



TITAN FINANCIAL ASSOCIATES

Principles of the psychology of money

“Better make it four, I’m not hungry enough to eat eight”

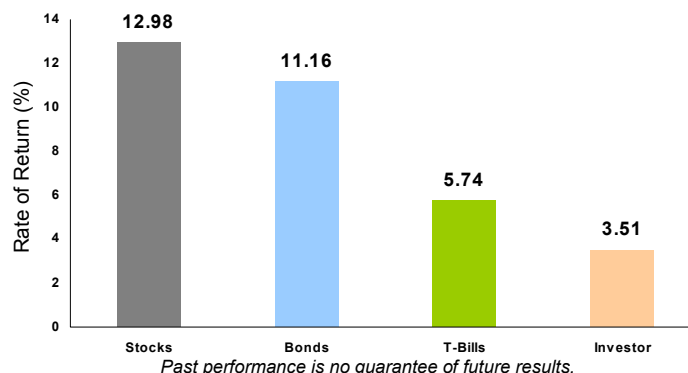
- Yogi Berra (When asked into how many slices he wanted his pizza cut)

The definition of Normal – “An un-ending series of un-precedented events”

1. It is a bad idea to evaluate a decision on its result alone
”Just because the ball lands on the fairway does not mean it was a good idea to aim at the bunker”
2. Don’t confuse information with knowledge or wisdom. We consider it our responsibility to provide information that increases your knowledge and your wisdom. Much of what you may read in the media does neither.
3. Following the herd can often lead to running off a cliff
4. What is popular is not always right; What is right is not always popular
5. We focus on what we can control. We can’t control the markets. We can control our asset allocation decisions. We can control the process we use in making decisions.
6. Keys to success:
 - a. Stick to the process
 - b. Bet on the long-term
 - c. Turn off the TV
7. Every buy is matched by a sell. There is always someone making the opposite choice. If someone tells you that they have found a way to beat these odds using a short-term tactic, do you believe them? The vast majority of pitches in the financial services world are based on the idea that “we have a better crystal ball than the other guy”
8. We believe that individual investors are driven more by psychology than economics. Dalbar studies concluded that individual investors perform badly as compared to the indexes and benchmarks because of poor market timing.

Lack of Process Can Lead to Poor Results

Annualized Returns – 1984 through 2003



Source: Dalbar
Stocks=S&P 500, Bonds=Intermediate-Term Bond Index
T-Bills=Treasury Bills, Investor=Average Equity Fund Investor

We think it is simply because people are chasing past performance – They buy last years 5 star fund; that fund loses value, they panic and sell. There is no analytical process, they simply buy high and sell low.

9. Just because you can look up the value of your account every day doesn't mean that you should!
10. People hear what they want to hear
11. Last year's experience does not translate to next years expectations
12. Good companies are not always good investments.
13. Just because your grandfather left you the stock does not mean you should hang on to it
14. Your company's stock used to be at \$85. This does not mean we wait for it to get back there before we sell.
15. "Don't just stand there – DO SOMETHING!", is not good investment advice.
16. "Consumption of financial news can be hazardous to your financial health"
17. We can't predict the future or which strategy will be successful. There is a time and place when all strategies will be successful.
18. READY - AIM – AIM – AIM ... doesn't work. At some point you need to FIRE!
19. Most people feel the pain of loss about 2-2.5 times as intensely as they feel the pleasure of gain. Risk is a measure of pain and there is no easy way to capture risk mathematically. The rate of return from an investment is an objective, quantifiable fact, but risk is subjective and experiential.
20. In 1738 Daniel Bernouli hypothesized that the rational person would make economic decisions in a manner designed to maximize their overall wealth. Bernouli was a great mathematician but he was wrong about this. Financial decisions are not usually made with mathematical logic, nor should they be. Money and math are not the same thing.
21. Professor Richard Thaler of the University of Chicago conducted a study which shows the dangers of investing based on past performance:

He ranked all the stocks on the New York Stock exchange based on their returns over a five-year period

He then formed two portfolios:

- a. The 35 stocks that went up the most over that five-year period
- b. The 35 stocks that went down the most

He followed the portfolios for five years.

Guess what? The portfolio of losers out-performed the portfolio of winners by about 40%

22. A former psychologist at Harvard, Paul Andreassen, performed a study on four groups of investors. He asked two of the groups to make mock investments in a stock with a fairly stable share price (A). The two other groups were asked to make mock investments in a stock with a fairly volatile stock price (B). One of the groups from A and one from B were given a constant stream of actual news reports about the companies in which they were to invest. The other two groups got no news. The investors who got no news performed better than those who received news. The group from B with no news performed over twice as well.

Our job is to satisfy you and to help you meet your needs and objectives, not guess which strategy might be successful next year. We help you manage your behavior which many times may mean helping you not do something!

There is pain in being different:

"I would rather follow an inferior strategy that wins when my friends are winning and loses when my friends are losing than follow a superior strategy that at times results in my losing when my friends are winning."

- Roger Gibson, author of "Asset Allocation" quoting a client

3000 NW Stucki Place, Suite 230 | Hillsboro, Oregon 97124 | 503.629.0810 Tel | 503.629.0813 Fax

Investment Advisory Services offered through Mandalay Financial L.L.C.
 Securities offered through Resource Horizons Group, L.L.C. Member NASD, SIPC, MSRB
 Branch office: 6750 West Loop South, Suite 610, Bellaire, Texas 77401 713-667-4026