

# Investing with the mind

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The current rally in the stockmarkets has created a feel-good factor within the investing fra-

ternity as their net worth has soared along with soaring stock prices. This could fuel one's greed and one must be careful when one thinks of investing in such markets. The following are a few realities of the stockmarkets and it would help one to be aware of the same and make wiser decisions.

There are no geniuses in this market. Any investment manager can be right on his call on a stock at one point of time and wrong at another on the same stock. He could be selling a stock because the valuations are way too high. But, at the same time, a huge fund

could be buying the stock as it needs to quickly deploy its resources because of certain regulatory requirements. The stock starts rising and the investment manager is made to look like a fool in spite of the absurd valuations of the stock. However, in the long run he will be proven right. The problem here is that the yardstick to judge his performance is the market, which is based on emotions and the sentiments of investors.

On some days, when the market is intoxicated, it is not willing to sell a particular stock at less than Rs 100, and on other days, when the market is in a hangover mood, it is willing to part with the same stock at Rs 20. Why does the market behave this way? It is because of the emotional behaviour of its participants. They are driven by greed and fear at different stages and this affects their behaviour. Irrational behaviour is judging

## Greed and fear

**Markets move** one way or another due to participants' emotions

**Trying to** second-guess the market's direction is like gambling

**Depending on** expert analysis and forecasts can be misleading

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rational actions and hence the short-term distortions.

Why do we humans behave in such a way? The reason is very simple. We have a heart and a mind. The mind is the intellect and the heart is emotional. We do not always use our minds to make decisions. As rational beings we are supposed to use our minds. But we are human beings and we have a heart and that makes us emotional. We do not always make decisions with the help of the mind; we also make decisions out of our

hearts. Hence, our emotions do the decision-making and that is the reason why smart people also make big money mistakes

We have forgotten what investment is all about and the wise would do well not to be carried away or make rash investments on such forecasts. It is not the right long term strategy. As we all know, there are no short cuts to making money. In the stockmarkets, the only genius would be the one who is able to control one's emotions.

One needs to be emotionally intelligent to be a successful investor because the investment game is made up of a lot of uncertainties. As Peter Drucker says, "Intelligence and brilliance carries the day but it is wisdom that endures".

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