

## >: What Sports Can Teach Us About Investing

Monday, June 4, 2007 / Ben Schott

I'm going to let you in on an inside joke here at Tycoon Publishing.

But first, let me just say that our CEO, Dylan Jovine, is a passionate man.

He's passionate about investing (witness his meteoric Wall Street career and his success running our *Fallen Angel Stocks* service).

He's passionate about our customers (who do you think is responsible for the Frank Sinatra quote in our "Principles" section below?).

And he's passionate about sports.

We haven't had many meetings or conference calls here at Tycoon where Dylan was not motivating our team with sports analogies.

I'm laughing out loud to myself right now just thinking about how all of us have taken to exclaiming "Let's take it to the rim with this one, people, and finish strong!"

Nothing like mocking your CEO as a job security strategy.

But it's all in good fun. And it got me to thinking ...

### **Want to Learn How to Invest? Watch Sports.**

*Baseball: Choke Up and Think "Down the Middle"*

The hitter steps into the batter's box with an 0-2 count. If he's a stud rookie power hitter, he might approach the next pitch like any other: grip it and rip it, try and hit it out of the park.

But the smart veteran will choke up on the bat, shorten his swing, and picture a nice solid liner up the middle.

What we see a lot with beginning investors "like the rookie power hitter" is a compulsive need to "hit the ball out of the park" with every

While they might get lucky once or twice and earn themselves some nice double and triple-digit winners, this strategy simply is not sustainable.

If you want to make money in this game over the long term, you've gotta know the count. And if you're just starting out, and perhaps you've scored big on a few trades right out of the gate, I hate to break the news to you, but you're going to be out of trading capital before the fifth inning.

Look: As a newbie, you're starting out in exactly the same situation as the hitter above. You've got a lot working against you.

We've never been shy about telling you that the entire Wall Street establishment and financial media have done a fine job of stacking the odds against the individual investor.

Every time you step up to the plate, it's no balls and two strikes.

So think of us as your coaches, and let *The Tycoon Report* throw you some BP.

We'll teach you everything we know about investing, and when you're ready to go for the big smash, the ball's going to look like a beach ball coming out of the pitcher's hand.

*Golf: Have a Technique, Repeat It.*

I play a little golf, and like most of us who walk the links, I'm a student of the game.

So if you've ever had a lesson, or read any of the golf classics, you know that the number one key to the game is a repeating swing.

As a new player, I just didn't get that. I would try anything and everything to play a better round.

Five sets of clubs in my first two years, new stances, new spikes, fades, draws, and more grip variations than I care to count.

until you can repeat the same swing  $\hat{A} \hat{c} \hat{a}, \neg \hat{a} \hat{e} \hat{o}$  i.e. don't even think about the result  $\hat{A} \hat{c} \hat{a}, \neg \hat{a} \hat{e} \hat{o}$  every single time.

I promise you'll be a lot better than I was after your first two years.

And how does this tie into investing?

Those of you who own **ETF Master Trader** and listened to our recent conference call, you might recall something that Teeka said at the end: *"The real players in this game  $\hat{A} \hat{c} \hat{a}, \neg \hat{a} \hat{e} \hat{o}$  they have a method. They have an approach. They have a system that they use religiously, regardless of what else is going on, what else is happening in the press. They have a soulless system that they use to guide them through the market. And those are the people that make an inordinate amount of money in the stock market."*

I really focused in on how he described the system that a professional investor uses as "soulless." In other words, it's unchanging, regardless of external influences and biases.

When you're investing, therefore, spend some time "on the range." Get your technique down to a science. Create rules for yourself ... and discipline yourself to follow them.

You might very well hit a hole in one or be a scratch golfer sooner than you think. But that'll be the result of a good system  $\hat{A} \hat{c} \hat{a}, \neg \hat{a} \hat{e} \hat{o}$  something that is repeatable day in and day out.

*Basketball: Take High Percentage Shots*

This is a favorite maxim of Dylan's, and it's rubbed off on me in a big way.

But truth be told, he and I have an ongoing argument underway about basketball.

I'm from the S.F. Bay Area and am a Warriors fan. They have a really exciting, run and gun style of basketball. A bunch of little guys who are all about the fast break, outside shots, and testing the lung capacity of their opponents.

Dylan, on the other hand, grew up in New York as a fan of the half-court, post-up style of basketball.

I would personally rather watch a cooking show with my wife than a Knicks-Pistons game (guys, please tell me you know where I'm coming from here). The final score in those games is usually less than what you see in a Warriors game in the middle of the third quarter.

But I can't argue when Dylan whips out the old Shaq example.

I can't deny that it's a pretty good fundamental strategy to slow the game down, feed the ball to the 800-pound, 10 foot tall freak of nature under

the basket.

He ain't missing those shots.

The moral of the story for us as investors is that sometimes it isn't about the action.

Sure, it's fun to buy and sell. And it's addictive. Watch five minutes of CNBC and you'll be needing methadone for your action habit in no time.

But to go back to another thing that Teeka says, sometimes it pays to let the game come to you.?

If you've stared at Yahoo! Finance for 8 hours and can't seem to find a stock that you're crazy about ... don't force the shot.

Be patient, spread the floor, and wait until you're under the rim. Then (unless you're really short), pull the trigger and slam it home.

*Hockey: Never mind.*

If investing were as impossible to understand as hockey, I'd be in another business.

What's that? The Stanley Cup finals are on? Honey! Let's see what Rachael Ray's cookin'!

(I will be accepting hate mail from Canadians at [Editor@Tycoonresearch.com](mailto:Editor@Tycoonresearch.com).)



Ben Schott  
Chief Investment Officer

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## **Monday, June 4**

*10:00 - Factory Orders (for April): Consensus 0.6%*

Big Picture: Volatile factory orders peaked in September, but are rebounding. The struggling auto and housing sectors add to the softening in business capital investment, as orders and production are back on the rise. Some of the falloff was due to the drawing down of unwanted inventories as the correction seems largely over. The underlying fundamentals of flush corporate balance sheets and high capacity use help support capital investment and factory production.

Implications: Factory orders consist of the earlier announced durable goods report plus non-durable goods orders. The report is very predictable, with nondurables the only new component. Nondurables consist of such items as food and tobacco products which grow at a fairly consistent monthly rate, so that market forecasts for this report are far more accurate than for the durable orders report. In addition to seeing nondurables for the first time, the market also watches for revisions to the durable orders data, which can be significant. At

present, durable goods orders sum to about 54% of total orders.

## **Tuesday, June 5**

*10:00 - ISM Services (for May): Consensus 55.0*

Big Picture: The non-manufacturing ISM report is a national survey of purchasing managers which covers new orders, employment, inventories, supplier delivery times, prices, backlog orders, export orders, and import orders. Diffusion indexes are produced for each of these categories, with a reading over 50% indicating expansion relative to the prior month, and a sub-50% reading indicating contraction.

Implications: The Non-Manufacturing ISM index (sometimes referred to as the ISM Service index) is the result of a monthly survey of over 370 companies. The survey queries respondents on a number of monthly indicators, including orders, employment, inventories, supplier delivery times, prices paid, order backlogs, export orders, and import orders. Respondents are asked to characterize each indicator as higher, lower, or unchanged for the month (or faster/slower in the case of delivery times). They are not asked for specific numbers -- only a thumbs up or down.

## **Thursday, June 7**

*8:30 - Initial Claims (for 6/02): Consensus NA*

Big Picture: Initial claims had been following a subtle upward trend, which has again been challenged with the recent levels. Aberrations are watched for clues on the labor market and economy as the recent level reflects an even tighter labor market. Continued claims are also falling off their recent highs. Claims provide a nearly real time read on layoffs and the labor market, as the low 4.5% unemployment reflects the broader read of layoffs and hiring.

Implications: Initial jobless claims measure the number of filings for state jobless benefits. This report provides a timely, but often misleading, indicator of the direction of the economy, with increases (decreases) in claims potential signalling slowing (accelerating) job growth. On a week-to-week basis, claims are quite volatile, and many analysts therefore track a four week moving average to get a better sense of the underlying trend. It typically takes a sustained move of at least 30K in claims to signal a meaningful change in job growth.

*10:00 - Wholesale Inventories (for April): Consensus 0.3%*

Big Picture: Wholesaler inventories growth of 8% yoy is now just below the annual growth in sales. The inventory to sales ratio is back down at 1.14 months, not far from June's 1.12 month record low as we expect it to return to (or below) 1.12 months in 2007. Longer term trends reflect comfort at those I/S lows as technology allows for continued improvement in just-in-time inventory management. The smaller inventory swings from rebuilding and draw downs leaves a steadier pace of domestic growth.

Implications

: The wholesale trade report includes sales and inventory statistics from the second stage of the manufacturing process. The sales figures say close to nothing about personal consumption and therefore do not move the market. Wholesale inventories sometimes swing enough to change the aggregate inventory profile (aggregate inventory is the sum of inventory at the manufacturing, wholesale, and retail levels), which may affect the GDP outlook. In that event they can elicit a small market reaction. More often than not, however, this release goes unnoticed except by market economists.

*15:00 - Consumer Credit (for April): Consensus \$6.0B*

Big Picture: Tax cuts and cash out mortgage refinancing provided consumer funding in past years, as 6% yoy income growth and equity gains now provide the means outside of credit. Credit cards (revolving credit) make up 37% of total consumer credit, which stands at \$2.4 trillion. Nonrevolving credit helps finance auto purchases, tuition (including Sallie Mae), vacations and other forms of consumer borrowing. Annual growth of 5.2% has shown acceleration from the 3.4% yoy decade low a year ago. Consumer credit includes household non-mortgage loans.

Implications: This monthly measure of consumer debt is volatile and subject to massive revisions. It is also released well after every other consumer spending indicator, including weekly chain store sales, auto sales, consumer confidence, retail sales, and personal consumption. For these reasons, the market almost never reacts to the consumer credit report.

## **Friday, June 8**

*8:30 - Trade Balance (for April): Consensus -\$63.0B*

Big Picture: The swing of petroleum import prices mask the weakening domestic demand for foreign goods, as the weaker dollar and economy slowly provide the force. Exports feed a stronger world economy and have shown six new record highs over the last eight months. From a year ago, exports have risen 9% as imports have risen 7%. Import growth carries a larger effect as they are about 50% larger than exports. China commands roughly a third of the deficit, as petroleum also amounts to about 1/3. The massive size of the deficit is eyed for effects on the dollar and interest rates. The trade deficit demands an equal but opposite investment inflow from abroad as current foreign demand remains exceedingly strong given the return of petrodollars and Asian demand.

Implications: The trade report is most widely watched for trends in the overall trade balance, but trends in both exports and imports of goods and services bear watching as well. The export data in particular are important to watch for indications that a strengthening competitive position at home and/or strengthening economies overseas are boosting U.S. growth. Imports provide an indication of domestic demand, but given the severe lag of this report relative to other consumption indicators, it is not particularly valuable for this purpose. The volatility in the monthly trade balance can play an important role in GDP forecasts. Net exports are a relatively volatile component of GDP, and the trade report provides the only early clues to the net export performance each quarter.

Source: [www.Briefing.com](http://www.Briefing.com)