

# Investing and Reality

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Good investors have one very important trait, which is often absent in unsuccessful investors. This is their ability to see reality more accurately.

Reality is a difficult thing to identify, because we all interpret the world through the prism of our own brain. Therefore what we see, hear and feel is interpreted in terms of our own existing attitudes and beliefs. So, we all see the world differently, even if we can agree on certain broad observations. Indeed no one can claim to see reality perfectly, because no one sees it without some bias.

The problem comes in where some investors see the reality of the markets in useful ways that are generally agreed by other successful investors. On the other hand, some investors see the reality of the markets in ways that are not useful and can be generally agreed to be at some distance from the way good investors see the reality of the markets.

One aspect of this is simply lack of knowledge. An educated person is almost always a more effective operator in any profession than an untrained person. In general terms, the more qualifications achieved by a professional, the higher their level of performance. Investing is a profession and the rules are no different, even though many seem to think they can read one book or attend one seminar and they are ready to invest. To be a good investor, we should never stop learning - reading books, doing courses and seminars.

Another aspect is common mind traps. There are all sorts of ways in which we think intuitively, that are the exact opposite of the way we should think about the markets.

Finally, most beginners see the markets the way they would like them to be instead of the way they are. We see this process encouraged by the less scrupulous promoters of software, who advertise regularly. Investing is a difficult way to make a living and anyone who tells you that it is easy is telling you what you want to hear, in order to sell you something, instead of telling you the way it is. It is not a simple matter of following some simple process. If it were that easy, many of us would be living in the south of France! Investing can be learned, but it is not easy and takes time. Many good investors have told me it took them 5 to 10 years to become good at it (about the same time it takes most professionals to undertake their qualifications and gain basic practical experience).

There are some ways we can work toward a better perception of reality, in addition to educating ourselves:

Firstly, we can try to see the world through the eyes of a child. This is something I picked up from Dr Alexander Elder. Children see things very simply. They see the essentials, without all the extra baggage that we adults carry around in our minds. The essence of good decision making is to simplify the picture so the key issues are clear. Then test the facts against them. It helps if we have first of all developed a clear concept of how the markets work and a sound investing plan that spells out key decision rules.

Secondly, we can try to develop a technique that I have found to be very useful in investing. Investing is all about managing yourself, the way you think and the way you make decisions. It is

possible to gradually develop an ability to see yourself investing, as though you were another person standing in the corner of the room watching you. This is very confronting for many people, because we all tend to protect ourselves psychologically through all sorts of mechanisms. It can be helpful if you can seek a mentor who may be able to bring some of these points out for you in a non-threatening way.

Finally, it is most important that we do not invest when we are off balance psychologically. There are many times when events in our life outside investing upset us, distract us or lower our performance in various ways. These things must be addressed before we try to invest. Try to recognise when you are less than fully effective for these reasons and avoid investing until they are resolved. Remember also to retain physical fitness.

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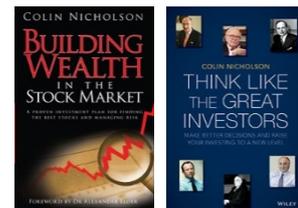
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