



MONEY DUE REWARDS:

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Putting Aside the Emotions

I have a chart in my office called “The Cycle of Market Emotions” which I have found useful in recent times. Designed with a wave shape to indicate the typical market cycle, it traces all the many and varied emotions investors have to cope with at one time or another during their investment adventures.

Starting with “optimism, excitement, thrill and euphoria”, the chart succinctly describes the pleasures associated with seeing your investment dollars multiply before your eyes as the market rises. Next comes the bear market, where “anxiety, denial and fear” turn into “desperation, panic, capitulation and despondency” as the market plummets downwards. Readers with investments of their own which they have been following in recent months may well identify with these feelings.

The final section of the wave pattern shows the recovery phase, with “depression” giving way to “hope, relief and optimism”. Then, needless to say, the whole cycle starts again.

Putting aside the emotions, however, let’s consider what this means from an investment perspective. In the chart I mentioned, somewhere between “despondency” and “depression”, there is a label which says “point of maximum financial opportunity”, indicating that if you can pick the very bottom of the market cycle, and are brave enough to place significant investments at that point, then you stand to make some fairly good money.

But are we at the bottom of the cycle? Furthermore, does it matter?

If we examine a chart of the ASX 200 index, representing the top 200 stocks in the Australian stockmarket for the last few months, we find that after sustained falls in late May and June, there have been a series of small rises and falls within a 200 point range, with low points of 4,815 on 15th July, 4,820 on 5th August and then 4,866 on 19th August. While not conclusive evidence, this is the sort of pattern which often occurs at a market “turning point” as the optimists and pessimists strive for the upper hand, but neither gets a clear victory.

If this is indeed the turning point, then it matters an awful lot, because by investing now, there is a potential opportunity to make good money. If it’s the turning point, then those with access to excess cash should consider investing and taking advantage of some cheap “blue chip” stocks which may never be this cheap again. If this is the turning point, then even those without any excess cash but sufficient cashflow could consider borrowing, and invest those borrowed funds into the market at an opportune time.

Given the negative sentiment which has dominated over the last 12 months, this is probably not the sort of action many people are feeling inclined to take. Nevertheless, it may well be a way to make some good money. Speak to a financial advisor before taking any action, however, as the market no doubt still has some pitfalls for inexperienced or ill-advised players.

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