



Financial Advisor Magazine

July 2009 issue

Something To Believe In

What is it that makes people do stupid things with their money? The sound of the herd, plain and simple.

By Mitch Anthony

I was on the phone the other day with an advisor who sounded discouraged about how to build hope and confidence in clients during these troubling times. He said, "It's hard to know what to believe in anymore."

Fair enough. Standard assumptions like asset allocation and our understanding about how things like P/E ratios get measured are being called into scrutiny. Numbers that were once considered to be inversely proportional now suddenly move in the same direction—the wrong one. What's a guy to do? What does he tell his clients they can count on?

Before a broad epidemic of investor nihilism sets in, let me remind you of something we can all count on at all times: People who are scared do stupid things. This is something I believe in more than ever—and there is manifold opportunity that follows this belief.

Do you remember the old George Carlin line, "Think of how stupid the average person is, and then realize that 50% are stupider than that"?

What is it that makes people stupid with money? The sound of the herd, plain and simple. They hear the startling stampede and feel the earth drumming beneath their feet and are taken in by the panicked rhythm of the mob mentality.

It is the noise that scares them into inopportune decisions they later wish they could take back. They listen to co-workers and brothers-in-law and hyperventilating anchors on the Panic News Network. The cacophony of fear becomes a stirring rumble and eventually a thunderous, roaring stampede, where everyone is running as fast as they can—and nobody knows where they're headed. And what are they following? If they would just look up for one second from their mad rush, they would realize that they are following ... someone else's hind end.

There is no voice speaking from a cloud telling them to run. There are no sure signs of apocalyptic doom, only the sound of the herd and the fear of being left behind. Case in point: Not long ago, the herd ran as far and as fast as possible from tax-free municipal bonds—the end of cities as we knew them was upon us. Why? Because the Panic News Network said so, and the wailing Wall Street Journal said so. What was one of the top categories (if not the top-performing category) in the first quarter of '09? You guessed it—tax-free municipal bonds. Some people understand this important, infallible principle: Scared people do stupid things.

Look around you. Cities are still standing. Most of them even continue to pay their bills. As far as I can tell, we have not reverted to a nomadic culture. Your local Tower of Babel has not been leveled. We will survive.

People are talking about the failure of capitalism. People are talking about how capitalism has let us down. Has capitalism failed us, or have we failed capitalism? Has it let us down, or have we let it down? We had to save some big ships that were going down, and to do so, crossed out some key lines in the capitalistic creed. It is not capitalism that failed here but our unwillingness to let it play itself out. Not until many years from now will we know if we did the right thing.

It is a mistake to throw out what we know to be true simply because we created a crisis by ignoring common sense. When fear and greed run unabated, opportunity is created—the opportunity to show our clients our mettle. Fear is out of the corral at this moment, and opportunity surrounds us. We need to

reinforce our commitments to our clients and help them understand that they have the opportunity to get back in the markets and potentially reap some pretty big rewards. We may not see such opportunity again in our lifetime.

Smart advisors know that their first responsibility is to help clients understand and perceive what's going on, and advise them how to take advantage of it. Ask them the following questions: "Do you believe that people do smart things with their money in a panic?" "Do you believe that when people are afraid and decide to hide in a cave, they might be missing out on some good opportunities?"

During times like these, capitalists capitalize. They capitalize on what fear leaves behind. They capitalize on the fact that people no longer believe that capitalism works. They capitalize on what panic leaves behind. They capitalize on the fact that everyone is following someone else.

Let's not be so quick to throw out the baby with the bathwater. Capitalist thinking created this great culture and will certainly play the leading role in restoring our markets. Good ideas and hard work still lead to profit. Do you believe that? Companies that exercise common sense and don't mortgage their futures will survive and thrive. Do you believe that? Most people are too afraid of being out of step with the herd to stop and examine the difference between a failed investment and a failure to invest.

The World Book Dictionary offers the following definitions of the word "panic":

1. A fear affecting an individual or spreading through a whole group of persons or animals so that they lose control of themselves; unreasoning fear
2. An outbreak of widespread alarm, as in a community, over financial or commercial matters, which tends to demoralize judgment and lead to hasty, ill-advised measures to avoid loss

If we recognize that the herd is foolish-- (we do); if we know that people don't think clearly when they are afraid (we do); and if we acknowledge that human nature does the wrong thing at the wrong time (again, we do)—then there is only

one intelligent response: Capitalize on that knowledge, and help your clients do the same.

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