When Fear Turns Ugly

"Fear" is a powerful emotion designed to prepare human beings for battle. For ancient man when the unknown could be a saber-toothed tiger or any mortal enemy crouching in the dark, a fear-driven preservation instinct took over. An adrenalin rush sped up the heartbeat, generating the energy and resistance to fatigue necessary for close-order combat.

Except for those were actually eaten by the tiger, the physical release engendered by the fight was a healthy aspect as survival skills were honed. Modern man has a more complex challenge, as psychological fears demand responses that are cerebral in nature, not physical.

Threats to financial security are tigers in the dark. During significant stock market declines, as values in personal portfolios and retirement accounts erode, anxiety, uncertainty, and doubt are natural responses. So is anger. You may want to pummel your broker, advisor, or brother-in-law who gave you a hot tip that imploded. Feeling fear is understandable. We would not be human if we weren't fearful and angry once in awhile.

It is okay to be fearful in times of stock market distress. As Nick Murray, a fellow financial advisor and Wall Street philosopher, recently observed: "It is okay to feel the fear, but it's not okay to act on the fear."

It may be that you are retired or getting close to retirement and erosion of stock values is very unsettling. It may be that you have more of your money exposed to equity market volatility now than you have had in the past. Your fears and concerns as markets turn ugly are valid and understandable. The media doesn't help, with tales of Nasdaq woes, mutual funds down 70% or more, dot com destruction, and jobs being lost.

Logic does not help when you are fearful. You do not want to hear that the crouching tiger just ate your neighbor and has a full stomach, and he is not interested in devouring you at this time. Logic may say, "Don't move…don't threaten the tiger…it will get bored soon and move away." But your emotional side may prevail, prompting you to scream and run away. The danger may be a failure to notice the cliff just behind you, as your response to fear precipitates an even bigger and potentially more fatal problem.

Most of the time our fears are not actualized. I remember intense fears as a young advisor in Vietnam in 1964. In February, 2001, after 37 years, I was back in Ho Chi Minh City (Saigon) and guess what — we won the war! The biggest, most modern skyscraper in town has "Citicorp" emblazoned on the top, the American dollar is as easily spent as the Vietnamese dong, and Communists are sounding more and more like capitalists. Ho Chi Minh City even has a nascent stock exchange. It is small, but it is a start. Fear notwithstanding, life has moved on and positive progress has continued.

Remember how fearful markets were in the early 70s when Vietnam was ugly and as much about Kent State as it was Marine Divisions in Danang? Remember the Agnew-Nixon scandals, the energy crisis, OPEC as the tiger du jour?

Suppose you had dumped all of your stocks just after the Crash of 1987? Or when markets dived as the Gulf War was threatened and the press speculated about another Vietnam?

The media loves the "Apocalypse Now" syndrome because it generates readership and viewership. Remember when the deficit was going to devour all of our capital? The banking system was going to collapse? Recessions, layoffs, downsizings? The destruction of AT&T, IBM? Like Saigon, stock markets recovered from every crisis and positive uptrends reappeared.

Does this mean that if you have a stock, a mutual fund, or an account that is down 20% to 30% or more, you should do nothing? No. But rational action should overcome emotional responses so that you do not do the wrong thing.

If you owned Cisco or Intel at a higher price, should you run away now that they are cheaper? You may have lost value but you will only lose real money if you trigger a sell with no plan for recovery. And blindly selling out may be the worst mistake of all. It is okay to feel fear. But you may be wise to confront your fear, stare down the tiger, and add additional capital while those around you are still acting on their fears and keeping prices low.

When you look back five or ten years from now you will realize that the tigers of today will seem like pussycats tomorrow. They always do.

Lewis Walker,