

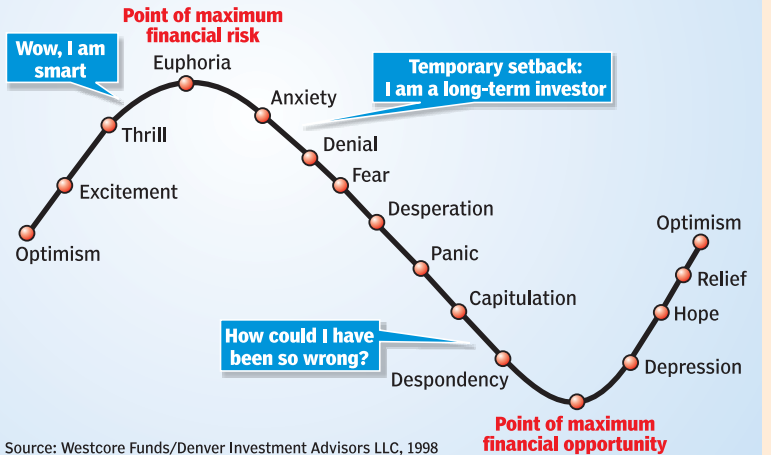
The Greed and fear can cloud your judgment

Shruti Jain

When it comes to investing, the behaviour we exhibit during challenging market conditions is perhaps the largest impediment to our long-term investment success.

Investing behaviour is largely governed by two dominant emotions: Greed (in a bull market) and fear (in a bear market).

The cycle of market emotions



Source: Westcore Funds/Denver Investment Advisors LLC, 1998

Bear markets are distressing and they make us question all our investment decisions. The fear that grips us in such times makes us want to pull money out of stocks and load up on cash.

On the other hand, in a bull market phase, we all think we are smarter than the rest and have learned the secret to get rich quick.

Not only do we put our savings and switch our other investments into stocks, we even think of borrowing and investing in stocks, to become the next Warren Buffett.

We start believing we possess special market-beating capabilities. This was particularly seen in the bull run India witnessed in 2007.

There is an old saying on Wall Street that the market is driven by just two emotions: Fear and greed.

We often succumb to these emotions that lead to a profound and detrimental effect on our portfolios and the stock market.

Behavioural finance has also highlighted them as the strongest emotions in the investment fraternity and how controlling these can help us make a tremendous difference in our portfolios' returns.

our investment decisions and rationality loses in the process. Refer to the chart that sums up typical market emotions through different cycles. We will surely be able to identify with some.

Investor psychology appears to be driven through a market cycle (as seen below) and can be seen quite clearly in the history of share markets throughout the world.

Quite frankly, everyone feels a little edgy about the financial markets right now, including the investment gurus.

Every market downturn is scary because the factors behind these are different. People who give professional investment advice should know this.

Instead of recommending the investors to sell now, they should make them aware of the uncomfortable truth: Unless you're already independently wealthy, you need to own stocks to meet your long-term investment objectives.

Even if we may have a solid long-term investment plan, we're likely to feel emotional right now. But that's okay. The important thing to remember is 'just don't react emotionally'.

stocks in the months or years ahead. If there is a time to decide that we have too much money in stocks, it's in a bull market, not a bear market.

Frightened investors are stampeded out anyway. This is understandable, for many are novices and have panicked after seeing their portfolios shrink over 60% from January highs; others are scared out of their wits.

Quite frankly, everyone feels a little edgy about the financial markets right now, including the investment gurus.

Every market downturn is scary because the factors behind these are different. People who give professional investment advice should know this.

Instead of recommending the investors to sell now, they should make them aware of the uncomfortable truth: Unless you're already independently wealthy, you need to own stocks to meet your long-term investment objectives.

Even if we may have a solid long-term investment plan, we're likely to feel emotional right now. But that's okay. The important thing to remember is 'just don't react emotionally'.

Points to ponder

Be watchful of your emotions, to avoid costly mistakes

Set realistic goals for your portfolio and invest in a disciplined manner

Don't sell investments just because they dropped in price - sell only those whose future prospects are weak

Take solace from the knowledge that short-term pain is required for long-term gain.

Avoid 'story stocks' or overhyped investment opportunities

Diversify widely and maintain an optimum asset allocation; rebalance at regular intervals

So what is that we need to understand and learn? What should we do?

We should realise this bear phase as an opportunity to invest, but in good companies. And in the next bull run, we should not forget our failures.

It is important that during a bull run we take time off from the euphoria, hold our emotions, see if valuations are deviating from the fundamentals and accordingly rebalance our portfolios and book profits. It is important to know when to sell.

Similarly, it is at times like now that we get the opportunity to buy companies at good valuations that will benefit our portfolio in the long run.

What the author is senior vice president, Arhant Capital Markets Ltd. Views are personal.

MARKET CUES

Table of Stocks on Circuit Filter with columns for Company, H/L Price (Rs), and Company H/L Price (Rs). Lists various companies like BSE, Grasim Ind, Saraswati Ind, etc.

Table of 52-Week High/Low with columns for Company, Price (Rs), and Company Price (Rs). Lists companies like On BSE High, Bin.Tex.Pr-PP, Veer Energy, etc.

TRENDS

Table of Trends with columns for Company, % chng, Company, and % chng. Lists companies like Magma Fincorp, Zircos Digy Ceme, etc.

Capital gains queries

What are the stamp duty and income tax implications in case of a gift of a flat in a co-operative housing society? - Vipul

stamp duty in case of an instrument of gift is the same as leviable in case of sale as provided in Article 25.

same rate specified for conveyance or at the rate of 2% on the market value of the property, which is the subject matter of the gift, whichever is less.

Just 5 questions

How are the markets looking on the volumes front? The markets are going up on higher volumes.

general trend of the market in the short term is up.

Resistance for the Nifty is seen to come in at 3100 to 3150 levels. What is the overall outlook on the market? We have a positive outlook for the short term.

As per Article 34 of Schedule I to the Bombay Stamp Act, 1958, the

Overconfidence in a bull market and despondency in a bear market cloud our judgement, they navigate

The writer is a chartered accountant and can be reached at ghatiarun@rediffmail.com

There could be some volatility, but the

There is a support that is seen at the level of 2830 on the Nifty.

Table of BSE 500 stocks with columns for Company, LTP (Rs), % chg, Company, LTP (Rs), % chg. Lists companies like Atlas Copco, Amul, etc.

Table of Electrost Listings with columns for Company, LTP (Rs), % chg, Company, LTP (Rs), % chg. Lists companies like Electrost Listings, etc.

Table of Company LTP (Rs) % chg with columns for Company, LTP (Rs), % chg. Lists companies like Infosys, Wipro, etc.

Table of Company LTP (Rs) % chg with columns for Company, LTP (Rs), % chg. Lists companies like Reliance, Tata, etc.

Table of Company LTP (Rs) % chg with columns for Company, LTP (Rs), % chg. Lists companies like Infosys, Wipro, etc.

Table of Company LTP (Rs) % chg with columns for Company, LTP (Rs), % chg. Lists companies like Infosys, Wipro, etc.

Table of Bulk Deals on BSE with columns for Scrip name, Client name, Deal type, Traded Price (Rs), qt. Lists deals for Alkali Metal, etc.

Table of Delivery Spike over Previous Day with columns for Company, Dely, Prev, Chng, % Price, % Chng. Lists companies like REC, Umbach, etc.

Table of Rising Volume, Rising Delivery and Rising Price with columns for Company, Traded, Del, NSE, price. Lists companies like ABB, Bhatti Airtel, etc.

Table of Rising Volume, Rising Delivery and Falling Price with columns for Company, Traded, Del, NSE, price. Lists companies like ABB, Bhatti Airtel, etc.

Such data help identify stocks which are genuinely in a trend, which have seen regular buying orders. Trade above the three-day high with stop-losses

Disclaimer: DNA takes no responsibility for investors who act on the basis of the above information. Please consult an expert investment advisor before taking short-term calls

NET ASSET VALUES OF MUTUAL FUND & INSURANCE SCHEMES

Large table listing Net Asset Values for various Mutual Funds and Insurance Schemes. Columns include Scheme Name, NAV (Rs), and Scheme Name, NAV (Rs).