



FiLife Contributor

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One Smart Guy: Wealth Building Tips For Entrepreneurs & Individuals

3 Obstacles To Financial Success: Part 2

by OneSmartGuy

Last month, we talked about the folks who have trouble putting their New Year's resolutions into action. They're perpetual procrastinators who never got around to completing a personal or business financial plan. As a result, any actions they take to build or preserve their wealth range from haphazard to non-existent. Often, they will act impulsively (or not at all) only to find later that their imprudent decision cost them some of their hard-earned wealth.

Today, I want to talk to you about a second obstacle to financial success I often see, and it's a type of fear.

Fear of Loss

One of the most understandable emotional issues that stands in the way of personal and professional financial success is fear. What happens if something goes wrong? How will I be able to recover from a bad investment?

The Entrepreneur

We had a case at my financial planning firm where a physician client wanted help in evaluating possible strategies for growing his business. We analyzed his options, determined the action steps required to carry them out and evaluated the costs and benefits of each.

Crunching the numbers revealed that his most promising option required a \$1 million investment in diagnostic equipment to expand his practice. While he could recognize the logic that it takes money to make money, the physician balked at risking large sums on his business. The physician needed support from his financial planner, acting in the roles of business coach and CPA, to show him that the risks were not as great as he feared, and that it was a sound business plan. Eventually, the doctor overcame his fear of risking his hard-earned money and agreed to the investment. Since then, his business has grown as the financial planner predicted it would.

The Individual Investor

Fear of loss is also something I often see with people regarding investing. Studies by research firms such as Dalbar show that the average equity investor trailed the S&P 500 Index by 6.48% over the past 20 years! The study explains these poor returns as "unsuccessful market timing and other maladaptive investor behaviors."

Good call. I can't tell you how many times I've seen investors holding on to too much cash for too long, only to wait until the market went up before they invested it! The emotions of these investors who fear losing their money at the cost of earning money result in buy high and sell low investing time and again. It is gobbling up their wealth. These folks will have a hard time accumulating the money they need to reach their desired wealth goals.

Next time: Fear of not making the right decision.

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President of Zdenek Financial Planning (www.zdenek.com) and a personal financial planner, Guy McPhail is nationally recognized for his expertise in cash flow management and financial planning for small business owners.

A Certified Financial Planner® professional and a Certified Public Accountant (CPA), Guy manages the personal financial planning area at Zdenek Financial Planning, providing clients with strategic analysis and support in the areas of cash flow management, business management, tax planning, estate planning, retirement planning, stock option strategies and investing.

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