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Greed, Fear, and Sheeple

A Monday Morning Musing from Mickey the Mercenary Geologist

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There have been volumes written about psychology of the marketplace and numerous articles, commentaries, newsletters, and books have addressed the twin emotions of greed and fear and how they contribute to a herd instinct or mentality amongst both lay and professional investors. I prefer to collectively call these people "The Sheeple." But it is simply human nature to get caught up in the emotion of the moment and react without thorough analysis and clear thinking. At various times in my long investing career, I have found myself part of this unsavory crowd.

Greed and fear are the strongest motivators for Sheeple-style investors driving both bull and bear markets and the so-called business cycle. You will find this idea within most mainstream schools of economic thought

But in Austrian economic theory, the business cycle is a phenomenon resulting from state and central bank attempts to fiat engineer the supply and demand balance thru interest rate manipulation. Periods of monetary expansion or inflationary "booms" are followed by periodic deflationary recessions or depressions where mal-investments fail and free up capital for new ventures. Government and central bank interference serve to prolong the inevitable "busts" and to retard the inevitable recovery.

Right now, greed and fear are fierce combatants in the marketplace and we are at a tipping point in the bear market economy.

From a low on March 9 to a high on June 11, the S&P 500 gained nearly 40%. During this four month rally in the capital markets, "green shoot" *greed* was the latest in spring fashion and there was increasing talk of a quick economic recovery by many pundits.

But investor confidence is fragile and abject *fear* gripped the markets again on Monday, Tuesday, and into Wednesday of this final week of June. The S&P 500 gave back 8% of its impressive spring rally in just two trading sessions.

Relatively minor news, actually opinion, was the catalyst that sent the stock, currency, and commodities markets tumbling. On Monday, the World Bank said that the global recession is worse than they previously forecast in March and predicted a contraction in US GDP of 3% for the year and an era of markedly slower world economic growth.

The Dow immediately lost 200 points, the dollar fell below 80 on the index, oil dropped 3.5%, and gold lost $20, reaching a 30 day low of $914 and quickly breaching support at $930.

Investors are trying very hard to be greedy but every little perturbation in this Humpty-Dumpty economy brings back our number one nemesis, fear.

Markets are volatile. Witness what happened on Wednesday afternoon when the Fed came out with a slightly more upbeat take on the economy than its previous communiqué in April. All markets bounced back and at close on Thursday June 25 when this missive was written, oil was pushing $70 again, gold was above $940, and the Dow had regained more than half of its losses for the week. Folks, that is prima facie evidence of fear and greed running amuck.

In my opinion this four month episode is *not* the beginning of a bull market rally. Call it a "dead cat bounce", or a "sucker rally", or whatever you will, there are too many factors in our economy that are just plain *wrong*.

Market volume is down, unemployment is up, state and local governments are insolvent, Fed Ben is helicoptering dollars, Obama is bowing to petrol kings, and Americans are buying their Big Macs with max'd out credit cards. The list goes on and on, but I won't.

But what you say about the recent strength in industrial commodities? Does that not foreshadow increased demand and industrial output? I emphatically say no: It is an artifact of speculation by hedge funds and continued stockpiling by Chinamen who understand hard assets are a better bet than US debt.

Don't be fooled.

Greed, fear, and herd instinct amongst the Sheeple, whether lay or professional, are especially important factors that fuel both big bull and mama bear markets. This is undoubtedly a mama bear and as Yogi says, "It ain't over till it's over."

In retrospect, Greenspam didn't get much right during his long tenure as Fed Chairman. But his take on greed, he called it "irrational exuberance", was bang-on.

It is of utmost importance to control your emotions when investing. Quick decisions are generally bad decisions when emotions are high and running rampant. Greed and fear are not part of a viable investing philosophy. Neither is gut instinct. Don't let the herd sweep you into the stampede and over a cliff.

Lest you think I ride a high horse, I plead guilty for following the herd at times in my investing career. Hopefully both you and I have learned from these expensive lessons.

A good stock investment must start with evaluation of the company's fundamentals. This is especially important in the riskier sectors of the market. If you are reading this, it is likely that a portion of your investment portfolio is dedicated to high risk venture capital stocks.

If you employ a conservative investing philosophy to the junior resource sector, you can mitigate a portion of that risk (Mercenary Musing, May 26, 2008). I have written previously about the key ingredients to investing in junior resource stocks: A company must have the right share structure, the right people, and the right project to pique my Mercenary interest (Mercenary Musing, December 15, 2008). I encourage you to read it and stay out of the herd mentality for your own investing health.

Never forget that investing in the penny stocks is gambling. By taking a fundamental, contrarian, and disciplined approach and doing detailed and careful due diligence, you can skew the odds in your favor. We all like gambling games where our odds of winning are higher than the average Joe's.

Just say no to greed and fear. Refuse to follow the Sheeple. Dare to be a contrarian.

Buena suerte, Inversionistas!

Ciao for now,

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The **Mercenary Geologist Michael S. "Mickey" Fulp** is a Certified Professional Geologist with a B.Sc. Earth Sciences with honor from the University of Tulsa, and M.Sc. Geology from the University of New Mexico. Mickey has 30 years experience as an exploration geologist searching for economic deposits of base and precious metals, industrial minerals, uranium, coal, oil and gas, and water in North and South America, Europe, and Asia.

Mickey has worked for junior explorers, major mining companies, private companies, and investors as a consulting economic geologist for the past 22 years, specializing in geological mapping, property evaluation, and business development. In addition to Mickey's professional credentials and experience, he is high-altitude proficient, and is bilingual in English and Spanish. From 2003 to 2006, he made four outcrop ore discoveries in Peru, Nevada, Chile, and British Columbia.

Mickey is well-known throughout the mining and exploration community due to his ongoing work as an analyst, newsletter writer, and speaker.

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