

For Your Clients: *Fear* Can Lead to Poor Financial Choices

By Dan Serra

RISMEDIA, September 28, 2010--(MCT)--*Life is full of emotions*, but fear can hurt the most. It is strong enough to change a whole community and way of life. And when it comes to money, it's no different. Fear controls the pocketbook, and too often it gets in the way of financial success.

There are three ways fear can grip an investor.

First, there is the fear of losing money. Many people choose safe investments because they don't want to lose money by taking a risk with stocks. Taking this approach can eliminate that fear, but in the long term it hurts the pocketbook. The safer those investments, the lower the investment gain. Then when inflation goes up 3 percent, the safe investment earning 2 percent does not provide enough to pay the higher costs, and the money runs out sooner.

Second, there is the fear of not gaining money. This type of fear is more common in younger investors. They worry what they are doing will not provide enough profit to improve their lifestyle. Younger investors often like to compare investment returns. They fear they will not gain enough to outdo a friend and therefore they would not have enough to spend on luxuries. These investors want to make a lot of money by being greedy, investing in high-risk stocks or in a new business. This fear can end up hurting if the extra risk leads to big losses. Investments that have the best potential for gain often carry the biggest potential for loss.

Third, there is the fear of running out of money. Everyone has this fear, either by spending too much or outliving a retirement stash. An income may vanish, or an investment may fail. This fear can result in damaging frugality. This fear can be overcome by saving as much as possible while young to build an adequate retirement fund and sticking to a budget to cut out unneeded expenses.

Properly diversifying those savings can improve the chances of increasing that pot. This also can eliminate the fear of losing money, because enough was saved to afford a loss, and the fear of not gaining money, because the longer it is invested properly, the more gain is possible.

Take a look at your fears and determine what action — saving more, diversifying risk or sticking to a budget — you need to take to make money less fearful.

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