

## Behavioral Finance - The Emotion of Selling

There may be plenty of financial reasons to sell an asset such as a stock, vacant ground or an interest in an apartment complex, but often emotional factors make the decision to sell more difficult. Many emotions reflect our finest personal qualities. For example, out of a sense of loyalty to family, we might respond, “My father bought that stock many years ago because the company was managed by really good people” or “That piece of farm ground has been in my mother’s family for more than a century.”

Patience and hope are two more good qualities that might cause us to postpone selling. To sell a stock for example when it is down is like giving up and we do not like to think of ourselves as quitters. Out of a sense of hope, we may cling to the asset with a belief that the investment will come back, some day. We are trusting, another good quality, so if someone we trust suggested the purchase, we may hold on.

Some less pleasant qualities such as pride, greed and envy may cause us to suspend the decision to sell. If I selected the asset, pride may make it more difficult for me to admit that I made a mistake. If the investment is way up in value, greed may prompt me to hold on too long. If others I admire enjoyed success, envy might cloud my judgment.

Stubbornness and perfectionism can make the decision to sell more difficult. My father’s family traces its roots back to Bavaria in the middle 1800’s so we have heard the expression, “You can tell a German, you just can’t tell him much.” Denial and procrastination can be factors too.

Is there a solution? While I respect people with the self-confidence to make their own investment decisions, I prefer the wisdom of crowds. Not large crowds, but I like to share and consult with knowledgeable colleagues who have their own perspectives and can confidentially share their experiences. They have the courage to point out the veiled influences emotions may have on my investment decisions.

*We live in interesting times* and while *interesting* can produce excitement, it can also generate a host of other emotions like uncertainty and fear.

- Families wonder if there will be an estate tax imposed for loved ones who may die this year or whether it will be back-dated to January 1, 2010, on those who have already died.
- What will be the amount of the estate tax exemption next year? Will they have to sell the family business or family farm to pay federal and state estate taxes? Are there reasonable alternatives?

- Investors wonder whether they should convert all or part of their IRA accounts to Roth accounts because tax rates will be different in the future or for other reasons?
- Employers are uncertain about the prospects of higher taxes, more regulation, health care changes and a shifting financial system.
- Owners are uncertain about the timing of capital expenditures and whether to hire, maintain or reduce workforces.

These are interesting times that generate questions and emotions. How are you impacted?

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