

>: Why Pessimism Never Pays When Trading Stocks

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Unlike in other areas as politics and religion dogmatic opinions about the stock market rarely result in success. As professional investors we cannot afford the luxury of a fixed point of view. In the same vein we must avoid extremist view points, whether too bullish or bearish. The greatest investors are usually great realists. They have the ability to strip away emotion, dogma, and their own personal prejudice when evaluating global events and their impact on financial markets

When I launched my news letter service PointandProfit.com I did so right into the teeth of the May correction. At the time I received numerous emails from members and non members alike predicting the end of the markets and American capitalism as a whole. Other less zealous in their views felt it was unwise to be in the markets during this time and felt the market had a lot lower to go.

At the time it was a tough sell for me to convince my members that in all likelihood what we were experiencing was merely a correction and not the beginning of a new bear phase again, and I hammered home the point that perfect timing is a myth. Having a strong handle on the overall trend is a far more important skill; if the long term trend is up then short term losses are just that: short term. That's why I don't panic if a stock doesn't go my way right away (so long as their management and business is intact). Because I know that if I'm right on the larger macro view, and the company is a key player in the space, barring corporate malfeasance or natural disaster, THE STOCK MUST TRADE HIGHER.

The market despises extremes. 68 % of the time the market is within 1 standard deviation of the mean. Knowing this gives us fantastic perspective when we see the market overly stretched in one direction or the other. Like water always seeking the lowest point, the market is always seeking the mean and will always revert back to the middle of its trading range.

We are beginning to see this phenomenon take place in the commodity space. Oil stocks, oil service stocks, metal stocks etc ... are all beginning to turn back to the upside after spending months at the bottom of the bell curve. Always remember that today's dog group is tomorrow's star group- ALWAYS! That is why a strong understanding of sector rotation is so important. Just like women's fashions, stocks rotate in and out of favor. It's almost comical how predictable these rotations can be.

There is almost a spiritual flow to the way that the broad markets move. As there should be, because it is the mood, the hopes, and dreams of the market participants that guides stock prices-especially when we begin trading at the margin of either the upper or lower limits of the market. Like nature the market constantly seeks balance.

This is where a strong understanding of human behavior can help you, the trader, immensely in your trading decisions. Right now we are trading at the very upper levels of the curve. One of two things can happen here. We will have a pull back, allowing the broad market to revert back to the mean. The other possibility is that stocks stay at an elevated level long enough so that the mean begins to catch up with the new reality of higher stock prices.

My personal opinion is that we will see a pullback. The trigger may be higher oil prices, higher metals prices, or jaw boning from the Fed any one of which can bring us back to the middle of the trading band. Remember the market hates extremes, it's at its most comfortable when it's middling?

Mental flexibility, the gift of being able to imagine the world different from what it is today is a skill worth developing. Having a vivid imagination married with a firm understanding of the business cycle can yield bountiful rewards. I urge you to stretch your mental muscles and start on this path.

One of the things I do is keep a trader's diary where I write my interpretations of global events and how it will affect the markets. The more you do this the better you will become at interpreting the impact of global events on the world's markets. As you start to be right, this will fill you with so much confidence. More importantly you will have a firm record of where you got it wrong. Knowing where and how you went wrong is the first step to getting it right?

Always write down the reason why you bought or sold a stock, print a chart and staple it into your diary, over time you will have an invaluable record of what winning and losing trades look like. You can't get this kind of knowledge out of a book. If you are a self directed trader then you are the one that has to do this work. It's worth it, it will take your trading to another level.

There is a beauty and a rhythm to market movements that transcends balance sheets and analyst reports. When I am at my very best it's almost as if I'm plugged into an external source. It's difficult to describe the feeling but athletes call it being in the flow?. Those of you that have experienced it know exactly what I am talking about. My trader's diary has been a big part of plugging me in to that flow? and I am sure your own trader's

diary can do the same for you.

Enjoy your weekend!

A handwritten signature in black ink, appearing to read 'Teeka Tiwari', with a stylized, cursive script.

Teeka Tiwari
Chief Investment Officer

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