

## >: From the Editor: We Told You So?

Monday, July 30, 2007 / Ben Schott

Is it time for an 'I told you so' article?

Should I spend our time together today reminding you of all the cautionary articles we've been writing in *The Tycoon Report*?

No. That's a complete waste of your time. Unless this is your first *Tycoon Report* issue, you've read it all and have duly noted how awesome we are.

What you seek today is an answer to one question: What do I do now?

(Important note: This is a very different question from 'What is the market going to do now?' The first question, we can help you with. The second? Be extremely wary of anyone who says they can answer that one.)

Let's put this in perspective first. What happened between Tuesday and Friday of last week? a 4.8% drop for the Dow and a 4.2% loss on the Nasdaq? Isn't sending anyone but the most highly leveraged bulls among you to the poorhouse.

So if you got hurt last week and are looking at a 4-5% paper loss across the board, NOW IS NOT THE TIME TO PANIC. When an investor panics, he or she is more than likely to make costly mistakes and compound their troubles.

You already know that ... but it's a heck of a lot easier to 'get' such a concept when it's not being put to the test. Now that you've probably taken a little hit, the panic monster is a bit harder to control, isn't it?

### My Quick and Dirty Rules for a Falling Market

#### 1. Don't Let the Overall Market Determine When to Sell Individual Stocks

If you're a [Fallen Angel Stocks](#) member? or even if you've just followed Dylan's articles here in *The Tycoon Report*? you probably own some pieces of great companies that you bought at a great price.

Now, just as a rising tide lifts all ships, so can a tidal wave push even the sturdiest ocean liner a bit off course (OK, so I didn't go to metaphor school, cut me some slack.)

My point is that, if your portfolio includes some great companies that you bought for a bargain, don't throw the baby out with the bathwater here and sell them now out of some overriding fear of what might happen in the stock market this week. Again, panic is NOT your friend.

You might feel smart to limit your losses here if the market ends up going much lower, but think of how dumb you'll feel when you're buying back those same great stocks a few days, weeks or months from now at a much higher price.

#### 2. Hedge, Hedge, Hedge

I spent some time this weekend scanning the headlines online. I wasn't surprised to find the ubiquitous 'How to Play a Market Bottom' articles popping up already.

Please, please, please don't buy that line.

It was a rough couple of days? yes, the second-worst drop on the Dow in five years? but don't make more of it than it is. A market bottom?

As Dylan said recently in response to a reader comment, 'Let me know when the pain of losing money becomes so unbearable that people are jumping out of windows?' and I'm a buyer also.?

The smartest play here is to take last week's action for what it is: a reality check and a reminder to be cautious in your trading.

One key takeaway is that you should go back and read some of Chris Rowe's articles on hedging, particularly how to use options to hedge your bullish positions. I'd start with [Save Yourself from a Sharp Correction](#)? and [NYSE Bears at 76-Year High!](#)?

#### 3. Cash Money, Homey

Randy Moss said it all, didn't he?

And it brings to mind one of my personal rules for managing my money. It might not be exciting and it might not be earth-shattering in its

originality, but I personally believe that when the market is showing signs of weakening, I'd rather make a paltry 5% on my money than lose anything.

(Are you ready for my ground-breaking advice?)

I've taken a larger-than-normal portion of my cash and moved it over to an interest-bearing savings account. I use ING Direct myself, because their totally online operations allow them to offer higher interest rates than most brick and mortar banks. But if you're more comfortable sticking with your current bank, you might find that they have a special program going these days to compete with the online newcomers.

#### 4. Double Down When the Price is Right?

It's going to take me a while to get used to Drew Carey hosting the show instead of Bob Barker. Oh, wait, wrong discussion.

I'm going to go out on a limb here and assume that you've taken the advice of our writers – notably, Teeka Tiwari – and developed a system for identifying trades that you stick to regardless of what the broad market does.

Assuming that's the case, then you probably have a short list of stocks that you're ready to buy as soon as they trade into your buying range. Well, now's the time to go back and review those. Depending on what happens in the coming weeks, you might find yourself a buyer in short order.

In a related vein, you should apply the same methodology to stocks you already own. While a [Munson](#) will start dumping his stocks after a few rough days, a Tycoon might just do the opposite: Double down on the best stocks in their portfolios when all signs point to doom and destruction.

### Tycoon Spotlight: Rocky Starr

Do you remember the member article posted a while ago that [compared investing to astrophysics](#)?

Well, it was one of our favorites, and I was lucky enough to have a few words with our distinguished reader this weekend, who even managed to sneak in a sweet jab at the investment newsletter industry!

One minor point of clarification: Mr. Starr is not an astrophysicist after all. He's actually an accelerator physicist who studies the physics of particle beams in high energy accelerators. Silly me ... I'm always getting those two confused!

**Editor:** How long have you been investing, and how long have you been reading *The Tycoon Report*?

**Starr:** I have been investing for about 12 years and reading *The Tycoon Report* for about a year and a half.

**Editor:** We loved your article, "Is Trading Rocket Science", frankly, because it makes us feel smarter that a physicist reads our newsletter. Just kidding. Sort of. But aside from the parallels you drew in your article, I'm curious about how someone who studies the ways of the universe puts investing in perspective as a part of their life. How does investing fit into your life?

**Starr:** I find it hugely fascinating that so many people around the world are playing this complex and fascinating game (it is more than that) practically around the clock. This is an ecosystem in itself or a mini-universe if you will. There are the steady and luminous stars (e.g. Warren Buffet), the supernovae who are bright and flame out spectacularly (e.g. Jesse Livermore), the dark matter i.e. the average investor present everywhere in large numbers but unseen. I play the game as an average investor with simple strategies but staying abreast of the macro-themes, the global trends and the major players keeps it interesting.

**Editor:** The lessons you shared in your article suggest to me that you've learned some of your lessons the hard way (that's not a jab, because we all have!). What was your biggest investing mistake, and how did you come away from that better and wiser for the experience?

**Starr:** Letting small losses turn into large losses. In the late 1990s I owned some of the major tech stocks. Being new to the game I had let the media convince me that those stocks could only go up forever. The losses kept building but hope and denial kept me in them. Some had lost nearly 80% of their value by the time I sold them. Now I have stop losses in place for my holdings. I set my exits on every stock to just below a support level – this usually serves me well although on occasion a stock has taken off after I've been stopped out.

**Editor:** In your article, you said something that I thought was profound: "Imagination is more important than knowledge," and that "successful investors play the news by making insightful lateral moves while the majority is focused on the main event." In your opinion, what's the "main event" today that's captured the majority's focus, and what kind of lateral moves are you working on?

**Starr:** First, you have to credit Einstein with the bit about imagination being more important. Clearly, the melt-down of the sub-prime mortgage business and the impact of the highly leveraged bets by some hedge funds in the news right now. My only insightful move in this area has been to stay out of home-builders and investment banks. I expect though that the bust phase of the real-estate cycle will extend to some other well-developed and/or booming economies. Housing related infrastructure stocks in these countries could be interesting plays now.

**Editor:** What do you feel is the most exciting macro trend that you're following as an investor? In other words, where do you think the big money is going to be made over the next 10 years?

**Starr:** Water, energy, food will be important themes clearly. To my mind though, the latest trends in biotechnology are exciting. Yes, this sector has gone through its own boom and bust cycles. However the science has developed rapidly over the past few years. The human genome has been mapped. The importance of RNA, the role that networks of genes play are better understood, to name only a few examples. I think there will be exciting breakthroughs which, together with the industrialization of very small scale science (nanotechnology), could lead to profitable opportunities.

**Editor:** What is the meaning of life?

**Starr:** Glad you asked. Do you want access to the wisdom of the ages from the sayings of the Buddha, the magic of the Cabala, the faith of St Teresa of Avila, the mysticism of the Sufis, the knowledge of the Mayas and more, much more? Then my friend I have a special deal for you. If you sign up within the next 48 hours, then for a mere