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## FOMO & FOL: The Same but Different

*Jack, he sits back, collects his thoughts for a moment, Scratches his head, and does his best James Dean, "Well, now then, there, Diane, we ought to run off to the city."*

*Diane says: "Baby, you ain't missing no-thing."*

- "Jack and Diane," by John Mellencamp

If you're up on text acronyms, you know that FOMO is "fear of missing out." FOL? It's a lesser-known marketing term that stands for "fear of loss." Another phrase for FOL is "loss aversion."

Economist and psychologist Daniel Kahneman is a 2002 Nobel Prize winner, notable for his work on the psychology of judgment and decision-making. In a 2015 presentation, Kahneman discussed how the interplay between these two fears often triggers poor financial decision-making.

It is Kahneman's contention that human beings feel and fear loss much more than they enjoy gain. "Clients are more sensitive to loss than gain...people aren't concerned about their level of wealth, but changes in their wealth."

In the abstract, investors may believe they have a high-risk tolerance, i.e., they are willing to accept the possibility of loss to have the opportunity for greater gains. This belief is often proven to be false if a loss is actually incurred. Despite historical evidence that many investments deliver superior returns if held through ups and downs, most investors will not endure the immediate psychological pain of today's loss to retain the possibility of tomorrow's gains.

### FOL is Legit

FOL has a basis in reality. Losses really do impair progress.

Here are the annual returns for three hypothetical investment options, over a three-year period, based on a one-time \$10,000 deposit:

Annualized Return	Option 1	Option 2	Option 3
Year 1	11%	3%	-3%
Year 2	9%	3%	7%
Year 3	-10%	3%	5%
Ending Balance	\$10,889	\$10,927	\$10,898

(Note: it doesn't matter in what order the losses or gains occur. The 3-year Ending Balances will be the same.)

Of the three choices, Option 2 not only produces the highest balance, but is arguably the easiest to achieve; you might be able to find an investment that **guarantees** 3 percent per year. And from a psychological perspective, Option 2 is also the most loss-averse selection. But then FOMO shows up.

### FOMO: Another Type of FOL

Suppose your neighbors happened to choose Option 1 while you decided to heed your fear of loss and choose Option 2. What happens after year 1 when they casually mention they earned 11 percent? And then, a year later, they notched 9 percent. In two years, your neighbors have \$1,500 more in gains than your humble, afraid-to-take-a-chance, 3-percent. If the FOMO wasn't gnawing at you the first year, it's probably taking big bites of your psyche the second year, right?

Kahneman says both FOL and FOMO act on the emotion of regret. With FOL, it's lost money. With FOMO, it's the loss of opportunity. When we lose money, we regret making the decision. With FOMO, we think we can "rescue" yesterday's regret by making a decision today. This explains why so many investors, having seen an investment rise in value, will seek to buy that investment after it's had its run.

In our example, FOMO would compel us to switch to Option 1 in the third year – and end up with only \$9,548. **(Ouch.)**

### Controlling FOL and FOMO

The above example is just numbers, but you can see how FOL and FOMO could influence your decision-making each year during this short period. Then consider that real-world accumulation plans are intended to be carried out over 30 or 40 years. That's a lot of FOL and FOMO moments to wrestle with. How do you keep your plans from being sabotaged by your fears?

A simple approach: Separate your FOL from your FOMO, and don't let them interact. Allocate a portion of savings to safe financial products and remind yourself that, despite what others may receive from volatile investments, this is money you don't want to risk losing.

In tandem, consider allocating some savings to pursue greater returns – with the full knowledge that some losses are likely to be incurred along the way. And to really keep from bailing on your long-term plan, some financial professionals will recommend that you don't track daily or monthly performance. If you're in for the long haul, don't watch it every day.



One last thought: In real-world scenarios, the historical results achieved by steady, low-risk accumulation plans compare favorably with the results achieved by individuals whose plans are constantly adjusting to FOL and FOMO influences. The old adage that higher risk is necessary to achieve higher returns might be true, but no one says you have to take those risks. Depending on how you respond to FOL and FOMO, it might be okay to minimize risk and just tell yourself “you ain't missing no-thing.” ❖

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