

MINORITY SHAREHOLDERS WATCH GROUP

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EMOTIONAL PLAYS

STOCK INVESTMENT DISCIPLINE

IT is challenging to be self-disciplined when investing in the stock market due to the many temptations that investors face. Fear and greed are the main emotional plays in stock market investing. Sometimes hope creeps in.

Less is more

Even the disciplined investor ends up investing in more companies than he can manage. It is what one may call “portfolio creep” — the portfolio creeps up with more and more public-listed companies. Sometimes it is greed — you do not want to miss out on a winner. Interestingly, this greed has a fear element, the fear of missing out.

Limiting the stock portfolio to say not more than 10 stocks has two distinct advantages. Firstly, it forces the ruthless self-discipline to choose only the best. Secondly, there is better time management. There is a limitation as to how much time we can spend monitoring and researching our stock portfolio and to research on non-portfolio stocks.

Out with the old and in with the new

It is a refreshing exercise to clean up our portfolio periodically. A useful approach to get rid of

stocks from our portfolio is to ask the question, “Will I buy more of this stock today if I had the money?”

This has been a useful acid test to get rid of stocks that should not be in our portfolio.

We will realise that some stocks in our portfolio are there based on “hope” — the hope that they will recover someday. There is a difference between hope with premise and hope without premise. It is the latter that should be avoided.

Hope with premise is when a company has bid for a lucrative contract, and you are hopeful that they will secure the contract as you think the company has the competitive advantage. You then invest.

This is hope with a premise. If the company does not get the contract, then logically you should sell the shares as the premise on which you invested is no longer there. But sometimes we continue to stay invested, especially when the price is below our entry price, as our ego does not allow us to take a loss. We remain invested based on just hope — the hope that the price will recover — the hope without a premise.

It is truly easier to buy than to sell. That is why we often end up

with stocks based on hope, without a premise, in our portfolios.

As you enter, know where the exit is

Even before investing, the exit price should be determined, both the higher price and the lower price. This is the easy part perhaps. The hard part is exiting when the price is reached.

On the upside, when the upper price is reached, greed sets in and there is the temptation to hang on to the stock to make more profit. We do not want to leave any profit on the table when we exit. A zen-like investor once said that when we sell, we should always allow the buyer to also make some money. It is human desire to buy at the lowest price and to sell at the highest price and it remains an unfulfilled desire.

The only justification to remain invested when your target price is reached is because the premise has changed — your methodology for discovering the intrinsic value now shows a higher target price.

On the downside, it is more difficult to get off at the target downside price. It has been likened to a deer blinded by the headlights, frozen on the spot. Again, as mentioned earlier, this is an ego thing, and we end up holding the

shares as it goes lower and lower as our investment is now based on sheer hope — hope without a premise.

Greed and fear

These are the two primary emotions that fuel stock price movements apart from our idea of what the intrinsic value of a share is. The intrinsic value is what we think that a share is worth. It is fear and greed that has been the downfall of many an investor.

At the same time, successful investors can realise the fear-greed weakness on the part of the other investors and can capitalise on the other investors’ irrational fear and greed to make a profitable investment decision.

The phrase “greed is good” has been attributed to Gordon Gekko (Michael Douglas) in the movie, *Wall Street*. The purist will realise that what he said was, “The point is, ladies and gentlemen, that greed, for lack of a better word, is good”.

But we know better. Greed is not good.

As for fear, fear is temporary, but regret is forever.

The writer is chief executive officer of the Minority Shareholders Watch Group

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