

How to Make more Money? Stop being greedy!

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By D.K.

Stop being greedy and you Will make more money. I found this out the hard way. The human greediness borders stupidity.

We're so greedy that we actually do not enjoy making money. That's a revelatory finding and one that finally explains why too many investors trade far too frequently:

We enjoy the hunt more than the rewards.

Investing is rewards, right?

That's backwards, of course. Investing, if you're doing it right, should be all about turning thousands into millions. That can be as easy as buying an index fund, or it can be done more quickly by picking individual stocks that beat the market.

The key to both of these strategies, however, is patience. There is a reason why someone have said "Patience is a Virtue". If you buy an index fund and earn the market's historical 10% annual rate of return, it will take almost 50 years for \$10,000 to turn into \$1 million. If you do better than 10%, you can turn \$10,000 into \$1 million much faster -- but your time will still be measured in decades.

That's far too long for the brain. Moreover, because our minds have evolved to get more joy out of anticipation of results than satisfaction from actual results, investors are always ready and willing to chase "the next big thing."

Science explains observation

While Zweig has finally explained the brain science that backs up this conclusion (and do check out his book), academics and investors alike have observed its effects forever. For example, as money manager Ron Muhlenkamp noted, "For most people, 'The Game of the Stock Market' is a distraction that prevents them from making money in 'The Business of Investing.'"

Couple that observation with the rapid trading patterns Berkeley finance professor Terrance Odean found in his study of retail investors and you can see why I recently advised that perhaps you shouldn't sell.

See, if we're programmed to enjoy anticipating rewards more than actual rewards, then our favorite part of investing is the transacting (hence that sense of excitement you get when you click "buy" for a new stock). While that strategy will get you a big tax and trading bill, it won't get you big returns.

Don't fall for it

Instead, consider making a list of businesses you admire, understand, and would be confident owning for the next decade or more. (Seriously, jot them down on paper or in an electronic file.) Then, set about valuing those great companies.

It will take some time, but when you have a file full of fantastic companies with estimates of their value, you'll have a firm handle on the stocks you want to buy and at what price.

Your brain is going to make this hard for you

Of course, while you set about making your list, you're going to worry about all of the gains you're missing out on in the market. Then, as you wait for the stocks you want to buy to hit the price you're willing to pay, you're going to want to make a move sooner. You may find yourself revising your valuations upward so you can justify buying a stock.

Most importantly, when you do buy a great stock, don't be greedy, be patient, and money will come your way.