

# PERSPECTIVES

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## Behavioral finance

### The oldest and strongest emotion – fear

By Stan Clark - Senior Investment Advisor

**"Fear is the emotion that makes us blind, the emotion that makes a stealthy ruin of the thinking process" – Stephen King**

Fear can be defined as a response to a real or perceived immediate threat. But the term is also used generally to include concerns about future threats; and about feelings such as anxiety, nervousness, dread, worry, apprehension and angst.

Fear is a powerful and primitive emotion. It is rooted deeply in our minds. Developed to help our distant ancestors survive dangerous situations, it evokes powerful chemical changes in our bodies to enable us to flee, fight or freeze.

It can still be a very useful emotion today, helping us avoid situations dangerous to our physical, social or financial well-being. Problem is, our fear can often become exaggerated, well beyond reality. It can overwhelm our reason, causing us to make mistakes or preventing us from getting the things we want. If not contained, excessive fear can become downright debilitating. Remember, fear developed for the purpose of survival, not of happiness.

With our investments, fear is most clearly present during severe market downturns. It is contagious – when all around us are losing their heads, it's hard not to be affected and sell when the markets are low.

Ironically, fear is also the sneaky cause of market bubbles, where the fear of missing out is often the true emotion behind the greed and reckless behavior that accompany these events.

When our team did a visioning exercise a few years ago, we came up with a statement of vision, or purpose, for ourselves: *To guide people to consciously calm fear and confidently embrace the future.* Excessive fear is often a detriment to our clients' health and wealth. As it's part of our subconscious mind, we need to use our conscious mind to help control it. By helping our clients do this, we believe we can help them live happier lives and better achieve what's important to them.

Some steps you can take to help calm your fears about investing? The first step is to *face your fears*. It helps to speak or write out exactly what it is you fear. Next, *try to figure out if the fears are based on objective evidence*. Does the data really support your fears, or have you acquired the fear from someone else (e.g., your parents), or from some isolated bad experiences?

*Keep things in perspective.* For example, consider whether short-term ups and downs in the market matter when you're looking at your longer-term needs. With this step, it helps to have a long-term plan in place.

*Balance your fears against your desires and passions.* What do you really want out of life – and how might your fears be preventing you from getting these things? And finally, *try to avoid the triggers.* Stop watching

or reading the daily financial news. Most news is actually noise, containing little useful information and causing us to make behavioral mistakes. Even positive news can heighten your feelings of fear.

Several of the stock market's biggest drops in history have happened in October. The month can be a fearful time in the market. October 2017 marks the 30th anniversary of Black Monday, October 19, 1987, the biggest one-day drop in the market in history. That also was my first day in this business – a fearful beginning that so far has worked out okay!

Let's hope we are spared the discomfort of a big market drop this October, or indeed anytime soon. But situations of 10-percent-plus-corrections and 20-percent-plus-bear-markets will occur in the future. When they do, let's hope you can control your fear to avoid the mistake of selling at a low – or even better, that you take advantage by perhaps buying more at the lower prices being offered.

I wish you a fun and not-too-scary Halloween! ■



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