

>: 6 Simple Rules to Think About Before Investing Your Money

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I can't begin to tell you the number of times that I hear this question: "How many shares (or contracts) of that stock (option) should I buy?" If subscribers get a suggestion to buy a certain stock or option, they often do not know how much of it they should buy.

Let's start off with a few simple rules:

#1. Risk and Reward go hand in hand.

#2. Remember that your situation is unique.

#3. Think in terms of dollars invested rather than number of shares or contracts purchased.

#4. Think in terms of percentage gains rather than actual dollars made.

#5. Know the context in which you received the recommendation.

#6. Can't forget Mr. Opportunity Cost.

Let's take them one by one, shall we?

Rule #1: Risk and Reward go hand in hand.

This is rule number one because so many people tend to forget this simple fact of life. This rule does not just apply to investing and/or trading; it also applies to every aspect of life.

If you speed through that red light or stop sign, you probably will make it to your destination faster (reward), but if you get caught, you will, at the minimum, get a ticket, or you may even injure or kill someone (risk).

If you bought that call option that expires two weeks from now, you may make more (reward) if the underlying stock goes up than if you bought the option that expires in nine months, but you have a greater chance of losing all of your money (risk) since you only have two weeks for the underlying stock to move higher.

Are you with me?

Rule #2: Remember that your situation is unique.

You need to be completely aware of your situation. Everyone's situation is based on many factors such as age, net worth, annual income, and risk tolerance just to name a few.

If you are 90 years old and living on a fixed income, you probably don't want to trade options. If you are 40 years old, making \$200,000 a year with \$1,000,000 in the bank and \$5,000,000 in the market with your Bentley parked in the driveway, you can afford to play options and take more risk, in general, than the 90-year-old.

If you are living paycheck to paycheck and your electricity is about to be shut off because you have not paid your bill for three months, you probably don't want to spend your bottom dollar on options.

Are you with me?

Rule #3: Think in terms of dollars invested rather than number of shares or contracts purchased.

I have always been fascinated by the fact that someone would rather buy 1,000 shares of a \$10 stock than 100 shares of a \$100 stock. Hey, folks, guess what? Either way, you are investing \$10,000 into each idea.

Nine times out of ten, the \$100 stock will carry less risk than the \$10 stock. This, of course, is not true all of the time. Just remember that markets are, over the long term, efficient. That \$100 stock is valued at \$100 for a reason. Usually it is because demand exceeds supply.

You can profit from trading in the stock market from stock market "hiccups" or inefficiencies, but over the long term, the market is a self-correcting mechanism.

There is a term called "arbitrage" which helps stocks strengthen themselves. Arbitrage basically means "the purchase of securities on one

market for immediate resale on another market in order to profit from a price discrepancy.?

Folks, there are traders with a whole lot of resources who are sitting out there with a whole lot of time, money, and sophisticated computer systems, and they are waiting for any price discrepancy to appear so that they can pounce on it (think lions on the Serengeti waiting for Wildebeests).

Trading on big, well-known companies is less likely to give the "Average Joe" the opportunities to make money from these price discrepancies. Average Joe needs to look in areas with less competition to make money from these "hiccups".

If Mr. Joe is going to buy big, well-known companies, Jason Jovine (that would be me) suggests buying them for fundamental reasons. Think of my recommendations from the past (e.g. CVS, ANSW.) CVS I wouldn't dare trade (too many people watching it). I bought it because it was rock solid on a fundamental basis for the price I (and hopefully you) paid for it.

ANSW - Well, I could get away with my fancy tricks that I keep hidden up my sleeve (I charge people for this, but sometimes I give them away for free in *The Tycoon Report*; stay tuned, ha ha.)

RULE #4: Think in terms of percentage gains rather than actual dollars made.

Forget about dollars. Think in percentage terms, folks. Trick question here. Which would you rather have, a stock that goes from \$20 to \$25 per share or a stock that goes from \$50 to \$65 per share?

If you choose the former you still have a way to go in the learning process. If you choose the latter, you were correct. The former gave a return of only 25% and the latter gave a return of 30%.

Once again, always think in percentage terms. This is the best way to look at a situation objectively instead of emotionally.

RULE #5: Know the context in which you received the recommendation.

Who gave you the recommendation that you are about to buy? Was it your barber? Maybe it was that annoying computer nerd that knows a thing or two about technology? He heard that such and such company had a great technology and was going to be the best thing since sliced bread.

Guess what, folks? He may be right! They may have a great technology, but that doesn't mean that it will translate into a higher stock price. I have seen many people (including myself about 15 years ago) buy into nonsense from people who think they are market pros who, in reality, know absolutely nothing about how the market works.

I have worked on Wall Street since I was 18 years old, and I am in my thirties now. I have an MBA in finance, and let me tell you that 99% of the people out there are just great marketers, nothing more and nothing less. **WAKE UP TO THIS!**

RULE #6: Can't forget Mr. Opportunity Cost.

Let me, first of all, define opportunity cost for you. You ABSOLUTELY MUST know what it is if you don't already. Opportunity cost is "the cost of an alternative that must be forgone in order to pursue a certain action. Put another way, the benefits you could have received by taking an alternative action."

In other words, folks, DO NOT think that you are or were successful investing because you made money on a particular investment. You always need to ask yourself if you chose the opportunity that could have made you the most money.

In other words, if you invested in option A, and it returns to you 25% instead of investing in option B that would have returned 50%, then YOU MADE A MISTAKE!

I know it takes some getting used to, but you always need to try to find a place to put your money that will give you the HIGHEST RETURN with the LEAST AMOUNT OF RISK!

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



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