

## The Investment Odyssey: Avoiding the Sirens of behavioural bias- by Gary Moglione

"The Odyssey" by Homer is an ancient Greek epic poem that tells the tale of the Greek hero Odysseus and his challenging journey back home after the Trojan War. It introduces the Sirens, mystical beings who entice sailors to their doom through captivating songs that draw them closer to their island, ultimately causing shipwrecks on the rocky shores. Odysseus' response to the Sirens' threat offers a valuable lesson for investors. He sought to protect his crew by instructing them to plug their ears with beeswax, preventing them from hearing the Sirens' calls. However, he was curious about what the Sirens were saying, so he had his crew tie him to the mast and not release him until they had passed the Sirens' island.

In the world of investing, investors face their own version of Sirens in the form of behavioural biases. These biases constantly sing their hypnotic songs, tempting investors to succumb to these behavioural pitfalls. There are several ways in which the Siren's song can lead your investment portfolio to crash on the rocky shore:

**Herd mentality:** The Sirens encourage you to follow the crowd, which can lead you to buy overvalued stocks or sell stocks with temporary setbacks. In recent years, message boards such as Reddit have encouraged retail investors to speculate in risky stocks. In 2021, after a Reddit forum called WallStreet Bets encouraged the masses to buy stock in AMC Networks to increase the share price and hurt the hedge funds that had shorted it, the stock price grew massively, attracting more investors. Over the year, the share price moved from \$15 to \$387. AMC Networks took advantage by issuing more stock. The hype eventually dissipated, leaving remaining holders watching the diluted share price fall to \$95 within months, and it has continued to fall since, currently trading between \$8 and \$9.

**Anchoring bias:** Sirens will highlight the current environment and make you believe that it will persist. A recent example would be the COVID-19 lockdowns, with the Sirens' call pushing stocks that befitted the lockdowns. Zoom Video Communications, the video conferencing platform, saw its share price move from \$67 pre-COVID-19 to \$568 prior to the vaccine being announced. It currently trades back around \$67, as people return to the office.

**Fear of Missing Out (FOMO):** This fear has led many investors to participate in asset bubbles throughout history. For instance, during the 1630s, Tulip Mania saw tulip bulb prices rise to astonishing levels, with one bulb even costing as much as a house. Eventually, the bubble burst, resulting in significant losses for those involved.

Unfortunately, you can't simply plug your ears with beeswax or tie yourself to a mast to avoid these behavioural biases. However, you can take steps to mitigate their impact. Strengthen your research, diversify your portfolio, and maintain a long-term investment horizon. By following this advice, you can build immunity to the Sirens' call and navigate the investment world's treacherous waters, arriving unscathed at your financial goals, with a well-earned treasure in your portfolio.



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