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Too Flustered to Trade: A Portrait of the Angry Investor

By JASON ZWEIG

They're mad as hell, and they aren't going to buy the dips anymore.

Much has been made of the billions of dollars that small investors have been pulling out of stock funds. However, some $4 trillion sits there—and most people still aren't selling. Too frightened and angry to buy, they are simply watching with a sense of helpless horror.

In an online survey conducted between Aug. 9 and 15, a team of psychologists led by Paul Slovic of Decision Research in Eugene, Ore., probed how the latest financial turmoil has affected the mindset of Americans. The survey has been conducted eight times since the fall of 2008 among hundreds of people nationwide, asking the same questions of many of the same investors.

Americans are afraid not just of today's terrible markets but of a worse tomorrow. The survey asks whether the latest "financial challenges will limit your future opportunities to pursue your objectives in life." This month, 58% of investors said they believed that their future would be "moderately" or "greatly" limited, up from 56% in March 2009.

Asked how angry they felt "about the financial challenges facing our country now," 59% said they were "moderately" or "very" angry; 52% said they were moderately or very fearful. The proportion who felt at least some anger and fear hasn't fallen at all since the depths of the financial crisis in March 2009. When asked this month if they worried "about money yesterday," 73% said yes—up from 56% 2½ years ago.

In March 2009, 17% of investors in the survey felt they had a strong or very strong degree of "influence or control" over their financial lives. This month, only 11% felt they did.

The mood of investors is at least as bad as in the darkest days of early 2009, when the financial world itself seemed about to end.

The old Wall Street cliché that "money chases performance" may need to be revised. Individual investors didn't pile into the stock market even as it roughly doubled in the 12 months after March 2009; nor, in this slump, are most investors abandoning stocks or making major portfolio changes. Scott Salaske, a financial adviser at Portfolio Solutions in Troy, Mich., says that Thursday morning, even as the Dow was dropping 500 points, not a single one of the firm's 530 clients called or emailed to get advice or request a trade.

People seem to feel like bystanders in their own financial lives—almost as if they were spectators at a racetrack equally incapable of stopping an impending car crash and of tearing their eyes away from it.

Two-thirds of the investors in the Decision Research survey said they had spent at least one hour a day over the previous week following the financial news. Yet a mere 6% bothered to call a financial expert for advice. And fully 51% of the investors said they hadn't even checked the performance of their own portfolios.

Nearly two-thirds of investors in the survey said they didn't plan to make any changes to their stocks and mutual funds over the next 12 months. Only 10% said they had changed their investments in the previous week to reduce risk—down by half from the same survey in September 2008. Just 6% said they had taken riskier positions in response to the market turmoil.

Asked whom they trusted to make their retirement savings safer, 73% said they had "little" or "no" trust in the Obama administration; 87% had little or no trust either in Congress or in bankers and brokers.

Fritz Dixon, 78 years old, is a retired public-health physician in Meridian, Idaho, who has pulled out of the stock market over the past decade after a series of sharp losses. At this point, he says, he doesn't have a dollar in stocks, and the odds that he will ever buy another stock are "zero."

Dr. Dixon feels anger and distrust toward the government and the markets alike. "All the Federal Reserve does is look at the stock market and the big banks and figure out how to bail them out with my money," he says. "Then the bankers pay my money out to themselves as bonuses while the Fed keeps on depreciating all the savings that I worked so hard to build up all these years."

Dr. Dixon adds, "You can shear a sheep many times, but you can only skin him once. And I ain't gonna lose any more skin."

In the short run, it always feels better to be a buyer when the market is euphoric; in the long run, the investors who make the most money are those who buy when the market is miserable. For investors full of anger and fear, however, benign neglect might be the best they can muster.

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