Keeping Fear, Frustration and Joy Out of Your Stock Portfolio

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David Shakirov is a senior at Bergen County Technical High School in Teterboro, N.J., U.S. A lover of all-things finance, Shakirov is competing in Region 3 of the 2018 KWHS Investment Competition, which ends trading on the OTIS online stock platform this week. Of all the lessons that Shakirov and his teammates are taking away from their competition experience, the influence of emotions has been especially powerful. In the KWHS article Research Strategies for New Investors*, Virgilio Aquino, an assistant investment manager on the U.S. equities team at Aberdeen Asset Management in Philadelphia, Pa., reminds us that "When choosing stocks, logic and common sense should drive your decision process. Sometimes emotions can trump common sense. Don't let your emotions drive your decisions, but rather your own research. You have to have your own assumptions, and in order to have good assumptions, you must do your research."*

In this personal essay, Shakirov confronts his emotions head-on, with advice for his fellow traders on keeping the fear and elation in check. Do you agree with his ideas? Be sure to provide your own perspective in the comments section of this article.

How do successful investors navigate the stormy seas of the markets? Most rely on somewhat objective textbook methods of investing. However, stock traders are an emotional crowd. Worldwide, there are millions of traders, just like you and me, constantly buying, selling, while driving prices up and down. We're traveling on our own emotional rollercoaster of fear and hope. How do we become successful traders without letting these emotions impact our profits?

These investment demons haunt me periodically, as well. From loading up on a losing stock until it hits the ground, to holding on to a profitable trade until it turns around, I've learned that trading is as much a game of knowledge as it is of self-control, discipline and rational thought. With more than 400 teams participating globally in the 2017-2018 KWHS Investment Competition, how should the thousands of participants be mindful of their emotions? Here are a few suggestions.

1. **Over-attachment & Excuses**. It is unwise to create excuses for most situations. This is certainly true in the markets. Even with a long-term mentality, you shouldn't always make these excuses for losing stocks. A common scenario is a trader who gobbles up a stock all the way to the ground floor (or bankruptcy court, if you'd like). After painstaking fundamental/technical analysis, the investor believes the company's stock will go up and becomes emotionally attached. When the tides turn, however, the investor is too stubborn to reevaluate the situation, and he buys more shares. Finally, the stock sits significantly lower than the trader's entry point and takes up a large portion of the portfolio. In late 2016, for example, I felt extremely strong about Abercrombie and Fitch (ANF). With solid technicals and fundamentals, I believed it to be a value stock — a tough find in a bull market! Month after month, however, the price was heavily depressed and hit a low of $8, from my initial "buy" recommendation at $14. Was I really wrong? Not necessarily — almost a year later it hit $14 again. But is it worth waiting one year to simply break even? You need to consider all the angles, emotion-free. *Reevaluate the situation and do not marry your trades!*
2. **Bending the Rules** — Rules and discipline are extremely important concepts both in life and trading alike. If you have your own rules in the markets, such as stop losses, use your best judgment when trying to adjust them. After all, are they really rules if you make exceptions? My high school business teacher told me (more times than I can count) — "pick a strategy and stick to it". Create a plan for each trade and be disciplined, rational and honest. If a stop loss is hit, cut the trade. If it hit one of your profit goals, then exit the position. In mid- to late-2017, I was short on crude oil after looking at some fundamental and technical factors. Long story short (pun intended), this trade was not very profitable, as oil jumped from $40 to $60. *Do not be afraid to be honest and disciplined with*

yourself.

3. **Excessive Risk —** One of the most common tenets of investing is diversification. Don't put all of your eggs into one basket, right? Some investors, hoping to make up for their losing positions, or simply looking to increase their risk/return profile, use excessive leverage or overload their portfolio with a single position. Their analysis is often one sided — there's an opportunity for high profits, but also astounding losses. At one point in my trading experience, I decided to "play around" (invest wouldn't be the proper terminology) with penny stocks. After putting a large chunk of my portfolio in a company that makes thin LED light strips for cinemas in Arizona, I lost more than 50% of the investment in 40 minutes. All investments have risk, and high-risk investments should not be avoided at all times. *Excessive risk, however, can be reckless.*
4. **Running against the Crowd —** The markets are compilations of two opposing crowds — the bulls and the bears, both driven by greed and fear. Fundamental and technical factors are often secondary to the emotions of the traders and the strength between the two groups. Moments of irrational exuberance, manias, and bubbles, depressions, and crashes are often uncorrelated with the real value of the markets. Once fear, along with greed, steps in, fundamentals are no longer considered. A trader could develop stubbornness — "the markets are *wrong* and will eventually come back to their senses." Could any kind of fundamental analysis from a single trader really influence the direction of the crowd? Almost never. I've tried fighting some markets that I thought were fundamentally overvalued, and learned that the countertrend is sometimes too strong. I believe it's best that you don't fight the crowd — either go with the trend or simply don't participate. "*The markets can remain irrational longer than you can remain solvent" — John Maynard Keynes.*
5. **Burnout —** Trading is difficult, and most investors are prone to burnout. Burnout pushes individuals to potentially deliver subpar analyses, or make compulsive trades. After stress-filled trading, some investors are simply incapable of making rational decisions. Worse, a losing streak often magnifies the impact of burnout. Therefore, traders should know when to stop, get some rest, and refresh their outlook on the markets. Let the markets marinate and move around for a couple of days (or even weeks, depending on your strategy) and then revisit. *Investing is a marathon, and not a compulsive sprint.*
6. **Bonus: How to Overcome Emotional Trading —** Emotional trading happens to all investors, all the time. The key, however, is to limit it. Set for yourself some objective rules, such as stop losses that cannot be altered. Also, don't forget the flexibility of being an investor/trader — will it really hurt to skip a day now, for more rational trading later? Overall, try to maintain a journal of rationale used to enter a trade, stop losses, and some goals for your trades. For example, ANF seems like a strong company given its change in management, turnaround in the retail sector, and bullish technical behavior with a stop loss at 21.50, with a goal of long-term growth. Take trading one step at a time, listen to your gut, learn the markets, and be mindful of your emotions.