WHIPSAWED

HOW GREED & FEAR
SHRED FINANCES & FUTURES

Mark DiGiovanni

There are people who defend us
with courage and selflessness
regarding the crucial elements
of our lives.

They protect the freedom
to indulge our fear and greed
regarding the trivial elements
of our lives.

This book is dedicated to them.

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Happy the man who has learned the cause of things

and has put under his feet all fear, inexorable fate,

and the noisy strife of the hell of greed.

-Virgil (70 B.C.-19 B.C.)

INTRODUCTION

In the span of a single decade, we experienced the greatest bull market and the greatest bear market since the Roaring Twenties and the Great Depression. It is not unusual to have such opposite events so close together in time - it is almost inevitable. The greatest bull markets deteriorate into mere bubbles toward the end of their cycle. An equally great bear market is merely a reaction to such bubbles. Just as the pendulum that swings too far in one direction must inevitably swing as far in the opposite direction before settling back into its proper rhythm, markets must operate under similar dynamics.

Such wide market swings are both a catalyst for, and a product of, two of our most basic emotions, fear and greed. A bull market is a catalyst for greed; a bubble is a product of greed unrestrained. A bear market is a catalyst for fear; a crash is a product of fear unrestrained. Market bubbles and the crashes that inevitably follow are not the product of impersonal markets, but of human emotions let off the leash.

In the long-term, the stock market is a weighing mechanism. Over time, emotions gets wrung out and prices reflect the real value of assets. In the short-term, the stock market is a voting mechanism. People vote with their emotions, and they vote for one of two parties – fear or greed.

The greater the number of people feeling a certain emotion and the more strongly they feel it, the greater the market movement in that direction. The short-term volatility of the stock market is much greater than its long-term volatility, and this disparity is due to the effects of emotions on investors’ decisions.

We would like to think that markets are cold, impersonal and mechanical. However, markets are human inventions, are populated with humans, and are designed to serve humans. As a result, all of the characteristics of humans show up in the markets that humans create.

Markets aren't mechanical; they're biological. Markets demonstrate euphoria, depression, fear, greed, illness, uncertainty, resilience, restlessness, and lethargy. Markets may be subject to the same biological weaknesses as humans but, unlike machines, humans and markets have the ability to learn from mistakes and to heal themselves.

The problems that people experience with finances are not the problems of finance; they are the problems of humans. A person's financial problems are almost never solved externally, by changing something on the outside. A person's financial problems can almost always be solved by changing something on the inside, by changing personal behavior that is almost always the root cause for the financial problems. Of course, it is much easier and more futile to attempt to change something on the outside than to look at ourselves, recognize where we've gone wrong, and make a sincere effort to change.

As a financial adviser, I spend about 25% of my time managing investments and about 75% of my time managing behavior. That ratio is necessary because many studies taken over the years have shown that only 15-25% of an investor's return over a long period of time is attributable to investment selection. The remaining 75-85% of the return (or lack of it) is attributable to the investor's behavior. Although we all know that buying low and selling high is the goal of investing, most investors buy high and sell low. This behavior is the main reason why *investor* returns lag behind *investment* returns by roughly a one-to-three ratio.

How can an investor manage to get only one-third of the return of his/her investment? It's easy if you buy high and sell low. When an investment is flying high, it's tempting to buy it and get in on the upward flight. When the investment is down 10, 20, or 50%, it's tempting to want to cut losses and sell before it becomes worthless. The charted peaks and troughs of an investment often resemble the teeth of a saw. When greed and fear cause you to buy high and sell low, you get *whipsawed*.

Greed and fear probably cause the most financial devastation in the investment arena, but it is not the only place where they have a negative impact. Greed can prompt someone to forego necessary insurance. A father with small children may decide that the money spent on life insurance premiums would yield a better return if it were invested in the stock market. He may also feel that he only needs the minimum required liability coverage on his auto insurance. In both cases, he risks a lot to pocket a little.

Fear can also manifest itself through insurance. If that father has unnecessary or unnecessarily high amounts of insurance, but he is not saving enough for retirement, that overreaction to fear of an unlikely event can create real financial problems in the future.

Greed and fear prompt many decisions in the job arena, too. Wall Street firms manage to lure many of the best and brightest college graduates, not because these graduates are being called to a noble profession, but because so much money is dangled in front of them that it is hard to resist. Conversely, many people remain in careers they hate working for employers they detest because the fear of losing a steady paycheck and starting anew creates paralysis. In both cases, money holds people back from pursuing careers that would likely better benefit themselves and society.

We would like to think that we make decisions, especially decisions about money, logically, rationally, dispassionately. In truth, we make our financial decisions emotionally, and then use logic to justify those decisions. This behavior is not a fault, but a trait. We should not be embarrassed to accept a trait for what it is, even as we try to modify the trait to help ourselves. If we delude ourselves that there is no emotion at work in our financial decisions, we doom ourselves to making a lot of bad ones.

Greed and fear wreak havoc on one’s finances, but what makes it worse is the inability to recognize greed and fear for what they are. If you can’t recognize when these emotions are controlling you, you can’t take steps to regain control of these emotions. If you can’t control these emotions, you can’t control your finances. If you can’t control your finances, you can’t control your life.

Greed and fear have destroyed more actual and potential fortunes than all of the scam artists, robber barons, bank robbers and plundering hordes of history combined. Of course, greed and fear have had an advantage – they work from the inside. The purpose of this book is to improve your awareness of the ways these two emotions work to shred finances and futures, so you can keep your finances and future from suffering such a fate.

GREED DEFINED

Until very recently in the course of human history, being greedy wasn’t easy, even though greed is as old an emotion as any. Philosophers, prophets, and sages have warned us about greed for as long as we’ve had the written word. But a key ingredient to greed is the existence of material goods about which to be greedy.

Prior to the Industrial Revolution, material goods were hand-made, scarce, and expensive. Equally scarce were jobs that paid more than the barest subsistence wages. When it came to material possessions, people spent all their effort making what little they had last as long as it could. To provide one’s family with the most basic necessities of food, clothing, and shelter was a major accomplishment well into the nineteenth century. No energy was left to desire items that didn’t exist, at least not in their world.

It’s easy to forget that throughout almost all of human history, thrift was such a common trait that it wasn’t thought of as a virtue along the lines of courage or charity. Thrift was not practiced as a repudiation of greed nor as a method to accumulate wealth. It was a survival skill, as important as hunting and farming.

The Industrial Revolution provided the world with cheap goods and the money to buy them. The Industrial Revolution also made it possible for women and children to work for wages, increasing household income and the ability to buy more goods. While the primary focus of the Industrial Revolution was to increase the *production* of goods, its greatest impact on mankind has been the increased *consumption* of goods, with all its side-effects.

The Industrial Revolution and the Consumer Age it spawned changed mankind more than anything since the transition from B.C. to A.D. Traditions based on family and community gave way to “improvement” of the individual’s position. Desires, which were previously considered an emotion to be controlled, were now encouraged. It’s no coincidence that advertising first appeared during the same period that the Industrial Revolution made consumer goods more plentiful.

Personal vices became the catalyst for public prosperity. Avarice, pride, envy, and greed fueled the Industrial Revolution as much as coal and steam did. Being a consumer had previously carried negative connotations, and being called a consumer was not a compliment. Even today, dictionary definitions of such words as *consumer* and *consumption* include terms like *waste*, *destroy*, and *squander*. Ironically, even as consumption was being redefined from a fulfillment of needs to a satisfaction of desires, the connotations associated with consumption changed from vice to virtue. As we morphed into a consumer-based economy, to be a voracious consumer went from being anti-social to being patriotic.

Mahatma Gandhi said, “There is enough wealth to meet everyone’s need, but not everyone’s greed.” This statement reflects a relationship between need and greed. The first aspect to understand is that need and greed do not occupy the same space. Fulfilling a need is not an act of greed. It is in trying to define needs and in distinguishing them from wants that things begin to get tricky. It is our nature to give a broader definition of need for ourselves than for others, as socialite Barbara Melser Lieberman demonstrated when she said, “Anyone with more than 365 pairs of shoes is a pig.”

Fortunately, we have Abraham Maslow's work to help us distinguish need from greed.

Anyone who has ever taken a psychology course is familiar with Maslow's hierarchy of needs, which was published in his 1943 paper, *A Theory of Human Motivation*. The hierarchy of needs, in ascending order is:

- *Physiological Needs* – These are the very basic needs such as air, water, food, sleep, sex, clothing and shelter. When these needs are not satisfied, we feel sickness, irritation, pain, or discomfort. These feelings motivate us to alleviate them as soon as possible to establish balance or homeostasis. Once they are alleviated, we are able to think about higher needs.
- *Safety Needs* **–** These needs have to do with establishing stability and consistency in a chaotic world. They are mostly psychological in nature. A secure home and family environment meets this need. Personal and financial security, as well as health and well-being fall under safety needs. People attempt to meet safety needs by acquiring items from IRAs to insurance to handguns.
- *Social Needs* – These needs have to do with love and sense of belonging. Humans have a desire to belong to groups: clubs, work groups, religious groups, family, gangs, etc. We need to feel loved (non-sexual) by others, to be accepted by others. Performers appreciate applause. We need to be needed. We see numerous examples in advertising where our need for group belonging is tied to consumption of a particular product.
- *Esteem Needs* - There are two types of esteem needs. The first is self-esteem which results from competence

or mastery of a task. Second, there's the attention and recognition that comes from others, which is similar to the sense of belonging. However, wanting admiration has to do with the need for power. People who display wealth through items like expensive cars do so to raise their level of esteem.

- *Self-Actualization Needs* - The need for self-actualization is "the desire to become more and more what one is, to become everything that one is capable of becoming." At this level, people seek knowledge, peace, aesthetic experiences, self-fulfillment, and spiritual enlightenment. The needs at this level are those that money alone can’t buy.

Meeting purely physiological needs does not constitute greed. The items that fall in this category are essential for survival as an individual and as a species. The human race has made great progress in the last century in meeting the physiological needs of its members. Even as our population has nearly quadrupled in the last hundred years, the percentage of the population living in poverty has declined by two-thirds, though one in six in the world still struggles to meet the first hierarchy of needs.

Keep in mind, not everything a person owns that is listed under physiological needs qualifies as such. For example, we all need shoes, but no one *needs* 365 pairs of them. We all need shelter, but no one *needs* 8,000 square feet of it. We all need food, but no one *needs* so much of it that obesity is the result.

How do we determine the point at which our physiological needs have been met? Since we are talking about physiological needs, the best measure may be to look at our physiological response to see if our needs are being met. For food, it can be easy – if you are not suffering from malnutrition, then your food needs are being met. If your clothing and shelter are protecting you from the elements, then they are meeting their requirements. If the air you breathe and the water you drink don't make you sick, either now or in the future, then they are adequate.

Safety needs are next up in the hierarchy, and since they are primarily psychological in nature, the individual's level of need may be harder to gauge. One problem with safety needs is that we are often seeking control over aspects of life that are uncontrollable, at least by the individual. The most obvious example of such an attempt is our desire to control how long we live. We can certainly take steps to improve our chances of longevity, but ultimately we must all die, and few of us have any say about when.

Looking at the norm for people in similar circumstances may be the best way to gauge whether someone is meeting or greatly exceeding safety needs, which is the category where someone's anxieties and phobias may manifest themselves through possessions.

For example, everyone wants financial security in old age. However, a seventy-five year old man with $3,000,000 in treasury bills and annual expenses of $30,000 should not be worried about outliving his money. A person may have very valid reasons for owning a handgun for protection. However, owning thirty such weapons goes beyond meeting one's legitimate safety needs, at least based on the norm.

Social needs can cause us to become more self-centered and greedy, but they can also have the opposite effect. We all want love, acceptance, and a sense of belonging. When we join a group whose primary mission is service (a church, a Rotary club, the PTA), the common bond is to help others, which is the opposite of greed.

When we join a group that prides itself on exclusivity, negative consequences can occur. Many material goods are coveted because their high price and low production connote exclusivity. When we feel the need to be accepted by those to whom we feel inferior, we invite exploitation.

The desire for the esteem that wealth provides is a primary force behind the greed that seems to have become epidemic in recent years. A large income/high net worth is an accomplishment and a source of self-esteem. Wealth makes people feel they have control over their lives and control over others. Nothing boosts the ego like money – a lot of it.

It is not wealth, but creating the illusion of wealth, that also creates problems for most of us. The cost of meeting our physiological needs has been dropping for decades, yet Americans have been going into deeper and deeper debt at the same time. Much, if not most of this debt has been accumulated by the purchase of items designed to garner the esteem of others – larger homes in gated communities, imported luxury cars, even private school for our kids. The greater our need to impress others, the greater is our propensity for greed.

The top step in the hierarchy of needs, self-actualization, is where greed meets its match. Self-actualization, as much as anything else, is the process of learning what money can't buy. It is the realization that we become our better self, not through getting more, but through giving more.

Unfortunately, few of us seem to reach this level of development without falling into the traps at the lower levels. We learn through trial and error that a large portfolio is no guarantee of security. We learn that joining the exclusive club does not make us more worthy of love. We learn that while people may envy our income or our net worth, they will not respect us any more for them.

Because of our preoccupation with material wealth in the U.S., it is more difficult for us to climb up to the self-actualization rung. Our society has created such abnormally high needs for recognition, appreciation, and esteem that it is very difficult for average people to recognize that they don't need most of what we're being told we need. The American who eschews material wealth for something more spiritually fulfilling is the exception, not the rule.

Greed is considered an *excessive* desire to acquire or possess more than what one *needs* or *deserves*, especially with respect to material wealth. We've taken a preliminary look at defining *needs* and distinguishing them from wants. But when does desire become *excessive*, and who is to say what one *deserves*?

To acquire more than one *needs* does not require excessive desire, especially in wealthy nations. Since our true needs are modest and can be met with a modest income, it only takes modest initiative, not excessive desire, to more than meet one's needs.

It is also important to understand that having substantially more than one needs is not evidence of greed. It should not be presumed that someone is automatically greedy just because they are wealthy, any more than one should presume that someone is generous just because they are poor. Wealth is more often the product of hard work, risk-taking, and delayed gratification than it is the product of pure greed.

To acquire more than one *deserves* almost always requires excessive desire. This statement is true because in order to acquire more than one deserves, that excess must be taken from those who actually deserve it. If such acquisition is done consciously, then the person is guilty of excessive desire.

If the owner of a business purposely underpays employees and produces a substandard product in order to pocket the difference, that owner is taking more than he/she deserves. That excess income is the result of excessive desire and comes from giving others (employees, customers) less than they deserve.

When we see athletes making ten million dollars a year, it is easy to feel that they are greedy and that they don’t deserve it. However, their salaries are the result of a free market system. The athletes are not cheating anyone. The money to pay those salaries comes from fans in the stands and from television sponsors, all of whom are free to withhold their money if they feel these athletes are getting more than they deserve.

In a developed and lively money economy, perceptions of greed have a fairly high threshold. In the U.S., desiring and expecting to own a three-bedroom home, two cars, and four television sets is not considered greedy. However, to have those same expectations and desires in a country like Haiti is both unrealistic and likely to brand you as extremely greedy.

Economies like the U.S. offer continuous opportunities to make a fortune, and a comeback. In this environment, what might be considered thrift takes on the appearance of avarice. People who save a third of their income in this country are thought to be hoarding, not saving.

These perceptions are one reason why the U.S. has a dynamic consumer-driven economy and an abysmal savings rate. Here it is more socially acceptable to be a spender than a saver. Just the opposite is the case in weak economies. During the Great Depression, conspicuous consumption was almost criminal behavior. Saving was what everyone instinctively did, if at all possible.

Those perceptions became ingrained in people who grew up in that period. They continued to save, rather than spend, long after the Great Depression had passed into history. Those of us who grew up after that period could never understand why our elders were so loathe to spend unnecessarily.

One of the motivators for greed is the power that is associated with wealth. Greed in this context is not unhealthy in that the items desired are the means to an end, rather than the end itself. Greed becomes one of the seven deadly sins largely because the process of acquiring wealth to feed the greed requires others to be harmed in the process. Greed destroys our moral compass and causes us to hurt our fellow man (and woman) to acquire wealth.

Stepping over others in the acquisition of wealth isn’t too difficult to do when the motive for acquiring wealth is to gain power over others. Greed is, at its core, a desire to exert control over others through material goods. After all, what’s the fun in owning a lot if you can’t lord it over others?

The threshold for greed is higher in developed economies in part because you can’t exert much control over others when they all own as much as you do. It takes a lot more money to gain power in the U.S. than in Haiti. As a result, you are classified as greedy at a higher level here than there. Greed is a double-edged sin that causes people to wrong others in the means of acquiring wealth, and then to wrong them again in the use of that wealth.

It is wrong to assume that all wealthy people are greedy. Most fortunes in capitalist economies were built by people who provided better goods and services to their fellow man, and they were justly rewarded for it. Most of those same entrepreneurs also used their fortunes to support important works of charity. While greed can lead to wealth, it has more often been an impediment to wealth. The wealthy are not all greedy, any more than the greedy are not all wealthy.

People who knew what it was like to have no money in the past may feel that they can never have enough money now. When such feelings are formed early in life and are reinforced over several decades, it is impossible to turn them off just because a certain milestone is reached.

Greed takes its context largely from others. We've all heard of the athlete who demands to renegotiate his contract once he finds out that another player has inked a more lucrative deal than he has. Previously, this athlete had privately thought of himself as overpaid. Today, he feels cheated. Greed is the result of competing to improve our *relative* standing.

The words *greedy* and *CEO* have become inseparable recently. CEO's of large corporations typically make 500-1,000 times their employees' average earnings. However, CEO's use a different benchmark. They compare their compensation to other CEO's. It is this competitive comparison that has been driving CEO compensation to ridiculous levels in recent years. Regardless of how good a job a CEO is doing, it is very hard to justify a compensation package that is 500-1,000 times what most of your employees get. However, when the CEO compares his (they're 97% male) compensation to his peer group, he feels justified in demanding such compensation. The problem is that the entire peer group is suffering from rampant greed. The control group has lost control.

Because greed is based largely on comparing one's position with others, its philosophy can be summed up as, "I need to win. You can win too, as long as I win more than you do." Greed is akin to running a race. I don't care if we all break the previous record, as long as I win the race.

Greed is before-the-fact. Greedy people want what they don't currently have. How far they are willing to go to get what they don't yet have is often restrained only by laws, and those are often ineffective to that end. With greed, the compulsion is to consume what you don't have.

We would all like to have a personal balance sheet that showed high assets and low liabilities. There are few outside incentives to create such a balance sheet, unfortunately. Our culture more greatly admires the expensive (and leased) car and the expansive (and heavily mortgaged) home. To break free of the emotions of money and to create finances and futures that we can be proud of will require moving against the current of our culture.

WHAT MAKES US GREEDY?

If you don't believe we're descended from monkeys, here's food for thought. In Southeast Asia for centuries there has been an effective way to capture monkeys, especially macaques. These monkeys are occasionally captured for amusement, but more often are killed by farmers because they are considered pests. A large coconut is used, and a hole about an inch and a half in diameter is bored into it. After the milk is drained, fruits and nuts that are attractive to the monkey are inserted into the coconut through the hole. The coconut is then placed in an area where it can be observed.

Before long a monkey gets the scent of the coconut's contents and checks it out. The monkey inserts its hand into the coconut and grabs a handful of the culinary delights. Here's the problem. While the monkey's hand can fit into the hole, the monkey's fist, especially when it is filled with food, cannot be pulled out of the coconut. At this point a human saunters up and throws a net over the monkey, and the monkey's fate is sealed.

Right now you are probably asking yourself why the monkey wouldn't just let go of the food, remove its hand from the coconut the same way it went in, and just run off. We know that these same monkeys, while chewing on a piece of fruit, will drop their food and run away from an overt threat, like a large stalking cat.

For some reason, they don't recognize that the coconut is a trap. Since they don't perceive the coconut as a trap, they don't think about extricating themselves from a trap.

We humans refuse to let go, just like the monkey. Despite the price to be paid for our desires, we continue to feed them anyway. We blithely stick our hand into the trap of greed, grab a handful, and then wonder why we can't escape. We know the present situation is dangerous. We know that it will all end badly if we don't do something differently. e know we have the ability to liberate ourselves, yet we choose not to. Aren't we smarter than that monkey?

All of economics boils down to one basic task – reconciling nature's limited resources with man's unlimited wants. Most of mankind's history has centered on the disparity between what we have and what we want. The best and worst events of our past have been the result of wanting what we didn't have.

The worst war in the history of humans, with more than fifty million killed, was the result of Adolf Hitler's lust for *lebensraum* (living room). Most of our inventions, like the internal combustion engine or the computer, were the result of the desire to do more work with less human effort. Even money, perhaps mankind's most significant invention, was created to facilitate trade, enabling everyone to have more.

If you live in a developed country, it is possible to have almost anything you want; it is only a question of whether the price is acceptable. A house painter can drive a Porsche if he is willing to sacrifice enough time, money, and other possessions to afford it. In short, almost *anyone* can have *anything*. This kind of economics isn't complicated.

Economics gets complicated because, while we can have almost *anything* we want, we can't have *everything* we want. Even people who are genuinely non-materialistic have unmet desires that money could satisfy. When *someone* wants *something*, it's a simple transaction between buyer and seller. When *everyone* wants *everything*, it's a mad scramble that tends to bring out the worst in everyone.

In free-market economies like ours, it's pretty easy to get a lot of what you want. That can be a two-edged sword. While you are able to satisfy many a desire, your desires only tend to increase the more they are satisfied. Satisfying desires can be like drinking ocean water. Drinking does not slake our thirst; it only intensifies it.

Possessions, and even possession itself, bring pleasure. Pleasure can be very addictive. Someone consumed with greed becomes addicted to the pleasure possessions and money bring.

Behavioral economics has been with us for several years now. Behavioral economics studies how humans deal with situations involving economics. It is the fusion of the hard science of economics and the softer science of psychology. Because we often do not act in a rational, logical manner when financial decisions are involved, behavioral economics looks at the psychological reasons why we make detrimental economic decisions, even when we know those decisions are wrong.

Neuroeconomics is a new, but growing, field. The Duke University Center for Neuroeconomic Studies defines it as "integrating the experimental principles of economics with the biological inferences drawn from neuroscience, together applied to the study of behavior." Neuroeconomics is the fusion of the very hard science of brain biology, the less hard science of economics, and the softer science of psychology. While Behavioral Economics has looked at what goes on in our *minds* when we make financial decisions, Neuroeconomics looks at what goes on in our *brains* when we make those decisions. By understanding what occurs on a *physical* level when we make economic decisions, we can better understand its *psychological* effect.

When we learn the physical reasons why we act in certain ways, we are better able to understand what is and isn't within our individual control. We are better able to understand how a physical action in the brain leads to a psychological response, which may lead to harmful actions.

For years, treating people for depression focused on the psychological reasons for their depression. This was often frustrating because there were often no obvious psychological reasons for the patient's depression. When medical science learned that an inadequate supply of the neurotransmitter serotonin in the brain was often the physical cause of depression, drugs were then developed to stimulate the production of serotonin in the brain.

There are two parts of the brain that seem to have a lot of impact on our financial decisions. The first one is the nucleus accumbens, which emits two neurotransmitters, serotonin and dopamine. Animals ranging from the roundworm to humans produce serotonin. Levels of serotonin have definite effects on behavior. Increasing serotonin levels in animals can increase dominant behavior.

In humans, there has been a strong positive correlation between serotonin levels and financial decision-making. This correlation has been demonstrated through a game called Ultimatum.

The Ultimatum game is a game often played in economic experiments in which two players interact to decide how to divide a sum of money that is given to them. The first player proposes how to divide the sum between the two players, and the second player can either accept or reject this proposal. If the second player rejects, neither player receives anything. If the second player accepts, the money is split according to the proposal. The game is played only once so that reciprocation is not an issue.

Logic would dictate that the second player should always accept the offer. After all, to reject the offer means to receive no money at all. However, the issues of greed, fairness, and reprisal often overcome logic.

If the offer by the first player is deemed insufficient by the second, the second player will reject the offer, if only to keep the first player from receiving an "unfair" reward. Participants in clinical studies who have had their serotonin levels lowered artificially will reject unfair offers more often than players with normal serotonin levels.

Such studies help reveal the connection between the brain's chemistry and our decisions about money. Low serotonin levels have been associated with depression and anxiety. Higher serotonin levels have been shown to increase appetites and not just for food. Higher serotonin levels create higher sexual appetites, as well as appetites for material goods and money. Lower serotonin levels can trigger indifference about money. Higher serotonin levels can trigger obsessions about money.

The nucleus accumbens is one of the oldest and most primitive parts of the human brain. It is sometimes referred to as the pleasure center. The highs that are experienced from sex, drugs, gambling, etc. all originate in the nucleus accumbens. The highs that come from acquisition and accumulation also originate there. The nucleus accumbens is the biological source of our greed.

When a pleasurable sensation stimulates the nucleus accumbens, it releases the chemical dopamine. Dopamine is the reason we feel that feeling of contentment/ecstasy. It isn't the act itself that creates a physically pleasurable experience. It is the release of the dopamine triggered by the pleasurable experience that does it for us. Without dopamine, your team winning Game 7 of the World Series with a walk-off home run wouldn't do much for you. With enough dopamine, watching paint dry can be the sensation-of-a-lifetime.

MRI studies of the brain have revealed that the pleasure center is where we also react to positive financial stimuli. The greater the potential gain in an activity, the more the pleasure center fires up. Depending on one's predisposition, getting a good deal on something can be every bit as stimulating as a drug or sexual experience. Our money-centered culture may also make us more susceptible to financial stimuli.

We all understand the allure of money. We all have a need of money. We all know of ways that more money can make our lives better. Our culture admires people who accumulate large sums of money. The universal allure of money is why more people are addicted to money than to anything else on earth.

Greed is nothing more than addiction to money. The acquisition and accumulation of money is stimulating, to some more than others. Wanting money doesn't make one greedy any more than enjoying a drink makes one an alcoholic, enjoying sex makes one a nymphomaniac, or losing weight makes one bulimic. As with anything in life, it is the degree of our desires and the lengths we will go to satisfy them that determines if we are normal or an obsessed addict, a slave to the secretions of the nucleus accumbens.

Have you ever seen someone who is both greedy and generous? My guess is probably not. There are many people who are rich and generous. Wealth and generosity are not mutually exclusive traits.

In brain studies conducted at Duke University, participants in a game that generated financial rewards were stimulated in the nucleus accumbens. When these same participants played a game where the financial rewards were for charity, a different part of the brain called the *posterior superior temporal sulcus* (PSTC) became active. The PSTC is the part of our brain that handles our social calendar. It takes care of such things as social relations and interpersonal bonding. The PSTC is the reason societies developed. The PSTC is also where our generosity resides.

The studies showed another interesting phenomenon. The nucleus accumbens and the posterior superior temporal sulcus cannot both function simultaneously. When one area is active, the other is dormant. The human brain has to make an either-or decision. It can be greedy or generous, but it cannot be both. In this either-or conflict, one side has a distinct advantage.

The greedy part of the brain, the nucleus accumbens has an inherent advantage over the generous part of the brain, the PSTC. The stimulation we receive from the nucleus accumbens in the form of dopamine is far more addictive than the pleasure we receive from altruism through the PSTC. We simply tend to get a bigger rush from greed than we do from generosity.

What's worse, the mere *possibility* of personal enrichment stimulates the nucleus accumbens even more than the actual enrichment does. In other words, the possibility of a $1,000 windfall is more exciting to the brain than the actual $1,000 windfall. Anticipation of financial gain for oneself steamrolls our generous nature before it ever knows what hit it. When the brain responds so dramatically to the mere possibility of gain, and because the brain can be greedy or generous, but not both, it's amazing there's *any* generosity in the world.

This disparity between the anticipated and the actual can have behavioral ramifications when incentives and rewards are used to motivate others, like children and employees. If an employer provides an after-the-fact reward for the most productive employee, the behavior of the employees doing the work has not been affected because the reward is announced after-the-fact. The employee earned the reward by devotion to high standards, not because of an inducement. The employer also appears generous in making the reward after-the-fact because there was no quid pro quo obligation.

However, if the employees are informed before-the-fact that there will be a reward to the most productive employee, as an inducement to improve productivity, there will be a different dynamic at work. The employer may appear greedy, rather than generous, by using the reward carrot to squeeze more work out of all the employees. Some employees may react to the incentive by letting greed get the better of them. They may work harder, but some may also subvert their fellow employees' productivity in the hopes of gaining a relative advantage. While the after-the-fact reward recognized the best traits of the employees, the before-the-fact incentive may bring out their worst.

Understanding how our brain functions in the realms of greed and generosity helps us to understand why we react in certain ways in certain situations. For example, have you ever donated blood? Have you ever sold blood plasma? From the perspective of the final recipient of the blood, it doesn't matter whether the blood was donated or sold.

If you have been a blood donor, you may have a negative reaction to the idea of selling your blood. Your generous side is in firm control of your greedy side, at least on this issue. That may also be in part because the fee for selling a pint of your blood plasma is about $50. Most of us feel that the good feeling we get when we donate blood is worth far more than the $50 we would receive if we sold that same blood instead.

What if the financial compensation for selling a pint of blood rose from $50 to $1,000? How willing would you be to give away a pint of blood that now had a "street value" of $1,000? (A study of 400 college students who sold blood plasma for $9 to $20 found that 60% of them had previously donated blood, but stopped when they started getting paid.) If you donated a pint of $1,000 blood, how would you feel afterward – exploited, cheated, suckered? How upset would you be if you found out that the recipient of your blood was charged hundreds of dollars for it?

When the price gets high enough, our greedy side can overwhelm our generous side. I may be willing to give away $50 worth of blood, but not $1,000 worth (even though they are the exact same amount in this example). The anticipation of a quick grand for a renewable bodily fluid squashes a lot of altruistic urges. Once my brain adjusts to the idea that my blood is worth $1,000 a pint, it may never readjust to the idea that my blood is a donatable commodity.

Somewhat paradoxically, even though the greedy side has a biological advantage over the generous side, it takes more to fire up the greedy side. Studies conducted in Israel and Switzerland have shown that the threshold to trigger the PSTC, your altruistic nature, is fairly low.

When we think of psychology, we think of Sigmund Freud, the father of psychoanalytic thought. Freud's structural model of the psyche defined three main parts of our psychiatric apparatus – the id, the ego, and the superego.

The *id* makes us little more than a selfish animal. The id is all about seeking pleasure and avoiding pain. The id is amoral and egocentric. The id is illogical, infantile, and doesn't like to hear the word "no". Freud called the id "the dark inaccessible part of our personality…a cauldron full of seething excitations." The worst aspects of human beings reside in the id. If the nucleus accumbens is greed's physical address, the id is its psychological address.

The *ego* seeks to please the id, but in realistic terms. The ego cares about the long-term consequences of one's actions in a way the id never could. The ego is where conscious awareness resides, where fantasy is separated from reality, where primitive drives and reality reach a compromise. In Freud's words, "the ego represents what may be called reason and common sense, in contrast to the id, which contains the passions." The ego spends its life trying to find a happy medium between the id and the superego.

The *superego* works in contradiction to the id. The superego cares about what is socially acceptable; the id just wants to gratify itself. Our conscience resides in the superego. The superego is the psychological manifestation of the posterior superior temporal sulcus (PSTC). Your superego is what makes you a good person and a credit to the human race.

A newborn child is the id personified. The process of maturing as humans is basically the process of developing our ego and superego, and getting our id under control. The two favorite words of a toddler are "No" and "Mine", usually with an exclamation point at the end. The toddler uses "No" as defiance against authority when the child is directed to act in a way that is not totally selfish and id-driven. The toddler uses "Mine" as a monosyllabic expression of greed, which is driven by the id.

University of Pennsylvania psychology professor Angela Lee Duckworth defines *self-control* as the ability to negotiate a situation in which there are two choices; while one is superior in the long run, the other is more tempting in the short run. Self-control is an aptitude that develops over a lifetime. Self-control is one of the hallmarks of maturity. A child needs to have limits in place to control overindulgence. Without limits, children will try to eat all their Halloween candy in one night and throw a temper tantrum when they are not allowed to do so.

Behavior that exhibits a lack of self-control is common for children because their brains are still under construction. The pre-frontal cortex is the part of the brain that enables human beings to control impulses and delay gratification. The pre-frontal cortex develops more slowly than other parts of the brain. The parts of the brain that generate emotion and impulse are up and running almost from birth, but the pre-frontal cortex is not fully developed until a person is typically in his/her mid-twenties. For some it may be as late as their fifties.

In the brain, high levels of cortisol are released during stress exposure, even during fairly mild psychological stress. Research on monkeys and rats has shown that cortisol released in large doses into the pre-frontal cortex during stress inhibits both the function and the development of the pre-frontal cortex. Stress that the subject has no control over (externally induced situations, like loud noises) inhibits function and development more than internally induced situations, such as making the big play for your team.

This research indicates that a young person who suffers stress from deprivation may have an underdeveloped pre-frontal cortex, which will make it more difficult to control impulses in adulthood. Someone who grows up in poverty may become greedy in adulthood in part because the part of the brain that helps control such impulses never fully developed, in large part because of the stress of growing up in poverty.

When you understand how the brain is designed to reward selfish behavior through pleasure and when you understand how the mind begins with the id and only develops the ego and superego out of necessity, it’s easier to comprehend why greed so dominates the lives of so many. We’re hard-wired that way and total self-absorption is our modus operandi the minute we emerge from the womb. Millions of years of evolution have built these traits into us as a survival mechanism.

Greed is a survival mechanism. One merely has to look at the animal kingdom for evidence. Large predators often steal food from smaller predators after the smaller predator has tracked it down and killed it. The large predator doesn’t have to be hungrier than the smaller one; it doesn’t even have to be hungry. If there is food for the taking, the strongest will take it, and the others be damned. Wanting and taking more than your fair share is the definition of greed. The animal kingdom is full of it.

When we witness human greed, it isn’t all the same all the time. There animals and humans whose greed actually stems from fear. Think about those animals that have a propensity to horde food.

Many years ago we got a Sheltie puppy. She was the runt of the litter of two small parents, and her first months were spent on a puppy mill. This dog likely never got her fair share of food during that period. When she came to live with us, we soon discovered she would hide food all over the house. She never went without. There was always food in her dish, and there was no competition for the food. She was our beloved pet for over seventeen years, and for all that time she was a food hoarder. She could never overcome her fear of being without, despite a lifetime of abundance.

Greedy behavior may have short-term benefits to a person, but its long-term effects are almost always negative. One of the definitions of self-control is the ability to give up something good now for something better later. Greedy behavior is just the opposite. Greedy behavior exacts a price far greater than the person exhibiting the behavior imagines at the time.

People focused on acquiring and accumulating material wealth deny themselves the opportunity to see what lies beyond material wealth. In American culture, we are constantly bombarded with messages that all which we seek can be found through possessions – the right clothes, a big house, an expensive car, even a large investment portfolio. Marketers have become very good at convincing us that nice-to-have and need-to-have are the same thing. The more susceptible we are to such messages, the more susceptible we are to greedy behavior taking over our lives.

Greed makes us shallow, or more accurately, greed impedes our ability to become a deeper person. Greed squeezes out those pursuits in life that are hard to quantify in dollars and cents, that can't be boiled down to a bottom line. Greed also is an addiction that requires an ever larger hit to get a proper rush. As greed takes over a person's life, it takes more and more while giving less and less in return. Greed is a parasite, a bad investment.

Even more significant, greed isolates us from our fellow human beings. You cannot serve greed and your fellow man. This limitation does not mean you can't do well and do good at the same time. I would argue that the only way to do well in the long run is to do good for others.

Greed is taking more than you need, more than you deserve, more than your fair share. One cannot do that to fellow human beings and not have to pay a price. The price may be one's own self-loathing. At the very least, the price includes the loathing of others and the loss of the bonds that all humans need to be fully human.

There are many physical and psychological causes for human greed. Greed, such as it exists in the animal kingdom, helps promote the survival of an individual animal and thus, the species. Human society is far more complex than anything in the animal kingdom, though.

When we allow ourselves to care more about things than we do people, when we allow the nucleus accumbens, the pre-frontal cortex, dopamine, and the id to call the shots for us, we become worse than animals, since they don't know any better. Greed makes one less humane, and less human.

GREED AND MONEY

Money performs three main functions. Money is first and foremost a *medium of exchange*. Before the invention of money, all trade was based on the barter system. The barter system has several limitations. The first limitation is that both parties must have an item that the other party wants. If I have deerskins to trade for corn, I can only conduct business with someone who has corn and wants to trade it for deerskins. Potential trading partners are severely restricted under the barter system. When money enters the system, both parties can exchange their goods for money, then exchange the money at a later time for needed goods.

People can exchange goods for money because money is a *store of value*. If I exchange my deerskins for silver coins instead of yellow corn, I can be confident that those silver coins will retain their value until I'm ready to exchange them for something I need, whether I make that exchange in a day, a month, or a year. Unlike most of the goods that are offered under a barter system, money is not perishable and has no expiration date.

Lastly, money is a *unit of account*. The first coins minted in ancient Lydia had a value assigned to them. By accepting those coins in trade, a person also accepted the unit of account of that coin. We view money the same way today. We know that a dollar is a dollar today and will be so tomorrow. The price of an item may fluctuate, but the unit of account of a currency is unchanging.

Money is, above all else, a *tool*. Money is the purest form of the tool. All economic transactions are based on my wanting something that someone else has and that someone else will give me what I want if I give them something I have that they want. Money is the perfect tool for facilitating economic transactions because money is something that *everybody* wants.

A tool is not an end, but a means to an end. One does not acquire tools merely to possess them. Tools are of no use unless they are put to work for the purpose for which they were created. Buying a room full of exercise equipment will not get you into shape. It is only the use of the exercise equipment that will get you into shape.

A tool is most productive in the hands of those most skilled in its use. Money, like all tools, requires proper training in order to use it safely and productively. As the purest tool, money's ability to create the desired ends, when used properly, is unrivaled. However, when used improperly, those same characteristics that make money such a marvelous tool also make it a most dangerous weapon. Money serves both vices and virtues without distinction.

Money, like all tools, is amoral. Money is not good or bad. Money can be used for good or bad purposes, but its use or misuse is determined by the user of the tool, not the tool itself. The Bible does not say that money is the root of all evil. It says that the love of money is the root of all evil. Love is a human trait that a tool cannot possess. A tool like money cannot be the root of all evil because a tool can be neither good nor evil.

Money as a tool has the greatest possible number of unpredictable uses. People will exchange almost anything for money, and money can be exchanged for almost anything. Money's universal acceptance makes it even more valuable than the goods and services for which it is exchanged because money is more universally desired than any good or service.

Money flows to where desires are strongest. Money is therefore valued at any given moment at what its owner most strongly desires. An economic transaction can evaporate as quickly as a buyer's object of desire changes. The owner of money is almost always in a superior position over the owner of a commodity because the market for any good or service is limited, but the market for money is not. The only time money takes an inferior position is when the commodity is a necessity in limited supply, like water in a desert. Except in such unusual cases, it is a buyer's market.

Money is a valuable tool in a way that is unique from other tools. For most tools, value to its owner is derived from its possession and use. Money is different because value to its owner is derived not because of its possession, but by the fact that its owner is willing to relinquish possession.

For example, a man is known to be worth $10,000,000. That man will have no shortage of people wanting to sell him all sorts of goods and services. He will have a great deal of leverage in negotiations if he indicates a willingness to relinquish possession of some of that ten million.

On the other hand, if his $10,000,000 is in a trust, and he is limited to only $100,000 per year, the money sitting in the trust is like a tool locked up in a toolbox, with no key to be found. His inability to relinquish possession limits his ability to use the restricted money as a tool.

Tools are used to transform our environment. They're used to grow food and prevent starvation, to build homes and make clothing, to protect us from the elements. Tools are used to make our present situation better. Much of what we make with our tools decays over time, and many of the tools themselves eventually become obsolete.

Money's effectiveness as a tool does not decline over time. Money in the future will be just as desired and just as useful as it is today. This consistency of value makes money a tool uniquely capable of shaping the future. Our ability to send money into the future and to direct how it is to be used creates an ability to exert control in the future, even though we may not be living in it.

Money has become the chief tool of contact with the outside world. In the past, when life was simpler, a person's contacts with the outside world were limited. The outside world rarely extended beyond one's own village. After the family, contacts were made primarily through the church and through one's occupation. Contact with strangers was rare. Money was important then, as it is now, but money played a secondary role in human interaction. Even business transactions had the goal of being mutually beneficial, not of merely making a buck. Cheaters were ostracized from society, which was far more devastating then than today.

In Western capitalist cultures, the primary method of dealing with others is through money. In these cultures, social norms have been overtaken by market norms. Social norms are based on old-fashioned values like protocol, courtesy, and tradition. Market norms are based on the bottom line.

Your own family dynamic probably centers on money a good bit, probably more than you would like. Money, or the lack of it, can affect how you and your spouse treat each other and how you treat your children.

You work to earn money. You may like the people you work for and with, but money can change those relationships quickly. If you don't get a raise you think you deserve, your feelings toward your boss can quickly sour. If you find out a colleague is making considerably more than you are, it is hard not to be resentful of the disparity in compensation.

You probably spend a good bit of time each month paying bills – lots of bills. Sadly, many Americans have more creditors than friends. You may be addressed as a friend on the invoice, but if you don't pay on time and in full, you can expect to be treated more like an enemy.

Over the course of a month, when you count the number of purely social contacts and compare it to the number of market contacts, the number of market contacts is probably higher. (If money is any factor in the contact, it's a market contact, even if there is a social element. Market trumps social.)

Money becomes a substitute for social interaction. If it is easier to write a check than to get personally involved, most people will choose to take that path. Because a church or a charity will gladly accept a financial contribution in lieu of personal involvement, it is easier to give money than to give of ourselves.

Often we justify such actions by making mental calculations of the hourly value of our time and then giving a similar amount. Given the choice of spending a Saturday afternoon on a clean-up project for a charity, or giving $100 instead, most prefer to give the money if they can afford it. Of course, the sense of satisfaction is much greater for the former than the latter, and personal involvement affords an opportunity to create new social relationships.

Money has become the primary tool of measurement in our culture. Unfortunately, this practice includes how we measure someone's worth, including our own. *The Forbes list of Wealthiest Americans* is one piece of evidence of this practice. We may know in our hearts that a school teacher is more important to society than a hedge fund manager, but when a hedge fund manager makes more in a year than *twenty-thousand* teachers, it's hard to sustain such a belief.

Money encourages the comparing of incomparables. It is difficult to compare a firefighter and a professional baseball player. Firefighters risk their lives to save lives and property. Baseball players hit a ball with a stick. If baseball players all disappeared, we would lose a form of entertainment, nothing more. If firefighters all disappeared, our cities would eventually be in ashes.

When you constantly receive the message that your worth as a person is equated with your monetary worth, it is difficult not to get sucked into that mindset. If a co-worker is making more than you are, you demand more money, not out of greed, but out of pride. You begin to want more money as a validation of your worth as a person.

The Seven Deadly Sins are pride, lust, gluttony, envy, sloth, wrath, and greed. There are also Seven Virtues that exist to oppose each of the sins – humility vs. pride, chastity vs. lust, temperance vs. gluttony, kindness vs. envy, diligence vs. sloth, patience vs. wrath, and charity vs. greed. All of the Seven Deadly Sins and their corresponding Seven Virtues can be considered in relationship to money.

Money was not created to facilitate greed. Money was created to facilitate trade. Increased trade enabled everyone to have more material goods at a time when no one had too much of anything. Ancient Lydia, where money was born, was the first empire created through trade, not conquest. Lydia got rich by creating wealth, not by taking it from others.

Money makes it so much easier to act on our greed. There are several characteristics of money that make it useful in feeding greed:

- *Money is compact.* One can be incredibly greedy and become incredibly wealthy without making it obvious to the outside world. We are used to displays of ostentatious wealth, often by people who have no actual wealth. Money can enable someone to be greedy without leaving evidence of the greed. A person could be worth $100,000,000 and have an annual income of $10,000,000, yet the only evidence of that wealth might be a few investment reports and bank statements. If it is one's interest to be low-key about one's greed and the fruits of it, money is the perfect tool.
- *Money is anonymous.* Anonymity combined with compactness makes stealth wealth possible. It isn't necessary to have a Swiss bank account to enjoy the anonymity of money. Investment and bank accounts are not matters of public record, unlike other items like real estate holdings. Trusts are set up often with the intent of keeping wealth a secret. Even cash gives no clue as to its owner. Money doesn't reveal its owner or even its existence, which is another valuable trait when someone is trying to avoid attention to his/her greed.
- *Money is precise.* Greed is often stoked by competition. Competition to have the most is the most obvious example. Money's precise value makes it easy to know at any point in time exactly what you have and how you stand in comparison to someone else. Other assets may be hard to value, or have their values fluctuate without rhyme or reason. When you're keeping score, which the greedy tend to do, money is the best tool for keeping an accurate score.

- *Money is portable.* Cash is certainly more portable than most items of comparable value. But cash is cumbersome compared to the recent development of cyber money. With the click of a mouse, money can be moved from anywhere to anywhere, from anyone to anyone. This portability can help the greedy person take advantage of an opportunity, move money away from prying eyes, and also make it easier to take what belongs to another easily and often anonymously.
- *Money is respectable.* When you become rich enough, people tend to ignore the source of your wealth. Honore de Balzac claimed that “Behind every fortune lies a great crime.” Greed has little patience. It causes a person to cut corners and follow the path of least resistance in acquiring wealth. Yet, once sufficient wealth is accumulated, money can be used to buy respectability from others, if not from one’s self.
- *Money is universal.* Everybody knows it; everybody needs it; everybody loves it. Money is the best tool for getting more money because people are so lured by it. Because money and greed are both so universal, one of the most sure-fire ways to get rich without earning it is to appeal to the greed of others. By tapping into the universal greed for money, one can easily and successfully satisfy one’s own greed.
- *Money is insulating.* Greed is often the result of a desire to protect and isolate oneself from the outside world. You’ve heard the term “buying protection”. With sufficient wealth, you can buy protection from poor schools, boorish neighbors, unreliable transportation, mediocre health care and anything else that gets on your nerves.

- *Money is multi-faceted.* Even if I acquire money in a less-than-ethical manner, and use it in an equally less-than-ethical manner, I can still avoid being tainted by my actions. As long as I make a public display of charity with some of my ill-gotten gains, the public will tend to look the other way about the source and use of the rest of my funds. My "good money" provides a halo effect over my "bad money."

INFLUENCES ON GREED

"I had to have it."

This tag line is from the advertising campaign for Sarah Jessica Parker's perfume line called, not surprisingly, *Covet*. In the TV commercial, Ms. Parker expresses the line at the beginning and the end. In between, she breaks into a store in the dead of night and is arrested for trying to steal the coveted *Covet*. She seems unremorseful for breaking and entering. Even as she is hauled away she implores the officer for a spritz of the perfume. The print ads are slightly more subtle, though the tag line is the only copy in the ad. The bottle of perfume in all the advertising is at least a half-gallon in size. The actual retail size is a more modest 3.4 ounces.

The *Covet* packaging describes the fragrance as "A stunning blend of fresh green notes, gorgeous florals and sensuous woods that instantly draws you in and won't let you go." The packaging is also required by law to list the ingredients, which include:

Ethylhexyl Methoxycinnamate, Hydroxycitronellal, Methoxydibenzoylmethane, Ethylhexyl Salicylate, Benzophenone 3, Hydroxyisohexyl 3 Cyclohexene Carboxaldehyde, Limonene, Butyl Geraniol, Linalool, BHT, Propylene Glycol, Coumarin, Isoeugenol, Octylacrylamide Copolymer, Hydrolyzed Jojoba Esters, FD&C Yellow 5 (CI19140), D&C Green 5 (CI61570), FD&C Yellow 6 (CI15985).

It would be nice to believe that modern science has progressed to the point where scientists can take a mélange of potential carcinogens and convert it into "fresh green notes, gorgeous florals and sensuous woods" that is also perfectly safe to smear on your skin. What's more believable is that modern advertising has become such a science that advertisers are able to package and market those unpronounceable ingredients in such a way to make women covet it, or at least to pay $68 for 3.4 ounces.

Charles Revson, the founder of Revlon said, "In the factory we make cosmetics; in the store we sell hope." Like other successful captains of industry, Revson understood that making a good product was no guarantee of success in the marketplace. Making a bad product could be a major impediment to success, but a good product alone might also fail. Products need to be marketed as well as manufactured. Advertising is what turns a list of chemicals into a coveted fragrance. Manufacturers create products. Advertising creates *desire* for products.

The average American is exposed to 500 to 1,000 advertising exposures per day. This number includes all sources - everything from TV commercials, billboards, print and internet ads, to logos on products from cereal boxes to sandals.

Such constant bombardment has two effects. Because there are so many messages flying around, a very small percentage of them make much of an impact. The other effect of this bombardment is that it becomes impossible to avoid having some of the messages get through. If only 2% of advertising messages get through, that's still some 15 messages a day and over 5,000 messages a year that can't help but affect your behavior.

The web site funmarketer.com offers tips on how to get people to buy your product, whatever it might be. One Fun Marketer lesson of the week answers the question: *"Should I use greed or fear in my ad copy?"* (The question assumes one should use either/or, but never neither.) The given answer is: *"Often you can combine Greed and Fear into a one-two punch that is just about unbeatable. It is fast and it works. A powerful formula is to leverage the offer to play on Greed (2 for 1, fifty percent off, etc.) and then have the Call to Action push the Fear button. This is a powerful, tested formula. The best copywriters and retail salespeople use it all the time."* If your greed button is easily pushed, an awful lot of those 500 to 1,000 marketing messages you encounter every day are pushing it.

Much advertising is designed to build brand recognition as much as it is to sell a particular product. Companies recognize that developing brand loyalty is a slow process and that there is a lot of competition for your attention. Coca-Cola is the most recognized corporate logo in the world, but such recognition didn't happen overnight. Coca-Cola has been around as long as modern advertising has. They were one of the first companies to recognize that brand loyalty begins with brand recognition. Many of the 500 to 1,000 messages you see every day aren't designed to sell you something immediately. These messages are designed to get you familiar and comfortable with the brand. Once that familiarity develops, you become much more receptive to more overt attempts to sell you something.

A few years ago, Mercedes-Benz produced a 30-second television commercial for its spectacular sports car, the SLR. Over its seven-year production run, only 3,500 SLRs were produced. Toyota produces that many Corollas in a *day*. One reason for the low production is the high price - $495,000. For the price of one SLR, you could buy about two dozen Corollas.

To afford a car like the SLR, you need to be in the top 1/10th of 1% of all income earners. In other words, 999 out of 1,000 potential viewers of that commercial have absolutely no chance of ever owning such a car. The commercial makes even less sense when you consider the wealthy watch relatively little TV, which is one reason why they're wealthy. From the standpoint of effective placement of advertising, it would make more sense to run a *Covet* ad in *Field and Stream*.

What was the purpose of producing a television commercial for a product that needed only 500 customers worldwide per year?

Mercedes-Benz never produced that commercial with the expectation that it would help sell a single SLR. That commercial had two purposes. The first purpose was to put the Mercedes-Benz name in front of you in a way that makes you feel that no one builds a car like Mercedes-Benz builds a car. The second purpose of that commercial is to get you thinking about the *other* Mercedes-Benz cars. For the mere equivalent of the sales and gas-guzzler taxes on the SLR, you can own the entry-level Mercedes.

After seeing the SLR commercial, you should feel that Mercedes-Benz makes one hell of an automobile. Second, you should feel that the more mainstream Mercedes-Benz cars are excellent cars for the money. Seven Mercedes-Benz models sell for less than 1/10th the price of the SLR. How could they *not* be great bargains?

Other luxury carmakers like Lexus, Cadillac, BMW, and Jaguar also advertise heavily on television. Even though they know that qualified buyers make up only a small percentage of any television audience, these companies also know that they can reach a larger raw number of potential buyers through television than through any other medium. The efficiency in raw numbers, not the efficiency in percentages, is what is attractive.

But what about the commercials' effects on the 90-95% of a television audience that has no business buying the luxury car being advertised? One effect that is fairly benign is that the advertising does increase brand recognition by the general public, which is one of the goals of advertising. Some of the audience that can't afford a luxury car now will be able to afford one in the future. Those television commercials can lay the groundwork to get that viewer to choose a particular brand when the time comes.

There is a more insidious effect, though. When you see a commercial for a Lexus while watching a ball game, you don't stop to contemplate the audience demographics. Lexus wouldn't throw money away by advertising where there were few potential customers. Therefore, you must be a potential Lexus customer. Otherwise, they wouldn't be running commercials during your ball game. Lexus has justified your purchase of their car.

Before the creation of broadcasting, people were much less exposed to advertising for products they couldn't afford. Advertising in newspapers and magazines and on radio was typically for affordable products like soap or cigarettes. Packard automobiles would be advertised in high-end magazines like *Town and Country*. The masses weren't tempted by advertising into thinking they should have goods that were beyond their budget.

After World War II, with the introduction of television and a booming post-war economy, advertising focused on stoking desire that had previously been dormant. An emerging middle class was being offered more and more consumer goods. They were also being told in advertisements that social status was directly connected with the brand of car they drove, the brand of lipstick they wore, even the brand of beer they drank.

The growth of the suburbs during this same period also changed the social fabric. The old urban neighborhoods consisted of people with similar ethnic, religious, and economic backgrounds. This homogeneity fostered a sense of community and of cooperation between neighbors. When these people started moving to the suburbs, they became more spread out, not just in population density, but also in their similarities. The one thing they all had in common in the suburbs was a desire for a better life, at least in terms of having more material goods.

For a while after moving to the suburbs, it was easy to think back to the old neighborhood and feel good about how far you'd come. However, after a while the connection with the old community would fade, and you would start looking at your new neighbors for reference points. Your new home might be twice the size of your old one, and your car might be five years newer. Yet, if your neighbor got a new swimming pool or a new car, the pleasure of your home and car could fade in a hurry. Neighborhoods were replacing a sense of community and cooperation with a sense of competition.

Americans are suckers for *positional goods*. Economist Fred Hirsch defines positional goods as those that cannot be made universally available because of natural or man-made scarcity. Beachfront property is a positional good because the natural supply of it far exceeds the demand. The Mercedes-Benz SLR is a positional good because its supply is very limited by the manufacturer. In both examples, high prices assure that only a rarified few will obtain these items.

The ownership of positional goods conveys status because the ability to attain them is dependent on one’s position in society. It is their exclusivity, more than their quality, which makes them so attractive. When the prevailing sentiment in a neighborhood is one of competition, rather than community, positional goods are where the game is played. When a neighbor ups the ante with a new Mercedes, the competing neighbors have to ante up too, or admit their inferiority by keeping their current car.

Americans are so competitive by nature that we’re an easy market for positional goods. This competitive nature has been exploited by marketers to get us to buy products based on status rather than utility. The easiest items to market in this manner are those that most readily convey status – a large home in a gated subdivision, an imported luxury car, membership in a private country club, or vacations in the most exotic destinations.

The constant bombardment from advertisers to buy this or that product, plus the constant competition to maintain status symbols, is enough to cause you to spend yourself into financial ruin. It is possible to gain control over your spending by tuning out the advertising messages and ignoring your neighbors and their status symbols.

Investment performance is one area of finance where everyone seems to judge success by how their performance compares with something else. That something else may be their neighbor’s investments, an index like the S&P 500, or almost any and every alternative investment. Even when a person’s investment portfolio is meeting expectations and growing at a rate necessary to meet goals, all it takes is to hear about someone or something making more to create a feeling of discontent and prompt that person to make changes that almost always have a cost in the long run.

If you are comparing your investments to some other investment that is performing better, the first thing to consider is whether you are comparing apples to apples. If you have a well-balanced portfolio of mutual funds, you cannot expect to match the performance of the best-performing stocks of the period. Investments that provide the potential for greater returns also have greater risks, meaning the potential for disaster is greater, too. Very often, the comparison of disparate investments is less an apples-to-oranges comparison and more akin to an apples-to-golf clubs comparison.

Even if you are comparing apples to apples, it is harmful to compare your investments to the top performers in that category every quarter. If there are 1,000 mutual funds in a category and if you only compare yours to the top performers, you are guaranteed to be disappointed. Also, the top performers change constantly, and moving money to the recent high-flyer usually results in even worse performance going forward. If you start expecting to be in the top 10% all the time, that greed is likely to lead to below-average performance.

As you've already read, greed is one of the most lucrative emotions for salespeople to exploit. Whenever you hear about a scam artist, the one common thread running through every case is the greed of the victims. The promise of well-above-average returns (that are "risk-free", too) has an amazing power to destroy all common sense in otherwise sensible individuals. Even legitimate investment salespeople selling legitimate investments will tap into a prospect's greed by touting those investments that have had the best recent performance. The fact that such an investment is likely to be an underperformer in the future is not disclosed by the salesperson. The customer's ability to contemplate the possibility of underperformance has been squelched by greed.

Your friends, neighbors, co-workers, relatives, and golfing buddies are no help, either. How often, when you gather with any number of these people, does someone start talking investments in order to brag about a recent success? For most people, it happens with annoying frequency.

There are two things to remember when someone starts bragging about their investment success. First of all, they may be lying. Unless the braggart can show you statements proving he/she bought low and sold high, it is in your interest to remain skeptical. Second, even if the braggart is telling the truth about a particular investment, you are not getting the whole story. Bragging is easier than confessing. There may well be the stock that doubled in a month, but there are also the unmentioned stocks that lost half their value in a month. These types of stock discussions are like icebergs. You are only getting 10% of the whole picture, and the hidden 90% is what will sink you.

Investing is not a competitive sport. Your investments exist to serve you. They do not exist to beat someone else's investments or to boost your ego by winning some imaginary competition. If your investment goal was to earn an 8% return and if your portfolio was earning 10%, you'd be happy. However, when your brother-in-law came over for Thanksgiving and started to brag that he's earning 12%, you suddenly became unhappy with your

10% return. You made changes that he recommended, but because you didn't consider that his higher returns involved higher risk, you are now in worse shape than if you'd stuck to your original plan. Also, you and your brother-in-law are no longer on speaking terms.

Comparison creates envy, which triggers greed. When we see others who have more, we want more, and wanting more than is fair or necessary is the definition of greed. The less we let outsiders with their own agenda influence our financial decisions, the better our financial decisions will be. When we listen to outside influences, we spend money for things we don't need and that won't make us happy. When we listen to outside influences, we make investment decisions that disconnect from our own goals and risk tolerances, leading to financial setbacks and sometimes financial ruin.

There is one group in America that has consistently managed to avoid the negative influences of advertising. This same group has also managed to avoid the temptation to compete with or compare themselves to their neighbors with symbols of social status. This group seems impervious to outside influence. They decide what is important in their lives, and they don't worry if others disagree. Who is this group? They are America's wealthy.

In the milestone book, *The Millionaire Next Door*, the authors list seven common denominators among those who successfully build wealth. Three of the seven are relevant to our discussion. The first factor is that the wealthy live below their means, and frugality is practiced ardently. Frugality is the opposite of wasteful, which the authors define as a lifestyle marked by lavish spending and hyper-consumption. Falling for the message of advertising and getting drawn in to a competition for status is guaranteed to lead to wasteful behavior, which is guaranteed to move you further from wealth.

The second common denominator among the wealthy is they are efficient in their use of time, money, and energy, which they use efficiently in building wealth. The wealthy know that watching a lot of TV is a waste of time, so they are not subjected to as many TV commercials. They know that the cheapest car is the one they already own and that spending $60,000 on a car that won't be worth half that in three years is a waste of money. When everyone else is engaged in activities that make them poorer, the wealthy are engaged in activities that make them richer.

The third factor is the one that really drives the message home. The wealthy believe that financial independence is more important than displaying high social status. The wealthy live in nice homes, but they typically live in neighborhoods where their neighbors have lower incomes and a much, much lower net worth. The wealthy are not obsessed with wealth. The wealthy have a strong desire to rule their finances, not to have their finances rule them.

The wealthy are, with few exceptions, not greedy. They are good at making money, but they are great at spending less than they make. Most of us use the desire to spend more as a motivator to earn more. Our income is always playing catch-up to our desires. The wealthy have their desires are in check, so they don't have to work any harder than they want to. When they do allow themselves an indulgence, it is usually a reward for reaching a goal. They don't treat themselves to something they haven't yet earned.

One of the characteristics of the wealthy is they are consistent. One of their consistencies is that they don't change their reference groups as their wealth increases. Most of the wealthy in the U.S. have lived in the same house for over twenty years and have been married only once. They stay in touch with the same people they knew before they became wealthy, and that contact helps the wealthy stay grounded.

The wealthy don't mingle with the affluent because the affluent spend what they don't have, while the wealthy don't spend what they do have. These two groups have nothing in common. The affluent are a fraud; the wealthy are the real thing.

HOW MUCH IS ENOUGH?

While garage sales statistics are hard to come by, it is safe to assume that the United States leads the world in garage sales. After all, we lead the world in the number of garages, so it's logical to assume we lead in garage sales as well.

Over one-fourth of all Americans are members of Ebay. At any given time, there are from fifteen to twenty million items up for auction on Ebay.

We sure own a lot of stuff we don't want anymore. Many of the items for sale at garage sales and Ebay are items that the seller no longer needs. Many of the items were bought to fulfill a want, and now that want no longer exists.

Shoppers at garage sales tend to be different from shoppers on Ebay, though many people certainly do both. The shoppers at garage sales are often lower in socio-economic rank than the sellers. They are interested in bargains, not status. Garage sale shoppers are looking to fill a need, not a want. They also drive a hard bargain.

Shoppers on Ebay are more often shopping for items they want, not items they need. They are typically higher income earners than their garage sale shopper counterparts. They usually pay by credit card. They also are not price sensitive. Shoppers on Ebay bid against each other. This bidding can get emotional.

Garage sales and Ebay might give the impression that Americans might be toning down their desire for possessions. However, the total amount of goods is unchanged; they merely changed hands.

The number of items sold at garage sales, flea markets, estate sales, and online auctions is huge, but it is a minute fraction of the total possessions of Americans. About the only people who intentionally downsize are older people whose circumstances change and who downsize in retirement.

Over the last fifty years, inflation-adjusted per capita American income has more than doubled, meaning that the average American has twice the purchasing power of his/her grandparents in 1960. Of essential goods and services, only health care and college education cost more now in work-hour terms than they did in 1960. Household wealth has also more than doubled in the last fifty years, even after adjusting for inflation.

In the last fifty years, the average house has grown by 50%, from 1,400 to 2,100 square feet. At the same time, the average number of people living under that roof has declined from 3.9 to 2.6. In 1960, the average American had 359 square feet of living space; today the average is 808 square feet. By contrast, the average Japanese has barely 300 square feet; the average Russian, less than 200.

Americans have made tremendous progress in the growth of material wealth, as individuals and as a nation. Despite all the crises of the last fifty years, we are twice as rich now as when John Kennedy took the oath of office. Such economic progress, which was built on an already high base, should rightly lead the people to feel a sense of comfort, satisfaction, security, and well-being that could have hardly been imaginable just a few decades ago. We should feel that way, but we don't.

The World Database of Happiness has been measuring the happiness of countries around the world since 1946. The scale is a fairly simple rating of 1 to 4: 1 = not at all happy; 4 = very happy. In 1960, the mean happiness in the U.S. was 3.38. In 2014 (the most recent year for available data) the mean happiness was 3.42. Despite a doubling of household income and household wealth, despite a decline in the poverty rate from 22% to 14% of the population, despite safer and better working conditions, despite all the economic improvements, we are not, as a nation, any happier than we were almost sixty years ago.

These stagnant ratings do not mean we are an unhappy country. Scoring 3.4 on a scale of 1 to 4 is good. Here are some scores from other countries: Great Britain 3.42, France 3.26, Italy 3.08, Argentina 3.10, Australia 3.28, Canada 3.40, Finland 3.21, India 3.03, Mexico 3.49, Poland 3.13, South Africa 3.12, South Korea 2.99, Japan 3.19, China 2.89. It’s worth noting that Mexico, one of the poorest countries on the list, has the highest score. China and South Korea, on the other hand, have the only scores below 3, despite having two of the fastest growing middle classes in the world.

One thing we can learn from such a survey is that happiness and material wealth do not move forward together. Material wealth does not bring greater happiness, although countries with very high poverty rates do have lower happiness scores. Once individuals or a country reach a level of having their basic needs met, more wealth does not make them happier. Because so much of our spending on material goods is actually an attempt to buy happiness, it is important to know objectively and historically that it doesn’t work.

There are a lot of responsibilities that come with ownership. There is the initial investment, which needs to be protected. To that end, we obtain insurance. Many of our possessions require regular maintenance and occasional repair, which means devoting time to those tasks or hiring someone else to perform them.

Possessions require space, which entails the expense of purchasing, insuring and maintaining the space for those possessions.

There is the opportunity cost associated with each possession. For every item we own, we forego the opportunity to own something else because our resources are not unlimited. We also pay an opportunity cost in time. Every minute that is spent earning money to buy, protect, and maintain an item, as well as every minute spent using an item, is time that can never be spent doing something else, something that may have had greater rewards, including rewards beyond the monetary.

Columnist George Will has said that Americans define a need as a 48-hour-old want. One of the reasons Americans have so many possessions (and so much debt) is they don’t distinguish between needs and wants.

Most of us need a car; no one needs a Lexus. All of us need a home; no one needs a McMansion. Many of our purchases were made to fulfill a want. Because we didn’t have the money or because there were more important items that required our attention, we justified that purchase by elevating its status from a want to a need. Reclassifying a want to a need moves it to the top of the list and removes any ambivalence about its purchase.

The first step in determining how much is enough when it comes to possessions is making a clear distinction between wants and needs. If your definition of needs is very liberal, then your threshold for “enough” will be much higher. Our definition of need is more liberal when it comes to us compared to others. It is equally true that our definition of greedy is more liberal when it comes to others compared to us. We may need it, but others don't. If they say they need it, they're just being greedy.

If a contemplated purchase is truly a need, then you need to purchase it. However, always make sure that you don't let the purchase mutate into a wish fulfillment. If you need a new car (because the old one died, not because you're merely bored with it), that need can be fulfilled with a basic car like a Honda Civic or a Ford Focus. You can't go into the Ford dealership to buy a Focus, drive out in a Mustang GT convertible and claim you needed that car.

We have a limit to our material needs, which means it is possible to fulfill all those needs. In developed countries like the U.S., the availability and reasonable prices of needed items means that almost everyone can acquire what they need. Our wants are a very different matter, though.

Wants tend to be unlimited. Once a desire is fulfilled, a new desire will emerge to take its place. No one, not even the richest person in the world, can fulfill all his/her wants, even material ones. Fulfilling *desires* does not diminish *desire*; it only tends to inflame it. Failure to understand this paradox is one reason why so many people have so much, but still feel the need for more.

When it comes to fulfilling wants, the first hard-and-fast rule must be: *Never borrow money to fulfill a want*. Borrowed money is always less respected than money that has already been earned. Borrowed money makes it easy to transform a want into a need. Calling an item a need rather than a want eases one's conscience about borrowing money to obtain it. The pleasure one obtains from purchasing a non-necessity with borrowed funds fades long, long before the item is ever marked "paid in full." The displeasure of those repayments kills all the pleasure the item may have brought. The buyer in these circumstances ends up with less money and an item that brought more displeasure than pleasure.

Ancient Arab philosophers advised waiting three days before making any purchase. That time period might today be called a "cooling off period." Their advice is as valid today as ever. With the constant flood of material goods to tempt us and with the ability to get it immediately with credit, it is extremely hard to restrain the urge for 72 hours. Yet, it is amazing how many items that are "must have" in the store become "don't need it" a few days later.

Very few people, especially when they purchase impulsively, stop to consider the opportunity costs of a purchase. An opportunity cost is all the things you *don't* get to do with money when you spend it on something. One of the benefits of waiting three days to make a purchase is that time can be used to think about the alternative uses for the money you would spend on an object. If all your needs have not been met and you are spending money on wants, you have a huge opportunity cost.

There are opportunity costs of time as well as money. The money opportunity cost of a video game may not be much, but the time opportunity cost can be enormous. Many of our most tempting material desires, from video games to hobbies to vacation homes, require as much of our time as our money. These are costs we tend to ignore until we've already paid them. If we piddle away our money, at least we can make more of it. If we piddle away our time, it's gone forever.

When evaluating whether you may have gone too far with the material possessions, ask yourself these questions:

- How much debt have I incurred to own these things?
- How much money does it take to maintain these things?
- How much time does it take to maintain these things?
- How much of my identity is tied up in these things?
- How do these things limit other activities I could be doing?
- How do these things hamper relationships with others?
- If all my possessions were destroyed and if I could only replace half of them, how different would my life be?

The answers to these questions can help you determine whether you own things or whether they own you.

While an awful lot of Americans have more than enough material goods, far fewer have more than enough money. Of course, one reason so many Americans don't have enough money is because they spent too much of it on material goods

We know that most of the wealthy in America got that way by valuing the freedom that money provides more than the status that possessions provide. They made a conscious decision to forego tangible items and the illusory status they bring for tangible wealth and the real freedom and control it brings. Even when the wealthy reach the point where they can buy anything they want, they have by then learned to control their wants to the point where enough material things for them is a lot less than they can afford.

There are external limitations on how many material possessions we can have. The most obvious limitation is our ability to pay for it all. Credit extends that financial limitation, but not indefinitely. There are other physical limitations, like the ability to store and maintain items we buy. Then there are limitations imposed by family members, who may threaten to leave if one more useless knick-knack is brought into the house.

There are fewer external limitations when it comes to how much money we can have. Wealth is easy to store, and family members rarely object to an increase in it. The internal limitations on how much money we can have consist of how hard we are willing to work to earn it and how disciplined we are in not spending it.

Most jobs that provide above average incomes are not in glamour professions like movies, music, and sports. Most of the wealthy in America earned their fortunes by building and running small businesses. Their efforts earned them above-average rewards, but only because they accepted above-average risks. The business owner has no guaranteed income. External factors can greatly affect sales and even threaten the existence of the business. There are a thousand other risks, from product liability to employee disability. These risks make above-average rewards a necessary inducement.

These risks serve to keep the business owner from getting too greedy. Risks need to be controlled, and that control usually comes through self-discipline and spending money. Business owners have too much "skin in the game" to take imprudent risks for the sake of greater short-term rewards.

There are others out there who have managed to socialize the risk, yet still privatize the profit. Some of the more well-known examples are corporate CEO's, hedge fund managers, and professional athletes.

Professional athletes have been able to garner guaranteed contracts that pay them a set salary, regardless of injuries or poor performance. There are typically incentives for overachieving, but no penalties for underachieving. The team owner assumes the risk; the player gets the reward.

Hedge fund managers typically charge a minimum fee of around 2% of the assets under management. In addition, they also receive 20% or more of the gains above a stated return. This compensation structure entails no risk for the manager, but it does offer great rewards. As a result, the manager can make very risky investments with clients' money. If the investment fails, the manager still draws a sizeable fee; if it succeeds, the manger draws an outrageous fee. Some hedge fund managers have "earned" more than $1 billion in a single year.

The corporate CEO has become the poster child for greed in recent years, and largely with good reason. In large companies today, CEO compensation is largely based on short-term stock performance. This compensation structure creates a huge incentive for the CEO to do whatever is necessary to boost the stock price over the short-term, even if it creates losses in the long-term. Even if the CEO fails miserably, there is a "golden parachute" that will guarantee a multi-million dollar severance package. Like the hedge fund manager and the professional athlete, the corporate CEO has been able to shift the risk of failure to the shareholders, while retaining the rewards.

Whenever there is a situation where one party assumes the risk while the other party assumes the rewards, greed will take over. It's hard to blame the CEO or athlete totally for their greed. Most people in the same situation would do exactly what they are doing. The blame lies more with the owners, shareholders, and boards of directors who install and perpetuate such unbalanced compensation systems. Their reasons for having such a corrupt compensation system are usually based on greed to acquire talented people.

Assumption of risk in tandem with assumption of reward is the best way to control greed in incomes. If I want all of the upside to my financial decisions, I must be willing to accept all of the downside as well. Otherwise, I have to shift that downside risk to others. The result is that I take more than I deserve, more than my fair share, which is the definition of greed. Rewards are *earned* by accepting all of the risks necessary to create them.

Once great fortunes are made, what then? How does one determine when they have enough wealth? What criteria are used? Whose opinion is most important? There are no objective answers, but there are some guidelines to help someone determine if they have enough wealth.

The Roman philosopher Seneca said, “No one can be poor who has enough, nor rich who covets more.” Having enough wealth is less a matter of dollars saved than it is a matter of expenses controlled. The more disciplined we are with our expenses, the lower the threshold for *Enough*. A lack of discipline with our expenses does not justify raising the threshold for *Enough.* It merely promotes greed.

If someone has sufficient wealth so that they never have to worry about expenses exceeding income, is that *Enough*? Often people in this position came to this position by a lifetime of hard work and frugality. Those habits aren’t broken simply by reaching an arbitrary net worth. The momentum gained from decades of hard work and frugality carries on, causing net worth to rise even as the person buys everything he/she modestly desires. If hard work and frugality, rather than greed, have been the generators of wealth, their continuance should be encouraged, not discouraged.

For the lucky few who reach this level of financial success and security, the next goal is to leave a legacy. Once all of your needs and almost all of your wants are satisfied, it becomes important to look around to see who needs help and to help them when possible. Several of the world's richest people, including Warren Buffett and Bill Gates, have made public their plans to give the great majority of their wealth to charities while they are still alive. An important lesson people like Buffett and Gates have learned is that the best way to have more than enough is to set a limit on how much is *Enough*.

Enough is an enigmatic value. When we were young, adults would let us know how much was *Enough*. Our parents would tell us when we had eaten enough Halloween candy, when we had to go to bed, when we had sufficiently tormented our siblings. If the parental leash were removed, it wasn't long before we drifted or sprinted way past *Enough*.

Entering adulthood, we experienced a two-pronged challenge. First, we had all the new temptations of adulthood, most of which were made possible by two things we didn't have in childhood – an income and credit. Second, we didn't have our parents making decisions for us. While it may have felt in the early years of adulthood that we were freed from our parents' leash, in fact we no longer had our parents as a rudder to guide us.

Enough also isn't just about an optimal amount of something. Knowing how much is *Enough* also involves accurately assessing the costs of the roads not taken. These opportunity costs pay the toll for the road taken. Too often, we come to assess these opportunity costs with hindsight, not foresight. If we don't stop to consider the cost beforehand, including the opportunity cost, we cannot control the cost and will inevitably overpay.

Human nature being what it is, we usually find out the boundary of *Enough* only after we cross over it. Of all the challenges we face in life, one of the most difficult is to move right to the edge of *Enough*, without falling into the chasm of *Too Much*. One of the best ways to avoid going over the edge is to approach the edge slowly and cautiously, to look at *Enough* as the furthest point of safety and not to approach it as a prey to be chased down and captured. The ability to consistently get to *Enough* without ending up in *Too Much* is one of the great unappreciated talents.

GREED'S EFFECT ON SUCCESS AND HAPPINESS

Before getting into how greed impacts a person's success and happiness, we need to have a clear understanding of what success and happiness actually are. One of the most concise definitions I've seen says that success is getting what you want; happiness is wanting what you get. I agree with that definition, but we need to probe a little deeper.

Success is getting what you want, and one thing that almost everyone wants is money. At the very least, everyone wants at least some things that can be bought with money. It is not surprising then, that money is the most common measurement in the world for determining success.

Money has several characteristics that make it an easy choice as a success yardstick. Money is universal. Every society has money, so every society has the ability to measure success with it. Money enables comparisons between cultures, too. I can measure my success with dollars, and I can even compare my success with people from other countries by finding out how much they make and by converting it into a dollar equivalent.

Money is precise. If success is measured in qualitative terms, success is in the eye of the beholder. If success is subject to interpretation, it is easier to claim success. Money is totally quantitative. An amount of money is exact and understood by everyone. Two children may argue about whose daddy is stronger, but it won't be hard to determine whose daddy makes more money. One of the reasons that being the highest paid in one's field is considered a strong indicator of success is because it is easy to determine who the highest paid person is in almost any field.

Money isn't just universal, it is universally desired. Since money is the one prize almost everyone works for to some extent, it is natural that money is used to measure success. It may be difficult to contend that one dry cleaner is more successful than another for a 5% differential in income. However, a 50% differential in income leaves little doubt as to which dry cleaner is more successful.

Because money is the default measure of success, we spend a lot of time pursuing it. Because we are a culture that demands and worships tangible success, our tendency is to pursue success through the pursuit of money. Yet, while we are pursuing money as a measure of success, we are actually pursuing something else.

What most people are looking for is recognition of their worth by others. We all need to feel appreciated. This recognition of our value by others is one of the primary ways we measure success in our endeavors. One of the best ways to confirm success is to be recognized and appreciated through financial compensation.

Greed is very often the result of deprivations during childhood. One of the most common deprivations is a lack of recognition/ appreciation/approval of the child by the parents. There may have been no actual deprivation, but perception by the child is everything in such cases.

When the child becomes an adult, the scars of childhood deprivations are still there. Becoming a financial success is one of the most common methods a person will employ to garner the recognition and approval of the parents. Because everyone seems to admire the person who is financially successful, what better way to impress one's parents?

Greed can also result from other rejections in life. More than one man throughout history has amassed a huge fortune to spite the woman who rejected him in his youth. The nerd who was tormented all through high school has a great incentive to become the wealthiest alumnus, just to rub everyone's nose in it at the class reunion. Feelings of inadequacy and inferiority are great incentives to go out in the world, amass a fortune and prove to everyone (including yourself) that you are not inferior to anyone.

Greed may be thought of as a motivation to become successful, but it is more likely to be a symptom of an abnormal desire for success. When someone goes to extraordinary lengths, including breaking the law, for material gain that far exceeds all needs and most wants, that behavior is not normal.

Most greedy behavior stems from insecurities or feelings of inadequacy. Greed is the manifestation of the need for material wealth to make the individual feel important or to soothe insecurities that may go all the way back to early childhood. Greed may be a sin, but it can also be a symptom of a psychological illness.

Greed to succeed seems to lead inevitably to cheating. Cheating is easier to detect in sport than in the rest of life because sport has very clear rules and enforcement by umpires, referees and league officials. In the corporate world, cheating is not only more lucrative, it is easier to cover up. We hear about the CEO who is convicted, in part, because its rarity is newsworthy. Dennis Kozlowski was making $100 million a year as CEO of Tyco. He is serving an 8 to 24 year sentence after being convicted of receiving unauthorized bonuses and other payments. Ken Lay was CEO of Enron. He made over $300 million in ten years on Enron stock options alone. He was convicted in 2006 on several fraud charges and faced 20 to 30 years in prison. He avoided prison by dying of a heart attack while awaiting sentencing. And we can't forget Bernie Madoff, who set new standards for how low greed can make one sink. Madoff is scheduled to be released from prison in 2159.

In the book *The Millionaire Mind*, the follow-up to the best-selling *The Millionaire Next Door*, there is a chapter entitled "Success Factors." The three highest success factors, as rated by millionaires, are:

- Being honest with people (57% rated as Very Important),
- Being well disciplined (57% rated as Very Important),
- Getting Along With People (56% rated as Very Important).

No other factors had more than 49% rate it as Very Important. These three factors are a greater indicator of financial success than any others. Interestingly, none of these three factors can exist in the presence of greed.

Greed involves taking more than you've earned, more than your fair share. People who are not wealthy tend to think that the wealthy got that way by cheating others. The non-wealthy see wealth as limited in amount, and someone's great wealth must come at the expense of others.

The wealthy see wealth as something to be created. They create it by providing goods and services for which others are willing to pay. People don't choose to do business with dishonest people. Dishonesty may create short-term profits, but it guarantees long-term losses. For long-term success, honesty is not only the best policy; it is the most essential ingredient.

Greedy people are by nature undisciplined. I would even contend that their greed is more the result of being undisciplined than of being unprincipled. As a rule, greedy people already have an inflow of whatever it is they desire. The greedy want more of what they are already getting, and they want to get it faster. To get what they want at a faster pace than they are earning it, the greedy have to siphon the excess from others.

Do you know someone you consider greedy? Do you get along with that person? I didn't think so. People don't do business with people they don't like. They don't help out people they don't like. Greedy behavior is a sure way to be disliked, and disliked people can't succeed in the long run. Leona Helmsley, along with her husband Harry, built a real estate empire in New York City. She was justifiably known as the "Queen of Mean." When she was convicted of tax evasion in 1989, the public response could be described as restrained euphoria.

Greed *may* give a boost to short-term financial success. The extent to which greed increases wealth in the short-term is subject to many factors. The higher the level of greed, the more egregious the acts of greed tend to be. The more egregious the acts of greed, the sooner other parties (the injured and enforcers) step in and put a cease and desist to it all.

Even in the short-term, greed does not tend to go unchecked. To avoid being avenged by an angry mob, the perpetrator of greed needs to keep it under the radar, which tends to put some limits on the gains resulting from greed.

Over the long-term, greed is even less successful at increasing one's fortunes. Someone is not greedy just because they are a tough negotiator. In financial dealings, it is expected that people will act in their own self-interest, which includes working hard for the best deal. The millionaires I have referred to already in this book know that long-term financial success is based on a win-win strategy. They understand for a business to survive for decades, to generate profits for decades, and to have a serious market value when it's time to sell it, that business must be run from the concept that every deal should be a win-win for the buyer and the seller. This philosophy is based on cooperation, not competition.

There are successes in life far more important than mere financial success. Greed takes its toll in those areas, too. Greed causes a person to place a higher importance on things than on people. People with strong materialistic tendencies score high in measures of narcissism. Narcissism is just a fancy term for selfishness and vanity. Greedy people come across to others as selfish and vain, and it is very difficult to develop meaningful relationships with people who are selfish and vain.

Greed also causes a person to look at relationships through the lens of profit and loss. The basis of a relationship to a greedy person is "What's in it for me?" If there is no tangible benefit, a relationship is unlikely to begin. If a current relationship becomes "unprofitable", the greedy person is likely to end it and look for greener pastures.

Greed is not a trait that elicits respect from others. Americans are fascinated by people who manage to accumulate substantial wealth. We may even admire them from afar. However, if someone has accumulated wealth through greed, those who are actually acquainted with that person are unlikely to have a high opinion of him/her.

Greed causes one to fail as a human being. The Yiddish word *Mensch* is a term for a person who possesses integrity and honor. A Mensch is a good person, a "stand-up guy." You would want your best friend to be a real Mensch. A greedy person is rarely considered a Mensch. When someone goes through life and accumulates material wealth, but pays for it with broken relationships and no respect from others, that person has lost the most important parts of being human.

The quality of the human experience is measured by the accumulation through our life of all the things that money *can't* buy. The greedy person trades all that for a few baubles or a few bucks. To sell so much for so little is a monumental failure.

Albert Schweitzer, theologian, philosopher, physician, and recipient of the Nobel Peace Prize said, "Success is not the key to happiness. Happiness is the key to success." Most of us spend our lives getting it backwards. We think that once we are successful (however we may define it), happiness will naturally follow. After we've accomplished our goals, we find that they did not lead to happiness at all, and we can't understand why.

What is happiness? Let's start by saying what happiness *isn't*. Happiness isn't pleasure. Pleasure is a sensual gratification or indulgence. Contentment is closer to happiness than pleasure, but it isn't happiness. Contentment is being satisfied with what you have. Contentment also means being resigned to and accepting of your circumstances. Contentment is that limbo-like state between unhappiness and happiness.

Pleasure is externally generated and active. Contentment is internally generated and passive. Happiness is internally generated and active, which is why pleasure and contentment cannot substitute for happiness.

Albert Schweitzer got it right again when he said, “The only ones among you who will be really happy are those who will have sought and found how to serve.” True happiness does not result from receiving, but from giving.

We have already seen some ways that greed is an impediment to success. There is another reason why greedy people aren’t successful. As Schweitzer said, success follows happiness, not the other way around. In order to be successful, you must be happy. Greedy people are not successful because they are not and cannot be happy. They may be able to buy pleasure, but not true happiness, which will remain out of their reach as long as they are ruled by greed.

The greedy cannot be truly happy because they are, by their nature, takers, not givers. The greedy do not seek to serve others, which is the key ingredient of happiness. The greedy do not only think of themselves first; they think of themselves exclusively.

The greedy may be able to buy almost anything they desire, but they only desire the things that money can buy. For whatever reasons, the greedy have abandoned the pursuit of happiness for the pursuit of pleasure. Perhaps they found happiness was harder to attain than pleasure. Perhaps they never learned what true happiness is and how to work to attain it. Perhaps, unable to garner the happiness that comes from people, they settled for the pleasure that comes from things.

One of the reasons our Founding Fathers listed the pursuit of happiness among our inalienable rights is because they knew that true happiness was the result of service to others. They understood that a culture of self-indulgence was no culture at all and that a great culture was possible if people were free to pursue activities that bring more than mere pleasure. Their own experiences and observations showed that happy people commit fewer crimes, donate more to charities, and volunteer more of their services.

We seem to figure out a lot of these truths as we get older. On surveys measuring happiness, older people consistently rate themselves as happier compared to their younger counterparts. Older people also do more volunteer work than any other age group. It's no coincidence that the more you help others, the happier you become.

When you view life through the lens of greed and materialism, you tend to convert everything into monetary terms. This tendency carries over into relationships. The result is that you end up treating people like things. If you view people as objects, it is impossible to be empathetic toward them. If you are ruled by greed and materialism, you are likely to have shorter, more conflicted relationships. You are more likely to divorce, to be estranged from your children, to have few friends and few long-lasting friendships, to have more conflicts with co-workers, and to suffer from loneliness and depression.

While it is true that many greedy people suffered from loneliness and depression before they became greedy, greedy behavior did not relieve those afflictions, it only exacerbated them. Their "cure" just made them worse.

Materialism and its mutant offspring, greed, are derived from a motivational system based on tangible rewards and recognition by others of those rewards. Greedy people are quantitative and goal-oriented. They are motivated by goals that are easy to understand and easy to measure. Wealth is the only comparable quantitative measure of comparison available, which is why the greedy like to use it. It brings pleasure (but not happiness) to the greedy person to tally up comparative net worth and to come out on top.

The greedy can't find happiness because they can't locate it on any "map". They would like very much to get to the "state" of Happiness, but they don't know where it is. They don't know where it is because it isn't anywhere. Happiness isn't a *destination*; it's a *journey*.

Happiness is a journey of personal and spiritual growth, where you go from the self-centered and materialistic mentality of a child to the selfless and spiritual mentality of a true adult. Even for the best of us, it's a long and sometimes difficult journey.

Even when we are happy, we can't afford to sit still. It is a journey *of* happiness, not a journey *to* happiness. We have to keep moving to keep happy, which we do as long as we put others' needs before our own wants.

Pity the greedy. They may have great success in amassing wealth, but they will do so at the cost of failure at most everything else. They may be able to buy any of life's pleasures, but they will be shut out of most of life's happiness.

The greedy are like Tantalus, a king in Greek mythology. Tantalus was a son of Zeus, so he enjoyed great privilege. Despite such privilege, he fell victim to greed and stole ambrosia and nectar from Zeus' table, brought it back to his kingdom, and revealed the secrets of the gods. For his punishment, Tantalus was forced to stand in a pool of water with the branches of a fruit tree hanging just overhead. Whenever he reached for the fruit, the branches receded just out of reach. Whenever he bent down to take a drink, the water receded before he could get any. To the greedy, the fruit tree is success; the water is happiness. They will be forever tantalized by them, yet will never attain them.

With money you can buy

a house - but not a home

a clock - but not time

a bed - but not sleep

a book - but not knowledge

medicine - but not health

position - but not respect

blood - but not life

sex - but not love.

-Chinese Proverb

FEAR DEFINED

During the early days of World War II, beloved American artist Norman Rockwell created a series of paintings known as the *Four Freedoms*. His intent was to reinterpret that global struggle as a struggle for familiar American ideals. The four paintings were titled *Freedom from Want, Freedom from Fear, Freedom of Speech, and Freedom of Religion*. Collectively, they are Rockwell's best-known works.

Freedom of Speech and *Freedom of Religion* were natural responses to the atrocities that were being committed at that time by Nazi Germany and Japan. *Freedom from Want* shows a family getting ready to enjoy Thanksgiving dinner together. It was inspired by the Great Depression that had just ended and by the hardships so many had endured during that period. (As discussed previously, we never have freedom from want; a better, more attainable theme might have been *Freedom from Need*.) *Freedom from Fear* shows a mother and father tucking their two small children into bed. The father is holding a newspaper with headlines announcing the latest horrors from the warfront.

Freedom from Fear may have dealt with fear about the war, but its genesis is straight out of the depths of the Great Depression, and Franklin Roosevelt's first inaugural address, delivered on March 4, 1933. To understand the context of that address, it is necessary to review the conditions the United States faced at that time:

- The stock market had declined 90% from its 1929 levels.

- Unemployment was at 25%. Over 50% of America's work power (labor, factories, capital) was unutilized.
- More than five thousand banks had failed since 1929.
- Agricultural income had declined by almost 60% since 1929.
- Farm foreclosures were averaging twenty thousand *per month*.
- Gross National Product had declined 50% since 1929.
- Automobile manufacturing was down 65% from 1929 levels.
- Construction declined more than 80% from 1929 levels.
- Tariff laws had virtually destroyed international trade, which caused American exports to decrease by 90% from 1929 levels.
- Adolf Hitler had just become the leader of Germany.

When we think of our recent economic problems, they are nothing compared to what the American people faced in March of 1933. They had been ground down for more than three years, and it was getting worse by the day. The people were more than dismayed. They were like zombies, paralyzed with the current situation and the fear that things would get worse.

In this context of crisis, Franklin Roosevelt began his first inaugural address with these words:

"I am certain that my fellow Americans expect that on my induction into the Presidency I will address them with a candor and a decision which the present situation of our Nation impels. This is preeminently the time to speak the truth, the whole truth, frankly and boldly. Nor

need we shrink from honestly facing conditions in our country today.

This great Nation will endure as it has endured, will revive and will prosper. So, first of all, let me assert my firm belief that the only thing we have to fear is fear itself—nameless, unreasoning, unjustified terror which paralyzes needed efforts to convert retreat into advance.

In every dark hour of our national life a leadership of frankness and vigor has met with that understanding and support of the people themselves which is essential to victory. I am convinced that you will again give that support to leadership in these critical days."

FDR's phrase "The only thing we have to fear is fear itself" is iconic, but it needs to be examined in context. It was intended to clarify the real danger to the American people and to reassure them that the crisis of the moment could and would be overcome. Three years of depression had created a fear mentality that was crippling the country's ability to change the course of events. In his first words as President, Roosevelt attempted to break the grip of fear that had the American people incapacitated.

Fear has been an indispensable part of survival as long as there have been species on the planet equipped with brains, nervous systems, and senses. Fear is not unlike food as a survival tool. If you have too little or too much of either, your survival is in jeopardy. Too little fear exposes you to risks that can kill you. Too much fear prevents you from taking the risks necessary to survive, evolve and prosper. The trick from the beginning of humankind has been to distinguish between fear that is harmful and fear that is helpful and to act only on fear that is helpful.

For thousands of years, the fears of humans weren't much different from the fears of other animal species. We feared overt threats like predators, harsh weather, injuries, and lack of food and water. As our brains developed, we increased our store of knowledge. We developed language to communicate with our fellow humans. As we got smarter, we increased our abilities to control many of the aspects of life that caused us fear. At the same time, as man developed technology, our lives became more complicated. As our lives became more complicated, the potential for something to go wrong became greater. Even as we worked to master the cause of our old fears, our growing brains and communication skills made it easier to create and share new fears.

Most psychologists believe there are six basic human emotions: happiness, anger, fear, sadness, disgust, and surprise. All other emotions are varieties of these basic emotions. Each emotion is characterized by behavioral and physiological qualities, including those of movement, posture, voice, pulse rate fluctuation, and facial expression. Fear is characterized by trembling and tightening of the muscles.

Fear is certainly an emotion, typically experienced in anticipation of a specific pain or danger. Fear is also an uneasiness of the mind, upon the thought of future evil likely to befall us. The first kind of fear, emotional fear, is primarily physical and instinctual. It is the kind of fear we experience when we hear a sudden crash of thunder or step into the path of an oncoming vehicle. The second kind of fear, the kind that rolls around in one's mind, is very different.

The first kind of fear, the physical, instinctual kind, could be considered a healthy fear. Healthy fear is built into us as a survival mechanism. If we step off a curb, turn our head to the left and see an oncoming vehicle, we experience an enormous sense of fear. Assuming we survive the ordeal, that fear we experienced will help discourage us from taking such reckless action in the future.

Fear is an unpleasant emotion, and we try to avoid it. We will avoid the actions that cause fear. To that end, we will no longer step in front of oncoming vehicles. Our desire to avoid fear has helped us avoid harm. It is for this reason that fear is an instinct common to most animals.

The second kind of fear is the one that's all in your head. This fear is the uneasiness of the *mind*. It is based on *thoughts* of potential future trouble. Fear that comes from our head is an unhealthy fear. Unhealthy fear is the kind that consumes our thoughts, paralyzes us, causes us to act irrationally, and possibly leads to phobias and paranoia.

"It's all in your head." We've all said that to someone at some time, and we've all had someone say it to us at some time. It is likely that the "it" in the head was fear. If you were speaking those words, you were probably trying to calm someone down who was demonstrating (in your opinion) unjustified fear. If you were hearing those words, you were likely demonstrating fear over something that someone else didn't feel.

The *American Heritage Dictionary* alludes to healthy and unhealthy fear in their concise definition of fear: "an emotion of alarm or agitation caused by the expectation or realization of danger." The fear we experience at the *realization* of danger is healthy fear. There is a *real* danger, and we ignore it at our own peril. The fear we experience at the *expectation* of danger includes all of the false fears that are unhealthy. While the ability to anticipate danger is part of our survival mechanism, our world has evolved faster than our brain. The result is an unhealthy number of false alarms.

Motivational speaker Zig Ziglar defined unhealthy fear with the acronym **F**alse **E**vidence **A**ppearing **R**eal. Unhealthy fear is based on overestimating the actual risk of something, and then basing our actions on that overestimation.

The problems that result from unhealthy fear are two-fold. The first problems are the problems of mental and physical health that irrational fears can create. Irrational fears are extremely stressful to the mind and body and can promote health problems ranging from migraine headaches to cancer. The second problems are those that come as a consequence of taking actions based on unhealthy fears, the problems resulting from bad decisions. Wrong actions based on fear often create a real situation that was merely a low-risk possibility before.

There are several synonyms for fear. Here are a few, with definitions:

- *Fright* is sudden, usually momentary, great fear: *In my fright, I forgot to lock the door.*
- *Dread* is strong fear, especially of what one is powerless to avoid: *His dread of strangers kept him from socializing.*
- *Terror* is intense, overpowering fear: *The airplanes crashing into the World Trade Center caused terror.*
- *Panic* is sudden frantic fear, often groundless: *The fire caused a panic among the occupants.*
- *Alarm* is fright aroused by the first realization of danger: *I watched with alarm as the sky darkened.*

- *Dismay* robs one of courage or the power to act effectively: *The rumor of war caused universal dismay.*
- *Consternation* is often paralyzing, characterized by confusion and helplessness: *Consternation gripped the city as the invaders approached.*
- *Trepidation* is dread characteristically marked by trembling or hesitancy: *They were full of trepidation about things that were never likely to happen.*
- *Horror* is an intense and painful feeling of repugnance and fear: *The sight of the mutilated bodies brought horror.*
- *Anxiety* is a state of uneasiness and distress about future uncertainties: *Many experience anxiety when they think about paying for retirement.*

In looking over these ten common synonyms for fear, three appear related to healthy fear – fright, alarm, and horror. Experiencing any of these three reactions is likely to come from a sudden, unexpected experience. Fright, alarm, and horror occur on an instinctive level. There isn't time to think about these reactions; they're just reactions. Animals certainly experience fright and alarm. Animals don't experience horror as humans know it because horror does require some mental processing of what is horrible. While animals may not experience horror as humans do, they do know enough to flee from anything likely to stir the animal equivalent of horror.

The other seven synonyms are dread, terror, panic, dismay, consternation, trepidation, and anxiety. All of these reactions would fall under the category of unhealthy fear. All of these reactions result from one of two things – thinking too much or not thinking enough.

Terror and panic are closely related. Since September 11, 2001, we have all become too familiar with how terror works. Terror is intense, overpowering fear, but it is almost always out of proportion to the actual threat.

The death toll from September 11 was 1 out of every 100,000 Americans. The fear each individual felt after the attacks were very disproportionate to the actual danger to that individual. That's how terrorists work. They get inside our heads and get us to believe we are in greater danger than we actually are. They leverage their limited ability for actual destruction by making everyone think it could happen to them.

Panic is the overreaction to danger or perceived danger. When the stock market dropped some 45% during the six months from September 2008 to March 2009, at least half that drop was due to panic by stockholders. For proof, the stock market recovered most of that drop over the following six months.

Panic can often result in more tragic consequences than the danger that triggered the panic. There are countless cases of people panicking when a crowded building caught fire. The panic and resulting stampede killed far more people than the fire would have, if everyone had remained calm and walked to the exits. Fright, alarm, and horror are reactions; panic is overreaction.

Dismay is fear throwing in the towel. If courage is the opposite of fear, dismay is the absence of courage to try to change a situation for the better. Dismay exists in large part for one of two reasons. First, we tend to underestimate our ability to change a situation. If change cannot come quickly or easily, we have a tendency to not try or to give up too soon. Even if a situation is beyond our power to change it, there are coping methods that don't require feelings of dismay. Adaptation is preferable to surrender, and it also leaves open the possibility to change the situation in the future.

Consternation is typified by the wringing of hands and moaning, "What to do? What to do?" While panic consists of acting in the extreme to a situation, consternation consists of acting insufficiently to a situation. The person that panics in the burning building may well get trampled or trample others, but there is also the chance that person will get out alive. A person reacting with consternation in that same situation is likely to stand in the middle of the inferno debating if they should leave and if so, which exit to use. Teddy Roosevelt said that when a situation absolutely requires action, it is better to do the wrong thing than to do nothing. If you're in a burning building, panic beats consternation.

Any situation where an action might fail and make the situation worse *should* involve feelings of trepidation. Feelings of trepidation should prompt an individual to carefully analyze a situation, determine what needs to be changed, calculate how to make those changes, and estimate the chances for success and failure as well as the reward or penalty for each. The problem is that the desired actions involve using cool, unemotional logic. Trepidation is an emotional response to an emotional situation. The emotional part of our brain is not good at cost/benefit analysis. Trepidation that prompts a calm analysis can help solve a crisis. Trepidation that prompts an emotional outburst typically leads to panic or paralysis, neither of which can help solve a crisis.

Is there anyone out there who doesn't experience at least some anxiety? See if any of these sound familiar: Ativan, BuSpar, Celexa, Cymbalta, Dalmane, Desyrel, Effexor, Elavil, Klonopin, Lexapro, Librium, Norpramin, Pamelor, Paxil, Prozac, Remeron, Serax, Tofranil, Tranxene, Valium, Vistaril, Xanax, Zoloft. This is a list of the most commonly prescribed drugs for treating anxiety. Between 30 and 40 million Americans are estimated to take one of these listed drugs.

Anxiety is closely associated with uncertainty about the future. One of the reasons for increased concern about the future is our increasing life spans, which means there is more of a future about which to be uncertain. We are very well informed now about events in the world, and the media emphasizes the worst that goes on out there. As a result, we worry now about events halfway around the world which are unlikely to ever have any noticeable effect on us individually. Finally, we have the American marketing machine that is constantly trying to scare us into buying a product or service by informing us that our future happiness and security is at risk if we ignore their sales pitch.

There are different types of anxiety disorders. *Panic disorders* manifest themselves through panic attacks, which are separate and intense periods of fear or feelings of doom developing over a very short time frame. *Phobic disorders* are intense, persistent, and recurring fear of objects or situations. Phobic disorders are often the cause of panic attacks. *Stress disorders* are caused by the exposure to either death or near-death circumstances such as fires, floods, earthquakes, shootings, automobile accidents, or wars. *General anxiety disorders* are excessive, unrealistic, and difficult to control worry over a period of at least six months. They are associated with restlessness, irritability, muscle tension, sleep problems, trouble concentrating, and tiredness.

We will limit our discussion to general anxiety disorders, as this is the type of long-term unhealthy fear that can affect a person's financial success and future happiness. The other disorders are also more likely to require professional help to get under control.

While fear and anxiety are often used synonymously, there are some distinctions. True fear is triggered by some external threat. Anxiety is triggered by imagined or misperceived threats. Fear deals more with present dangers; anxiety obsesses about future dangers. Fear prompts action, most typically the flight-or-fight response. Anxiety is associated with a feeling that the perceived danger is unavoidable or uncontrollable.

Although the capacity to fear is part of our human nature, most specific fears are learned. Certain fears, such as fear of snakes or heights are not unusual and are based on actual, not just imagined risk. We may be predisposed to such fears because evolution favored those who had such fears and acted on them. Someone with no fear of snakes or heights may never have lived long enough to reproduce. Those who acted on such fears were more likely to get their DNA all the way into the 21st century.

In general, people seem to be most afraid of two things: the threat of physical pain or death and social rejection or isolation, which can bring a sort of emotional pain or death. Both of these broad categories of fears contain both real and imagined threats. Vaccinations may involve some physical pain, but not in proportion to the fear some people have of them. An impromptu speech at a party may cause embarrassment later, but it rarely leads to being banished from the community.

Some of our most common fears include:

- Acrophobia – fear of heights,
- Aerophobia – fear of flying,
- Agoraphobia – fear of open spaces,
- Aquaphobia – fear of water,
- Arachnophobia – fear of spiders,
- Brontophobia – fear of thunder and lightning,
- Carcinophobia – fear of cancer,
- Claustrophobia – fear of enclosed spaces,
- Glossophobia – fear of public speaking,
- Necrophobia – fear of death,
- Sociophobia – fear of people or social situations.

The two fears that usually rank highest in any survey are fear of death (necrophobia) and fear of public speaking (glossophobia), which makes sense when you consider that people most fear pain/death and social rejection/isolation. Public speaking is one activity that is most likely to expose all your shortcomings and set you up for public ridicule by a large group. Jerry Seinfeld has a routine where he talks about such surveys, and that fear of public speaking ranked higher than fear of death. He concludes that most people attending a funeral would prefer to be in the casket than delivering the eulogy.

Phobialist.com lists well over five-hundred different phobias. If there are over five hundred named phobias, it is safe to conclude that there are a lot of irrational fears infesting humans. You can't have a rational reaction to an irrational fear. The only rational reaction to an irrational fear is no reaction at all.

Irrational fears are treatable. The treatment may be as simple as education. Sailors used to fear sailing off the edge of the world until they learned that the world is round. Marie Curie, a Nobel Prize winner in both physics and chemistry, said, “Nothing in life is to be feared. It is only to be understood.” If education is insufficient to treat an irrational fear, there are also trained psychologists and psychiatrists to help.

Irrational reactions to rational fears are also of great concern. They may be more harmful to more people than irrational fears are. An irrational reaction to a rational fear may be a one-time event, but the consequences can have long-term effects. Also, the effect of the irrational reaction may not be felt for some time, which can cause additional irrational reactions to occur.

The best treatment for irrational reactions to rational fears is prevention. Prevention is effected through education. The following chapters may help some who are dealing with irrational fears. hey can certainly help anyone who may be inclined to an irrational reaction to a rational fear. That population includes all of us.

WHY ARE WE AFRAID?

About two million years ago, the brains of our ancestors measured about 500 cubic centimeters. By 500,000 years ago, our brain had grown to 1,200 cubic centimeters in size. When Homo sapiens evolved between 150,000 and 200,000 years ago, the brain also evolved to about 1,400 cubic centimeters, which is roughly the same displacement as a Harley-Davidson engine.

We needed to develop a large brain, in part, because we were so pathetic in most of our other survival skills. Humans aren't very strong or very fast. We have no protective fur. Our senses of sight, smell and sound are sub-par. No animal that wants to eat us is particularly afraid of us. A large brain was the only thing standing between the human species and extinction.

There was a down side to the development of such a large brain. The human brain sucks up 20% of the body's energy supply, even when it isn't engaged in active thought. This gas-guzzler of an organ requires more food per day than a comparable animal with a smaller brain would require. The human diet also had to be rich in protein to support a large brain, and the best sources of protein are from other animals, so hunting became a necessity.

A large brain also required a large skull, which made childbirth dangerous for both mother and baby. The development of a large brain during gestation came at the price of slower development of the rest of the body, making humans the slowest species in becoming independent from a parent's care. The brain was useful in survival, but it was more of a liability than an asset in the first few years of life.

Even though the human brain as we know it has been around for at least 150,000 years, it was only about 15,000 years ago that humans began farming, thus creating an alternative to a nomadic existence. It would be another 3,000 years before we would domesticate animals like goats and dogs. From that point forward, the pace of human invention and discovery increased rapidly to the present day.

What is amazing about the human brain isn't all the knowledge that we extract with it and store in it. It is the fact that we can build spacecraft and dissect atoms with a brain that is virtually unchanged from the time of the Cavemen. The human brain of today isn't that much different from the human brain of 150,000 years ago. What is different is the accumulation of knowledge by the cumulative human race over the intervening period, especially in the last 5,000 years or so.

We all like to marvel at the invention of the smartphone, but it is nothing of a leap in human advancement compared to the first time humans mixed copper and tin to create bronze about 5,000 years ago.

Since copper and tin are rarely found together, trade was necessary to bring the two metals together. Then someone had to think to combine the two metals to see what happened. They also had to get the proportions correct (one part tin for seven parts copper). Once bronze was invented, it was fun and easy to think of all the great uses for it. The hard part was coming up with bronze in the first place. The smartphone may be a fun toy, but it won't change history like bronze did. Significance is not measured in complexity.

We like to marvel at all the discoveries and inventions that humans have made. We can create weapons that can destroy the planet many times over, yet we sleep at night knowing that we have them under control. What ruins our sleep is not the fear of nuclear annihilation, but the fear that there might be a spider under the bed.

Four of the most common fears include spiders, snakes, lightning, and public speaking. In an average year in the United States, a total of 71 people will be killed by these four causes combined: 58 from lightning, 7 from spider bites, 6 from snake bites, 0 from public speaking.

In contrast, over that same period, 445,687 people will die from coronary heart disease. Over the next hour-and-a-half, more people will die from heart disease than will die from those other four causes over the next twelve months. The object of our greatest fears should not be a spider or a speaker's podium. They should be a bacon cheeseburger or a deep dish pizza.

These primal fears of ours might have made sense 150,000 years ago, but they don't make sense now. Most spider and snake bites kill because the victim does not seek medical attention that could easily prevent death. Lightning deaths can be prevented by simply going indoors.

Our brain has enabled us to overcome the damage that these events might have caused in the past. We have even turned the tables on many of our nemeses. Everyone has an innate fear of a shark attack, but worldwide deaths from shark attacks average about four per year. Humans kill about *70 million* sharks per year. The sharks have a much greater reason to fear us than we do to fear them. Would a shark’s version of *Jaws* be titled *Brains*?

The human brain is an incredibly complex organ. More than one hundred billion nerve cells comprise an intricate network of communications that is the starting point of everything we sense, think and do. Some of these communications lead to conscious thought and action, while others produce *autonomic responses*. The fear response is almost entirely autonomic. We don't consciously trigger it or even know what's going on until it has run its course.

Fear is a chain reaction in our brain that starts with a stressful stimulus (a spider, a loud noise, an audience awaiting you), which leads to the release of chemicals that increase heart and breathing rates and energizes muscles. The reactions are preparing the body for one of two courses of action – fight or flight. Certain parts of the brain play key roles in the process of fear:

- *Thalamus* - decides where to send incoming sensory data (from eyes, ears, mouth, skin).
- *Sensory cortex* - interprets sensory data.
- *Hippocampus* - stores and retrieves conscious memories, processes sets of stimuli to establish context.
- *Amygdala* - decodes emotions, determines possible threat, stores fear memories.
- *Hypothalamus* - activates “fight or flight” response.

The process of creating fear is entirely unconscious. The response to fear can take one of two paths. You can think of them as gut vs. head or the low road vs. the high road. You can think of the low road/gut response as “take no chances - shoot first and ask questions later” response. The high road/head response makes an attempt to rationally calculate the actual danger before taking action. The high road's advantage is accuracy; the low road's advantage is speed.

The low road/gut response has, not surprisingly, fewer steps and brain parts involved than the high road/head response. Here's how the process works. You receive a stimulus, such as spotting a spider crossing the floor. Your brain sends this sensory data to the thalamus. At this point the thalamus doesn't yet know if there is real danger or not, so it forwards the information to the amygdala. The amygdala takes these neural responses and attempts to protect you by telling the hypothalamus to initiate a fight-or-flight response. The low road initiates the fear response, *just in case*.

The high road/head response is much more thoughtful and considers all the options. Your brain still sends sensory data to the thalamus, but from there it takes a different course. Instead of forwarding the data to the amygdala, the thalamus forwards it to the sensory cortex, where it can be interpreted for meaning. The sensory cortex recognizes that there are multiple possible interpretations and passes it along to the hippocampus to establish context. The hippocampus will ask questions like, "Have I seen this before?" "What could it mean this time?" "What else is going on that can help me assess the situation?" If the hippocampus determines that there is no real threat, it sends that message to the amygdala, which then tells the hypothalamus to shut down the fight-or-flight response.

The high road/head response in effect double-checks the low road/gut response, if we give it the chance to do so. The high road/head response takes a little time, it takes a little thought, but mostly it takes a lot of discipline. “Respond, don’t react.” is good advice. It’s another way of saying take the high road. The low road/gut response isn’t technically a response; it’s a reaction, unconscious and unthinking. The high road/head response is a true response because there is some use of the rest of the brain before taking action.

Regardless of whether we take the high road or the low road in responding to a frightening stimulus, the road must go through the hypothalamus. The hypothalamus is a very old part of the brain that produces the fight-or-flight response. The hypothalamus activates two systems: the sympathetic nervous system and the adrenal-cortical system. As you might surmise, the sympathetic nervous system uses nerve pathways to initiate reactions in the body; the adrenal-cortical system uses the bloodstream. In combination, these two systems generate the fight-or-flight response.

When the nervous system is stimulated by the hypothalamus, the body speeds up, tenses up, and becomes very alert. The nervous system sends impulses to the adrenal medulla to release adrenaline into the bloodstream, which increases heart rate and blood pressure. Concurrently, the hypothalamus signals the pituitary gland to release the hormone ACTH (adrenocorticotropic hormone). ACTH travels to the adrenal cortex via the bloodstream where it activates the release of a cocktail of some thirty different hormones that prepare the body to face the threat.

The physical changes associated with fight-or-flight response include:

- an increase in heart rate and blood pressure,
- dilation of the pupils to admit more light,
- an increase in blood glucose levels,

- muscle tensing, caused by adrenaline and glucose flowing to them, which also creates goose bumps.
- relaxation of smooth muscles to allow more oxygen to the lungs,
- a shutdown of non-essential systems, like digestion, to allow more energy to emergency functions,
- an inability to focus on small tasks, as the brain is directed to focus on the big picture, the immediate threat.

Richard Petty has won more NASCAR races than anyone in history, and his record of 200 victories is likely to stand forever. When asked about how his driving changed over the years, he said that as he became more experienced, he learned to respond more slowly to danger, such as a loss of control or a pileup just ahead.

At first glance, you would think that experience would cause Petty to respond faster, not slower. What Richard Petty meant by his answer is that, with experience, he could take a spilt second to analyze the situation, determine different courses of action, then take the course of action that was likely to yield the best outcome. An experienced driver, unlike the rookie, was less likely to have a knee-jerk reaction that might end in disaster. With experience, Richard Petty went from the low road/gut response to a situation on the track to a high road/head response, and it was a large reason for his record number of wins.

Experience is one factor that enables us to move from low road/gut responses to high road/head responses. Most of us learn to take the high road only after a few accidents on the low road, or as the Greek playwright

Aeschylus said some 2,500 years ago, “Wisdom comes alone through suffering.”

The five parts of the brain that are involved in our fear response actually come in pairs. You have one of each in each of your brain’s hemispheres. Even though the right and left hemispheres of the brain may look like mirror images of each other, they actually work differently from each other. The left brain:

- controls the right side of the body,
- processes information sequentially,
- specializes in text,
- analyzes the details,
- operates like a computer, with about as much emotion as one, too.

In contrast, the right brain:

- controls the left side of the body,
- processes information simultaneously,
- specializes in context,
- synthesizes the big picture,
- is where emotions like faith, hope, love, and fear live.
- is the source of perception, intuition, creativity, concepts, hunches, fantasies, humor, curiosity, analogies, and relationships.

Researchers have studied brain scans of people as they were exposed to different photos. When shown a picture of a man pointing a gun at the camera, the amygdala in the left hemisphere was more active than the amygdala in the right hemisphere. The left amygdala was more active because assessing a photo like that requires rapid-fire sequential reasoning, at which the left hemisphere excels. The left brain can look at such a photo and calculate that 1) there is a gun pointed at me; 2) guns are dangerous; 3) it's time to flee.

When shown pictures of people's faces with varying expressions, the right amygdala was more active. The right brain specializes in context and the big picture. It can look at a photo of a person's face and recognize emotions in that face – joy, sorrow, and especially fear. The right brain looks at the whole face, not just parts of it, to determine what the person is expressing. The right brain is also where our emotions live, so it is natural that the right brain can recognize emotions in others, even in photographs.

It is important to recognize that, while one side or the other of our brain may be dominant in certain situations, the other side isn't asleep. Both sides are always active. Certain circumstances dictate which side is more active and takes the lead.

Our tendency is to think of life in either-or terms. You are logical or emotional, Mars or Venus, left or right, even fight or flight. In reality, to be either-or can be dangerous. If you are totally left-brain, you might view every threat with a fight-or-flight response. In that case, you spend most of your life fighting or fleeing, which is no way to live. On the other hand, if you are totally right-brain, you might spend so much time looking at context and the big picture that by the time you come to a conclusion about a threat, you're already dead.

The hormones triggered by the amygdala also temporarily enhance memory function. The purpose for this enhancement is to encode the experience in our long-term memory. If a situation is dangerous, part of long-term survival involves remembering it, so you will know how to react if you find yourself in that same situation in the future.

It is believed that these memory triggers work not only on an individual basis but also for the species as well. Studies have shown that people who have never encountered a snake, such as people in Arctic regions, nevertheless have a revulsion when they are shown one. This aversion to snakes has likely been encoded into almost all human brains through hundreds of millennia of evolution.

Charles Darwin proved the same point back in the 19th century. Darwin believed that many of our fears were an evolved response, and there was little we could do to control them. To prove the point, he went to the reptile house at the London Zoological Gardens. He moved as close as he could to the glass where a puff adder was just on the other side. Although he tried to remain calm and knew that he was in no danger, every time the puff adder lunged at him, Darwin grimaced and recoiled in fear. He wrote in his diary, "My will and reason were powerless against the imagination of a danger which had never been experienced."

Most of our instinctive fears don't harm us, even if they aren't much help in the 21st century. We may not have much of a need for an instinctive fear of snakes, but carrying that dormant fear around doesn't impede most of us from leading normal, productive lives.

While we all have some fears that seem to be instinctive and the product of evolution, we may have many more fears that are the product of *conditioning*. Conditioning is why some people fear crowds, closets, or cats, while most others do not.

In the 1920's, American psychologist John Watson taught a male infant to fear white rats. Initially, little

Albert had no fear of the laboratory rodents and would even smile and reach out when he saw one. Using Pavlovian conditioning, Watson paired a neutral stimulus (the white rat) with a negative effect. Whenever Albert reached out for a rat, Watson created a terrifyingly loud sound behind the 11-month-old child. Albert learned very quickly to fear white rats. He also started to cry in the presence of other furry animals, including a Santa Claus mask with a white beard.

Some learned fears can occur before the person even develops long-term memory. Most people don't develop long-term memory until about three years of age. However, the amygdala is at work from day one. If someone has a negative experience as an infant, that person may carry a learned fear around for a lifetime without ever knowing why he/she has such a fear. Little Albert was far too young to remember the fear conditioning experiment, but one can assume he never enjoyed the sight of a white rat again.

In the 1970's, psychologist Martin Seligman performed classical conditioning experiments where adult subjects were shown pictures of certain objects and then administered an electric shock. The goal was to create a phobia of the object in the picture. It only took two to four shocks to establish a phobia if the object in the picture were something like a spider or a snake. If the object were something like a flower or a tree, it took many more shocks to initiate a phobia. These experiments lend credibility to the notion that we have some innate fears that are standard equipment in the human brain. The shocks in the experiment just brought those innate fears to the surface. To create a fear of flowers, you pretty much have to start from scratch.

Prior to Seligman's experiments with inducing phobia, he had become known for his experiments on learned helplessness. Learned helplessness is a condition where a person has learned to behave helplessly, even when the opportunity is restored for that person to self-help by avoiding an unpleasant or harmful situation.

People with a pessimistic personality were more likely to develop learned helplessness. Learned helplessness can also be learned from others, not just through one's own experience. If a child grows up in a household where the adults demonstrate learned helplessness, that child is much more likely to develop those same traits.

An interesting example of learned helplessness comes from the circus. You may have seen elephants with a leash around their neck and the other end attached to a stake hammered in the ground. The adult elephant has more than enough strength to pull that stake out of the ground. It doesn't do it, though.

The elephants are raised in the circus, and they are staked like that from the time they are young. When they are young, they don't have the strength to pull out the stake. They have learned helplessness in freeing themselves from the stake, and they still believe they are helpless long after they are strong enough to free themselves.

If you're willing to have your amygdala surgically removed, you might well get rid of all your fears. Studies have shown that rats with a damaged amygdala will walk right up to cats. Of course, the cats are likely to kill the rats, so there is a high price to be paid for the elimination of fear. As a reminder, the ability to fear is necessary for survival. It is irrational fear that is the problem. Besides, no surgeon would ever agree to remove your amygdala.

Fear extinction most typically involves creating a conditioned response that counters the conditioned fear response. Although fear memories are stored in the amygdala, fear-extinction memories start in the amygdala but are then transferred to the medial pre-frontal cortex. The new fear extinction memory in the medial pre-frontal cortex then attempts to override the fear memory in the amygdala. If you've ever tried to overcome an irrational fear, the process of subduing that fear may feel like a battle going on in your brain. In a sense, there is a battle as the medial pre-frontal cortex (the "head") vies for supremacy over the amygdala (the "gut").

Fear extinction therapies focus on exposure to the source of the fear. If someone has a fear of snakes, the therapy might involve slowly spending time around snakes (in a safe environment, of course) while incrementally moving closer to actually touching a snake. A new memory is formed that snakes are not harmful.

In conjunction with "hands-on" therapy, learning about snakes can also assist in alleviating fears. All irrational fears are based on misconceptions, and education can clear up the misconceptions. If nothing else, the education part can make the hands-on therapy part easier to implement.

Fear was built into the human brain over thousands of years of evolution as a tool for survival. The fear response was not something humans had to think about; it was just there. This fear response is an involuntary action, like the breathing of the lungs or the beating of the heart. We are hard-wired to do these things without thinking because if we had to think about them, some people would forget to do so, and they would perish.

The truly fearless became extinct. They didn't die out all at once in some cataclysmic event, like the dinosaurs did. They have been getting picked off every day since the dawn of humans. The truly fearless may make conquests that their more fearful peers can only dream of, but eventually such fearless (read reckless) behavior leads one into a fatal confrontation. Being incapable of fear or always ignoring your fears is a game of Russian roulette. Sooner or later, the odds catch up to you, and you are being referred to in the past tense.

Our ingrained fears were formed by circumstances that existed for the first 150,000 years of our species' existence. Those fears were well-founded. It took tremendous courage to hunt animals that often stood an even chance of killing you in the conflict. Every day was a battle for survival and fear was necessary to keep the incredibly high risks of day-to-day life to a minimum. Even our fear of being a social outcast has its roots in early human society. To be cast out from the tribe in ancient times was a certain death sentence. Interdependence was essential to survival, so it was essential to not alienate others.

It is only in the last century or so that humans have been able to overcome so many of the sources of our ingrained fears. The starvation that still exists in the world is more the result of political conflict than of food shortages. There are no animals that threaten us, especially with the weapons we now possess. We now not only know what diseases are, but we also have been able to cure almost all of the ones that have killed humans for millennia. A man from 10,000 years ago would be hard-pressed to find anything to fear from that era in today's world. However, we need to remember that these innate fears were very valid for 150,000 years. They have only become invalid over the last 100 years. With that kind of numerical disparity, it will be a while before we evolve these fears away.

There are few fears of 21st century humans that require the low road/gut response. Almost all of our fears require the high road/head response. The fears of the 21st century require accuracy, not speed to be properly handled.

In statistical analysis, there are Type I and Type II errors. A Type I error is also known as a *false positive*; a Type II error is known as a *false negative*. When we look at fear, a false positive can be thought of as believing something should be feared when it really shouldn't be. A false negative can be thought of as believing something shouldn't be feared when it should be.

For ancient humans, a few false positives were better than even one false negative because the false negatives were almost always fatal. They also didn't have many false positives. Their lifestyle was primitive, but simple, so there were fewer things to trigger an irrational fear.

For modern humans, our lives are full of false negatives and false positives when it comes to fears. Which category predominates is often the result of conditions at the time.

In good times, we have more false negatives. We feel safer and braver and are more likely to ignore or downplay a real danger. In bad times, we have more false positives. We are more likely to see danger where it doesn't exist, or at least to overestimate the danger of something. Our lives have become inundated with false positives and false negatives to the point where we are making some very bad decisions. These bad decisions are putting our future success and happiness at risk.

WHAT ARE WE AFRAID OF?

Believe it or not, the Vikings were more fearful than fearsome. The Vikings were driven to their great conquests, including conquests over most human fears, by one overriding fear – the fear that their name, their reputation, as well as their body and soul would become evanescent, so much dust in the wind. For the Vikings, there was no form of Hell worse than to be forgotten. Immortality was their driving force, as summarized by the Norse god Odin:

Wealth dies; kinsmen die; and you will die, too:
But know one thing which never dies:
The verdict on every dead man.

People of the 21st century are not unlike the Vikings in that we also have chosen certain fears to rule our lives. We have been able to eliminate the causes of many of our most primal fears. We have not, however, had any luck in eliminating fear itself from our lives. We have advanced from having our fears dictated by nature or by tyrants to having our fears dictated by our own distorted perspective of our world and our place in it. I don't believe that having the source of fears move from external to internal qualifies as an advance, however.

Our fears in the 21st century are largely the products of our own imaginations. They are not the product of something real and in the present. Our fears require us to imagine the future, to imagine our place in the future, and to imagine how others think of us, both now and in the future. The requirements of these fears can only be met by the capacities of the human brain. The fears of the 21st century human are unique to humans.

When thinking about our modern fears as they relate to our finances and our futures, I see a dozen different fears we face today:

- Fear of ***Change*** (and mostly fear of the *process* of change)
- Fear of ***Uncertainty*** about the future
- Fear of ***Mistakes*** of our own doing
- Fear of ***Failure*** on our part
- Fear of ***Loss of Control*** over our lives
- Fear of ***Worthlessness*** in the eyes of others
- Fear of ***Rejection*** by others
- Fear of ***Losing*** out to others
- Fear of ***Missing an Opportunity***
- Fear of ***Regression*** from current prosperity
- Fear of ***Being Exploited*** by others
- Fear of ***The Big Disaster***

Fear of Change:

Change is not made without inconvenience, even a change for the better. Perhaps the biggest inconvenience involved in making a change is dealing with an enormous number of choices available. A large array of options means there is a lot of work involved in making decisions about the changes to be made.

Most people today invest for retirement through a 401(k) or similar plan at work. One of the advantages of such plans is the availability of many different investment options. The employee is free to choose how his/her money will be invested. The employee can choose not only how the assets are allocated in different classes, but also the specific investments within each class. The freedom to choose and to make changes at will come at a price – the responsibility to make those changes.

When you have hundred different choices in your 401(k), the task of selecting the investments and their specific allocation becomes a daunting task. Very often, a person decides that it is better to leave things as they are, a condition known as *status quo bias*. The perception is that it is easier and less risky to leave things as they are. The problem of status quo bias in such a case is that, while the present may be made easier by deferring to the status quo, the future is likely to be made harder.

Most of us are comfortable. We may not be totally happy about our circumstances, but we adapt to our circumstances and become comfortable with them. Such adaptation makes a comfort zone of our circumstances.

Change involves moving out of that comfort zone, which is one reason why we tend to resist it. Many elderly people have lived in the same house for 40, 50, even 60 years. The house may no longer be appropriate for them because of its size, layout, or very often because the neighborhood has become unsafe. Nevertheless, there is resistance to making a change and moving to a more appropriate and safer home. These elderly feel that their home is the one constant in a world that has changed, and they are very reluctant to let it go. What they fail to comprehend is that because everything else has changed (their age, family circumstances, neighborhood) their house isn't a shelter from those changes, but a reminder of them.

Fear of Uncertainty about the Future:

One of the reasons for fear of change is fear of uncertainty about the future. We know the status quo, which is one reason we are comfortable, if not necessarily happy with it. We don't know how change will work out, and that uncertainty frightens us.

In economics, risk is defined as uncertainty concerning the outcome of an action. We fear uncertainty to the extent that we fear risk. We fear risk to the extent that we fear loss. We fear loss to the extent we have something to lose. Thus, your ability to be fearless is likely to correlate with how much or little you have to lose.

During the financial meltdown of 2008-2009, people were dumping their stock investments for the safety of insured bank accounts and CD's. Many of these people unloaded their stocks long after they had suffered huge losses, and at a time when those stocks were well positioned for a rebound.

What drove so many people to sell stocks at a time where they were guaranteed to endure a big loss was the uncertainty of what those stocks might do in the future. The sellers might know objectively that the CD might never earn back the recent loss on the stock, but they were certain that it would not lose value. They were willing to take a sure loss in the present to avoid the uncertainty of a loss in the future.

If you or a loved one has ever had a serious medical problem, you have probably experienced the torture of waiting to find out the results of tests. The burden of not knowing seems worse than the burden of a worst-case diagnosis. When you are in that situation, it is not unusual to find yourself thinking that you would rather hear bad news right now than to have to wait a minute longer for the results. Objectively, we all know that a worst-case diagnosis is much harder to deal with than the temporary agony of uncertainty, but fear of uncertainty is fatal to objectivity and to finances.

Because risk and reward move in the same direction, the price to be paid for greater rewards is the uncertainty that there will be *any* rewards. When the economy and the stock market are rolling along, people tend to worry less about uncertainty. They worry less because they feel less uncertainty when things are going well.

Our tendency is to take the recent past, good or bad, and assume it will continue that way into the indefinite future. When the economy and the stock market are in the tank, people assume greater uncertainty about a return to good times. Fear of uncertainty can paralyze efforts to make any significant progress toward a more truly worry-free future, as any real progress involves an element of uncertainty.

Fear of Mistakes of Our Own Doing:

There are mistakes of *commission* and mistakes of *omission*. In the short run, we have greater regret over our mistakes of commission, those mistakes caused by our actions. In the long run though, we have greater regret over our mistakes of omission, those mistakes caused by our inactions.

For example, if we buy a stock and it falls in value, we may sell it and chalk the experience up as a mistake of commission. The negative feelings from such a mistake don’t last too long. On the other hand, if we decide not to buy a stock and it subsequently goes through the roof, the negative feelings from that mistake may haunt us for years. Think of all the people who had the opportunity to buy stock in companies like Wal-Mart, Home Depot, Microsoft, or Apple when they were first starting up. Decades later, those people are still kicking themselves for what they *didn't* do.

One reason we make mistakes is that we aren't as smart as we think we are. We have a tendency to think we all live in Lake Wobegon, Garrison Keillor's mythical town, where "all the men are strong, all the women are good-looking, and all the children are above average." Overconfidence inevitably leads to mistakes. These mistakes hurt twice. First, there is the damage from the mistake itself. Second, there is the damage to our ego from the realization we're just average at best.

Mistakes are often made because we tend to look at everything through our own personal context. One person alone does not have the perspective to fully understand a situation, no matter how knowledgeable that person might be.

In the children's book *Seven Blind Mice*, the mice take turns investigating something new at their pond. Six mice take turns investigating, and they come up with: a pillar, a snake, a spear, a cliff, a fan, and a rope. The seventh mouse runs all over the object, puts the pieces together, and determines it is an elephant. The moral of the story: wisdom comes from seeing the whole, which is hard for one person with one perspective to do.

We also tend to make decisions with our gut, and then we delude ourselves that those decisions were made with our head. We know that decisions made with the head will be impartial, rational, and well thought out. The gut just goes with its gut feeling. Better decisions will come from the head, so we naturally want our decisions to come from there, and we delude ourselves that they actually do. When those decisions prove wrong, we begin to question our head's ability to make a good decision. The head actually could make a good decision, if we could learn to shut up our gut and give the head the time and space it needs to formulate the kind of decision that won't come back to haunt us.

Fear of Failure on Our Part:

While we in America tend to worship success, we are more forgiving than other cultures when it comes to failure. Many a child has been coached that failure is an event, not a person. There's nothing we love more than a great comeback story. Nevertheless, we can be very hard on ourselves when we fail.

Successful people see failure not as a personal indictment, but rather as an opportunity for feedback on how to change to become successful. Unsuccessful people see failure as both personal and permanent. Fear of failure is what keeps most people from ever even trying something. Never trying something is a mistake of omission that haunts them for decades afterwards.

If a baseball player is lucky enough to play for fifteen or twenty years, yet fails two-thirds of the time when he bats, do you know what becomes of him? He likely ends up in the Baseball Hall of Fame. The difference between a so-so ballplayer and a hall-of-famer is: the so-so player fails three times out of four; the hall-of-famer fails only two times out of three. In baseball, the immortal fail only slightly less often than the forgotten.

It is estimated that Thomas Edison tried over 10,000 experiments with the light bulb before he got it right. He tried using 6,000 plant filaments alone – they all failed. When he was 67, Edison's laboratory was destroyed by fire, and his insurance barely covered 10% of the loss. The following day, Edison remarked, "There is great value in disaster. All our mistakes are burned up. Thank God we can start anew." Within three weeks after the fire, he had invented the telescribe, which enabled both sides of a telephone conversation to be recorded.

Failure is nothing. Fear of failure is everything. Fear of failure stops people from ever trying. Fear of failure guarantees failure. If you don’t try something, you also have no chance to succeed. Fear of failure is so much worse than failure itself because only fear of failure and the paralysis it creates eliminates any possibility of success.

Fear of Loss of Control over Our Lives:

Most of us feel that we have some control over our lives. Those who don’t feel that way are, by their own admission, miserable most of the time. Those who feel they have control fear losing that control and ending up miserable like the others. Yet, most of us don’t have nearly the control over our lives that we would like to think we do.

One of the fears most common in the elderly is the fear of loss of control over their lives. They know that their time is dwindling down. They know that their bodies don’t function like they once did. One of their greatest fears though, is the fear of loss of control and independence that comes with a loss of financial independence.

When your income ceases and your expenses do not and when you are unable to control many of those expenses, it is easy to feel as if you have absolutely no control over your financial situation. Because your financial situation dictates much of your quality of life, a loss of financial control leads to a loss of control in much of the rest of your life, too.

For the most part, there are very few external aspects of our lives that we can control. As an example, if you are a parent, you know that you have only a limited ability to control your children, even though you have tremendous leverage to use with them if necessary. We can’t control the volatility of our investments. With few exceptions, we can’t control the amount or the reliability of our incomes. We can’t control our taxes. Heck, most of us can’t even control our weight.

The only thing we have any real control over is our response to circumstances. While we tend to fear loss of control over external aspects, our greatest fear should be the loss of control over how we respond to external factors, especially negative and unforeseen events.

For example, no one has control over the stock market, and no one can predict with any degree of accuracy what the stock market will do in the short run. The only thing an individual can control is his/her reaction to the gyrations of the market, but that control is sufficient to gain long-term success.

The only thing we need to control is the only thing we have the ability to control – ourselves. The problem is that it takes self-discipline to create self-control. Self-discipline is a virtue in short supply, and most people aren’t working to create new supplies of it. We fear a loss of control over our lives. We should only fear a loss of control over ourselves.

Fear of Worthlessness in the Eyes of Others:

As discussed in a previous chapter, greed is often an attempt to command respect from others by displaying a superior financial position. Often this behavior is done to mask a fear by the greedy person that others will consider him/her to be worthless. One of the best ways to avoid being considered worthless is to display a high net worth, or so conventional thinking goes.

There are several problems with such a line of thinking. One problem is that the *display* of net worth is equated with *actual* net worth. If a display of net worth is all that is needed to be considered worthy by others, then everyone will be doing whatever is necessary to display such worth and therefore be considered of worth to others. Of course, the display is not the real thing, and the people who go out of their way to flaunt financial success in this manner are the same people who are decreasing their real net worth for the facade of high net worth.

A more serious problem is that no one's real worth can be measured by any financial statement. One's real worth is measured in facets that are hard to measure. In reality, someone's true worth increases in proportion to the amount they give, not in proportion to the amount they retain. To provide with no expectation or desire for recognition by anyone is the best way to increase one's real worth.

Nevertheless, it is human nature to want the approval and admiration of fellow humans. We do admire and approve of people in this country who achieve wealth and even those who merely appear to achieve wealth. Money is an easy way to gain admiration, superficial though it may be. People who seek such validation from others in this manner do so because there is little else in their lives for which they can be admired.

It is far more important to be worthy in our own eyes than to be worthy in the eyes of others. For one thing, we cannot fool ourselves about our true character. Self-respect has to be earned; you have to be the real deal. The interesting phenomenon is that, once you have earned self-respect by holding to your values and by placing others' needs before your wants, you no longer worry about what others think. Once you win over the toughest judge, yourself, the opinions of the rest of the world become almost irrelevant.

Fear of Rejection by Others:

Feelings of worthlessness often begin with a rejection by someone. It starts early enough in life, no later than adolescence for most of us. The thought of asking someone to the dance, or even to asking someone to dance *at* the dance, can fill a teenage heart with terror. It isn't the asking that causes fear. It's the possibility that the answer might be "No." The risk to a fragile ego is just too great to take such a chance.

Yet, how does any sale ever get made? The seller has to ask for the order and risk rejection by the potential buyer. One reason salespeople make above-average incomes is because they are among a small minority of us who can hear rejection day after day, yet not take it personally. Telemarketers rarely last more than ninety days because even the most impervious of us can take only so much rejection before we give up.

Our need for love and approval is constantly at battle with our fear of rejection. Entertainers have a high need for approval, which is one reason they go into show business in the first place. They also have a high fear of rejection, which is one reason why so many work so hard for so long to make it in show business. Ultimate failure is also the ultimate rejection.

Those who suffer from fear of rejection typically display little or no assertiveness. They lack the courage to act differently. They become enablers, unable or unwilling to get others to cease harmful behaviors. They become so obsessed with behaving in a prescribed manner that they become rigid, inflexible, and closed to any alternative thought or behavior. The Nazis built a war machine by manipulating such people.

Fear of rejection creates a self-censoring mentality that stifles one's creativity, one's imagination, one's productivity and, most of all, one's uniqueness. Teenagers like to think of themselves as independent and individualistic, yet they are the group most prone to peer pressure. "Conform or be cast out," as Rush sings in *Subdivisions*. This fear of rejection and the need to fit in robs individuals of the opportunity to reach their full potential, with all the personal and financial rewards that go with it. This fear also robs society of the progress that could be made through the accomplishments of those who would reject rejection and follow their true calling.

Fear of Losing Out to Others:

The competitive spirit of Americans has enabled us to accomplish many great things in our history. In 1961, no one in America was seriously thinking about putting a man on the moon within the decade until President Kennedy challenged us to do it. We love a challenge. We love to compete. We love to win. We HATE to lose.

Hating to lose can be a great motivator. Fear of losing to others can also be a motivator, but it can easily become an excuse to cheat in competition or to decline to compete at all. When someone hates to lose for the right reasons, a loss is viewed as a failure to do one's best. Such a person is not inclined to cheat because cheating to win is a greater failure than losing honestly. Someone who fears losing for the wrong reasons is focused solely on the outcome and not the effort. That person's perspective is that winning by cheating is preferable to losing with integrity because losing in any manner is unacceptable.

An abnormal fear of losing to others may have started early in life, where parents may have put the child in competitive situations early and often and stressed to the child the importance of winning over everything else. With such a background, it's expected that such a child will grow up with a fear of losing to others and will do whatever is necessary to avoid losing.

Such an upbringing may also make someone ultra-competitive. For years in the brokerage business, employers have pitted brokers against each other to see who can generate the most sales. This kind of competition differs from a competition among, say, car salesmen in some critical ways. A car salesman sells a car, and to close sales a good deal for the buyer typically has to be made. The buyer is likely already in the market for a new car, and what the buyer is getting is pretty clear.

When stock brokers have a competition, the result is often a churning of investments in client accounts that increases commissions while reducing the value of the client accounts. Fear of losing a competition causes these brokers to act in a manner detrimental to the very people who are providing them with their livelihood – the clients, not the brokerage house.

Fear of losing to others differs from fear of failure in one very big way. Fear of failure is much more internal. Failure is defined by what you accomplish in relationship to what you hoped to accomplish. There is likely to be little or no external competition involved. Fear of losing to others is totally external because success or failure is based solely on how one performs relative to others.

Fear of losing to others is too common, in part, because we put ourselves in competitive situations when there should be no competition. Your income should not be asked to compete with someone else's, nor should your home, your car, your spouse, or your kids. Some things should be enjoyed for their absolute value, not their relative value. When we start making comparisons where we shouldn't, we lose much of the joy that those parts of our life should be affording us.

Fear of Missing an Opportunity:

The abundance of choices we have in almost every area of our lives makes missing an opportunity or two along the way inevitable. The freedom to take advantage of so many opportunities in life is both a blessing and a burden. It is a blessing in that we have so many choices. It is a burden in that we have to make choices. In choosing, we inevitably have to leave something good behind.

Fear of missing an opportunity is one of the main reasons why some people are unable to make a commitment. Take a single man in Manhattan. There are five single women for every four single men there. Since the men are in shorter supply, they are also in greater demand. As a result, they have more opportunities to pair up, at least temporarily, with different female partners.

Manhattan women complain that Manhattan men don't like to commit, but their lack of commitment is because they have many opportunities. To commit means they will have to miss many opportunities. These men may actually want the benefits of a committed relationship, but the fear of those missed opportunities is too daunting to enable them to change their habits.

Fear of missing an opportunity is one reason why people have a herd mentality when it comes to investing.

The best time to buy is when stock prices are down, but do people do it? Only a smart minority do. The majority sell low because that is what everyone else is doing. They are all doing it because they are afraid of missing the last opportunity to sell out before all their investments become worthless, which never happens, of course. Later on, when the markets come roaring back, these same people who've been sitting on the sidelines for most of this latest bull market finally decide to get back in before the train leaves the station. Their fear of missing this latest opportunity has merely given them another opportunity to buy high and sell low, which is no way to get rich.

Sales people are well aware of this fear of missing an opportunity. This is why they put time limits on sales. You may go by a car dealership that is advertising a sale that "absolutely, positively ends Sunday." You could get the same deal on Monday if you simply demanded it. If you buy items on any of the shopping networks, they have a countdown clock that lets you know how much longer before this opportunity slips away. You may watch a commercial that lets you know that "if you call in the next ten minutes, we'll throw in an extra set free!" And of course, there is the hyperactive rhythm of the auctioneer, whose verbal machine-gun fire is designed to make you feel that the opportunity is about to be gaveled away, and if you don't act RIGHT NOW, it will be gone forever.

Fear of Regression from Current Prosperity:

There is an aversion to *losing*, and then there is aversion to *loss*. To fear a regression from one's present status is an aversion to loss – whether that loss involves income, wealth, social status, influence, or health. We don't want to lose what we already have.

We have a tendency to fall in love with the things we own. This tendency is not surprising since we wouldn't own them if they didn't have some appeal to us. Ownership, however, creates an overvaluing of an item. Realtors say the hardest part of selling a house is getting the seller to recognize that what an owner thinks is the value of the property is usually much higher than what the market thinks it is. This tendency to overvalue what we own is sometimes known as the *endowment effect*.

When we have managed to accumulate a decent pile of money and/or things, we start to focus more on what we may lose than on what we may gain in any transaction. This feeling of loss is one reason we overvalue the things we own. You aren't just selling your house. You are selling years of memories and the opportunity to make new memories there. That loss requires a premium to be paid over the value of the structure itself, at least in your mind.

We forget that no one else is viewing the purchase of your house or any of your possessions from your perspective. About the only time the emotions of a buyer may come close to the emotions of a seller is in those rare cases where an item has some historic significance, like JFK's golf clubs or the ruby slippers from *The Wizard of Oz*. Because such items elicit emotional responses from potential buyers, they are sold at auctions, where those emotions can be milked for the highest price.

Fear of regression is one reason why people hang on to losing investments for too long. If you bought a stock at $40 and if it is now $20, it might be time to sell, especially if the company is in trouble and if the stock is expected to go lower still. However, to sell at $20 is to accept regression from $40 to $20. Furthermore, to sell at $20 is to accept defeat.

Because we feel the pain of loss more than we feel the joy of gain, we will go to greater lengths to avoid a loss than we will to affect a similar size gain. For example, you are given two choices: you can take a guaranteed $500 or flip a coin to get $1,000 or $0, depending on if you call the flip correctly. Which do you choose? In a second scenario, you have two different choices: you can take a guaranteed loss of $500 or flip a coin to lose $1,000 or $0, depending on if you call the flip correctly. Which do you choose?

In both scenarios, there is a 50-50 chance that flipping the coin will improve your situation. There is also a 50-50 chance that your situation will become worse by the flip. The risk is exactly the same in both scenarios. Yet, when people are asked what they would do, about 80% choose to take the sure $500 in the first scenario, rather than risk the double-or-nothing coin flip. These same people, by the same 80% majority, will choose the coin flip in the second scenario. This experiment shows that double-or-nothing on a gain is considered risky, but that double-or-nothing on a loss is not. It is the fear of regression from the current position that prompts people to take such illogical and risky behavior.

Fear of Being Exploited by Others:

This fear goes beyond a fear of not making the best possible deal. No one can make the best deal every time In fact, good deals should be a win-win situation. Fear of being exploited is the fear that every deal must have a winner and a loser, and if you’re not the clear winner, then you must be the loser.

This fear can have different causes. One cause may be a perspective that everything in life is a competition and that everything in life must therefore have winners and losers. Such a mindset precludes the notion of cooperation, as opposed to competition. Such a person is perpetually on offense, and can be frequently offensive, too. Another cause may be a touch of paranoia. This person might be personified by George Costanza from *Seinfeld*, insecure to the point of trusting no one.

Although it might be tempting to think that a fear of being exploited could help one in financial dealings, it is much more likely to have negative effects. One negative effect is that good deals for both parties may never get done because one party, preoccupied with fear of being exploited, pushes the other party to the point they just walk away. People like to conduct business with people they like. If someone is approaching a business deal from the perspective that the other party is trying to exploit them, the odds of a positive outcome are slim.

Another negative effect is that a person can become so paranoid about being exploited that he/she stops all interactions where such a possibility exists. Such a person may become obsessed with comparison shopping, spending hours to make sure he/she pays the lowest price for everything from gasoline to toilet paper. This person may avoid any transactions where there is any negotiation on price because a negotiable price might mean not getting the lowest price possible. Since most of the major items we buy have negotiable prices, avoiding such transactions can have a very negative effect on one’s quality of life.

Everyone acts in self-interest, especially when it comes to financial dealings with unrelated parties. Self-interest does not require either an overt offensive or defensive position. If a deal does not feel right, the smart thing to do is pull back and re-think the whole deal. That one action can eliminate most cases of someone trying to exploit you.

Fear of the Big Disaster:

The Big Disaster can take many forms. It may be something cataclysmic like a nuclear attack. Natural disasters like floods, earthquakes, and hurricanes are also causes for concern. More often, the Big Disaster comes in a small package. The Big Disaster is more likely to be something personal, like a job loss, the death of a loved one, a disabling injury, or a diagnosis of cancer.

We tend to worry about the Big Disaster out of proportion to its risk of occurrence. If one person dies from a vaccine, that story will make news. The news story will report on the person who died and on others whose death coincided with receiving the vaccine. What is almost never mentioned is how many people received the vaccine and how many of them didn’t die because they received it. If one person out of 40 million dies from a vaccine, that’s an infinitesimally small risk. If you add in the fact that the vaccine may have also saved thousands who received it, the only dangerous behavior is *not* taking the vaccine.

For many of the Big Disasters, we have some control of the odds of their occurrence. Insurance may not protect us from the Big Disaster, but it can protect us from the financial consequences of it. Personal Big Disasters, especially those involving physical health, can be mitigated by lifestyle choices that promote good health. Whether the Big Disaster you fear is the loss of your job, your child’s incarceration, or your own premature demise, very often the best you can do is the best you can do, then go on and live your life.

Almost no one goes through life without at least one Big Disaster striking. Sometimes we ask for it, like when we eat too much and exercise too little or when we build a house on the Gulf Coast and hope a hurricane never strikes. Sometimes the Big Disaster comes out of deep left field, like a traffic accident with a drunk driver or an inoperable brain tumor. Humans are strong enough and adaptable enough to survive most of the Big Disasters we encounter through life.

The trick is to do what is within your power to minimize the chance of the Big Disaster striking, then go on and live your life. Even if, and especially if you become the victim of a Big Disaster you can’t survive, at least you will not want to have wasted any of the days of your life worrying needlessly over something beyond your control.

FEAR AND MONEY

One of Jack Benny's most immortal routines involved him and a stick-up man who approached Jack, stuck a gun in his ribs and demanded, "Your money or your life!" There was an extremely pregnant pause. The stick-up man grew impatient and snarled, "Well?" to which Benny replied, "I'm thinking! I'm thinking!"

Benny's persona as a cheapskate is what makes the situation plausible and funny. For someone to be so attached to money that he is conflicted about whether to give up his money or his life is absurd, which is why we laugh at the punch line.

What most of us never realize is how similar we are to Benny's character. We might not hesitate to give up money in such a black-and-white and immediate confrontation. We very often give up our life, a little piece at a time, as we battle for decades our fears about money.

When we think about fear and money, there are really two broad areas for thought. The first involves fears about money itself. These fears revolve around money's accumulation and distribution. The second involves other fears that don't involve money directly, but that money can be used to worsen or improve. In all cases, the problems begin when fear leads us into making mistakes with money.

We actually start worrying about money before we really know what money is. More specifically, parents worry about their children's ability to accumulate money before the children are even old enough to understand money. One of the primary determinants of where a family will live is the quality of the local schools.

Before the children are even old enough to attend school, the parents will buy a house, with the most important requirement being that the house is located where there are high quality schools. The reason for the high quality schools is so their children will get accepted into a good college. The reason for attending college is to get a good job. The reason to get a good job is to make a good income.

From the time we are infants, a path is being laid out for us to enable us to maximize our income. The push for good grades may be due in part to develop a good work ethic, but the push for good grades has more to do with cashing in on those grades upon graduation.

Jesus said, “For where your treasure is, there your heart will be also.” At first blush, this statement may seem to be backwards. It seems more logical to believe that where your heart is, your treasure will follow, and that statement may also be true to some extent. However, Jesus was attempting to get people to overcome their fear of losing money, to focus on the treasures of Heaven and not the treasures of Earth.

Evidence of the truth of Jesus’ statement can be found in the real estate collapse that began in 2007. For several years prior to 2007, there was a lot of cheap money available to buy houses, and credit standards to obtain mortgages were virtually non-existent. When money became tighter and interest rates rose on adjustable mortgages while real estate values dropped, a rash of defaults and foreclosures ensued.

In evaluating the data on foreclosures throughout the country, there was one constant – the lower the down payment on the house, the higher the default rate. This correlation held true regardless of geography, income level, job situation, home value, race, creed or color. The more treasure, as measured in down payment, that people have invested in their homes, the more likely they are to do whatever is necessary to keep their home out of foreclosure. The more "skin in the game" people have, the greater their commitment.

Parents often spend thousands of dollars a year to send their children to private schools, even though there are good public schools available free of charge. Religious considerations aside, there is generally little difference in the quality of the teachers or the curriculum between public and private schools. The one area where there is a big difference is the level of parental involvement.

In private schools, a higher percentage of parents are involved in the school, and they are involved to a higher degree than at public schools. This involvement is what provides the difference that the parents are seeking, yet they don't realize that *they* are the difference. They could create the same changes at a public school with the same involvement, and save a lot of money in the process.

Why don't they? The answer goes back to Jesus' words again. Parents are involved in private schools more than public schools because private schools are where the parents' treasure is. If the parents are paying thousands of dollars a year in tuition for something that they could get for free, they feel compelled to protect that investment through involvement in the school, to make sure that the school delivers on the promise of a superior education for their children.

If where your treasure is your heart will be there also, it is also true that where your treasure is, your *fear* will be there also. People with substantial personal investment in their homes will not risk missing a payment, for fear of losing the house to foreclosure. The parents with a child in private school will give as much of their time and talent as the school requires, for fear that the education they are paying good money for will turn out to be a waste of money.

Once we sink money into something, it is almost impossible not to worry about our investment. The entire insurance industry is built on the premise of reducing fear of financial loss by transferring the risk of loss to another party. If you total up all the insurance premiums you pay in a year (life, health, disability, auto, home, liability, etc.), you realize you are paying a lot as a sure loss to allay the fear of a potentially much bigger loss. While insurance is a very necessary and practical tool for controlling risk, its greatest benefit may be the good night's sleep it affords to its owner.

Fear can cause us to get insurance where it isn't needed or cause us to pay too much for that insurance. Retailers love to sell customers extended warranties on products. Any insurance you buy should follow the two basic rules of buying insurance: don't risk a lot to save a little, such as driving without auto insurance, and don't spend a lot to reduce risk a little, such as purchasing expensive extended warranties.

There is greater job and career mobility than in the past. The negative is that almost everyone now lives in fear of losing one's income. This fear gets magnified if your personal savings is low and your personal debt is high. Even as the likelihood of losing one's job has increased, Americans have not insured against such a hardship by reducing debt and increasing savings. The result is that people are at greater risk of losing their income at the same time that they are less prepared to handle it.

Fear of unemployment and of a loss of income creates problems on the job as well. Employees may feel compelled to follow unethical, immoral, and even illegal orders from superiors. Employees may submit to abuse and harassment from management. Employees may accept continued increases in their workload with no increase in salary to compensate. Employees accept such conditions because they seem easier to accept than unemployment.

Research suggests that people who are worried about losing their job are in poorer health than people who have actually lost their job. The poorer health also includes stress and related illnesses. If you’re worried about losing your job, the stress can be greater wondering *if* you’re going to be fired than merely wondering *when* you’re going to be fired.

Because so many people get their health insurance through work, the thought of losing one’s health insurance can be as frightening as the thought of losing one’s income. One reason many people stay in their current job rather than getting a better one is because they fear losing health insurance by leaving.

By most measures, the recession of 2007-2010 was the worst economic downturn since the Great Depression. In a recession, especially a severe recession like 2007-2010, people are naturally worried about losing their incomes. One of the unique effects of this recession was that, for the first time in many people’s lives, there was genuine worry about their lack of savings.

It will take several years to determine if the recession of 2007-2010 will have a lasting effect on our collective savings rate. Some people will learn and spend less and save more. Whether the population as whole will retain these lessons remains to be seen.

Once people begin to save, they then begin to worry about two things – the return *of* their savings and the return *on* their savings. If savings are going into a federally insured account, such as a bank or a credit union, there should be no worry about the return of the money. The main reason people use a bank is because of the security offered.

Savings is defined as money set aside for the short-term, typically five years or less. Investing is defined with a longer time line. While investments typically generate higher long-term returns than savings, they also have higher short-term volatility, which is why putting money into a long-term investment when you will need it in the short-term is risky.

With money, as with much in life, we have to choose between security and opportunity. With savings, we sacrifice opportunity for security. With investing, we sacrifice security for opportunity. Someone ruled by greed will seek opportunity when they should be seeking security. They focus solely on the return *on* their money. Someone ruled by fear will seek security when they should be seeking opportunity. They focus solely on the return *of* their money.

The challenge is to keep fear and greed under control. Greed will cause people to take unnecessary risks with their money, especially with money that should be allocated to secure savings. Fear will cause people to be unnecessarily cautious with their investments. The need for security is due to a fear of uncertainty, a fear that the investment market over the long-term will not provide an adequate reward to compensate for the risk.

One prerequisite to properly allocating money between security and opportunity is properly evaluating the security and the opportunity. The fearful overvalue security and undervalue opportunity; the greedy do just the opposite. The fearful see security where it may not exist, which results in greed getting the green light and enabling a disaster to occur.

Everyone has some level of greed and fear. Scam artists know this fact, so they design their scams to appeal to both aspects. With such a plan, they don't have to determine whether someone is mostly greedy or mostly fearful or to what extent. All that is necessary is to make some appeal to both fear and greed. The victim will make the necessary adjustments internally to justify making an "investment."

Hardly a senior citizen exists who hasn't gotten a solicitation for an investment that pays a "guaranteed" return from 12% up to 50% per year or more. Most senior citizens are not likely to put any money into legitimate investments that might yield such returns because the downside risk will scare them away.

When you're old and retired, the return of money trumps the return on money. However, if the return is "guaranteed", the fear aspect is suppressed, allowing the greed aspect to take over.

After decades of accumulating money, the time comes when we no longer earn an income or at least don't earn an income sufficient to meet our expenses. Retirement is noteworthy for many changes, but one of the biggest changes is the abrupt shift from the accumulation of money to the distribution of money.

In bygone days, when most workers retired with a pension, the transition to retirement, at least from the financial perspective, was less strenuous. A worker would go from earning a paycheck from the employer one month to receiving a pension check from the employer the following month. Even though the pension check was smaller than the paycheck, the reduction was expected and no work had to be done before receiving it.

Today, with the demise of the traditional pension and its replacement with the 401(k), the employee upon retirement goes from putting money into the plan to taking it out in one fell swoop. While this reversal should not be a financial jolt if properly planned, it does create a psychological jolt.

It’s unrealistic to expect someone to diligently defer income for decades to build up a retirement nest egg, then suddenly, and with no transition period, begin to disassemble that same nest egg that was decades in the making. Humans aren’t designed to make changes of that magnitude that quickly, especially after decades of conditioning to do the opposite. There is an innate fear that they are now doing something wrong, since they are doing the opposite of behavior that was right, up until last month.

Nothing scares retirees more than the thought of outliving their money. This problem didn’t exist in the days of the pension. But when your income is derived from an account that won’t see any new contributions, you worry about two things: the rate at which you are taking money out of the account and the safety of the principal in that account.

Most retirees are good at not withdrawing money at a rate that could cause them to run out. They are careful to assume a long life in these calculations, lest they become ninety-two and penniless. They worry about loss of principal, a decline in the value of the investments that cannot be made up before they need to be cashed in for income. This fear of loss of principal is the main reason why retirees are inclined toward safe investments like CDs and government bonds.

Of all our fears about money, the one area that justifies fear, but that few people do fear, is the specter of inflation. This behavior is less a sign of courage than of blissful ignorance. Most people don't give much thought to inflation's effects on their purchasing power. A dollar is nothing but a measure of purchasing power. Inflation whittles away the purchasing power of every dollar we hold.

If inflation averages just 3% per year, what costs $1.00 at age 65 will cost $2.09 at age 90. When retirees become obsessed about protection of principal, they limit themselves to investments that cannot grow enough to offset the effects of even moderate inflation. While they worry that the loss of principal will leave them with no money, inflation guarantees that they will have much less money, as measured in purchasing power.

It is fear more than greed that prompts people to move in and out of the stock market. For it to make sense to move in and out of the market, rather than to maintain a buy-and-hold strategy, you would need to be able to consistently buy at the beginning of an upturn and sell at the beginning of a downturn. At least greed is more likely than fear to be an ally in market timing. Greed is proactive and can promote courage. Fear is reactive and is more typically the root cause for moving in and out of the market.

We first need to look at how and when fear prompts someone to abandon a buy-and-hold strategy. If someone grew fearful of a downturn when the market was overpriced after a long run up, that would be good, rational fear. Anticipating a regression to the mean would be a logical move at that point. Almost no one behaves that way, though. The higher the market goes, the stronger the expectations become that it will go higher still. To withdraw from a market when the popular sentiment is that it will keep climbing forever requires one to be more fearlessly cautious than fearful.

When does panic selling reach its peak? Right before we reach the bottom. When the markets have been in a skid for months, when a person's portfolio value has shrunk by 20-30%, when all the pundits are saying that it can only get worse, everyone who can't take it any more gets out. By then, the values are so good that the buyers begin to outnumber the sellers and a new bull market begins.

The untamed fear of the people who sell at the bottom actually creates the bottom and enables the market to begin climbing again. Of course, if fewer people gave into their fear, the bottom wouldn't be so low, and the turnaround would come much sooner.

Several studies over the last two decades have quantified the cost of fear selling. In general, these studies showed that if someone missed *only the best forty days* of market gains over a twenty year period, their return for that entire period would be reduced by *almost half*. Those forty days represent less than 1% of the total trading days during the periods studied, yet those days contributed nearly half of the gain of those periods.

Market volatility is scary, and it will only get worse. Back in the 1960's, when no one had a 401(k), most people did not own stocks directly. Professional money managers generated most of the trading. If the market moved 1% in a day, that was news. Today, if the markets move 1% in a day, it's a quiet day on Wall Street.

Individuals, rather than professionally managed pension funds, now control the biggest chunk of money in the market. Professional managers are far less likely to succumb to fear, in part because they are managing the anonymous dollars of others and in part because they are *professionals*, and professionals don't panic.

The individual gets to work, boots up the computer, gets on the internet, and sees what the markets are doing. The next step is to log in to the 401(k) account and start moving things around in response to what the market is doing that day. That much money that can be moved that easily by that many people with that little self-control over their fears guarantees volatility.

You can expect bull markets and bear markets to be more severe in the future, and even daily volatility will be much higher. This instability comes from millions of people with the ability to move their life savings around on a whim and a mouse click. Those who can't control their fears in such an environment will get mauled by bulls and bears.

THE INFLUENCE OF MEDIA AND MOBS

A thousand years ago, the Catholic Church had it all. Virtually every ruler in the western world was subservient to the Pope and required the Pope's blessing to remain in power. The only literate people were clergy or a few in the ruling class who were taught by clergy. The Catholic Church owned more land and controlled more wealth than any other entity. In the villages and towns, no one had greater moral or actual authority than the pastor of the local church. Every aspect of life and death was controlled by the Catholic Church.

The Catholic Church in the eleventh century was more powerful than the federal government, Wall Street, and CNN combined are today. They were the only media in existence. The U.S. may be considered a lone superpower, but we are nothing compared to the Catholic Church of a millennium ago.

With this much influence, when the Catholic Church preached about the eternal fires of Hell, people paid attention. When they told people they were condemned to Hell, often for nothing more than circumstances of birth, and that nothing could be done to commute that sentence, the condemned felt no need to constrain their behavior.

Recognizing the loss of leverage against the condemned, the Catholic Church for the first time mentioned Purgatory by name at the Council of Florence in 1031. This edict immediately gave hope for people thought to be on the edge of damnation by loosening up the rigid pass-fail structure of the past.

While the “creation” of Purgatory may have given a ray of hope to some who previously thought themselves beyond hope of salvation, it had the unintended effect of terrorizing *all* God-fearing citizens. If most of the population had previously considered themselves safe from the fires of Hell, they now had to worry whether those transgressions that didn’t warrant Hell would now get them an indefinite stay in Purgatory, which by Church accounts was hardly a day at the beach.

With everyone living in fear of Purgatory, the Catholic Church began the practice of granting indulgences. Indulgences were a way of shortening one’s time in Purgatory. Abuses in granting indulgences became commonplace, as more and more people sought to buy their way straight into Heaven.

As the only media of the era, the Catholic Church could stir emotions more effectively than all of today’s cable news channels and internet sites combined. They used this power to instill fear among the faithful as a way of coercing desired behavior. Eventually, this abuse of power led to Martin Luther and the Protestant Reformation that began in 1517.

If you ask someone for a definition of *media*, you will likely be given examples of media, such as newspapers, magazines, television and the internet. *Media* is actually defined as an intervening substance through which something is transmitted or carried on. It can also be an agency by which something is accomplished, conveyed, or transferred. In chemistry, a media is defined as a filtering substance. All of these definitions are valid descriptions of what we refer to as the media today.

One of the catalysts for the Protestant Reformation was the Church’s mutation from a *medium* between people and God to a *barrier* between people and God.

Over the centuries, the Church had co-opted Jesus' message that "No one comes to the Father but through me." Martin Luther and the movement he started basically said we don't need a medium between people and God.

Media is also the root word for *mediate*. A *mediator* is a third party that helps two other parties resolve a dispute. A good mediator must be informed on the issues, but even more importantly, a good mediator must be unbiased.

The hardest part of being in the media is controlling the desire to influence rather than merely inform. The paradox with media, whether it is an 11^{th} century priest or a 21^{st} century news anchor, is that they exist in an environment that feeds the ego, but their duty is to be subservient to the message they convey. They are the messenger, not the message.

When you're the only media game in town, as the Catholic Church was for centuries, it is easy to lose sight of your role and become bigger than the story you report. Today we have just the opposite situation. There are so many media that no one controls the attention of a large section of the population.

While the advent of cable TV changed television from broadcasting to narrowcasting, the internet changed the game completely. The internet was also unregulated by agencies such as the FCC. When talking about internet news media, Thomas Friedman of the *New York Times* refers to it as an "open sewer."

The proliferation of media has also created fierce competition for an audience. Speed has replaced accuracy as the most important goal of reporting.

There is a constant debate about bias in the media. That debate usually focuses on political bias. As long as humans run the media, there will always be some bias in this area.

When there was relatively little competition in the media, there were adequate profits for all. Also, up until the 1980's, the news divisions at the networks were not required to be profit centers. The ability of CNN to profitably broadcast news 24/7 by the mid-80's changed the rules for all media. Profitability depends on ratings.

Media, especially television, have gone to great lengths to lure viewers and to hold them. One of the more obvious methods is to fill the screen with charts, graphs, and text while showing a live picture. Another hook is titillation. Titillation is agreeable excitement, and the media use plenty of it to capture our attention. They are also very adept at using disagreeable excitement, too. Disagreeable excitement is better known as fear.

If you watch any news channel for an hour, you will inevitably hear several stories that are designed to cause fear. That scary story will be promoted through the hour, and you will have to wait through an extended commercial break before you get to see it.

When it comes to pushing our panic buttons, we, the audience, are not blameless, though. The media report on stories that already have public interest, and in doing so they are reflecting the public's fears. However, every time the media reflect a public concern back as a news story, the story gets magnified, which generates more fear. As our fear increases, the reporting increases. There are now two stories – the cause of the fear and the resulting panic. As part of the feedback loop, the audience shares blame for increased fear levels.

A few years ago, there was a panic over the avian flu pandemic. (These used to be called epidemics. A pandemic is an epidemic over a wide area. Pandemic incites more fear than epidemic.) There were dire predictions of thousands of people dying from avian flu. There were cover stories in *Time* and *Newsweek* and two-hour specials on CNN. Japanese commuters wore surgical masks to protect themselves from infection.

So, how many people were laid low from the avian flu pandemic? There were 262 deaths *worldwide*. All the deaths occurred in Asia and Africa. Nearly half were in Indonesia. There were no cases of any kind in Japan. The 262 deaths were over a seven year period, in countries whose total population exceeds 2.4 billion. During the same period in those same countries, the estimated deaths from lightning alone exceeded 50,000.

As the year 2000 approached, there was a worldwide panic that the world's computers would shut down because they weren't programmed to change from 1999 to 2000. Y2K was the single biggest news story of 1999.

Computer sales skyrocketed that year. People upgraded to be sure they had Y2K compatible hardware and software. Average citizens were stocking up on food, water, heating oil, and ammunition in preparation for the coming apocalypse. The Chinese government ordered all the top officials who ran the country's aviation system to be in the air when the new millennium arrived. These officials would be motivated to make sure there were no problems.

When 1999 became 2000, nothing happened.

Avian flu and Y2K are just two examples of how the media ratchets up the fear for the sake of ratings. If the pending disaster doesn't materialize, there are no apologies or retractions. They just move on to the next story. The media might argue that it is better to warn people about a danger that doesn't come to pass than to ignore a danger that can cause real harm to people.

While that logic is true, it does not take into account the harm caused to people by constantly putting them in fear of events that are highly unlikely to ever impact them directly.

Columnist Jane Bryant Quinn is widely credited with coining the term *Financial Pornography* in a 1995 article. She was referring to the avalanche of reporting at that time with topics such as “Top Ten Mutual Funds to Own NOW!”, “How to Double Your Money in a Year”, or “How to Retire Rich at 45.” Columnist Humberto Cruz gave a similar summary: “I call it financial pornography. It titillates and excites but gives no lasting pleasure. Succumb to it, and it could actually be hazardous to your financial health.”

Such financial pornography was one of the reasons the stock market got so overvalued in the late 90’s. At its peak, the S&P 500 had a price-earnings ratio that was more than twice its long-term average. Those stocks in the S&P 500 were trading at more than twice their true value. A key reason for this overvaluation was the titillation and excitement created by the media at that time.

Many investors invested heavily in the market near its peak because they could no longer resist the siren song of the media telling them that playing the market was the way to get rich overnight. Eventually, inevitably, the market corrected to its true values, and all the people who were lured in by the financial pornography were the ones hardest hit.

Financial pornography is hardly limited to bull markets. There is money to be made in bear markets, too, if you just follow the tips of the “experts.” Even if you aren’t bold enough to short sell stocks in anticipation of a crash, the media will be happy to give you some ways to protect yourself in this latest crisis. They may advise you to do something as seemingly harmless as moving from stocks to government bonds, though they are doing so when stocks are underpriced and when government bonds are overpriced. Such advice is designed to make you feel better in the short term. However, the damage to your long-term financial plans may never be overcome.

The ever-increasing volatility of *all* markets, not just the stock market, is caused in large part by the increased ability to move assets. The ability to buy and sell entire stock and bond portfolios online in seconds makes the daily movements of those markets far more exaggerated than actual circumstances would dictate. Yet, the increased ability of individuals to move assets doesn’t explain *why* they are doing so.

Sexual pornography stimulates people into actions that are potentially harmful. Financial pornography does the same thing, only to one’s finances. Financial pornography entices people into acting emotionally, rather than logically. They get excited from stories about how to become rich overnight, and they take actions that only make them poor overnight. They get frightened from stories that say they will be poor if they don’t take this action now. They take that action and surrender any chance for future financial security.

Financial pornography is as addictive as the other kind. Once you submit to financial pornography, you feel like you can’t leave it alone, lest you miss the one tidbit of information that will be the difference between wealth and poverty. Like sexual pornography, financial pornography steals your time and attention from more useful pursuits, leaving you poorer not just financially, but also as a person.

Financial media play on the emotions of greed and fear. Whichever emotion seems dominant at the moment, that is the one they will exploit, which also increases the level of that emotion in the public from its already too-high levels. The economic conditions don't matter. The media know what buttons to push to keep us hooked on their message.

The media may treat the public like cattle, but that is because the public too often behaves like cattle. Too many Americans are overly concerned about what they are doing relative to other people. As a result, they tend to behave in one of two ways. When things are going well, they act like a herd. When things go bad, they turn into a mob.

Part of this herd/mob mentality is instinctual. We are social animals, and, to a large extent, we want and need the acceptance and approval of others, even strangers. Part of this behavior is the desire for the warm, fuzzy feeling of being embraced by a group.

For many, an even bigger part is the fear that taking a contradictory position will cause the group to question our intelligence, taste, or competence. Since no one enjoys being criticized or ostracized by a large group, the tendency is to adopt the philosophy: "If you want to get along, go along."

When submitting to the mindset of the crowd, it is easy to justify such submission by deferring to what is commonly referred to as the collective wisdom of the crowd. The perception of collective wisdom is deeply flawed, however.

We tend to confuse collective wisdom with collective intelligence. Wisdom and intelligence do not work at all in the same way. Wisdom can be accumulated over a lifetime by an individual, but unlike intelligence, wisdom cannot be effectively transmitted from one individual to another. All of us can be smarter than one of us because intelligence can be passed from one person to the other. Wisdom isn't nearly as portable. As evidence, at the same time that we have exponentially increased our ability to make weapons (intelligence), we have made virtually no progress in our ability to prevent war (wisdom). We are much more intelligent than our forebears of a thousand years ago. We are, at best, only marginally wiser. Intelligence is cumulative; wisdom is not.

Cumulative and collective wisdom are mostly delusions that people create to assuage their guilt about abandoning their own ideas for the ideas of the crowd. It is easier to cede your ideas to something called collective wisdom than to something called herd mentality. In the collective mind, conformity is the driving force.

In a crowd, the collective wisdom is, at best, the average wisdom of the crowd. At worst, it is the lowest common denominator in the crowd. In a crowd, stupidity seems to pile up much faster than wisdom. The longer the crowd has to figure out a solution to a problem, the better the chances that the crowd will at least move in the direction of average instead of lowest common denominator.

One reason people tend to "dumb down" when they join a crowd is the cover the crowd provides. A crowd is anonymous, as are its members. Anonymity breeds irresponsibility. People are much more likely to misbehave in a crowd than they are when alone. Just look at riots at sporting events. In their normal environment, the great majority of rioters are reasonably law-abiding citizens. Put them in a crowd and stimulate them with a team victory (and some alcohol), and they turn into a mob of vandalizing lunatics.

In a crowd, people are in a more agitated state. As a result, every sentiment and act is more contagious and more likely to trigger action. This can occasionally lead to great moments in history, such as the civil rights marchers in the 1960’s. More often though, the crowd regresses to its lowest common denominator, especially if the purpose for the crowd isn’t a higher calling such as civil rights.

If there is no leader, the crowd is just a herd with many heads, but no brains. Great leaders like Martin Luther King Jr. are a beacon that leads the crowd in a better direction. Then you have others, like Adolf Hitler, who are all heat, but no light.

There is another reason why people get dumber by joining a crowd. The reason they joined a crowd in the first place is because they had some affinity for the group, such as a common cause or belief. They are kindred spirits, if you will. The problem in such a group is that the ability to express or even be open to an alternate point of view is suppressed.

Once we form an opinion, we have to find reasons to continue to support that opinion. Our opinion is our baby, and we need to protect it. To that end, we seek out people who will help us do so. We develop a *confirmation bias*, where we seek out whatever supports our position, while ignoring or rejecting whatever undermines our position.

One of the reasons our country has become more polarized in recent years is that people increasingly tune in only the message that supports their position, while attacking any contrary position or supporter of same. We are a nation obsessed with confirmation bias, which is one reason we seem to be regressing in wisdom.

This need for confirmation bias makes the views of the most extreme members of the group more attractive. The most extreme members of the group are usually the most vocal, so they get an inordinate amount of attention. The more moderate members of the group can also delude themselves that they are actually moderates because their views are less extreme than the most vocal members.

Whenever people with a common belief gather, there is a psychological phenomenon known as *group polarization*. Research had demonstrated that the group usually takes a position that is more extreme than the average position of the individuals that make up the group. When like-minded people gather, group polarization causes the collective thinking to move to the more extreme side of the issue. Group polarization carried too far can turn a crowd into a mob.

Group polarization is one of the reasons why there seem to be so few people in the middle of the political spectrum today. The same dynamic works in financial markets, too. The radicals can wreak havoc on the moderates, causing them to make poor decisions on the false belief that they are acting rationally.

Suppose on a daily basis, people came to your front door and make you an offer on your house. Suppose for a period of time those offers got higher and higher with each passing day. They reached the point where you were being offered nearly double what the house is actually worth. Would you sell? I'm guessing yes.

Let's assume the same scenario, but this time the offers have been lower each day, until the latest offer is some 40% below what the house is actually worth.

Would you sell, thinking that you better unload it now before the next, even lower offer is made? I'm guessing no. You would probably be insulted by these low offers. You might cling even more tightly to your house, refusing to let anyone steal it from you in that manner.

What seems like logical behavior when we think of our house is just the opposite of what we do when it comes to investments. Substitute the words investment portfolio for house in the previous scenario to see what I mean.

When the market is overvalued and people are offering us ridiculously high prices for our stocks, do we sell? No, we go out and buy more, thinking that the price climbs will continue forever. When the market is panicking and stock prices are down by 40%, do we hold our position, or even more boldly, do we buy more since stocks are on sale at 40% off? No, we eschew our own common sense and give in to the herd mentality.

In the movie *Men in Black*, Tommy Lee Jones's character 'K' comments, "A *person* is smart. *People* are dumb, panicky, dangerous animals." You're a person. You're smart. You can think for yourself and determine the right course for your finances and your future. You don't need to be guided by the media, whose main goal is to keep you tuned in by constantly pushing your greed and fear buttons. You certainly don't need to be guided by a bunch of dumb, panicky, dangerous animals. You're a person. You're smarter than that.

FEAR'S EFFECT ON SUCCESS AND HAPPINESS

It is estimated that 80,000,000,000 humans – from the first of our recognizable forebears to a baby born this morning – have inhabited this planet over the millennia. As a reader of this book, you are likely a citizen of a western democracy and of middle class or better. As such, you live better than 79,520,000,000 of the human beings who ever existed. Congratulations - you are one lucky homo sapien.

When I say living better, I don't just mean that you have more material goods than 99.4% of the human race, though you certainly do. Living better includes a whole laundry list of advantages, including:

- so much nourishing food that you worry about obesity instead of starvation;
- a 99% chance that all your children will outlive you because the worst risks to infants and children have been all but eliminated;
- freedom from diseases like polio, tuberculosis, pneumonia, and diarrhea, which routinely killed millions annually until antibiotics came along;
- the ability to read and write, as well as access to unlimited reading material via libraries and the internet;
- the right to choose your leaders and to replace them if they prove unsuitable;
- the ability to communicate instantly with almost anyone in a developed country, at very little cost, via cell phone or internet;
- ownership of your own home or at least the right to own one;

- indoor plumbing, electricity, heating, and air conditioning;
- freedom to choose your career, your spouse, and your belief system;
- the ability to accumulate wealth and to place it where it can't be taken from you;
- the likelihood that you will live for eight decades or more, but will only have to labor for half of them;
- personal transportation that can propel you in safety and comfort at over a mile a minute, plus the ability to fly across oceans and continents in mere hours;
- so many other advantages it would take hundreds of pages to list them all.

When you think about our ancestors, it's hard to imagine all the fears they must have faced, even on a day-to-day basis. Fear of starvation, disease, and injury alone were part of everyone's normal routine. Then there were fears of attack by wild animals, fires, floods, blizzards, conquest, and enslavement by rival tribes, etc. These fears were not vague worries about some future event that might or might not happen. These fears were about events that could kill them, their family, even their whole tribe before they even knew what hit them.

I've often wondered how a typical man from the Dark Ages, the period of some six hundred years following the fall of the Roman Empire, would perceive our fearful society today. The first thing our visitor from the past would notice is that almost everything that caused fear in his time is no longer a problem. Our world would seem like Utopia.

Upon conversing with his 21st century counterparts, our visitor might become dismayed. He might wonder why, after we have been so successful at eliminating the causes of so many ancient fears, we have gone to such great lengths to replace them with new fears.

He had seen half a continent killed off by a plague, so it would be hard for him to understand how a few cases of the flu could constitute a national emergency. He had lost children to starvation and malnutrition, so it would be hard for him to understand how people could worry about the quality of the school lunch program. He might get angry with us and scold us to appreciate the incredible progress of the human race and stop obsessing about matters that don't merit the fear we show them.

If you watch an hour of news, how much of that news did you need to know? It's nice to be well-informed on the events of the day, but most of those events have no direct impact on our lives. If news stories can stir compassion for others and move you to help, those stories serve a useful purpose. If they only incite fear, they serve no purpose.

Human adaptability has been one of our keys to success as a species. While we adapt to changes in our environment, we also become habituated to our current situation very quickly. We *expect* to have more than enough food, safe drinking water, quality health care, reliable transportation, and safe homes. The fact that so many positives in our lives, which didn't even exist just a century ago, are now considered entitlements to everyone is testimony to how quickly humans habituate to a changing environment.

With all this adaptation and habituation to an ever-improving quality of life, we seem unable to reduce the level of fear in the average citizen. We have simply replaced major fears with minor fears. Because the major fears have largely been eliminated, we can't fully appreciate how minor most of our fears of today really are.

Sometimes it takes a new major fear to put all our minor fears into perspective. If you have ever been faced with a life-threatening illness or injury, you suddenly realize how minor most of your other fears really are. Such a crisis can help create a permanent shift in one's level of fear. The recent financial crisis may help millions of people get a better perspective on what merits true fear in their lives. The problem is that we only seem capable of reducing illegitimate fears by replacing them with legitimate fears.

In his inaugural address, FDR defined those illegitimate fears as "nameless, unreasoning, unjustified terror which paralyzes needed efforts to convert retreat into advance." President Roosevelt was trying to summon up the courage he knew still existed in the American people, but which had been bludgeoned into submission by three years of economic calamity. He knew that courage, more than anything else, was vital in restoring the nation's economy. Winston Churchill, FDR's great ally in World War II, got it right when he said, "Courage is the first of human qualities because it is the quality which guarantees all the others."

Most of us go through our entire lives never having our courage tested in the dramatic manner of history. Very few of us are asked to storm the beaches of Normandy or enter a burning World Trade Center. Courage is demanded of us in more mundane settings and over longer periods of time. We have to maintain a long-term investment strategy through short-term crises. We have to respect the opinions of those with whom we disagree. We have to give our children the opportunity to fail, as well as succeed. We have to ignore the herd when it insists on running off a cliff. We have to ignore the news and the noise when their purpose is to incite, not to inform. Such courage is measured in breadth, not height, but it is no less easy and no less necessary than the kind of courage that earns medals.

Our fears in the 21st century are overwhelmingly fears of the head, not the gut. As such, they are not necessary for survival. They serve no purpose, except to impede the progress and success of those who carry them around. The dozen fears listed in the chapter on what we are afraid of are all fears of the head, not instinctual fears, fears of the gut. We would be better off without them.

Fear of *change* presumes two things: that the current situation is great and that any change would be for the worse. If everyone's current situation is so great, why are so many people so miserable? People recognize that changing a situation usually requires a personal change as well, which is the change people fear most.

Unfortunately, most people don't recognize a key characteristic of change: changes for the worse tend to be temporary, while changes for the better tend to be permanent. This characteristic of change exists for no other reason than humans want it to be so. To that end, they will work very hard to keep changes for the better and to overturn changes for the worse.

Fear of *uncertainty* has a very simple solution – get over it. Life is nothing but continuous uncertainty. God made the earth round so we couldn't see too far ahead on our journey. We're not supposed to know everything that's going to happen in the future.

Let me ask a simple question – do you really want to know the time and manner in which you will die? The overwhelming majority of people do not. Despite our fears of uncertainty, most people do not want to know the answer to that ultimate uncertainty.

The single biggest variable in determining one's future is the effort of the individual in making his/her future. We take away a lot of uncertainty of our future by doing all we can to create the future we want. Fear of uncertainty is really about the human desire to know we will live happily ever after.

Fear of *mistakes* is the bane of perfectionists, who tend to be some of the most imperfect specimens on earth. Both successful people and those who fail make mistakes. Their difference isn't the frequency or severity of their mistakes; it is their response to their mistakes. Thomas Edison screwed up the light bulb ten thousand times before he got it right. He considered every mistake to be a learning experience. Successful people know that perfection is unattainable. They also know that their best effort is very attainable.

Persistence is their trademark. Persistence requires patience and discipline, but it has an unequalled record as mistake eradicator. Fear of mistakes is based on the extremely misguided notion that one has to be perfect all the time. Since it is almost impossible to be perfect *any* of the time, being a perfectionist is guaranteed to bring a lifetime of dysfunctional unhappiness.

Fear of *failure* is the single biggest impediment to success. Success and failure are two sides of the same coin. The risk of failure is the non-negotiable price of the opportunity for success. People tend to view failure as a step backwards. It is not. Can you think of any worthwhile activity where the penalty for trying and failing is more severe than the penalty for not trying at all?

Fear of failure is most prevalent in activities that have a financial component, such as starting your own business. A financial stake in the outcome actually skews the odds in favor of success, though. When someone has “skin in the game,” they are more likely to do everything in his/her power to create a successful outcome.

At the end of your life, you will not regret your best efforts that failed. Your memories of a noble, but failed, effort may actually be some of your most treasured. What you will regret are the efforts you never made at all due to fear of failure.

Fear of *loss of control* over our lives makes the incorrect assumption that we have any real control over our lives in the first place. The most we can hope to control in life is ourselves and our response to our circumstances. Ego deludes us that we control more than we actually do. We can control our response to circumstances, and even that takes a lot of effort to do well.

Most people who attempt to control circumstances do so because they are unable or unwilling to control themselves. They think controlling circumstances is easier and more effective. They couldn’t be more wrong. As we kayak through the rapids of life, the only sensible course of action is to spend our efforts adjusting to the ever-changing currents. If we try to defy or control the currents, rather than our kayak, we will find ourselves upside down in the rapids. Successful species survive by adapting to their environment, not by pointlessly trying to get the environment to adapt to them.

Fear of *worthlessness* and fear of *rejection* are interrelated, in that rejection is a major catalyst for feelings of worthlessness. The risk of rejection is an unavoidable part of almost any endeavor with a worthwhile goal. If you are unwilling to risk rejection, you are unlikely to find a mate, and your gene pool is likely to end with you. If you want to start your own business but are afraid of rejection, how will you ever solicit potential customers, the great majority of whom will reject you in the early years?

When rejection is taken as a personal rebuke, feelings of worthlessness can set in. Even successful people sometimes question their worthiness to their success. There are as many books dedicated to the fear of success as to the fear of failure. Fear of worthlessness stems more often from our low opinion of ourselves than from others' opinions. This fear can keep someone from trying to make a better future. Let the success itself determine your worthiness of it. If you are honest and diligent in your efforts for success, it will come, and it will stay.

Fear of *losing out to others* is blown out of proportion in so many lives because we insert a competitive framework in so many places where it doesn't or shouldn't exist. Competition in the right context is good because it raises the level of performance of all the competitors. Competition in the wrong context can lead to cheating and other ethical compromises. Sustained high-level competition can also sap energy from other aspects of life.

People who are always in a competitive environment can never be at ease. As a result, their health may suffer as a result of stress. Their relationships with family and friends may suffer from neglect, and their life is generally less fulfilling. In the end, such people look back and realize they lost more than they gained by being so competitive.

If you have a desire to compete, it is much more productive to compete against the person you are now, to become better, rather than to compete against others unnecessarily.

Fear of *missing an opportunity* will almost guarantee you will miss the best opportunities. Every decision has an opportunity cost. When you choose an item or activity, you forego the opportunity for other items or activities.

Impulsive people are likely to jump into something without properly evaluating the opportunity costs. However, impulsive people are at least in the game, giving themselves the opportunity for success and happiness. People who fear missing an opportunity never jump into anything, for fear of the opportunity costs. By waiting for a better opportunity, they never seize *any* opportunity.

Imagine a 100-foot long buffet table loaded with a variety of delicious dishes. You can make only one pass through the line, and you don't know what's on the table. If you are impulsive, you may fill your plate up in the first 10 feet and miss out on some great dishes. If you fear missing an opportunity, you may get to the end of the table with your plate less than half full. If you're an impulsive person, you likely won't dwell on the dishes that you passed up because you're too busy enjoying what you have. If you're afraid to miss an opportunity, you will look down at the half-empty plate and regret all the opportunities you passed up. Your enjoyment of the food you chose has been tainted by the food you left behind. Life is a buffet line. Don't get to the end of it with a half-empty plate.

Fear of *regression* is normal, once you've made some progress. The progress you make as a person is fairly immune from regression. Your knowledge and wisdom can't be taken from you. If you regress as a person, it is often the result of surrendering to temptations like adultery and alcohol. Such regression is within the individual's control.

Most people worry about financial regression. The fear may be of losing one's income through unexpected unemployment. Once some level of wealth has been acquired, we begin to worry about a decline in the value of our assets and what that decline might do to our future standard of living.

Our assets will always fluctuate in value. Proper financial planning involves protecting enough assets to provide a floor of security, while allowing the other assets to keep raising the ceiling of opportunity. Nothing in life moves in a straight line, least of all one's personal balance sheet.

To be fearful every time your personal wealth takes a dip or to be fearful at the mere prospect of a dip is to guarantee full-time fear and a miserable existence. Philosopher Kahlil Gibran wrote, "Is not dread of thirst, when your well is full, the thirst that is unquenchable?"

Fear of *being exploited by others* can be useful, but only to a point. When it helps avoid getting taken by swindlers and con men, then such fear is beneficial. But swindlers and con men are skilled, first and foremost, at getting people to turn off the fear of being exploited, at least by them.

Since most people you deal with are honest and legitimate, fear of being exploited can get in the way of honest, legitimate, and beneficial business dealings. Not only do you end up not making transactions that could benefit you in the short term, you set up barriers to relationships that could benefit you in the long term, too.

Ronald Reagan's advice on nuclear disarmament, "Trust, but verify." is appropriate in our personal lives, too. The people who let themselves get exploited by others rarely took some basic steps to verify that the person they were dealing with was legitimate. In most cases, they didn't want to find out something negative because that would confirm the too-good-to-be-true deal was just that. In the end, given the choice of being occasionally swindled or perpetually cynical, it is better psychologically and financially to be the former.

Fear of the *Big Disaster* seems to be in all the wrong heads. Californians should fear earthquakes. People living on the Gulf Coast should fear hurricanes. If these people had a "proper" fear for these inevitable disasters, they would move. Why don't they? They like living there too much, so they don't dwell on the chance that it will one day all shake or blow away.

We see the fear all the time that proves overblown – avian flu, Y2K, perhaps even global warming in the future. New technologies, behavioral changes that have already occurred, and the inaccuracies of predictions caused by fear of the Big Disaster may cause global warming to become one of those disasters that never quite materialized.

Even if the big quake does come to California, the people there are unlikely to regret their decision to live there. That attitude is preferable to worrying about disasters that are unlikely to ever come. Such worry is a sure loss, while the Big Disaster is only a potential loss.

Instinctive fear serves the same purpose as physical pain. Pain is a sensation that lets our brain know that our body needs to make adjustments in areas like behavior, temperature, food intake, activity level, sleep, or the external environment to bring us back into equilibrium.

Fear is also a sensation that alerts us to take action. As long as fear stimulates us to take action to reduce danger, then fear is an asset. Too often, the fear that starts in our head doesn't have a method for reducing the alleged danger that is generating the fear. The only thing worse than being afraid is being afraid with no way to eliminate the cause of the fear. Our minds are generating symptoms for a phantom disease. Tranquilizers may treat the symptoms of fear, but there is nothing being done to address the cause of the fears.

Military strategists spend most of their time playing *what if* scenarios. These exercises can be frustrating, as the possible scenarios are almost endless, and it is impossible to develop a strategy to deal with every conceivable threat or opportunity. As a result, military strategists first devise strategies to deal with a worst-case scenario. These are the life-and-death situations where failure is not an option. Next, they look at the most-likely scenarios. These situations have a lower severity but a higher probability of occurring. Lastly, they will look at unlikely, low-threat scenarios and opportunities to seize the initiative.

Military strategists are not playing games, nor are they consumed by fear. They have a duty to protect the nation and its citizens. Part of that duty involves assessing threats and devising a way to neutralize as many of them as possible. Individuals do or should do something similar.

Assessing worst-case scenarios prompts people to buy insurance and get regular medical checkups. Assessing most-likely scenarios prompts them to save for retirement and for their children's' education. Low priority threats and opportunities prompt people to buy extended warranties and lottery tickets. It is important to put these actions in the right priority. If you don't get necessary insurance because you spent the money on lottery tickets, there is a high probability you are going down in flames.

Once you have assessed major threats and taken action to avoid/survive them, there is no point in obsessing about them further. Taking action to prevent the Big Disaster has the effect of enabling you to put it out of your mind. If you are driving around without car insurance, there is the constant fear of having an accident and suffering a major financial loss, or even being arrested. Once you have the insurance, such fears disappear immediately. In this example, a legitimate fear was extinguished by a legitimate action. Most legitimate fears can be handled by a legitimate action.

Obsessive *what if* thinking is the most common source of harmful fears. Such thinking, especially when it applies to the welfare of others, is considered a sign of caring. It is encouraged, if not overtly, then at least subliminally.

If you worry about the safety of your children, it's taken as evidence of how much you care for them. However, the worry does absolutely nothing to reduce any threats to your children. The worry may cause you to become so over-protective that your children may actually be at greater risk. They may become so cocooned that they never learn to develop their own innate sense of danger. They may also learn from your example and become so fearful that they never function properly as a member of society.

All parents should take all reasonable steps to protect their children from known dangers. To that end, we have developed childhood vaccines, car safety seats, childproof caps, bicycle helmets, and warning labels on just about everything. But there comes a point where extra steps do nothing to reduce danger, but only serve to increase anxiety.

We spend a lot of the present contemplating *what ifs*. Some of the more popular *what ifs* include:

- What if my spouse stops loving me?
- What if I lose my job?
- What if my investments all go bust?
- What if my kids don't finish school?
- What if a loved one becomes seriously ill?
- What if I become seriously ill?
- What if my car breaks down?
- What if my house burns down?
- What if I go bankrupt?
- What if I'm all alone in my old age?
- What if I'm poor and alone in my old age?
- What if God decides I'm not worthy of Heaven?

Did you notice how noisy it got inside your head when you were reading this list? Fear is very noisy. It drowns out our ability to see and hear and think clearly. When we let ourselves get consumed with *what if* scenarios, we can't focus on the present, which is the only area where we have any control. When we don't focus on the present, we increase the chances that one or more of those *what ifs* will come to pass.

The paradox of head fears is that worrying about such worst-case scenarios only increases the chance of occurrence. Head fears are not only noisy, they are extremely counter-productive.

Irrational fears of the mind have two major consequences. They reduce our chances of success in the future, and they reduce our chances for happiness in the present.

These useless fears impede future success by holding us back from taking actions in the present that will lead to success in the future. Fear of change, uncertainty, mistakes, failure, rejection, exploitation, worthlessness, loss of control, and regression cause us to curl up into a psychological fetal position and refuse to make any movement that might benefit us in the long run. We sacrifice the opportunities of the future for the supposed security of the present.

These useless fears may make us feel that there is security in the present, but these same fears take away the happiness of the present, too. If you are spending the present worrying about the future, how can you possibly be happy? If you know deep down that your fears are crippling your ability to make a better future for yourself, how can you be optimistic about your future? Optimism for the future is a key ingredient to happiness in the present. Pessimism for the future is a major impediment to happiness in the present. Those fears of the future are simply a form of pessimism.

WHIPSAWED
WHEN GREED & FEAR JOIN FORCES

John was a middle manager working at a major telecommunications company. In 1995 he was offered an early retirement package as part of the company's plan to downsize management and assign some of their duties to less senior and lower-paid employees. To be eligible, an employee had to meet the 85 rule – the employee's age plus years of employment had to total at least 85. At the time, John was 54 years old with 32 years at the company, qualifying him for the early retirement offer.

At the end of 1995, John retired with $800,000 from his 401(k). Since John was only 54, he was still 8 years away from collecting social security. He planned to draw $50,000 per year from his retirement money, and then reduce that amount when social security kicked in at age 62.

Like most employees, John did not leave his retirement money in his 401(k) plan when he retired. He set up an IRA and rolled over the full amount in his 401(k) into the new IRA. He then selected five mutual funds in which to invest. John had done his research. He wanted a portfolio that was approximately 60% stocks and 40% bonds. He looked at funds that had consistently good returns, were large and well-established, and had stable management and reasonable expenses. He selected the following five funds and put 20% of his money into each of them:

- American Funds' Bond Fund of America
- T. Rowe Price Short-Term Bond Fund
- Fidelity Magellan Equity Fund
- Dodge & Cox Stock Fund

- Vanguard S&P 500 Index Fund.

Over the next four years, John enjoyed retirement. Between 1996 and 1999, John's portfolio averaged an annual return of 12%. Even though he was drawing $50,000 per year for living expenses, John's IRA had grown to just over $1 million over that four-year period. At the rate things were going, John could ratchet up his income every year to offset inflation without ever having to worry about running out of money. At his current withdrawal and return rates, he was likely to die with far more many in his IRA than when he started. John should have been ecstatic about his circumstances. He wasn't.

During the first four years of John's retirement, the internet had taken off. There was constant talk in the media of a new economy, a new paradigm, and that this time everything was different. John saw how any stock with dotcom in its name seemed to double in price every week. John's portfolio, because it was 40% bonds and only 60% stocks, wasn't even keeping up with the benchmark S&P 500 during these four years of a bull market. John was living a modest lifestyle on $50,000 per year. He had a 2,800 square foot, four-bedroom house in the suburbs of Atlanta and a four-year old Toyota Camry. He wanted more out of life and out of his investments.

John wanted more, but he wasn't crazy enough to start day-trading or trying to pick individual stocks to buy. He knew his limitations. John wanted in on the tech gravy train, but he figured the best way to go about it was to invest through mutual funds, as he had been doing since he first retired. As the millennium ended, John did some research and found these four mutual funds:

- Embarcadero Small-Cap Growth Fund – up 291.1% in 1999,
- ProFunds UltraNASDAQ 100 Fund – up 233.3% in 1999,
- Old Mutual Columbus Circle Tech Fund – up 243.9% in 1999,
- Brown Advisory Opportunity Fund – up 286.5% in 1999.

John realized that these funds were unlikely to repeat that kind of performance in the future. No fund can more than triple in value in a year and maintain that kind of performance over a long period. However, these funds had an *average* return of 263.7% in 1999. All the economic signs looked good for 2000 and beyond. Even if these funds averaged merely *one-tenth* of their 1999 return going forward, that return would be more than *double* what John had been averaging with his portfolio over the last four years. This plan was a low-risk no-brainer for John. He replaced his old funds with these four new high flyers and made plans to trade in his Camry for a Caddy.

The new millennium didn’t start out well for John. His portfolio was down 40.8% in 2000. The year-end value was $542,000, after he took his $50,000 income. The next year, which included the September 11 attacks, was even worse, with a portfolio decline of 56.4%. The 2001 year-end value was $186,000. By the end of 2002, with a portfolio decline of 59.0%, John’s year-end portfolio value had shrunk to just over $26,000, which would only support him for six more months. He had gone from over $1 million to $26,000 in just three years. With his retirement savings gone, John had to begin 2003 looking for a job at age 61, during a recession.

What if John had resisted the tech temptation and had left everything where it was, in his nice, balanced, boring portfolio? John's portfolio at the end of 2002, after allowing for $50,000 annual withdrawals, would have been worth $794,000, almost exactly what he had when he had retired seven years earlier, despite pulling $50,000 from the account every year for the last seven years. Also, that boring balanced portfolio would have averaged better than a 14% return over the following four years, leaving John with a balance in his IRA at the end of 2007 of $1.1 million, while he continued to draw his retirement income from it.

The previous paragraph is the theoretical. The reality was that John ended 2007 working for a small telecommunications firm. His salary is about two-thirds of what he was making in 1995. John has started saving again for retirement, though he had less than $60,000 in total retirement savings at the end of 2007. He does not know when and if he will be able to retire.

There is more to the study, though. John's wife, Mary, was also employed as an office manager. She is two years younger than John. By 1999 she had accumulated about $250,000 in her 401(k) plan at work. She had resisted John's pleas to move her investments from a balanced portfolio of 80% stocks and 20% bonds to an all-tech portfolio like John's. Despite a fairly conservative strategy, Mary's 401(k) balance shrank from $250,000 at the end of 1999 to under $210,000 at the end of 2002. This reduction of over $40,000 was also after Mary continued making $500 monthly contributions throughout this three-year period.

Between the losses in her account and the total devastation of John's IRA, Mary was frantic. They were down over a million dollars in a three-year period. Mary decided to move all of her retirement money into short-term government treasuries. She was now totally risk averse, and she threatened John with divorce if he tried to change her mind. John was so shell-shocked by this time he had no desire to invest in anything risky, either.

Over the next four years, Mary's portfolio grew a little more than 3% per year. Had she left her investments unchanged, her portfolio would have grown by nearly 15% per year during that period. By the end of 2007, Mary's 401(k) was back to $254,000, thanks in part to continued contributions. Had she left everything alone and not panicked, her 401(k) would have been worth $391,000 at the end of 2007.

At the end of 2007, John was 66 and Mary was 64. Their combined income was about $110,000. In 1995, John was retired at 54 and was drawing an income of $50,000 per year. In 1995, Mary planned to work until 2005 (age 62), at which point she would draw from her retirement savings and social security to replace her income. If John and Mary both work until age 75, they can afford about a ten year retirement, based on their current expenses. Their conservative investment strategy doesn't enable their retirement accounts to grow much more than to offset inflation, which requires them to work longer and be retired shorter.

John was retired at 54, but now has to work until at least 75, assuming that anyone will employ him at that age and that he is capable of working. Mary was to retire at 62, but she will also have to try to hold a job until age 75. Assuming they both do get to eventually retire, they will not have anything close to the lifestyle that John had, but did not appreciate, when he was comfortably retired at 57.

The case of John and Mary reminds me of a song titled *When the Hunter Gets Captured by the Game*. When the object of our greed turns on us, we become the game. John was the hunter who got captured by the game. Mary suffered the same fate as well.

The case of John and Mary illustrates what happens when greed strikes first and then fear finishes you off. John and Mary's case brings to life the warning that should be required for every investment, like the warning on a pack of cigarettes: *An investment on which you can make a killing is equally capable of killing you.*

While reading the case of John and Mary, you may be wondering why John didn't see the handwriting on the wall earlier and sell his tech funds before they suffered further losses. It's very easy to look back with the aid of 20-20 hindsight and see what should have been done. At the time, John wasn't different from most investors who still felt that these tech stocks were the wave of the future and, after a modest correction, they would continue their upward climb for the indefinite future.

John was also suffering from a very common malady known as loss aversion or get-evenitis. Very often, when someone gets into a situation like John's, it is greed that led them into the trap, and it is fear of realizing a loss that keeps them there. In such cases, the greed creates the initial loss, but the fear of realizing the loss and moving on exacerbates and compounds the loss.

Auctions are interesting places to observe people getting whipsawed. There are several regularly broadcast car auctions on TV. This exposure has increased interest in the field, as well as information on the market value of collectible cars.

Some bidders are professionals. They represent museums or wealthy individual collectors. They have a strict system for how and how much they will bid for certain cars.

Then there are the amateurs. They may be looking for a bargain, though real bargains are rare at such auctions, by virtue of the competitive bidding process alone. The amateurs are usually looking for a car they coveted in their youth. Desire plays a big part in why they are there. Because amateurs are drawn by emotion, rather than a business purpose, they are more likely to bid more than they had planned.

The auction atmosphere ramps up emotions as well. At these car auctions, the car is displayed in the front of the hall under bright lights. The auctioneer's cantor is rapid fire, designed to make the bidder feel pressure to bid quickly. There is an "assistant" beside each active bidder urging that person to keep going and not lose out to someone else. Lastly, when the bidding seems to be slowing down, the car will be driven off the stage, which makes a bidder feel like the car is about to be forfeited unless that bidder retains the highest bid. It all works to great effect.

When professional bidders win, you rarely see them smile when they sign the papers after they've won. It's just business to them. The amateurs, on the other hand, are usually beaming broadly when they sign the papers promising to pay their bid plus an 8-10% commission. At that moment, the winning bidder feels victorious.

When you think about it, the winning bidder may just be the biggest loser. In a room with hundreds of other potential bidders, all of whom are interested in collector cars, not a single other person thought that car was worth what the winning bidder just paid for it. Everyone else in the place is thinking "That guy paid too much." If they didn't think so, at least one of them would have outbid the eventual winner.

One reason bidders can get carried away is the emotional involvement. Once someone bids on an item, it is an admission of desire backed up by an action. Taking action is a sign of commitment. The higher the bidding goes, the deeper the commitment becomes. When the auctioneer's gavel finally drops, the winning bidder (who is almost always male) feels like a kid again with his newly acquired 1968 GTO. The winner might do well to flash back to 1968 and realize his strategy and commitment to victory are reminiscent of Lyndon Johnson and Vietnam in that same year.

The *Winner's Curse*, as it is known, occurs in competitive situations when the successful buyer discovers he/she paid too much for an item of uncertain value. The winner's curse is more prevalent in sealed-bid auctions than in open ones, because there is no feedback from other bidders in a sealed bid auction.

Open-bid auctions may raise more because of the emotional aspect of face-to-face competitive bidding. On the other hand, open-bid auctions offer the winner the security of knowing he/she didn't pay more than was necessary to win the auction. The winner of a sealed-bid auction might pay multiples of the second place bid. What's worse, the winner will never know how close the second highest bid was. There will always be the feeling that the auction could have still been won with a lower bid.

Max Bazerman is a distinguished professor at the Harvard Business School and the creator of perhaps the ultimate game to illustrate how people get whipsawed. The game starts simply enough. The students in his class have the opportunity to bid on a $20 bill. There is nothing tricky about the $20 bill. It is actually the perfect item to bid on because its value is the same to everyone, and there is no subjective valuation taking place. Normally, this type of auction wouldn't seem at all interesting. It would only take two people to bid the price up to $20, squeezing out all the profit potential. If it costs nothing to bid, the bids will climb as long as there a profit to be made, albeit a small one.

Dr. Bazerman throws a curve into the auction, though. While the winner of the auction gets the $20 bill, the loser of the auction is also required to honor his/her bid. In other words, if the winning bid is $20 and the second highest bidder bid is $19, the bidder of $19 must pay the professor that amount, while receiving nothing in return.

Greed gets a lot of people into the auction early. Once the bidding gets into the $15 range, bidders drop out quickly. More and more realize that they may end up being the second highest bidder, a proposition that is rapidly becoming expensive.

There are soon only two bidders left. Each one has the fear of coming in second and having to fork over good money and receiving nothing but humiliation in return. Inevitably, the bidding goes past $20 as neither bidder wants to capitulate to the sure loss. This mindset causes the bidding to roar on to the point where both parties will suffer big losses.

Professor Bazerman has conducted this auction over 200 times. The lowest winning bid was $39. The highest was $407. An interesting side note – these are Harvard business school students, many of whom go on to work on Wall Street and the executive suites of America's largest corporations. I find that disconcerting.

Why would intelligent individuals knowingly bid much more for an item than they know it is worth? The short answer is fear of a sure loss if they come in second. This fear continues even past the point where there will be a considerable loss to the winner as well. Both parties keep raising the bid in the hope that the other party will give up. Each small bid increase makes sense, but it only makes sense if it will cause the other bidder to capitulate. When that capitulation doesn't happen, the bidding turns into a war of attrition where there are no winners, only losers.

The world if full of ironies, and the world of money is no exception. One of the ironies of investing is that the people who can most afford to take risks (the rich) have the least need to take them. The poor need to take some risks if they are to ever stop being poor, but they also feel they cannot afford to take those risks.

Although the rich don't need to take risks with their money, it is in their nature to do so. In order to become rich, it is almost always necessary to assume some risks. The rich became that way because they were willing to take risks and because they were good at assessing risk and evaluating the risk-reward equation. It is not normal to expect the rich to totally abandon a risk-taking mentality. This mentality is one reason why the rich continue to get richer.

The poor need to take risks, but they fear loss more than the rich because they have so little margin for error. Several years ago a study was done on buying habits of people in poor neighborhoods. The study was done in part to determine the reasons for low sales of generic products in grocery stores in poor neighborhoods, compared to such sales in middle-class neighborhoods. The study learned that the poor don't tend to buy generic products because they can't afford to make the mistake of buying a product that doesn't meet their expectations.

Their perspective is that it is better to pay $2.49 for a bottle of Heinz ketchup and know you will be satisfied, than to pay $1.79 for generic ketchup and run the risk it will be disappointing and ultimately unused. They see generic ketchup as a potential $1.79 loss rather than a potential $.70 savings.

In these same stores, however, lottery ticket sales exceed sales in middle-class neighborhoods. The poor can see the small potential loss from an unsatisfactory product, but can't see the almost sure loss from buying a lottery ticket where the odds of winning are something north of ten million to one. This mentality is one reason why the poor get poorer, or at best never get richer.

Fear and greed whipsaw the poor more than the rich for two reasons. First, the poor have a smaller margin for error than the rich. Fear rarely makes a rich person poor, but it keeps a lot of poor people poor. Fear has the effect, intended or not, of maintaining the status quo. For the rich, that effect is mostly good. For the poor, that effect is mostly bad.

Greed also doesn't hurt the rich as much as the poor because of the margin for error. If you have $10 million, you can risk $1 million on a get-rich-quick scheme, and if it fails, you're still in good shape. If you have $1,000 and you risk half of it on a similar scheme, you will feel that loss deeply because your remainder is so much less.

Second, greed and fear seem to manifest themselves more overtly in the decisions of the poor. Lottery and other forms of gambling are more prevalent. Gambling is the most common get-rich-quick scheme among the poor. Poverty makes the quick score more tempting and can blind one to the risks involved.

Fear is also more overt, as demonstrated in the purchase rates of brand name products. Most of us would not fear the loss of the cost of a bottle of generic ketchup. For most of us though, such a loss would not impact how many groceries we could afford to buy the following week.

Poverty leads to behaviors that are associated with higher levels of greed and fear. Higher levels of greed and fear lead to behaviors that increase poverty. The irony for the poor is that the behaviors that they hope will break the chains of poverty only strengthen those chains.

A time line of our financial lives might look something like this:

[____]

financial decisions	all the stuff in between	financial goals

At the outset, our financial decisions will be affected by our emotions. At the outset, greed is not usually a strong emotion, but hope is. Hope is an asset as long as it is grounded in reality. When hopes are unrealistic, greed often becomes the tool that is used to make unrealistic hopes real. Hope can mutate into greed when what is hoped for is first unrealistic and is second considered a right, rather than a reward. When it comes to money, hope is the polar opposite of fear as an emotion. Greed is the polar opposite of fear as an action.

If we are overly optimistic, if we have too much hope at the outset of our financial decisions, we are likely to be lured into behavior that one associates with greed. Too little hope, on the other hand, can result in actions inadequate to reach one's goals, or even to create inadequate goals themselves.

As we move along in time toward our goals, external circumstances will affect our emotions. When the economy is strong, we have a good job, and when the stock market is booming, we will be well above the line. When the economy is weak, we are unemployed, and the stock market has tanked, we will be well below the line. Our fear will lead to an anxiety that lingers. We will regret ever taking any risks or in having any hope that we would reach our goals, or of even setting any goals in the first place.

When we're on one side of the line or the other, it is very hard for most of us to envision or remember what it is like on the other side of the line. When we are above the line in the land of hope, we see only blue skies and unlimited opportunity. When we are below the line in the land of fear, we see only night and a fruitless search for security.

It is this inability to see ourselves on the other side of the line that causes us to get whipsawed. When circumstances inevitably pull us to the other side, our unpreparedness causes us to overreact. We end up looking for opportunity when we should be looking for security and vice versa. By not anticipating changing circumstances and how we should prepare for them, we inevitably end up further over the line each time we cross it than should have been the case.

In the Alfred Hitchcock movie *Dial M for Murder*, Ray Milland plays a retired tennis player who plans to murder his wife. He actually plans to have someone else commit the murder – a college classmate who has a checkered past.

Milland offers to pay the classmate one thousand pounds to commit the murder. He also threatens to turn him over to the police for various crimes if he doesn't agree. Milland is confident the classmate will agree to do the murder. When the classmate asks, "What makes you think I'll agree?" Milland replies coolly, "For the same reason that a donkey, with a carrot in front of him and a stick behind him always moves forwards and not backwards."

Greed and fear are like the carrot and the stick to which Ray Milland refers. For the classmate, greed is receiving a thousand pounds. Fear is the prospect of going to jail.

Neither greed nor fear alone would likely get him to murder a perfect stranger on another's behalf. The college classmate is being moved by the twin forces of greed and fear acting in unison, prompting him to commit the worst of all crimes.

Greed and fear together are too much to overcome. He is truly just a donkey with a carrot in front of him and a stick behind him. He has become powerless. He is whipsawed by his emotions and his circumstances into a beast of burden, the burden in this case being murder. And no – he doesn't get away with it.

THE ANTIDOTES WITHIN

There are only two non-presidents whose images grace our money. One is Alexander Hamilton, the first Secretary of the Treasury, whose image is on the ten-dollar bill. The other is Benjamin Franklin, who appears on the prestigious hundred-dollar bill, the largest denomination in general circulation. Hamilton, though he was never president, is an understandable choice. The choice of Franklin's image on the hundred-dollar bill is less obvious. Franklin had many talents, but no single accomplishment would seem to merit such recognition. He was an author, printer, scientist, inventor, and politician – a true renaissance man. Even taken in total, Franklin's contributions would not seem to merit the most esteemed position on our currency.

Franklin does have one accomplishment that is not commonly known, but it alone is sufficient to qualify for his spot on the hundred-dollar bill. Benjamin Franklin holds the honor of being the father of paper money, for which he is recognized on our most prestigious example of it.

He started printing money some forty years before the American Revolution, at a time when colonial authorities in London were limiting the amount of gold and silver coins in the American colonies. The American Revolution has the distinction of being the first war to be financed with paper money. It is not a stretch to say that without Franklin's creation, the United States of America might not exist.

Like most inventors, Benjamin Franklin could see the harm as well as the benefit that an invention might produce. Franklin knew that financing the Revolution with paper money would likely create runaway inflation, which it did. But he also knew that independence was worth that price. Nevertheless, Franklin, throughout his life, espoused thrift, honesty, and commerce. He believed that the world would benefit if people produced more and consumed less.

Here, in his own words, is a sampler of Benjamin Franklin's philosophy as it relates to money:

- A penny saved is a penny earned.
- An investment in knowledge pays the best interest.
- Beware of little expenses - a small leak can sink a great ship.
- Buy what you have no need of and before long you will be selling your necessities.
- Contentment makes poor men rich; discontent makes rich men poor.
- Creditors have better memories than debtors.
- Early to bed and early to rise makes a man healthy, wealthy and wise.
- God helps them that help themselves.
- He that is of the opinion money will do everything may well be suspected of doing everything for money.
- If a man could have half his wishes, he would double his troubles.
- If a man empties his purse into his head, no one can take it from him.
- If you desire many things, many things will seem few.
- It is only when the rich are sick that they fully feel the impotence of wealth.
- Many a man thinks he is buying pleasure, when he is really selling himself to it.
- Money has never made man happy, nor will it. There is nothing in its nature to produce happiness. The more of it one has, the more one wants.

- Necessity never made a good bargain.
- No nation was ever ruined by trade.
- Our necessities never equal our wants.
- Rather go to bed without dinner than to rise in debt.
- Remember that credit is money.
- Remember that time is money.
- The sound of your hammer, at five in the morning or eight at night, heard by a creditor, makes him easy six months longer.
- The use of money is all the advantage there is in having it.
- There are two ways of being happy: we must either diminish our wants or augment our means – either may do. The result is the same and it is for each man to decide for himself and to do that which happens to be easier.
- There are three faithful friends – an old wife, an old dog, and ready money.
- Wealth is not his that has it, but his that enjoys it.
- What maintains one vice would bring up two children.
- Who is rich? He that rejoices in his portion.

Benjamin Franklin was not a man given to greed or to fear. As a co-author and signer of the Declaration of Independence, he put his livelihood, his material goods and his life on the line by his involvement with the independence movement. Had the American Revolution failed, Franklin and all the signers of the Declaration of Independence would have been executed.

As might be deduced from his writings, Franklin was also not prone to greed. Franklin was a successful printer, author, inventor and politician. Two of his inventions alone, the Franklin stove and bifocals, would have made him wealthy. He could have been one of the richest men in America had that been his goal. He lived comfortably, but modestly, and always well below his means.

Benjamin Franklin would likely be appalled by the greed and fear that seem to permeate the financial mindset of so many Americans today. He wouldn't understand the inability and unwillingness of people to invest in businesses with good business models and transparent financial reporting. He wouldn't understand the trepidation over taking a good idea and creating a business around it. He wouldn't understand the propensity of Americans to borrow for items that are not necessities, especially since necessities are more affordable in America today that at any time or place in the history of the world. While enjoying levels of opportunity and security unimaginable in Franklin's time, he would almost certainly wonder how we have squandered them all to become the most indebted society in history.

Plato, whose philosophies influenced Franklin, believed there were four cardinal virtues: wisdom, justice, courage, and moderation. These virtues reflect the nature of the soul. Plato held that every human being actually has three souls:

- The *Rational* Soul is the thinking portion within each of us. It judges what is true and false and makes decisions based on the best way to properly live one's life. A properly functioning rational soul is the source of wisdom.
- The *Spirited* Soul is where certain emotions, including fear dwell. It is the active portion, and its function is to carry out the dictates of the rational soul. A properly functioning spirited soul is the source of courage.
- The *Appetitive* Soul also contains emotions, including greed. The desires and emotions of the appetitive soul

must be controlled or deferred if we are to successfully achieve rational goals. A properly functioning appetitive soul is the source of moderation.

Justice consists of the proper interplay of these three parts of the soul.

Greed and fear were apparently a problem even back in Plato's time. Two of his four virtues, moderation and courage, exist almost exclusively to combat greed and fear, respectively.

Plato stated that the spirited soul puts into action the decisions of the rational soul, which assumes that action follows thought. Most people do not operate in this sequence, and virtually all bad financial decisions do not operate in this sequence. Plato viewed man as a rational being that will give sober thought to a problem, discern the best solution that benefits the most while harming the least. People will then act with courage to make that solution a reality. In reality, people act first on emotion, fear and greed included. They will then attempt to justify what they've done by looking for any scrap of logic that will support their actions.

When there is rational thought given before action is taken, there is usually an attempt to explain the reason for taking a certain action before that action is taken. Dispassionate analysis of a problem plus disclosure beforehand of planned actions is the best way to prevent one's actions from being condemned by others.

As you look at the list of Franklin's sayings, there is a consistent theme of frugality in his philosophy. Frugality is not about being cheap or miserly. Franklin himself said that wealth is to be enjoyed, not merely had. When we think of a frugal person today, we tend to picture an old person who opens up a money purse and a moth flies out. To be frugal does not mean you don't spend money. It does mean you don't spend money frivolously.

Frugality is simply financial efficiency, and efficiency is something we all admire today. We admire the hybrid car because it is more fuel efficient. We admire the internet because it is more time efficient. We admire recycling because it is more resource efficient. All of these efficiencies translate into reduced spending, yet we don't tend to admire people who are efficient in their spending. It's as though we make these efforts to save money in one area in order to blow it in the end on something wasteful.

The goal of frugality is not to accumulate wealth, though frugality is the best tool for most people to accumulate wealth. Because the accumulation of unneeded wealth is itself inefficient, to do so runs counter to the purpose of frugality.

Frugality is part of many religious beliefs. Since our material possessions are considered gifts from God, to use them inefficiently is to show disrespect, which can lead to the loss of such gifts. Even without a religious purpose, frugality is a sign of respect for the planet and its limited resources, as well as a sign of respect for our fellow citizens. Frugality is a way of demonstrating that one does not hold one's own material desires to be of paramount importance.

Frugality is also a component of stewardship. If you need confirmation that we never truly own anything, contemplate how much you get to take with you to the next life. Whatever we accumulate we have to leave behind.

We are never owners as much as stewards. Frugality is evidence of good stewardship because part of frugality is steering assets to their most efficient and productive use. You cannot be frugal and misuse an asset, just as you cannot be a good steward and misuse an asset.

Frugality leads to moderation, which was one of Franklin’s eight personal virtues. Moderation simply means avoiding the extremes, and greed and fear both live at the extremes. Too much of a good thing can turn it into a bad thing, such as the consumption of too much food leads to obesity and attendant health risks. Moderation enables the good things in life to remain good. Moderation also enables such good things to continue, as we are less likely to consume them all in fits of overindulgence.

Moderation requires discipline, and the only discipline that works in the long run is self-discipline. There are places where every inhabitant is disciplined, yet none are self-disciplined. They are called prisons.

Discipline is unavoidable in life. Either we discipline ourselves or the world will do it for us. The most extreme cases go to prison. A lack of self-discipline may not lead you to a 6’ by 8’ cell, but a lack of self-discipline is the first necessary ingredient for greed or fear to gain a foothold. Once that foothold occurs, you may find yourself in a prison, but one of your own making.

Self-discipline is necessary for perseverance, which is a necessary ingredient to long-term success. Most of our goals, financial and other, require a consistent effort over a sustained period of time. During that time, there are always events, distractions, and disasters that can knock us off course if we allow them to do so. It isn’t hard to move in a direction when there are no opposing forces. Perseverance is the ability to keep moving toward a goal when forces seem to conspire against you. Two of those conspiring forces are greed and fear.

Before you can demonstrate perseverance, you need a sense of commitment. When you commit to someone or something, you take ownership and responsibility for the outcome. Many people want a particular outcome, but they are not willing to make a commitment to achieving that outcome. They are hedging their bet. If the desired outcome doesn't materialize, they cannot be blamed since there was no commitment on their part. Commitment is accepting the responsibility as well as the reward. Many people fail to realize that accepting the responsibility is the most important step to realizing the reward.

Commitment leads not only to perseverance, but also to patience. Perseverance is a bias for action when inaction or retreat would be easier. Patience is the ability to wait, to do nothing, or at least do nothing differently when it would be easier to take action that might bring short-term pleasure, but also long-term pain. Patience in the face of an economic downturn is often the best tactic to minimize damage. Greed and fear both prey on the impatient.

Patience and persistence do not imply rigidity. Flexibility is not a sign of weakness, but a necessary ingredient of strength. The longest bridges and the tallest buildings are designed to flex a little in strong winds. Total rigidity would cause them to collapse under stress.

We all incur stresses from time to time that will break us if we don't adapt to the changing situation by becoming more flexible. A period of unemployment may require flexibility in a saving schedule for retirement. To remain inflexible in such a situation may break you financially. Specific stresses that require us to be flexible fade in time. We then reengage our perseverance to continue toward our goals.

In matters of tactics, flexibility is a valuable asset. In matters of ethics, flexibility is only a liability. *Integrity* and *integrate* have the same root; both refer to bringing parts together. Personal integrity is the integration of one's values with one's actions. If you possess integrity, you are honest and sincere, and you are therefore worthy of trust.

A person of integrity does not take what is not deserved, so greed is not allowed to take hold. Possessing integrity means that, when nothing else can be counted on, you can still count on yourself. That knowledge is one of the best antidotes to fear.

As we have come to recognize that deficit spending cannot sustain our standard of living, we are looking for more sensible ways to maintain our quality of life. One way to do so is to adjust our definition of quality of life.

In the past, we might have measured our quality of life by the size of our home or the newness of our cars, but this measurement involved only one side of the ledger. We didn't look at the other side of the ledger to realize that those assets were creating huge liabilities. The debts we incurred were affecting our quality of life. In the future, a person may exude pride not in a new car, but in an old car with 120,000 miles on it. Such a car will become a symbol of self-discipline, as well as a more balanced balance sheet.

Frugality and the other virtues it spawns enable us to increase our level of contentment. This may seem like a contradiction. When we think of having less materially, we expect to feel less content with our circumstances. However, as the law of marginal utility states, the more we have of something, the less we value each incremental unit. In conjunction with that law, the less we have of something, the more we value each unit of it.

When we are able to focus less on having more, we can appreciate that which we already have.

Frugality enables contentment, and contentment enables gratitude. Our history seems to show that those with the least seem to appreciate it the most, and willingly express thanks for what they have.

The Pilgrims, who made seven graves for every home, nevertheless set aside a day of thanksgiving. Our national holiday of Thanksgiving was established by President Lincoln in 1863, in the midst of the bloodiest war in our nation's history. Despite the hardships the nation was enduring, Lincoln's proclamation focused on all the blessings we had received during that period. He urged Americans to give thanks to God for His grace and mercy.

Another prerequisite to gratitude is modesty. Modesty is a virtue in short supply today. I don't mean modesty in terms of dress or deportment. Modesty in this case refers to recognizing that one's blessings are just that; they are not an entitlement.

As long as people feel that what they have is no less than what they deserve, it is virtually impossible to feel a sense of gratitude. When such people are reminded that all they have is not necessarily an inalienable right, their response is often righteous indignation. They feel insulted that someone should think their bounty was more than their minimum due.

The Hebrew word *chutzpah* is used to describe someone who is audacious, insolent, or impertinent. Chutzpah and modesty are virtual opposites. An excellent example of chutzpah was provided by author John Andrew Holmes, who wryly observed, "Some people would not hesitate to drive up to the gates of Heaven and honk."

Whether it's called intuition, instinct, or insight, there is a part of us that alerts us when something is good or bad for us. Intuition can be helpful in assessing risks and opportunities, provided we listen to it properly. Too often, people confuse intuition with desire. Because they want something, they intuit that it must be good for them.

If these people would turn down the voice of desire momentarily, they would likely also hear the voice of intuition warning of the dangers of giving in to such an urge. If people ignore their true intuition, or misinterpret an emotion like desire for it, eventually their intuitive sense will no longer function properly. A defective intuition leaves one more vulnerable to misleading messages, including messages from one's own brain.

When your intuition is functioning properly, you are able to maintain a necessary level of skepticism. Without a proper level of skepticism, you will believe all those too-good-to-be-true offers that you get in the mail, off the internet, through television, and from your brother-in-law.

Only a small percentage of people who get taken in by scams can use naiveté as a defense. The great majority of such victims knew instinctively that the too-good-to-be-true offer was just that. However, because they so badly wanted it to be true, they turned off their intuition and with it, their sense of skepticism. Once that happened, their greed and fear buttons were exposed and ready to be pushed by the scammers.

Too much skepticism can turn someone from a mere skeptic into a cynic. The skeptic requires confirmation of the goodness of something or someone. The cynic assumes there is no goodness in the first place. The cynic has no curiosity, and therefore never seeks out anything that might be an improvement over the status quo.

A cynic is no more realistic than his/her opposite, the idealist. The realist understands that the truth contains elements of good and bad, and it is the individual's responsibility to investigate and find out the sum total of each in every person, activity, or investment.

Christianity teaches that faith, hope, and charity are the three greatest virtues a person can possess. Whether you are religious or not, faith, hope, and charity are still the most important virtues to possess.

Courage is not the opposite of fear – faith is. No courage exists without faith. You cannot confront something that frightens you unless you have faith that you can overcome the adversity or the adversary. You may rely on faith in God, faith in your family, friends, fellow men and women, or faith in yourself to do what is necessary to vanquish that which causes you fear. It is faith, regardless of what you have faith in, that creates the courage that conquers fears.

All the progress of humanity is attributable to faith. The founding fathers had faith that the righteousness of their cause would overcome the superior British forces. Every worthwhile enterprise was started with the same single ingredient – faith. As Albert Schweitzer put it, "All work that is worth anything is done in faith."

Faith is what it takes for us to stop the regression that fear causes. Faith is what it takes to make the steps that lead to real progress, individually and collectively. It is faith that converts retreat into advance, to paraphrase FDR.

Faith and hope may seem almost interchangeable, but there are some key differences between the two. Faith is the *belief* that something exists or that something will come to pass. Faith is rooted in the present. Hope is the *desire* for something to exist or for something to come to pass. Hope is rooted in the future. Hope dreams, but faith is what turns those dreams into reality. Without faith, hope is without substance, a powerless dream.

Hope's effectiveness as a virtue and an asset is largely dependent on the object of our hope. Hope is like the carrot dangled before the donkey. Hope does not determine if what is hoped for is good; the individual must make that determination. Every person who buys a lottery ticket hopes to win the jackpot. Such hope can be detrimental if a person spends an inordinate amount on lottery tickets while ignoring other financial obligations.

Hope needs to be properly channeled, but hope is a necessary ingredient to all progress. Parents hope their children will have a bright future. To that end, parents make great sacrifices. While hope occasionally moves people in the wrong direction, all movement in the right direction is the result of hope.

Depending on your source, the three great virtues are faith, hope, and either charity or love. I prefer to use charity because love has many different connotations. Charity is more limited. It is non-physical love expressed by giving of ourselves and our possessions to others.

As faith is the antidote to fear, charity is the antidote to greed. Martin Luther said, "Faith, like light, should always be simple and unbending; while charity, like warmth, should beam forth on every side, and bend to every necessity of our brethren."

If you have charity combined with faith, you never worry that you will be harmed by your giving. The charitable always find that they are not penalized for their acts of kindness. This does not mean that for every dollar given to charity, a person can expect a direct reimbursement from God.

The charitable person may well have a lower net worth as a result of giving. It is also very likely that such good deeds are repaid in ways that can be measured in money, even if indirectly.

The charitable person is someone with whom others like to do business. We do well by first doing good. We may do good by doing well, but it’s less likely.

Even if there is no “reimbursement” in a monetary sense for charitable acts, there is reward nonetheless. For many, the benefits from charity are literally the difference between life and death. Charity, more than any other act, makes us closer to what God wants us to be.

It is the paradox of money that what we most need cannot be obtained by the acquisition of wealth, but by its disbursement.

TEN SIMPLE STEPS TO KEEP GREED AND FEAR FROM SHREDDING YOUR FINANCES AND FUTURE

▪ STOP MAKING COMPARISONS.

Everything suffers from comparison, including you. You are unlikely to go through a single day without encountering someone who is smarter, better-looking, wealthier, better-paid, more athletic, more charismatic, wittier, drives a better car, lives in a better house, has a sexier spouse, has superior children, or smells better than you. A lot of self-destructive behavior begins when someone looks at what others have, which leads to envy and discontent. Self-improvement is noble, but your goal should be to become better than you are now, not merely better than someone else.

▪ KNOW YOUR LIMITATIONS.

If you want the reward, you have to be able to handle the risk, but you don’t have an unlimited ability to increase your risk tolerance. You may be able to increase your risk tolerance over time and with education, but many people are naturally risk averse, which is actually a useful survival mechanism. It’s a good thing to creep cautiously out of your comfort zone. If you attempt a huge leap out of your comfort zone, you may well land on your head. If you need security more than opportunity, you should probably not start your own business or invest in someone else’s start-up business either. Even if such businesses succeed, there’s a good chance you won’t be around to enjoy it since stress is a killer.

▪ MUTE THE MEDIA.

If you spend a couple of hours watching CNBC, Fox News or CNN, you will likely hear several stories that will make you want to convert all your assets to gold, bury it in the back yard, then go hide under the bed. Also, in that same period, you may hear something that will make you want to sell all your assets and invest the proceeds in the latest can't-miss-wave-of-the-future. In between you will see several commercials that will try to separate you from your money and replace it with products or services you don't need. The best way to avoid such traps is to reduce your exposure to them. The best way to reduce your exposure is to spend less time watching TV, surfing the internet, or doing any other activity where you are subject to manipulation by those with their own agenda.

▪ MAINTAIN A CERTAIN SKEPTICISM.

There are two things I can say with almost total certainty – the world will not end tomorrow, nor will you become rich tomorrow. The more someone speaks with total certainty of an event that is statistically unlikely, the louder your alarm bells should be ringing. When someone tells you that the world economy is about to collapse, do not sell your stocks and stock up on firearms. When someone says you can have risk-free returns of 50% in a year, guard what you already have from them, with firearms if necessary. Playing to greed and fear is an effective way to sell something. Recognition of that fact, mixed with a healthy dose of skepticism, will keep you from being suckered.

▪ MAINTAIN A CERTAIN OPTIMISM.

The great majority of humanity, including most of the movers and shakers in the world, spend their working lives trying to make the world a better place, which we do because it is in our interest. When that many people work that hard to make things better, our collective lives will inevitably become better, even though it never happens in a straight line. Nostalgia may provide a warm feeling, but for humanity as a whole, the present is better than the past, and the future will be better than the present. Despite our present-day problems, it is better in the 21st century than it was in the 18th, 19th, or even the 20th. If you bet against the trends of history and the traits of humanity, you will lose in the long run.

▪ SET WORTHWHILE GOALS.

Quantifiable goals are necessary to measure progress and keep you focused. However, if your goals are only measurable in numbers (*x* annual income, *x* net worth, etc.), you will still feel unfulfilled even after reaching your goals. Such goals should be the means to an end, such as funding a child's education or enabling a dignified retirement. If your goals aren't based on helping someone live a better life ("someone" includes you), then the motivation will weaken when things get rough, and you are likely to realize too late that the prize wasn't worth the price. When setting a goal with a number, it should include the word *because*. For example, "I want to save $50,000 for my son's college education *because* I don't want to be supporting him when he's 35." The *because* is the reason for the goal in the first place, and it is what will motivate you to reach that goal.

- **ROLL WITH THE CHANGES.**

Don't fall into the ego trap of thinking you control your life. At most, as individuals we can control our responses to events in the world; we can rarely control the events themselves. We can also prepare to deal with the unpleasant and inevitable events of life, such as illness, job loss, or death of a loved one, by acknowledging their possibility and planning for them. Refusing to accept the unstoppable changes to an economy or culture, such as jobs going overseas or increased diversity will only frustrate you and make you miserable and will do nothing to change the future. Financial markets move up and down constantly, and they don't tell you in advance what they're going to do. Plan your investment portfolio accordingly by diversifying to survive and thrive as circumstances change. Species survive and thrive by adapting to the environment, not by futile attempts to get the environment to adapt to them.

- **SHARE, SAVE, SPEND – IN THAT ORDER.**

Sharing is the best antidote for greed. Sharing requires that you put others before yourself, which for greed is a toxic environment. Those who share with others also come to realize that the happiness one receives from giving is stronger and more durable than the pleasure one receives from taking. Saving is the best antidote for fear. If someone began their working life by saving 10% of every dollar earned, he/she would have little to fear financially, ever. The discipline that saving instills in the saver is also a tremendous asset in meeting the unexpected challenges that we inevitably face throughout our lives. Spending is your reward for taking care of the first two. By taking care of sharing and saving first, your spending habits will be more under control, and the pleasure you get from spending each dollar will be enhanced, not diminished.

▪ STUDY HISTORY FOR PERSPECTIVE.

Modern media is not only a great consumer of your time. It is also like drinking unfermented wine. Because of the competition in the media, there is more pressure to get the story out right now, rather than to just get it right. Time filters the impurities out of the reporting of events and allows for proper fermentation. News is called the first draft of history, but you shouldn't be basing major decisions on first drafts. The time you save by not watching so much modern media can be more productively spent by studying history. Studying history serves more than one purpose. History shows you the long-term effects of events, which is far more important than their immediate impact. History shows how the present was formed by the past, which can help us predict how the future will be shaped. The study of history also gives a perspective on how people lived in the past, especially the trials and tribulations faced by our ancestors. These revelations can help you feel better about the present and more optimistic about the future.

▪ LOOK BEYOND YOURSELF.

If you want to get some idea of how much of the world *isn't* you, find your house on Google Earth and then zoom out – slowly. You will quickly observe how big the world is and your small part in it. Google Earth is limited though because it only shows one world at one point in time. We should look beyond our point in time and beyond our physical existence. We should look at what the world will remember of us after we are gone. We should also remember that we will be at our next destination for a long time, and what we do in this life has a bearing on the next. Our lives are spent resolving the conflict between the material and the spiritual worlds. When we focus too much on ourselves in the present, we can lose the ability to balance the material and the spiritual and to give the spiritual its proper place. Remember, we are not human beings that are blessed with a spiritual experience; we are spiritual beings that are blessed with a human experience.

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