Emotional intelligence

A behavioral finance expert explains why working with your emotions may serve you better than checking them at the door. By Allan Kunigis

Dr. Richard Geist has an unconventional veiwpoint when it comes to the role human emotion should play in making investment-related decisions.

"Conventional wisdom says to park your emotions at the door," says Geist, author of *Investor Therapy: A Psychologist and Investing Guru Tells You How to Out-Psych Wall Street*. "I believe emotions are important to making investment decisions. No matter how much you try to push them out, they're going to be there. So, you might as well try to understand your emotions, embrace them, and use them to improve your decision making."

Geist does not suggest that investing is an entirely emotional endeavor. But he believes that a "complete investor" is someone who considers intuition, style, and personality as much as quantitative data such as net asset value, historical performance, and price-to-earnings ratios.

With that in mind, here are Geist's six tips for getting in touch with your emotions, and then tapping them to make intelligent decisions.

ONE ***Log your emotions.*** To get in touch with your emotions, Geist advocates logging them every time you make an investment decision over a three- or six-month period. Then, look for patterns. Do you feel particularly confident or nervous every time you make a good or bad decision?

Action: Keep an investment-sentiment log and update it every time you invest. Pay special attention to your thoughts and feelings as you go to sleep and awaken the first few days after investing.

TWO ***Match your personality.*** Geist also says you may benefit from matching your personality with an investment style. "If you're a left-brain thinker who uses logical, deductive reasoning based on all the available facts, you may be well suited to a mutual fund that invests in larger, well-established companies," says Geist, who is president of the Institute of Psychology and Investing, Inc.

The inverse is also true, according to Geist. If you think more intuitively and tend to make emotional decisions, you may be better off in a fund that invests in smaller, emerging growth companies.

Action: Think about who you are as a person, and how you invest. How can you better match your investments to your personality?

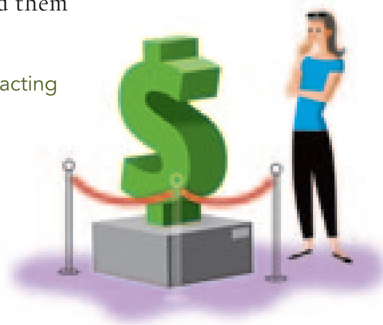
THREE ***Work with others.*** Geist has a simple suggestion for countering investors' tendency to follow the crowd. "Invest alongside a small group of trusted others," he says, noting the benefits of a supportive atmosphere in which you can bounce ideas off somebody you trust. "By calming you down, your peers may be able to prevent 'herd mentality,' which tends to occur when people get anxious and don't know where to turn."

Action: Find a group of like-minded, trusted investors. Whether or not it's an investment club, you should get together informally with coworkers every month. Or, team up with a

Illustrations by Ron Chan

family member or friend who shares your investment personality or profile.

FOUR *'De-center'* Take a step back and try to look at a decision from different perspectives, the way you might look at a sculpture. Geist stresses emotional flexibility, and warns against what he calls "jigsaw puzzle thinking." "When investors get anxious, they tend to look at just one or two pieces of the puzzle instead of looking at the whole picture," he says. For example, people under stress often sell a stock purely based on price, ignoring all the other considerations that led them to purchase it.

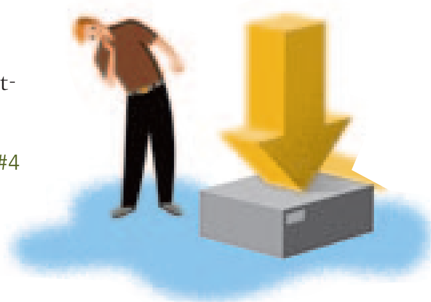


Action: Take a timeout before acting on an investing impulse. Give yourself a day or a week to research it, think things through, and use your group of like-minded investors to sift through your thoughts.

FIVE *Don't beat yourself up.*
If you are upset about the investment losses you've incurred and the mistakes you've made, ask yourself: "What have I done right in the market?" Focus on the positive, Geist advises. "Review what has worked for you, and consider getting back to areas or types of investments where you've made some good decisions."

Action: Consider what you have done well. Take a few minutes and reflect. Try to learn from your successes as well as your mistakes.

SIX *Look at the downside.*
If you're excited about an investment, you tend to "look for supporting documentation for your decisions," Geist says. "Ask 'What could go wrong?' It's harder emotionally to allow yourself to find things that could go wrong, but that can help you consider more variables." And that can help you make a more thoughtful and well-considered investment decision.



Action: Go back to tip #4 and de-center. Take a step back and move around that sculpture.

TEN tendencies

Here are 10 common behavioral tendencies among investors.

Holding on to losing investments too long. You may want to avoid admitting a mistake. Emotion: Fear or aversion of regret.

Selling winning investments too soon. Have you ever hurried to lock in a profit even though you could have gained more by holding on to a good investment longer? Emotion: Pride and self-congratulation.

Following the crowd/herd behavior. Who could resist jumping on the bandwagon of technology stocks before the dot-com bubble burst in 2000? Emotion: Fear of being outperformed by others, including the overall market, friends, colleagues, and neighbors.

Extremely conservative investing. After being burned by stock losses in the bear market of 2000–2002, many people piled money (even long-term retirement investments) into low-yielding money market funds. Emotion: Risk aversion.

Overinvesting in company stock in a retirement plan, or in stock of other companies with which you are familiar. It's natural to want to invest in companies you know, but it can lead to a dangerous concentration of your assets and leave you vulnerable should something cause that stock to falter.

Trading too often. After picking a few winning investments (and attributing that to skill), and possibly dismissing bad investments as bad luck, you can get overconfident. That can lead to too many trades, which can be costly in terms of commissions and taxes, and can also lead to potentially ill-considered or hasty decisions. Emotion: Overconfidence.

Anchoring. Placing too much emphasis on the most recent prices or performance.

Emotional attachment. Being overly reluctant to sell a stock or fund, instead of rationally considering its merits.

Seeing patterns where there are none. Such assumptions can lead to faulty decisions.

Selective listening/prejudging. Forming a conclusion before considering all information, and blocking out any data that don't support that viewpoint.