FranklyFinancial.com

119 Cedar Street
East Hanover, NJ 07936

973-515-5184 • Fax: 973-515-5190
FranklyFinancial@nationwideplanning.com

Frank McKinley
Financial Wellness Coach

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financial $uccess

7 Psychological Traps

Sometimes, when it comes to investing, volatile markets aren't your worst enemy, it's actually yourself. That's because money and logic don't always go hand in hand. Unfortunately, our brains often play tricks on us, causing even the savviest of investors to make decisions that don't really make a lot of sense, from panic selling to ignoring opportunities.

The problem of psychological investing traps is so pervasive, in fact, that there's a whole field dedicated to studying it called behavioral finance. Researchers in this discipline look at the way psychology affects how we make financial decisions, and some of what they've discovered is pretty interesting. Knowing about these traps can help you avoid them and make you a better investor.

Here are seven psychological traps to keep in mind.

Sunk Costs Bias — The sunk costs bias has to do with the all-too-common tendency to stick with something, whether a bad boyfriend or a bad investment, long after it's clear it's not worth it anymore. Still, because you've invested a certain amount of time or money, you're reluctant to give it up. In investing, you might end up hanging on to a stock long after you should in the vain hope you'll eventually come out ahead. But in these cases, it's better to cut your losses rather than hang on to a loser.

Familiarity Bias — Most of us are biased toward that which is familiar to us. We eat at restaurants we've been to before and follow the same roads to work because we know what to expect. With investing, familiarity bias involves favoring investments that are familiar to you. You might prefer to invest in the company you work for or big-name businesses that are in the news. That could cause you to overlook important opportunities you don't know much about.

Anchoring — Anchoring is the process of getting attached to a particular reference point — such as the price you paid for a stock — and using that to guide future decisions. Or you might fixate on a stock's previous high, even though that

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Frankly Speaking

Where do you think we are now?

In 1917 Vladimir Lenin wrote, "There are decades where nothing happens, and there are weeks where decades happen." We have recently experienced one of those "weeks."

U.S. banks borrowed over $150 billion from the Fed's discount window during the week ending March 15th, blowing past the previous record of $112 billion during the 2008 financial crisis.
-The Washington Post, March 17, 2023

The number of news stories about a recession in 2022 exceeded the number tracked in 2020 when the U.S. economy was in a recession.
-Axios, January 13, 2023

If you are perplexed by the state of the economy and wonder how you should be investing, PLEASE call me today!

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price was an anomaly. Anchoring is why you think you got a great deal when buying a car for $50,000 if the initial price was $60,000, even though the car's really worth $40,000.

Whether you're buying stocks or cars, anchoring involves using a single piece of information to determine what a stock or other investment should be worth while also discounting more relevant information, such as a company's fundamentals or broader economic trends. Unfortunately, avoiding anchoring is difficult, but considering all available information before choosing an investment can help.

Focusing Too Much on the Recent Past — Recency bias is the tendency to make decisions or judgments based on relatively new or recent information. For example, during times when the market is up, people may ignore or discount the possibility of a market decline. Or, if a certain category of stocks has done poorly recently, people may conclude that those stocks *always* have negative returns, even if the dip is an anomaly. As with other psychological traps, you can avoid this one by doing your best to consider the entire universe of information at your fingertips, not just what happened yesterday.

Following the Herd — While following trends might be fine for fashionistas, it's not always a smart investing move. Yet herd investing is an all-too-easy trap to fall into. If everyone is telling you that now is the time to get into a certain hot investment, you may feel you need to act fast so you don't miss out. But just because something is popular doesn't make it a good investment. Blindly following the herd without first consulting your own financial goals and plan doesn't make you a smart investor.

Overconfidence — Most of us like to think we're smarter than the average person. Yet if you hit it big with a certain investment, you may attribute that success to your skill rather than what it really is — luck. This can cause you to repeat the same behavior again.

Panic — Investing isn't for the faint of heart. When the market takes a sudden dip, it's easy to panic, which can lead you to make bad decisions, such as selling at a big loss, rather than riding out the natural hills and valleys of investing. Making these emotionally-driven choices costs you a lot of money. When making investing decisions, make sure they're based on evidence, not your initial gut reaction to the day's events.

Please call if you'd like to discuss this in more detail. ❍❍❍

6 Signs You Need a Financial Plan

A clear financial plan helps you prepare for the future, brace yourself for the unexpected, and position yourself to pursue your goals. Below are six signs that it may be time for you to get a financial plan.

You're planning (or just had) a big life change. New job. New baby. New house. All of those milestones and more are signs that you should be taking a big picture look at your finances. When your life changes in big ways, it often brings with it changes in how you approach money.

You're worried about your finances — and your future. If money worries keep you up at night, a financial plan can help ease your mind. Whether you have immediate worries or are just feeling uneasy about what tomorrow may hold, you can regain control over your life by having a clear direction. Your comprehensive financial plan will not only help you see where you stand today — and identify ways you could make the most of what you currently have — it will also help you plot a path to where you want to be.

You're making good money, but you're not sure where it goes. If you want to turn today's income into tomorrow's wealth, you need a financial plan. You'll be able to take the money you're earning today and use it to create a secure future for yourself and your family.

You have financial goals, but you're not sure how to make them a reality. Does retirement seem like a distant dream? Do you wish you could upgrade to a bigger home, send your kids to college without taking on debt, or start a business? With a financial plan, you'll know what you need to do financially to make those dreams a reality.

You and your partner are fighting about money. If you and your partner can't see eye-to-eye on money issues, a financial plan might be part of the solution. Meeting with an objective third party, like a financial planner, can help you both understand where you stand when it comes to your finances, and then negotiate a path forward that works for both of you.

Your investments and finances are getting so complicated, it's difficult for you to keep track of everything. As your money and life get more complex, it can be difficult to manage all the details without help. A financial plan, developed with the assistance of your financial advisor, will help you identify the best ways to save, find ways to reduce taxes, and protect yourself against risk. With the help of your advisor, you'll be able to understand your total financial picture and take the steps necessary to achieve your goals. ❍❍❍

Financial Planning for Married Couples

Marriage is a partnership. You and your spouse are a team both personally and financially. But sometimes, that partnership needs a little work. Even if you've been married for decades, you may need a refresher course on financial planning basics. Here are six financial moves married couples should make.

Start Talking

Talking about money isn't always fun. Some couples avoid having conversations about finances because they're boring, while others skip the talk because of money anxiety or conflicts. But your financial lives are deeply intertwined, through both good times and bad. You and your spouse need to be able to sit down with each other and talk honestly about your finances. If talking about finances is hard for you, consider having a monthly check in, where you sit down together and go over important issues. Or set up a meeting with a financial advisor. Having a neutral third party guiding the conversation may make it easier to talk seriously about your finances.

Get on the Same Page

No, you're not going to agree on everything, money-wise. But when it comes to major financial moves — like saving for retirement or managing spending and debt — you should be on roughly the same page (or at least the same chapter). If you're both working together toward the same goals, you're much more likely to get to where you want to be.

But Be Willing to Compromise

Ideally, you and your spouse will be of one mind when it comes to money matters, but in reality, you might not always agree. That's where compromise comes in. For example, you may want to keep working until age 70 for maximum financial security, while your spouse may be dreaming of quitting his/her job at 60. You might want to meet in the middle by planning for a retirement that starts at 65 for both of you — a little earlier than you might like and a little later than your spouse might prefer.

Put It in Writing

Don't let inertia lead you and your spouse to skip key financial and estate planning tasks. Even if you want all your money and personal effects to go to your spouse, a will is still helpful in clarifying your wishes should you die unexpectedly. You may also want to set up a financial power of attorney to ensure that your spouse can make financial decisions on your behalf if you're incapacitated. If you don't do this, your spouse may have difficulty selling stocks or real estate while you are unable to make decisions on your own. Meanwhile, a living will and medical directive can make it clear to your spouse and other loved ones what medical interventions you would want (or not want) if you are seriously ill.

Share Information

If the worst happens, will your spouse have the information he/she needs to keep the household running? Make sure that each of you knows how to access the bank and investment accounts — even the accounts for the household utilities. You each should also know how to locate important documents, like insurance policies, financial records, birth certificates, and the deed to your house.

Meet with an Advisor — Together

It's not unusual for one spouse to take on a bigger role in the day-to-day financial planning process, either out of choice or necessity. But even if one spouse takes a hands-off approach to money, both of you should still be present at meetings with your financial advisor. That's because you're a team, and your advisor will be better able to provide appropriate advice if he/she can hear from both of you.

Please call if you'd like to discuss this in more detail. ❍❍❍

Risk Tolerance and Retirement

To gain a better understanding of how we're affected by risk when building a retirement portfolio, it's important to learn about risk tolerance and what it means for you as an investor.

Risk tolerance essentially refers to an investor's ability — both emotionally and financially — to deal with major upswings and downswings in the market. If a person is said to have high risk tolerance, he or she likely tends not to worry so much about the potential risk of stocks. Those with low risk tolerance are on the other end of spectrum, often too cautious to deal with volatile stocks.

While plenty of factors must be taken into consideration when considering your own risk tolerance, age is one that can be seen as an important anchor to help risk-takers avoid getting in over their heads. This is especially true of those who are working towards building an effective retirement plan.

The important thing to recognize here is that risk tolerance *must* shift with age to avoid making costly mistakes at a time when it may be potentially too late to recover.

It may seem as if adjusting risk tolerance is challenging, and for some people it certainly can be. That being said, often it simply means taking a realistic approach to your investments. If you're nearing 60, for example, it's generally considered unwise for your portfolio to be comprised of 70% stocks — the number should be closer to 40%. Many successful investors find that moving away from stocks towards bonds is an effective later-in-life strategy, which again will require you to adjust your risk tolerance.

Once you have a general percentage figured out, take a moment to determine how many stocks will actually make up that portion of your portfolio. This can vary significantly in terms of personal preference, but often 10 stocks are mentioned as a reasonable number to hold in your portfolio. Keeping your stock investments to 10 or less allows you to pay closer attention to what's actually happening with your investments.

The best way to get a better sense of what is a realistic risk tolerance for you to have at this point in life is to work closely with your financial planner. Please call if you'd like to discuss this in more detail. ❍❍❍

Market Timing vs. Buy and Hold

Market timers say they have built complex models that analyze all factors affecting a stock's price. But too often, unforeseen factors can quickly send a stock's price up or down. Also, market timing is a more time intensive strategy. You need to monitor your investments closely to stay on top of all the factors that can affect them.

For the average investor, a buy-and-hold strategy is much more practical. While buy-and-hold investors will suffer in market downturns, by staying invested in the market your investments will recover when the market recovers. Although there is no guarantee that will happen, historically, the general direction of the market has been upward.

The benefits of a buy-and-hold strategy include:

- ✔ It doesn't require constant monitoring of the market.
- ✔ It's less complex. You'll typically make far fewer trades with a buy-and-hold strategy.
- ✔ There are fewer tax consequences. Since you have fewer trades, you'll have fewer taxable transactions. ❍❍❍

Financial Thoughts

Women, on average, are living 15 years longer than their male spouses, meaning wealth is often transferred to the wife before it is left to the next generation. Approximately 80-90% of women will be solely responsible for their financial well-being at some point in their life. However, only 48% of women feel confident about their finances and 28% feel empowered to take action with their finances (Source: *AAII Journal*, October 2022).

Widowed women outnumber widowed men 3 to 1 and have an average age of only 59 years old (Source: Social Security Administration, 2022).

Nearly half of marriages are likely to end in divorce; a trend driven almost entirely by rising divorce rates among couples over 50 years of age and among the wealthy (Source: *AAII Journal*, October 2022).

Approximately 56% of women married to men leave financial planning and investment decisions to their husbands. Only 9% of women think they're better investors than men. However, women are less risk averse and tend to seek financial advice, so their investments tend to perform better, with women outperforming male investors by 0.4% annually (Source: *Healthy Rich*, 2022). ❍❍❍