

## >: How Can We Help You?

Thursday, February 1, 2007 | Chris Rowe

Investing isn't a science, it is an art.

Since there are an endless number of possible approaches that you can decide to take, you must identify your comfort zones, your sweet spots, and go where your level of understanding and your feel for the rhythm is highest. (*There is where your probability of success will naturally be highest*.) More importantly, you have to be able to recognize the areas in which you are weakest. Even more importantly, you have to get away from the investment style that "just isn't for you."

Here, we don't preach that you should invest exactly like any one of us does. We don't tell you to only use any one of "our formulas." (That would actually get quite confusing because every contributor to The Tycoon Report trades or invests at least a little differently.) Instead, we attempt to arm you with the framework for being a good trader or investor. Bruce Lee was considered a great martial artist because he took so many different styles and combined them into his own.

There are some essential understandings that one must have in order to maneuver in the market successfully, and most people don't have the mental arsenal which is required to be a great investor or trader. It would take months of Tycoon Report articles to achieve this, but don't be intimidated or overwhelmed, and don't try to convince yourself that you know it all. Instead, let's add to your arsenal one by one. "Rome wasn't built in a day," and all that.

You don't know this yet, but you are going to see The Tycoon Report newsletter and TheTycoonReport.com go through some major changes over the next 12 months. We will morph into whatever it is that you guide us into becoming, but the idea is to focus on educating you while laughing together about serious (or ridiculous) business. That's why I'm going to take this opportunity to find out what stock market essentials need more clarification/understanding for YOU, our reader.

Here's how I'm going to do it ...

I don't think that I'm a wizard (believe it or not), but between me and the talent that I work with here, we have the collective ability (and desire) to give you the mental arsenal that you need in order to become a trading/investment wizard. (Sounds pretty corny huh? Maybe even arrogant?) It's true.

So what I'm going to do is ask you what it is that you want to learn about, and then have at least 1 out of our 5 editors/gurus/wizards/whatever you want to call us, write about it in one or several new Tycoon Report articles. (I just don't like the sound of "editor" anymore since we are Wall Streeters posing as editors to break into an industry that needs us most.)

I will try to inspire you, to come up with good questions, by getting those wheels turning after reading what I write below. I'll write little snippets about trading or investing that may interest you. (And since there are months of Tycoon Report space that we can fill with just these snippets, I'll only give a little bit at a time.)

So, by clicking on the "Rate This Article" link below, please feel free to add questions, comments, or requests on INVESTING OR TRADING that you want us to write about and help clarify for you. Remember, we aren't a news service, but when it comes to understanding the market, we're happy to help you.

**After we understand what people need the most, we'll put together tons of educational material for you.**

Here are a few investment necessities to think about (remember, these are only small snippets to inspire your comments or questions):

### 1) Understand your risk tolerance

*The best wars are won before they begin...*

The very first thing that you have to do is understand your risk tolerance. Most people believe they have a higher risk tolerance than they really do. They think much harder about the reward than the risk, but then when it's time to pay the piper and take a loss, the person realizes that it hurt them much worse than they feel comfortable about. After speaking with individual investors for about 13 years, I've come to realize that this is one of the most common problems.

### 2) Understanding the risk of a particular stock

Then they may understand that they are risking 20% to make 80%, but it doesn't stop there. You have to understand how *likely* it is that you lose that 20%. In other words, I wouldn't take a 20% loss vs. 80% gain "bet" if there were a 95% chance that the 20% is lost. (Extreme

example, but you get the point.) So how do you get to know how likely it will be to lose that 20%?

### 3) Understanding that a company is not the same thing as a stock

A stock is a *trading or investment vehicle*

and it trades based on many other factors besides how well a company is doing. Sure, the stock performance is related to the company's performance, such as the overall market, the sector, or whether or not a large hedge-fund is forced to dump lots of stock in the company. But most newer stock traders have a hard time separating the two enough. This is a big one that is likely tied for first place in common mistakes, so do not forget this crucial fact. You may be in the greatest semiconductor company on earth. But if Semiconductors are not doing well, then your stock is likely to lose value.

### 4) Understanding where your personal sweet spot is. Play the game you know (have the best feel for)

There are many ways to invest, trade, or to do a combination of both. Your "thing" might be stocks, options, futures or bonds. If it's stock, you may be a trader for 1 point, 10 points or 25 cents. You may be an investor who takes a couple of positions each year.

Then to drill down further: If you are a trader, you may have certain market environments that you trade better in. (Maybe you trade best from October Bottoms, through January tops.) Maybe you are best at predicting 10% - 20% moves right after a stock breaks a key resistance point on heavy volume.

If you are a trader, you may have a certain area that you work best in and therefore stick with.

My sweetest spot used to be in small and mid cap stocks. I am good at identifying when institutions start accumulating stock in small and mid-size vehicles. This usually turned into big profits for me, but then I finally recognized a personal playing field with a higher level of predictability.

*I personally like to have a good feel for the rhythm of what I trade*

. You would do well to play where you have the best feel for the rhythm too. This has a lot to do with the stock's market cap, and the sector that the stock resides in. The stocks that have more of a defined rhythm are the bigger, more heavily traded names, and the reason that their rhythm is more defined is because they trade much higher volume. So instead of trading sporadically, they generally tend to be more tame, and make more sense based on what is happening in their respective market. They also tend to participate in the overall direction of the sector that they are in.

Having a good feel for the trading rhythm is also very beneficial with a specific individual stock. Remember, there are lots of major traders whose job it is to only trade in a few specific stocks.

What I didn't like about trading bigger names had a lot to do with my greed factor. I didn't find it as easy to make huge gains in the big names.

Solution: I like to trade both options and stock, but using options has worked very well for me. This is because you can make 40%-50% when a stock moves 10%-15%. Since I feel that in certain areas I am especially good at calling 10%-15% moves, I like playing options on those bigger names in such a way where I don't have a high probability of loss, and I can still make big returns off of those 10% - 15% stock moves.

### 5) Seasonality

Pension funds and other major market movers have to make scheduled moves, like investing a bunch of money in the beginning of the year or quarter. Funds "window dress" their portfolios at the end of the year (and the end of the quarter). People pay taxes, obviously, which plays a part in market activity. Then there's the 4 year election cycle.

There are a bunch of these factors to consider, all of which *impact* the market even though you may not want to use them to *predict* the market. Understanding them will help you understand why a market is moving lower, and thus will give you the courage to step in and buy in low/scary markets.

You have the "sell in May, go away" reasoning, or the fact that September is typically the weakest month, and November through the end of January are the strongest 3 months of the year ...

**This article is becoming too long as I suspected it could, so I'll leave you with one last important understanding, and then you can give me your feedback/desired future reading ...**

### 6) Understanding what stage of a corporate life span a company (whose stock you own) is in

There are four stages of a company's life span:

- Start up (Very early stage companies with no earnings, or maybe even no revenue, because most of the money is in research and development. These hold

higher risk, and less chance of overall success, but typically have larger rewards individually. These companies are striving to make it to the "growth" level. Early stage bio-tech stocks come to mind to use an extreme example. They don't have much in the way of revenue, and usually have no earnings as they invest their money into research and development. They hope to have the drug approved, and then they move to the next phase - growth - as they sell the drug. Your investment in this stock is usually based on whether or not a drug works, and not as much on how well management runs the business.)

- Growth(These are companies that are experiencing higher than average growth. They usually have a fancy new product, or something that is pushing them along. These companies usually have a good thing going - or think they do. The typical risk here is that the larger, more established competitors with lots of cash can put the "threat" growth company out of business. The positive flip-side to that is that the other way for an established company to protect itself against a "threat" is to acquire the company. Microsoft comes to mind as a mature company that buys or crushes any known threat.)

- Mature (Again, Microsoft comes to mind here. The bigger you are, the harder it is to grow. Companies like this spend their cash best by distributing it in the form of a dividend, or buying back stock to increase shareholder value. Many would argue that this giant can still be looked at as a growth stock. Not me.)

- Decline (Blockbuster comes to mind. A company who made a killing just as most Wayne Huizenga companies do. They created a brand, but the problem is that now, you can either press a button on your cable TV to find whatever you want to pay to see, or you can use Netflix - which is in its growth phase - who will mail you the movie. Blockbuster is an old dog of a company. Who needs them? These companies get broken up, or just go down in value.

Tell us what mystifies YOU. What do you feel that you need to have a better understanding of? How can we help?

Click on the link below, and let us know!

?Profit from the Trend?



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