This book will help readers better understand their investment personality through an entertaining story. Investment results are not just based on logic, but based on emotion. This book will help investors balance both the right and left brain for better results.

INVESTING FROM WITHIN: A Story of Understanding

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INVESTING FROM WITHIN

A Story of Understanding

Ken Mahoney

JOE

From the time we’re in elementary school, we are conditioned to associate numbers with logic. Psychologists speak about the two sides of the brain, the left side having to do with math and logic, and the right side housing creativity and emotion. Many believe that these two sides are exclusive of each other. However, when we think about money, we are overcome with emotion. For example, how would you react if you won $100 million in a lottery? Your smile would probably not leave your face until the morning after your celebration. The stock market has the same effect on how we think, and our emotions have an even larger impact on the stock market. Let’s take a look at Joe, who makes the same folly most of us do.

"Joseph Reinbaum's here to see you," Noreen said.

"Send him right in," I stated, as I put Lydia's file away.

Joseph opened the door, and said, "How are you?" His walk was somewhat stiff and robotic.

"Hey Joe, how are you today?" I asked, shaking his hand

"I'm good," he replied flatly, shaking my hand in a limp manner.

"Great, how's the family doing?" I asked.

"Good, Frank just got home from school last week; he's working for the summer."

"Oh, very nice," I said. "Where?"

"Amery's," he said. "He's been a waiter for the past two years, he comes home on breaks."

"Yeah, I remember doing that in college, there was this resort people would come to on vacations, I used to make a lot of tips doing that," I reminisced.

"Yes," he agreed. "It's a great way to make money."

"Since we're on the topic of money, I know that you had an investment in Cabo," I said, pulling out his folder. "You heard about the new CEO?"

"Mm-hmm," Joseph nodded his head. "It was in the business section the past two weeks."

"Yeah, it's been all over, I hear Northern's done some great work for the Cancer Society."

"Mm-hmmm," Joseph said.

"You must be pretty happy; stocks have been going up like crazy since he came on board."

"Not really," he responded flatly.

"Hmm, why's that?" I inquired.

"Because I sold my stocks after Jonathan O'Connor resigned," he responded.

"Hmmm," I said, resting my chin between my right thumb and forefinger. I paused for a few seconds before asking, "What prompted that decision?"

"Well, the stocks were going down after O'Connor left, and I assumed that I was going to lose money."

"So then how did you react after Northern became the new CEO?"

"Well, obviously, I tried to buy my stock back when it started going up again," he said.

"Did you lose any money on that deal?" I asked.

"Yes, I had to pay $500 more than I had gotten back for the stocks," Joe frowned.

"Okay, now what do you think you could have done differently?"

"Well, the only other option I can think of is that I shouldn't have sold the Cabo stock," Joe said.

"Okay, that's a good start," I said. "But do you think it was that made you want to sell the Cabo stock?"

"Well, the stocks were down, so logically, it would have made sense to sell the stock," Joe responded calmly.

"So do you think that stocks are based on logic?" I asked.

"Well, I'm an engineer, I'm trained to think in terms of logic," Joe responded. "That's what numbers are."

"You know, it's interesting that you say that," I said. "Because I have a story about a guy I used to work with."

"Okay," he said, leaning back in his seat.

"Well, he was a lot like you, he was studying to be an engineer, and he was really into numbers and facts."

"Uh-huh?" Joe responded.

"Well, he was a manager at the retail outlet where I worked, and he began to panic one day because the numbers didn't match up."

"What kind of numbers?" Joe asked.

"Well, every day, the people from the corporation would give us sales goals they'd want us to meet that day, as well as what they called IPCs, or Items per Customer. One day, when it was just he and I on shift, at the end of the day, we were about $150 short of our sales goal, and our goal for IPCs was 2.2 and our real IPC was just a little below that, I don't remember the exact number. But we were just a little bit short, and he was panicking about what the store manager and the district manager might say when they found out we didn't meet the goal."

"How was he panicking?" Joe inquired.

"Well, he was going ballistic, yelling 'Oh, Tony's going to kill me and why didn't we meet our sales goal?'

"And he wasn't the store manager?" Joe asked.

"No, he was just a floor supervisor; he was just responsible for what happened during our shift."

"Was there anything he could've done to make it so that you would've met those sales goals?" he asked.

"Not really," I said. "Because I remember it was just the two of us on staff that day, and we were running around like crazy trying to help as many customers as possible. I don't even think either of us took a lunch break that day."

"And he was still disappointed?" he asked.

"Yes," I stated. "All he was concerned about was the numbers that we had to meet that day. He didn't take into account that there were other factors that, just maybe, were more important than the numbers. There was the fact that we provided the best possible customer service given the fact that there were only two of us on shift trying to serve a ludicrous amount of customers at one time. The truth was that no matter how focused he was on numbers, he was using emotion that day, and so were you when you decided to get rid of the Cabo stock."

"Really," Joe said, taken aback.

"Oh yes," I explained. "See, when you found out Peters resigned and the stock was going down, you had a reaction. Your reaction was that you were going to lose money."

"Mm-hmm," Joe said, nodding his head in agreement.

"Would it be reasonable to say that you were *afraid* that you were going to lose money?" I asked.

"I would say so, but that's because the numbers said so, what does that have to do with emotion?" Joe asked with a somewhat impatient tone in his voice.

"Well, being afraid is a feeling," I said. "And feelings are the same as emotions. Hence, your reaction was based not purely on numbers, but on emotion."

"But I'm not really an emotional person," Joe said.

"You may think that, but the fact is that we're an emotional species. My manager at the luggage store was very into numbers, just like you, but that day he reacted the way he did at the store, he was also using that emotion called fear. He was afraid of what our district manager might do to him when he found out that the store had missed its sales goal for that day."

"But that doesn't really make sense to me," Joe said. "If he was just a supervisor, then why would the district manager even bother with him? Wouldn't he just talk to the store manager? And there's also the factor that you guys were really busy, like you just said."

"You just proved my point," I said. "You just stated that my manager's problem wasn't based in logic. Those extraneous factors you just mentioned were a result of his emotion called fear, which was why he reacted the way he did."

"Hmm, that's interesting," Joe said.

"I'll give you another example," I said. "What about when your stocks go up? What is your immediate reaction?"

"Well, I feel happy," he responded in a "that's common sense".

"And why do you feel happy?" I asked.

"Because my stocks have gone up," he responded.

"Which means you have more what?" I asked.

"More money," Joe said, somewhat surprised at my question.

"And in your current situation, name me one thing you can do with more money."

"Well, I could probably finish paying off my car," Joe said.

"Okay, good," I said. "And how would you feel if you paid off your car?"

"Well I would probably feel a real sense of relief, as I wouldn't have to make those payments every month," he said.

"So you feel a sense of relief," I said.

"That's right," he responded.

"I don't know about you, when I feel a sense of relief; I take a nice deep breath and go 'Ahhhhh.'

"Yeah, I do that too," Joe laughed.

"Okay then, so let me ask you something: When a stock goes up, what do you think is the smartest thing to do?"

"Probably buy the stock," Joe responded.

"Why?"

"Because it's more valuable when it goes up."

"Okay," I responded. "Fair enough. So then how would you best describe your reaction when you hear something that might suggest that a company's stock will go up?"

"Well, I get excited because there's an opportunity for me to make money," he said.

"I'm going to tell you about an approach to investing that's gonna seem ridiculously stupid to you, but at the same time, if you look at it the right way, seems like common sense. It's known as the contrarian approach. Basically, it states that you should buy when the stock is going down, and that you should sell when the stock goes up."

"But that doesn't make sense to me," Joe responded.

"Of course if doesn't," I said, as I walked over to the other end of my office to grab my whiteboard.

"But, let's say I had an umbrella stand. And I sold the umbrellas for $10 a piece," as I wrote "$10" on the chalkboard.

"On a nice day, nobody buys them. But, let's say that one day it rains. On that day, I decide to raise the price to $15," as I wrote "$15" on my whiteboard.

"Because, you see, now that it's raining, umbrellas are that much more valuable, because more people need them. Now would you rather pay the $10 or the $15 for the same item that will perform the same function?"

"Well, I'd rather pay the $10," Joe responded.

"Exactly," I said. "But, if you didn't have an umbrella, do you think that you might have waited until it started raining before it even occurred to you to buy one?"

"I probably would have," Joe stated.

"It's the same thing when it comes to stocks," I explained. "Most people don't buy stocks unless everybody else is about to do so. When you buy the umbrella on a rainy day, you're buying it at a time when it is most needed. Likewise, when you buy a stock while it's going up, you're buying it at the time when it is supposedly "best" to do so. However, you just said that it is best to buy the umbrella when it's not raining, because nobody else needs it, and hence, you'll get it at a cheaper price. So when do you think the best time to buy a stock is?" (There is an old Wall St. adage that states; anticipate the anticipation of others).

"When it's down," Joe said.

"Why?" I asked.

"Because nobody else is, and it's cheaper to buy when it's down," Joe responded with a smile.

"Exactly," I said. "Because people feel that sense of urgency when the stock is going up, and they feel that need to make money when everybody else is."

"You know, this is true," he said. "Because whenever everybody else is doing something, I always feel the need to do what they're doing because I need to belong sometimes."

"Exactly," I said. "We all feel that way once in a while. But by doing the opposite of what everybody else is doing, we can make money. Because if you buy when everyone else is selling, you buy when the price is what?"

"Low," Joe responded.

"And when everybody is buying?" I prompted.

"The price is high," Joe said.

"So you should…?"

"Sell," Joe responded.

"Why?"

"I'll make more money if I sell while everybody's buying because the price is going up."

"Exactly," I said.

"So do you see now how your own emotions have a great deal to do with investing?" I asked.

"Yes, thank you," Joe replied sincerely.

"I'm going to take a guess here," I said. "But I imagine you keep up with the news a lot."

"Yes, I do," Joe said.

"Yeah, now you've probably noticed how it seems as if the news is all bad," I said.

Joe paused for a minute to think. “Actually, you make a lot of sense now that I think about it,” he said.

“Yeah, you’ll notice how jobs always seem to be scarce, and there always seems to be some kind of war or other kind of social turmoil going on in the world. And it’s human nature to become nervous whenever it seems like there’s trouble, which is why a lot of investors become scared. Any sign of a stock going down can cause even the best investors to second-guess themselves. But, in the long run, however, the best just don’t stress out so much about the bad things. And recognizing your own emotions in investing is the first step to not letting those negative things get to you.”

“But it’s really hard not to with all these news stories we hear about companies going under. We never hear about good things that happen in the business world.”

“That’s interesting that you say that, Joe,” I said. “Because the news is a pretty major influence on how people invest, and most of the time, these reporters tend to focus on bad news because it gets people’s attention much faster than some good-news, “fluff” piece. That means ratings, and that means money for the station.

“Hmmm, that’s true,” Joe said.

“I’ll give you an example,” I continued. “Take these stock gurus for instance.”

“Okay.”

“A lot of these gurus often appear on television to announce THE stock in which to invest. An old colleague of mine told me that some of these gurus can get you in at the bottom of the market, and others can get you out at the top. Unfortunately, they’re never the same people.”

"I'm not sure that I follow," Joe replied.

"Okay," I said. "What it means that some so-called "experts" always say "Buy, buy, and buy, no matter what it's like in the market". They see everything as a buying opportunity, and will always come up with a reason as to why you should buy. Others are always saying "Sell, sell, sell!" They always think that the market's going down, and if you sell now, you'll save yourself. This is how they get people's attention."

"Wow, that doesn't seem like a good way to advise people," Joe said.

"You're certainly right about that," I replied. "And a lot of these gurus, they've been trying to find magic formulas to remove that whole element of uncertainty from investing. But as long as things keep happening in the world, their searches will be fruitless. The economy moves in cycles, and uncertainty is just part of it. In the past century alone, we've seen a global depression, two World Wars, countless assassinations, terrorist strikes, genocide, starvation, and countless other things I could probably spend a whole day talking about here. Now I'm not entirely sure of the statistic, but despite all this, $1,000 invested in 1925 still compounds to a value of over a MILLION today."

"Is this an average?" Joe asked.

"Again, I'm not sure, I don't have the statistic, but I'd be more happy than look it up for you," I asked, praying he would say I didn't have to.

"Nah, that's okay," he said.

I thought to myself, *Thank you, Lord*.

"Now you're much attuned to what goes on in the investing world, and that's a very good thing. But those of us who are, we tend to over plan and overanalyze everything that goes on, especially when it comes to our own investments. We focus in such great detail on each situation that we forget the big picture, and that can be really dangerous, because things change so quickly in the financial world: interest rates and stock prices can soar or plummet at the drop of a hat. So, if you're just standing by analyzing everything, good things are going to pass you by before you even notice and are able to make a decision."

"That really makes sense now that you put it that point," Joe said, nodding his head sincerely. "I can't believe I never thought of that before."

"Well, you didn't know," I reassured him. "But all learning is a process. You went through a learning process in order to become an engineer, right?"

"A very long one, yes," Joe said.

"Learning how to become a better investor is the same thing," I replied. "A process. As part of this process, I have a little homework assignment for you. Over the next week, when you look at your investment, I want you to catalogue every time you feel positive feelings about your stock, and I want you to catalogue each time you have negative feelings about it. By this, I mean if you see your stock going up and you're happy about that, I want you to consciously take note of it and I want you to write it down. Conversely, if you see it going down and you're upset, I want you to write that down as well. And I want you to write it down before you decide to make any decisions related to your investment. And come back to me next week with your list."

"Okay," Joe said. "I think that'll be very helpful."

"That's a great attitude to start with," I said. "Keep it up, and I'll see you next week."

"Thank you very much, Doctor," Joe said, shaking my hand.

"Have a good week, Joe."

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