Markets & emotions, from FOMO to FOBIA

aviso wealth

Managing fear in unstable and unpredictable economic conditions

No doubt you're familiar with FOMO, the fear of missing out, but maybe not its less famous cousin FOBIA – frozen out by information anxiety. Okay, that may be a bit of a linguistic stretch, but hopefully it makes the point that fear can run the spectrum from knee-jerk re action to paralytic in action.

The key is to understand that emotions always exert *some* influence on investment decisions, but when fear is the main driver, things can veer into *undue* influence territory. To keep it in check, you can contain that fear in its appropriate place as part of your emotional filter, the one that you apply only after reviewing relevant economic impacts and current personal priorities.

The nature of fear

To start, the source of fear is typically uncertainty, either about present conditions, future developments, or both. Facing such unknowns, we naturally speculate what could be, with bad outcomes often dominating our thoughts.

That negative bias served a pivotal purpose in our evolution, prioritizing survival in the face of potential danger. But we have indeed evolved. We are rational creatures who can investigate, gather and analyze information, and then use it to more reliably anticipate the direction, scope and magnitude of what may lie ahead.

Of course this must go beyond mere academic inquiry, so that you can gauge the impact on you personally. Ultimately that means looking at your financial planning, but before we go there, let's first consider where this current episode of fear originates.

The terror of tariffs

The unfortunate prompt for whatever kind of fear you're feeling in early 2025 is the threat of US tariffs – and the use of the word "terror" in the heading above is not just for the sake of alliteration. The threat of a tariff, its on-and-off timing, and its eventual application, all conspire to create an environment of uncertainty and fear, regardless of the motivations or intentions behind it.

A tariff is a fancy word for a tax that is levied on domestic purchasers of foreign goods or services. Though commonly premised on encouraging domestic production (by artificially increasing the cost of imports), there is scant historical evidence to show that it leads to much other than a redirection of capital to less efficient uses (in both the producing and consuming countries), in turn reducing economic activity.

Indeed, it's seldom clear which individuals, sectors or jurisdictions bear what proportion of the final cost, with the only observable result likely being the reallocation of market profits into government revenue: a tax grab.

As to how long these or any tariffs may continue, in theory that's up to the administration that created them. It could be weeks, months or even years before there is a redirection or reversal, but market forces weigh heavily when political policies suppress economic growth and individual liberties, especially in a free-market economy such as the United States. In concept, the market votes according to its concerns, and in due time people have the final vote according to their satisfaction.

From effect to affect, within your financial planning

That was a look outward at the *effect* of the challenge at hand. Now let's look inward at how this may *affect* you personally, and set out some steps you can take to mitigate possible harm that could follow.

Financial planning provides a framework of the money interactions that connect your life to the world around you. By understanding and organizing these connections, you gain the control, comfort and confidence to know where you are, where you're going, and when to adjust. Below in broad strokes are some candidates for adjustment.

Spending – *Containing your outflow*

Cost of living affects us all, though to varying degrees depending on the household and stage of working life. The REDRESS acronym can help identify immediate measures to cushion the impact of tariff turmoil, and ideally serve as a guide for ongoing budgeting habits after economic conditions stabilize:

R emain calm to quell fears, putting yourself in the best mental state to review and organize your finances
E xamine budgeting categories and components using a Necessary-Discretionary-Luxury lens to focus action
D efer discretionaries to a later week or month, being practical that in time these too often become necessaries
R educe (reasonably) grocery consumables, informed by per-serving cost and perhaps facilitated by bulk buying
E liminate luxury purchases until both the economy and your household can sound the all-clear signal
S tretch semi-durables like clothing and shoes to season-end, then buy replacements (second hand?) next year
S ubstitute house/no-name for cachet brands (particularly commodities) if they otherwise satisfy the purpose

Earning – *Protecting your inflow*

Job disruption is a major concern right now, especially for those working in industries directly targeted by US tariffs. While maintaining a positive outlook, this is a prime time to review and make use of employment benefits while they're available, perhaps starting with mental health support, and then looking at big ticket items like kids' dentistry. Also, if you have not yet booked your current year's continuing education and training (paid by your employer), be sure to lock that in, perhaps with emphasis on transportable skills.

The spectre of being between jobs is a reminder why we all need to have an emergency fund designed to bridge the time from displacement to re-employment. Check that yours still aligns with current conditions and bump up your deposits if needed. And if you do find yourself in that unfortunate position, use those spending suggestions above to help carry that fund through until you're re-situated.

Investing – *Sustaining your wealth*

We can see the financial markets have pulled back in response to the tariff threat, but it's important not to panic and run for the exits. Any action (including considered inaction) must be based on investment fundamentals and one's time horizon and risk comfort level. That may include identifying under-valued opportunities, while at the same time being careful not to cave-in to overly exuberant FOMO or a desperate desire to recover losses from elsewhere.

Specifically, resist the urge to use your investments as a tool to make up for any spending or earning pains you experience. Each of your investment accounts should have a defined purpose, with coordination among them, so any midstream maneuvers can cause corresponding gaps and shortfalls that will have to be filled. Influenced by fear, it is tempting to think one may be able to exploit a perceived market dip for a quick profit, before returning the money back to where it belongs. Don't believe it: Market timing is gambling, particularly so in a short-term window.

Instead, think of your investments like a cruise ship on an extended journey, with occasional rough waters along the way. When that happens, you don't run for the life rafts and abandon ship. No, you trust in the solid engineering and seasoned crew to keep you safe, and get you to your destination. To the point, a well-constructed portfolio and a qualified advisor are your best bets – without the gamble – for you to sail through these turbulent times with minimal damage to your finances.

For more information, please consult your advisor and tax professional.

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