

Reasons to Be Cheerful

Credit crises, tumbling house prices, stocks in freefall? Smart investors yearn for such turbulence

EVERYWHERE YOU TURN THESE days, there's cause for panic. The news is filled with talk of a global credit crisis. American homeowners are defaulting on their loans and housing-related stocks have crashed. The dollar is doing a disappearing act. Alan Greenspan, after years of artful obfuscation, has suddenly discovered a terrifying gift for clarity, warning that inflation will rise and house prices will tumble. Stock market volatility has surged. And now, feeding fears that the contagion is spreading, the British bank Northern Rock has suffered a near-death experience.

So why am I feeling so cheerful? Because it's at times like this, when fear and uncertainty rule, that spectacular opportunities arise to buy bargains that panicked investors are dumping.

That's not to say that I think the economic news will improve or that markets are poised for a sustained surge. Media pundits, economists and market seers vastly overestimate their ability to predict such things. What I do know is that smart investors yearn for this kind of turbulence. As Warren Buffett once put it: "The true investor welcomes volatility" because it often produces "irrationally low prices" for "solid businesses."

Sure enough, bargain hunters are now scouring the wreckage in sectors like homebuilding and financial services. In a recent shareholder report, Michael Winer, manager of the New York-based Third Avenue Real Estate Value Fund, says U.S. property stocks are the cheapest he's seen them since 1999, creating "extraordinary opportunities ... to take advantage of fear in the market." Yet he also laments that too many fretful shareholders have fled his fund at precisely the moment when rationally they ought to be loading up.

It's a common mistake, and one that dooms most investors to lousy returns. In his new book *Your Money and Your Brain*, author Jason Zweig says humans are wired to act this way. The amygdala, a tiny, almond-shaped knob of tissue in the brain, responds to potential risk by flooding the bloodstream with stress hormones such as corticosterone, which enable us to

react quickly to danger. These emotional warning flares can be lifesavers if, say, you encounter a snake, but the sudden waves of emotion make it hard to stay calm in the face of a whipsawing market. Zweig says brain scans reveal that merely being told that you're losing money is enough to make your amygdala more active.

Some investors are so keenly aware of this tendency to get spooked by market mayhem that they view their own fear as a sign that things are about to turn around and that it's time to buy. Jeff Vinik, a legendary investor in the U.S., once told me: "I'm scared at almost every [market] low. And I try to remember, when I'm really scared, that we're getting real close to a good low." Zweig cites another renowned investor, Brian Posner, who quips: "If it makes me feel like I want to throw up, I can be pretty sure it's a great investment."

Buying at these moments of acute uncertainty takes an emotional toll. **Guy Spier, a friend who runs a hedge fund in New York, says he's bought several battered stocks lately, knowing that "You make your money in the panics, then collect it when everything is fine again." But "it's**



agonizingly difficult," he admits. "The rational part of your brain is struggling with all these emotions, which are telling you: 'This company is going bust!'"

Speaking of which, he warns me that a beaten-down stock I bought a few days ago might just go to zero. The very thought is enough to kick my amygdala into overdrive. ■

TIME Europe editor William Green, an avid investor in out-of-favor stocks, has money with Third Avenue, but not in its real estate fund