

# Kenanga Investors Berhad

## *The Psychology of Investing*

By Chen Fan Fai

Director Of Investment / Deputy  
CEO



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## The psychology of investing . . .

*“The investor’s chief problem  
– and even his worst enemy –  
is likely to be himself”*

Benjamin Graham

## The psychology of investing . . .

*“Success in investing doesn’t correlate with IQ  
once you’re above the level of 100. Once you have  
ordinary intelligence, what you need is  
temperament to control the urges that get other  
people into trouble in investing”*

Warren Buffett

## The psychology of investing . . .

- All of us are likely to encounter mental stumbling blocks at some point.
- Self-control and relying upon willpower alone is unlikely to be sufficient defense against behavioral biases.
- Need to develop investment processes that minimize behavioral errors.

## Emotions and the heat of the moment

- Empathy gap – inability to predict our own future behavior under emotional strain.
- The perils of procrastination.
- The power of pre-commitment.

## Investing under stress

- Brain drain and performance.
- The cure for temporary paralysis.
- One strategy for maintaining rational thinking at all times is to avoid the extreme stresses that lead to poor decision-making.

## The curse of optimism

- Optimism may well be a great life strategy, but hope isn't a good investment strategy.
- Tendency to overrate our abilities is amplified by the illusion of control.
- Beware of “self-serving bias” whereby people are prone to act in ways that are supportive of their own interests.
- *“Skepticism is the chastity of the intellect, and it is shameful to surrender it too soon or to the first comer” . . . George Santayana*

## Information overload

- Is more better ?
- When less is more.
- The important take-away here is that you should determine the factors you will use to assess your investment choices, and then you will focus on your own analysis of each of these elements.



## The siren song of stories

- Our vulnerability to over-interpretation and our predilection for compact stories over raw truths distorts our mental representation of the world.
- Focusing on the cold hard facts (soundly based in real numbers) is likely to be our best defense against the siren song of stories.

## Inside the mind of a lemming

- A willingness to subjugate one's own thoughts for those of a group is a sadly common behavioral affliction.
- The pain of going against the crowd vs the carrot of conformity.
- Overcoming this particular demon effectively requires three elements:
  - courage to be different
  - be a critical thinker
  - perseverance and gut

## Process, Process, Process

- Focus on process rather than outcomes is critical in investing. It is the one thing you can control.
- In investing, outcomes are highly unstable because they involve an integral of time.
- Price volatility is several orders of magnitude greater than fundamental volatility.

## **“The Gambler”**

*“You gotta know when to hold them, know when to  
fold them, know when to walk away, and know when  
to run. You never count your money while you’re  
sitting at the table, there be time enough for counting  
when the dealings done”*

Kenny Rogers

**Thank You**

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