

THE STAN CLARK FINANCIAL TEAM'S

P E R S P E C T I V E S

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Behavioral Finance

THE OLDEST AND STRONGEST EMOTION – FEAR

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"Fear is the emotion that makes us blind, the emotion that makes a stealthy ruin of the thinking process."

– Stephen King (1947-), horror-fiction writer

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, fear arouses powerful chemical changes in our bodies to enable us to flee, fight or freeze.

It remains a very useful emotion, helping us avoid situations dangerous to our physical, social or financial well-being. Problem is, our fear can become exaggerated, often 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. Such fear is contagious – when those around us are losing their heads, it's hard not to be affected and sell when the markets are down.

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 behaviour that accompany these events.

When our team did a visioning exercise a few years ago, we came up with a statement of vision and purpose for ourselves: *To guide people to consciously calm fear and confidently embrace the future.* We've seen how excessive fear is often a detriment to clients' health and wealth. Since fear is 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 also help them live happier lives and better achieve what's important to them.

Steps you can take to help calm your fears about investing? The first step is to *face your fears*. Even better, say out loud or write down 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 some over-hyped blog or newsletter), or from some isolated bad personal 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. In taking 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 prevent you from getting these?

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. This particular month can be a fearful time in the market. Two of the biggest drops ever, in 1929 and 1987, happened in October. Black Monday, October 19, 1987, was the biggest one-day market drop in history. It 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, inevitably, situations of 10%-plus corrections and 20%-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 low – or even better, that you take advantage by perhaps buying more at the lower prices being offered.



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