



**Financial Principles, LLC**



*Managing Partner*

## **NEWS**

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# **Local Financial Professional Advises Investors to Follow Plan, Not Gut**

*Mike Flower Offers Six Tips for Keeping Emotions in Check  
and Preparing for Turbulent Markets*

Fairfield, NJ (November 11, 2009) — According to Fairfield-based Mike Flower, investors prone to making emotional decisions should be especially on guard this year. Many are mourning 2008 losses, yet simultaneously hopeful about the market's broad gains in so far in 2009. This unprecedented combination of fear and greed could significantly impede rational decision making. In fact, behavioral finance research shows that no matter how long someone has been investing -- or however vehemently they insist they will be guided by reason -- they will likely repeat their past emotionally-driven blunders. People follow the crowd and cash out at the wrong time or jump on the bandwagon too late.

“Just consider how you behave in rush hour traffic,” explains Flower, Title and Company. “Your lane comes to a near halt, but it seems the next lane is moving fairly well. Convinced that you have greater insight than the other drivers, you maneuver and switch lanes. Of course, as soon as you do, your original lane starts moving and you find yourself sitting still. It's a futile exercise you repeat day after day, although you know you've failed in the past and have no proof that your current maneuvering will be successful.”

Lanes of traffic are the investment strategies or asset classes that move in and out of favor about as predictably as rush hour traffic. In the end, the same emotional instincts that lead to frustration during a traffic jam can curtail the ability to make rational financial decisions. “As a financial advisor, I offer a helpful and comforting bird's eye view of traffic as I am evaluating the big picture rather than just comparing your rate of speed with the car next to you,” says Flower. Because investors' irrational behavior is at least

predictable, professional advisors often provide a more rational, and beneficial, framework for financial decision-making.

Flower offers the following advice to help keep emotions in check:

- **Understand the root of stress.** When under stress, adrenal glands release adrenaline and cortisol hormones that affect the brain and cause a short-term focus, increased pessimism, impaired concentration, a reduced attention span, and decreased patience. Accordingly, with perspective altered by stress, individuals are more likely to make impulsive decisions that can negatively impact their finances. Understanding the biology behind emotions may help avoid having short-term market volatility play on emotions and destroy the discipline necessary for successful long-term investing.
- **Stay engaged.** Behavioral finance suggests that the more complex the problem, the more likely individuals are to choose the default option, or in the worst case do nothing. Plenty of investors still seem frozen, afraid to make financial decisions. However, doing nothing to respond to today's transitioning market is, in fact, a decision -- and one that could result in significant missed opportunities. Focusing on the many things that are right with life, as well as emerging market opportunities can help maintain involvement with personal finances.
- **Return to your plan.** An investment policy (IP) statement should spell out short- and long-term goals, the investments to best achieve those dreams, and actions to be taken in the event of a market downturn. Collectively, the IP answers the question: Why am I investing? When asking, "Should I move to cash?" Flower asks, "What are your goals?" and "Is your current investment mix still appropriate for those goals?"
- **Focus on specifics.** Whether deciding on 401(k) options or salad dressing at a restaurant, too many choices can make the job more difficult. In an environment where investors may be energized by the market's gains, but cautious about how to move forward, be more specific about what is owned. Each investment should have a particular role to play in the portfolio, and the more transparency the better.
- **Lengthen the time horizon.** To avoid making a quick fix portfolio move in response to some newspaper headline, lengthen perspective by reviewing long-term goals. How will a decision made today impact life over a five-, ten-, or 15-year time horizon? Given that timeframe, does the current allocation need tweaking to capitalize on opportunities or mitigate risk?

- **Embrace the process.** If sailing from Point A to Point B, it's impossible to travel in a straight line. In fact, sailing is nothing more than a series of corrections to get back on course towards the ultimate destination. Because the market is as unpredictable as the wind and weather, it's important to look at the need to make a portfolio change as necessary and expected, rather than as an unexpected negative.

Above all, especially in this transitioning market environment, be careful of investment advice. "It never ceases to amaze me how many people follow their neighbor's advice," says Flower. "Think about it. You probably don't drive the same car as your neighbor, spend your leisure time in the same way, or share the same retirement goals. So why would his investments be a good match for you? What's more, he certainly has limited information about your long-term goals and risk tolerance." Instead, Flower recommends seeking a professional advisor whose values center around putting your needs first and committing to ongoing financial planning. The planning process can help investors overcome emotional biases, think positively, and make more rational investment decisions to maintain the long-term investment perspective that is essential to meeting individual goals.

### **About Financial Principles, LLC**

Financial Principles understands the importance of planning – whether it's for retirement, saving for college or even charitable giving. Two senior partners, Bradley H. Bofford, CLU, ChFC, and Mike Flower, bring a combined 25+ years of financial services experience to their clientele. Both are recognized as qualifying life members of the prestigious Million Dollar Round Table, "The Premier Association for Financial Professionals<sup>®</sup>". As representatives of Securities America, Inc., Bofford and Flower are able to provide comprehensive services and advice in all areas of personal finance, such as estate planning, retirement planning and tax reduction strategies.

Bofford and Flower believe that a well-informed client is essential for success. They love taking clients from fear to confidence regarding finances, by placing a strong emphasis on educating people about how to prepare for and enjoy a comfortable retirement. Both advisors have contributed to articles in several leading trade publications including Investment News, Financial Advisor, and Research magazine as well as consumer outlets such as BusinessWeek, Money and New Jersey Business magazine. Visit [www.financialprinciples.com](http://www.financialprinciples.com) to learn more about the advisors at Financial Principles.

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#### **NOTE:**

When you need a knowledgeable professional to speak on complicated financial topics in an easy-to-understand and comprehensive manner, please call the advisors at Financial Principles.

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