

## How Bull Markets Affect Your Intelligence

"Become more humble as the market goes your way." - Bernard Baruch

Lately, it feels like every time I log into check my investment accounts the market values are higher than the previous time I looked. The stock market continues to hit all-time high after all-time high. I have to admit, it feels pretty good when things are going your way in the markets and it seems like everything you touch turns to gold.

*This is easy. Everything I buy just keeps going up.*

It would be nice to assume that my intelligence has risen along with my skills as an investor, but I have to admit that's not really what's going on here. We just happen to be in the midst of a strong bull market. So I have to remind myself. Seeing your investments rise is no way to validate your level of intelligence. In fact, it can be extremely dangerous to your wealth when the music stops playing.

*Who needs an insurance policy when all of my risky investments have been rising for years?*

Researchers have found that [the brain activity of a person who is making money on their investments is indistinguishable from a person who is high on cocaine or morphine](#). The brain of a cocaine addict who is expecting a fix and people who are expecting to make a profitable financial gamble are virtually the same. The danger in allowing a bull market to increase your confidence as an investor is that it can lead you to take unnecessary or avoidable mistakes to continue to get that high.

*Why would I ever own bonds or foreign stocks? The S&P 500 is obviously the only game in town.*

Risk management gets thrown out the window by many during a bull market. You begin to forget how you reacted the last time stocks got crushed. You assume that the good times will last forever, or at the very least, you'll surely be able to sidestep the next downturn.

*Who cares about risk management and diversification? I'm making money!*

Bull markets can force investors to abandon a good process. Signals, guidelines, and policies that were put in place before stocks began their upward climb get pushed to the wayside because it feels dumb to manage risk when things just keep going up.

*I know I put this system in place to protect myself in the event of something going wrong but risk management doesn't seem to work anymore. What's the point?*

The temptation from the markets to change your strategy when things are going well can become intense if you don't have the discipline to stay the course. During a bull market, you'll never want to sell anything just like you'll never want to buy anything during a bear market. It's the Murphy's Law of investing.

*Every time I sell or rebalance, the investments I trimmed continue to run higher. It makes no sense!*

One of the hardest parts about investing is staying true and disciplined to a consistent process when others around you aren't. The fear of missing out during a bull market can quickly turn into the fear of being in during a bear market. Both of these feelings can get you into trouble as extreme stances in the markets rarely end well.

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I have no idea when this bull market will end. Intelligent people have been [calling for a top for some time now](#). Predicting the future is damn-near impossible. I'm not trying to diminish anyone's skills as an investor. If you've been able to hang on as we've climbed this wall of worry for the past few years you deserve a pat on the back. There are many investors who sold out and went to cash a long time ago or never had the courage to buy during the last crisis in the first place.

But don't confuse a bull market for increased brain power.

Personally, I like to remind myself of my past mistakes; keep in mind that I have no idea how the future will play out; prepare for a wide range of outcomes that could include either another leg or two higher in the markets from here, a slow sideways churn or even a correction or brutal bear market. You really never know with these things what could set people off in terms of panic or euphoria. There's also something to be said for being comfortable with your investment strategy in any market environment.

And above all, it's important to stay humble. While not always easy, humility may be one of the most useful traits you can develop as an investor during a bull market to remind yourself that the good times won't last forever and you're not as intelligent as rising markets may make you feel.

Further Reading:

[Perma-Arguments](#)

Now here's what I've been reading this week:

- Jealousy is a terrible thing ([Humble Dollar](#))
- Don't let a bad process derail your investments ([Bloomberg](#))
- How to survive the next bear market ([Fortune Financial](#))
- 23 years of personal finance wisdom in one column ([St. Louis Dispatch](#))

- What a compounding snowball really looks like ([Compounding Snowball](#))
- Doing nothing isn't a financial plan ([Behavior Gap](#))
- Proudly permabullish ([Reformed Broker](#))
- "To be an investor is to be a decision maker." ([Johnson Investment Counsel](#))
- Doing the right thing for the wrong reason ([Abnormal Returns](#))
- Why asset markets are like the banking system ([Philosophical Economics](#))
- Reminder: Me, Barry & Kris will be in Houston & Austin at the end of this month ([Big Picture](#))