What Should You Expect From Your Investments?

To help achieve your financial goals, you may need to invest in the financial markets throughout your life. However, at times your investment expectations may differ from actual returns, triggering a variety of emotions. So, what are reasonable expectations to have about your investments?

Ideally, you hope that your investment portfolio will eventually help you meet your goals, both your short-term ones, such as a cross-country vacation, and the long-term ones, such as a comfortable retirement. But your expectations may be affected by several factors, including the following:

• *Misunderstanding* – Various factors in the economy and the financial markets trigger different reactions in different types of investments — so you should expect different results. When you own stocks, you can generally expect greater price volatility in the short term. Over time, though, the "up" and "down" years tend to average out. When you own bonds, you can expect less volatility than individual stocks, but that's not to say that bond prices never change. Generally, when interest rates rise, you can anticipate that the value of your existing, lower-paying bonds may decrease, and when rates fall, the value of your bonds may increase.

• *Recency bias* – Investors exhibit "recency bias" when they place too much emphasis on recent events in the financial markets, expecting that those same events will happen again. But these expectations can lead to negative behavior. For example, in 2018, the Dow Jones Industrial Average fell almost 6% – so investors subject to recency bias might have concluded it was best to stay out of the markets for a while. But the Dow jumped more than 22% the very next year. Of course, the reverse can also be true: In 2021, the Dow rose almost 19%, so investors who might have been susceptible to recency bias may have thought they were in for more big gains right away — but in 2022, the Dow fell almost 9%. Here's the bottom line: Recency bias may cloud your expectations about your investments' performance — and it's essentially impossible to predict accurately what will happen to the financial markets in any given year.

• *Anchoring* – Another type of investment behavior is known as "anchoring" — an excessive reliance on your original conviction in an investment. So, for instance, if you bought stock in a company you thought had great prospects, you might want to keep your shares year after year, even after evidence emerges that the company has real risks — for example, poor management, or its products could become outdated, or it could be part of an industry that's in decline. But if you stick with your initial belief that the company will inevitably do well, and you're not open to new sources of information about this investment, your expectations may never be met.

In many areas of life, reality may differ from our expectations — and that can certainly be true for our investments. Being familiar with the factors that can shape your expectations can help you maintain a realistic outlook about your investments.

This article was written by Edward Jones for use by your local Edward Jones Financial Advisor.

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