Chapter: Psychology

What does psychology have to do with stocks? Technically speaking, a huge portion of success in the stock market comes from understanding the mentality that others have, and yours as well. I was undecided on whether I should put this chapter at the beginning of the book or not. However, I realized that a warning on how we think as humans might be the best tool to start with.

Stocks sometimes are confused with gambling, and treated as such, but they are not alike. Understanding the mentality behind stock investing plays the most important role in the decisions we make. If we have the best tools available, all the information we need, and all the money needed to invest, we could still lose it all because we would take a decision based on our first instincts rather than a logical decision. There are two main reasons why this often happens:

Ease of Access

What do we need to invest in the stock market? Some money saved, a bank account, and being 18 years old (actually, you can do it at any age but with a legal guardian’s consent). As you see, investing does not have much requirements to start making money decisions. There is not a lot of paperwork, not accountants, not agents, sometimes not even fees! With so much easy access to stocks, it seems like stocks are the best investing option out there, but the reality is different. Having an ease on access makes the illusion of making profit as an easy task. The reality is that you need to take careful action before even choosing the platform in which you are planning to invest in. There are many steps to be taken before making the first purchase (will go in detail through those later). And again, this ease of action brings further novice investors to spend their money nice and quick. Similarly, nice and quick they end up losing most of their savings because they thought it was easy to do it. Not having complications to setup an account and quickly purchasing stocks is not different from playing on the casino’s roulette and betting on red. It is so easy to just say a color and wait to see if you obtained the money through that option. This brings further our second point.

Ease of Selection

Have you ever managed a business? What about trying to fix your car? These situations bring many possible outcomes and decisions you can take. How many decisions does it take to be successful in profiting from a business? One decision? A hundred? Probably a couple of them at least, on a daily/weekly basis. Investing in stocks is no different from investing in real state, in a product company or any other business model. At least on their basic roots, investing in stocks requires careful selection of companies to select, quantities of money to be used and the amount of time that you are planning on investing this money. This is one of the bigger traps that exist in the world of stock investing. Since, selecting any company that looks sensational, or simply profitable, many investors fall for the catch of “ease of selection”. You should never take the selection process lightly, because once the money to purchase the company is used, it might not come back.