Headless Chicken?

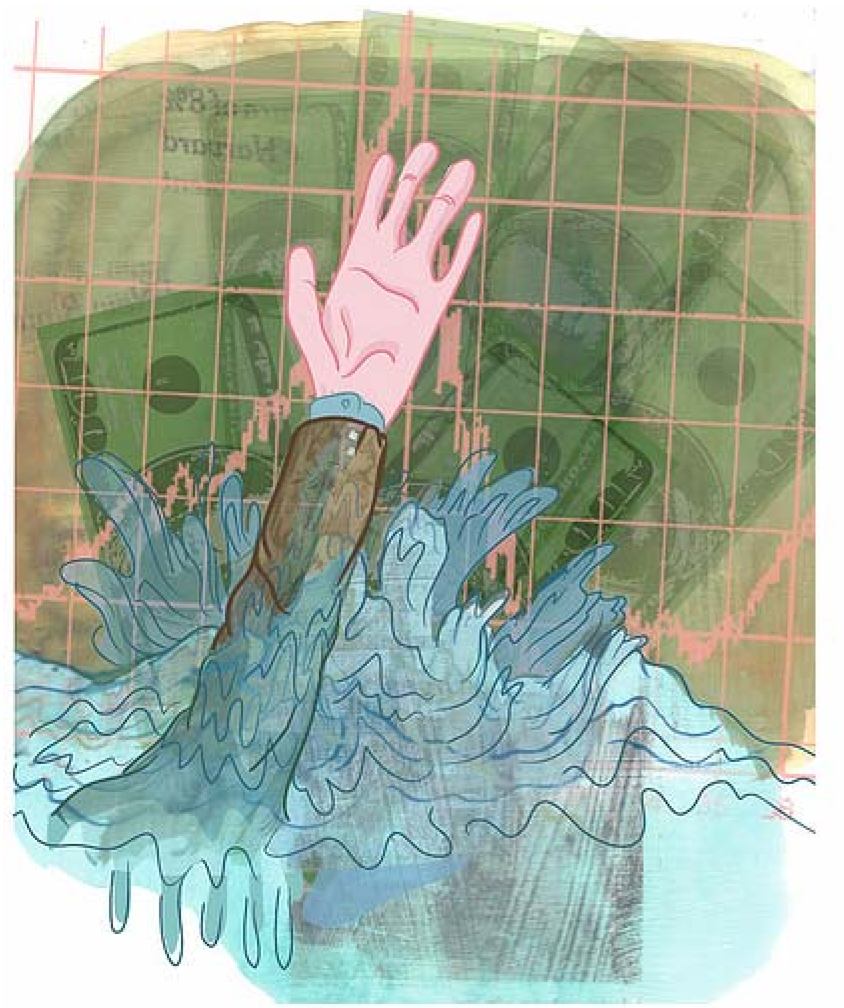
How Much Cash Do You Hold?

33% of Hedge Fund Money Is In Cash

Unit Trust and ISA Sales are At A Record High

Everyone knows that we should
buy low sell high

Are You Buying or Selling?



Instead we
buy when rising and
sell when falling

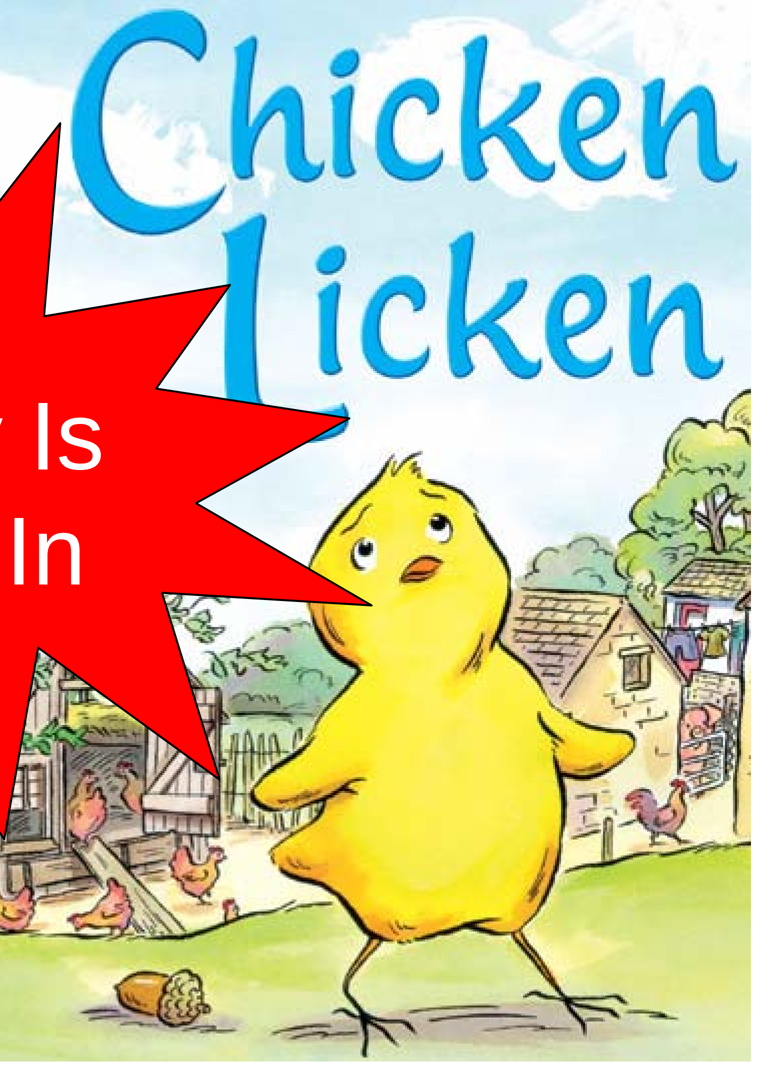
How Do You Respond To News?

EARNINGS
FORECASTS DOWN

The Sky Is
Falling In

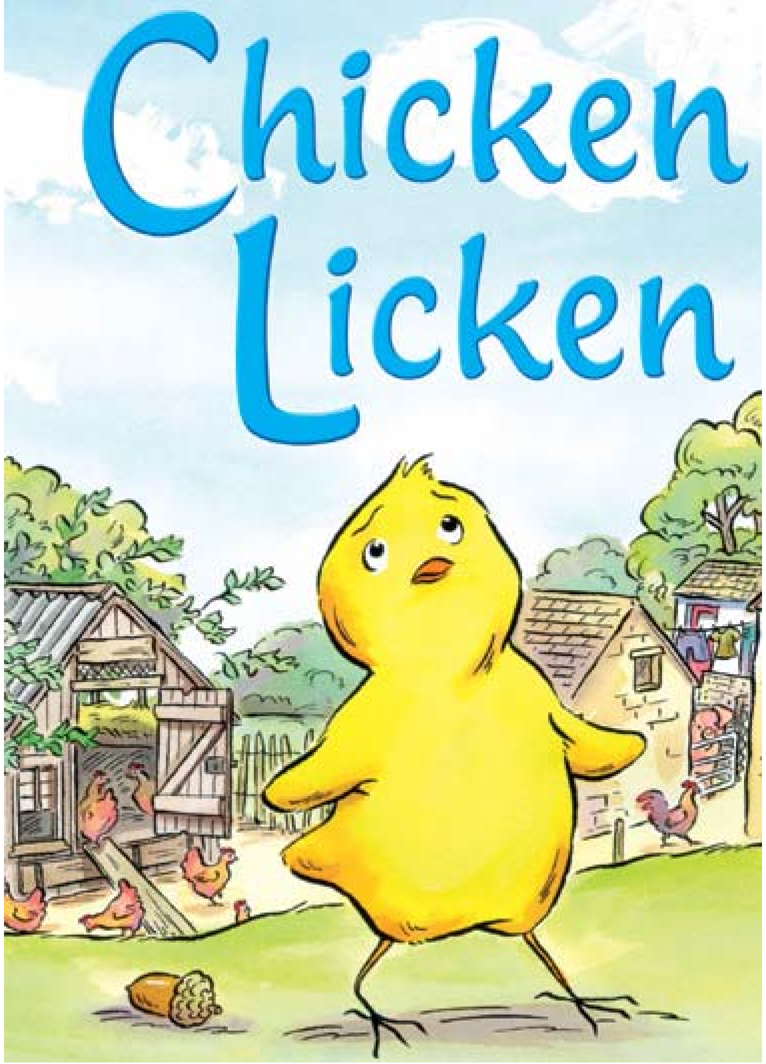
By 1p

£3bn Wiped Off Shares



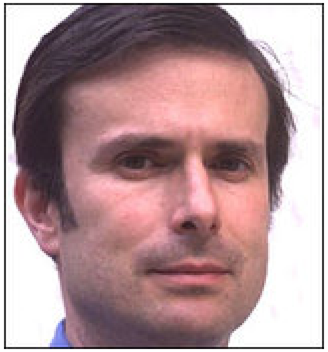
We Panic Even If The News Is Small

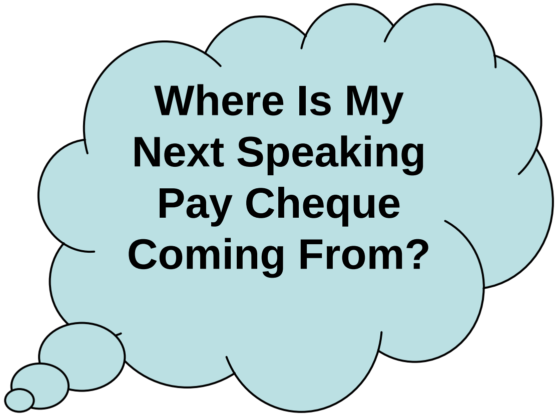
And Even When Its Good News



Where Are You Getting Your Latest Information From?

We Hang On The Every Word Of Financial Experts Who Can't Predict





http://www.4wm.co.uk

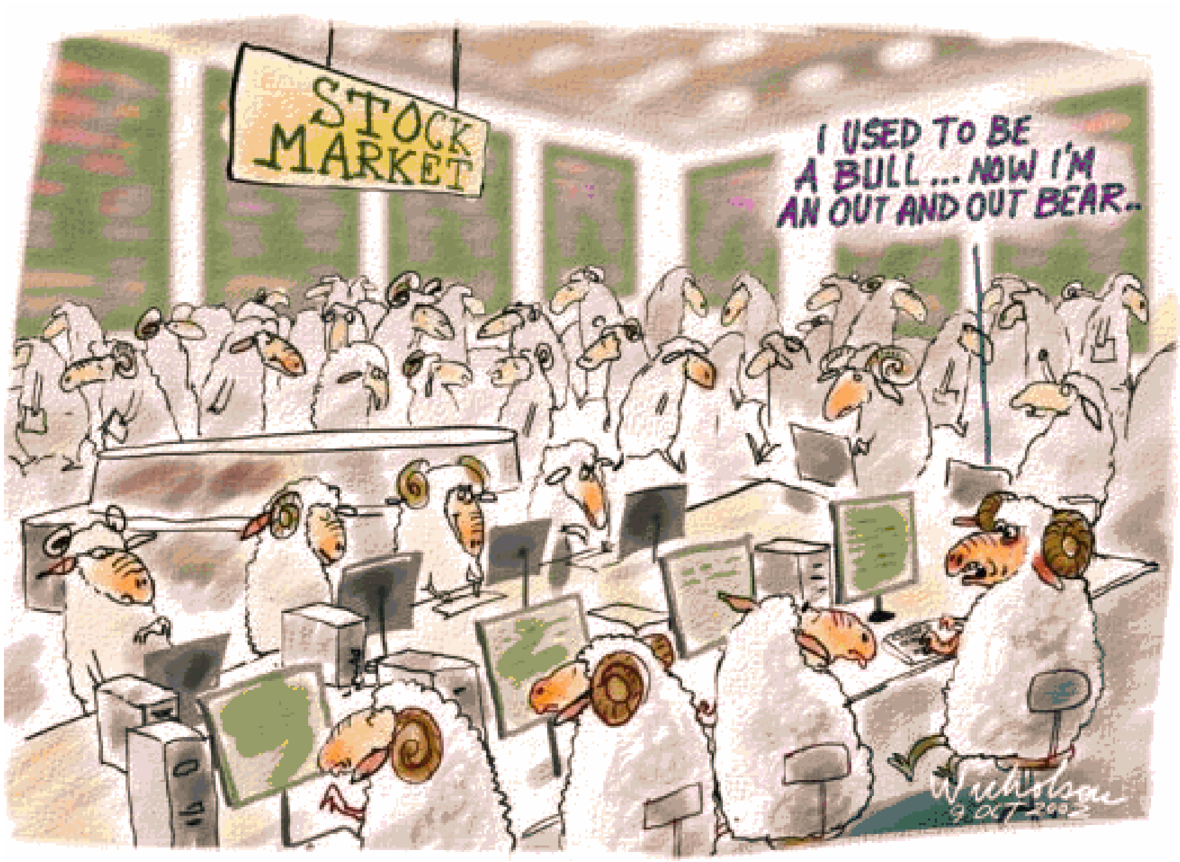
Watch My Show

Four Financial Experts

Who Here Can Beat The Market?

Are You A Bull Or A Bear?

The Market Is Hard To Beat But We Try To Beat It



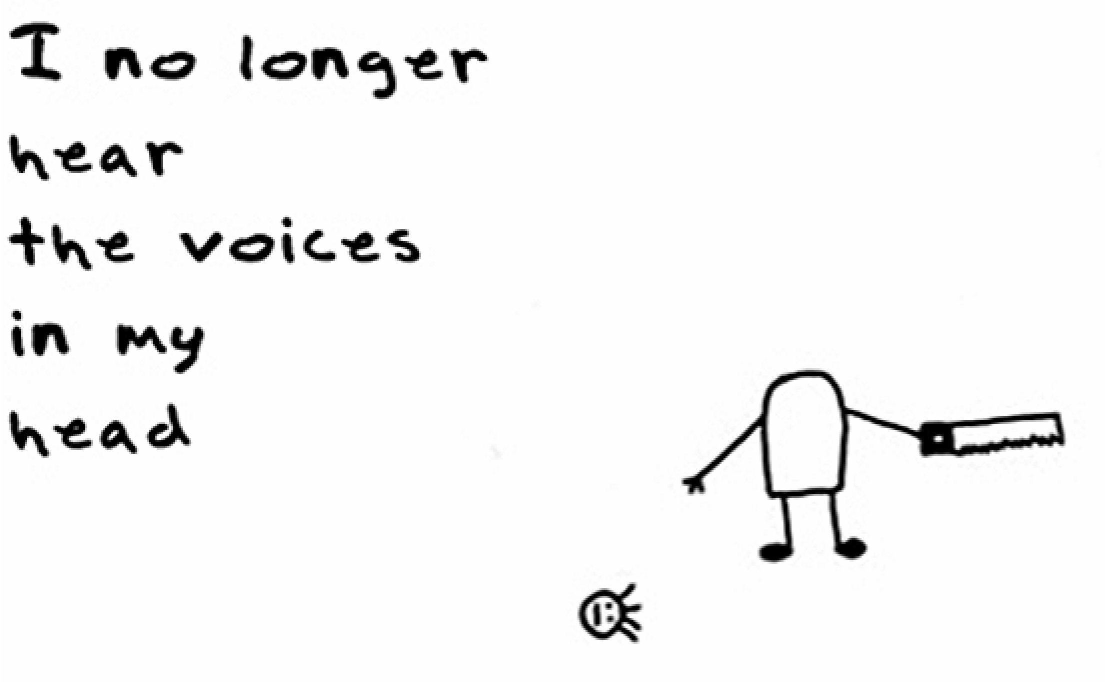
Do You Buy Hot Stocks?

Investors Get Burnt Like A Moth To A Flame

Some Thoughts

I’ve Been An Idiot Again!

Why Me?



I’m A Genius – None of This Applies

Why Does This Happen?

Its not the stock’s fault

We need to get inside our minds

And its more about above and below rather than left and right

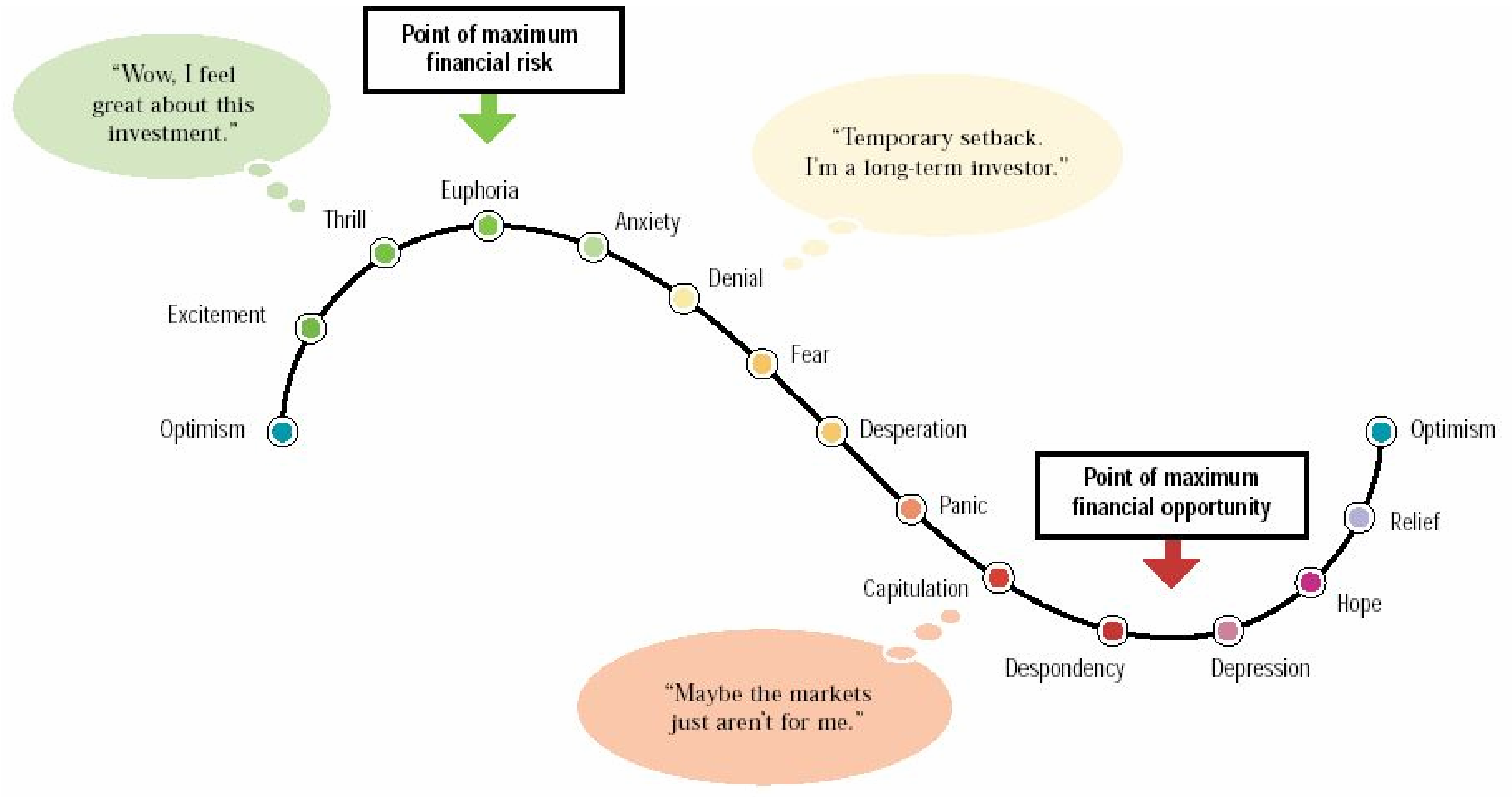
We Aren't Logical

£100 Challenge

We crave reward

But try to minimise risk

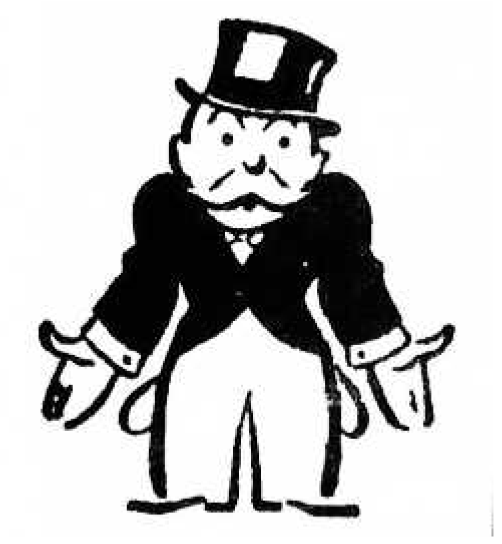
Rollercoaster Emotions



Investing is emotional

Win, Lose, Risk Have Large Emotional Footprints

If you don’t know who you are, the stock market is an expensive place to find out



Some Key Lessons

Monetary loss causes biological change, which have profound physical impacts on the body and brain

The neural activity of making money on the stock market is the same as taking cocaine

Repetitions are a stimulus, see something twice, then the body expects another repetition

The body panics when patterns are broken, it relies on predictability

Financial losses are processed by the same area of the brain as mortal danger

Anticipating a gain and actually receiving it are expressed in different ways.

Expecting good or bad news is more intense than receiving it

Thinking and Feeling

Most important task in assessing a stock building a compelling story for buying*

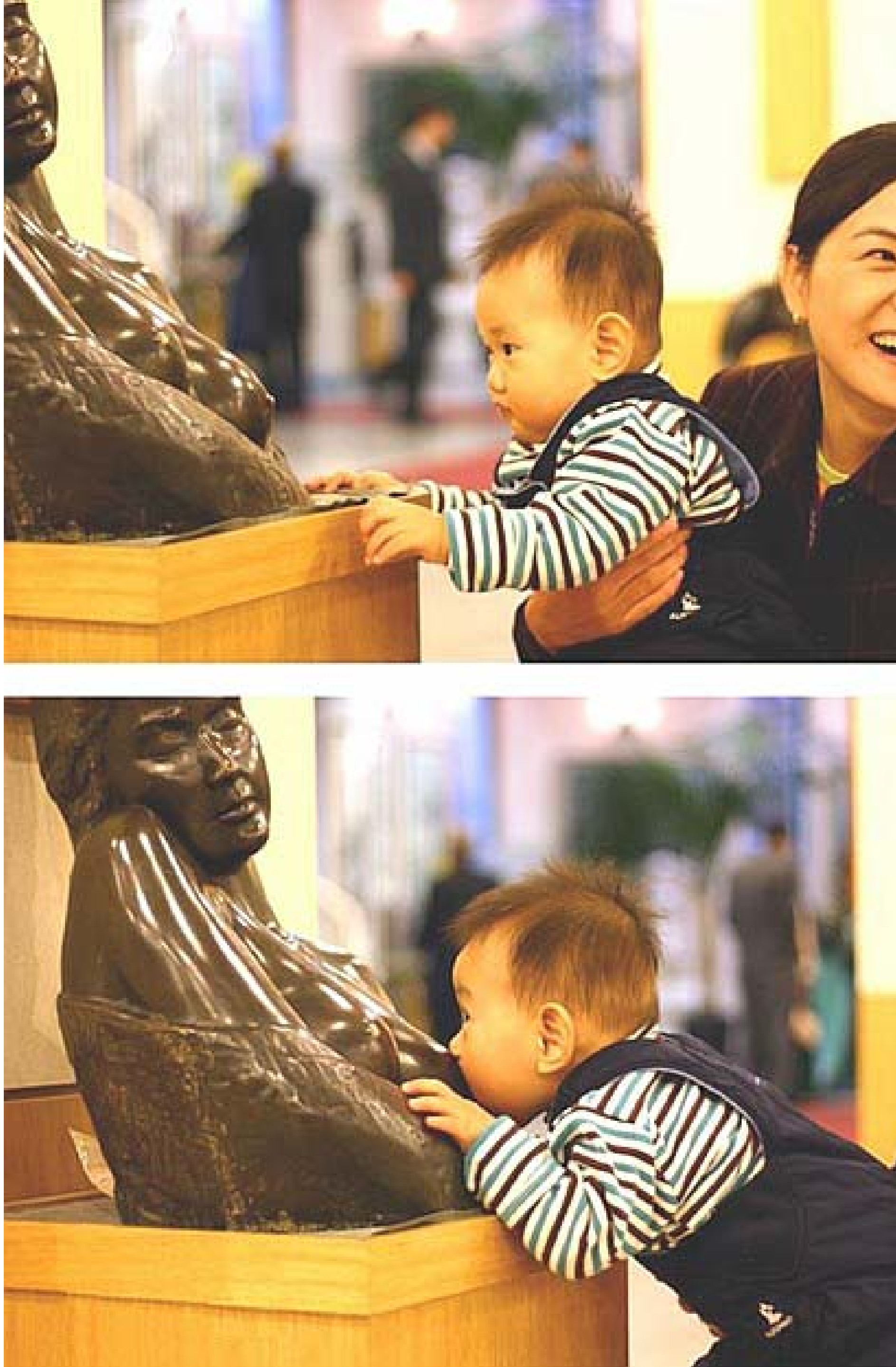
91%

***Survey of Professional Investors**

Thinking and Feeling

Reflexive gets first crack at guessing –

It avoid thinking unless it really has to (avoids risks, maximise reward).



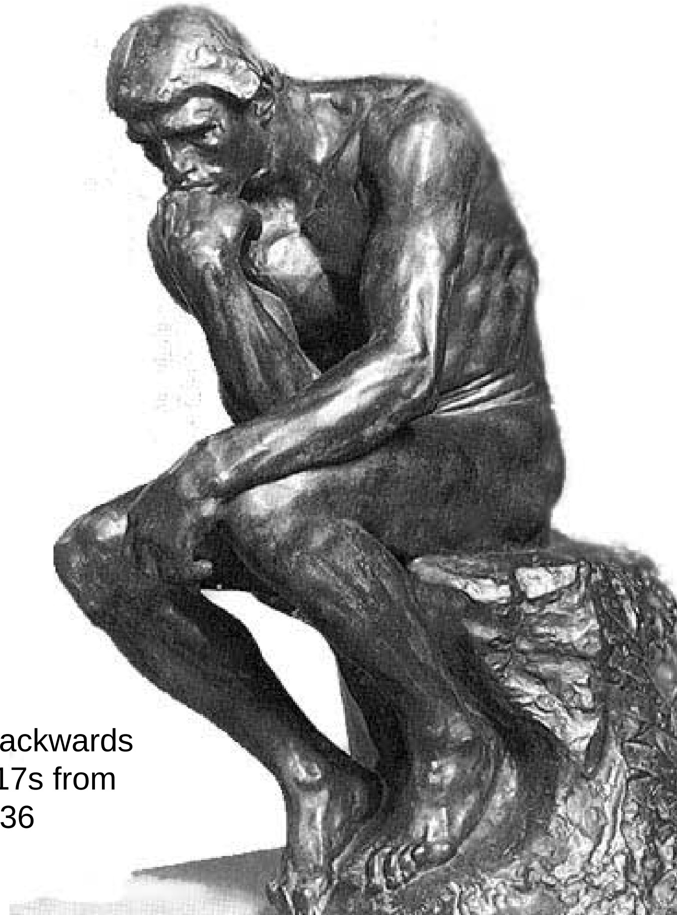
Thinking and Feeling

Reflective brain anchors, it’s used to make accurate choices

Downsides, how many moves ahead in chess can you think.

Can lead to over analysis or it hands the problem back to the reflexive mind

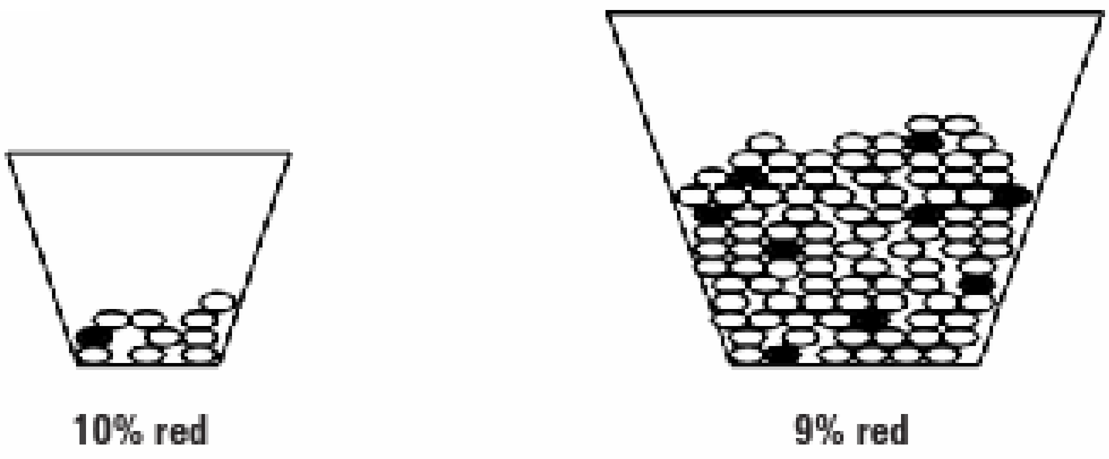
* Count backwards back in 17s from 6836



Jellybean Scenario

FIGURE 2.2 Which Bowl Would You Pick From?

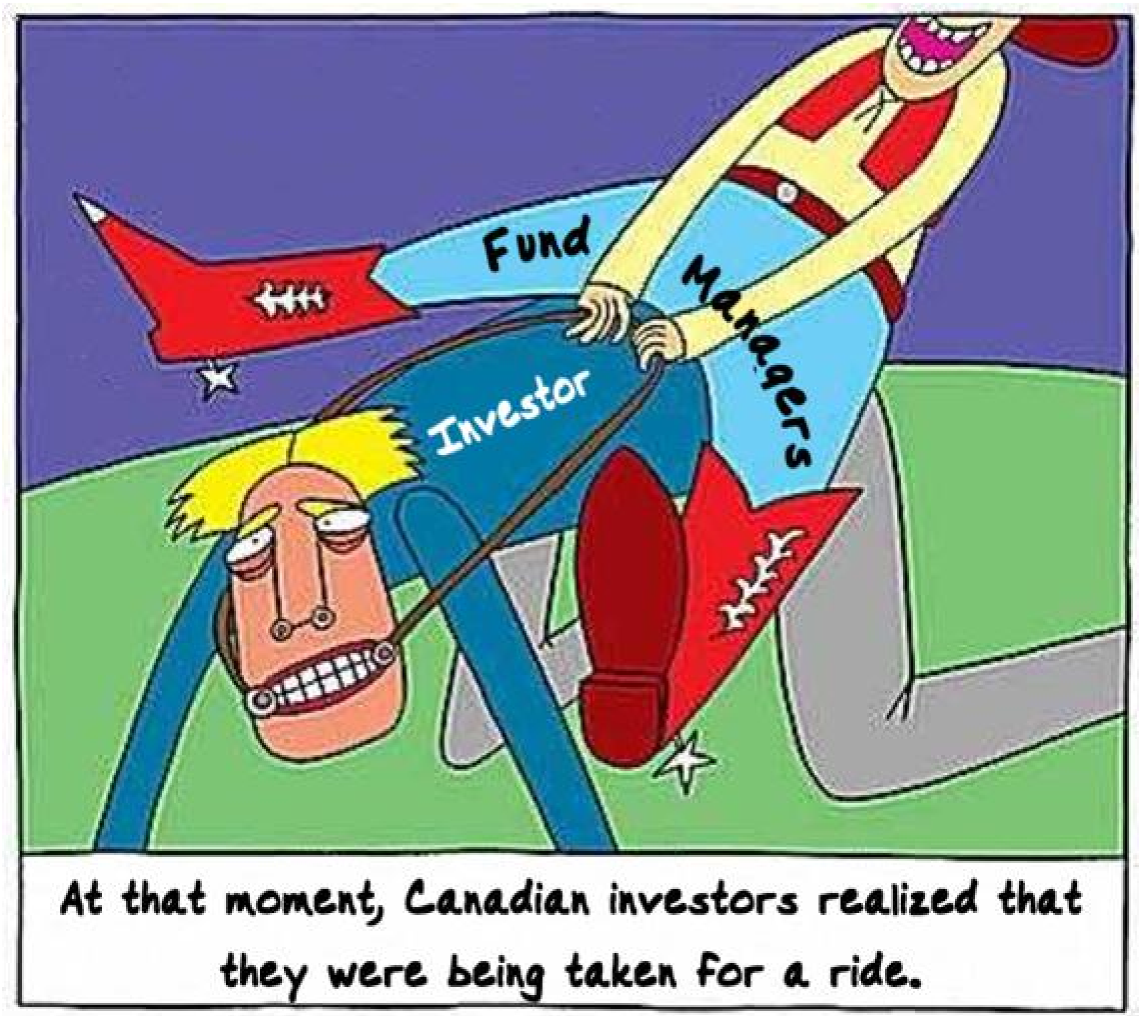
In this experiment, researchers instructed people to try picking a colored jellybean from either of two bowls. In the one on the left, 10% of the jellybeans were colored; in the one on the right, only 9% were.



Denominator blindness, total amount of your wealth versus changes in wealth

Only the total amount really matters but we ignore it

Performance versus expense of funds used as selection criteria



Thinking and Feeling Takeaway

- Trust your gut
- Know when reflex will rule
- Ask another question
- Conquer your senses with common sense
- Invest with rules
- Count to ten

Greed

Buying a lottery ticket isn't rational, its motivated by greed

We focus on how big the reward is, not the likelihood, and prefer options that have a chance of losing

For investing this sucks

Anticipation is reflexive

Financial gains are similar to sex, The thrill of the chase is often more enjoyable than the catch*

*Talk about Celera

Good feelings crowd out other information and predictive cues make us excited.

It causes us to capture rewards quickly and is similar to an addiction

Getting A Grip on Greed Takeaway

- No Sure Thing
- Lightning Seldom Strikes Twice
- Lock up Mad Money and Throw Away The Keys
- Control Your Cues
- Think Twice (See Final Slide)

Prediction

The average stock analyst predicts a weather forecast of 28oC, and then it turns out to be around 13oC*

Why are you still watching this forecast?

*Analyst Cash Predictions Turned Into Weather

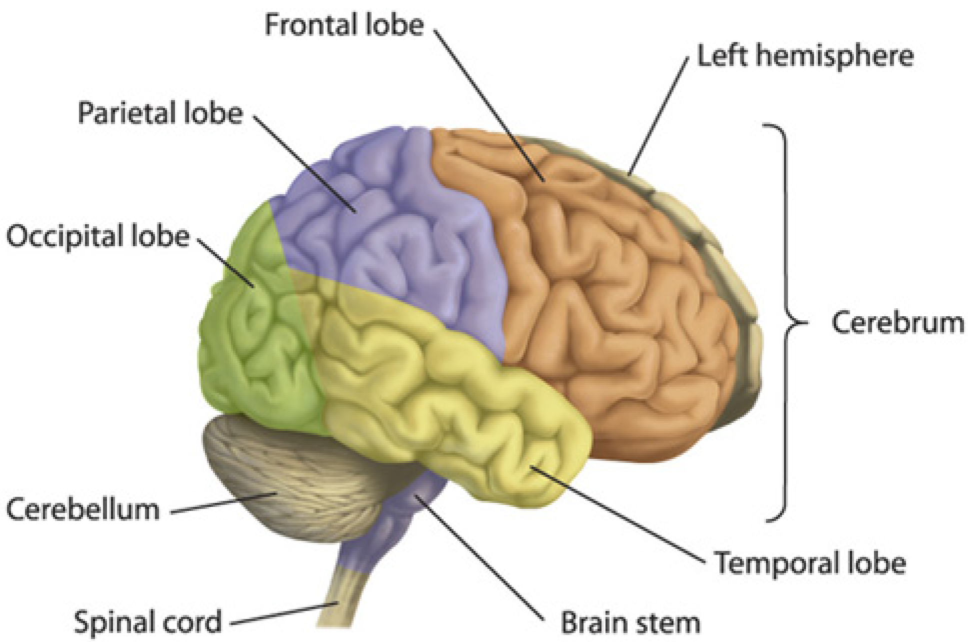
Your mind uses short term past to predict long term future

Randomness Rules

But We Try To See Patterns*

* Slag Off Technical Analysis,
Historians, Any Pattern Finder

Our brain leaps to conclusions, is unconscious, automatic and uncontrollable in predictions and is programmed to spot patterns even if they don't exist

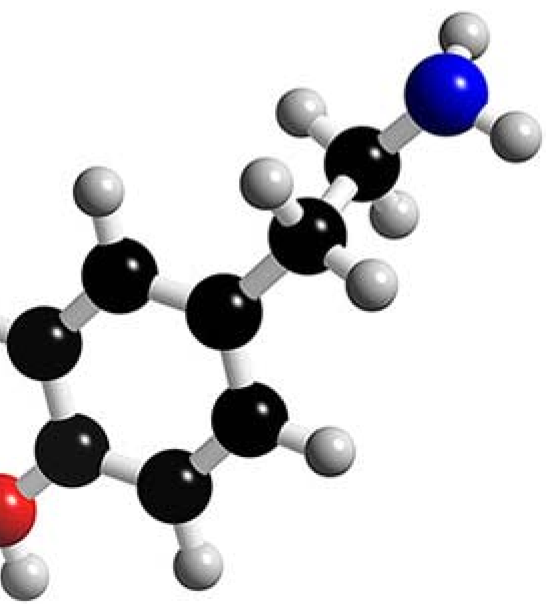


Prediction is reflexive and leads to dopamine addiction

Get what you predicted and you get no extra dopamine

Unexpected gain results in dopamine

Unexpected loss and it dries up

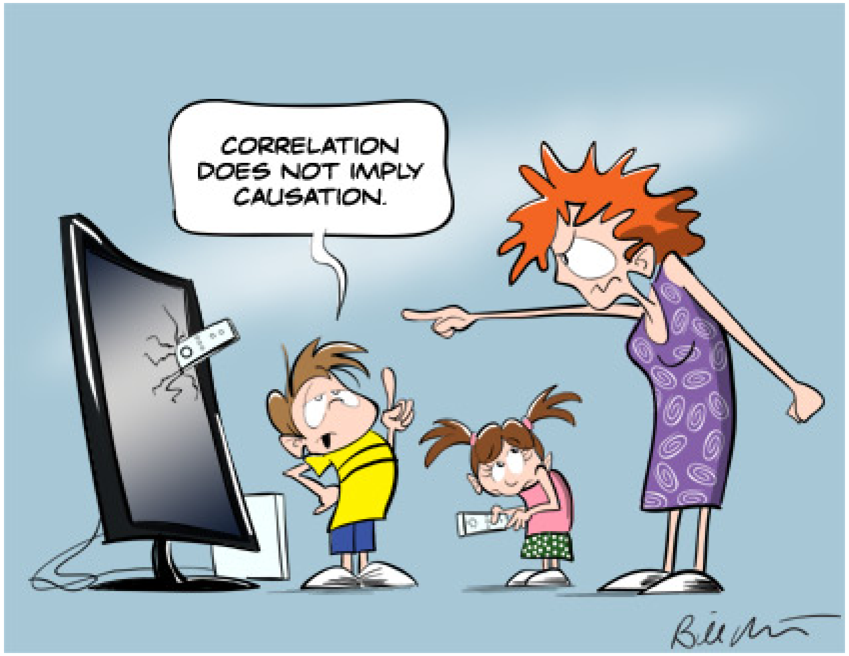


Threes a trend, a pattern!
Even when its random
(25% chance of three in a
row)

Dopamine tends to build
moving average patterns

But they are short term
weighted

This causes the brain
to predict returns for
next year based on last
year



The mind comes to quick conclusions that link available information

* Harry Dent

Fixing Prediction Takeaway

- Control the controllable – expectations, risk, readiness, expenses, your commissions, your taxes and your behaviour
- Stop predicting, start restricting (buy less shares)
- Ask for the evidence before putting faith in others
- Practice in hypothetical worlds – paper portfolios can work
- Look at very long term averages to balance short term predictions
- Don’t obsess with numbers, don’t look at the stock price (you increase your chance of losses)

Confidence

When 50 drivers were asked to rate their driving on skill, ability and alertness

70% rated themselves above average

The survey was held with people at fault in a car crash in the hospital

Who here is uglier than the average person in the room?

We always think we are better than we are and hindsight bias clouds our memory and corrects our minds

Rarely is the prediction of crashes mentioned by pundits until after the event when many will claim to have known

Awareness Test

We overestimate chances of success

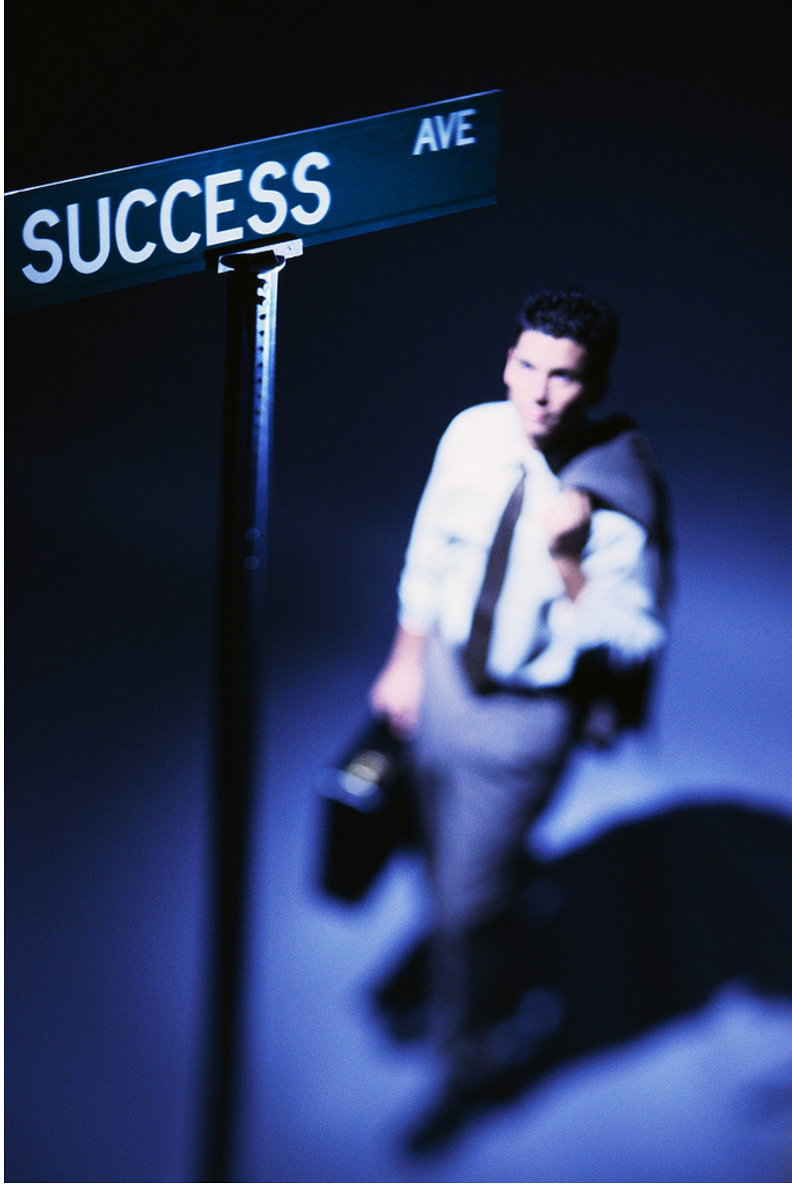
We trust what is familiar even if our knowledge is limited (home bias)

We feel always in control

Placing money on something increases the chances of success in our minds

We have hindsight bias

and its hard to say “I don’t know”



74% of investors thought their fund choices would out perform the market, even though most funds fail

28% of people in 1999 said they beat the dow, when asked what there return was, 75% of those had not even come close, even when we have facts we think we did better than average!

£10 Challenge

Knowing information gives illusion of control even when it does not change anything

Exposure impact, the more we see something the better it is, our wives get more attractive as they get older and uglier to other men!

Measured Confidence Takeaway

- Learn to say I don’t know and not care about not knowing
- A little bit of information can ruin investors avoiding big mistakes is more important than finding big profits
- Know what you don’t know – Buffett advised this – create a too hard pile
- Measure twice, cut once
- Keep a diary
- Handcuff your inner con man
- Embrace mistakes
- Don’t just buy what you know – research
- Diversification is a defence
- Ask why? Why? Why? – be 4 years old again

Risk

A key question is how much risk should you take?

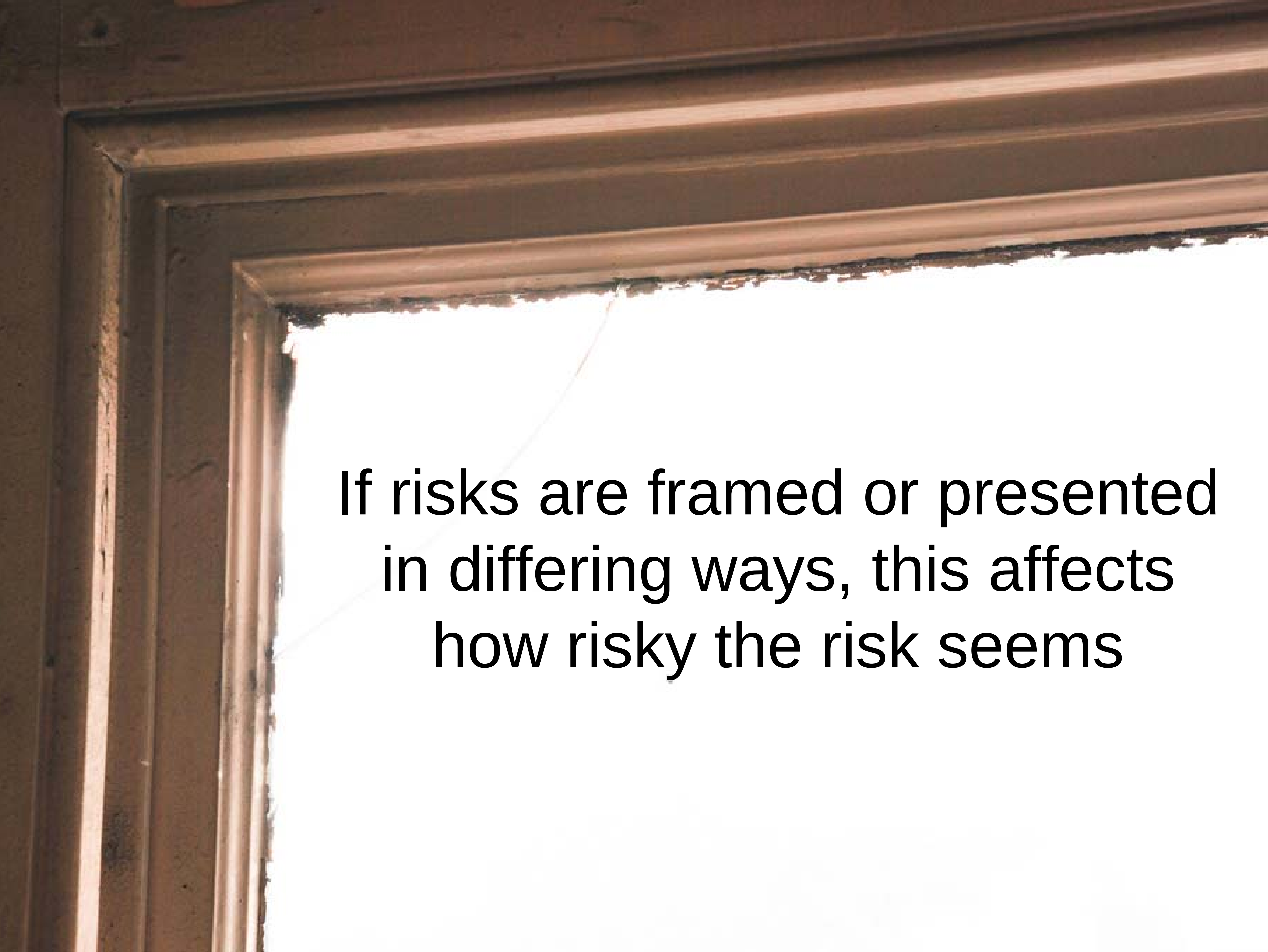
But a better question is how much risk can you take?

Emotions change this answer all the time

* Sing My Way 87% Chance of


Our ability to measure risk
is like a weathervane in a storm

But the more risks you
can name, the less
you think it's a risk


If risks are framed or presented in differing ways, this affects how risky the risk seems

* Fiat, Hyundai, BH Macro

"Yes, we are all different"

Peer pressure impacts decisions, we are rarely individual. We all feel we aren't following the crowd, but we are – information cascades and trends rule

Risky Takeaway

- Take a time out
- Step outside yourself
- Look back write a policy
- Reframe risk
- Try to prove yourself wrong
- Know yourself
- Falling prices reduce risk

Fear

If you can imagine the consequences it increases fear, fear doesn't need experience

We fear the vivid, not the highest risk

When fear happens, we are faster than a smoke alarm

Yet panic can destroy investors, the greatest cost is often fear itself. This scars investors

Thus we pay a premium for the illusion of predictability

Control The Fear Takeaway

- Get it off your mind
- Use your words
- Get away from the herd
- Track your feelings

Surprise

Surprise can turn into panic and yet 30% of all earnings announcements are a negative surprise, bad predictions

Remember how dopamine rewards this

Surprise Takeaway

- Break surprises, everyone knows nothing
- High hopes cause big trouble
- Track the whys of the surprise, not the surprise itself
- Be very careful of guidance
- Realise many funds use tricks to raise their numbers
- Focus on what has changed not the change

Regret

Losing causes regret

The potential of losing cause regret

*5,000 Lottery Tickets

Stocks we own are worth more than ones we don't, increasing regret

Regret causes freezing

It hurts and this can cause inaction
which can be as bad as panic

* House

We prefer limited choice to minimise mistakes

But faced with time pressure, we choose even if it is a mistake

Regret Takeaway

- Face it and fess up
- Have rules for ruling things out
- Get help pulling the trigger
- Seek the silver lining when you sell
- Cut your losses, but I still don’t like stop losses
- Don’t let cash pile up
- Reframe situations to minimise regret
- Keep your balance

Happiness

Time, love, friendship,
self control really makes us
happy not money

And though poverty brings abject sadness, once you have a minimum level of money,
more adds little to happiness

Happiness

- However the desire of having something can cause us to spend more ‘auctions’, the vision of a new car vs the reality
- Our predictions of what makes us happy are very unreliable, we also polish our past making us feel it wasn’t so bad

Happiness Takeaway

Take a deep breath
Turn off the TV
Throw a party
Surprise someone
Learn something new
End things on a high note
Aim for a goal
Make time for friends
Don’t splurge
and make your own luck

JUST DO IT.

THAT’S THE REAL PROFIT

Happiness Is Not Enough

You Still Want Cash Profits

THINK

- # Take the global view

  Keep calm, focus on your total wealth not changes, and diversify

- # Hope for the best, but expect the worst

  Learn market history, don’t panic, every good investment performs badly sometimes and stick around for good times.

- # Investigate, then invest

  A stock is not just a price, read its financial statements, understand what you are buying.

- # Never say always

  Don’t put more than 10% of your portfolio in a single investment, nothing is a sure thing.

- # Know what you don’t know

  Don’t believe you are an expert, compare against the overall market over differing time periods, consider what might send your investments down.

TWICE

- The past is not prologue

  What goes up comes down, way down. Never buy anything because its been rising.

- Weigh what they say

  Don’t listen to market forecasters without evidence, gather objective evidence before trying new strategies

- If it sounds to good to be true, it probably is

  Not exactly, if it sounds to good to be true, it absolutely is. High return, low risk doesn’t exist

- Costs are killers

  Costs can be around 3-5% a year. Trade slowly and measure your costs against performance.

- Eggs go splat

  Never put all your eggs in one basket, don’t heavily invest in the company that gives you your job, diversify, asset allocate.