

## Loss Aversion and What It Really Means to an Investor

Two constant behavioral challenges that investors face are;

1. Remembering losses much more than remembering gains
2. The pain of missing out

The technical term that we often refer to regarding these issues is called Loss Aversion. A typical investor suffers roughly two times more from a loss than they enjoy from a gain. In his article [Investing Like a Psychopath](#), Morgan House states, "We're more likely to remember negative, emotional events than ordinary or positive ones, especially in the short run. That's how it should be: You want to learn to avoid bad things that happened in the past. But it plays a dirty trick on us."

WSJ columnist Jason Zweig in his piece [The Bull That Got Away](#), discusses "reframing your regrets and by making gradual changes to your investing plan that are likely to keep you from doing anything rash" to offset the pain on missing out on big investment returns.

One of the ways that I deal with Loss Aversion is through a concept called Reframing which I was first introduced to last year when I read and hosted a business book club discussion on [Decisive by Chip and Dan Heath](#). The main point to consider with reframing is the ability to **Widen Your Options**.

- Avoid a Narrow Frame – Teenagers and executives often make “whether or not” decisions which leads to overlooking options, consider the opportunity costs of time or money when making a decision
- Multitracking – consider several options simultaneously, Think AND not OR, multiple options creates a built-in fallback plan
- Find Someone Who Has Solved Your Problem – laddering: look for current bright spots (local), then best practices (regional), and then from related domains (distant), create a “playlists” as a way to generate new stimulus – questions to ask, principals to consult, and ideas to consider



## State of the Portfolio

There is a lot of so-called noise in the equity markets these days which is currently centered on the Greece debt situation. Will or won't the Greeks find a way to avoid yet another potential debt default to the International Monetary Fund (IMF)?

In my opinion the Greece situation has frankly little to zero impact on the value of most of the businesses that we own in our Client portfolios. However the markets don't necessarily share the same view which has driven major U.S. equity indexes lower. But is this Greek tragedy disguising what is truly driving the value of stocks in the U.S. lower? Greece may be just that a distraction while the real driver behind the drop is lower company top line sales.

Nick Raich at The Earnings Scout stated, "We remain reluctant to upgrade stocks at this time given weak top-line sales figures reported by major corporations over the past two quarters. In other words, it is great that earnings have held up well versus expectations, but a large part of that is coming from cost cutting, share buy backs and some creative pro forma adjustments. Until top line sales rebound, markets should struggle to sustain a rally until investors get proof business is actually growing opposed to just being financially engineered."

It is difficult to argue with Nick's analysis after reviewing the chart below. Revenue has been declining for 3 straight quarters. So what happened to all those consumers saving on gas for the past year?

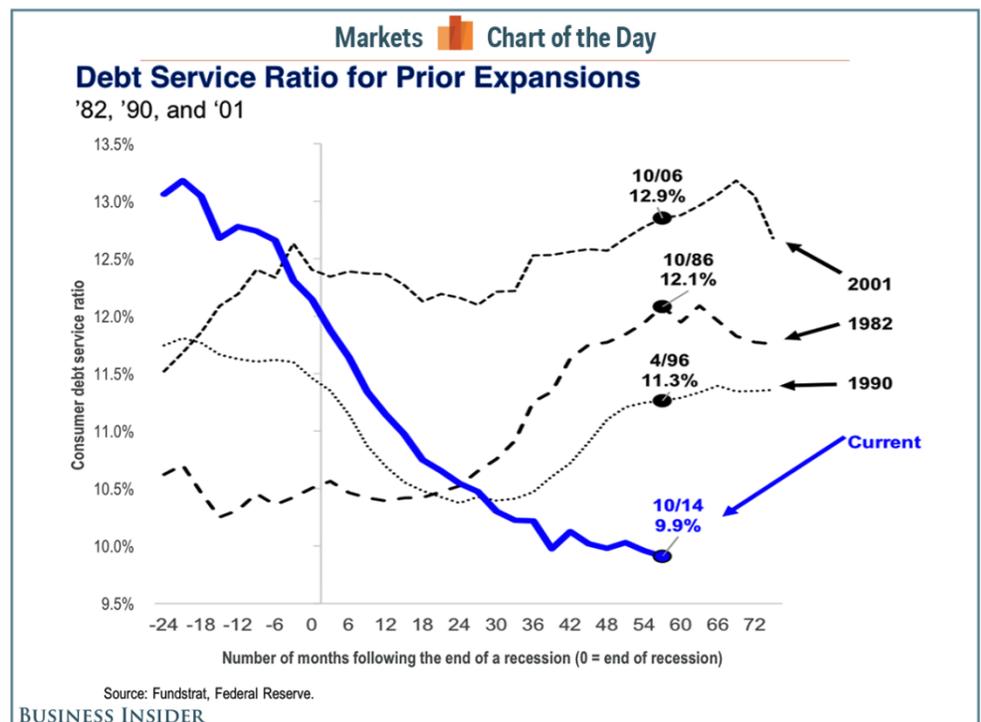
Debt payments as a percentage of household income are near record lows. While most Americans made drastic but necessary cuts on spending during the Great Recession they likely have not returned to their spending ways and only see the drop in gas as a temporary phenomenon. Americans still look to be focused on getting their balance sheets back in order. And all of this is hurting top line sales at companies.

## Insider Trading

**116**...million dollars saved daily by U.S. consumers in gas prices since the end of last year (source: AAA, Department of Energy)

**76**...million homeowners in the USA. Of the 76, 24M are mortgage-debt free and of the remaining 52M, 9M have mortgage debt that exceeds the value of their individual homes (source: Census Bureau)

**50**...percentage of Americans with household income below \$100,000 who are living paycheck to paycheck (source: Money)



## Personalized Investing; What to Do With Your Digital Assets

When it comes to setting up an Estate Plan one often looked item are digital assets. What constitutes a digital asset you may ask? Think about iTunes, Facebook, or Twitter accounts or a website with hundreds or even thousands of followers. These all constitute digital assets.

As more and more of our lives become digital or even cloud based, people need to begin to consider how these assets may or may not transfer to one's heirs. According to this [WSJ article](#), "The most important thing, estate attorneys say, is to establish procedures for protecting and granting access to passwords and for transferring assets and account ownership. The rules can vary widely depending on the state. While there is nothing in Twitter's company rules and conditions that say one of its accounts must close if the owner dies, Apple iTunes says it doesn't have a policy that allows anyone to will or inherit an iTunes account."

Christine Benz, Director of Personal Finance at [Morningstar](#), states in her article [Do You Have a Plan for Your Digital 'Estate'?](#), "the basic idea is to knit these digital assets in with the rest of your estate plan." James Lamm, an attorney who coaches other attorneys on the importance and specifics of digital estate planning says, "We need to do the next step in planning. Who should get the data? And more importantly, are there things we don't want others to have?"

Benz goes on to note a few keys to getting your digital house in order which includes the following;

- Take an inventory of your assets
- Be sure to have a plan to back up those assets
- Put your plan in writing

For questions about any wealth management topics, do not hesitate to reach out to us to find out what options may be best for your own personal situation. Remember at TAMMA, we help to personalize investing for your future.



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