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Nothing more than feelings

Can we get too emotional about investments and therefore lose much of our objectivity? Does the line from Andy Williams' song "Feelings" in our title apply to stocks as well as love objects?

The aggregate version of emotions over assets like stocks is captured by the oft-mentioned "market sentiment". This is a term that analysts use to explain price fluctuations that statistics and financial ratios alone cannot account for. Investor mood is described as bearish, bullish, or "what do I do now", summarized as "hopeful pessimism or cautious optimism". Maybe, investors are not paying attention and *staying in the sidelines*, maybe checking Bloomberg. In a surge of exuberance, sentiment is described by the Keynesian phrase "animal spirits", usually raring to go.

One way to look at the role of emotion in price determination is to observe an art auction. Certain bidders go to irrational price levels for an artist and his works which they "have to have at all cost". Art investment is one way to understand the emotional effect on purchase price since price in this case has little relation to cost of the product like paint, canvass, artist's time, frame, and storage costs. Buying art is equal parts emotion and what other collectors say—what? You bought that lemon?

Emotional investment is sometimes called "gut feel". If a tycoon feels he "has to have a company (and its controlling stocks) at all cost", the acquisition team needs to fall in line. Accountants who do not get swept up by emotions book the difference between the financial value of a business and its actual purchase price under the vague category of "goodwill".

Belief in a stock can turn risk into a self-fulfilling prophecy if the emotional investor has a deep enough pocket to back up his mood and continues averaging down. Can he convince colleagues to follow suit? This way to the cliff, Gents.

Here are some suggestions in managing sentiment and emotional attachments.

If you can't understand what you are being asked to invest in, walk away. Too often, you trace your inability to comprehend complex investment instruments like Collateralized Debt Obligations (CDOs—remember those?) "accumulators" and "leveraged funds" to a lack of financial savvy. (Can you read a pie chart?) Hey, it's your money so you should know what you're buying. If an instrument cannot be explained to you in three simple sentences with subjects and predicates and no fine print, just buy a car.
Do not be envious of other investors. It's a casino rule that players only talk about their winnings. So, those who boast about making enough money to buy the property next door from stock profits usually avoid talking about their losses. They just "move on".

Concentrate on what you still have left. It is unproductive to think of the millions you lost or could have made, when you just have hundreds of thousands left. This remainder still needs to be nurtured. Sure, the numbers are smaller and less exciting. But anything larger than zero or an amount inside a parenthesis is cause for celebration, even if it just buys a buffet lunch that does not feature *pate' de foie gras*.

Take care of living expenses first. Investments should only involve discretionary funds left over from tuition fees, utilities, and meals. It is not wise to dip into the household budgets for investment. Behavioral economists note this mental accounting that does not lump cash under just one category.

Do not look back. It's better to look through the windshield rather than the rear-view mirror. You can get into accidents that way. If you still have investment problems, they should be new ones. So what if you sold too soon a stock that kept going up and became the best performer of the year. It's best not to compute the money you could have made if you had held on another six months.

Collectors of art are told to buy what they like, not how much it is likely to appreciate. Art is meant to be enjoyed. This rule does *not* apply to investments. Emotional attachment to stocks, even as they turn into lemons, can be risky. Even for losing stocks, a cold heart is best.

The emotions can come afterwards, "trying to forget your feelings of love".

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