

Information overload coupled with our greed distorts decision making

We all suffer from information overload these days. Stock markets, the way they have gone up in the last four years, attract a lot of attention from media—print or television. Each one tries to provide information for you to take a wise investment decision. Here is where the problem starts.

Information overload, coupled with our greed, distorts our decision making. When we are confronted with profits, our emotion of greed dominates and leads to behavioral bias of decision paralysis or maintaining status quo. When one is bombarded with news of how people are making money and only positive news on the market, investors lose their own judgment and tend to be swayed by the information. This hampers their decision-making ability and they prefer to maintain the status quo and do nothing.

Why do investors suffer from decision paralysis? Firstly, they fear of looking foolish, especially when the decision is against popular thinking. Secondly, there is fear of going wrong and its effect on one's ego. Thirdly, there is also fear of making losses, which comes out of one's loss aversion bias. Lastly, unwillingness to take risks.

One has to understand that not deciding is also a decision. When we decide we have a 50% chance of going right or wrong. If we don't do anything we forgo our chance of being 50% right. In a dynamic world, it makes sense to advance by taking the decisions, which come our way. If we allow fear to dominate we lose our chance to go forward. Each investor needs to ask a few important questions.

- Have I ever made this kind of money from investments?
- Am I so lucky to be owner of stocks that are just going up?
- Can money-making in life be so simple?
- Does anything last forever?

These questions will help you get out of the decision paralysis. In such times, greed is your worst enemy and can lead you to decision paralysis. So act. A bird in hand is worth more than two in a bush.

Here is an example: You hold a stock hovering around Rs 30. Suddenly it spurts and hits Rs 100 in a month. No one knows what is happening in the firm. You face decision paralysis. To sell or not to sell? You may ask yourself: How often have I got a three-bagger in a month? Can this rise sustain? Can I put the money in better and safer opportunities?

These may help you to take a sale decision. Yes, after you sell, the stock can go up. But remember, you can only sell at high rates as someone is buying hoping the stock to go further up. In bull markets, stocks rise for reasons other than what fundamentals justify. If you are an investor your job is to buy at right valuations and sell at crazy valuations. Conclusion: When you need to make a buy or sell investment decisions, put yourself in neutral mode. For example, if you need to make a sell decision, ask yourself whether you would buy the stock at that price. If the answer is yes, then do not sell. If it is a strict no, then go ahead and sell.

(Parag Parikh, chairman, Parag Parikh Financial Advisory Services, specialises in behavioural finance. His column will appear in the second week of every month.)

DECISION TRAP



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