

# Fear and Investment Decisions: What to Do Now

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Published on August 28, 2008 Physician's Financial News Live

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There is a wild animal deep in human's brains that is importantly related to investment decisions. It has a less than familiar name to non-physicians—the amygdala. This primitive area is our fear G spot. It becomes activated during periods of poor stock market performance, in some people more than others.



Why? In part, because of conditioning. When hormones and neurotransmitters are released during stress, the amygdala becomes more excitable, in some more than others because of genetics or previous conditioning. Then, it is easy to etch the amygdala with a memory imprint.

Past fearful situations result in the amygdala being trained to give an automatic response—fight or flight. Early in evolution, these responses were protective. Either fleeing the physical threat, or fighting it, was preferable to doing nothing and suffering mayhem. Today, that primitive response is not always working in humans' favor because the fear reaction is brought about not only by physical threats, but also non-physical ones.

The amygdala response to non-physical threats in humans make us want to act, just like the original flight or fright reaction to a physical danger in our cave man ancestors. For example, a veteran traumatized from war may be terrified of guns and run the other way when he hears the gun salute. In other words, he may act apparently irrationally to a non-physical threat as though it was physical.

The stock market is a non-physical threat too. We know a poor performance in this area can jeopardize our financial health. Fear may be triggered. A visceral response can occur that causes discomfort and can even lead to panic. Stocks can be sold hastily, without thought, because of this reaction. This behavior is not financially advantageous.

Many people have trouble reining in their amygdala because the connections to the thinking part of the brain, the cortex, are weighted in favor of the amygdala. This means that in some people, reason is outweighed by the amygdala. Therefore, predisposed individuals have to be super-conscious of their tendency to let unconscious feelings reign, especially in these uncertain times.

As Peter Lynch, the successful portfolio manager for Fidelity said, “The key to making money in stocks is not to get scared out of them.” Amen.