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Stock investors battle smoke and mirrors

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In the boiling atmosphere of the Vietnamese stock market, it is time to mention a few misconceptions from Vietnamese investors.

Having observed and summarised markets through the years I have developed a respect for courageous investors who bear many risks. However, I now promise to tell the truth, and only the truth, for the health of the market.

Hearsay or rumours

Information is of great importance in the market, but because of little understanding, investors tend to prick up their ears at all forms of information, including formal and informal. But the thing is, no one can do a test. This has resulted in gossip which is extremely dangerous.

Typically, they find some 'smooth-tongued' people or advisers/brokers of a stock company itself. We can see some harmful factors such as a lack of objectivity because of a conflict of interest, a lack of comprehension of what is being said and an inability to separate golden information from waste and a prominence of cold or old news.

Great expectations

Foreign investors often know what they want and because most funds are in the form of mutual funds, their policies are consistent and stable. They don't jump in and out of a market incessantly.

A lack of solid goals allows dreams to float with market evolution. For example, a 20 per cent interest rate in three months is good enough, but the wish is 40 per cent in four months. A lack of goals, moreover, relates to another phenomenon called distorted or blocked expectations.

Herd mentality

Professor Andre Farber and I have demonstrated by statistics and mathematical models that a herd mentality is immensely powerful in Vietnam and according to our statistics, it is strongest in the world. It is especially evident when market price increases in a long, continuous term.

A very apparent direct result which everyone can see is a person will ignore his own expectations and chase what the crowd is doing. This makes a difference between trading strategies of non-homogeneous groups of investors become negligible (mathematically speaking, small enough epsilon that we might neglect it without causing any problem). Liquidity is created by Delta epsilon, and people tend to make reverse transactions.

The second result, also direct, is decreasing liquidity. Meanwhile, liquidity is the most precious and unique value in a stock market (not the misconception capital mobilisation). When liquidity becomes a rare commodity, the market becomes a casino, a casino where people see it as a money printing machine which creates money everywhere. This is nonsense and deceiving.

Care much about profit, ignore knowledge

The majority of investors are only interested in profit and have learnt by heart a lesson since they were in kindergarten that digging leaked information is a way of enriching knowledge. This is obviously false. Knowledge is different from information. Knowledge is a direct information filter, consisting of aims and methods. I am sure of the fact that insisting on information as abundant as waste out there doesn't make investors smarter at all.

Strongly believe that "I am the most intelligent"

Some investors think they are the smartest, a sign of a lack of knowledge. Consequently, investors seldom care about calculating methods, observations and risk diversification of the asset basket. People I know often call me out for dinners at bars and cafés believing that within 20 minutes all of my knowledge and failures I experienced in universities, in the laboratory, as well as in my business will be completely conveyed to their 'money grabbing' decision.

By through my own expertise and experience, I understand that the market is not like what most of you investors think it is.

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