

# Dealing with Losses

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While we would all prefer to only make profitable investments and speculations, losses are an integral and unavoidable part of activity in financial markets. This is because all investing involves assuming risk because the outcome is uncertain. If the outcome of any one investment was certain, then there would be nobody on the other side of our proposed transaction and the market would cease operating in that security.

This means that a realistic approach to investment is to put aside the futile search for the perfect method that always makes profits and look to the best way to deal with losses. In other words, the healthiest approach is to look for opportunity in every poor outcome. A good model for this is what top athletes and business leaders do with failure and which makes them the top performers in their field.

In an article headed *How Champions Bounce Back from Bitter Defeat* in The Australian Financial Review on December 3 2010, Jill Margo looked at how athletes handle defeat. Margo quoted sports psychologist Jeff Bond in outlining the two key steps, which apply totally to investment and speculation losses:

1. Accept total responsibility for the investment or speculation decision that lead to the loss. The key issue here is to look at what we did or did not do that led to the loss. It is a conscious rejection of the human tendency to avoid examining our role in the loss by simply blaming external influences. This includes the common excuse almost everyone uses: It was just plain bad luck. Either that or they blame the government, the banks, the institutions, the system and so on. There is always someone to blame, but that is just a process of protecting our self-image. Instead, we should not have our self-image on the line here. We should be looking objectively at our own role in the losses and focussing on that. This leads to step two.
2. Having put ourselves in the right frame in step one, we will have opened up the path to improvement in our investing performance. We do this by making a coldly objective assessment of every aspect of what we did in the decisions behind the transactions that led to the loss. I am here looking at what the top people do and that is to have a structured formal assessment of my actions in the investment or speculation compared to my plan. I have now developed an assessment template which readers of my stock investment journals can read on my members website.

Of course, this is a work-in-progress and I will continue improving it as I go along. It is also designed around my investment plan. Since readers are different people, their investment or speculation plans should of necessity be different to mine, however, I hope my template is useful as a model for designing their own template.

In conclusion, the key is to take responsibility for decisions, evaluate them and then plan how to move forward, setting a clear plan for what to work on.

## To read more of my work

### Previous Articles

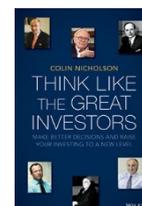
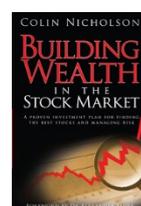
All my previous articles for the free website are now on the *Educational Articles* page on the Free Resources menu. They are now listed alphabetically by title with a brief description of their contents.

### Books

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*I am one of the very few investors who publishes their investment results each year, which I have done since 2000 – see the Investment Returns page on the About Colin menu on the website*