DOWNLOAD PDF INVESTING AND THE IRRATIONAL MIND

Chapter 1 : Book Review of Investing and the Irrational Mind by Robert Koppel | Journeys of a Bumbling Tr

Investing and the Irrational Mind is a must-read for both the professional and nonprofessional investor."--Robin Mesch, President, Mesch Capital Management.

Subscribe Now Join over 30, other Vintage Value investors today! The field of behavioral finance was validated when the Nobel Memorial Prize in Economics was awarded to psychologist Daniel Kahneman and experimental economist Vernon Smith. Behavioral finance observes and attempts to explain seemingly irrational behavior and predictable errors made by investors. An old Wall Street saying goes: Two factors move the market, greed and fear. Greed drives the market upwards, and fear moves the market downwards. Intuitively, we all know to buy low and sell high, but we often do the opposite in practice. In hindsight, it would have been the best time to buy but many investors were still selling. From their perspective, the market had been declining for more than a year and seemed to do so more and more rapidly. Fear was so overwhelming that even into , individual investors were not buying stocks like they used to. During times of economic turmoil, psychological biases of institutional investors are also exposed. They tend to become too reliant on their elaborate financial models, which lead to overconfidence an issue that we will discuss later and consequently excessive risk taking. In the case of the subprime mortgage crisis, many financial institutions would not realize that they had over leveraged themselves until it was too late. Even the rational side of the brain yields consistent and predictable cognitive errors. Prospect theory , developed by by Daniel Kahneman and Amos Tversky , helps explain why these cognitive errors occur: The function is concave for gains, convex for losses, and steeper for losses than for gains. Thirdly, investors view each investment as an individual account instead of seeing all their investments as a whole. Another approach to investment psychology is to categorize behavioral biases by source: Here are 8 sources of irrational investment behavior, as discovered by various behaviorists: Overconfidence Overconfidence can lead investors to excessive trading and risk taking. There are two aspects of overconfidence: Miscalibration means being ignorant of some of the likely outcomes. Since people tend to believe that success is attributed to skill and failure is caused by bad luck, small successes in the market may cause investors to become overconfident. Pride and Regret People are likely to repeat actions that create pride and avoid those that create regret. Financial economists Hersh Shefrin and Meir Statman found that this behavior causes disposition effect, which is when investors sell winners too early and hold onto losers for too long. If an investor found out that a stock he had recently sold reached a new high, he would be less likely to consider his trade a success, even if he had made money from it. Furthermore, an investor is less likely to repurchase the same stock after experiencing regret from it, as shown in the study conducted by Odean, Barber and Strahilevitz. When they win money, they may experience the house-money effect and be more willing to take risks. When they lose money, they may experience the snakebite effect and become less willing to take a risk, or the trying-to-break-even effect and try to reverse losses. Endowment effect means that people are less likely to put their inheritance than their year-end bonus into high risk assets, even though they are the same amount of money. The status quo bias means that people may avoid taking action altogether when they feel overwhelmed by investment choices. Unlike a coin toss, the underlying distribution of outcomes of the financial markets is mostly unknown. People are prone to rely on their own limited observation and memory for predicting the future. When people think they know the likely outcomes and probabilities, they expect unusual occurrences to reverse. If not, then they expect unusual occurrences to continue. This is why some investors chase high performances from previous years. Framing How a question is framed can directly impact how people answer it. Since people tend to think of an investment as good or bad, they sometimes forget that riskier investments should have higher returns. Intuitive thinking comes so easily and naturally that people are often unaware of it, but it is precisely the type of thinking that investors should avoid. Mental Accounting Investors have a tendency to view each investment separately. Doing so risks failing to view an investment portfolio as a whole and missing out on opportunities like the tax swap. A tax swap is when an investor sells a losing stock and purchases a similar one, thereby capturing the capital loss from the losing stock to reduce taxes while staying invested. Another problem with mental accounting is the lack of diversification. Unlike the Modern Portfolio Theory, a behavioral portfolio resembles a pyramid with distinct layers of well defined investment goals. It ignores correlations between the assets and therefore fails to achieve diversification. Heuristic Simplification People use mental shortcuts called heuristics to quickly organize and process large amounts of information. This process is called heuristic simplification. Two examples are representativeness and familiarity. Representativeness bias causes people to assume good companies are good investments, and believe that past good performances will last into the future. Familiarity bias causes people to stay close to what they are familiar with. They judge familiar stocks with too much optimism and unfamiliar stocks with too much pessimism, leading to lack of diversification and false sense of risk. Our investment activities tend to be influenced by the media and other professional investors. The problem is, people sometimes react too quickly and commit mistakes when they lose sight of the long term. Emotions Price bubbles are not uncommon and are usually caused by two of the most basic human emotions: At its peak in , a single tulip bulb sold for more than 10 times the annual income of a skilled craftsman. The bubble burst much more quickly than it was formed. When people started to refuse to honor their transactions, the sentiment turned so quickly that the price plummeted to nothing almost overnight. Use risk management and diversification instead of a goal-based approach, and have a quantitative investment criteria instead of relying on emotions. Memory is often unreliable, so remember to keep a precise and accurate record. Perhaps it helps to write down a few rules of thumb where you can see them, such as: Or even better yet, read through the 3 books listed below. Forty years ago, Israeli psychologists Daniel Kahneman and Amos Tversky wrote a series of breathtakingly original studies undoing our assumptions about the decision-making process. Their papers showed the ways in which the human mind erred, systematically, when forced to make judgments in uncertain situations. Kahneman and Tversky are more responsible than anybody for the powerful trend to mistrust human intuition and defer to algorithms. This story about the workings of the human mind is explored through the personalities of two fascinating individuals so fundamentally different from each other that they seem unlikely friends or colleagues. Please see this link for further information on psychology and online therapy:

Chapter 2 : How I Use Mind Games to Beat My Irrational Investor Brain

Investing and the Irrational Mind has 38 ratings and 3 reviews. Sean said: There's some nice insights in this book but it does get repetitive and it spen.

Investing and the Irrational Mind Book Review: Investing and the Irrational Mind by jblankenship. This was an interesting book for me. Even though the majority of the discussion and analysis that Koppel brings forth deals with professional traders, the behavioral psychology applies to individual, non-professional investors as well. What is fragile should break early, while it is still small. Nothing should ever become too big to fail. There should be no socialization of losses and privatization of gains. People who were driving a school bus blindfolded and crashed it should never be given a new bus. Counterbalance complexity with simplicity. Do not give children sticks of dynamite, even if they come with a warning. Only Ponzi schemes should depend on confidence. Do not give an addict more drugs if he has withdrawal pains. Make an omelet with the broken eggs. The above list should give you some insight into this book. Koppel takes what he knows from his own personal experience former member of the Chicago Mercantile Exchange, hedge fund partner, and president of his own division at Rand Financial as well as discussions with dozens of other folks in the industry, and applies recent psychological findings to it. Through this application of psychological findings it becomes clear that there is a specific set of skills that leads to success in investing. Koppel infers that this set of skills is learnable â€" once you discover and assuage the negative patterns of thought and action that lead to failure. Some of these factors include: Koppel explains these factors and skills in terms not only of investing, but of sports, love, gambling, and many other facets of life â€" since the folks who have developed the skill set apply the skills to many areas. It just so happens that some of these successful folks are also investors for a living. Although I doubt if reading this particular book will remedy all psychological ills that the investor faces, it does help, in my opinion, to begin to put a face on the things that we do to ourselves that work against our success in investing. The above book review is part of a series of reviews that I am doing in an arrangement with McGraw-Hill Professional Publishing, where MH sends me books with the only requirement being that I read the book and write a review â€" like it or not. If you find the information in this review useful, let me and McGraw-Hill know! Share, tweet, print, email, like or pin this post:

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Chapter 3 : The 8 Sources of Irrational Investment Behavior â€“ Vintage Value Investing

Investing and the Irrational Mind gives you the tools for overcoming the self-destructive impulses that stand between you and profit. Behavioral finance expert Robert Koppel reveals why your brain sends certain negative messages during the investing process.

Koppel covers many interesting dilemmas and demons we all face as traders. The book is available for order on Amazon. There are a couple of key stand out points Yra makes that is germane to any style of successful trading and is worth reading a couple of times. First and foremost always remain true to your stops, you can always get back in. Yra is a thinking trader he takes a fundamental approach or has a reason to do a trade. Yra had the ability to look at the tombstones in the WSJ in the a. However understanding price action and letting the market tell you what to do is how I get around that. Trading is not a one size fits all occupation. There are many winning strategies. I predicate my work by meshing many tools that I have found to work over the past 35 years. Patterns and timing are key components for me. We have three key similarities which are required for any sustainable success in trading. We both defer to technical analysis for risk management trade location and stick to our stops. We both follow the money something I learned from him which gives you an idea of the expected capitol flows between instruments. Are the correlations breaking down? I do a great amount of fundamental analysis and then overlay it with technicals to measure the best entry point for the lowest amount of risk. The problem becomes when to exit a trade that has been right from the start. The discipline of loss taking has never been a problem for me, but the adding to a winner has always been my weakness. When I am in a period of losing trades, I recheck my analysis to see where I have missed something. I am a big believer in global money flows, so if the market is at a turning point, I know I need to recalibrate my thinking. The markets are dynamic in nature, and the underlying themes are always in flux; therefore I need to be ever adjusting. A serious setback has never bothered me as long as I stayed disciplined to my initial risk levels and did not pull my stops. Had I hesitated, it might have been a major blow to my capital base and caused me to rethink my life in this business. Even after preparing daily and being patient to wait for my levels of entry, the trade still may not be right. As I teach new traders, you have to park your ego and let the market determine if you are correct. Most people in the world cannot admit to being wrong. I have to do it several times a day. For me it was sailing competitively. The concentration required to pick wind shifts, anticipate, react, and plan strategy was a total meditation that released my mind from all other thoughts. This allowed me to go back to trading with a fresh, uncluttered mind. After all, trading is just another competition. Winning is contagious, and the repetitive discipline to keep doing the right things begets more winning over time.

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Chapter 4 : Investing and the Irrational Mind |

with "Investing and the Irrational Mind", Bob Koppel has written a book that marries "tried and true" principles of sound investing and trading with the latest findings in the fascinating fields of behavioral economics and neuroeconomics.

The most interesting part was that study that showed that making money releases the same endorphins in your brain as falling in love does. Aug 22, InvestingByTheBooks. Robert Koppel is a former commodities trader and hedge fund partner who has written several books on trading psychology. In this book he uses academic research within behavioural finance and neurofinance to back up his previously experience based conclusions. The purpose of the book is to help the reader t A system with a proven edge and good money management practices are necessary but not sufficient for someone to succeed in trading. The purpose of the book is to help the reader to break free from the psychological mechanisms that reinforce various investing fallacies. Awareness of psychological biases is not enough as it is very hard to imagine away reflexive mental processes. Knowing yourself does not guarantee that you can take that second step by yourself. Intuition, as the author presents it, is a sort of pattern matching process that enables an investor to quickly reach a course of action. Intuition is facilitated by mental models built by knowledge and long experience. The more complex and unclear a situation is the more valuable is intuition. Interestingly the solutions have sometimes been found to be triggered by physical cues back achesâ€¦. This presents a dilemma; our mind shows limited rationality and we are subject to lots of psychological fallacies and yet when we ignore the intuition of the seasoned investment professional, performance is shown to go down. How does one build a process that protects against biases, keeps a rational analysis in various situations and which also allows intuition to tip the scales? Koppel proposes that intuition is used to generate investment ideas and that research is used as a second step. The order probably depends on what investment style the investor uses in general. Theory of Mind ToM is the ability to recognize and understand the emotions and state of mind of other investors. With the ability comes the chance of predicting the action of other investors. This ability depends on both a strong awareness of oneself and of the market. In a market of constant adaptive change the investor who can read the emotions of others has a distinct advantage. This is a book that lacks a sense of direction. Just as a trader needs a system a book needs a structure. The text is too much a random selection of facts about behavioral finance mixed with a dose of trading smartness. Luckily, the facts are interesting and Koppel is well read.

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Chapter 5 : Book Review: Robert Koppel's 'Investing and the Irrational Mind' | Seeking Alpha

Gives you the tools for overcoming the self-destructive impulses that stand between you and profit. Koppel applies the latest advances in neuroeconomics and insights from top traders and provides a program for building the habits used by the world's most successful investors.

So I should be up on my investments. Weeeee positive Vanguard returns! If and when the market goes down, I have a moat for losses and still remain positive. Logically, I know this argument is garbage. My investments need to appreciate to maintain their purchasing power. Inflation is the hidden enemy of every person who has money. My IRAs are tax free Roth or tax deferred Rollover , but anything in a taxable brokerage account is subject to short term and long term capital gains. No one likes to pay taxes. I pay taxes just like I do a lot of things that are good for me but are not fun. Up or down, the historical return of the market is a well known entity and should be part of your plan. The stock market is volatile. These gains outweigh the inevitable losses and average out to the historic average return. We all have it. The historical average is around If you have an edge, the law of large numbers says you will win. Casinos work off this very principle and they do quite well as long as people keep going. It needs to be a legitimate edge. Not a rumor or some hot stock tip â€" those are bogus and you know it. The folks who win the lottery, they have an edge. My friend Colin was on a blackjack team that made a boatload of money because they had an edge and not teaches it at Blackjack Apprenticeship. Market timing does work â€¦ but not the way you think it does. These guys are operating at the nanosecond level and feasting on folks who think they have an edge. But scratch it responsibly. With the recent gains, your asset allocation is probably out of its initial allocations. The idea behind rebalancing is that your assets will move at different rates and sometimes in different directions. Those who made over that amount were more satisfied with almost every facet of their lives. Those who made less experienced more stress and less happiness. Above that, an increase in income did not appear to impact overall satisfaction. For many of us, money is like air. Ask yourself this â€" would work for an hour and let the salary be determined by a coin flip? Or you work and I pay you a fair wage without games. Now leave your investments aloneâ€¦ or rebalance if you really want to scratch that itch.

Chapter 6 : INVESTING AND THE IRRATIONAL MIND (è±†ç“£)

Investing and the Irrational Mind is a must-read for both the professional and nonprofessional investor." --Robin Mesch, President, Mesch Capital Management "If there is truth to the Yiddish proverb that 'man plans and God laughs,' read Investing and the Irrational Mind to gain an essential understanding of what to do with your stocks and bonds.

Brodsky, Chairman and CEO, Chicago Board recommendations Exchange "Koppel deals pioneering insights, sponsored through large examine, that aid clarify how psychology impacts monetary judgements and drives markets. Investing and the Irrational Mind is a must-read for either the pro and nonprofessional investor. Koppel exhibits the hazards of our personal habit-driven habit, biases, and heuristics and the way they lead us to violate our personal funding axioms. Bob Koppel has written a desirable, pleasing, and entire exam of this multifaceted zone of inquiry. Thomas Shanks, President and CEO, Hawksbill Capital Management About the Book Most traders are pushed by means of greed and panicked through worry, that is why such a lot of lose lots in the course of industry upheavals. What separates the winners from the losers? Investing and the Irrational Mind can provide the instruments for overcoming the self-destructive impulses that stand among you and revenue. Behavioral finance specialist Robert Koppel finds why your mind sends yes damaging messages in the course of the making an investment strategy. Investing and the Irrational Mind teaches you the way to: How frequently have you ever deserted a superbly sound making an investment approach since you panicked? How to Follow the Insiders for Windfall by Guy Cohen Bestselling buying and selling writer man Cohen introduces the proprietary OVI indicator to inventory trading More fortunes are made up of buying and selling shares than the other monetary tool, and those windfalls can be found to an individual who has entry to the ideal details. No innovations wisdom is needed to profit from this booklet. His strategy consists of looking at what the shrewdpermanent recommendations investors are doing, after which following them. The Old-Style discussion board all started while the various older viewers to the positioning determined to percentage their accrued wisdom with different more youthful clients. Get Will College Pay Off? PDF The choice of even if to visit collage, or the place, is hampered by means of negative info and insufficient knowing of the monetary threat involved. Adding to the confusion, a similar measure can rate dramatically varied quantities for various humans. A barrage of ads deals new levels designed to steer to express jobs, yet we see no info on even if graduates ever get these jobs. Peter Cappelli, an acclaimed specialist in employment traits, the staff, and schooling, offers demanding facts that counters traditional knowledge and is helping us make within your budget offerings. College is the most important price for lots of households, better even than the price of the relatives domestic, and one who can bankrupt scholars and their mom and dad if it really works out poorly. Peter Cappelli bargains very important perception for folks and scholars to make judgements that either make experience financially and supply the root that might aid scholars make their approach on the planet. Homeland Security Assessment Manual: A Comprehensive Because the terrorist assaults of September eleven, , the United States has made nice strides in enhancing fatherland safeguard. How do agencies gauge their strengths and possibilities for development in integrating safeguard into their enterprise version?