The 'FOMO' Pandemic Is Spreading

Retrieved Friday 29th of September 2017 11:24:48 PM

There's nothing quite like the extremities of a market to play havoc with an investor's mind.

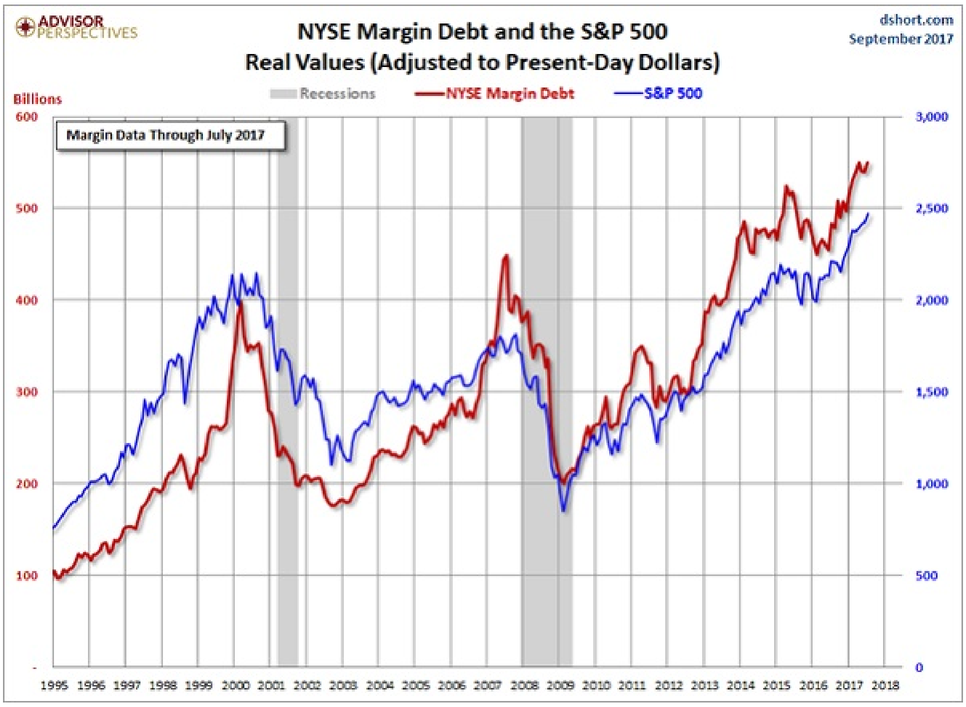
Do we or don't we buy or sell?

In this pressure situation — missing out on profits or suffering further losses — decisions are usually based on emotion, and they're

Discipline is abandoned…and not just by the amateurs, but also by the professionals engaged to know better.

The following chart — on the level of margin debt in the US share market — indicates we are reaching another market extreme.

The red line — the amount of inflation-adjusted margin debt — has soared past levels of the two previous market bubbles…2000 ar



Source: Advisor Perspectives
[Click to enlarge]

If prior experiences are a guide, then the US market — and by extension the rest of the world — is in very dangerous territory.

Have investors wandered (or more likely rushed) into the land of the doomed without any professional guidance?

I don't think so.

The investment industry generates its revenues from funds under management. The more money (whether sourced from your own

When markets are rising, it's easy to sell margin lending.

Anyone remember Storm Financial?

You must take personal responsibility for your money.

The above chart is warning us of what's to come…a market collapse of epic proportions.

The time to act rationally and unemotionally is *before* the proverbial hits the fan, not after.

Today, I'd like to share with you an edited extract from my recent book, *How Much Bull Can Investors Bear?*

The chapter is titled 'Managing Emotions'.

> *'No matter the situation, never let your emotions overpower your intelligence.'* — Unknown
>
> '*Following the crowd. Believing one line mantras like "the share market always goes up; you can't go wrong buying [insert asset*
>
> '*These are all emotional triggers that all of us have fallen for at some time in our investing lives. After all, we're only human.*
>
> '*Impulse buying or selling is devoid of critical analysis. Sometimes this impulsiveness can work, but most times it tends to end b*
>
> '*Successful investing is about putting the odds in your favour. This means doing the homework to decide on the appropriate cou*
>
> '*The challenge is always to minimise the emotional component in the equation.*
>
> '*The investment industry is based on sales…advisers trying to convince you to buy a particular strategy or product. One that's ri*
>
> '*A happy retirement. The creation of wealth. Insurance protection for you and your family.*
>
> '*These are all concepts we can buy into if the right buttons are pushed.*
>
> '*The need to control emotions is why we use historical context, mathematics, reason and common sense — all mixed with a larg*
>
> '*The fear of missing out (call it "FoMo") — not participating in the trend — is one of the buttons that can be easily pushed by the*
>
> '*Yet history shows us that it's those who go counter to the trend — the traders shorting the US housing market, or Kerry Packer*
>
> '*One of the emotions you have to control is FoMo. Run your own race…based on logic, not on sales or peer pressure. If you fin*
>
> '*The fear of missing out is why people — consciously or unconsciously — want to be in at the bottom and out at the top. Trying t*
>
> '*I experienced FoMo in 2007.*
>
> '*When it became apparent to me that markets were getting toppy in late 2006 and early 2007, my recommendation was to sell i*
>
> '*I have long remembered this sage advice: "You show me a person with $100 million and I'll show you a frustrated billionaire." W*
>
> '*To help keep your emotions in check, take on board the wisdom of Baron Nathan Rothschild: "You can have the top 10% and th*
>
> '*Rothschild's advice is simple and easily understood. You cannot pick the bottom or top of a market…so don't try to. Aim to take*

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'*We all have varying degrees of interest in financial and economic matters. However, for the majority it's about keeping it simple.*

'*Avoiding the traps. Controlling emotions. Developing a bulls**t detector. Understanding the basics.*

'*The importance of having a reasonable understanding of financial markets, and your emotional interplay with those markets, cannot be stressed enough. Time and again it's been the lack of knowledge and discipline that's washed many an investor's capital onto the rocks of portfolio destruction.*

'*Managing emotions is vital to investment success.*

'*Which is why my approach is to keep it as simple as you can…bearing in mind we are dealing with complex issues.*

'*We know from studies on funds flow into and out of managed funds that most people tend to buy high (in the top 10%) and sell low (in the bottom 10%). They completely miss the 80% in the middle and consequently subject their capital to a 50% or more downside.*

'*Don't believe me?*

'*This is from a study by Yale School of Management, titled "Dumb Money: Mutual Fund Flows and the Cross- of Stock Returns" (emphasis mine):*

> "Our main result is that on average, **retail investors direct their money to funds which invest in stocks that have low futur**

> "**Therefore, mutual fund investors are 'dumb' in the sense that their reallocations reduce their wealth on average**. We ca

'*Why are most retail investors "dumb"?*

'*They act on impulse…chasing last year's winner. Reallocating money around to what has been, rather than focusing on a disciplined strategy. A strategy centred on progressively buying assets at a discount (low P/E) and progressively selling when assets trade at a premium (high P/E).*

'*The fear of missing out is what drives this irrational behaviour.*

'*And not all of this reallocating is done by the individual investor. Financial planners — in appearing to be doing something for their fee — are instrumental in perpetuating this "dumb money" syndrome.*

'*Under pressure to perform and placate investor concerns over their fear of missing out, they switch client funds into the latest star performer. Client pressure is temporarily relieved.*

'*Invariably, this emotional response leads to a reduction in wealth on average. The loss of capital sees client pressure return.*'

Buying low and selling high is far easier said than done.

If you're looking to maintain your while others are losing theirs, I urge you to grab a copy of my book, *How Much Bull Can Investors*

Regards,

Vern Gowdie,

Editor, *The Gowdie Letter*

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