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THE **TAX** **MAN** **COMETH:** *REDUCE WHAT YOU OWE*



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EMOTIONS Can Take You for a RIDE

Get off the financial roller coaster



About 60 percent to 80 percent of decisions are based on emotions. Although that might be OK in some areas of your life, it can lead to a fiasco when it comes to your finances.

It can be challenging to separate money from emotions. Fear, power, greed, anger, overconfidence, lack of self-esteem, joy, loneliness, and insecurities can steer your financial ship. “One client did revenge spending,” says Susan Zimmerman, a chartered financial consultant with the Apple Valley, Minn., office of financial services firm Axa Equitable. “She was criticized for her credit card debt. The worse she felt, the more often she spent money. If

she was frustrated or angry for any reason, she shopped to calm herself.”

A little financial worry can motivate you to do a better job of saving and investing. But a lot of worry turns into raw fear, which can lead you down a path that creates greater instability.

No one is immune

The victims of emotion are everywhere: To the detriment of his bottom line, a small business owner hires an unqualified friend out of a sense of misplaced loyalty; the heir to a large fortune blows her money because she didn't trust anyone to help her manage it properly; or lottery winners give in to every cry for help as their money quickly evaporates.

Some people are so optimistic, they don't think anything bad can happen to them — so the idea of disability insurance seems like a waste of money.

Love can be a powerful motivator. You love your kids so much you would do anything for them, including

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financially — even though it may not always be in their best interest or yours. This can be costly or even jeopardize a parent's financial security.

Then there's the parent who, in a moment of anger, disinherits a child and regrets it later; or the gentleman who, for sentimental reasons, holds on to a stock he received from his company, when the asset has long since seen its glory days and should be sold.

“I had a new client come to me with

\$700,000 in one individual stock,” says Carrie Coghill Kuntz, co-founder of wealth management firm D.B. Root & Company in Pittsburgh. “He had enjoyed significant appreciation in the position. My recommendation was to sell a large piece and capture the gain. He thought I was crazy. He wanted more.

“Today, the position is worth \$500,000. My recommendation has been to revisit the idea of selling a part of it,” she says. “Again, he thinks I’m crazy because ‘what if the stock rebounds?’ My client is now emotionally attached to the stock and doesn’t understand the opportunity cost of keeping it.”

The ways emotions can take center stage are endless. And although emotions have their place, the challenge is keeping them under control and even using them to your advantage.

A little goes a long way

“The most sensitive nerve in a person’s body runs from their brain to their wallet,” says Jeff Harris, a registered investment advisor with Raymond James in Harrisonburg, Va. “These emotions are heightened because the stakes are so high.”

What’s really sad, he continues, is that you often don’t realize your emotions are working against you until it’s too late, such as after your portfolio has crashed and burned. In the late 1990s, when stocks were increasing dramatically, greed blinded many investors to the growing risk of concentrating their portfolios in tech stocks.

Some people lost 45 percent to 70 percent of their assets overnight; as a whole, investors lost a staggering \$8 trillion dollars in the early part of the 2000s. Most investors worked for a lifetime to accumulate this money, says Richard Reyes, a certified financial

AN INVESTMENT OF **\$100,000** IN A CD CAN VARY FROM BANK TO BANK BY MORE THAN **1%**

that \$1,000 is far too significant an amount to toss aside based on convenience or teller preference.

planner and founder of Wealth and Business Planning Group in Maitland, Fla.

Sometimes the only way to know when your emotions are getting the best of you is when a frank, objective friend tells you — more than once. “Few of us are open-minded enough to see ourselves from a different point of view,” says Burt Levitch, trusts and estate attorney and partner at the Beverly Hills, Calif., law firm Rosenfeld, Meyer & Susman.

Another warning signal — if you think you have to take action

right now, based on something you just saw, heard, or read. *Slow down.*

“Investors can be influenced by clever advertising to make decisions that are inconsistent with their actual needs,” adds Levitch. And then they find themselves in an investment that is inappropriately risky or has an extremely low rate or return.

Your heart can lead you astray

Emotional bias causes investors to see what they already believe to be true, and in effect, ignore what does not match their predetermined beliefs. “Most investors are their own worst enemy,” says Reyes.

The impact can be treacherous. As a culture, Americans spend lots of money to express positive emotions — they buy romantic getaways, expensive presents, family vacations, and toys to delight children. This type of behavior is perfectly acceptable for those who are meeting their financial goals, but many people buy these items instead of saving what they need for their financial security. And they use credit cards.

It feels good at the moment to express love by buying presents, but the very act of using debt to express love increases the stresses on your relationships, says Carol Craig, director of planning strategies for Key Bank in Cleveland, who adds that money issues

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Also disconcerting is how many people purchase a bank CD because they like the teller, because they've been going to that same bank for years, or worse yet, because the bank gives them a free gift. An investment of \$100,000 in a CD can vary from bank to bank by more than 1 percent — and that \$1,000 is far too significant an amount to toss aside based on convenience or teller preference.

Not to mention the fact that there might be a better option than CDs entirely.

Keep your emotions in check

Emotions exist; you will never be immune to them. Instead of living in denial, be prepared to deal with emotions head on and to stay in control.

Set specific goals and objectives; develop a comprehensive plan to attain your goals and monitor your progress. Write down your plan and reread it before you make important decisions. This will temper the influence of

RESIST IMPULSE BUYS.

WALK AWAY AND TAKE A FEW DAYS TO THINK ABOUT ANY SIGNIFICANT PURCHASE. IS IT A NEED OR A WANT?

emotional, reactionary, and often harmful financial behavior.

Before you buy an investment, know your exit strategy — and under what circumstances you would sell it. And before you sell an investment, decide what conditions would cause you to buy it back.

Systematic savings can eliminate emotion, especially if your money is deposited automatically into your accounts. Resist impulse buys. Walk away and take a few days to think about any significant purchase. Is it a need or a want?

Don't go it alone. Find a reliable

financial advisor. "There's no need to walk through the financial forest without a knowledgeable guide," says Levitch.

Get out of your own way

Is there ever a time emotions and money make for a healthy mix? Rarely. In most cases, financial experts yell a resounding no.

But it's not really so black and white. "Worry can prevent some decisions from being overly risky or overly impulsive," says Zimmerman. "The trick to knowing when to let [emotions] lead the way is to look for distortions, all-or-nothing thoughts. If the belief behind an emotion stems from a thought that contains words such as never or always, then it is probably too extreme."

The bottom line: Wealth is mostly about what you do, rather than how your investments perform. To grow their portfolios, most people simply need to eliminate themselves from the equation.

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