

>: The Investing and Trading Temperament

Tuesday, January 15, 2008 / Jason Jovine

Housecleaning...

I recommended Citigroup

(Symbol: C) last Tuesday at just over \$28 per share. At that price, I believe it is a good buy. I could be wrong, but I think that I am right. Every single time that I recommend a stock some people disagree with me. It takes courage to buy something when everyone else hates it. At the end of 2008, we will see if I was right. Stay tuned.....

Back to business....

I started on Wall Street back in 1992. I can't believe that it has been over 15 years! Anyway, every single day, I see people making the same mistakes that I made back when I was brand new to investing and trading.

I understand better now than ever before what Socrates meant when he said that experience cannot be taught. At times, it can be frustrating when I try to explain to people how to view the market as a whole instead of in a myopic way that most people are using to see the market and life in general, for that matter, but I have found that many people have to learn the hard way.

In other words, it's kind of like a parent who is trying to tell his child to avoid a certain behavior but the child does it anyway. Most times, people just have to experience things for themselves to realize the right way.

When it comes to investing, it is no different. The way that these types of lessons are taught in the market is by your losing money!

When you lose money in the market, it should be the equivalent of touching a hot flame. It should teach you, and you should learn from your mistakes. Ask yourself, **What did I do wrong??**

Many people just get frustrated after losing money time and time again and just hand over their money to a so-called "professional" to do the dirty work for them.

What can you do to increase your returns?

1. Buy the names on the dips?.

[Back on 7.31.07, I recommended Citigroup](#)

. Eighteen weeks later, the stock



PG) at \$63

(The red circle is where I bought it. The green circle is its high so far.)

You may say that 20% isn't a big deal. I would counter that the amount of risk that I took for that 20% was relatively minimal.

Remember, folks, that it is about getting the maximum amount of return with the least amount of risk. I could recommend speculative stocks and options to you all day and show you astronomical returns, but if I am wrong, you may go broke!!

I believe that you need to live to fight another day. You and I both know that it is much harder to make money than it is to lose it. The bottom line

is this: buy quality companies on the dips. I am not saying that you should not have some fun and take some risk with a relatively small portion of your portfolio (e.g. 5-10%), but don't risk more than you can afford to lose.

2. Understand the forces at work

Wall Street is a game.

I took the subways in New York City for many years. There would be people on them with every imaginable game to con me out of money. Heck, I was actually a New York City Guardian Angel when I was a teenager patrolling Hell's Kitchen in Manhattan. Need I say more?

Some stock brokers play financial ping pong with stocks so that they can make money by charging fees. There is a lot of window dressing that goes on, as well. There are stocks that have buy and sell recommendations on them when they shouldn't, etc. It is all about money.

Besides the games that Wall Street firms play, *greed and fear* drive the market as well.

There is another important force at work call *asymmetric information*

. This basically means that it is not a level playing field out there. Some people are more educated and/or intelligent than others. Some people may have access to better financial software than others. Some people, of course, have more time and money (i.e. resources) than others. Finally some people may have better information than others (i.e. better connected).

If you think that insider trading doesn't happen on Wall Street all of the time, then I have a bridge to sell you. I remember watching my monitor many times after I had heard that a company had been taken over or some other announcement occurred. Without fail, there would be an increase in volume (i.e. buying) in the stock days and weeks before the deal.

It is absolutely not a level playing field out there!! This is one reason why the rich get richer, and the poor get poorer. Since most people are "Average Joe's", so to speak, and don't have the connections that these connected corporate hacks do, I would advise you to focus on what you can control.

Focus on getting as educated as you can about the market.

So the primary forces at work on Wall Street are:

- a) *Wall Street manipulation*
- b) *Greed & Fear*
- c) *Asymmetric information*

3. Control your emotions

Some have argued that one of the reasons that Warren Buffet is so successful is that he has a good temperament when it comes to investing. He lives in Nebraska and does not get caught up in the day-to-day tricks of Wall Street.

To help you control your emotions when it comes to the market:

- a) Remember that the market always goes up over the long term
- b) Don't risk more than you can afford to lose.
- c) Remember that risk and reward go hand in hand.
- d) Only buy companies that you feel have been thoroughly researched or on the advice of someone in whom you are confident and who has proven himself or herself.

4. Do it yourself or follow someone's advice?

Some people like to do it all themselves. They like to come up with their own picks and don't need and/or want anyone else to tell them what to buy. If this is working for you, then God Bless!

If you are the type of person who looks to a "professional" or an investment newsletter for advice, then I want to make a few things crystal clear to you regarding an investment newsletter.

a) Focus on quality of trades; not quantity.

I cannot tell you how moronic it is to say that I don't like a newsletter because it doesn't give enough ideas when the newsletter has an amazing track record.

In other words, would you like to get 3-4 new ideas a month from a guy who is right 70-80% of the time or get 10 new recommendations a month from a guy who is right 30-40% of the time?

do, he should be able to explain complicated ideas to you in a very understandable way.

The more abstract, the more deceptive. Usually when people don't speak in plain English, they either are trying to hide something or just don't know what they are talking about.

c) Look at the history of his/her performance.

No matter how good someone is, every stock picker and trader or investor goes through hot and cold streaks. I have seen people sign up for newsletters in the past and have them for just a few weeks before canceling because the newsletter editor was in the middle of a "cold streak". After they canceled, the editor got hot again.

It is kind of like that cartoon where the guy is playing the slot machines in Las Vegas all day with no luck and then just gives up. As soon as he walks away, a little old lady comes by and puts one coin in the machine and wins all of the money.

Keep the editor's performance in perspective. Look at his or her entire track record, not just a snapshot, and whether he or she has been right more often than wrong; then have some patience.

d) Nobody is right 100% of the time.

I don't care how good anyone is at picking stocks or options, but of course, remember that no one will be right 100% of the time. Although, every single stock that I have recommended while writing for *The Tycoon Report* has gone higher after I have recommended it, I am no exception.

You just want to find people who will be right a lot more than they will be wrong.

In closing...

Remember that you are the CEO of your own company. Your household is your corporation, first and foremost, and you have to run it as such. Business 101 says to keep your costs low and keep revenue up.

You have to be cold and calculated in many respects to make those tough and profitable business decisions. Don't be afraid to make mistakes, but be very afraid if you aren't learning from them.

Until the next time, folks, spend your hard-earned money wisely.



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