Psychology and emotions. There's a role they play in your finances.
It's just human nature.
So, how do emotions influence financial decisions?

Let's take the late 1990's.
The dot.com boom.
Venture capital was flowing. IPOs were exploding. And stock prices soared - fueled in part by unreasonable exuberance.
Investors speculated on which companies would be winners.
And losers. Often not considering business fundamentals. That's the influence of human emotion.

So what may be a better approach?

Goals-based investing is a method of behavioral investing – and can help to minimize personal emotions.

Here's how it works.

At the base level, it's about Preserving Wealth.
Putting aside cash savings and insurance for protection.

As you move up the levels, risk increases.
Naturally, the tolerance for risk varies by person.
A goals-based investing strategy can help keep risk in check.

The next level is Savings.
Decisions are focused on accumulating money to save for college, a new home.
And, saving for the long term – your retirement.

The next level targets Growth and diversification.
Here, begin to consider Large/Small cap stocks with domestic and international exposure. Investment-grade bonds. Mutual funds and exchange traded funds can also be good vehicles for adding diversification to a portfolio.

By establishing your own financial goals now, these investment decisions can become more measured. More purposeful.

The final level is Speculation.
Speculative investments offer the potential for high return, but they are also highly risky and are not suitable for all investors.

We believe keeping your emotions in check and your focus on reaching goals is a smarter way to approach investing.

Along the way – as you move toward reaching your goals, remember this. Whenever you feel uneasy or unsure about an investment decision, we recommend you discuss your options with a financial professional who has your interest in mind.

If you would like more help, you'll find informed opinions, guidance and resources on our website.

If you have a question, or something you don't understand, please reach out and talk to a Wells Fargo financial professional.

Risk Considerations

Each asset class has its own risk and return characteristics which should be evaluated carefully before making any investment decision. The level of risk associated with a particular investment or asset class generally correlates with the level of return the investor or asset class might achieve.

Equity securities are subject to market risk, which means their value may fluctuate in response to general economic and market conditions, the prospects of individual companies, and industry sectors. Investments in equity securities are generally more volatile than other types of securities. The prices of **small-cap stocks** are generally more volatile than large company stocks. They often involve higher risks because smaller companies may lack the management expertise, financial resources, product diversification and competitive strengths to endure adverse economic conditions. **Fixed-income investments** are subject to market, interest rate, price, credit/default, liquidity, inflation, and other risks. Prices tend to be inversely affected by changes in interest rates. Investing in **foreign securities** presents certain risks not associated with domestic investments, such as currency fluctuation, political and economic instability, and different accounting standards. This may result in greater share price volatility. These risks are heightened in emerging markets.

Mutual funds and **exchange traded funds** are subject to risks similar to those of stocks. Investment returns may fluctuate and are subject to market volatility, so that an investor's shares, when redeemed or sold, may be worth more or less than their original cost.

The use of derivatives can expose the investor to additional risk. Derivatives generally have implied leverage which can magnify volatility and may entail other risks such as market, interest rate, credit, counterparty and management risks which may hurt a fund's performance. Counterparty risk is the risk that the other party to the agreement will default at some time during the life of the contract. Investing in derivatives carries the risk of the underlying instrument as well as the derivative itself and may not be successful, resulting in losses to the fund/portfolio, and the cost of such strategies may also reduce returns.

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