

New Research Into Investing Psychology Yields Odd Connection: What Do Stock Picks and Mullet Haircuts Have in Common?

NEW YORK, N.Y., Dec. 21 (SEND2PRESS NEWSWIRE) – Plenty it turns out, according to Drs. Richard Peterson and Frank Murtha, whose behavioral finance consulting firm, MarketPsych LLC, has been analyzing data on the investor personalities of thousands of professional and retail stock pickers.

“We all recognize what peer pressure was like in high school. Check your old yearbook. It’s why most of us had bad haircuts,” says MarketPsych co-founder, Frank Murtha. “What most investors don’t fully realize is that the stock market literally is peer pressure. It’s nothing but the aggregate likes and dislikes of the participants that create pressure to choose or reject. It’s also the primary reason individual investors make bad choices for themselves.”

MarketPsych notes a “peer pressure paradigm” for stock picks that is difficult for the average investor to overcome: The “smart money” starts a trend, the institutional money follows, exerting buying pressure that drives the price up, and by the time the retail investor has decided to join in, the trend is near its apex. In fact, much of the “smart money” uses heavy retail buying as a sell signal.

“When your mom knows the name of the band, they’re not that cool anymore,” Murtha says.

So what the answer? “What our research shows is that the way to overcome market peer pressure is the same way you overcame it growing up; establish a strong sense of who you are and be confident in it. We call it building your investor identity.”

Peterson and Murtha’s drill deeper into this concept in “MarketPsych: How to Manage Fear and Build Your Investor Identity” (ISBN: 978-0470543580), their new book which was recently highlighted as one of three “Best Financial Books of 2010” by Kiplinger’s Personal Finance. They cite a number of factors as being crucial to developing an “investor identity”; they include assumptions, emotional hot-buttons, hidden motivations, financial values, personality traits, and stress coping techniques.

As the New Year approaches, so do New Year’s Resolutions. Murtha notices a lot in common between two of the most popular resolutions; investing better and eating better.

“An investing plan is like a dieting plan. There are countless methods out there to choose from, and they mostly all work. But the right plan for you is

the one you can follow. So it needs to be a good fit for who you are as a person. Same with investing. The market is constantly exerting pressure on you to make decisions you'll later regret. Establishing a sense of identity is the secret to avoiding investing mistakes."

And, apparently, bad hairstyles.

Richard Peterson, MD and Frank Murtha, Ph.D. founded the behavioral finance consulting firm MarketPsych LLC in 2002. They consult to all branches of the financial community. In addition they are media content experts who have appeared multiple times on CNBC, CNN, Bloomberg News, and National Public Radio.

Please visit www.marketpsych.com/books.php for more information and book excerpts.

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