to increase our patience when dealing with the unpredictability of the investment markets:

- **Turn off the news.** Many financial media outlets, including TV, newspapers, and magazines, are more interested in getting eyeballs than giving quality, useful advice. Tune out the hype and the drama and stay focused on your goals.

- **Keep the purpose of the stock market in perspective.** As Benjamin Graham, the author of The Intelligent Investor, said, “The Market is there to serve you, not guide you.” It is merely a means for you to buy and sell ownership in a company. Successful business owners focus on cash flows and growing their business, not on what they could sell it for every minute of the day.
- **Be aware of your impulses before you act.** The more aware you are, the more you will be able to choose how you react and be more thoughtful in your decision-making.
- **Develop a long-term investment strategy.** You can do it yourself or work with an independent, professional investment advisor. Either way, once created, be disciplined in implementing your plan.

Best advice? Take six minutes out of your day to watch the video. It’s enlightening and entertaining.

For more investment insights and best practices, contact a Cerity Partners advisor or visit ceritypartners.com.

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