From *New York Times* Best Selling Author

KEN FISHER

with Elisabeth Dellinger

BEAT THE CROWD

How You Can Out-Invest The Herd By Thinking Differently

WILEY

Beat the Crowd

Fisher Investments Press

Fisher Investments Press brings the research, analysis, and market intelligence of Fisher Investments' research team, headed by CEO and New York Times best-selling author Ken Fisher, to all investors. The Press covers a range of investing and market-related topics for a wide audience—from novices to enthusiasts to professionals.

Books by Ken Fisher

Debunkery
How to Smell a Rat
Markets Never Forget (But People Do)
Plan Your Prosperity
The Ten Roads to Riches
The Only Three Questions That Still Count
100 Minds That Made the Market
The Wall Street Waltz
Super Stocks
The Little Book of Market Myths

Fisher Investments Series

Own the World by Aaron Anderson
20/20 Money by Michael Hanson

Fisher Investments On Series

Fisher Investments on Consumer Discretionary
Fisher Investments on Consumer Staples
Fisher Investments on Emerging Markets
Fisher Investments on Energy
Fisher Investments on Financials
Fisher Investments on Health Care
Fisher Investments on Industrials
Fisher Investments on Materials
Fisher Investments on Technology
Fisher Investments on Telecom
Fisher Investments on Utilities

FISHER
INVESTMENTS
PRESS

Beat the Crowd

HOW YOU CAN OUT-INVEST THE HERD BY THINKING DIFFERENTLY

Ken Fisher
With Elisabeth Dellinger

WILEY

Cover image: City People Set © iStock.com/edge69; Multiple silhouettes of business people © 4x6/Digital Vision Vectors/Getty Images
Cover design: Thomas Perez

Published by John Wiley & Sons, Inc., Hoboken, New Jersey.
Published simultaneously in Canada.

Library of Congress Cataloging-in-Publication Data:

ISBN 978-1-118-97305-9 (Hardcover)
ISBN 978-1-118-97306-6 (ePDF)
ISBN 978-1-118-97307-3 (ePub)

Printed in the United States of America

10 9 8 7 6 5 4 3 2 1

Contents

Preface

True confession: I didn't want to write a preface for this book. It's too darned long already, and I wanted to spare you having to flip one more page. But alas, the powers that be require one—who knew!

Maybe that's fitting, because this is a book I didn't think I'd write. I was happy with 10 books. Ten is a round number, and plenty. I didn't think the world needed another Ken Fisher book. But ideas happen! An idea struck during a conversation with my former Wiley editor, Laura Gachko (still with Wiley, no longer saddled with my silly nonsense) and my co-author, Elisabeth Dellinger—one thing led to another, and next I knew, I was at it again. Eleven is a fun number, too.

The concept of contrarianism has run through my books since *Super Stocks*, way back in 1984, but I've never overtly addressed it. To me, contrarianism has always been about independent thinking, and my books have always demonstrated this (at least, I like to think so). But that fateful December day in 2013, it occurred to us that I'd never come out and explained just what the heck contrarianism is, isn't and how to practice it. I realized it was time, since contrarianism is misunderstood and misapplied by many—and unknowingly practiced by some, who might like to know it.

Most assume being contrarian means doing the opposite of what "everyone" does—if "everyone" is mostly wrong most of the time, betting the opposite must bring success! Sometimes, that's true. But often not. Opposite-doers have a herd-like mentality, too, and the market loves fooling them as

much as it loves fooling the crowd they're trying to game. Real life isn't "herd versus contrarians." It's the mainstream herd, the opposite-doing herd, and the independent thinkers—real contrarians. They see what both herds think, then weigh all extant factors—pluses and minuses—and reach their own conclusions.

This book is a how-to guide for anyone tired of rules of thumb, media hype and industry mythology and wants to think independently. It's a brain-training guide. Not foolproof! But foolproof doesn't exist. This book simply teaches the thought process that helped me be right more often than wrong for over four decades of money management. You can be right more often than wrong, too!

This book was a team effort. As said above, Laura helped generate the idea and provided early edits before passing the reins to Tula Batanchiev, who edited the lion's share along with Judy Howarth and the rest of their team at John Wiley & Sons. Vincent Nordhaus led production at Wiley. Wiley's team was diligent and patient as always, and I remain grateful to my excellent agent, Jeff Herman, for leading me to them. Jarred Kriz, Michael Olsen, Lauren Schekman, Eric Harger and Nathaniel Beeman—who have worked with me for years—also provided ideas. Thomas Perez designed another cool cover, capturing our theme perfectly. Jessica Wolfe, Chanddeep Madaan, Sam Olson, Michael Leong, Tim Schluter, Brad Pyles and Talia Hosenpud helped with research, while Jarred, Todd Bliman, Jill Hitchcock, Justin Arbuckle and Molly Lienesch weighed in on early drafts and helped steer us toward a sane path. Todd pulled triple duty, editing the entire book for content and shouldering most of Elisabeth's workload (and providing her unquantifiable moral support) while she shelved much of her day job of writing for my firm to devote her time to this project. Christopher Wong and Emily Dunbar—up-and-coming writers at my firm—helped with copy-edits. Last but not least, Fab Ornani, David Eckerly, Christopher Boaz and Theodore Gilliland led our PR and web marketing. To all of

them and anyone I failed to mention here—and to my wife, Sherrilyn, and broad family—I give my deepest thanks.

And thanks to you, for reading! May you enjoy this as much as we enjoyed writing it.

Ken Fisher
Camas, WA

CHAPTER 1

Your Brain-Training Guide

Few truths are self-evident, but here's one as close as they get: In investing, the crowd is wrong much more often than right.

Most folks accept this. They remember pain from some of their own mistakes. More so, they recall market-bloodied friends, relatives, neighbors and co-workers. They've seen all the famous market gurus get egg on their faces. Academic studies show the wisdom of the investing crowd is folly.

Yet folks follow along anyway. For most, it's impossible not to! The financial blogosphere, websites and cable TV talking heads pound market groupthink into our brains 24/7. Without conditioning yourself to resist, it's all too easy to accept repeated falsehoods as fact, melt into the crowd and buy high, sell low—with the rest.

There is another way! Train your brain to battle the media, the crowd, your friends, neighbors and cocktail bankers and think differently. It doesn't take vast market knowledge, a finance degree, an economics PhD or endless rigorous study. Armed with a few basic principles, internal alarm bells and an instinct for independent thought, you can be a true crowd-beating contrarian investor.

Yogi Berra once quipped, "Baseball is 90% mental, the other half is physical." Might apply to investing! Mental discipline is key to success. See this book as your brain-training guide. You'll learn tricks you need to protect your brain from media hyperbole and some principles to outsmart the crowd.

What does being a contrarian mean? What's the secret to being right more than wrong? Prepare to find out. In this chapter, we'll start with the basics:

- Why Wall Street's definition of a contrarian investor is wrong
- The foolishness of conventional wisdom
- The true contrarian's gut-check

Wall Street's Contrarian Contradiction

Legend lumps all investors into two categories: bulls and bears. Those who think stocks will rise, and those who think stocks will fall. If the masses are bullish, Wall Street says anyone who's bearish is a contrarian. If the masses are bearish, bulls are the contrarians.

But this is wrong. It implies "everyone"—one big crowd who thinks stocks will do one thing—and "everyone else," another crowd thinking stocks will do the opposite. "Everyone else" often thinks they're contrarian. They think "everyone" is the herd, and the herd is always dead wrong. They've seen the countless academic studies showing the majority of investors are just terrible at making investment decisions, usually selling low and buying high. They believe doing the opposite of the crowd guarantees buying low and selling high.

Problem is, "everyone else" is as crowd-like as "everyone." Their opinions usually aren't unique, and their analysis often isn't any broader or better than the main crowd's. They look at all the same things, just with a dissenting, condescending sneer. People thinking this way and that they're contrarians aren't any smarter, any more discerning than you or me or the crowd. Their moves rarely pay off any better.

That's the bad news. Here's the good news: You can be a real contrarian! Once you know what leads the crowd or both crowds astray, it isn't hard to think better and act smarter. It's impossible to be perfect, but to be better than most isn't so hard.

The Curmudgeon's Conundrum

Two-herd contrarians see the world like an analog clock. They base bets on wherever the main herd expects the hand to land. If everyone says the clock will point at 1, the supposed contrarian herd bets it'll land on 7—roughly the mirror opposite direction. Just because it's the opposite! Contrary for contrary's sake. Much of the time, no real extra thought goes into it. Just a curmudgeonly instinct. "Everyone's cheery, so I can't be." It wouldn't occur to curmudgeons to consider other alternatives, like "Everyone's cheery, but maybe they should be even more so!" This isn't physics, where for every action there is an equal and opposite reaction. Assessing markets and events based on a false either/or could lead to big mistakes when you consider results are not binary.

Transferring our clock metaphor to stocks, if the crowd thinks stocks will rise 10% in a year, the curmudgeons bet on down. Perhaps not down 10% exactly—they'll bet on the opposite direction, but they might not bother guessing the magnitude. Their nature is to be ornery, but not ornery with precision. Simply betting the reverse direction is good enough for them.

We can transfer it to a recent scenario, too, like the Federal Reserve's quantitative easing (QE). The crowd thinks QE is good, propping up stocks. Contrarians think it's bad, risking inflation. Here is your false either/or! In my view, QE is bad because it is deflationary, an outcome neither the crowd nor the supposed contrarians consider. There is a century of economic theory and research supporting this notion, but the crowd buys the common narrative, which crowd-contrarians are so fast to categorically reject that they miss the truly big problem with crowd-think. There, too, they're just being an opposite crowd without much deep thought. (More on QE later.)

What's the problem? A clock doesn't have just two numbers! It has 12 hours, with 60 minutes in between. Even if the masses bet wrong, the curmudgeon has a 10-in-11 chance

of being wrong, too. That's a 1-in-11 chance of being right. Same goes with markets. If everyone calls for a 10% year, stocks need not end down for them to be wrong. Flat returns would do it. So would up 20%, 30% or more, because most who envisioned 10% would have sold out by the time stocks hit 15%. The curmudgeons who bet on down could very easily be wrong—and often are. Not that being wrong would hurt if you called for 10% and stocks did 30%, if your positioning was right and you didn't sell too soon, but we'll get to that in Chapter 2.

There Is Always a But

The market is The Great Humiliator. TGH for short. Its goal is to humiliate as many people as possible as often as possible for as long as possible. Preying on the herd is its bread and butter—humiliates a whole bunch of investors at once! The crowd is the easy, typical prey, but TGH spares no one forever. Even true contrarians get whacked.

No approach works all the time, including assuming the crowd is wrong. Sometimes, they're right! The market usually doesn't do what everyone expects, but there are always exceptions. If TGH didn't let the crowd be right sometimes, there wouldn't be a crowd! Momentum investors—those whose guiding principle is "The trend is your friend"—would be proven wrong the moment they invest. Markets would slap most folks in the face as soon as they buy—or sell—and people would learn from their mistakes. Stocks wouldn't have anyone to fool, and fooling folks is one of the market's greatest pleasures.

People must be right sometimes, must feel good sometimes, or we'd never have a herd. They would just give up. The occasional rightness fosters false confidence, reinforcing the crowd's wisdom. It is plausible deniability for TGH. It is

how TGH repeatedly sucks the crowd in, makes them ignore negatives, then doles out maximum pain and suffering. (TGH probably then enjoys a cartoon-villain-like laugh.) This is why seasonal myths like "Sell in May" and "September is the worst month" ring true. Even though they're wrong more often than not, they're right sometimes. Those times when May, summer and September returns look sad, coupled with below-average historical returns for May through September, keep the myth alive. Occasional and often dramatic rightness gives myths power.

Markets often let the crowd look right temporarily, before turning on them. Folks who believed the eurozone crisis would end the bull market in 2011 looked awfully right that October, when world stocks were at the bottom of a deep correction. But stocks bounced and the bull carried on in 2012, 2013 and beyond, shrugging off history's largest sovereign default in Greece along the way, ultimately proving the euro doom-mongers wrong (or very untimely, also effectively wrong).

Sometimes, markets' wobbles let folks think they're right, like when a correction comes after headlines warn some big evil will rock stocks. Corrections—sharp drops of –10% to –20% over a few weeks or months—come any time, for any reason or even no reason. But fear-mongers often assume conveniently timed corrections are proof that whatever they warned about was as big and bad as they said. This isn't fundamental rightness—just confirmation bias (seeing what you want to see), a dangerous behavioral phenomenon, but most folks don't bother differentiating between fundamental rightness and happenstance. (More on this in Chapter 9.)

Just as the crowd is sometimes right, true contrarians are sometimes wrong. Everyone is wrong sometimes! The goal is simply being right more often than wrong, as opposed to looking right at first but ultimately being wrong more often than not.

Why Most Investors Are Mostly Wrong Most of the Time

It isn't because they're uninformed. It isn't because they lack smarts. Very well-read, bright people who pay close attention to the market often make pretty bad investing decisions! There is usually one simple reason for this: They inadvertently get sucked into consensus views.

Groupthink can happen no matter how careful and studied your methods are. Many folks see investing as a discipline, art or science, which sounds good, but their methods morph into conventional wisdom—usually dangerous in investing. All operate on various sets of beliefs about what is and isn't good for stocks and when you should and shouldn't trade. Or they follow rules dictating the same.

Many doctors, lawyers and engineers are prone to this. Not because there is anything wrong with them as people. It isn't their fault! But their professional training leads them there. In their professional lives, they use a rules-based methodology, and there, it works. But in markets, it doesn't. For doctors to recommend a treatment, they need scientific proof it works—trials and controlled tests. They apply the same methodology to investing, looking for "rules" that have been back-tested and "proven" to work. Most lawyers are logicians by trade and nature—they expect markets to follow rules, processes and simple logic. Most engineers, too. They expect markets to be linear and rational, just like the systems they build and work with daily.

Rules-based investors usually use similar logic and reach similar conclusions. They use the same patterns, the same if-then assumptions. They end up expecting similar things, and it morphs into a consensus viewpoint. It usually appears very logical! But markets often defy logic, as we'll soon see.

Other folks take their rules and beliefs from academic theory and textbook curriculum. Theory and textbooks aren't inherently harmful. Principles and theory can be useful if you layer on independent thought. But many turn theory to

dogma, textbooks to rulebooks. Whatever the literature says is good or bad for stocks must be true, always and everywhere. If the rulebook says high price-to-earnings ratios (P/Es) and high interest rates are bad, then they're bad! To fundamentalists, the canon is often truth. But canon is also widely read—more consensus! Markets price in the consensus pretty quickly and do something else. That "something else" is what the true contrarian wants to figure out.

Some investors use old saws and rules of thumb as a guide—the "playbook." Here, too, the approach might seem fine. The playbook is supposedly full of time-tested wisdom! If it didn't work, it wouldn't be in the playbook! But the more you base decisions on maxims, proverbs, and things everyone just knows, the less likely you are to think independently—and the less likely to have true contrarian views.

The playbook also doesn't pass a basic logic test—one of the true contrarian's favorite tools, as we'll see in Chapter 4. It includes familiar adages, like "buy on the dips"—when stocks are on sale, snap 'em up at a bargain! But that's also when the playbook would tell you to "cut your losses"—get out of that dog before it goes to zero, and get into something that's actually going up. One page tells you to "let your profits run"—if it's going up, stay in! It'll keep going! Yet the next page tells you to "take some profits off the table." Which do you choose? Both sound intuitive! If a stock is running, you want to let it run. But you know it could easily run off a cliff, plummeting with legs churning like Wile E. Coyote, so pocketing some of those gains seems wise! The playbook doesn't tell you which play to run.

Not all rules of thumb are based on price movement. One age-old playbook trick claims to have the secret for profiting off company announcements. You've heard it: "Buy the rumor, sell the news." If the rumor mill says Apple is working on a sexy new phone that operates telekinetically, opens your garage door, feeds your kids and locates distant planets all while you're on the phone with long-lost Aunt Sally (whom your phone found all on its own!), buy. Don't wait to find out

if it's true! Get in before it's too late! Then sell when they announce it, after all the other suckers have piled in. As if it can't possibly go up more, as if the company has zero potential lift, will never do anything new and cool again ever, and maybe even do something else with another rumor right after that new phone is announced. How could you know?

All of these approaches rest on widely known information—and common interpretations of that information. No matter how intuitive and logical, they're what "everyone" does. The true contrarian moves beyond consensus views and conventional wisdom. Life is way more exciting there, in the wide-open air.

Love or Hate the Media, They Do You a Favor

Mass media reflects and also influences sentiment, and most of it has become steadily more groupthink, in my view, over the last two decades. Journalism today embodies John Maynard Keynes' old maxim: "Worldly wisdom teaches it is better for reputation to fail conventionally than to succeed unconventionally."

It wasn't always so. Pre-Internet, pre-cable, journalists often had distinct views. When you had three major national news networks and a handful of major national financial publications, pundits competed with insight. They wanted to be groundbreaking. Now, we have dozens of 24/7 cable news outlets, scores of financial websites and countless blogs—and every article and blog post has a comment feed where anyone and everyone can roast the author publicly and anonymously. Nothing attracts a roasting like an article far out of step with mainstream thinking. It drives the wing nut in the crowd into posting Internet terrorism, which cowers and moderates authors, melding a groupthink media. In some few realms, increased competition isn't always uniformly good.

But there is a big silver lining! Modern media makes it pretty easy to spot widely held beliefs and mass sentiment. The media will only rarely quote anyone outside the herd or anti-herd.

I experienced this firsthand whenever journalists asked my opinion about quantitative easing (QE). You've probably heard of it. It's a program the Fed launched during the 2008 financial crisis—an effort to boost liquidity and lower long-term interest rates so businesses and

people would be eager to borrow. For years, the Fed bought Treasury bonds and agency mortgage-backed securities from banks and paid with newly created electronic "reserve credits." Well over $2 trillion of supposed new money! These purchases lowered long-term rates, and banks were supposed to use the new reserves as collateral to magically multiply money supply.

When journalists asked my opinion, I told them what they didn't like. Something outside the herd or anti-herd. When you reduce long-term rates while short-term rates are pegged near zero, you flatten the yield curve—shrink the spread between short and long rates. We have more than 100 years of evidence confirming a wider spread is the real magic. Why? Think about bank lending. Short-term rates are banks' funding costs. Long-term rates are their lending revenues. The difference—long rates minus short rates—mimics a bank's gross operating profit margin.

Banks aren't charities. They're for-profit. The more profitable lending is, the more they'll do it. The less profits, the less eager bankers are. They'll sit on their hands. Just like they did all through QE. For years, the herd thought the Fed was the only thing propping up growth. In reality, the Fed killed lending and gave us the slowest loan growth in decades, almost no growth in the quantity of money (aka M4)—a point almost no one noticed—and the slowest gross domestic product (GDP) growth since World War II.

I explained all this to reporters, in vast detail with data. It made sense, they said! But they didn't print it. If everyone said QE was a loose monetary policy, how could they publish some wacko saying it wasn't? They couldn't, because the wing nut part of the crowd would crucify them.

Major outlets wouldn't, couldn't print such a view on QE. In an age where seemingly every quoted expert, the Fed, the International Monetary Fund, the World Bank and every finance minister and central banker in the world said QE was a big economic lifeline and ending it was the biggest risk to the global economy, journalists would have to be out of their minds to differ. The commenters and bloggers would tear them to bits. It would be career suicide.

This makes it easier for real contrarians to sort through the media—there are always exceptions, but in general, it is pretty safe to assume that if headlines hype something, it isn't a contrarian view. It won't tell you anything you can act on. For that, you'll have to venture off on your own.

The First Rule of True Contrarianism

Here is the fundamental feature of true contrarianism. If you don't remember anything from the next nine chapters, remember this: If most believe something will happen in markets, the contrarian simply believes something else will.

This is what the curmudgeons mess up. Note, I didn't say the opposite happens. Just something different. Markets price in to today's prices what the crowds commonly conceive. If everyone is bearish because they see bad things, they might be right that they're bad—but bad might not mean bearish! Because everyone sees the bad things, and they're splashed all over the TV and Internet, they might be priced in. Those bad things might not matter at all. Or there could be some fundamentally big bad thing they aren't seeing at all, and things end up worse than they expect!

This is what happened heading into 2008. Then, everyone said housing, subprime and toxic mortgage-backed securities were trouble. They would cause a recession and make stocks fall. So many said it! So many saw it!

No one, me included, saw an even bigger, quiet problem: November 2007's implementation of the mark-to-market accounting rule (Statement of Financial Accounting Standards [FAS] 157, "Fair Value Measurements"), which could wipe a couple trillion dollars off bank balance sheets globally. No one fathomed that because every financial institution would have to mark every illiquid asset on its balance sheet at the going market price, whenever others sold a mortgage-backed security at fire-sale prices, everyone else would take a hit. Every bank in the US would have to take a paper loss on every comparable illiquid security it owned.

No one fathomed that this could cause pre-existing problems in subprime mortgages to eventually wipe out about $2 trillion from the US banking system in mere months. No one fathomed that the fear over these opaque, illiquid markets could cause markets to deny funding first to Bear Stearns, and

then, six months later, to Lehman Brothers, triggering the demise of two of the five biggest investment banks. No one fathomed how the Fed, after lending JPMorgan Chase money to buy Bear, would deny funding to help Barclays buy Lehman, forcing the i-banking giant into bankruptcy. And no one fathomed how this would trigger sheer panic in the markets, making daily –8% drops seem the norm. Nor that, through it all, the Fed would forget how to function in a crisis, forget to do most of what central banks traditionally did in a crisis (presuming all of that wouldn't work), forget to boost traditional liquidity by any measure or act as lender of last resort.

If it were just subprime and housing in 2008, we'd probably have just gotten a big correction. It wasn't until around midyear, as the vicious circle of fire sales and write-downs picked up in earnest, that the real trauma started.

I missed it, too, which brings up the second big rule of contrarianism: You'll be wrong sometimes. Contrarians know it, accept it. But you don't have to be right all the time to do fine—a 60% or 70% success rate keeps you well ahead of most. As I've written in past books, if you're right 70% of the time in this realm, you become an absolute living legend. (Although it isn't impossible that all the snarky new bloodsucking ensures no new living legends ever emerge and endure ever again. Of course, a contrarian won't care about that—won't care about self-image. Despite what you may have read of me from my many critics, I care little about my image. Neither should you.)

The All-Seeing Market

Contrarians know when not to move and where not to go. How? They know markets are mostly efficient. Not fully, perfectly efficient at every moment—otherwise there would be no opportunities! Contrarians realize markets can be quite irrational in the short term. But over time and on average, prices typically reflect all widely known information. If it's out there,

in the public domain, investors have already considered it and traded on it.

Rules, conventional wisdom and consensus expectations are all widely known. Ditto for ideological beliefs, biases and every "expert" view. Every textbook theory, rulebook and playbook ever published—markets know them inside and out. They know the rules, know the if-thens and know how most folks are likely to react to every news nugget. Markets know what the crowd will do before the people themselves know.

The same is true for seasonal myths and technical indicators. Dow Theory is perhaps the most extreme example. This indicator, around since the late nineteenth century, says that when the Dow Transports and Industrials hit new highs together, you get a lasting bull trend. If they hit new lows together, look out below. There is also a lot of mumbo-jumbo in between, but I'll spare you—the extremes are what matter. If Dow Theory were right, no bull market would ever end because the signal would keep on signaling, and stocks would keep on rising! Same in a bear market. But cycles always turn! Markets have priced all those Dow Theory expectations, and they'll ultimately do something different.

Different, Not Opposite

Whatever the rules say and the herd expects, you can bet the markets won't do. But that doesn't mean the opposite outcome happens!

Think back to our clock analogy. If everyone expects the hand to land on 1, the curmudgeon bets close to 7. The real contrarians remember markets are efficient, so they know the clock probably won't land between about 11 and 3—it would be too near where most folks expect. The contrarian can effectively rule out four possibilities. But there are still eight hours' worth of potential outcomes.

For example, if most expect stocks to rise 10% in a year, true contrarians bet stocks probably won't land in the 5% to 15% range. But that still leaves a big up year, flat returns or down.

Understanding how markets discount known information helps you narrow the range of possibilities. It doesn't tell you what will happen—that's where curmudgeons get messed up—it just tells you what probably won't happen and frees you to contemplate what might happen and improve your odds.

To narrow the field, the contrarian looks for things the herd and curmudgeons ignore—they branch out. Or they look at the same things but see them differently. Both actions let them find the risks and opportunities most others miss.

The Right Frame of Mind

Contrarians are patient—they think long-term. Short-term thinking makes you antsy, and that's when bad decisions happen.

You see it all the time when folks chase heat, piling into whatever is hottest purely because it is up the most. They might get bored with broad diversification during a rally and try to concentrate in a hot trend—they ditch long-term thinking for short. Think back to 1999 and 2000. Internet stocks flew high. Fiber optics was the Next Big Thing. The Nasdaq soared, and everyone wanted a piece of the new economy. Dot-coms seemed like the ultimate get-rich-quick magic.

It's an extremely short-term mindset, but it viraled. Few thought about where they needed to be in 10 or 20 years (of course, we're there now). Few looked a year ahead and considered whether companies with ultrahigh cash-burn rates and no revenues could still possibly be in business. They just wanted what was hot then, and they wanted as much as they could get. The bear market beginning in March 2000 was a rude awakening.

Panic-stricken people think short-term, too. Go back to March 2009, those violent final throes of that financial panic. People truly believed stocks could go to zero. Don't believe me? Do a Google search on "Can the stock market go to zero?" They asked it. Markets were tanking; zeroness felt real.

You're probably sitting there thinking, "That's not rational." But panic never is! Folks take those big losses and extrapolate them forward. They lose their grasp of history and reality. They forget the simple truths: Cycles always turn. Markets rise more often than not. As long as capitalism exists, businesses will find ways to profit and grow. New technologies will collide, bringing new growth and new sources of profits. This is what the steel-nerved contrarians believed in March 2009.

Steely contrarians also look past short-term market movement. They know daily drops, quick pullbacks and corrections are normal during bull markets, and reacting is dangerous. It usually means selling after stocks have already fallen, just when folks should hunker down and wait. Reacting to volatility is a good way to sell low, buy high.

The same goes for seemingly big short-term events, like geopolitical earthquakes. Skirmishes, minor wars, revolutions and saber-rattling have plagued us since the dawn of civilization—terrible as they are for lives and property of those in the line of fire, they usually aren't terrible (or even just plain bad) for stocks. Markets have dealt with conflict since before the first Dutch tulip changed hands, and only big, global and nasty conflicts, like the onset of World War II, have ever ended in bull markets. Life always goes on, and the going on is what matters.

Check Your Ego

As I said earlier, the contrarians know they won't be right all the time. Perfection is impossible.