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Have you ever developed an unhealthy attachment to something, clinging to it even though you knew it might be hurting you financially?

Most of us have. Eventually, you probably realized that you had hung on too long. In one way or another, everyone has done this because it's only human. One reason we hang on is because we've invested so much time, effort, money or all three.
With investing, this is all too common. Wanting to believe that we were justified in making an investment, we stay with it, even though the prospects of profit may now be dim.

In business and finance, this is referred to as "sunk costs" — those that you may never recover. Clinging to something solely because you've invested in it makes no sense. But this happens all the time. Behavioral economists call this the sunk-cost fallacy: Just because people have invested so much time or money, their faulty reasoning goes, they hang on to the investment no matter what.

Of course, this is often a recipe for loss — and it's a major factor affecting success in investing. Investors initially form a view of a stock's prospects based on something they've heard or read, and resist re-evaluating this move because they cling to the belief that they were right in the first place. Simply admitting they were wrong is difficult for many.

Let's say you put a lot of money into an aging car. Thousands of dollars down the road, you're still faced with problems that need fixing. So you're considering selling, but you're disappointed to learn that its resale value is quite low because of the model year and the miles on the odometer. So you hang onto the car indefinitely, paying more and more for repairs because of the money you've already sunk into the car.

To avoid this all-too-common scenario, you should have considered the book value before spending so much more on repairs, and then considered getting a new or newer car. But because of sunk costs, you hang on, throwing good (new) money after bad.
Investors often put money into an investment based on some overconfident notion, perhaps developed from some speculative forecast that may not be relevant to real value. When these forecasts don't become reality, many investors don't want to sell because they want to believe they were right to make the investment in the first place. They want to believe this because of their sunk costs.

To avoid this syndrome, keep these points in mind:

- Don't emotionally cling to your investments. After all, you're not married to them. In general, you don't want to sell investments quickly, but you don't want to cling to something if it no longer makes sense.
- Understand that all investments can't be winners, and that the idea is simply to own more winners than losers. This is how successful investors make money over time.
- Keep your portfolio globally diversified by owning many different types of asset classes and investments. Different asset classes usually don't rise and fall at the same time or at least at the same pace, so diversification can help lessen risk.
- Understand that investing is about the future — not the past. Just because an investment did great last year is no reason to think it will repeat that performance this year. More likely, its performance will revert back to its long-term past average.
- Be sure to rebalance your portfolio when it gets outside your predetermined parameters. For example, if you've developed a written plan, according to your goals and risk tolerance, to have 30 percent in bonds and 70 percent in stocks, you'll need to rebalance occasionally to restore your portfolio to its original target percentages when it gets out of whack.

These are all good ways to stay out of the sunk-costs trap, in which some people live — or even nurture — their mistakes at the expense of their financial futures.

When you invest, take a realistic, evidence-based look at the prospects of success. And when you still own an investment that may no longer make sense, be equally realistic about the likely need to sell it. Remember that these investments have absolutely no attachment to you, and you definitely shouldn't be attached to them.

This article was also published in the Central Penn Business Journal on January 29, 2016 . It and all of Tim's articles in CPBJ can be viewed [here.]

As they age, many people naturally begin to focus on their wills. While planning your bequests is always a good idea, people often overlook a crucial option: Instead of using a simple will, use a will with a built-in trust.

In many cases, with the guidance of a qualified attorney, a trust can be more effective than a simple will in achieving your estate goals, and provides far more flexibility for changing life circumstances. The provision in wills that does this is called a testamentary trust. You can't incorporate these into a simple will. Instead, you need what's known as a normal will.

Life itself and your future are uncertain—especially after your death, when you no longer have any say in what you've left your loved ones. Simple wills can be inadequate for addressing the unanticipated because upon your demise, all of your assets are distributed outright, with no further stipulations. Situations may develop in the lives of your survivors that could thwart your ultimate goals.

A normal will with a testamentary trust built in can help you deal with the unexpected, and gear your bequests accordingly. A trust is considered a living entity. In contrast to a living trust, established while you're alive, a testamentary trust is funded by your estate, with a set of instructions and conditions on who gets what, when they get it and, sometimes, what they can do with the money.

The beauty of trusts is that they can be far more configurable than simple wills. A trust can do precisely what you prescribe in the language of its governing document. Trusts name a trustee, or co-trustees, who are usually trusted individuals or professionals, to administer and follow the instructions of the document.

Trusts can be used to address various scenarios. These include:

· The possibility that your spouse may remarry after you die. Let’s say you have a simple will that leaves everything to your spouse, who then creates a simple will that leaves everything to her or his second spouse. Then, if your spouse dies before the new spouse, the surviving spouse may leave everything to children from a first marriage. So, the unintended consequence of your simple will might be to start a chain of events that results in your own children being cut completely out of their inheritance. Other events, such as a divorce by your surviving spouse, could also claim assets you left to your heirs. A trust can help prevent this. For example, a trust could be set up to give your spouse regular access to money in your estate—as much as he or she wants—while providing that upon his or her death, your children get what’s left. In such cases, you could make your spouse the trustee, provided that she or he can handle money well. If not, you could appoint someone else as trustee, or co-trustee, who could oversee the payout of regular disbursements to your spouse in keeping with the trust’s provisions.

· The unfortunate reality that sometimes, because of drug, alcohol, psychological or other problems, some of your heirs may have poor judgment that would prevent them from managing their inheritance wisely. Again, regular disbursements administered by a responsible trustee might be the solution, while helping protect assets as well.

· The possibility that young beneficiaries might be financially irresponsible. Let’s say that you want to leave money directly to your children or grandchildren. But when you die they’re just not able to handle money wisely. Your trust can determine what they get, when they get it and what purposes they may use it for—for example, paying for college or medical care not covered by insurance—until they reach a certain age.

So, before you automatically decide on a simple will, consider your values, goals and family situation. Then discuss this with a qualified estate planning attorney to see how a trust might best fulfill your will’s goals.