

**Average investors who try to do a lot of trading will only make their brokers rich**

**-Michael Jenson, Finance Professor -Harvard.**

**NSE at a glance**  
(For week ended February 2nd, 2009)

Index:	31,357.24	-2.04%
Cap:	N6.936trn	-2.04%
Volume:	191.9 m	+10.43%
Value:	N1.29bn	-14.8%



## Overcoming fears of investing during bear markets

The bear run in the Nigerian stock market is still gripping tight. This year alone, the NSE All-Share Index has lost a whopping 29.3% as at January 28, 2008, when it closed at 22,255.04 points, compared to 31,450.78 at which it closed last year.

By implication, investors have lost a total of 61.6% off their investments between December 2007 and January 2009, or 66.45% between March 2008 all-time height and now.

After a year like 2008, and the continuing trend this year many investors are understandably wary about putting more money at risk in the stock market.

Joelle Chan, an American stock analyst commented that this fear manifests itself in at least two main ways, fear of losing money and fear of losing profits, though the former applies more now since most investors must have already lost whatever profit was made on their stocks long ago.

The thought of losing money in investment can be scary. While potential investors who have seen earlier investors lose so much money in the meltdown would ordinarily not want to go anywhere near investing because they are afraid of losing, old investors who have already lost so much would be afraid of losing more hence, they would rather steer clear.

Little wonder that many will prefer holding on to their idle funds even without regard to the effect of inflation on their personal finances. More so, when it is obvious that the market is still unstable, the fear of investments cannot be ruled out.

But since every investment is futuristic and the future uncertain, will keeping money in banks or hiding it in vaults completely eliminate risk? The answer is no. Each of them involves some element of risk. The risk might be inflation being higher than interest rate offered or the money losing heavy value where there is no interest rate.

If we realize that everything in life involves risk, we will take calculated steps to minimize or eliminate risk where necessary rather than trying in vain to avoid it.

Overcoming the fear these markets have created is the biggest challenge an investor faces. Though the fear is warranted, a wise investor should know it is nothing more than a handicap

Here are some of the steps to overcoming investment fear.

1. Understanding the investment option – One of the best ways to overcome the fear of investing is simply to become better educated. If you're a novice, pick a good book on the subject. Research the stock market's long-term performance. The more you learn, the more you understand the possible risks and rewards of each investment.

A good knowledge of the variants investment alternative, its maturity, liquidity, safety and return will help reduce tension and help you overcome the fear.

It is only natural for people to be afraid of what they neither know nor understand. However, a good understanding of the basics of investing would add some level of confidence to your investment decisions and thus assuage most of the fear if not totally eliminate.

2. Keep yourself updated about recent information – New things happen every day in companies as well as different sectors. Endeavour to keep yourself updated. For companies, follow every corporate action carefully. Look at current annual and quarterly results, compare current turnover, earnings, cash flow, with historical financial data. To have a clear view of how they are performing, look at dividend and bonus policies of companies. Do not build a model or try to predict the future. Because information is key, decisions taken on these informed position and not wild

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guesses can help allay fears when prices are going down.

For example most companies quoted on the Nigerian Stock Exchange (NSE) are doing very well going by the good corporate performances they are posting. They are making good profits, declaring good dividends and bonuses despite the declining stock prices. This is indicative that their businesses are still thriving and they are still being patronized. Despite the declines in key market indicators, the fundamentals of our stock market remained strong as indicated by strong corporate earnings and growth potentials.

A good example is the banks; consider that people have not stopped putting their money in banks just because their share prices have fallen drastically. Consider the food companies or telecoms companies, despite the meltdown they are still being strongly patronized and it is showing in their earnings. As long as they continue to do well fundamentally, the current trend in stock prices would eventually change.

3. If you are nervous about the roller-coaster ride of the daily stock market, ignore your investments. In *Why Smart People Make Big Money Mistakes*, the authors note that it's dangerous to watch your investments every day.

When you pay close attention, you tend to become emotionally invested in even small movements. You lose sight of the long-term and make decisions based on short-term events. Check on it every month or so, but don't constantly check your investments.

The prolonged fall in investment prices during the bear market creates room for widespread pessimism. Without the solid belief in the fundamental principles of intelligently developed portfolio, nervous investors face the likelihood of backing off.

Because the stock market decline of this magnitude cannot be ignored once it has already occurred. So what should you do? Probably nothing, especially if you have a well-thought-out strategy and properly diversified portfolio based on your individual circumstances.

So it's best to simply ignore the daily report in the media because it would be a distraction, and it could lead you to do something harmful to your economic health. It could convince you to sell. If you act on the fear, and sell in panic, you have lost.

4. Learn from the past – It's often said that experience is the best teacher. What this simply means is that investors can infer from past bear markets to determine expected outcome of this present one. While the how and when would definitely not be the same, we can say with all certainty that it will definitely end.

It is not easy to have the courage to ignore the pessimism, but history has shown that over the long term, returns from stocks have more than made up for the periodic and temporary bear markets and this one would not be any different.

More often than not, investors out of fear ask: what if it doesn't end? But looking at the flip side, what if it ends, as definitely, it would? What then happens if you were not investing? You would have lost the opportunity to change your financial fortune.

A bear to the core, renowned investor Warren Buffett has made much of his fortune from market downturns hence his popular philosophy about being fearful when others are greedy and greedy only when others are fearful. Right now, most investors are fearful because prices are at the lowest and so they would rather keep their money. But for Buffett, this is the time to get greedy and buy as much as possible because the stocks are below their fair value.

You may think that you will buy back, when things look safer, but the odds of your actually doing so are very small.

5. Stick to your good investments regardless of immediate outcomes – Watching ones investments continue to lose value could be highly discouraging, more so when the aim for such investment being altered is no longer met. On the other hand, a bad investment decision could produce a favourable result – howbeit in the short-run. Should immediate result be the basis for making investments? The answer can be either way but an informed investment position would bring relieve in the long run irrespective of present conditions.

This is because volatility poses the biggest investment risk in the short term. But if you can wait out downturns in the market, chances are that the value of a diversified portfolio will rebound, and you'll end up with a gain. If you look at the big picture, you'll discover that what seems to be a huge drop in price over the short term evens out over the long term. In fact, over periods of 5 or 10 years or more, stocks — usually the most volatile investments over the short term — have always increased in value.

### Bears tighten grips on the market

