the psyche of the investor. Recent business headlines in many major newspapers and broadcast media contain words like *crisis, loss, bailout, scare, pain, foreclosure, bankruptcy, ponzi scheme, collapse, stimulus, and Troubled Asset Recovery Plan (TARP)*. To be sure, the economy is in serious turmoil. But some of the stock market's losses are due to panicked investors selling entire portfolios simply because they are bombarded every day with depressing headlines, devaluing stocks beyond true value. For instance, several companies, globally, are trading below the value of the cash they have on hand!

Another example of a heuristic involves the vividness of a risk. People will pay twice as much for an insurance policy that covers hospitalization for "any disease" than one that covers hospitalization for "any reason." Obviously, "any reason" includes all diseases, but is more general and vague than "any disease". The vividness translates into an emotional fear that makes no economic or logical sense.

Fear is a very real, very powerful force to be reckoned with. Investors and planners, shareholders and CEOs, stockbrokers and analysts are all affected by it. Fear, and its by-product panic, is a given when working with money because of what money stands for: from a child's future, an education, and social influence; to food on the table, clothing, and shelter. Fear can be controlling; it can freeze and confuse logical thought processes that need to be clearest when making decisions about wealth. One of the best ways to conquer fear is not to ignore it or wish it away, but to acknowledge its influence. Jason Zweig, author of *Your Money and Your Brain* offers some questions to help decide on the next step like: *"other than price, what else has changed?"* or "*what other evidence do I need to evaluate in order to tell whether this is really cause for panic?*" Logical answers to questions like these may lead to a more reasonable choice, instead of one driven by fear.

The Psychology of Greed

Like fear, greed has also been acknowledged as a driving force behind the current economic stress that we are experiencing. Greed as an emotion is not inherently immoral; however, it is more difficult to define than fear. There is no doubt that it exists, but a definition of an ambivalent term like greed derives as much from what happens between people as from what goes on within their brains. Greed stems from the natural human desire to gain the most results that one can from one's efforts. This is a very important concept to capitalism: if we kept all our money in the safest and subsequently the least rewarding investments, we would not have the economic growth that we have been enjoying.

Imagining future wealth often makes an investor happier than actually having it. A psychological study was performed in 2002 where people learned that they would receive a reward upon seeing a certain shape. The subjects' brains reacted much more strongly after they saw the shape than when they actually received the reward. This notion is supported in a few examples that come to mind. Christmas would not be as much fun if all of the presents were wrapped in clear plastic and we certainly don't go to Las Vegas planning to win millions, but it's always nice to imagine the possibility.

Greed becomes dangerous when it is created as a product of impatience. People are very eager to earn lots in order to spend lots and hope that happiness will follow. Think about patience this way: would you rather get $10 today or $11 tomorrow? Most will choose the $10 today. How about $10 in one year or $11 in 366 days? When the question is posed like this people will usually change their answer to $11, even though the rewards are separated by the same amount of time. To our instinctual brains, it makes a lot of sense to live for today; during famines or shortages, tomorrow is a long way off. Greed and gaining wealth quickly is our modern day equivalent of that survival instinct.

The greed responsible for this past year's downturn began a long time ago and is finally being fully realized. To use the cliché, hindsight is 20/20. The analysts, pundits and politicians said they saw the signs but never realized what they meant. Expecting unreasonable results now can be a sign of impatience and should be recognized and dealt with sensibly.

Conclusion

When making any important financial choice, emotions are inextricably linked to the decisions. Mood, external situations, even the weather can affect the decision negatively or positively. Difficult, emotional situations will invariably arise. A recommended course of action that an investor should take is to step away from the situation. Do something completely unrelated from the current decision- perhaps even going as far as "sleeping on it". When the brain has a chance to calm down neurologically, the choice is based much more on objective logic rather than irrational emotions.

Bear markets are necessary to have bull markets- the best course is to execute decisions objectively, diversify, be realistic, hedge for the bad times, and most importantly be patient.

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