

15 Truisms to Trust

Separating market flash from market facts

BY DICK DAVIS • The perverse nature of the stock market precludes hard-and-fast rules. Yet hard-and-fast rules are just what many Wall Street whizzes peddle. Investors should beware. One day's market truth is often the next day's market myth—and tomorrow is when you'll want to cash in your chips. So what should wisdom-seeking investors do? Trust the

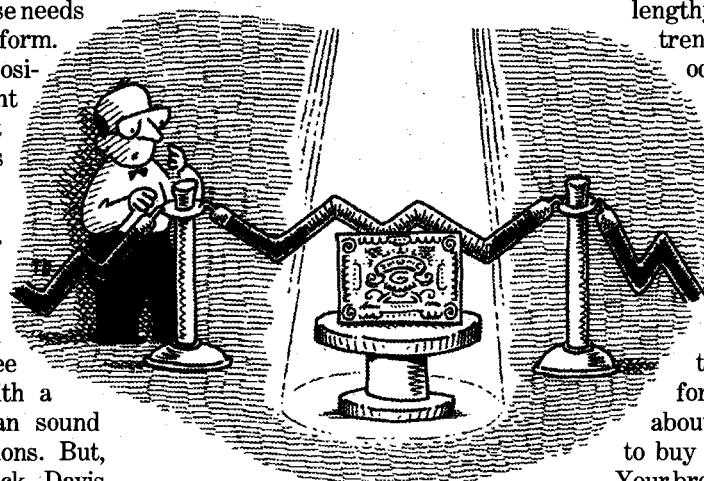
truisms that have stood the test of time, a good, solid chunk of time, not a one- or two-year span. Fifteen years ago, when I was writing the Dick Davis Digest newsletter, I compiled for a speech 15 observations about the market that still provide solid guideposts, despite the changes on the Street since then. None work all the time—but all work most of the time.

A big loss is unacceptable. Taking losses in the stock market isn't a probability, it's a certainty—an integral part of the investment process. However, with stop-loss protection keeping losses moderate, you can be wrong more often than right and still come out a winner. (The baseball player who fails to get a hit seven in 10 times is considered a "star" and earns millions.) What's not acceptable is taking a big loss. Open stop-loss orders should be entered preferably at the same time the buy order is given. A big loss is a crippler. You can't play if you lose your chips.

long uptrend. Just as your spouse needs space, stocks need room to perform. If you're building long-term positions in industry leaders bought at reasonable prices, the best thing is to take lots of vacations and stay healthy.

There's always another stock. The hype employed to promote market letters can be irresponsible; cut through the bluster by asking for a free sample. Flamboyant prose with a liberal use of superlatives can sound like compelling recommendations. But, as I always said in the Dick Davis Digest, "No one stock has to be bought. There's always another stock and there's always another day."

Face it, it's history. If a highly speculative stock has collapsed from 50 to 5, people often ask: "Should I hold or take my loss?" The answer is: "You've already



depends on what you're getting for your money in addition to stock recommendations. "Added value" might include experience, market savvy and perspective, guidance on strategies, acknowledgment of the downside and protection against it, the manner in which mistakes are handled (including follow-up), hand-hold-

dollar, etc. It applies to both uptrends and downtrends, but more so to uptrends simply because the underlying bias of the stock market has been up for the past 100 years and because bull markets on average last longer than bear markets. Trusting the durability of a lengthy, primary trend (the longer a trend is in force, the greater the odds it will remain in force) can be severely tested during periods of high volatility and long-lasting trading ranges.

No monopoly on right answers. Brokerage firms have lists of recommended stocks at all times. To increase your odds of success, focus on the stock that an experienced, informed broker feels most strongly about; i.e., the issue he feels compelled to buy tomorrow with *his own* money. Your broker's knowledge shouldn't be limited to his own research department. No single source or single firm has a monopoly on being right about the stock market. Be sure when receiving a stock "buy" recommendation, you also know how the firm feels about the likely direction of the overall market. If it's likely to head lower, say, you might want to take that into consider-

It'll always go lower. Forget about buying a stock at the bottom or selling it at the top. Yes, somebody does, but that elusive somebody will not be you. The truth is that after you buy a stock, it will go lower, not sometimes, but always. It is unrealistic to think that you're smart or lucky enough to buy at the very bottom tick or sell at the very top.

It's when, not what. If you are short-term-oriented, when you buy is far more important than what you buy. You can make money on the most marginal company if you buy at the right time. You can lose money in the bluest of blue chips if you buy at the wrong time. When purchasing for the long term, timing is also important, but less so.

Stocks need room. Long-term investors should avoid becoming hyper-informed about a stock; this may force emotional decisions, which will likely be wrong. There is *always* going to be some negative news on a stock, and it can initially cause doubt and a lower price. But most such news doesn't involve fundamental change or carry long-term significance. The stock will likely recover, and the selloff will turn out to be a wiggle in a

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taken your loss. Write it off mentally, if not actually, and move on. If you hold, and the stock beats the odds and comes back, that's gravy, but don't count on it."

Rebound? Blue chips, yes; speculations, maybe. Bull markets follow bear markets. The basic difference between a quality stock and a speculative stock is this: with few exceptions, a blue-chipper will recover from a major downturn; a speculation might or might not. That's a big difference in risk. But when you're talking about groups of stocks, the question is not if they'll recover, but when. In most cases, with patience, you'll see every depressed group return to have its day in the sun.

Investigate, then invest? A popular slogan on Wall Street has been "Investigate, then invest." That's okay for some but it's not realistic advice for most of us who have neither the time, the inclination nor the academic skills to totally understand balance sheets, profit margins, book-to-bill ratios or chart formations. Instead, check the track record of the broker, market letter, mutual fund or money manager you're considering. After you choose, let the professional do the investigating for you.

Market advice: Paid vs. free. Investment advice you pay for may or may not be better than free counsel. A lot

of people have a track record. These considerations may be worth much more than just stock picks. Also of value, wherever found, would be a touch of humility. In the eternal search for performance, we're attracted by confident, no-hedge opinions. Yet, there is no place where understatement is more apropos and less visible than Wall Street. An occasional "I don't know" or "I was wrong" would score big-time with me.

Rarity of inside information. In these days of instant communication, you're not likely to get advance or inside information; few do. What's more, a stock may not respond to news the way you think it will. The only advance news that's likely to be of trading value is that which is a complete surprise when it's released. But if you know about it, chances are you're not the only one. You definitely are not alone if the stock has made a sharp move up or down with volume in the days just prior to your being informed.

Trust entrenched trends. Well-entrenched trends are exceedingly difficult to reverse. There are always false countermoves that trigger doubt, but the odds favor the resumption of the longer-term, underlying trend. This applies to the overall market, stocks (though it is less consistent with speculative issues), interest rates, inflation, the

and so on. Stocks don't act in a vacuum. Be aware of the big picture.

The ultimate contrary indicator. Some investors, by virtue of a complete lack of discipline, are born losers. Everything they buy goes down; everything they sell rises. If you know someone who is consistently wrong, you can do the exact opposite of what he does and be consistently right.

Tread lightly with advice to relatives. Use restraint in giving stock recommendations to family—and friends. Invariably, the loved ones you want to help most are the ones you cause to lose money. Resist trying to be a hero, and you'll avoid feeling like a bum.

Keep your priorities. As we get older and benefit more from hindsight, most of us gain perspective. If you can do this *before* you get old, you'll be the richer for it. Some people let numbers control their lives—they've got to save the extra \$25, buy for a quarter-point less, earn another eighth of a percent. Making money is important, but becoming consumed by it is dangerous. Looking back over the course of a life, the pursuit of numbers is likely to prove less important than the quest for such values as love, health and service. Maybe a lesser return on your investments makes sense, in exchange for a higher return on your life. ■