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THERE IS **NOTHING** TO **FEAR** BUT ***FEAR*** ITSELF?

Unlike overconfidence bias we discussed previously; ***loss aversion*** is more common among many investors. It is based upon the notion people would rather avoid a loss than realize a gain. In fact, the development of this bias was researched by the famous behavioral economists, Daniel Kahneman and Amos Tversky as part of "Prospect Theory: An Analysis of Decision under Risk," [1].

Investors under this bias tend to hold on to stock that they would not buy again just to not realize the loss in the hope it will eventually break even. The fear of losing is about twice as powerful as the magnitude of equal gain has been concluded in several studies of behavioral bias. [2] There are sophisticated programs that assist in assessing one's risk tolerance. Riskalyze, a company that provides software that analyzes investment risk, for instance, asks several questions internally calculating a risk profile of the investor based upon the answers. [3] A series of questions resemble the following:

A. Would you choose an investment that guarantees a 10% in the first year or,
B. 50/50 chance ("flip a coin") you could get a 40% loss, heads or 150% gain, tails.

The risk averse investor, or simply a more conservative individual, might choose the 10% gain even though the opportunity to have a far greater return has a 50% chance of being realized. The investor with serious money earmarked for such goals as sustainable retirement income, needs to weigh the opportunity cost of losing 40% in real terms when a slower, steadier, less volatile program might be more appropriate. The last article referred to a client gambling to make another 36% on a single stock representing 70% or more of his net worth and would not pay 2% cost to protect the downside which resulted in a 100% loss. This is where people need to put into context their risk budget with their values and goals that have much more impact on long term satisfaction.

A healthy approach to better investment management is to take inventory of your history. Where have you come from and how did you get to where you are? Who and what matters to you? Then consider your values and goals honestly. Is it family and health that matter most or reaching a new financial milestone? Are you a risk taker or family steward? Separately, consider what life transition you may be engaged. Are you starting a family, taking care of an aging parent, putting several children through college, selling a home, starting or unwinding a business, caring for a special needs child or someone who is terminally ill? Then you can identify your goals for the New Year and complete an investment policy statement consistent with where you are and why you need the funds to prepare.

We, at The Astorino Financial Group, consider all variables of your wealth, your life story and transitions, and know where you need liquidity as well as accumulation. Call us. We will listen.

Securities offered through LPL Financial, Member FINRA/SIPC

(1) Daniel Kahneman and Amos Tversky, "Prospect Theory: An Analysis of Decision under Risk," Econometrica 47 (1979): 263-291.
(2) Pompian, Michael M., "Behavioral Finance and Wealth Management," (2012): 191-193.
(3) "Riskalyze." Riskalyze, 2019, www.riskalyze.com/.