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Understanding volatility: Your emotions matter!

Turbulent times in financial markets will predictably stimulate powerful non-rational behaviours amongst even the most seasoned investors. Traditional finance theories assume we are all perfectly rational and always make choices to maximise returns. However, in reality, emotions and cognitive biases significantly impact decision-making, especially during volatile market conditions.

Let's look at a few of the cognitive biases we may recognise in ourselves!

1. Loss aversion

One classic behaviour is how we naturally distinguish between pain and pleasure. Research shows we are twice as motivated to avoid pain as we are to seek pleasure. This means we feel pain from an investment loss significantly more than we get pleasure from a gain. Even though mathematically it would make more sense to see losses and gains as similar measurements, it feels to us like they are not. This asymmetry leads to risk-averse behaviour when facing potential losses, causing us to either sell investments at the wrong time and lock in a loss, or hold investments for too long to avoid an inevitable loss.

2. Herd behaviour

Investors often follow the actions of others, particularly in times of uncertainty. This herd mentality can lead to market bubbles and crashes, as we buy or sell based on the behaviour of the crowd rather than an analysis of fundamental factors. For example, during the dot-com bubble of the late 1990s, many investors jumped into tech stocks without due diligence, leading to a dramatic market correction, with the NASDAQ Composite Index falling 78% from its peak by October 2002.

3. Overconfidence bias

Overconfidence can lead investors to overestimate their knowledge or ability to predict market movements. This bias often results in excessive trading and failure to diversify adequately, increasing exposure to risk. For instance, traders may believe they can time the market effectively, leading to impulsive decisions based on short-term fluctuations rather than long-term strategies.

4. Fear and greed

Emotional responses such as fear and greed dictate the decisions investors make during volatile market conditions. Fear of losing money can prompt rash selloffs, while greed may lead to excessive risk-taking during market upswings. Understanding these emotions is crucial for maintaining a rational investment strategy.

5. Recency bias

This bias occurs when investors give greater weight to recent events or trends when making decisions, often ignoring historical context. For example, if a stock has performed well recently, an investor might overestimate its future performance, leading to poor investment decisions during volatile periods.

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6. Confirmation bias

This bias occurs when investors choose to favour information or interpretations that confirm their pre-existing views. For example, investors tend to look for information that favours their investment decision, such as a positive news article or comment, and ignore ambiguous or negative news such as contradictory data. Unfortunately, this type of bias is becoming more common, as the media becomes more polarising. It can be difficult to distinguish between “fake news” and reality, especially when the “fake news” aligns with our political beliefs.

7. Availability bias

This bias occurs when investors rely on immediate examples that come to mind rather than evaluating all the information on a particular investment decision. For example, if a particular investment has received significant media attention, investors may overstate its likelihood of success.

8. Anchoring bias

Investors can often rely on a single piece of information when making a decision. This “anchor” reference point can disproportionately influence their judgements and decisions even if this anchor is irrelevant or arbitrary. For example, investors can look at the price of a share investment and anchor to that value regardless of evidence that the stock is worth more or less at a given time.

Protecting your future: how life insurance pricing works

Life insurance protects what matters most, but pricing can be difficult to understand. One of the most common questions is why their premiums change over time, even when their cover stays the same.

In this article, we’ll explain how life insurance premiums are calculated, what influences them, and why insurers sometimes need to make changes to keep your cover sustainable.

The background: all about premiums

Why do insurers charge premiums?

Life insurance is built around risk. When you take out life insurance, your insurer agrees to take on some of the financial risk tied to your life, health and ability to work. If something happens and you’re unable to work or pass away, your insurer – not your loved ones – provides financial support to help cover expenses like bills, debts, or funeral costs.

Insurers charge premiums to achieve this. These payments go into a shared pool that pays claims and cover operating costs.

Why do premiums vary between people?

Insurers calculate each person’s risk level (how likely they are to claim) to determine how much they should pay for their selected amount of cover. Personal circumstances or specific attributes such as age, gender and health influence the cost of premiums.

For example, because smoking increases health risks, smokers are on average more likely to claim on their insurance. Because of that higher risk, smokers typically pay more for their cover than non-smokers.

Factors affecting premium prices

How your premium structure affects pricing over time

As you age, the likelihood of you needing to make a claim increases. Policies with a variable age-stepped premium structure (also known as stepped premiums) increase yearly to reflect the added risk of ageing. While they’re often cheaper early on, they become more expensive later in life.

Policies with a variable non-age-stepped premium structure (also known as level premiums) stay more consistent over time because they spread the cost over several years. Premiums do not increase each year due to age, but start higher. However, they can still change over time due to other factors like repricing or changes to your cover.

Adjustments for living costs

As living costs increase, your sum insured will have less purchasing power. To help offset these impacts of inflation, many policies include a feature that automatically adjusts your sum insured annually, by either a fixed percentage increase or the Consumer Price Index (CPI). But each time your sum insured changes, your premium changes too.

Repricing and high claims volumes

Insurers regularly review premium rates to make sure they can continue supporting future claims and cover operating costs. This process is essential for keeping insurance sustainable into the future.

One key factor influencing price is the cost of future claims. In recent years, there has been a significant rise in mental health-related claims across the life insurance industry. For example, mental health now accounts for 36% of total and permanent disability claims for Australians aged 30-40, with a 730% increase in these claims over the past decade*.

When claims volumes rise, insurers may adjust premiums across their customer base to maintain the long-term stability of the insurance pool and strength for future claims.

Worried about premiums?

Insurance can feel complex, but you don’t have to figure it out alone. If you’re concerned about the cost of your cover, ask me how we can keep your insurance affordable relevant, and aligned with your goals.

*KPMG - Australia’s Mental Health Check Up, December 2024 and ABC - Spike in mental health insurance claims sees more Australians leaving the workforce for good, December 2024

Retiring in 2026? Four smart moves to protect your lifestyle

Over one-quarter of a million Australians will start their retirement in 2026. Many more are looking ahead to the time when they can swap their 9-5 roles for the freedom of retirement. Getting the planning right will be critical for helping people to enjoy the retirement that they deserve.

One of the biggest fears for retirees is whether their savings will last[1].

Will they truly have enough to enjoy the retirement they've planned for? The typical response is to reduce spending, and this makes money last longer, but it comes at the cost of a reduced lifestyle.

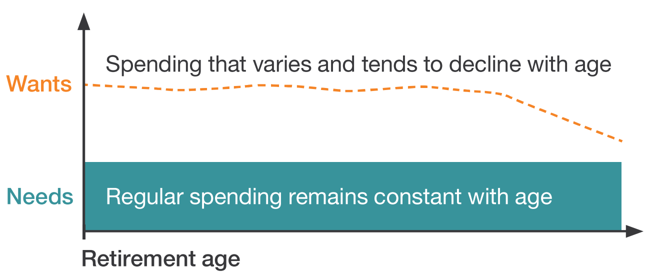
The good news is that there are ways to manage this risk. As we head into 2026, here are the key areas new retirees should focus on.

1. Plan to maintain your lifestyle

While some costs may drop in retirement, like commuting or work-related expenses, retirees will likely spend more on travel and activities they've been waiting to enjoy.

Over time, the discretionary costs will naturally decline when retirees move into the passive and frail stages. Health costs will increase, but for most, these increases are offset by government subsidies and reduced spending in other areas[2]. But as we all know, the government budget is under pressure, and there's no guarantee that today's subsidies will be available in 10 or 20 years.

Understanding how spending evolves over time can help retirees plan with confidence, rather than cutting back too early and unnecessarily limiting their lifestyle.



2. Don't miss out on your entitlements

Many retirees miss out on Age Pension benefits simply because they don't understand the rules[3]. This can be costly and impact the lifestyle you can enjoy in retirement.

The process can take time so remember to apply for the Age Pension before you are 67.

Self-funded retirees might not receive a part pension, but if their income is below $101,105 a year[4] they can receive the Commonwealth Seniors Health Card. This dramatically reduces costs for many retirees.

3. Manage risk with longevity

As retirement approaches, many people reduce investment risk to minimise market volatility. While this can help smooth short-term fluctuations in capital, it doesn't address a more fundamental challenge: how long their income will last.

Limiting market exposure may reduce volatility, but it doesn't guarantee your savings will last.

With Australians now living well into their 80s on average - 81.1 years for men and 85.1 years for women - retirement income often needs to stretch far longer than many people initially plan for[5].

Retirees therefore need to strike a careful balance - maintaining enough exposure to growth assets so their capital base and income can keep pace with inflation, while managing one of the greatest retirement fears of all: running out of money.

4. Spend freely while maximising what you leave behind

After more than 30 years of compulsory super, many retirees now have the savings they need to enjoy the lifestyle they've worked hard for. With the right strategies, retirees can make the most of their income today while still planning for tomorrow, and the enjoyment it brings.

Retirees can start by focusing on generating the income they need to live the retirement they want. From there, they can consider how to preserve part of their portfolio for the long-term benefit of the next generation, if that's important to them.

It's worth exploring options carefully. Retirees can check the lifetime income streams offered by their super fund or speak with a financial adviser about other strategies to help them create their happiest retirement lifestyle.

Some lifetime income streams also include guaranteed death benefits, payable for a period linked to life expectancy (up to a maximum of 27 years). This means beneficiaries may receive a lump sum if the retiree does not live as long as expected.

Importantly, these products can provide a reliable income base, often include inflation protection, and complement the Age Pension – giving retirees the confidence to spend more freely while maintaining financial security throughout retirement.

Sources: [1] Challenger Retirement Happiness Index Research 2025. [2] Money in retirement: more than enough – Grattan Institute Report.
[3] Five worst reasons people delay their Age Pension application. [4] Rate for singles, includes taxable income plus deemed income from account-based pensions.
[5] Australian Bureau of Statistics (2022-2024), Life expectancy.

How to protect your accounts

Use strong, unique passwords for every account

Reusing one password across sites is like using the same key for your house, car, and office – if one gets lost, all your doors are open. Make sure every account has a different, complex password. Yes, it's a hassle to remember them all – which brings us to…

Use a Password Manager

A password manager is basically a secure vault for all your login credentials, so you only have to remember one master password (or use biometrics). It will generate and store crazy unique passwords for you. If you're thinking, "Can't I just let my browser save them?" – browser password managers have improved and are certainly better than nothing, but they have some limitations. By default, many browsers will auto-fill or reveal passwords if someone has access to your device or your browser profile. A dedicated third-party password manager offers an extra layer of security since it isn't tied to your primary accounts and often comes with added features.

Enable Multi-Factor Authentication (MFA) everywhere you can

This is non-negotiable. MFA (also called two-step verification) means that in addition to your password, you need a second thing to log in – typically a temporary code from an app or text, a fingerprint, or a hardware key. It's extra hassle once in a while, but dramatically improves security. With MFA enabled, even if hackers somehow steal your password, they still can't get into your account without that second factor. Turn on MFA for email, banking, social media – any service that offers it.

Keep an eye on your accounts (and the news)

Data breaches happen constantly. Use tools like 'Have I Been Pwned' to check if your email or phone number appears in a known breach. Many websites and apps will notify you of suspicious login attempts or new device sign-ins – don't ignore those alerts! Regularly review your account activity and change passwords immediately if something seems off. And if a big breach makes headlines (or, say, 16 billion passwords leak into the wild), be proactive: change your passwords and make sure MFA is on. Good "cyber hygiene" is an ongoing habit, not a one time thing.

Secure your devices and networks

Keep your computer and phone updated with the latest software (those updates often patch security holes). Run reputable antivirus or anti malware tools, especially on Windows PCs. Be cautious of phishing emails or dodgy links – many infections start with a click on the wrong thing. And yes, even your home Wi-Fi router and "smart" gadgets should have strong passwords (not the default "admin/password" they came with). Don't let hackers slither into your digital life through an unlocked backdoor.

You don't need perfect security – you just need to be a tougher nut to crack than the next person. Cybercriminals are usually looking for the easy wins.

Thinking ahead? Let's talk about strategies for creating a positive financial future.