As humans, we’re instinctively attuned to follow the mindset of the crowd. In fact, it wasn’t that long ago that prevailing wisdom dictated that the world was the centre of the universe. While we all know that to be eminently false today, at the time it was accepted as a widely held, and undeniable fact. At the time “group think,” as it is known, seems right and logical, and generally only becomes flawed after the passage of time and with the benefit of hindsight.

What might seem like common-sense behaviour simply because others are doing it, can become a costly exercise in the long run. Essentially, following the herd, especially when it comes to investing, seldom pays off. It can be uncomfortable to stand apart from the crowd. The more people who believe in a widely-held belief, the more valid their behaviour seems, and as such, more people feel compelled to do the same.

Renowned investor Warren Buffett once said “Be fearful when others are greedy, and be greedy when others are fearful.” In short, following the crowd when it comes to investing, is more often than not, a bad move. As the following graph illustrates:

The herd mentality isn’t aided by the constant “noise” emanating from the mainstream media which often acts as a distraction and diversion from what should be an investor’s long term investment goals and strategies.

Following the pack, and/or basing your investment decisions on the ever-changing commentary from the financial press is a poor way to plan for the future. In fact, you are more likely to increase your risk and reduce your overall returns. For example, if there is a sudden surge in interest in one particular share, there will be a sudden increase in demand for that stock thereby increasing demand and in turn the price of the stock. By the time most people get on the band wagon the stock no longer represents good value, but many investors will continue to buy up due to fear of missing out.

The more you pay, the lower the likely return, and the greater the risk you take on. This is a big price to pay for being part of the crowd. And this represents rule number two – don’t let emotions guide your investment decisions.

At NorthCorp Wealth Management, we pride ourselves on being different. Our focus on capital preservation often leads us to invest differently to everyone else. If we can buy a quality asset for less, even if it is temporarily out of favour with the market, then our reward is potentially higher, and with less downside risk.

For further information on how we can help you, speak to us today.

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