Know Yourself

I came across this quotation from David Fisher, Chairman Capital Group International in the book *The Super Analysts* by Andrew Leeming:

… in this business … I … think the most important characteristic … what you want are people who are introspective … It doesn't mean they have to have a certain personality – they can be shy or outgoing – but whoever they are, they have to have thought about themselves and like themselves. … the reason that ends up being so important is that [investing] is a business in which you are going to be wrong a great deal… people who aren't comfortable with themselves tend to freeze and they don't want to make another decision and therefore run the risk of being wrong again. And so it's only those people who actually have thought a lot about who they are, and who like who they are, that tend to be truly successful in [investing].

This resonated with me at two points:

1. At first, we all go into speculating/trading for the sheer thrill. It is only as we mature and transition to investing – where I find the real money is made – that the successful investors see investing purely as a business. We lose all the sense of thrill and it becomes a cold-blooded business with little, if any, emotional content to decisions.

2. Investing is about assuming risk. Many of our investments will not work out as we expect, no matter how good we are at selecting stocks. So, losses are an integral part of investing (or trading/speculating). I have found that over the long term, the Pareto principle holds and 20% or so of investments make 80% or so of the returns. Once we learn how to recognise quickly when an investment is not working out as we had expected and take the loss quickly while it is small, we are on the way to the next level of investing skill. Losses no longer bother me except if I was stupid enough not to act on a stop – something that I have not done for many, many years now. I think that we arrive as good investors when we realise that the key to strong returns in investing is taking losses while they are small – when we are wrong – rather than working at making profits. If we make sound investments and control losses, the profits look after themselves. We just let them run until they hit a stop. Simple to explain. Difficult to do. The first step is to understand what investing thinking needs to be embedded in our psyche.

To read more of my work

Previous Articles

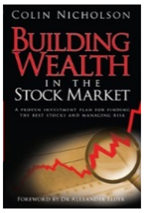
All my previous articles for the free website are now on the *Educational Articles* page on the Free Resources menu. They are now listed alphabetically by title with a brief description of their contents.

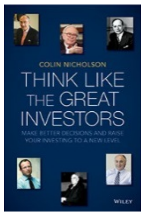
Books

I have written two books, both of which are available for purchase from the ***Buy Books*** menu:

BUILDING WEALTH IN THE STOCK MARKET – A proven investment plan for finding the best stocks and managing risk

THINK LIKE THE GREAT INVESTORS – Make better decisions and raise your investing to a new level





Members Website

Follow my thinking on my own investments, disclosure of my portfolio as I go, weekly market scans, weekly market charts and analysis plus many more articles about investing and analysis

I am one of the very few investors who publishes their investment results each year, which I have done since 2000 – see the Investment Returns page on the About Colin menu on the website