You'll Never Guess What a Recent Poll Showed Potential Investors Feared the Most

By Sean Williams | November 23, 2013

Life has a funny way of throwing numerous curveballs at us on a fairly regular basis. This is so readily apparent that TV channel Spike actually ran a recurring series known as *1,000 Ways to Die*, which lasted more than four years and chronicled many of the mind-numbing ways we should be lucky that we're all still alive. Yet for all of life's curveballs, none is scarier than ... investing.

That's right. Investing.


Source: Katrina Tuliao, Wikimedia Commons.

According to a poll conducted by Nationwide Financial that surveyed investors with a minimum of $100,000 in investable assets earlier this year, their No. 1 fear -- according to 83% of respondents -- was that of another financial crisis. Furthermore, 62% of those respondents claimed to be afraid of investing in stocks!

If you're like me, you're probably wondering what, if anything, investors feared less than another financial crisis or investing in stocks. The answer (and I hope you're sitting down for this) is public speaking and *dying*! Prospective investors are more afraid of putting money to work in the stock market (62%) than they are of dying (58%)!

Why we don't trust the stock market

Although this poll gave me quite the chuckle, it's also a disturbing look some of the negative connotations that have shrouded the investing world over the past couple of years. The way I see it, there are a number of factors at work here keeping prospective investors on the sidelines and out of the market.

For one, we have a very low trust factor with investment advisors. Just think about how many glaring examples of Ponzi schemes we've witnessed since the financial crisis, including Bernie Madoff, whose scheme swindled investors out of at least $50 billion, and Allen Stanford, whose $7 billion fraud earned him a 110-year prison sentence.

Even the Fool's own Morgan Housel pointed out earlier this week a case where investment manager John Hussman has been preparing his fund for what he perceives to be 40%-55% downside in the market -- yet his fund has lost 40% of its value *anyway* just in the process of building large short-sale positions in anticipation of this move! Whether it's through mischievous acts or short-term mentality, investment advisors are giving us few reasons to trust them.

Another factor working against the investor mind-set is just how volatile stocks have been since 2007. Although the past two years have been relatively calm, the preceding period was marked by a greater than 50% tumble in the U.S. markets and the near collapse of a handful of European financial markets. Although stocks have a tendency to rise over the long term, it's difficult for many investors to put that short-term mind-set in the rearview mirror.


Source: Baer Tierkel, Flickr.

Finally, many of us feel overwhelmed. We feel like a goldfish swimming around in a tank the size of Texas that's filled with piranhas, sharks, and orca whales. That feeling of helplessness and the idea that we can't possibly know what we're doing or that's it's even worthwhile for us to try to invest with such a small sum of money relative to some investment institutions keeps people on the sidelines and out of the market.

Why you should cast those fears aside

As for me, I'd like to turn that negative view on investing upside down, as investing in the stock market has historically given investors their best chance to prosper.

Investors' natural response in the wake of potential downside in the stock market is to get defensive and purchase bonds or CDs from their local bank or credit union. Having a portion of your portfolio allocated to these somewhat safer investments is never a bad idea, but many of these income investments are going to give you a negative real money return at the moment.

For instance, you won't find very many CDs yielding north of 1% unless you're willing to put down six or seven figures for at least a year -- and even at that rate you still will lose to inflation. The same can be said for bonds, which have been in a three-decade bull market that could be nearing its end. In theory, interest rates really can't head much lower, which means U.S. Treasury yields are likely to rise over the long term. While rising yields do work in your favor, bond yields and bond prices move in opposite directions, meaning you could potentially lose more than you make in a bond mutual fund or other similar investment vehicle as bond prices fall.

Another common mistake investors make is they don't stick with the *right* type of income investment: namely, stocks! During rallies you may see dividend-paying stocks get left in the dust in favor of riskier high-growth names, but dividend-paying companies offer investors a considerably more stable investment scenario as well as supplemental income with they can choose to reinvest. According to an ABC News report, dividend income and dividend growth represented about 90% of the S&P 500's gains between 1910 and 2010, so this could be a source of growth that investors are greatly undervaluing.

Getting started

Whether you're any extremely conservative investor or willing to roll the dice on the roulette table, there are a number of ways you can get started on the path to financial independence in the stock market.

For ultra-conservative investors, I could suggest looking at one of the hundreds of electronic-traded funds, or ETFs, that suits your desires. Instead of picking out just one company and hoping it goes higher, ETFs focus on a sector or common grouping of companies, which helps spread out your risk and potential dividend yield. A suggestion I would offer up is the **PowerShares Dynamic Large Cap Value ETF** (NYSEMKT: PWV) . This ETF owns 50 different large-cap, brand-name companies across a myriad of sectors, charges a nominal 0.5% annual fee, pays out a current yield of 1.9%, and has handily outperformed the S&P 500 since inception with a 107% return compared to the S&P 500's 66% return over the same period.

For more aggressive investors, or those who feel more comfortable with buying individual companies, **Intel** (NASDAQ: INTC) might be a strong contender. The chipmaking giant has struggled recently as PC sales decline in favor of mobile devices like smartphones and tablets which has coerced the company to spend heavily on shifting its focus to these new areas of growth. If you look out on the horizon, it's difficult to not see a company with such an incredible sector presence and immense cash flow like Intel not succeeding. However, you have to learn to be patient and ride through the natural peaks and troughs of the market. Thankfully, Intel is rewarding shareholders with a hefty 3.7% yield along the way to make it worth their while.

The point is that the worst thing you can do as an investor is nothing. There's no reason for you to be afraid of the market. You should instead seize this opportunity to become financial independent and put yourself on the path toward a comfortable retirement.