TRANSITIONS

IDENTIFYING A FOOLISH INVESTING TECHNIQUE

The market is moving up. The market is moving up. FOMO! This acronym describes a technique of investing called “Fear of Missing Out”. What this means is…regardless of market conditions, or the underlying investment fundamentals of a company, one invests simply because everyone else is.

Conceptually FOMO portrays a lack of investment skill or knowledge of the markets, where one follows what the other guy is buying. I call this the herd instinct, which is common among cattle. For many years, FOMO was practiced mainly by small, retail type investors. With their lack of sophistication, Wall Street made good money trading against their order flow.

What seems to be happening today is that the technique of FOMO is being practiced by some institutional firms whose sheer size moves the markets. These institutions include pension plans, hedge funds, mutual funds trading desks at brokerage firms, all of which are chasing short-term returns. It is possible some of those retail investors got jobs trading at these large firms. However, it is also possible that the larger firms are using computer programs to practice this technique. They review trading data, identify stocks on the move with increasing volume, and jump in, pushing stocks higher. This becomes self-fulfilling. As one firm buys, the stock moves on increasing volume, and another computer program identifies the pattern as a stock to trade.

Essentially FOMO is really momentum trading where one buys simply because others are. Brash egos and certainty of their superior skills lead to the belief they not only can buy these stocks, but they can

continued next page

Herb Diamant
PRESIDENT & SENIOR
PORTFOLIO MANAGER

DIAMANT
ASSET MANAGEMENT

170 Mason Street
Greenwich, CT 06830
(203) 661-6410

continued from page 1

also sell them before everyone else. This works until it doesn't. My imagery is the cattle stampeding together, trying to get through a narrow pass. Computer programs can also identify stocks on the move down with increasing volume. Likely there are informal agreements among some institutions to provide liquidity to each other. Yet with a lack of real liquidity across the markets, who will be the buyers when the momentum guys begin selling? We saw some of this occurring in mid-December last year, where it looked like a real correction was brewing.

As one firm buys, the stock moves on increasing volume, and another computer program identifies the pattern as a stock to trade.

As investors, we must live with the FOMO guys. The difference is the amount of patience needed, as the computer programs snap up stocks as fast as fundamental investors identify opportunities. It will be most interesting to observe markets when the momentum plays simultaneously move in reverse. Then the fundamental investor goes to work, identifying the values of quality companies caught up in these selling programs. This is a healthy process for the markets. Not only do opportunities arise for long-term investors, but the publicly traded companies are rewarded with a stronger shareholder base, which are focused on long-term growth instead of quarterly sales goals.

Visit our Resource Center for more market commentary and insights.

Written by: **Herb Diamant**, President and Senior Portfolio Manager
Please feel free to contact us with any questions or comments at **(203) 661-6410** or email Herb directly at **herb@portfolioadvisor.com**

CREATIVE SOLUTIONS TO WEALTH MANAGEMENT

Diamant Asset Management was built on a foundation of family and friendships with ethics and integrity as our guiding principles. As an independent Registered Investment Advisor, we take our fiduciary responsibility seriously and act as a guardian of your wealth.

Managing wealth through the transitions of life. It's what inspires us to do what we do every day.