Why checking your investments often is painful

Are you losing sleep over your investments?
Do you keep checking your accounts with mobile apps?
Do you follow the financial news daily?

If you answered "yes" to the questions above, you could significantly improve your well-being by merely checking your investments less often. You will feel a lot better, and most likely, your money will also grow faster.

Why is that?

The misery associated with checking investments too often comes from a well-documented behavioral bias - loss aversion. It essentially states that losses are more painful than gains are pleasurable. Loss aversion is foundational of Prospect Theory, which was proposed by Daniel Kahneman and Amos Tversky in the 1979. Daniel Kahneman later won the Nobel Prize in Economics for it. It also started the fields of Behavioral Economics and Finance.

Loss aversion is, in fact, a manifestation of a more profound psychological effect known as Negativity Bias. We all have a natural tendency to focus more attention on bad things than good ones. In human psychology, it is pretty safe to say that "Bad is Stronger Than Good."

When it comes to gains and losses of money, what is the strength of this effect?

The answer is that losses are about twice more psychologically painful than gains are pleasurable for the same amount of money.

So, one may ask:

If people are so much more miserable when they lose, why do they invest?

If the answer is that if you wait long enough, you rarely lose. Historically there was no 20 year period (or longer) that the US stock market had a negative rate of return. For investors who can afford to wait long enough, investing has always been a positive experience in the United States.

It all changes when you look at daily ups and downs. There is essentially the same chance of an up day to a down day. It is like a coin flip, but not exactly. The probability of a profit has a slight edge, about 53% of the days have experienced gain.

This slight edge over the long term creates the effect of no recorded 20-year loss. Still, it means that the net negative feeling of daily checking your investment account is real. The more an investor checks, the worse she will feel.

One still experiences a net negative feeling when reviewing investments with monthly frequency. It flips to a positive experience with quarterly portfolio reviews because about 70% of quarters have experienced gain in the US stock market. So, for an investor that checks the accounts every time a quarterly statement arrives, the experience will tend to be positive. Incidentally, investment companies typically send quarterly reports to clients.

The maximization of the positive feeling would suggest checking investment accounts very infrequently (once a year or even less). Doing this is probably not very sensible because there is always a chance that there is a mistake or problem with one's investments that would require action.

So, in my opinion, daily check-ins are not a wise approach. Instead, focus on quarterly statement reviews to make sure your investments are on the right course.