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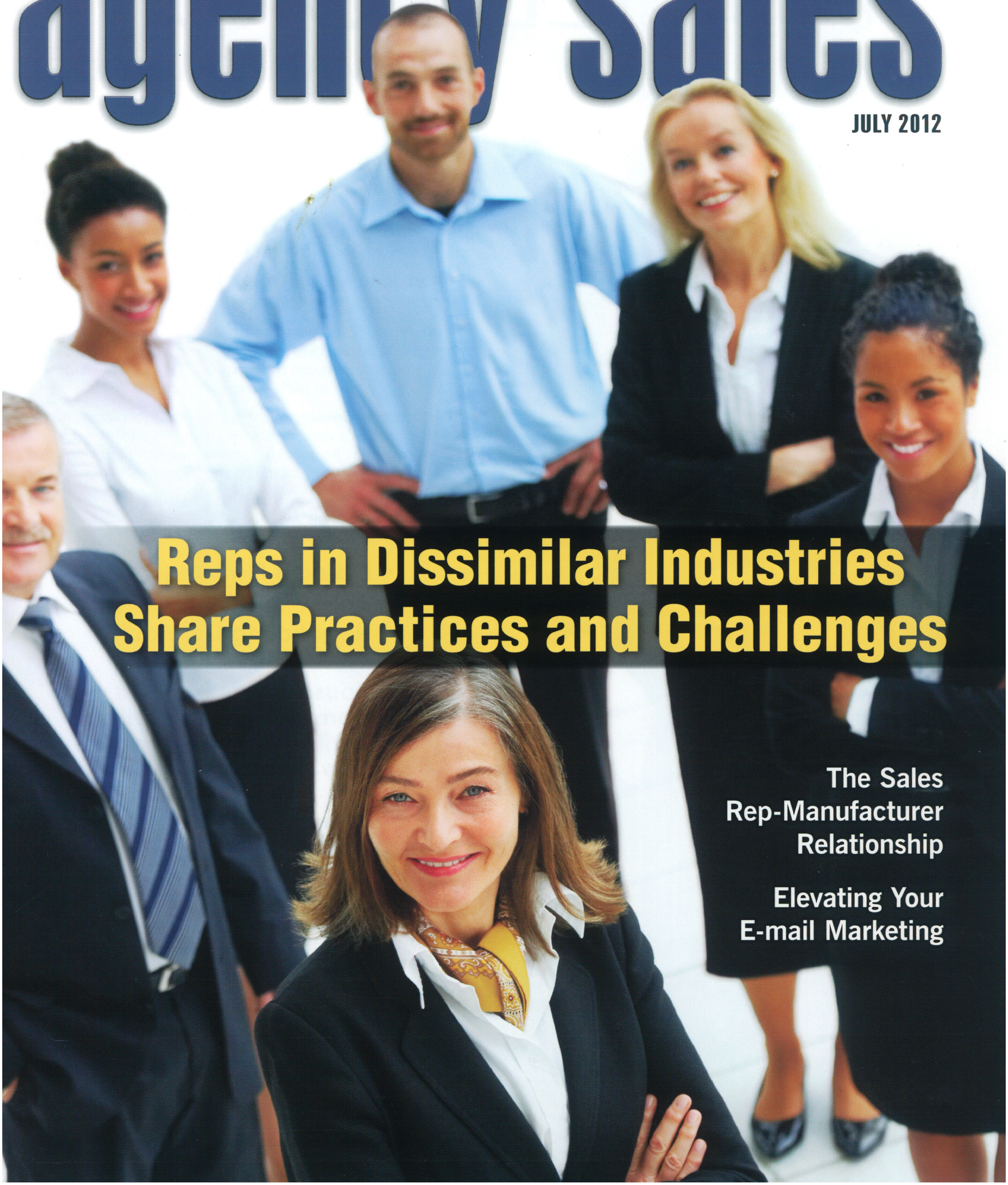

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Pearls of Market Wisdom from Savvy Investors

BY ROGER S. BALSER

There is an old saying that children don't come with instructions. Instead, we rely on the wisdom and knowledge we've gleaned over the years to teach our children what they need to create a happy and fulfilling life. So where does that wisdom come from? It comes from years of personal experiences and the experiences of our friends and loved ones.

Just as we've learned our lessons on how to raise children, we can learn some important lessons from savvy investors on how to succeed in the market. So without further ado, I bring you my "Ten Pearls of Market Wisdom from Savvy Investors."

Savvy investors know the most tax-efficient way to manage your investments is to hold the winners and let them run, and to sell the losers quickly. This philosophy also increases your investment returns over time, as you learn to fail fast and hold the strong stocks that carry the potential to be home runs. Losses in the stock market are unavoidable by anyone who invests long enough, but long-term gains and short-term losses are far more tax-efficient over time.

Savvy investors pay particular attention to what's happening with an industry. Numerous academic studies have proven time and again that sector/industry considerations are the single most important considerations in individual stock selection. Owning the worst stock in the best group can often yield better results than owning the best stock in the worst group.

Savvy investors understand that investing is very much like calling plays as a football coach. Any successful football coach realizes that there is a time to play offense and a time to play defense. Likewise, a good coach knows the types of personnel best suited to play either offense or defense. When the market sends the

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defensive team onto the field, portfolio strategies should be focused on preserving wealth. When the offensive team is on the field, portfolio strategies should be focused on wealth accumulation.

Savvy investors maintain a disciplined approach. Whether you're trying to improve your golf game, trying to shed a few pounds, or trying to manage a successful investment portfolio, you must adhere to your discipline. Just as there are numerous ways to diet successfully, there are many diverse strategies that work on Wall Street. But in either case half-measures will often produce unsatisfactory results. Find a philosophy you believe in and one that matches your personality, and then stick to that game plan.

Savvy investors realize that value is a relative term. Just because something is a "good value" doesn't mean it's right for you. A pair of purple leather *Gucci* pants that are marked down 75 percent at Neiman Marcus may well be a great deal relative to purchasing them on Rodeo Drive, but are not necessarily a value if your personal style is more along the lines of *Brooks Brothers*. Stocks are much the same. Something is a good "value" when it meets all of your investment criteria and also represents a suitable risk-to-reward scenario at its current price.

Savvy investors never rely on the financial news media for investment advice. The two-fold objective of a magazine is to sell copies and attract advertisers. Being accurate in financial analyses is secondary to objectives one and two. As such, magazine covers are best utilized as a contrary indicator because investment returns are predicated upon being able to gauge what's most likely going to happen in the market, not what has already happened.

Savvy investors recognize that trends change and stocks and sectors rotate into (and out of) favor just like supermarket produce. We buy winter squash in the winter and summer squash in the summer. Because sectors rotate in and out of favor, what's required is an investment approach that favors a rotational strategy over a buy-and-hold philosophy, one that is adaptive to market conditions.

Savvy investors understand that the best buying opportunities in the stock market will come when it is most difficult to buy. Likewise, the highest degrees of risk in the stock market, or any other market for that matter, will exist when the majority of all investors are bullish. Your investment plan must incorporate some type of tool that encourages you to buy when others are skeptical, and to trim positions when the market is replete with optimism.

"The market can remain irrational far longer than we can remain solvent" — John Maynard Keynes, Savvy Investor. If there is one thing the stock market teaches us, it is that there is always someone out there with a little more inside information, a little less barrier to entry, a little more margin and a little more equity. When we break the market down to the lowest common denominator however, price movement is quite simply a function of supply and demand. When there are more buyers than sellers willing to sell at a particular price, the price will rise. If there are more sellers than buyers willing to buy at a particular price, the price will fall. If buying and selling is equal, the price will remain unchanged. All of the insiders and market makers come together to determine price movement of stocks, and thus a logical, organized method of recording that price action will let the world know the sum of all new buying and selling. When supply takes control of a situation, you must have a plan to manage risk. When demand is in control of a situation, you must have the courage to buy.

Savvy investors never confuse brains with a bull market. A strong market will lift stocks to the degree that a strong tide lifts boats — en masse. The market has humbled Nobel laureates and Mensa members alike. But successful investors are the result of successful investment approaches. Because the market will produce strong trends and weak trends, an adaptive approach will allow you to manage risk in bad markets and grow wealth in good markets. Bernard Baruch once said, "Become more humble as the market goes your way."

When applied consistently across the financial landscape, these pearls of investment wisdom will allow you to increase your odds of success in the markets, and perhaps even transform you into a savvy investor. AS

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