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JUNE 2021

FEAR IS THE INVESTOR KILLER

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The Importance of Choosing Calm Over Flight

Frank Herbert's 1965 science-fiction masterpiece, *Dune*, begins with, arguably, one of the most memorable scenes in the genre. Our protagonist, Paul Atreides, is taken before the Reverend Mother of the Bene Gesserit religious order. He faces a test of fear and self-discipline. Paul must put his hand into a box and keep it there, regardless of what happens. The only other option is a very quick death.

To survive, Paul recites a litany that he learned as a child, "I must not fear. Fear is the mind-killer. Fear is the little death that brings total obliteration. I will face my fear. I will permit it to pass over me and through me. And when it has gone past, I will turn the inner eye to see its path. Where the fear has gone there will be nothing. Only I will remain."[1] No spoilers here. Because this incident occurs in the first chapter, it's obvious that Paul triumphs over his fear and survives the test.

As investors, what can we learn from this? We live in the real world, and our decisions, both good and bad, have real consequences. Sometimes we must face our fears and permit them to pass over us, rather than give in to them.

Fear during bad times

One of the realities of human nature is that, when under pressure, our fight-or-flight instincts often kick in, and we don't always make rational choices. Being hunted by a predator has a way of doing that – just ask anyone who's been chased by a grizzly bear.

Although volatile markets aren't quite the same as being chased by a grizzly, our natural response can be similar. In fact, gambling experiments have shown that losing money activates the same part of the brain that responds to fear and pain.[2] In the world of investing, this fight-or-flight instinct can be a recipe for bad decisions, both during good times and bad. For example, during the severe market downturn of March 2020, the S&P 500 dropped 34% with historic rapidity.[3] Acting on instinct, many investors' brains told them to: Run! Hide! Sell!

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[1] *Frank Herbert, Dune, 1965 (Yes, I fully admit to being a sci-fi junkie.)*
[2] *"Why Losing Money May Be More Painful Than You Think," Science Daily, May 2, 2007*
[3] *"Fear, Greed & Behavioral Finance," Omar Aguilar, PhD, Charles Schwab Investment Management, June 2020*

At Creative Planning, we encouraged our clients to remain steady and calm. This was a great opportunity to rebalance away from cash and bonds in a disciplined manner, harvest tax losses and position our clients' portfolios to take advantage of the anticipated recovery.

Fear during good times

Unfortunately, fear can plague us even during good times. The media has a way of stoking fear for what can appear to be less than noble motives. For example, fear sells print and website space. Will a website get as many clicks on an article headline that reads, "We've got problems, but solutions do exist," or "Yes, things could be better, but look how far we've come"? Probably not. Instead, the media tries to grab our attention with fearful, shocking and dramatic headlines.

Here are some of my personal favorites from YouTube: "China secretly hoarding gold and will unleash crypto backed by metal and destroy USD," "Is the U.S. dollar collapsing?" and "Hyperinflation is already here – you just haven't realized it yet."

What can the effect of too much fear have on our investing choices? You guessed it, more bad decisions. Even when our portfolios are growing steadily, the constant noise we face can create pressure to act on fear. You may begin wondering, "Should I sell everything and get out of the stock market?"

Our instinctual minds can invent reasons for fear when we let them. While it's true that inflation, taxes, jobs reports, stimulus packages and political decisions impact the markets and economy, our response to these events must be thoughtful, cautious and measured, not driven by fear. In other words, don't use a machete on your portfolio when a scalpel will do. And, sometimes, the best response is no response. That's why I'm going fishing with my family this weekend.

Let fear pass

When it comes to investing, the most important question to ask yourself is, "What am I trying to accomplish with this asset?" The design and management of your portfolio should be with a focus on giving you the best odds of success with the least amount of risk possible.

Whatever your goal is, remain focused on achieving it. Ignore the manufactured fear peddled by those who do not have your best interests in mind. When in doubt, reach out to your wealth manager before taking drastic action.

Opportunistic rebalancing, tax loss harvesting, mean regression trading, asset allocation and diversification are techniques that can help address your concerns without tanking your portfolio. We recommend these strategies to help our clients avoid random actions driven by fear that can result in those "little deaths" that lead to missed goals and unrealized dreams. We are here to help

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our clients face their fears, and, when the fear has gone past, remain confident in their financial and investment plans.

At Creative Planning, we develop custom investment strategies to weather volatile markets and help our clients achieve their long-term goals. As a nationally recognized wealth advisory firm, we deliver a team of credentialed, educated, experienced and action-oriented advisors, including CERTIFIED FINANCIAL PLANNER™ practitioners, certified public accountants, insurance specialists, attorneys and other professionals dedicated to helping you achieve your goals. We work together to help ensure all aspects of your financial life are well cared for. If you'd like help developing your investment strategy, or for any other financial matter, please schedule a call.

Miscellaneous References:

- *"A Psychologist's Fear-Fighting Tips for Investors," Daniel Crosby, Kiplingers, June 2, 2020*
- *"Coping with Fatigue, Fear, and Panic During a Crisis," Tony Schwartz and Emily Pines, Harvard Business Review, March 23, 2020*
- *"Fear, Greed & the Madness of Markets," William Landberg, Journal of Accountancy, March 31, 2003*

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