The Cost of Fear
By Sheldon McFarland, VP, Portfolio Strategy and Research

What are you worrying about today? If you are an investor, you've had plenty of choices recently: Congressional Stalemate, troubles in the Euro zone, the economy, Housing, the National Debt, Obamacare. The list seems to go on and on.

While it may seem like we live in especially worrying times, the fact is — we are always going to worry. It is simply human nature. Our brains are wired to worry about things we think might harm us. It's a survival mechanism that protects us from danger. It's our ancient “caveman” brain, the part of our brain that tells us to jump out of the way of a speeding car or avoid a hot stove…or panic about Greek debt.

This part of our brain — known as the amygdala — stores memories of past trauma — including investment trauma, such as losing money in the stock market.

And if we're not careful, our caveman brain can take over and cause us to make irrational decisions that can harm our portfolios. This is what I call “The Cost of Fear.”

For example, imagine it is October 2008 and you have $100,000 invested in the market. The market is falling and many pundits and prognosticators are predicting economic doomsday, even the end of Capitalism.

Do you give in to fear and sell your stocks and sit in cash like many investors did — or even stock up on guns, gold and dehydrated food?

Or do you keep your caveman brain in check and stay invested?

If we fast forward to today, your decision to sell and move to cash would have cost you over $60,000 — that’s the difference between $100,000 invested in cash and $100,000 invested in the market from November 2008 to November 2012. That’s the cost of fear!

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<th>Growth of $100,000 from November 2008 to November 2012</th>
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<td>Cash Market</td>
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“Cash” represented by One-Month U.S. Treasury Bills, “Market” represented by S&P 500 Index. Source: Morningstar Direct. The S&P data are provided by Standard & Poor’s Index Services Group. The S&P 500 (Standard & Poor’s 500 Index) is a broad-based US equity index. The S&P 500 Index is an unmanaged market value weighted index of 500 stocks that are traded on the NYSE, AMEX and NASDAQ. The weightings make each company’s influence on the index performance directly proportional to that company's market value. Indexes are unmanaged baskets of securities that are not available for direct investment by investors. Their performance does not reflect the expenses associated with the management of actual portfolios including, but not limited to, tax deductions and management fees. Past performance is no guarantee of future results, and values fluctuate. All investments involve risk, including the loss of principal.

Jeremy Siegel said, “Fear has a greater grasp on human action than does the impressive weight of historical evidence.” This helps explain how even though decades of history tell us markets correct an average of 24 months after a decline, investors still give in to their fear and liquidate their stock portfolios, usually after the market has significantly declined.

1“Cash” represented by One-Month U.S. Treasury Bills, “Market” represented by S&P 500 Index
Ignoring your caveman brain isn’t easy, especially when other investors are panicking.

To avoid making fear-based investment decisions, make sure you have an investment plan in writing. Also, work with an experienced financial advisor who can help you navigate the market’s ups and downs and stay invested. Finally, turn down the noise. It is great to stay informed but losing sight of the big picture because of media pundits can hamper your ability to reach your long-term goals.

So evolve a more rational investment perspective and put your caveman brain back in the cave. Your portfolio will thank you.

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