KIM: Beware of bull market in apocalyptic forecasts

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February 13, 2016

Stocks have plummeted at the start of 2016. The financial crisis and concurrent excruciating bear market are still fresh in investors' minds. Understandably, nobody wants to suffer through a repeat of being sucked into a market vortex.

Unfortunately, there is no shortage of market pundits and others whose *modus operandi* is to play/prey on investors' fears by painting a picture of impending doom and gloom, whether supported by the facts or, in most cases, not.

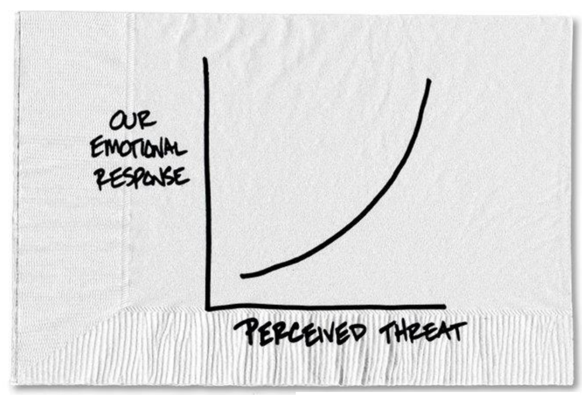
It's human nature to be frightened under this scenario. In a recent market update, Liz Ann Sonders of Charles Schwab noted economist Daniel Kahneman won the Nobel Prize for showing that people respond more forcefully to loss than gain. According to Kahneman, "Organisms that treat threats as more urgent than opportunities have a better to chance to survive and reproduce."

With today's 24/7 media bombardment, when stocks hit a rough patch (like now), it's easy to see how investors' loss aversion can lead to panic and trigger short-term decisions harmful to attaining long-term goals. *Trying* to avert losses often leads to averting gains. Because we've been hard-wired with this survival instinct since prehistoric times, the best investors can hope for is to be able to acknowledge and understand this behavioral bias.

Motley Fool columnist Morgan Housel recently wrote "Why We're Terrified of Typical," which stated we are prone to being too attracted to the thought of rare things while forgetting the law of averages. Housel pointed out two primary factors that combined to make this problem worse over the past decade; the terrible financial crisis and the market for investing *commentary* becoming hotly competitive.

According to Housel, "the power of a financial crisis is fresh in our minds and the prize for predicting the next financial crisis in a hypercompetitive media market is enormous." This has led to an arms race among market pundits to call the next market meltdown. Housel says the paradox is "the entire reason we pay so much attention to the 2008 financial crisis is because it was rare, but paying so much attention to it makes us overweight the odds of it happening again."

In sum, "in both medicine and investing, you may want someone who obsesses over outliers, but there's a difference in respecting outliers and seeing them around every corner."



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Carl Richards wrote "Let Go of Irrational Fears" for *The New York Times*. When talking about the chances of something bad happening, people tend to fall into three groups. The **"Numbers Don't Matter"** group dismisses statistics altogether and trusts their gut. The **"Odds Look Great"** group focuses on good news. If there's only a 10 percent chance something bad will happen, they stick their worry in a closet. Alternatively, the **"We're Doomed"** group obsesses over bad things that have a tiny probability of occurring, like dying from Ebola.

Richards advises, "Whether we're taking about our money, our health or our safety, we've got to get past that fear of the thing that has a tiny chance of happening. This fear blinds us to making the most of the remaining 90, 95 or 99 percent. Once we've done everything we can reasonably do to be safe, once we've accounted for everything within our control, we need to learn to let go of the rest."