# Fear, Greed and Panic
By Dhirendra Kumar | Jul 10, 2008

Over the last few days, the standard investing punditry that is available on business TV and newspapers has turned fiercely negative. The consensus view is that we're doomed. The line-up of problems that are going to ruin us all is impressive indeed.

- Oil prices show little sign of relenting.
- Not only is the inflation rate rising, but so are inflationary expectations and that's supposed to be worse.
- The government seems set to transition from a principle-driven ally that was blackmailing it to an unprincipled ally that will blackmail it.
- Growth is slowing down.

There is a genuine fear in the air.

Among people who to invest in equities and equity-based mutual funds, the natural question to ask is what they should do now. In response, the best thing I can think of is to quote the great investor Warren Buffett. Buffett is fond of saying that **one should be fearful when others are greedy and greedy when others are fearful**. It sound like such an overly cute thing to say that you may feel that it's good only for printing on inspirational posters but actually, like everything else that Buffett says, it's deeper than it looks.

Clearly, others are fearful now. Does that mean that it's time to be greedy? It probably is. In a recent interview he said something very interesting in response to a question about **what investors should do now that stocks have started declining**. Here's what he said.

"The answer is you don't want investors to think that what they read today is important in terms of their investment strategy.

Their investment strategy should factor in that
(a) if you knew what was going to happen in the economy, you still wouldn't necessarily know what was going to happen in the stock market.
(b) They can't pick stocks that are better than average.

Stocks are a good thing to own over time. There are only two things you can do wrong: You can buy the wrong ones, and you can buy or sell them at the wrong time. And the truth is you never need to sell them, basically. But they could buy a cross section of American industry, and if a cross section of American industry doesn't work, certainly trying to pick the little beauties here and there isn't going to work either. Then they just have to worry about getting greedy. I always say you should get greedy when others are fearful and fearful when others are greedy. But that's too much to expect. At a minimum, you shouldn't get greedy when others get greedy and fearful when others get fearful".

Just change 'American' to 'Indian' in these words and then read them carefully. It's so far removed from what most people think investing is all about that it takes time to figure out what this amazingly successful old man is saying. What he is saying that long-term success of investing is based not on the fact that the investor will be able pick the 'little beauties' but on the fact that country's economy is going to grow.

What is happening now, (the short-term news flow) is not important because regardless of what you hear, what is happening in the country and the economy in the short-term may not be a good indicator of what is going to happen in the stock markets in the short-term. There are too many factors, too much noise, that affect the markets for the average investor to figure out.

However, in the long-term all the noise gets cancelled out and you are left with one single question. Is the country's economy going to grow? If you think the answer is yes, then that's a good reason to go ahead and own a broad cross-section of stocks. The bonus is that because it is a time when others are fearful, a lot of investments are cheaper than they were just a short while back.

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