



Emotions and investment don't mix

In many areas of life, emotions can be very useful in guiding people's behaviour and helping them to make the right decisions. But when it comes to investing, emotions have almost the opposite effect. They lead to bad decision-making and often to loss of money. Although

they want their money to work effectively, emotional investors are unable to relax and let it get on with the job. Instead, they follow its every move, celebrating its successes, worrying when it's in danger and constantly redirecting it with new, 'helpful' ideas.

Typical mistakes made by the emotional investor:

- **He has no strategy.**

An investor with no strategy is a boat with no rudder. He is directionless and swept along by the tide. He picks up investment ideas at random and panics easily.

- **He ignores risks.**

While markets are going up it's easy to ignore the risks involved with investment – especially for the investor who hasn't calculated how much money he is prepared to lose or for how long he can manage without it.

- **He believes the hype.**

The financial Press writes about fashionable investment stories because they make interesting reading. If short-term share price movements back up these stories, the emotional investor is convinced that he's found a winner.

- **He believes he can time the markets.**

Perhaps the worst fault of the emotional investor is that he believes he's invincible. He imagines that he can predict the highs and lows of the market and will instinctively know the right time to sell or buy.

- **He buys high and sells low.**

This is partly because he is following the crowd into buying at dangerously high levels and partly because markets cannot be predicted.

- **He wastes a lot of money.**

Frequently changing tactics means excessive trading costs which eat into profits.

Investing with a strategy

The best investors are those who keep their emotions in check. They make rational decisions based on a sound long-term strategy and they will only risk investing money that they can afford to forget about for a while - until their strategy pays. Once they have invested, they wait patiently, stick by their decisions and don't change course.

Strategic investors don't care what the stock market is doing from day to day. They may not even bother to look. They are confident because they research their investments carefully – looking at companies' balance sheets rather than their Press releases – before buying.

They will also invest in a mixture of asset types (stocks, bonds, property etc.) to minimize risk. Perhaps once a year they will deliberately sell the best performing assets in their portfolios and invest the proceeds in the worst performers.

This is called 'rebalancing' and it has the dual benefits of keeping the portfolio risk level constant and forcing the strategic investor to buy low and sell high – and this is a strategy that pays off in the long run.

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