

# “Going, Going, Gone”

“Going, Going, Gone!” If you have ever attended an auction this is a familiar phrase. The price of an auction item is determined by the audience participants; the final sale occurs when there is an agreement between a willing buyer and a willing seller. As many of you may have attended an auction you are aware that often times an item goes for far more or far less than its true intrinsic value. In the excitement of the moment people pay much more for an item than is rational. And, conversely, if an auctioneer is unable to stir the crowd an item may be sold for considerably less than its true value.

An auction for a school fundraiser I attended recently provides the perfect example. A local athlete’s jersey was on the auction block. I have seen this gentleman’s jersey at auction several times before and it generally sold between \$350 and \$500 at auction. Two gentlemen began bidding against each other and it became a matter of pride as the rest of the audience got involved and cheered them on. In the end, the final sale price was \$2,500, or 400% more than previous auctions I had attended.

Many people do not recognize that the stock market is also an auction, there is a buyer and a seller and when there is a price agreement there is a sale. Conventional economic theory assumes that people are rational beings and wealth maximizers. Equilibrium will occur when interested parties come together and agree on a price, a price determined by rational thought based on knowledge readily available.

However, behavioral finance, a relatively new field of study, combines behavioral and cognitive psychological theory with conventional economics and finance to provide reasons why people often make irrational investment decisions. A very simplistic, yet important rule of investing is to “buy low, sell high”, yet many individual investors act contrary. An investor commonly responds to short-term market movements to the detriment of his or her long-term investment plan. The media plays an important role in this phenomenon. The goal of CNBC is to increase ratings, not impart information; thus sensationalizing a crises rather than calling for cool heads and rational thought is in their best interest.

The stock market is one of the few marketplaces that people run from a sale and line up to buy when prices are lofty. This irrationality can only be explained through the study of behavioral finance. Financial markets are driven in the short-term by two very basic human emotions: fear and greed. One need only look at the dot-com bubble of 2000 and the Great Recession of 2008-2009 as recent examples. The markets were driven to the brink by greed in 2000, not valuations or in-depth analyses of future growth prospects. Conversely, when markets are in free fall, particularly in late 2008 and early 2009, fear took hold and there were few buyers to be found at almost any price. While no one wants to catch a falling knife, investors failed to look past the short-term and plan for the inevitable recovery.

local independent personal accessible  
interactive creative local independent personal  
knowledgeable thoughtful ethical experienced

As investment practitioners we are our clients' advocates and we are tasked with advising our clients and working through their emotional biases when it comes to making investment decisions. Investors who resist the urge to run for the hills during financial crises are rewarded during subsequent recoveries. Resisting the impulsive urge to buy high and sell low is the ubiquitous challenge investors face, but building and adhering to a sound, long-term and well-diversified portfolio is the key to a successful financial future.

Suzanne M. Antonelli, CFP®

*As we mentioned in our January newsletter, 2013 is Sigma's 40th Anniversary year. In honor of this, our employees are sharing personal "Sigma Stories" with you each month. We hope you enjoy!*

## Culture Shock

Prior to joining Sigma in June of 1999, I had the good fortune of "cutting my teeth" at National Bank of Detroit (NBD). Candidly, I have very fond memories of my time at the bank and all that I learned during my 16-year time span. The resources that I had at my fingertips were best of breed, and the training that I received was second to none. Just as my father had worked for one company for his entire life, I too was settling in as a "lifer", and proud of it.

My cozy existence came to an abrupt halt following our merger with Bank One. When it became clear that I needed to make a career change, I had the good fortune to be offered a similar position with Sigma.

On my first day on the job at Sigma, I recall some stark differences from the world that I had just left behind. For example, before I could settle into my new office, I had to empty and dispose of a 50 gallon fish tank, including the fish. When I needed to make a copy of a document, my assistant politely pointed me to the copy room and told me to do it myself. Moreover, when I noticed that our floor needed to be vacuumed, I was quickly given a vacuum cleaner and told to shut my door so I wouldn't upset the rest of the staff. It didn't take long to realize that the culture at Sigma was much different than what I had been accustomed to.

Yet, it became clear that I had joined a team where everyone has an important role to play for the success of the organization. While I will be forever grateful for the rich experiences that I received from my previous job, I am most thankful for the immense satisfaction that I have enjoyed at Sigma.

Christopher J. Kress, CFA

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