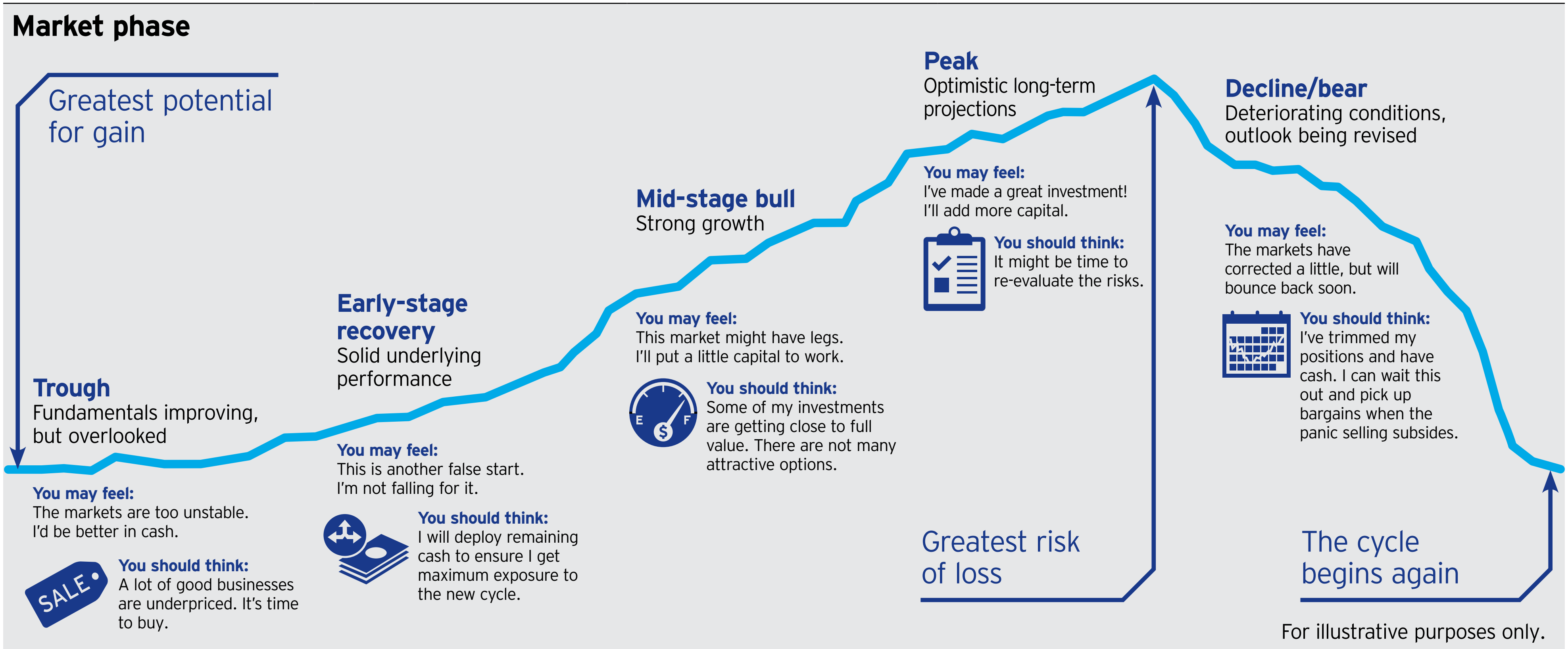
Intelligent investing

Markets cycle. Your emotions shouldn't.

In theory, the value of an investment is based on fundamentals – the strength of the underlying business.

But in reality, human psychology can play an even bigger role in determining prices. When a market cycle turns and investors seek liquidity, even the strongest businesses tend to be sold off.



The field of behavioural finance has confirmed what market observers have long known: Investors are too often led astray by ill-timed feelings of fear and greed. These psychological factors tend to dictate the valuation the market puts on the fundamentals of a business. For example, fearful investors will pay less for each dollar of a business's earnings; greedy investors will tend to pay more. These emotional responses can push security prices to extremes.

Key findings of behavioural finance†

The field of behavioural finance studies the way people make financial decisions. Understanding how deep-rooted emotional responses affect investment decisions is the first step in overcoming the wealth-destroying impact of human psychology.

The ability to maintain discipline throughout market cycles is crucial to overcoming the negative patterns. The following patterns have been identified across a broad spectrum of investors.

Behavioural patterns†	Maintaining discipline
Most investors are trapped in a cycle of fear and greed. When markets rise, they become desperate for ever-higher returns. When markets fall, they become convinced they will never recover.	Invest regularly. Automatic investments made at regular intervals help to remove the emotional impact of daily market fluctuations from the decision-making process.
Investors are overconfident and think they are better at making choices than they really are.	Rather than chasing one or two "hot stocks," select investment products offered by firms with a proven track record that adhere to time-tested disciplines designed to build and protect wealth over the long term.
Investors believe in winning streaks and are overly swayed by short-term successes and failures.	Stay focused on the long-term goal. Historically, markets have recovered from every downturn to reach new highs.
Investors confuse familiarity with real knowledge, and overreact to both good and bad news.	Financial advice and professional investment management help investors reach their long-term goals by keeping them on course.

A financial advisor can help mitigate the impact of an investor's emotional reactions. By maintaining proper asset allocation and encouraging investment discipline, financial advice can be the key to reaching your long-term financial goals.

"Market fluctuations are your friends, not your enemies."

– The Trimark way

"Even the intelligent investor is likely to need considerable willpower to keep from following the crowd." – Benjamin Graham

† Source: *The Economist*, July 5, 2003 (used with permission)