

## Remove emotion

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**C2** Joel Attis

300- and 400-point ups and downs in the markets can be stressful to some, but the wise and unemotional investor knows that he or she can still make money using a very easy and time-tested investment strategy.

Dollar-cost averaging entails investing a consistent amount of money each month in a specific investment (or investment portfolio) regardless of market volatility. Using this systematic, disciplined approach to investing has been statistically proven to provide considerably enhanced returns as compared to the typical investor, who irregularly invests lump sums.

Why does this strategy work? Essentially, it forces investors to buy low, sell high. Though buying low and selling high is a fundamental investment strategy, many investors simply do not have the investment discipline to invest when the market is in free-fall, or sell when the market is reaching for the stars.

According to Dalbar's 2007 Quantitative Analysis of Investor Behaviour, a typical investor (one who bought and sold different holdings at different times based on short-term fluctuations) who put \$10,000 into an equity fund between January, 1987, and December, 2006, would have seen the value of their investment rise to approximately \$23,252.

On the other hand, someone using dollar-cost averaging would have earned \$32,877 over the same time period, according to Dalbar.

The advantage of this investment strategy is predicated on the basis that investors can buy more units when prices are low, and fewer units when prices are high.

Still, the fact of the matter is that by far most investors buy and sell on emotion. When there is a big run-up in the market, everyone wants to buy-in (referred to as following the herd, or the "herd mentality"). When the market is on a tear, investors should be looking at selling, not buying.

Then when the market starts dropping, people want to sell -- again the exact opposite to what they should be doing. When prices are discounted (i.e. market values in decline), it's time to buy, not sell.

I have often quoted Warren Buffet on this fundamental investment principle. He is, after all, widely regarded as the world's greatest investor. In his words: "I'm greedy when others are fearful, and I'm fearful when others are greedy." Translation: Buy low, sell high.

Put another way, and again I often help my clients to have a better grasp of how to deal with a falling market in this fashion. . . I ask my clients what they would do if the housing market in Moncton declined by 20 per cent in one year. "Would you rush out to sell?" I ask. "No", they wisely exclaim. "I would wait for the market to recover before I'd suffer a loss like that." I say: "Bravo, that's precisely how to act when the stock market tumbles".

To not subscribe to this philosophy places severe limitations on an investor's ability to make solid returns. This is so because investors typically buy and sell at the wrong time based on emotion. They are buying and selling based on what the market is doing, and, as much as many investors would like to argue otherwise, no one can predict what the market will do. Fortunes have been lost by those who have tried.

Bottom line, the best time to be investing is when the market is dropping. Why is this so hard to do? Because it goes against common sense and emotion. Thus, on the eighth day God created financial advisors to steer you through the emotional haze and investment maze of financial and investment principles.

Joel Attis is a Financial Consultant with AttisCorp Financial Group, Inc. in Moncton. Comments or questions may be submitted to [joel@attiscorp.com](mailto:joel@attiscorp.com), or he may be reached at 855-1155.

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