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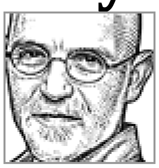
Once Bitten, Twice Bold: Look Who's Buying Stocks Now



By

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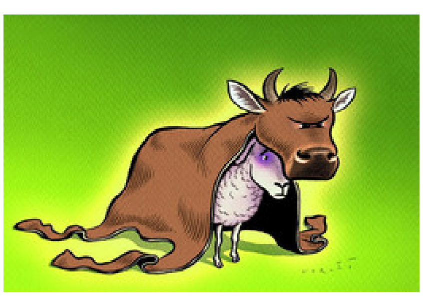
Contrarian indicator alert: It looks as though many of the retail investors now getting back into stocks are the same people who bailed from the market just before the start of a historic bull run.

Since the beginning of the year, investors have added roughly $32 billion to mutual funds and exchange-traded funds that hold U.S. stocks. That uptick—amounting to just 0.7% of total assets—is no stampede. But it is enough to raise questions about who is doing this new buying.



Christophe Vorlet

In speaking with financial advisers around the country over the past couple of weeks, I heard two frequent refrains. First, most small investors have been extremely cautious in adding to their positions, even as the stock market has doubled since March 2009.

Second, and more troubling, many of the investors who are aggressively getting back into stocks are the very same people who fled the equity markets in the fourth quarter of 2008 and the first quarter of 2009, just before it embarked on a historic rally.

"I think these clients are embarrassed to a certain extent," says Owen Murray, director of investment research at Horizon Advisors, a money-management firm in Houston. "The ferocity of their desire to get back in now doesn't nearly match their desperation to get out [in 2008 and 2009]. It's more like a kind of capitulation."

These are the sheepish bulls—people who know they sold low two years ago and worry that they are buying high today. In some cases, financial planners say, these clients are asking to hold even more in stocks than they did before the market crashed.

"That's the mystifying thing," says **Anthony Ogorek** of Ogorek Wealth Management in Williamsville, N.Y. "Why are these risk-averse clients now tending to be more aggressive than one would expect?

Dennis Witte, 73 years old, a retired engineer for Eastman Kodak who lives in Conesus, N.Y., with his wife, Charlotte, had about 62% of their money in equities going into the financial crisis. As 2008 progressed, "we were really scared," Mr. Witte recalls. By that September, after their stock investments had lost more than a third of their value, "we finally decided we'd had enough."

Over the past few months, the Wittes have moved back into stocks. "I'm back to about 40% equities," Mr. Witte says, "and I want to be at more."

Does he worry that, having bailed out near the bottom, he may be getting back in near a top? "That's certainly a good question. I suppose some might call us foolhardy," Mr. Witte says. He adds, "We don't have any regrets. I think the market is there to protect what you have when you're a retiree. It doesn't mean when things are imploding you have to sit there like a doofus."

Once bitten, twice bold: What turns yesterday's sellers into today's buyers?

The sheepish bulls seem to be driven by what psychologists call "counterfactual regret"—the haunting sense of what might have been. "These investors have been double-traumatized," says Michal Strahilevitz, a business professor at Golden Gate University in San Francisco who studies how investors behave.

"First in 2008 and 2009, they suffered until they said 'I can't take it anymore' and sold all their stocks," she says. "And now they've had to deal with the trauma of watching the market go up and realizing that they'd be better off if only they hadn't gotten out."

That can lead these investors to plunge impulsively back into the very market that burned them so badly. "They're willing to risk more in the hope of not being losers again," Prof. Strahilevitz says. "It's 'Damn the rationality, I just want to feel good.'"

What's more, the memories of loss in the financial crisis already are fading, while the regrets over being out of stocks are refreshed every day the market goes up.

If you dumped all your stocks in 2008 and 2009 and are tempted to get back in now, Prof. Strahilevitz suggests asking yourself: "'Am I doing this for the right reasons? When I think about what I'm going to do, does my heart race?' If it is racing, then you're probably not being rational."

Now is no time for these investors to forget the lesson they should have learned about themselves two years ago: If they sold stocks because they couldn't stand the pain of loss, their risk tolerance wasn't as high as they once believed. Chances are, it still isn't.