



Trading is an art of discipline and emotion management- II



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Elaborating on the concept expressed in my previous article (refer the *Sharekhan Times* December 2012/January 2013 issue), I say that one has to keep views and actions separate while making any kind of investment/trading decision.

Among management tools we have four Ps in marketing, Porter's 5 forces model and many other models for analysing a company's industry structure and corporate strategy. On similar lines I have created the four pillars of good risk management/money management practice. These pillars, though have their pros and cons, help one to arrive at accurate decisions in the portfolio and investment management space. A fund manager/investor has to understand the risk management (or money management) table presented below before taking any kind of investment decision.



| Views | Actions | Probability of Profit/Loss |
|----------|---------|----------------------------|
| 1. Right | Right | High profit |
| 2. Right | Wrong | Less loss |
| 3. Wrong | Right | Less profit / loss |
| 4. Wrong | Wrong | High loss |

The first three equations are essential for successful portfolio management and create wealth in a slow and steady manner. But the fourth equation leads to disaster and huge loss. One should try to avoid going wrong on both fronts, ie views and actions.

Views can be right or wrong, it's subjective. But action has to be calculative and shall create wealth in a slow and steady manner.

Views are sometimes in conflict with our ego (emotions), which takes time to change, but actions should not be affected by our emotions. If emotions affect our actions, it leads to disaster.

From my experience, I can conclusively say that actions have to be given priority over views. This is an essential quality of a good fund manager.

One of my management professors used to say that "Words can't be counted, actions always count in general and are very essential to becoming a successful manager."

On the other hand, some times we may have a view but action on a view may not be possible every time because many other factors also need to be confirmed in order to take accurate decisions (in case of the market, one may have to consider the global/domestic events like corporate results, policy announcements, budget etc). The fund manager's patience is tested during such times. This is the time to digest the returns earned earlier.

Acting on a view is more challenging than talking or writing about it in the areas of trading, investment and portfolio management.



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