3 Reasons Why We Worry About the Wrong Things

Once upon a time I often found some of the daily/nightly news to be interesting. It was also my attempt to see another person's view on various stories. But over time, I have noticed that everything is breaking news. What is so earth-shattering about another Presidential tweet? Even more so, I see a constant amount of fear and anxiety in just about every headline breaking story.

I came across an article What Are You Afraid Of? By Dr. Steven Novella, an academic clinical neurologist at Yale University School of Medicine. Dr. Novella, in his article, raises the question, why do so many people worry about the (statistically) wrong things? Below are a few of his answers;

- Humans are intuitively terrible at probability; "for most of us, our brains are just not built to be comfortable with large numbers. That is why people gamble and play the lottery."
- Availability of heuristics; "A heuristic is a mental short-cut that most people tend to make, without thinking. It is true enough most of the time to be an efficient assumption, but it is not strictly logically true. The availability heuristic is the tendency to assume that something is common or likely if we are easily able to think of an example. We are given the false sense that the events we see on the news are common or likely. Therefore, the news tends to give us a distorted view of reality. They also tend to focus on fears, because that is what sells. "Should you be afraid of X? Find out at 11."

- Social media; "There is an entire cottage industry that exists to sell fears about food and toxins. People worry about trace amounts of "chemicals" in their food rather than whether or not they are getting enough exercise."

Just like the mass media evening news, the financial media works in a similar fashion trying to sell at times all types of fears or in the opposite case highlight why everything is going to be great. The truth as in most cases likely falls somewhere in the middle.

Dr. Novella goes on to conclude in his article the following;

- Fear and anxiety are adaptive emotions, but their net effect in a complex technological civilization is not always adaptive. Not surprisingly for a skeptic, I find that backing up our intuitions with an analytical approach is extremely helpful.
- Fear can be a net negative when it is hugely distorted, and fear can be manipulated by people with an agenda. Analyzing actual probability and going through a thoughtful analysis will help put our fears into perspective and identify measures that are likely to be helpful rather than harmful.

While emotions can work to our benefit, they can certainly work to our detriment especially when it comes to handling our financial lives. At times we may become so consumed with our fears and emotions that we don't know how to hit the stop button to reset and begin anew with a different perspective.

Becoming aware of these emotions is a good first step in understanding the impacts that our biases can have on our personal and financial lives.

State of the Portfolio

The negative impact(s) of slowing global growth, rising interest rates, tariffs, etc. has started to outweigh the positive benefits from easy fiscal policy over the past several years along with the jobs and tax act that went into effect in 2018. This explains the negative delta on S&P 500 earnings expectations in 2018.

While technicians, algorithmic traders, and queasy investors could take stock prices down again this year, our research on sustainable earnings trends is indicating the downside potential for stocks is much less significant today than back in September.

FedEx confirmed what our research has been identifying all year; the U.S. economy is doing better than the rest of the world. The problem is it is just a matter of time before weakness abroad impacts the profit expectations of U.S. multinationals. Look no further than Apple announcing a cut to their 2019 earnings forecast due to a slowdown of iPhone sales in China.

The market is re-setting stock prices lower to reflect less growth ahead than previously thought. It appears that the Market is discounting a recession to occur in 2019. However, growth is

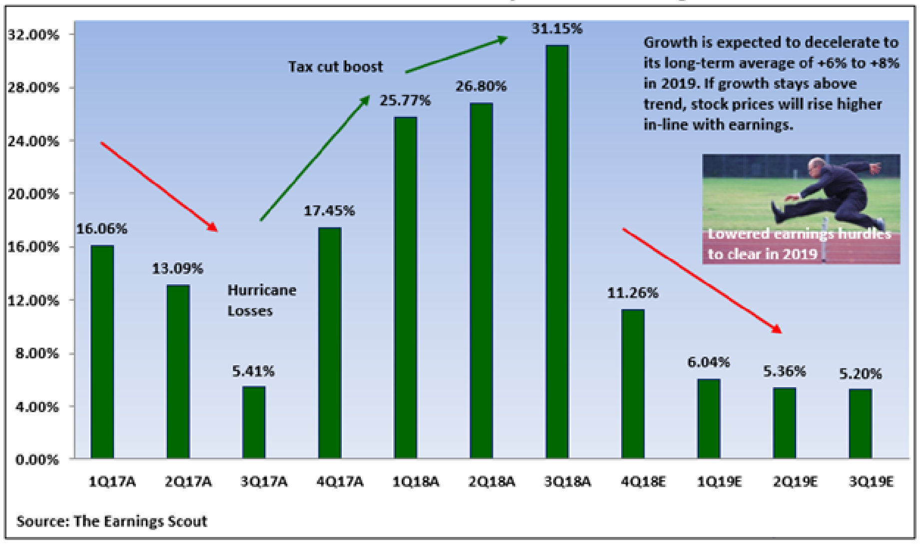
Insider Trading

7 in 10…Number of Americans who do not know that a 529 plan is an option for saving to pay future college expenses (source: Edward Jones).
51…percentage of American parents who said they have a plan for funding all four years of college (source: Sallie Mae).
237…percentage increase in the in-state cost of attending a public university over the past 20 years (source: US News and World Report).
44 million…number of Americans who hold a total of $1.3 trillion in student loan debt (source: Federal Reserve).

likely to persist over the next one to three years, yet markets are starting to factor in no, or even negative, growth in 2019.

I know that this is small consolation if you lost money last year, but looking at annual returns on stocks in the last 90 years, there have been twenty years with more negative returns. In short, it was a bad year for stocks, but it felt far worse for three reasons;

Actual & Estimated Quarterly S&P 500 Earnings Growth



1. After nine good years for the market, investors were lulled into a false sense of complacency about the capacity of stocks to keep delivering positive returns.
2. The negative returns were all in the last quarter of the year, making the hit seem larger (from the highs of September 2018) and more immediate.
3. The intraday and day-to-day volatility exacerbated the fear factor, and those investors who reacted by trading faced far larger losses.

If companies can maintain any growth in 2019, Market prices could see a rebound especially companies that saw their stock price decline the most in 2018. Two economic indicators that I will be watching closely in 2019 is the unemployment rate and wage increases. If either of these indicators begins to go negative, this could be a sign that growth is not rebounding or sustainable and could thus send Market prices lower.

Personalized Investing; 2019 Tax Planning Now

As we begin 2019 and get closer to entering the tax preparation season for 2018, I wanted to highlight some questions that you should be asking yourself to begin this year. Additionally, I wanted to make you aware of changes in contribution limits for retirement and health care savings accounts.

Now would be a good time to examine the following;

1. Are you on track to maximize qualified retirement contributions?
    a. $19,000 for 401(k)s with an additional $6,000 for those over age 50

   b. $6,000 for IRAs with an additional $1,000 for those over age 50
   c. SEP for Business Owners - up to 25% of compensation, with a maximum of $56,000

2. Have you been making charitable contributions or are you planning to make such contributions later in the year? This could impact whether you itemize or take the standard deduction given the changes in the 2018 tax laws.
3. If you can contribute to an HSA, are you on track to reach the maximum contribution level? Additionally, if you are contributing to an HSA, are you using those funds or allowing your assets to grow tax-free as part of your wealth management plan?
   a. $7,000 for families with an additional $1,000 for those over age 55
   b. $3,500 for individuals with an additional $1,000 for those over age 55
4. Have you made any adjustments for the loss of your personal exemptions which could have a major impact on families?
5. Do you know what the impact will be to changes in your total itemized deductions? One key element is the $10,000 cap on State and Local taxes.
6. Have you had the ability to refinance your mortgage to a lower rate? Remember that HELOC interest is still deductible if funds were used for home improvements. Even though interest rates have risen, your current rate may be higher then the current market rate especially if you are considering a 15-year fixed mortgage vs. a 30-year fixed mortgage.

For questions about any wealth planning, portfolio management, or tax planning topics, do not hesitate to contact me to find out what options may be best for your own personal situation. Financial relationships are built upon trust. Your continued support in having conversations and making recommendations to important people in your life regarding your connection with me at TAMMA is always greatly appreciated and welcomed.

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