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## **Portfolio Management**

Investing is as much about psychology as it is about numbers and economics. Most people have trouble controlling their emotions and this drives them to make poor investment decisions. Even if you are able to master those emotions it is important to understand that the market often moves based on human emotions. Markets are traded by humans, thus the results are an expression of our nature to be fearful and greedy. Identifying when the market is fearful and when it is greedy can be difficult, but it is crucial in your endeavor to be an above average investor. There is a saying in the market, "short term the market is emotional, but long term it is rational."

Understanding that quote and knowing how it is used to be a better investor are two very different things. Fundamentals play out over the long run as the rationale of higher earnings, strong growth and steady cash flows will be bought by rational people who see value. In the near term however the psychology of mini panics and manias on a daily basis drive prices through wild swings that last days, weeks and months. Understanding the psychology of how markets ebb and flow can keep you out of a bad trade and into a profitable one. It can also keep you in a trade that you otherwise would be panicked out of. The way you read the markets is via technical analysis of the charts which often reflects the investor's fear and greed.

This is why the two tools investors must master are fundamental and technical analysis. One without the other is like having a car with no gas, you aren't going to get far. While Warren Buffett says he only uses fundamental analysis, he does use a form of technical analysis which is reading market sentiment. He knows when people are scared he should be picking up shares, but he always looks for those long term great value investments. While that is something you should do as well, finding and investing near the end of market pullbacks can leave you holding handsome profits when fear turns to greed and other investors become overly bullish.