



# Brainy's Articles on Share Trading\*\*

## Psychology and emotions

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### Introduction

This is not obvious to those who are new to the financial markets; but the emotions, and the underlying psychology, of the market participants does affect both the markets, and our own investing decisions and behaviours. The results are similar but different, so it makes it difficult to explain. But let's try anyway.

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 markets, and attempts to shed 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 the adverse affects and be more in control of them. As a result, we can be better at what we do.

And if we can understand more about the general behaviours and reasoning of the market participants at large, we can better understand why the markets behave as they do.

### Our own emotions

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 on their actions. 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.

### Emotions in the markets

People participate in the financial markets of the world for a variety of reasons. Some do it only for the profit, and some because they enjoy it. Some people see it as a job, and it's what they do to earn a living, while some people do it because they need the proceeds as an income source.

When a company's share price rockets upward, or dives downward, it is because enough of the market participants have a strong enough view of the stock, or of the market generally, to cause the share price to move. And other market participants can easily get swept up in the general euphoria or the disappointment of the markets. When this happens, plain logic and reasoning can go straight out the window.

### Emotions and biases — overview

Let's briefly introduce the various emotions, and biases, that come into play, and then discuss them in more detail below.

### 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

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

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