

Why Investors Chase Trends, Fear Losses, and Make the Same Mistakes

The behavioral case for a rules-based discipline

Most investors know the basic advice. Diversify. Think long term. Do not panic. Do not chase performance. The advice is simple. Following it is not. The reason is that investing is not only an analytical activity — it is an emotional one. Money represents security, freedom, family, retirement, and control. When markets fall, what an investor faces is not just market risk but behavioral risk: the risk that his own reactions will damage his long-term outcome.

Why people chase trends

When a market or sector rises for a while, the human mind treats the rise itself as evidence. The chart becomes a story — technology, AI, energy, a new era — and the story creates confidence, the confidence attracts money, and the money pushes prices higher, which strengthens the story. The specific story changes every cycle. The mechanism never does.

Notice the trap in the timing. Early in a bull market the evidence is incomplete and most investors are skeptical. Late in a bull market the returns are obvious, the stories are polished, and the crowd is reassuring. An investment often feels safest precisely after most of the opportunity has already happened. Add the fear of missing out — the moment when standing aside starts to feel like a loss — and discipline gives way. People buy because not buying has become too painful.

There is a crucial distinction here. Trend *chasing* is emotional and usually late: no defined exit, driven by excitement and social proof. Trend *following* is systematic: the rule is written down before the emotion arrives, it treats every signal the same, it accepts whipsaws as a known cost, and it has an exit as well as an entry. The problem is not noticing trends. The problem is noticing them emotionally, after big moves, with no plan for getting out.

Why losses hurt more than gains feel good

The foundational work here is Kahneman and Tversky's Prospect Theory, and its plainest finding is this: losses hurt roughly twice as much as equal gains please. A \$10,000 gain is satisfying. A \$10,000 loss feels threatening, urgent, and personal — because money is not abstract. It is retirement, independence, and dignity. A market loss reads to the nervous system as danger, and people make decisions designed to stop the pain rather than improve the outcome.

That asymmetry produces recognizable patterns. The *disposition effect*: selling winners too early (to lock in the pleasure) and holding losers too long (“I’ll sell when I get back to even” — the purchase price becomes an anchor the market does not care about). *Myopic loss aversion*:

the more often you check your portfolio, the more losses you see, and the worse stocks feel — a real hazard in the age of brokerage apps and real-time alerts. And the most dangerous one: investors tend to be risk-averse with gains and risk-seeking with losses — cautious when ahead, doubling down when behind — which is exactly backwards, and is how people end up buying high, selling low, and re-entering only after prices have recovered.

The cycle where it all comes together

These biases interact over every market cycle in roughly the same order. Early bull: fresh memories of losses keep people out. Late bull: the story is obvious, skeptics look foolish, and risk-taking peaks just as reward thins. Initial decline: anchoring to the old high says “it will come back.” Deepening decline: loss aversion takes over, portfolios get checked hourly. Capitulation: selling happens not because a plan says sell, but because the anxiety has to stop. Recovery: regret keeps the seller out until confidence — and prices — are high again. Buy late, sell late, re-enter late.

Why this is hardest near retirement

A younger investor can tell himself that time and paychecks will repair a mistake. A retiree cannot. Losses early in retirement are especially frightening because withdrawals continue while the portfolio is down, and there is less ability to replace capital. Yet retirees still need growth to outrun inflation. That is the bind: they need equities but fear volatility — and fear makes people vulnerable to panic selling and to products sold into that fear.

What a rule actually buys you

A rule does not predict anything, and no rule works all the time. But that is the wrong standard. The honest comparison is not rule versus perfection — it is rule versus your own likely behavior under stress. Without a rule, a falling market asks you a dozen unanswerable questions: is this a correction or a bear? Should I sell now? What does the Fed know? With a rule, it asks one: has the signal changed?

A rule’s costs — whipsaws, early exits, late re-entries — are visible, definable, and repeatable. Emotion’s costs — panic selling, capitulation, paralysis, chasing — are hidden until after the damage is done. The rule is a commitment device: it remembers that the decision was made before the panic arrived. That is the real product of a 200-day trend framework observed sector by sector. Not a forecast. A structured way to observe when risk is rising or falling, and to respond the same way every time.

Investing is hard because behavior is hard. The discipline is the point.

— John