

>: Penny Wise and Pound Foolish

Tuesday, September 18, 2007 / Jason Jovine

Take a look below at this actual

To:	jason_jovine@ [REDACTED]
Subject:	boom, overwhelmingly important message
Date:	Sun, 16 Sep 2007 22:36:32 +0000

[REDACTED] Partner Signs Agreements to Increase
Online Information Content!

[REDACTED] is entitled 70% of the profit from online advertisements with
[REDACTED].

Symbol: [REDACTED]
Price: \$.135
7 Day Expectations: \$.40
14 Day: \$.80

This is the time to ride the wave and look for this is the most
exciting penny stock we have seen this year. A \$100 investment can bring you
returns of \$500 if you keep trading at the top.

Add [REDACTED] to your WATCH for Monday Sept 17th..

I obviously covered up the actual nonsense recommendation that they were making because I didn't want to help their petty little scam along in any way.

The message that I convey to you today is a message that I have conveyed in the past. That message is that risk and reward go hand in hand.

Our entire lives, we have been conditioned by our parents and by marketers to think that if something is low-priced, it must be a bargain ... it must be a good deal that we should jump on.

When it comes to investing or trading, this may not necessarily be the case. Change your thinking!

One of the leading theories that expound that stocks trade where they ought to trade is called the **Efficient Market Hypothesis (EMH)**.

The EMH is a hypothesis that says that prices of securities fully reflect available information about securities.

If we assume for the moment that this theory is true, then the penny stocks should be trading for just that: pennies!!

There are three forms of the EMH:

1. Weak-form EMH

This is the assertion that stock prices already reflect all information contained in the history of past trading.

2. Semistrong-form EMH

This is the assertion that stock prices already reflect all publicly available information.

3. Strong-form EMH

This is the assertion that stock prices reflect all relevant information, including inside information. Passively managed portfolios obviously agree with the EMH, and actively managed portfolios do not.

The S&P has historically increased by an average of around 12% a year. The EMH would argue for you to just throw your money into a passively managed portfolio that just benchmarked an index so that you could save money on commission and other transaction costs and just be happy with your 12% a year.

Portfolio managers get paid handsome salaries, so they, of course, don't believe in this theory (at least, not in public).

Taxes, commissions, and poor executions are all unfriendly to people who trade often. Might you be better off just letting your portfolio be

passively managed? Maybe.

My Take

From my education and years of actual Wall Street experience, taking the urine-scented smelly subway of New York City to get to work for many years, dealing with rats, bums, and perverts on my commute during which I pondered the most effective way to make money, I would have to say that I'm somewhere in the middle on the EMH.

I would say that if you are really not committed to learning about trading and investing, you should just take your 12% a year and enjoy your life. If you are serious and passionate about learning the ins and outs of Wall Street, then I think that you can beat 12% a year.

If you believe that markets are efficient, then you have to believe that people use logic instead of emotion the majority of the time to make decisions. I know that people use emotion at times and logic at other times to make decisions; hence, I am in the middle on this issue.

Heck, my logic told me the other day that I shouldn't eat that extra sandwich, but my emotions got the better of me. Are you with me?

Ask yourself if you are really willing to do what it takes to get that higher return. If the answer is "No," then stop right now. If the answer is "Yes," then get a plan together and learn as much as you can from us here at Tycoon and from other quality sources.

Oh, by the way, unless you have some really good information (if you know what I mean), avoid those penny stocks. Most of the time, there is too much risk for the potential reward. Anything that seems too good to be true usually is, so don't be foolish.

Until the next time, folks, spend your hard earned-money wisely AND watch for the Fed today to give this market some direction.



Jason Jovine
Chief Investment Officer

[≥](#)