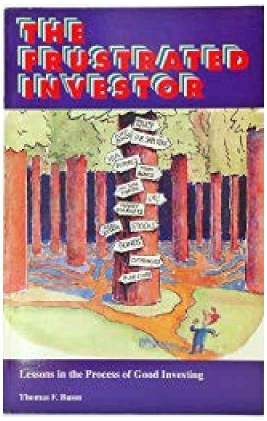
The Frustrated Investor



By Thomas F Basso

Some time ago at a Sydney meeting of the ATAA, I offered a number of books for sale that I no longer wanted. Among them was a book called *The Frustrated Investor*. I was selling this, not because I no longer wanted it, but because I had inadvertently ordered two copies of it. At the end of the night this book remained unsold, even though it was offered at a fraction of its cost.

Why would a book written by one of Jack Schwager's *New Market Wizards* remain unsold, when books by authors of much lower reputation were snapped up? Was it because no one wanted to admit they were a frustrated investor? Was it because it was only 86 pages and nothing that short could be valuable? Who knows!

Perhaps it is because few of our members have progressed to Van Tharp's third stage of development of a trader? I refer here to an article in the September 1998 issue of *Technical Analysis of Stocks and Commodities* magazine in which Van described the three stages:

Stage One Look for a guru to give hot tips

Stage Two Look for a perfect system

Stage Three Those that become successful traders look inside themselves when they realise that great trading performance comes from within

Tom Basso's little book is about the attitudes you need to reach stage three.

I have just read the book again and marvel at the important insights it contains. I thought I would share some of them with you:

Requirements for success

Successful investors need three things: A strategy to get in and out, money management rules to preserve capital and a good understanding of themselves, such that their plan suits them.

What is LEAST important: Developing a strategy to enter and exit investments.

On understanding yourself

Rehearse how you will react to various scenarios. Comfort has to do with being balanced.

On being more successful

Your self-worth should be separated from your net worth.

Beliefs

Everyone's universe exists through their beliefs.

Who's to blame?

Almost everything that happens to you is due to a decision you made or the way you reacted to something. You should ask how you will get out if your decision to invest is wrong i.e. take responsibility. Doing this before you enter your investment removes much of the emotion.

Taxes

It is not healthy to worry about tax to the extent that safety, liquidity or common sense is affected. Remember governments change the rules all the time. In focusing on the reward, remember the risk as well.

Need for a balanced state of mind

Mental approach distinguishes successful investors. You can change your mental state to a less emotional one. One approach is to imagine you are watching yourself in a movie. Another is not to make decisions while the market is open.

It is OK to lose

Profits and losses are neither good nor bad in themselves. They are both just part of the investing process. Try to visualise what will happen and rehearse your reactions.

Chasing the hot stock or fund

Look for other opportunities that are being ignored. The best ideas are boring and not interesting to most investors.

Achieving your comfort level

Your level of psychological pressure you impose on yourself is varied by changing the exposure to a position. Develop an "I can live with it" level of diversification.

Other people's opinion

Most of us ask the opinion of others when we are looking to justify our own. To hear a contrary opinion is most valuable, but least sought. When seeking another's opinion, ask them what would cause them to change their view. You must know when they would get out.

If you would like to buy the book, it is too late to get it from me; I gave my second copy to someone who I thought would value it. The book has also been published as "Panic Proof Investing" by Wiley ISBN 0-471-03024-4.