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Bulls and bears sworn enemies, but don't be an ostrich

TERMS OF TRADE
with CARL CAPOLINGUA

MOST people know of the two great animals we usually associate with the stock market.

Perhaps the best known are the bulls. These represent investors who are driven by greed and optimism.

The bulls will be found rampaging down Wall St when better times are perceived ahead, flooding the market with cash to buy shares and pushing the prices of those shares higher.

A bull market is one in which share prices rise pervasively over time. The bulls' enemies are the bears.

Imagine a bear emerging from hibernation after a long winter. Cranky and hungry is not a good combination. Imagine now poking this bear with a sharp stick and what he might do to you.

Well that's pretty much what bears do to share prices in a bear market.

These markets are caused by investors who have little faith in shares delivering superior returns to other asset classes and therefore sell in earnest.

Driven more by fear and pessimism, bears smash share prices lower.

There is another far less well known animal, which I have found describes many investors at the moment.

During a number of recent seminars at which I've spoken, I've been asking attendees to participate in a survey where they declare themselves to be either bulls or bears.

Increasingly as iron ore and oil prices have unravelled, I am finding fewer bulls, more bears, but even more of another group who do not fit into either camp.

When pushed on the matter these investors declare themselves to be fence sitters, that is, they have no idea where the market is going and intend to bury their heads in the sand and hope for the best.

Ergo, my third group of animals in the markets: the ostriches.

Many years ago my trading mentor described the inability of investors to act decisively in crumbling markets as the ostrich technique.

Many adopt the ostrich technique due to analysis paralysis.

This means based upon the deluge of information bombarding their senses, investors become confused and lose the initiative to act.

This is rarely the best solution as markets often fall further than expected.

Getting out of your portfolio halfway down is still better than holding all the way to the bottom. Most, however, incorrectly assume that it's too late to act and therefore resign themselves to holding on to their shares.

It's never too late to act. Good investors are decisive at following their investing plan.

Ostriches do not have an investing plan in the first place. As my mentor would also say, "There are some benefits in adopting the ostrich technique."

At least with your head in the sand you'll be oblivious to what's going on around you, and this might be comforting for some as ignorance is bliss.

But there's also a major drawback to this technique.

With your head in the sand, other more delicate parts of your anatomy are left very exposed.

My advice to investors?

Learn how to analyse the markets in order to determine if it's a good time to be a bull or a bear.

If it's a good time to be a bull, take a position and commit your funds.

If it's a good time to be a bear, recoup your funds and live to fight another day. But whatever you do, please don't be an ostrich.

CARL CAPOLINGUA IS SENIOR TRADING STRATEGIST AT ELITE WEALTH. CARL SPEAKS REGULARLY AT INVESTING AND TRADING SEMINARS ALL OVER AUSTRALIA ABOUT THE IMPORTANCE OF DEVELOPING AN INVESTING PLAN.

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