

AI-01231 When Do Nothing Works

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When the market is tanking, I've read an advice: "read a book" or "watch a movie". What is the science behind the sound advice. Will that advice appropriate also when the market has a super charged momentum like the 2024 post election exuberance?

The advice to "read a book" or "watch a movie" when the market is tanking is grounded in psychology and behavioral finance. It's about creating mental distance from the stress of market volatility and preventing emotional reactions that might lead to impulsive, detrimental decisions. Here's the science behind why this advice is effective and how it might apply in an exuberant, bullish market environment as well:

1. Emotional Regulation

- **During Market Drops:** When markets drop sharply, fear and anxiety can cloud decision-making, making it easy to panic-sell at a low point. Shifting focus away from financial screens and onto something more relaxing can give the brain a break, allowing stress levels to drop and helping you avoid impulsive actions.
- **During Market Highs:** Conversely, in a euphoric, "supercharged" market, emotional contagion can drive irrational exuberance—causing investors to overestimate gains and take on undue risk. Taking a mental break (like reading or watching a movie) can help temper this excitement and bring some perspective to avoid overconfidence and potential over-leverage.

2. Cognitive Overload and Mental Refresh

- Market activity—especially rapid movements up or down—requires processing a high volume of information and can lead to cognitive overload.

Taking time away lets the brain reset, improving your ability to think clearly when you re-engage.

- **During Bull Markets:** This effect is equally valuable in a strong bull market, as optimism can cloud judgment. A reset can bring clarity on fundamental analysis over pure momentum, encouraging a balanced view.

3. Prevention of Recency Bias

- **Recency Bias** is a tendency to overweight recent events when making predictions. Taking a mental break helps reset this bias, allowing you to return with a more balanced view of both historical performance and long-term trends.

4. Opportunity to Gain Perspective and Broaden Knowledge

- While reading or watching something unrelated to finance, you may gain insights or analogies that apply to your investment approach or long-term goals. This can lead to innovative thinking or even confirm your strategy rather than getting pulled into short-term market noise.

In summary, the advice works because it helps investors avoid reactionary decisions, whether markets are dropping or booming. It's a reminder to remain centered, enabling you to make investment choices grounded in long-term strategy, not short-term emotions.

There is a "risk on" in bitcoin market, is reading a book is still a good response or it time to get in the bitcoin train?

When there's a "risk-on" sentiment in the Bitcoin market—meaning investors are embracing higher-risk assets like Bitcoin—reading a book can still be a wise initial move, especially if it's a step back for perspective. This approach can be helpful for a few key reasons:

1. Evaluating Risk Appetite and Strategy

- Bitcoin and other cryptocurrencies are notoriously volatile, even more so in "risk-on" environments. Taking a pause to read or reflect (especially something related to investment psychology or market cycles) can help you assess your risk tolerance, confirm your strategy, and resist the emotional pull to "get in while it's hot."

2. Avoiding FOMO and Recency Bias

- FOMO (Fear of Missing Out) can lead to entering positions at the top of a speculative wave. Reading a book—even if it's not finance-related—can help counter the bias of recent momentum, encouraging a more disciplined approach. This way, any decision to invest in Bitcoin would come from a balanced mindset rather than one fueled by short-term excitement.

3. Long-Term Perspective

- Taking a breather can reinforce the importance of considering Bitcoin's long-term potential versus its short-term price action. Reading about the history of other asset classes or past cycles can provide context and help you approach Bitcoin as part of a diversified, long-term strategy rather than as a quick trade.

4. Opportunity for Additional Research

- A risk-on signal could mean it's worth researching Bitcoin more deeply if you haven't already. Rather than diving in immediately, reading up on Bitcoin fundamentals, blockchain technology, or crypto economics can help you make a well-informed decision.

Is it Time to "Get on the Bitcoin Train"?

If you're considering Bitcoin, it's worth weighing how it fits into your financial goals and risk profile. It might make sense to allocate a small, manageable percentage of your portfolio to Bitcoin, especially if you're prepared for high volatility. However, the core of successful investing lies in knowing your plan and sticking to it—so if it aligns with your strategy, Bitcoin could be part of a well-considered portfolio.

In short, reading a book can indeed be a good first step. It allows you to take a pause, avoid impulsivity, and make decisions with a clear mind—even when the market signals a strong "risk-on" sentiment.