

>: The Secret to Investing Like a Professional

Friday, January 25, 2008 / Dylan Jovine

I COULD TELL IT WAS GONNA BE ONE OF THOSE MORNINGS AS SOON AS I WOKE UP

You know the type of morning I'm talking about...

The kind of morning where the very first thing you do is stub your toe hard on your bed post...the kind of morning where you walk downstairs and don't realize until it's too late that the cat had an accident...the kind of morning where you open the freezer to discover there's no more coffee left.

Yup, two days ago I woke up to one of those mornings. But things brightened as soon as I put on Fox Business News and discovered that the market looked like it was going to open up 500 points lower.

My spirits immediately brightened. Even though the market has been down 15% or so since October, and that put a dent in my portfolio, a market decline of 500 points tells me that investors were losing their heads. That meant panic was in the air.

You remember the old expression, "When there's blood on the street buy land," don't you? Well if all of my years on Wall Street have taught me anything it's that "When there's panic on the Street buy stocks."

Thank goodness that an academic who was clearly in over his head was sitting in the Fed Chairman's seat. Thank goodness that the bond insurers like MBIA and Ambac were teetering on the verge of bankruptcy, potentially saddling banks and brokers with billions of dollars in additional bad loans.

Thank goodness I learned to *"Be fearful when other people are greedy and greedy when other people are fearful."* Let em' all lose their heads! I felt like a lion sitting in the bushes about to attack my prey.

I knew I wasn't the only person feeling this way. The old timers used to tell me that back in the day you could tell it was time to buy stocks when suddenly, out of nowhere, old men with canes were walking up and down Wall Street by the dozen. They had "come out of hiding" to visit their brokers and place their buy orders.

On the way to work I called one of the most wily Wall Street veterans I've ever met. His name is Charles Payne and he is the C.E.O. of market research and advisory firm Wall Street Strategies. Although I had only met him recently (he's a regular on FBN and I was being interviewed for my first time; don't ask to see it, I bombed!) he was already a legend by the time I came to Wall Street.

So I asked him what he was saying to his customers in the wake of the market down almost 500 points. Within minutes, he sent me the following note he sent to his clients that very morning - well before the market rocketed up in the afternoon.

It was the writing of a professional investor who rarely loses his head. And that, more than anything, is the secret to investing like a professional.

After getting his permission to share this with you today I was thrilled. Not only is it awesome to have such a powerful guest editor, but here's what

he was telling his troops right in the middle of battle. Hours later when the market rallied he was indeed proven right.

But it's the clear-headed thinking in the time of panic that makes this letter important. I hope you enjoy reading it as much as I did!

"Despite thousands of books written on the topic many investors flee when the market pulls back. The oldest axiom on the stock market: Buy low, sell high, is generally ignored as most would rather pile in after there has been a big move and sell after there has been a big decline. This is why the rich get richer; they hold during downturns and often buy on weakness. That said it is human to worry but we have so much history to lean on and so many tools to evaluate the market these days. The same people that complain when they take profits too soon lament when their in stocks that are against them. If that thinking could be tweaked it would make all the difference.

Currently the reasons to hold and to also be a buyer include the following:

- Stocks are cheap, even with slower earnings growth stocks are as inexpensive as they've been in years
- There are tools to stave off or mitigate recessions and economic slowdowns
- Recessions are short-lived and the ensuing rebounds have yielded huge windfalls
- The world's economics are still growing, there are still millions more poorer people than well off in emerging markets, many of them will move into the middle class over the next decade

I think lower rates will spur the economy, we already see it in mortgage application numbers out this morning. The last two weeks have seen the greatest surge in refinance in years (I happen to think home builders are a great investment). I think the economic stimulus package will help, too, although I have some misgivings with it.

There are positive signs:

- The rails have posted fantastic numbers, CSX yesterday and NSC this morning.
- Financial stocks are rebounding
- Warren Buffett is putting money to work (in dangerous industries)
- US consumers will spend more than \$9.5 trillion this year (our estimate)
- The global economy will march ahead with the occasional hiccup
- Sellers seem to be exhausted

The fact is you should be a buyer now. I know a year from now you'll regret tossing in the towel; perhaps you'll regret it sooner than that. I implore you to not only stay the course but to make money. Initially it will be from oversold trading ideas but in the long run it will be from owning solid business that were extremely oversold. I can't say the next week or months will be smooth sailing, more than likely they won't be. Major indices are off anywhere from 15 to 20% and individual stocks have been murdered. A large part of the selling is unjustified.

There is a tsunami of bad news and the business cycle is at work here there is a slowdown, one that was long coming, but when investors bought in the midst of this in the past they made a lot of money. The other part of this story is the FACT that when investors get completely out of the market they don't come back and they never make the money they should. I've seen it first hand, for me it's frustrating and heartbreaking, too. I'm not calling for a bottom, but I'm SCREAMING this is the time to be ready to make a lot of money not take large losses."

Charles Payne



Dylan Jovine
Chief Investment Officer

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