FACTORS IN FOCUS

January 2019

Safety and Bravery

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The Mayo Clinic defines agoraphobia as "a type of anxiety disorder in which you fear and avoid places or situations that might cause you to panic and make you feel trapped, helpless or embarrassed. You fear an actual or anticipated situation, such as using public transportation, being in open or enclosed spaces, standing in line, or being in a crowd."

You don't become agoraphobic overnight. Quite often, a traumatic event in one's life, a death in the family or similar personal disruption can act as a trigger. Emotional concerns can cause physical stress such as heart palpitations that sometimes lead to a panic attack. For anyone who has had a panic attack, you know how unpleasant they are. The experience often leads to the fear of future episodes, which can then occur during more normal, mildly stressful events.

Avoidance versus Confrontation

Your natural inclination in these circumstances is to avoid the situation or situations that seem closely related to feelings of anxiety and panic. At first you might avoid overly crowded places such as a mall, concert or sporting event. Your brain, hard wired over tens of thousands of years to pay close attention to your actions, trusts your decisions—if you're avoiding these situations, they must be dangerous! But the brain doesn't stop there. If these places pose a threat to you, how safe can slightly less crowded places be? The grocery store? An office building? The airport? A small social gathering? Soon, you have developed a fear of most social places and are afraid to leave the house. You avoid almost everything and your life becomes a living hell.

Avoiding situations that cause anxiety seems like a logical response to dealing with fear. But that approach rarely works; it usually makes the situation worse. Instead, psychologists recommend a more counterintuitive course of action.

In the case of agoraphobia, the first step is often an effort to regain some control of one's body and behavior, such as regulated breathing exercises that help to manage and counterbalance the onset of elevated heartbeat and anxiety.

Next comes something even more drastic— voluntary, progressive exposure to what you fear. **Confront what scares you!** Afraid of public places? The first step is a supervised trip to a public parking lot. Next time you might get out of the car for a few minutes. Eventually work your way up to entering a building, riding the elevator, etc. Over time, the agoraphobic increasingly regains control and is able to return to a more normal and sociable life.

Importantly, agoraphobics *don't become less afraid or more safe* in the situations they once feared; they *become braver*. Safety and bravery are not the same thing. You cannot always dispense with danger, but you can become more resilient in the face of it. Repeatedly and voluntarily experiencing the situations they fear most, such as a publicly humiliating panic attack from an overwhelming social situation, makes them better equipped to handle the things that worry them.

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Confronting Financial Fears

After experiencing one of the worst quarters for stocks in over two decades, it is only natural to feel a twinge of panic over the perceived loss of a significant amount of your hard earned savings. Are there lessons from the evidence-based, mental health treatments of agoraphobia that we can apply to our investing behavior during difficult times? I think there are.

The first step I would suggest to regain your financial sanity after a sharp investment decline is to assess the situation, or **take stock**. It is helpful to remember that short-term market movements are largely unpredictable and not something you can influence or forecast. This decline isn't an episode you should have seen coming. Those pundits who now seem prescient have been calling for a downturn for many years (when stock prices were far lower than they are now). Nor is it necessary to predict and avoid short-term declines to be successful. Plentiful intermediate and long-term portfolio gains are often peppered with frequent short-term setbacks and panics.

Next, **try to focus on what you can control**. Has your portfolio's long-term historical return been sufficient to accomplish your future goals? Have you avoided *unnecessary* risks such as the uncertainty and concentration that comes from traditional active management, instead favoring lower cost, more tax-efficient index and asset class mutual funds? Can you stop focusing on current events and financial headlines, knowing that much of what is reported is old news and includes misleading and irrelevant information? What about looking at your portfolio's value less often? Is there anything less worthwhile than peeking at the day-to-day progress of assets that are tasked with providing for you over the course of many decades?

Finally, I believe that **progressive exposure to the unavoidable risks that you face** as an investor can help you become more confident in the face of uncertainty. This is why I include historical perspectives in almost every edition of *Factors In Focus*. I can't make the stock market any safer beyond diversifying broadly and holding an appropriate mix of stocks and (in some cases) bonds. But by reviewing historical information with you and developing rational expectations about the future, I believe in time you can become braver.

The chart below shows every decline (> 5%) for a diversified stock portfolio since 1995. The total period return was over +9% per year *despite the setbacks*! By rejecting the conventional wisdom that says you need to avoid losses to be successful, you can bravely confront these challenges—as unavoidable but necessary experiences required to earn the returns you need to accomplish your most important long-term goals.

Time Period	Growth of $1	% Return	Time Period	Growth of $1	% Return
June 1996 to July 1996	$0.94	-5.8%	June 2007 to Feb 2009	$0.42	-58.1%
October 1997 to Nov1997	$0.95	-5.0%	May 2010 to August 2010	$0.86	-13.5%
May 1998 to August 1998	$0.80	-19.8%	May 2011 to September 2011	$0.76	-24.2%
September 2000 to Nov 2000	$0.92	-7.5%	April 2012 to May 2012	$0.90	-10.3%
February 2001 to March 2001	$0.93	-7.1%	June 2015 to September 2015	$0.88	-11.9%
June 2001 to September 2001	$0.85	-14.9%	December 2015 to Feb 2016	$0.90	-10.4%
June 2002 to September 2002	$0.77	-22.5%	Feb 2018 to March 2018	$0.94	-5.8%
Dec 2002 to March 2003	$0.91	-8.8%	September 2018 to Dec 2018	$0.83	-17.0%
March 2005 to April 2005	$0.94	-5.4%	January 1995 to Dec 2018	$8.35	9.3%

Diversified Stock Portfolio = 21% DFA US Large Cap Equity, 21% DFA US Large Value, 28% DFA US Small Value, 18% DFA Int'l Value, 12% DFA Int'l Small Value, rebalanced annually.

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