Don’t let emotions guide your investment decisions

“Be fearful when others are greedy. Be greedy when others are fearful.”

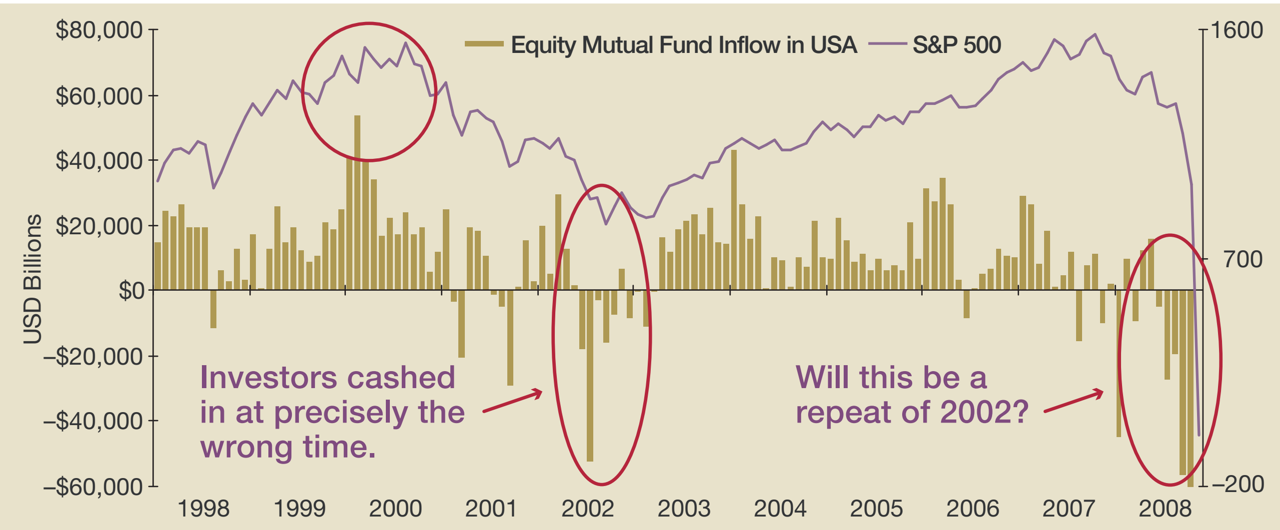
Warren Buffett,[4] Chairman, Berkshire Hathaway

BUILDING long-term wealth often requires counter-emotional investment decisions, such as buying at times of maximum pessimism or resisting the euphoria around investments that have recently outperformed. Unfortunately, as **Chart 5** shows, investors too often let emotions guide their investment decisions. This translates to buying when prices are high and panic selling when prices fall.

Following three years of stellar returns from 1997–1999, in 2000 US investors invested record amounts into managed funds, just in time to experience three years of negative performance. On the heels of these three terrible years, sentiment turned pessimistic and net inflows into managed funds dropped right off, just before managed funds delivered one of their best ever returns of 29.7%. 2008 saw a similar reaction from investors gripped by fear, with managed fund inflows drying up completely and huge outflows as shown in **Chart 5**.

Judging from **Chart 5** it would appear that great investors recognise that an objective, disciplined, emotionally detached investment approach, which may include buying at times of maximum pessimism, can be key to building long-term wealth.

Chart 5



Source: Bloomberg and ICI

[4] Warren Buffett (born 1930) is one of the worlds most successful investors and businessmen, and is one of the world’s richest men, with an estimated net worth of $62.0 billion.