

BEHAVIORAL & FINANCIAL INSIGHTS

Uncertainty, Outcomes & Our Decisions

The brain may have a lot of gray matter, but it struggles with gray areas. As a planning machine, the brain prefers information that is certain, so it can figure out the best course of action. When definitive information is not provided, we get agitated. Not knowing, or not having sufficient clarity, leads to doubt, which in turn amplifies stress in decision-making.

Probability Problem

Whenever there is uncertainty (which is almost always), we rely on probabilities to help us make “the best” decision. But considering probabilities requires a lot of thought and analysis. It requires us to think statistically, which many prefer not to do. As a result, we may either choose to simplify probabilities whenever possible, or dwell on an issue and take no action (analysis paralysis).

We all want to know what is going to happen in the markets. In the face of uncertainty, it’s only natural to seek out some degree of certainty – even an *illusion of certainty*. Hence, we are easily attracted to prognostications made by “market experts.” Unfortunately, we can forget that their pulpit or popularity does not endow them with the ability to predict the future.

Investing Takeaway

The truth is, we can think of a lot of things that have occurred that caused investors and experts alike to scratch their heads. Surprises and *uncertainty* are just about the only *certainty* in the financial markets. We can’t control the markets or the economy. We can’t rely on expert forecasts, no matter how reliable they may sound. Even those predictions with very low or very high probabilities aren’t sure things; sometimes, the unexpected happens.

We can, however, control how we respond – the choices we make. Proactively creating a sound Financial Plan provides the foundation and structure to be prepared to deal with gusts of uncertainty. Knowing how to respond to inevitable surprises, versus emotionally reacting to them in a knee-jerk manner, can be priceless!

That’s what we’re here for. Let’s focus our time and energy on those things we can control – your financial plan and your response plan!