

>: 3 Profitable Approaches to The Stock Market

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When we see so many red flags popping up in the market, and we see the headlines that the Dow-30 just broke a new all time high, we have to be extra careful about taking bullish positions. Watching the sell-off of the Wall Street stocks (brokerage firms & investment banks), which was the group to lead the market higher, has been the most recent sign of weakness.

But while we've recently highlighted some signs of a deteriorating market, I'm also seeing some signs of short-term strength. In my *short-term* indicators I've seen a change in momentum to the upside, while the *longer-term* indicators are showing red flags.

I also see that investors don't seem to be bullish enough at the present moment for a significant correction to occur. (Over-bullishness and over-bearishness are *contrary* indicators. When there are too many bulls, it's a bearish sign and vice-versa.)

When you look at the VIX (Symbol: VIX), you can see a steady increase, reflecting the increasing level of fear being felt on the street. Not what you tend to see near a top.

So overall, it's a mixed bag for now. As always, my approach is to hedge by taking both bullish and bearish bets. The best argument I can use to recommend this approach is that it's resulted in 6 out of the last 7 recommendations that I closed out (which were made to members of *The Trend Rider*) being winners. Most of these trades were only held for a few weeks, and the average gain was 40.6%.

I also recommend buying in-the-money options instead of trading stocks (in most occasions) because the risk is lower with options when you trade them correctly.

There are thousands of technical indicators out there, but you only need to focus on a few of them to get a clear picture of the market.

Now, more than ever, individual investors who've been taking matters into their own hands and educating themselves about the market recognize many of these red flags even before hearing about them in *The Tycoon Report*.

But I want to talk about 3 common problems that individual investors have, even when they see the "sell signals" (or even buy signals for that matter) that are given by the market.

1) Patience

Individual investors are typically very impatient. This one can be a toughie. I mean, even institutional investors that are 40-year veterans can be impatient (and lose money because of it). Having patience doesn't mean sitting in a situation that's obviously not working out. But that, also, speaks to another problem, which is that so many people don't recognize the signs, when they are given, that should act as an alert that the trade was a mistake.

Remember, there's a short-term trend, an intermediate-term trend and a long-term trend. The common mistake is to recognize a bunch of signals on the long-term picture and take a stance based on those signals, only to abandon your stance because the short-term picture changes.

One way to become a more patient investor is to understand the difference between the shorter-term and longer-term trends, recognize them, and trade based on them.

2) Synergy

One of the most important principles of trading is that you take a synergistic approach. Individual investors tend to learn about an indicator and get very excited based on the historical accuracy of it. The indicator may be highly accurate, but that doesn't mean that it should hold *too much* weight in your decision making process.

You have to add several layers of safety and increase your odds of success by using several different indicators to come to a conclusion. If there is an overwhelming amount of evidence that the market, sector or stock is about to move one way, then it makes sense to play that conclusion. If there are too many disagreements between the indicators you're using, then don't be afraid to sit in a money market fund and make 5% risk free while you wait for the right pitch. (Making *only* 5% is better than losing anything.)

The ability to make money in the market only partially has to do with your ability to pick stocks. But it also has to do with your discipline when it comes to patience. If you sit in cash, and only invest when pretty much every indicator you follow says the same thing, then your odds of success will increase tremendously.

that you should evolve with it. This may sound obvious, but remember, these are some of the most common mistakes made by individual investors. Believe me, I've communicated with thousands of them.

First I said be patient, and then I said have the ability to change stance. While that may sound conflicting, what I mean is that you have to first know the difference between short, intermediate and long-term. If the long-term stance is taken, the short-term activity shouldn't mean much to you. But if the long-term picture changes, you have to be able to recognize it, admit it and change your stance.

Your stance may be absolutely 150% right today. You may be spot-on with your analysis today. But sometimes - or oftentimes - the next week may present a different situation. You might find yourself with the same stance that you had last week, but you may not have made any money on it yet. To make matters worse, you may be down!

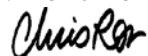
This makes it super hard to change your stance. But you have to be able to admit when your stance is incorrect, even if it was last week. Being right won't always make you money. It's just likely to.

This brings me back to hedging. When you play both sides of the market, you can be wrong and still be right. Since the market moves back and forth, up and down, it will usually give you a second chance. When you are busy taking profits because the market moved one way, you're less likely to let emotions get in the way of making the right decisions about your down positions. (Out of the "6 out of 7" winners I mentioned above, most of them were down at least 40% before moving back up again.)

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