The Risk That Your Brain Thinks Can Hurt You (It Can't Anymore in the same way)

More than fifty thousand years ago, stepping outside the cave was a decision that could cost you your life. Unknown territory meant predators, rival tribes, or freezing to death in the open. The humans who survived weren't the boldest, they were the most cautious. That caution got wired permanently into the human brain as a standing alarm system.

The problem is that alarm never got updated. Today, when you consider moving your assets from one firm to another, building a portfolio with more equity exposure, or simply making a financial decision that's different from what you've always done, your brain may sounds the same alarm your ancestor used when facing a wild animal. The difference is that none of these decisions can kill you. In the worst case, maybe, just lose some money in some investment positions. In the best case, it may improve your long term financial outcome.

The Alarm That Never Turned Off

In an aircraft, there's an audible warning called a "stall warning." It activates when the plane approaches a dangerously low airspeed to sustain flight. It's a useful, necessary alert — when the condition triggering it actually exists. The trouble starts when a pilot, out of habit or fear, begins reacting to noise that no longer corresponds to real danger, and ends up never flying at all, or flying so conservatively that no new destination is ever reached.

That's how inherited financial fear can work. A biological tendency toward caution may still influence how we evaluate modern financial decisions, even when the risks differ from those faced by our ancestors

Why Losing Hurts Almost Twice as Much as Winning Feels Good

Here's a concept worth understanding, because it explains much of why most people stay on the sidelines: it's called **loss aversion**. In plain terms, it means the pain of losing a given amount of money may feel as intense as the pleasure of gaining that same amount. To some, losing a thousand dollars may hurt more than gaining a thousand dollars feels good, even though on a spreadsheet they're the exact same number.

This isn't opinion or a motivational one-liner: it's one of the central findings of what's known as prospect theory, developed by psychologists Daniel Kahneman and Amos Tversky, work for which Kahneman received the Nobel Memorial Prize in Economic Sciences in 2002. Decades of follow-up research have confirmed the same pattern across different countries and cultures.

Think of a golfer standing on the tee of a hole with water guarding the green. The direct shot to the green, well executed, leaves a birdie putt. But the fear of finding the water is so strong that the golfer lays up short, again and again, nearly every hole of the round. By the eighteenth hole, that player didn't lose any balls, but lost something more valuable: the strokes needed to lower a handicap. A calculated risk, taken with the right club and a trained swing, isn't recklessness, it's strategy.

The Real Cost of Always Playing It Safe

This isn't just theory, it has a measurable price tag. DALBAR, an independent financial research firm that has published its annual "Quantitative Analysis of Investor Behavior" (QAIB) report for more than three decades, found that in 2024 the average equity fund investor earned a 16.54% return, while the S&P 500 returned 25.02%. That's a gap of roughly 8.5 percentage points in a single year — one of the widest of the past decade, according to the same report.

Why does this gap exist if the market rose for everyone? Because many investors tend to increase exposure after periods of strong market performance and reduce exposure during periods of heightened uncertainty, often resulting in less favorable investment outcomes, driven by that same ancestral fear rather than analysis.

It's like a ship's captain who stays tied to the dock every time the forecast mentions any wind at all. That captain never wrecks the boat, true. But that captain also never reaches a new port. Meanwhile, the captain who checked the charts, calibrated the instruments, and set sail with proper training is already arriving at the destination.

From Lender to Partner

Many people build their entire financial life around a single role: that of a **lender**. A certificate of deposit, a savings account, certain fixed-income instruments, these are all ways of lending your money to a bank or institution in exchange for a fixed, predictable interest rate. There's nothing wrong with that, it serves a purpose. But a lender may never participates in the growth of what they finance.

The other available role is that of a **partner**. When you invest in a company's stock, you aren't lending it money, you own a piece of that business. You share in its profits, its growth, and yes, its volatility too. Many of the world's most successful investors and business leaders built a significant portion of their wealth through ownership in growing businesses rather than primarily through lending capital.. They built it as partners, accepting that calculated risk is the price of admission to that growth.

Back to aviation: no pilot climbs into the cockpit without training, a weather briefing, a checklist, and calibrated instruments. But with all of that preparation, they do climb in. The risk doesn't disappear, it gets managed. That's precisely the difference between recklessness and calculated risk, and it's the difference between staying grounded for a lifetime or reaching new destinations.

The Next Step

If your current portfolio feels like it reflects more of the cave-era fear than today's real opportunities, it's worth a conversation. This isn't about taking risk for its own sake, it's about building a plan where the risk you take is calculated, aligned with your goals, and working in your favor instead of keeping you tied to the dock.

Let's talk about what the difference between lending and partnering looks like for you, specifically.

Sources: Kahneman, D. and Tversky, A., "Prospect Theory: An Analysis of Decision under Risk," Econometrica (1979); 2002 Nobel Memorial Prize in Economic Sciences. DALBAR, Inc., "Quantitative Analysis of Investor Behavior" (QAIB), 2025 report covering 2024 data.