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Personality can shape investing

10:12 PM CST on Sunday, January 2, 2005

By **PAMELA YIP / The Dallas Morning News**

Stock market experts look at all sorts of things, such as technical charts, company fundamentals and even planetary cycles in an effort to gauge how you should invest.

But don't overlook one fundamental factor: your personality.

"Our personality is perhaps the single greatest contributor to our investment mistakes," said Neal Frankle, a certified financial planner in Woodland Hills, Calif., and author of *Why Smart People Lose a Fortune*.

"Understand that no matter what you do, you're an emotional being, so you should have an investment strategy that's consistent with your personality."

But you must do that with a sense of control. For example, if you're impulsive, you should control your tendency to jump into an investment without having given it much thought.

"You need a strategy that does take into account what's happening in the market that you will stick with, even though there may be times when your emotions will rear their ugly head," said Mr. Frankle, president of Wealth Resources Group.

The basic emotions held by all investors are fear and greed.

Fear can paralyze you to the point where you lose more money than necessary. An example is holding on to a stock when it's clear you should cut your losses.

"Most investors are loss-averse," said Robert Weller, vice president of the J.P. Morgan Intrepid Funds and the JPMF U.S. Dynamic Fund. "Investors are 1.7 times more likely to sell a gain than a loss."

Some get too greedy.

"Some hold on and they end up going down the tubes," said Muriel Siebert, chief executive of Siebert Financial Corp. in New York and the first woman to hold a seat on the New York Stock Exchange.

"It is the worst thing in the world to ride it up and down and go broke when you've had opportunities along the way.

"Don't be a pig. Take half the profit and keep the rest, if you still believe in it."

Using psychology

Wall Street is well aware of how investors' personalities can sway their investment direction.

J.P. Morgan Funds' has created Behavioral Finance Funds, which seek to take advantage of investor psychology to make money.

"The human tendency to be overconfident in one's own abilities often leads individuals to make judgments based on inadequate information, to overestimate the accuracy of their predictions and to lull them into believing that they aren't prey to the same mistakes as everyone else," according to JPMorgan sales materials. "But overconfidence is good news for followers of behavioral finance. Repetition of the same mistakes leads to systematic anomalies in the stock market which offer significant profit-making opportunities."

Investor personalities

Merrill Lynch recently released a survey that found four distinct investor personalities:

Measured investor: This person is very systematic, very methodical.

"They are comfortable about their financial situation," said David Nethery, a vice president and financial adviser at Merrill Lynch's Global Private Client Group in Dallas. "The biggest mistake these people make is they're sometimes to the point of being stubborn with their methodology, and they seem not to know when to sell."

Unprepared investor: This person hasn't saved or invested much typically because of overspending or because "they just feel so unknowledgeable about it they just don't want to deal with it," Mr. Nethery said.

Reluctant investor: "They didn't start investing early enough and started too little too late," Mr. Nethery said.

Reluctant investors don't particularly enjoy investing, preferring to spend as little time as possible managing their investments. At the same time, those investors tend not to hold losing investments too long, and few have over allocated into one investment.

Competitive investor: "They look at investing almost as a sport," Mr. Nethery said. "They love the thrill."

Although they're knowledgeable, competitive investors also trip up.

"They hang on when they clearly should be selling," Mr. Nethery said. "They get that stubbornness confused with discipline."

One Dallas investment adviser harnesses a client's personality to make the best recommendation.

"If they spend everything they can get their hands on, I'm going to recommend some kind of an investment where they can't get their hands on it," said Dan Saur, president of D.R. Saur Financial Inc.