

>: Why Cash is a Trade Too

Tuesday, December 16, 2008 / Chris Rowe

The most successful investors in the stock market aren't always invested in stock. They're only invested when the odds weigh heavily in their favor.

You are probably licking your chops to get into this market and start making some cash huh!?

I know. I hear hundreds of people talking about taking advantage of these "bargains" but they don't really sound too confident about this being the right time to buy or go short. So what should they do? NOTHING!

You must have the discipline to know when to stay out! For most people, this is one of the easiest concepts to grasp, yet the hardest to follow. Believe me, this isn't something that you'll learn in any kind of trading course or seminar. This is something that comes with experience. It's something that most people have to learn several times throughout their investment life.

To further stress my point, since I started in the business, I've witnessed 10, 20, 50-year Wall Street veterans re-learning this lesson and admitting it to me. (The stock market has a way of sucking the ego right out of any soul, no matter how big the head is, or was. Imagine an egotistical ? understandably so ? 65-year-old, successful fund manager admitting this to an 18-year-old kid.)

People ask: "When do I know when it's the right time to be in or out?" The answer is: If you're asking that question, it's time to stay out. I'm going to give you a piece of advice right now that might surprise you. And it might not sound like it, but it's going to be some of the best advice that you'll ever get about stock trading: Find an account or stable investment vehicle that offers you a nice interest rate. You can look at Treasuries, Certificates of Deposit (that's right, a Wall Streeter recommending CDs), a high-yielding money market account or a bank or broker that's offering a relatively high-yielding interest rate.

As we have seen recently, even an incredibly small interest rate would have outperformed the market by far this year.

Just last Tuesday, the U.S. Treasury Department sold four-week bills in an auction at a yield of zero! That's right. Some of the biggest, smartest, most informed investors on Wall Street dropped \$30 billion into what they saw as the ultimate safe haven even though it had no yield! If the market drops by 20%, that means the four-week bills will outperform the stock market by 25%.

Today, you can sit in cash while you wait for trades with a high probability of success to present themselves. If, after nine months of waiting in a money market account, you invest at the right time for a three-month portfolio increase of 20%, you're probably beating the market's return.

There will be plenty of times when you don't find trades where you can honestly say to yourself that you feel the odds are heavily stacked in your favor. If you always have "good trades/investments", then you aren't screening hard enough. I would estimate that 99% of individual investors don't spend enough time on the sidelines.

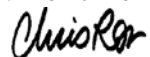
Keep your standards high, and be willing to sit on the sidelines for as long as you have to.

Savvy investors are willing to sit in a "risk-free" (notice the quotes) interest-bearing account for years if they have to, and you should get comfortable with taking the same stance. What's likely tied for first place on the individual investor's list of most common mistakes is the notion that if you're not in the market, you're not making money. Anxious and over-eager investors force trades at the wrong time, mainly because they're afraid of missing the next big gain.

After taking a 30% loss on the first trade, they find a trade that actually does make a lot of sense, and they make 50% on it. The problem is, that's a net gain of 5%.

Fear of missing the next winner is a killer.

?Profit from the Trend?



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