



Brainy's Articles on Share Trading**

Psychology and emotions

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is NOT free*

Introduction

When it comes to share market investing or trading, there are a whole lot of complex emotions and psychological factors that can come into play. Some of the emotions are rather obvious — sweaty palms, nervousness, or questions like “am I doing the right thing?”.

But these obvious manifestations are only scratching the surface of the topic.

Many investors and traders do not realise the extent nor complexity of the emotions, nor the possible impact. Many of the possible underlying emotions, or psychological influences, are subconscious. That is, we don't really know that they are there. They tend to be automatic, based on our existing opinions, and values.

This article in Brainy's series on Share Trading and Investing (number ST-2120), introduces the rather complex topic of psychology and emotions in the market, and attempts to put some light onto the subject to help the aspiring investor or trader to be more in control.

If we can be more aware of the emotions and psychological traits that can affect our everyday lives, our feelings and behaviours, and our trading and investing, then we can be more in control of them, and take steps to overcome them. As a result we can be better at what we do.

Tools and structure

Some of the tools and methods that we can employ to help counter the emotions are the methodical and structured Trading Plan and Trading Strategy tools, as well as proper Money Management and Risk Management methods. These topics are covered in other Articles in this series.

To be in control of all this we do need to put some structure around our activities.

Discipline

Self-discipline will also help along the pathway to success in the market. For example, being well-disciplined means that a proven, back-tested and documented trading strategy must be followed to the letter. That is, if the market signal according to our strategy says to buy, then we must buy; and if the signal says to sell, then we must sell. This mechanical process can help to remove a lot of the emotions from our activities.

Emotions — fear, greed, hope

It is often said that the two basic emotions of fear and greed drive the share market. But some commentators, including W.D.Gann, include a third emotion — hope.

Many new investors/traders enter markets with the hope of significant gains, then too often get greedy in expecting ever increasing profits, and finally liquidate in fear when all is turning against them.

Biases

In the broad field of psychology, there are many different types of “bias” that can impact on our feelings, our emotions, our decision making, and our actions. Within the trading and investing environment these biases can play a lot of havoc with our activities and our performance.

One aspect of psychology and emotions that is related to trading/investing is that of the broad range of biases. Without even thinking about it, we often automatically, or subconsciously, make decisions based on some in-built and automatic reasoning process.

In terms of pure psychology there is a long list of biases that can affect us in everyday living¹.

When it comes to investing and trading, the long list of biases is whittled down somewhat, but there are still a number of them that are very relevant. If we can be aware of these, then we can be in a

1 “Brain Biases & News” web site — <http://www.brainbiases.com/>

** - The two words *trading* and *investing* are often used somewhat interchangeably.