

## Loss Aversion

- **Clear Definition:** Loss aversion is a bias where individuals prefer to avoid losses more than they wish to acquire equivalent gains

. The pain experienced from an investment loss can be two to three times greater than the pleasure felt from a comparable gain. This greater sensitivity to losses can lead to poor or irrational financial decisions

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- **Actionable Coping Strategies:**

1. **Reduce Portfolio Risk:** You can seek to lower risk for a given level of expected return through more effective portfolio construction

. Lowering risk can increase the likelihood of achieving acceptable outcomes, especially for an investor who feels the pain of a loss more acutely than the pleasure of a gain

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2. **Determine Your "Highest Acceptable Loss":** Before investing, identify your maximum tolerance for loss

. A way to frame this is to ask yourself, "If my £100,000 investment for retirement declines to £90,000 one year from now, how would I react?". Understanding this helps in building a suitable portfolio and preparing for potential losses.