



## Behavioural Thinking or Permanency

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As markets become more polarised and extreme in various sectors and themes, one area that we at Binary Capital pay close attention to is the behavioural aspects of investing. We consider the whole area; herd investing, loss aversion, momentum investing and the so called 'fear of missing out' - we look to think independently.

I have studied behavioural finance for a considerable period of time. Behavioural finance attempts to understand and explain observed investor and market behaviours. Even with my understanding of the psychology of investors, I am regularly surprised at what behaviours I witness from experienced market participants. Being rational, normal and using common-sense is often an underused factor in investment decision making. Avoiding market noise and distractions is a skill that many investors do not possess.

At Binary Capital, we are also conscious of the constant feedback loop in areas of monitoring behavioural finance at work. An example of this is if the majority of market participants are well versed in aspects of investment psychology then that investment crowd itself may end up following certain patterns or traits. These patterns or traits may also need to be taken into account and offset if necessary. This leads to a second level behavioural monitoring, *behavioural reflexivity* as I call it. This is something we are very aware of and take into account in our investment thinking and overall decision making. So not only do we take into account, and understand behavioural finance from an investment perspective we also understand it from an additional level and even beyond that.

As well as noting biases and psychological trends we need to grasp clearly what are permanent trends: a permanent shifting of the sector, economic and business landscape. A permanent look now and into the *future*. One such area we focus on is technology. The technology sector dominates the S&P 500 Index, the sector's rise of the past five years has been extraordinary and the 'tech trade' continues to dominate much investment thinking and action. Over 5 years the S&P 500 technology sector returned +200% against +49% for the S&P 500 ex technology over the same period. Therefore, we need to separate the various biases in play and focus on the rationality, the reality of what is going on and why, and be impactful around this reality.

All of the above thinking is contained in our mantra of long-term investing with conviction and complete focus. By being long-term and patient investors we can often manage through the various behavioural biases and let the market neutralise the biases over time. This is not to say we do not look at such bias factors, as noted above we do, but we also try to let our long-term thinking take care of the biases on our behalf.

By thinking and acting long-term we aim to minimise the disadvantages and sub-optimal decision making inherent in many investment biases, randomness and overall short-termism. We aim to maximise the opportunities available in real active portfolio management on behalf of our clients. This is our focus.



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