



Avoid the investment hangover

John Mlikota

A sure recipe for failure in the investment game is to hold on to your losers in the hope of recovery and selling your winners too early. Either way, a subjective decision or indecision can be costly. When we seek validation for something we have purchased, don't ask the mirror if you truly desire an independent and objective opinion.

In the world of instant communication and easy access to information, what prevents most investors from making money?

The simple answer, it's psychological. We are human, and humans have emotions. Some people are more emotional than others. Investing under emotional distress is not profitable. Euphoria can sweep away reason when markets are rallying, as they can on the downside when fear overcomes.

Resist the temptation to overstay the party and you'll avoid the hangover. Euphoria will most likely lead to bad decisions. The loudest and most recent information clouds our judgement – even professionals can fall for it.

How do you correctly weigh up what you see and hear? Humans are wired differently ('Men are from Mars' etc), but we are also very subjective when it comes to our possessions. Most of us tend to follow fashions, as do the investment markets, but unfortunately they are more fickle.

Following the latest fad often proves lethal. Good investing is about good sense. It is more about objectivity and removing the loud noise from the information, and then making hard decisions or indeed making a decision full stop.

So how do we avoid succumbing to the negative mental influences – take advice or take a second opinion to validate your thought process? We do this with most things in life, so we should also do this in the financial world. So how do you make real money from investing? Investments should be treated without emotion or feeling and objectively.

"We only want the facts that justify our acts – the facts that fit in conveniently with our wishful thinking and justify our preconceived prejudices!" Thomas Edison.

Independent Capital Advisers, Cairns
4031 4575
www.incapital.com.au

(John Mlikota is senior investment manager and director of Independent Capital Advisers)