



Greed and Fear in the Stock Market



The dictionary meaning of the word "Greed" is "intense and selfish desire for something, especially wealth, power, or food". On the other hand "Fear" stands for "be afraid of (someone or something) as likely to be dangerous, painful, or harmful."

Traditionally, human beings are guided by "Greed" and "Fear", which are the 2 extreme emotions, choking the rationality of the human mind, thereby preventing him from taking sound investment decisions. The psychology behind "Fear" was rightly highlighted in the market falls of 2000 and 2008, where an investor had lost 20-70% of his portfolio value which caused fear in his mind for future investments in the stock market. His emotions collapsed and he succumbed to panic, either by liquidating his positions at a huge loss or just waiting in the hope to exit his positions on a breakeven level. The Investor, who gets stuck in the fear cycle, will also be the one to be enticed to the greed cycle, as it is the extreme emotion to fear.

What is interesting to note is that, just before market crashes, it witnesses extreme signs of greed buying as in the case of 2008 fall. Just before the 2008 fall, Indian Markets had moved from a low of 1000 in 2003 to a high of 6300 in 2008. In the last stage of the Bull Run in 2007, [Nifty share price](#) from a low of 3500 made a high of 6300 in just 10 months. This period was characterized by extreme greed and easy money. When there are excesses in the stock market, Greed sets in, this in turn results in major correction, thereby triggering the Fear psychology. Most of the investors are trapped in the fear and greed cycles by buying in greed and selling in fear cycle, resulting in huge losses.

How does Dynamic Levels help in mitigating the greed and the fear of the Investors

Dynamic Levels, through its years of Research, has come to a conclusion that to remove the emotions of greed and fear, one must be aware of the Risk to Reward ratio of each trade and cut losses at right stop loss levels, which could be trend changing in nature. For this, Dynamic Levels have specified important monthly and weekly support and resistance levels



which can be used for Entry and booking target. As an investor, he needs to know his, entry, exit, stop loss and risk to reward ratio before going for a trade, and most importantly the discipline to follow it. This will prevent him from getting trapped in the cycle of greed and fear.

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