This Decision Could Lead You to Financial Disaster

Odd things are happening in the economy right now. The most obvious is the recent destruction of oil facilities in Saudi Arabia. But there are also subtler, less obvious warning signs, including the first injections of liquidity into markets by the Fed in 10 years on Tuesday and Wednesday.

Couple that with the Fed's lowering of the Fed Funds rate despite economic growth and low unemployment, and things appear uneasy. These are the times at which it would be easy to make an investment mistake. I wrote in July 1995:

> *"My name's Marlow. General Sternwood wanted to see me."*
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> *Devotees of the classic black-and-white Hollywood films now hear original wording from Raymond Chandler's 1939 movie, The Big Sleep, introducing a new CD produced by Charlie Haden.*
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> *Haden, viewed by many as today's dominant voice in jazz bass, recently integrated to stunning effect a lead using the nostalgic Warner Bros.' Fanfare theme music and the Marlow spoken word line as preludes to his own original composition Always Say Goodbye.*
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> *Always Say Goodbye was inspired by the few times Charlie felt he had not properly said goodbye to friends or family who, unknown to him at the time, he would never see again.*
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> *Haden's thoughtful weave of Hollywood movie, theme music nostalgia and his own original composition reflecting his agony over failing to say goodbye built an emotionally charged piece of music that has rewarded him with the Down Beat International Critic's Award for jazz album of the year.*

In Always Say Goodbye, it was emotion that helped Charlie Haden win success. Unfortunately, in the world of investing, unlike musical composition and execution, emotion can be the trigger to financial disaster not success.

Responding to market movements emotionally or irrationally is possibly the worst mistake an investor can make with his money.

To give you an indication of how emotional a bad day in the market can get, imagine two scenarios. In both scenarios, you’re a 67-year-old who has $1,000,000 saved for retirement.

In the first scenario, imagine you have put $50,000 cash in a briefcase, and you’re headed along a crowded street to your bank to deposit it. Suddenly someone grabs the briefcase and runs off, never to be seen again. You never even had a chance to say goodbye. How emotional would you be? If you’re like most Americans your heart is pumping, you’re breathing heavily, you’re scared, and you want your money back.

In the second scenario, imagine your $1,000,000 is invested in the stock market, which drops 5% in a day. On paper, you’ve lost $50,000. On average since 1928, the S&P 500 has fallen by over 5% in a single day about once every year-and-three-months. If you panic, get emotional and sell everything in the face of this loss, you’re no better off than when the thief stole your briefcase. That money is gone forever.

The difference between scenario one and scenario two is that in the second scenario if you have confidence in your investment plan and an advisor to guide you through the turbulence of markets, you have the opportunity to avoid an emotional mistake, to avoid financial disaster, and even to get your money back.