

Conquering Your Financial Fears

A helpful bit of pop psychology holds that we should worry only about things we can control or effect and put aside anxieties we cannot. That advice holds true for worrying about money and investing. Although some fears cannot be controlled by the individual or have little likelihood of happening, addressing a related fear that can be controlled may help alleviate some of the anxiety.

Fear: A Failing Economy

High energy prices, terrorism and natural disasters are all enough to make Chicken Little look rational. With our penchant to view the future as a continuation of the past, it's no surprise that many Americans fear another 1920s-style depression or worse.

By investing in a wide-variety of investment vehicles, you can help increase the chances that if one major world economy starts to sputter, you're gaining in another one that is booming. For those in retirement, where income distribution is so important, having a strategy that generates income in good times and bad is critical.

Fear: Stock Market Crash

While visions of the Nasdaq tech crash still haunt some of us, the reality is, your biggest worry should be getting mediocre returns from your investments. In the light of the most recent market volatility, it makes sense to review both your long and short term financial strategies. Good markets make many investors feel invincible so they don't sell or rebalance. When markets decrease and prices are low, investors get scared that they will lose out on potential gains. They jump ship figuring a small return is better than none but ignoring the potential upside if the stock price rises again.

One study¹ found that over the 20 year period ended December 31, 2006; the S&P 500 Index generated an annualized return of 11.8%. Over the same period, the average equity investor gained a mere 4.3% a year. That rate barely beat the 3% rate of inflation.

Diversification and dollar-cost averaging may help you avoid mediocre returns. By making sure your portfolio is invested for the long haul across a variety of markets, countries and investment vehicles, you may reduce your risk exposure and potentially open yourself up to more than mediocre returns.

Many of us fear the worse on a consistent basis, and we all face risks every day. The real task is rooting out which financial fears can be controlled and then working with your financial professional to minimize your risk. Is it time you worked with a financial professional?

¹ Source of data:

DALBAR, Inc. *Quantitative Analysis of Investor Behavior, July 2007* QAIB evaluates investor returns as the change in assets, after excluding sale, redemptions and exchanges. Annualized return rate is calculated as the uniform rate that can be compounded annually for the period being considered. **Past performance does not guarantee future results.** The S&P index is a broad based measure of domestic stock performance that includes the re-investment of dividends. The index is unmanaged and cannot be purchased directly by investors. Index performance is shown for illustrative purposes only and does not predict or depict the performance of any one investment. Stocks and bonds have different risks, where bonds if held to maturity, may offer both a fixed rate of return and a fixed principle value.

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