

August 26, 2009

Email Update

In This Issue

- [Introduction](#)
- [The Emotion Tax](#)
- [Emotion Tax Avoidance](#)
- [Wrapping it Up](#)

www.roganfinancial.com

Visit our [Learning Center](#), which has a variety of educational audio and video presentations designed to educate you. Revisit often, as we are constantly updating content.

Introduction

Between sales taxes, income taxes, property taxes, etc., we're all subject to some sort of taxation. Given the spending and programs/reforms that have just been, or may be implemented at the federal and state level, it's likely that each of us will face an increasing tax burden over time. However, there's one tax that many investors pay *that is completely voluntary* and most of these investors don't even realize that they're paying it. That tax is the **Emotion Tax**.

The Emotion Tax

If you haven't heard of the Emotion Tax, don't worry, we made it up (although, I can't say whether or not it's been used by someone else in some context in the past). Nonetheless, the Emotion Tax is very real.

Multiple studies demonstrate that the average American Investor only captures about a third of the long term gains in the stock market. To make matters worse, they tend to capture a substantially higher percentage of the declines. Why is that? Think back to this past March when the stock market was hitting new lows. Perhaps you know people who got scared and, despite having a well conceived long-term plan (as I hope you all do), sold their stock holdings (or stock mutual funds) so they would be "safe" in cash. If they were among the unlucky few who sold at the exact bottom, the **Emotion Tax** resulted in them missing the nearly 50% increase in market values that has occurred since then.

Of course, some might read this with a smirk because they "got out" before the March low. Maybe they liquidated back in October when the S&P 500 (as a proxy for "the market") was in the 800-900 range. Unfortunately for them, the S&P 500 is currently over 1,000. So, while they didn't suffer the **temporary emotional distress** of seeing **unrealized** losses as values plummeted during March, if they didn't guess correctly and re-enter the market, they have also been a victim of the **Emotion Tax**, albeit the overall cost is a little less. That may leave them hoping for a correction so they can get back in. Generally speaking, during a recovery we get several of these. We

may well have one in our immediate future. Are those Folks going to guess correctly and find the right entry point? Guessing is NOT an investment strategy. Guessing is simply guessing.

So there you have one example of the Emotion Tax - the cost to those who succumbed to the "**fear of loss**" emotion and have missed all or part of the ensuing recovery. But, there is still another aspect to the Emotion Tax, the **fear of missing out**.

Money Magazine ran an infamous (around here, anyway) cover story in late 1999. The cover proclaimed; "**Tech Stocks: Everyone's getting rich. Here's how to get your share**". Who wouldn't want their share of these easy riches? Many people went "all in" to tech and if they stayed put until September of 2002, when we saw the largest dollar redemptions to that point in history, they lost some 70% of the value of their portfolios. Another massive payment of **The Emotion Tax**.

Since asking people to remember something that occurred a decade ago is clearly unreasonable, perhaps you can remember all the way back to the days of skyrocketing real estate values. Remember when *everyone knew* that Florida real estate could only go higher? And they bought everything they possibly could knowing they could "flip" the property to the next retiring Boomer? Perhaps you didn't participate but do you remember feeling like you might be *missing out*? If you stuck to a well conceived plan you now know that, whether it was the tech bubble or the real estate bubble, you are fortunate to have "missed out".

The fear of loss and the fear of missing out are the two major components of the **Emotion Tax**.

Now, in the last week of August 2009, we've seen the markets rebound off their lows and we're seeing many indications that the world is emerging from a period of pretty severe economic stress. The media has had a field day of high ratings during this period of "Crisis" and they are loathe to let go easily. A recent AP headline is a good example:

"World Emerging from Deep Slump, but Can It Last?" AP 8/22/2009

In the coming weeks and months you should expect to see lots of emotionally charged stories designed to keep **your emotions** running high. This is by design as the media desperately tries to keep you in crisis mode for as long as possible. Or, another possibility, someone tries to sell you something! Ratings soar when the public is in "crisis mode". Expect to hear about the "jobless recovery", how we cannot recover without a massive increase in consumer spending and be sure to expect every bright spot that is

reported to be followed by “BUT.....” This kind of reporting accompanies every recovery.

Emotion Tax Avoidance

The good thing is that there is a very simple way to assure that you *never* pay the Emotion Tax again. The steps are as follows:

1. Determine your short, intermediate and long-term goals. This isn't just about investments but also about what you would want to have happen if there are bumps in the road. From minor bumps to those of the greatest severity.
2. Determine (perhaps with the help of a professional) an appropriate asset allocation (i.e., how much is in stocks, bonds, cash, real estate, etc.) so that you have the highest possible probability of achieving each of your goals. Remember, a *temporary downturn* in the long term portion of your plan is a *temporary downturn*.
3. Select investments that will provide sufficient diversification (i.e., you don't want all your eggs in one basket) within each asset class (once again stocks, bonds, cash, real estate, etc.) for each of your goals. Again, many people will require the assistance of a professional for this step.
4. Review all aspects of your plan regularly (at least annually) to make sure that you are properly balanced and that nothing in your life has changed that might require altering the plan.
5. Be disciplined and do not change your plan based on the "market" or the "economy". What is happening in the market or the economy today is **short-term** in nature and a well conceived plan is **long term** in nature. In other words, don't let your emotions dictate your plan - *let your goals dictate your plan*. A good adviser may be essential for this step - he/she can keep you on track and, in a manner of speaking, "talk you off the ledge" from time to time.

Wrapping It Up

With the potential for a variety of new taxes looming, we need to do everything we can to reduce our tax burden. The Emotion Tax is one tax that is quite voluntary - so let's be sure to avoid it!

As always, we are here for you. Please do not hesitate to call or email if you have any questions. Also, please feel free to forward this to friends or family members who might benefit from some of the information or perspectives.