

Emotions often guide our financial decisions

Fear, risk and uncertainty have undoubtedly reached out and grabbed you at some point in the past month.

For those of us who expect our invested savings to ultimately carry us to our definition of financial security, it's important to recognize that the tug-of-war between fear and greed, risk and opportunity, and uncertainty and confidence is never going to go away.

Today's investment climate features lots of pull on the fear end of the tug-of-war rope. Our judgment of risk and opportunity is faulty. They each show up masked as the other and there is a crisis of confidence because of a perfect storm of uncertainty.

All that causes the average investor to violate the very first rule of investing – buy low, sell high.

Examining cash flow into and out of markets unveils the confusion between risk and opportunity. When people develop confidence that money can be made in investment markets – typically after a significant market climb – they invest. Incoming cash drives prices up and euphoria and greed step in to create the riskiest time to buy. On the flip side, exiting cash flow heightens as markets bottom and opportunity grows.

We can blame volatile investment markets for this flight response but an equal-opportunity contributor to our lack of financial security is our emotions. We tend to dwell on recent events and ignore historical guidance or any faith in the future. It's reactive, not

proactive. That response often causes people to buy high for greed's sake and sell low out of fear.

When fear moves into the driver's seat and intellect retreats, even disciplined, long-term investors are challenged.

While realism rightly leaves open the possibility for more declines as this market tests a bottom, another reality demonstrates that many good, profitable



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companies have been lumped in with those that are truly struggling. These companies might come with an attractive margin of safety that represents more opportunity than risk.

The transition from one market extreme to the other can be swift. It's also nearly impossible to predict the timing and extent of the change in investor sentiment. This is why you can't wait until you're confident in the market's direction before you participate. When waiting for signals that generate confidence, you're essentially waiting for prices to go up. This translates into even longer recovery time.

No doubt our hard-earned life savings, our best-intended investment strategies and our faith in a better future have been tested by turbulent markets. But it's critical not to avoid "risk." You can manage it through tenets of prudent investing.

The first tenet is an understanding that your probability of success is influenced more by the things you can control – your emotions, your asset allocation, diversification and buy-sell decisions – than by the performance of investment markets which you can't.

So, when you consider your financial and life goals in the context of today's markets, ask yourself:

- When will I need this money and what is the outlook for investment markets over that time?
- What are the advantages and disadvantages of selling now?
- Of the 13 bear markets we've experienced since World War II, is the future of our global economy less likely to eclipse this decline than it was when it overcame the previous dozen?

The answers should help you confront fear, risk and uncertainty.

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