



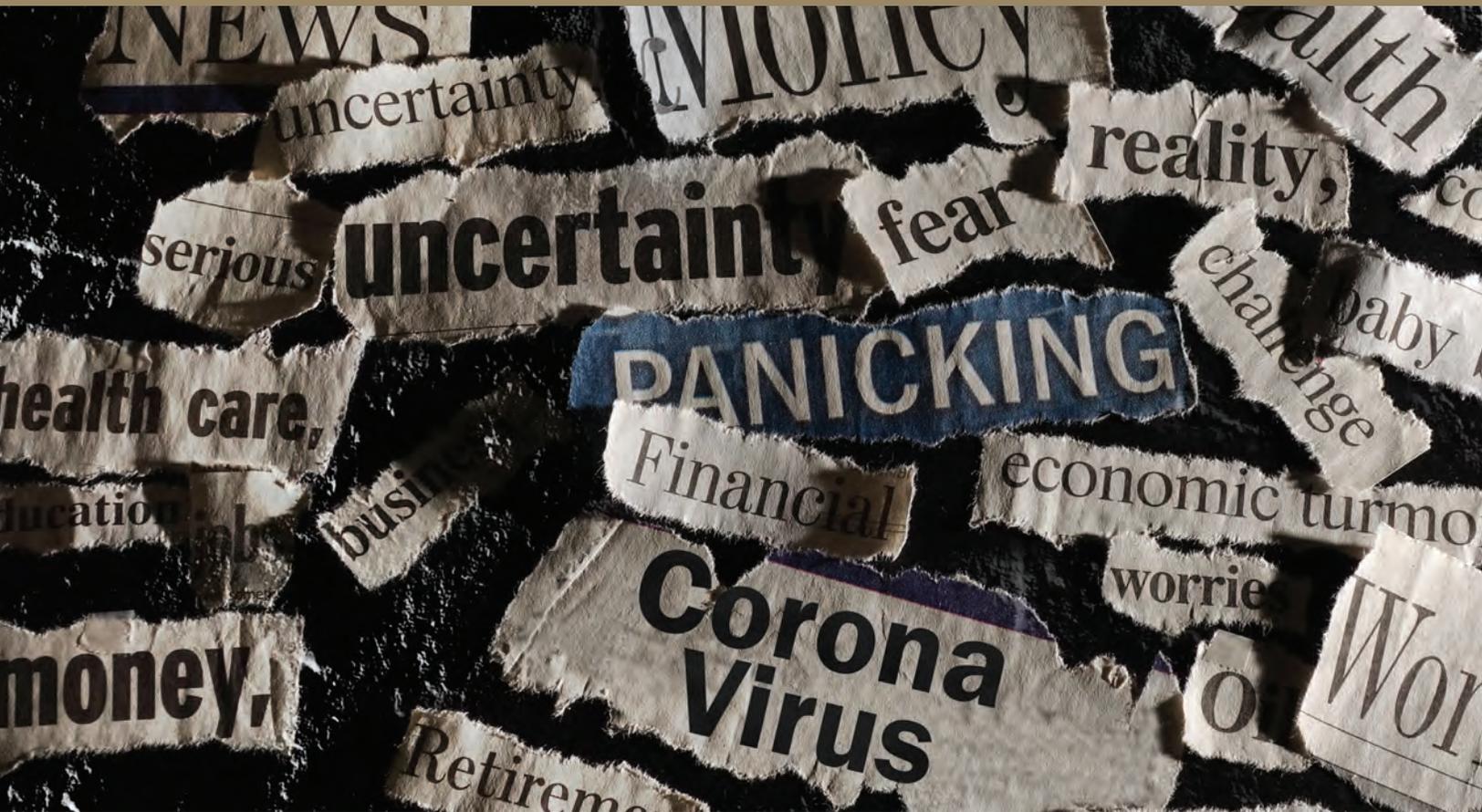
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# UNCOMMON PERSPECTIVE

Building Your Own Happiness In Worrisome Times

SEPTEMBER 2020



## Key Takeaways:

- Excessive worry can distort our worldview and distance us from our true priorities
- The media can play a significant role in the manufacture of excessive worry
- The effective management of worry can benefit both our personal and financial lives

### **Some Reflections on Worry**

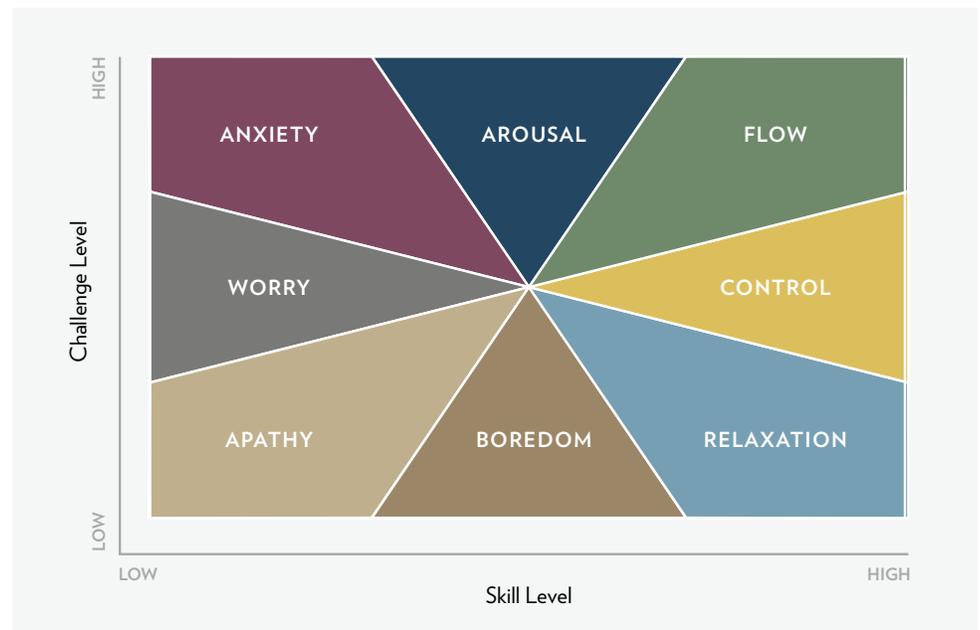
These are worrisome times. The pandemic is raging, the economy is stressed, racial tensions are rising and a consequential election is looming. At the same time, our sense of freedom and agency in the world has been diminished. We have been forced to put our “normal” lives on hold, spending all of our work and leisure time at home while trading our in-person social interactions for those enabled by the computer and the TV. In these trying times, it seems especially appropriate to spend a few moments considering the topic of worry, what it is, what drives our uneasiness, how it affects us, and how we can avoid its more harmful side effects both in our personal and financial lives.

### What is Worry?

We all know from experience what it feels like to be worried. But to fully understand and even control the experience, it helps to identify the essential elements of this unsettled mental state. When I worry, I am generally engaged in thought or, more precisely, in talking to myself. This thinking is triggered by internal or external cues that signal impending danger. As such, it is necessarily future-oriented. It involves the anxious anticipation of, and mental attempts to avoid, the many negative events that I imagine might happen based on the threatening nature of the cues that surround me.

But this kind of worry is really a default option, a kind of cognitive avoidance response to a perceived threat that is prompted because no clear effective line of action appears to be available. The wringing of hands is an apt metaphor. It's an inconsequential "non-action action" that I may engage in when I fear something needs to be done, but I don't know what to do or how to do it.

The well-known Hungarian-American psychologist, Mihaly Csikszentmihalyi, developed a diagram that is helpful to understanding worry in the context of other mental states.



In the diagram, mental states are shown as functions of a person's Skill Level and the Challenge Level of the behavior or activity in which the person is engaged. Apathy, for example, is the state associated with an activity that offers little challenge to a person even with limited relevant skills. The opposite of Apathy is Flow, which is another term for the common expression "being in the zone." This is exemplified by highly skilled pro athletes on a night when they can't miss or the renowned pianist delivering a flawless virtuoso performance at Carnegie Hall.

### **Skill Falls Short of the Challenge**

Worry results when a person's skill level versus a challenge is inadequate. It's no coincidence that the opposite of worry is control. Control occurs when a person recognizes that his or her skill level is well within the bounds of the challenge so the challenge can comfortably be met.

Apathy, worry and anxiety are all states of relative disengagement from proactive involvement in the present. Those who worry, for example, are mentally engaged in an imagined future that may or may not be realized. The more excessive the degree, the more detached from the present and the less productive they often become.

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*To some degree, worry helps us avoid mishaps. However, there is a risk that worry can become debilitating, and biological and environmental influences can play a role.*

### **Excessive Worry**

For most of us, worry is a manageable behavior. In some circumstances, it may prompt some beneficial precautions to avoid mishaps or prevent accidents from happening. For others, however, it can become debilitating; and research suggests this results from two problematic characteristics.

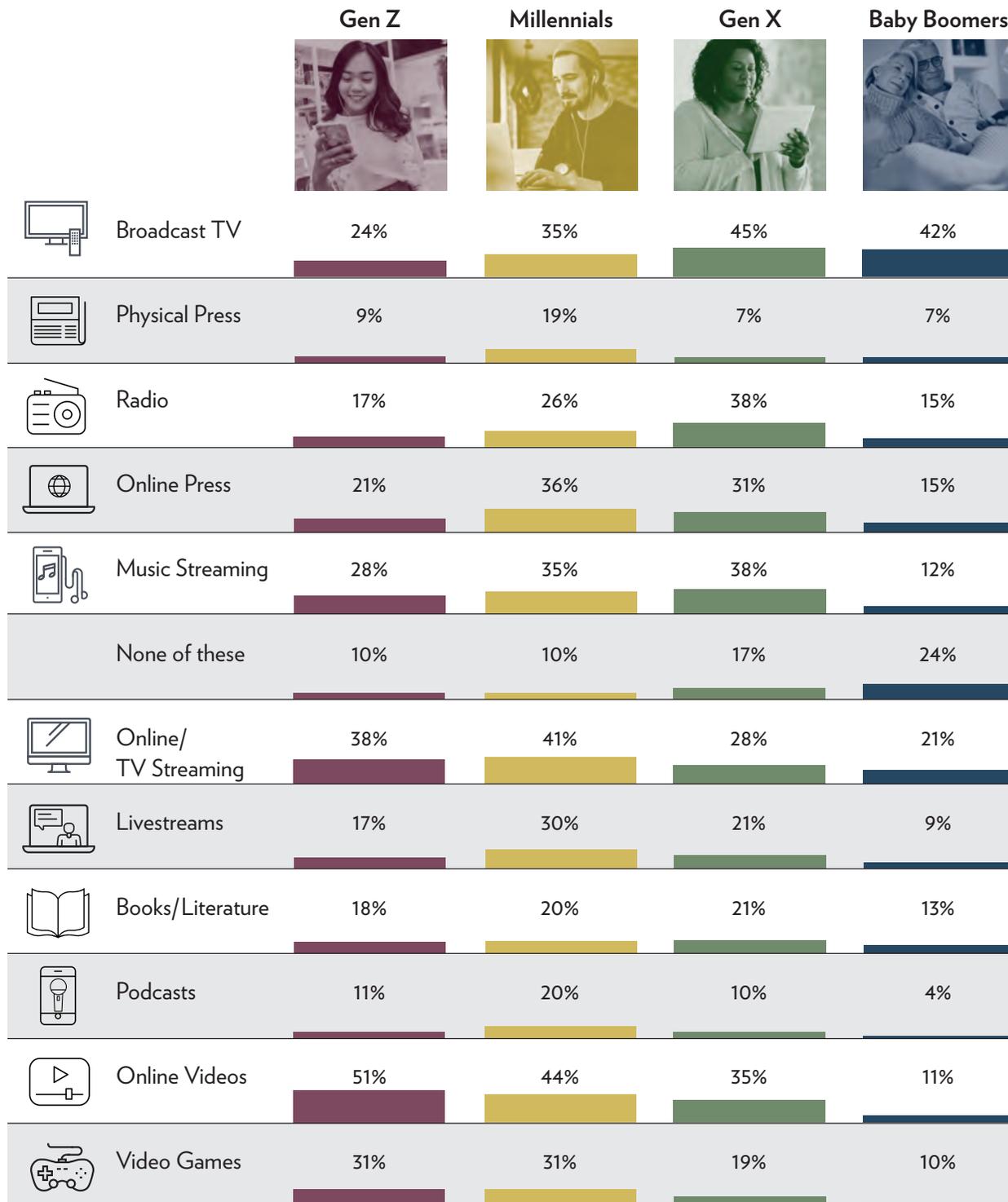
The first is emotional processing biases that manifest as highly ingrained negative habits of thought. When thinking about an uncertain future event, excessive worriers tend to pursue relatively threatening interpretations and direct their attention to potential negative outcomes. The second is an impairment of the working memory that allows for the voluntary allocation of attention to different topics, which can impede a person's ability to control what they pay attention to and the distractions they are able to ignore.

The combination of emotional biases and lack of attention control naturally leads to the detection of more potential threats — things to be worried about — and compounds the inability to switch attention from these threats to other more positive or neutral topics.

Psychologists have pointed to both biological and environmental influences that can drive worry across the spectrum from normal to excessive levels. In the next section, we examine media as a distinctively pernicious contributor in today's environment.

## Media Consumption and COVID-19

Since the pandemic began, we haven't been able to go to the movies, shop in a mall, attend a concert or enjoy many other social activities. Instead, each generation has been feasting on media, albeit somewhat differently, as shown in the graphic below.



Source: Global Web Index, Coronavirus Research Report, April 2020

### **Creating Worry - The Media: If It Bleeds It Leads**

Before the pandemic, we were already a media-saturated society. But in this period of social isolation, recent surveys have found that over 80% of consumers in the U.S. and UK say they are consuming significantly more content with broadcast TV among the primary sources. Surveys further found the most common activity in media consumption is searching the news for COVID-19 updates.

Unfortunately, given the nature of news delivery today, excessive and pervasive worry, rather than a better-informed citizenry, may be the result of our growing media consumption. Ideally, the journalistic mission is to report the news in a neutral, factual manner. Increasingly, however, driven by financial motives, the news has changed. In the cutthroat competition for consumers' attention, the news and entertainment together have morphed into infotainment. This toxic combination has driven the news to look to the spectacular, the stirring and the controversial for content, rather than the important and the worthwhile.

In the fear-driven news process, reporters first identify an event to be feared. A provocative headline capturing the fear is the so-called "teaser." Something like, "What is your supermarket doing to expose you to the virus?"

Media coverage is selective, and as the chart on the next page suggests, the media highlights specific events and issues, such as the causes of death in the U.S., at rates that are inconsistent with their frequency in reality or with the interest people show in them on search platforms. In other words, what we read in the media is not what we should necessarily be most worried about.

In its natural predilection for frightening events, the news reinforces the biases of excessive worriers; and its now 24-hour cycle makes it increasingly difficult for consumers to shut out the noise or find more balanced sources of information.

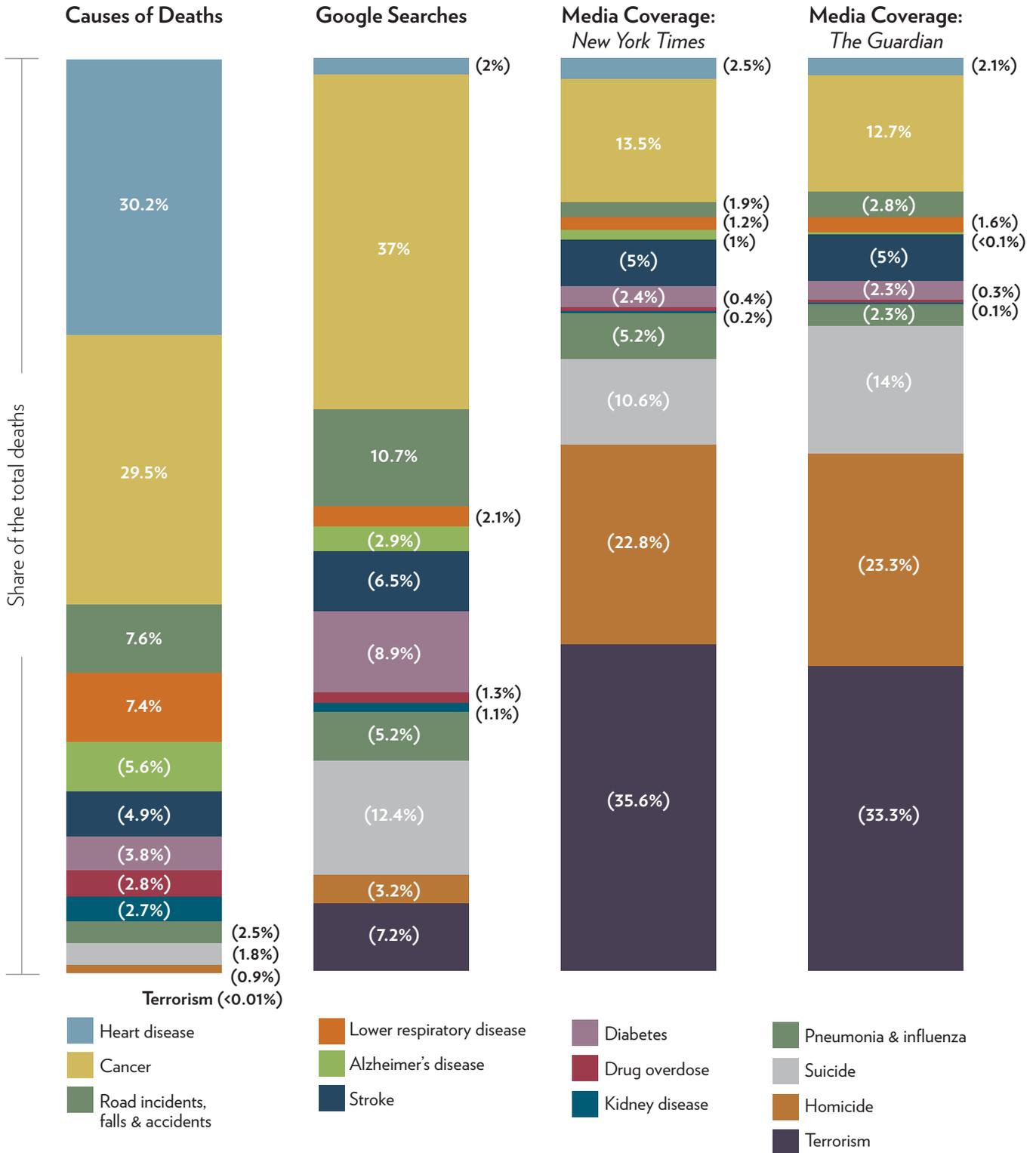
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*Cutthroat competition and financial motives have driven many news organizations to sensationalize events, in some situations making them more frightening than they need be.*



### Causes of Death in the US in 2016

What Americans die from, what they search on Google, and what the media reports on



This represents each cause's share of the top ten causes of death in the US plus homicides, drug overdoses and terrorism. Collectively these 13 causes accounted for approximately 88% of deaths in the US in 2016. Not all causes of death are shown.

All values are normalized to 100% so they represent their relative share of the top causes, rather than absolute counts. Full breakdown of causes can be found at the CDC's WONDER public health database: <https://dwwonder.cdc.gov/>

Based on data from Shen et al (2018) – Death: reality vs. reported. All data available at: <https://owenshen24.github.io/charting-death>

### **The Financial News**

While not as focused on the mayhem of everyday life, the financial news has adapted many of the production elements of mainstream news to fit its specific subject matter. The adaptation has not been that hard. There's an old Wall Street saying, "the financial markets are driven by two powerful emotions – fear and greed." Producers of financial news programs use that knowledge to drive consumer engagement.

Like mainstream news, financial news has become pervasive. Far from the days when the Dow would get a passing mention on the nightly news, today there are entire networks devoted to delivering business news in real-time, all day. CNBC viewers, for example, can track the market from start to close beginning with Squawk Box in the morning, moving to Power Lunch in the afternoon, and ending with the Closing Bell. All these shows closely monitor the frenetic minute-to-minute gyrations of the markets with expert panel members presenting an ever-changing hyper-current analysis of events peppered with often conflicting prognostications of future opportunities for savvy investors.

The real investment value of these is marginal even for active traders and professional investors. The information is too broad and inchoate to suit most investment plans. The analytics tend to be shallow, with little concrete support and limited follow-up. The agendas of the parade of professional fund managers that offer commentary are unknown and often suspect. Historical context, well-grounded risk analytics or any meaningful discussion of portfolio construction and asset allocation don't fit the fast-paced news format.

But whatever these shows lack in value for investors, they deliver in ratings and viewer engagement for their advertisers. Like the mainstream news, business news presents investors with a continuous stream of events that they cannot ignore, some triggering fear and others greed. Emotionally driven to attend to these events, but lacking a process to digest the information and respond rationally, the viewer is left to act impulsively and/or remain perpetually worried about potential losses or missed opportunities.

### **What Worry does to Us**

Chronic worry can have a range of undesirable consequences. Physiologically, it triggers the body's natural "fight or flight" response. This causes the sympathetic nervous system to release stress hormones. When this release is frequent and not used for physical activities, it can result in sleepless nights, muscle aches, irritability and headaches. Over time it can lead to increasingly serious physical and medical problems.

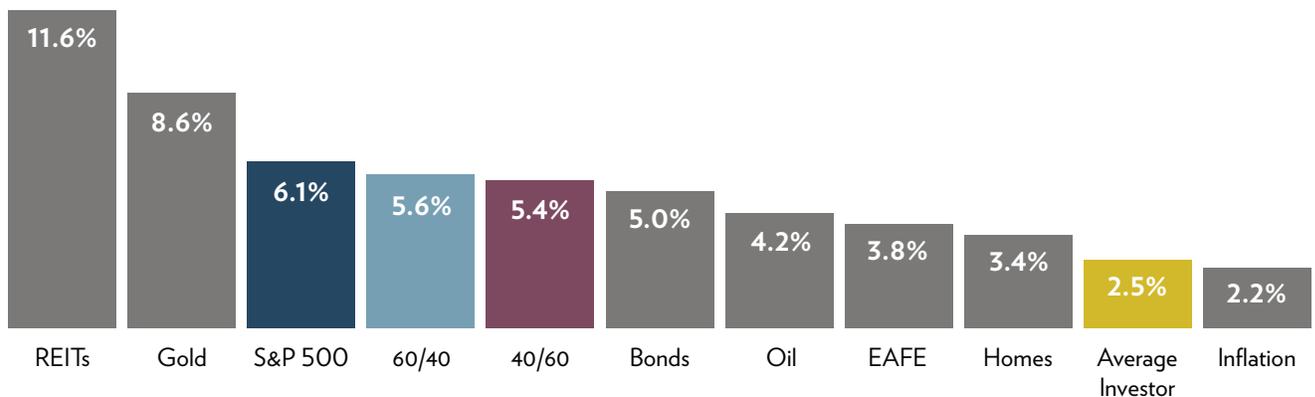
Beyond the physical, worry impacts our cognition and our behavior. In devoting large amounts of time to generating and attending to unsettling thoughts, chronic worriers live most of their lives focused on their own mental creations. These are the "potential but not yet real" negative events that are cues for worry. Unfortunately, living in the future for the worrier leaves little time to attend to the real world that exists in the present.

In our personal and professional lives, worry disconnects us from the things that would normally be important to us and that we would, in a calm state, actively engage with; our family, our friends, our hobbies, our charities, and our jobs. By distracting us, worry diminishes our ability to effectively manage activities and follow through on plans, and impacts our ability to manage our financial lives and our investments in similar ways.

Excessive attention to what might happen in the market day to day, hour to hour, minute to minute prevents us from viewing events in historical context to understand and learn from what actually drives market changes and underlies market risk. Worriers tend to overweight the negative and underemphasize the positive, distorting the ability to properly align investments with goals.

The chart below shows the relative performance of various types of unmanaged investments over time alongside the inflation rate for the period. Also included is a measure of the returns achieved by the average investor. The numbers show that left to his or her own devices, the average investor significantly underperformed the unmanaged investments. Much of this underperformance we attribute to behavioral biases resulting in impulsive trading practices that are sub-optimal and inconsistent with an objective view of the market. Worry is a state that fuels and perpetuates these biases and contributes to their persistence and perniciousness.

### 20-year Annualized Returns by Asset Class (1999–2019)



Source: J.P. Morgan Asset Management; (Top) Barclays, Bloomberg, FactSet, Standard & Poor's; (Bottom) Dalbar Inc.

Indices used are as follows: REITs: NAREIT Equity REIT Index, EAFE: MSCI EAFE, Oil: WTI Index, Bonds: Bloomberg Barclays U.S. Aggregate Index, Homes: median sale price of existing single-family homes, Gold: USD/troy oz., Inflation: CPI. 60/40: A balanced portfolio with 60% invested in S&P 500 Index and 40% invested in high-quality U.S. fixed income, represented by the Bloomberg Barclays U.S. Aggregate Index. The portfolio is rebalanced annually. Average asset allocation investor return is based on an analysis by Dalbar Inc., which utilizes the net of aggregate mutual fund sales, redemptions and exchanges each month as a measure of investor behavior. Returns are annualized (and total return where applicable) and Guide to the Markets – U.S. Data are as of June 30, 2020.

### **Managing Worry**

Few of us are able to avoid worrying altogether. But there are practical steps we can take to keep from allowing excessive pessimism to negatively impact our lives, personally or financially.

As we pointed out earlier, as a mental state, control can be considered as the opposite of worry. So just as a person cannot be anxious and relaxed at the same time, a person cannot be simultaneously both worried and comfortably in control.

Simple steps like controlling our exposure to the news and other media sources that operate as worry factories may be beneficial. And using that “free” time to engage in activities that do not cause us concern or anxiety, such as physical activity, engaging in a favorite past time or spending time with friends and family, can provide us with emotional downtime and relaxation.

If we consider investing, being in control does not mean being able to eliminate risk and fully predict and profit from the market’s every gyrations. What it does mean is that we should approach the market with a reasoned and repeatable process that is based on experience and implemented with skill. We apply this process understanding the expected outcome, but fully cognizant of the risks involved and fully able to adapt to unforeseen contingencies that we know will arise. This trust and engagement in the investment process preclude worry since we have eliminated emotion from the equation and replaced it with an objective assessment of the facts.

### **Information Overload Can Hurt Us**

We live in an information-based society. But much of the information that we consume on a daily basis through a variety of news sources can be toxic to our mental health. Understanding the nature of worry and how the media often instills and perpetuates it in us, can help us to better manage it and avoid the deleterious effects it can have both on our personal and financial lives.

I’ll end with a quote attributed to the great war time Prime Minister of England, Winston Churchill, “Let our advance worrying become advance thinking and planning.” We are focused on helping you achieve your goals by creating a plan tailored to your needs. We encourage you to reach out to us with any questions you may have.

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