



Emotional and Psychological Behaviour

Successful investing and personal finance involve much more than optimising outcomes and analysing spreadsheet performance projections of securities and funds. While these elements are important, our investment success is heavily influenced by the softer aspects of our emotional and psychological behaviour.

The Psychology of Money

It's been a year since I wrote an article ([click here to read The Psychology of Money](#) by Ian De Lange) discussing the book, "*The Psychology of Money*", which sheds a lot of light on investing behavioural traits. As we are now almost mid-way through 2023, I thought that a follow up may be useful. Since our attitudes, beliefs and emotions have such a large influence on our financial and investing decisions, any weakness in our emotional foundations can lead to poor investment outcomes.

In the world of finances, **the two extreme emotions of fear and greed are always present.** If we are honest with ourselves, we will recognize that these emotions often influence our investment and financial decisions. As Howard Marks, an investment great, aptly put it, "*The biggest investing errors come not from factors that are informational or analytical, but from those that are psychological*".

Below are 10 insightful quotes from Morgan Housel's book that highlight the psychological aspects of finances, wealth and investing.

"Doing well with money has a little to do with how smart you are and a lot to do with how you behave."

"Financial success is not a hard science. It's a soft skill, where how you behave is more important than what you know."

"Like everything else worthwhile, successful investing demands a price. But its currency is not dollars and cents. It's volatility, fear, doubt, uncertainty, and regret – all of which are easy to overlook until you're dealing with them in real time."

"A genius who loses control of their emotions can be a financial disaster. The opposite is also true. Ordinary folks with no financial education can be wealthy if they have a handful of behavioural skills that have nothing to do with formal measures of intelligence."

"Academic finance is devoted to finding the mathematically optimal investment strategies. My own theory is that, in the real world, people do not want the mathematically optimal strategy. They want the strategy that maximizes for how well they sleep at night."

"You might think you want a fancy car or a nice watch. But what you probably want is respect and admiration."

"Someone driving a \$100,000 car might be wealthy. But the only data point you have about their wealth is that they have \$100,000 less than they did before they bought the car (or \$100,000 more in debt). That's all you know about them."

"Wealth is the nice cars not purchased. The diamonds not bought. The watches not worn, the clothes forgone and the first class upgrade declined. Wealth is financial assets that haven't yet been converted into the stuff that you see."

"Spending money to show people how much money you have is the fastest way to have less money."

"Good investing is not necessarily about making good decisions. It's about consistently not screwing up."

These quotes remind us of what we already know - successful investing and financial planning have a lot to do with our behaviour and emotional makeup. But it's something that we as advisors and investors need to spend more time considering in order to improve our investment outcomes.



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