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Shark Investing: Empowering the Individual Investor

Most investors confront the stock market like minnows confront the ocean. If they are lucky, they swim around and enjoy a few snacks before they end up as a tasty meal for someone else. Individual investors have a tendency to relinquish control of their financial fate. They invest their money in what they think are good stocks or mutual funds and then do nothing other than hope and pray that the investment seas will treat them kindly. When they do act, they do so out of emotion and without any sort of plan or strategy.

Typically investors have little appreciation of the substantial risks they take with their hard-earned capital by being passive. They buy stocks that are considered "safe" or "blue chip" and then abandon control over the situation and wonder why they earn mediocre returns. They rely on hope and luck rather than skill or strategy and are gamblers rather than risk-averse speculators.

My personal experience in the stock market has proven that it is possible for investors not only to protect their capital and control their destinies but to flourish much like a shark in the ocean. The essence of my Shark Investing approach is to embrace the benefits of being a smaller investor by being more active and aggressive. The logic of moving quickly to protect your capital in a volatile situation is obvious. However, the vast majority of investors not only choose to remain passive and inactive in this always risky and uncontrollable market environment, but also have been brainwashed into thinking this is the best approach.

This naive thinking about the market is primarily a function of misleading traditional beliefs that most of us never question. In addition, the powerful forces that dominate Wall Street tend to have interests that are counter to our own. Wall Street professionals and the financial media have convinced investors that there is no way to successfully invest other than to follow the traditional methods. Not so coincidentally, these methods are very lucrative for big institutions and those dispensing the advice. (See Chapter 5, "Why Conventional Investment Advice Ensures Mediocre Results.")

Investors have had it pounded into them by Wall Street professionals that it is best to be inactive and forgiving when it comes to investments because, in the long run, things will likely turn out okay. Unfortunately, this conventional investment wisdom not only results in mediocre returns, but also carries an above-average risk of loss. Holding on to good stocks for the long term sounds great in theory. But when an investor holds on to the wrong stocks for the long term, the damage to his or her financial well-being compounds quickly. Compounding is a powerful financial tool that is the road to real wealth, but it cuts both ways and must be harnessed and controlled.

In most cases the traditional methods of Wall Street never even put investors into the best stocks to begin with. After the fact, we hear how profitable we would have been had we bought Microsoft, Intel, or whatever the big winner of the past might have been. Racking up big gains is always easy in retrospect, but financial advisors fail to tell us how difficult it is to pick a stock right now that has substantial potential and is worthy of being held for the long term. We earn lackluster returns while we seek out the big winners that we can hold for the long run. We also take the chance that our savings will erode if we pick the wrong stock and sit with it for years while we wait for it to produce.

Investors are lulled into passivity by pithy Wall Street sayings such as "Buy low, sell high," "Find good stocks and hold them for the long run," and "Don't try to time the market, or you will surely miss the big move." (See Chapter 6, "The Myths of Wall Street.") Brokers and financial advisors constantly reassure troubled investors that, if they remain patient and passive, the highly researched stocks, selected by their expert analysts, are sure to bounce back and go ever higher.

Investors are told not to worry when their portfolio is bleeding red ink. They are actively encouraged to just hold on because the market is sure to turn and it would be a big mistake to sell and lock in a loss. The message from financial advisors is that "real" investors rely on the courage of their convictions and stick with certain "quality" stocks through thick and thin. Wall Street makes individual investors feel that changing their minds and acting aggressively to limit losses will damn them to financial hell.

In the world of traditional Wall Street, lower prices are never a cause for concern. Investors never lose money. They only experience endless "buying opportunities." This is an excellent approach to the market as long as you have a never-ending stream of cash and an infinite time frame in which to wait for the payoff. But for those who live in the real world and who must deal with a steady diet of financial demands, the frustration of passively holding stocks that aren't doing well is tremendous.

Those catchy little investment aphorisms that are so blithely tossed around by financial professionals and the media do contain some elements of truth. It really is common sense to "hold on to good stocks." So we happily incorporate these trite and convenient ideas into how we approach the stock market and then incorrectly believe that we are doing the best we possibly can.

What else is the average investor to do? How can the lone investor beat the big, powerful Whales of Wall Street, who have superior information, huge amounts of capital, and the ability to manipulate what happens in the markets? The answer is that he or she must learn to exploit the very qualities that make the Whales so dominant. Individual investors must use the Whales' strengths and inherent characteristics against them and create their own advantage.

A small, savvy group of investors has learned how to do just that. They understand how and why Wall Street operates the way it does and have found ways to use their small size and quickness to benefit from it. They are solitary hunters who move quickly and decisively when the time is right. These investors are the Sharks, and this book teaches you their secrets.

Technology Empowers the Little Guy

Shark Investors have been around as long as there has been a stock market, but for many years they were an exceedingly small group that had close ties to Wall Street. Generally they were wealthy, well-connected individuals and not just the average guy off the street.

That all changed as investing tools and methods became available through the Internet. Technology now makes it possible for anyone who is willing to put forth the effort to be a Shark Investor. In the past, the average investor had no choice but to rely on brokers, financial advisors, and the media for insight into and advice about the investing process. That is no longer the case.

Over the last decade the explosion of computers, satellite and cable TV, high-speed Internet, specialized financial media, and websites has greatly changed the tools that are available to the average investor. It is now possible to live virtually anywhere in the world and have the same investing tools that only professionals on Wall Street had in the past.

Even with all this new and fantastic technology and information, most people continue to invest their hard-earned money in much the same way they did decades ago. Investors now have accounts with online brokers, access to an overwhelming amount of investment advice on the Internet, and 24-hour financial television. But they are still advised that the best way to approach the market is the same way their grandfathers did.

Why don't investors better use the modern tools that are available to them to improve their investment results?

There are two key reasons. First, many investors simply don't know how to use investment tools and information effectively. Many software applications, websites, and information sources are designed to help with investing tasks, but they are so overwhelming, complex, and inconsistent that people often feel even more confused and uncertain about how to proceed. Buried in this flood of information are the tools that make it possible for anyone to be a Shark Investor.

A good example of an extremely valuable tool that many individual investors are unfamiliar with are stock charts (discussed in Chapter 9, "Charts: Navigating the Market Seas"). Stock charts are very helpful in implementing a winning investment strategy. They provide insight and structure, but there is a tendency to overcomplicate their use and to consider them useful for only hyperactive traders.

Many on Wall Street go so far as to actively discourage investors from using charts. They are often dismissed as nothing more than useless voodoo. This brings us to the second reason that technology tools are not adequately used to improve individual investing. Wall Street has convinced investors that it is downright dangerous to ignore traditional advice.

Wall Street wants investors to stick with conventional investing methods that produce commissions and fees. They want the individual investor to leave funds in their hands and be dependent on them for advice. The Whales of Wall Street don't want aggressive, self-sufficient Investing Sharks to make waves in the investment sea. They want passive minnows who are totally dependent on them for costly and questionable advice.

The Whales of Wall Street

Wall Street is dominated by Whales. These are the giant mutual funds, pension plans, hedge funds, institutions, and brokers that trade the vast majority of volume on Wall Street every day. These entities aren't just big; they are huge and powerful and have the capacity to move the market when they are so inclined. On any given day, at least 80% of the volume of stocks traded on Wall Street is produced by the Whales.

The mistake that the vast majority of individual investors make is that they believe that the best way to invest is the exact same way the Whales of Wall Street invest. They strive to be miniature versions of giant funds. They use the same strategies and approaches that billion-dollar mutual funds employ. What is really surprising is that most investors are so indoctrinated by Wall Street that they believe they can actually beat the Whales by playing the investing game the exact same way the Whales play it.

What do you think the chances are that an individual, sitting at home with limited information, can find better investments than a fund that spends millions of dollars on research, has easy access to company management, and employs teams of people to dig into every aspect of a business?

Unless you are extremely lucky, trying to compete against a mutual fund by mirroring its techniques is not a strategy that will produce superior results. It is like challenging a sumo wrestler to a wrestling match. There is no chance of beating him at the thing he does best. However, if you challenged him to a foot race, a game of basketball, or something where his size is a disadvantage, your chance of success would be very high.

Sharks don't try to play the investing game the way the Whales of Wall Street do. That is futile and unproductive. Sharks approach the market in a way that allows them to capitalize on their speed, cunning, and flexibility.

A New Approach: Shark Investing

Few creatures have survived as long or as well as the shark. The shark, unlike his dinosaur cousins, continues to flourish. The reason is simple. The shark possesses a number of unique physiological and behavioral characteristics that keep it from danger and make it a highly efficient eating machine.

Sharks are cunning and aggressive. They rush in and feast on a good meal whenever they come across an opportunity. When conditions are right, they don't hesitate to gorge themselves in a feeding frenzy. They don't ponder theoretical matters and the state of the world. If there is something good to eat, they go after it and eat it.

Despite their aggressiveness and ferocity, sharks quickly swim away when circumstances change. They don't dawdle once they have their fill. They move on and start the hunt for the next opportunity. They are in constant motion, hunting, eating, swimming away, and then hunting some more. They are one of the most efficient hunters and survivors that have ever existed, and they are the perfect model for the individual investor who seeks to conquer the investment seas.

Investors have been led to believe that the best way to approach the market is to become a part of the vast school of other investors who, like tunas in the ocean, seek safety in the midst of thousands of other like-minded tunas. They are passive and have no real control over what happens to them. Their primary goal is to survive by following the crowd. Their passivity may keep them safe if they are lucky, but they are rewarded with unspectacular results and often end up as someone else's meal.

Shark Investing is about taking control of your investments. It is about being active and not passive. Sharks stalk their prey, move aggressively, and stay flexible but run when danger lurks. Sharks have no qualms about moving on to the next opportunity at the first sign of danger. They know that even the best situations will eventually become dangerous if they stay in one place too long.

One of the key benefits of Shark Investing is that it not only helps improve returns, but it also decreases the risk of loss. You minimize risk by learning to sell quickly and decisively, which is the investment equivalent of swimming away. If you are sitting in an unproductive investment, you dump it and move on. Selling is one of the most underrated and unappreciated tactical tools on Wall Street. Traditional Wall Street doesn't want you to sell. It will constantly find ways to talk you out of running for the safety and security of cold, hard cash.

To earn your fins as an Investing Shark, you have to be ready to reconsider much of what you think and believe about investing. Shark Investing is about harnessing your power as a fast-moving individual. One of the first things you will learn is contrary to popular market wisdom and just about everything you've ever read on the subject. Active investing, in which you stay in motion, is a far safer approach to the stock market than the long-term "buy-and-hold" approach that Wall Street promotes. (See Chapter 4, "Why Long-Term Buy-and-Hold Investing Is Far Riskier Than Shark Investing.")

Becoming an Investing Shark

The first step in becoming an Investing Shark is to understand the dynamics that are at work in the stock market. One of the primary reasons many investors struggle is that they have common misconceptions about the stock market and how it functions.

Investors don't really understand why stocks and markets move the way they do. They have incorporated the conventional thinking of the Wall Street Whales into how they think about the market. They fail to embrace the advantages that they possess over big funds and institutions. The first part of this book explores how Wall Street really operates and the thinking and theories that impact the market. A clear understanding of market dynamics will help you establish the thinking and theory behind Shark Investing. It also provides the foundation for developing an investing approach tailored to your unique circumstances.

Once you have mastered these concepts and have clarified how you think about the market, you can begin developing a Shark Investing strategy that is suitable for you. First we will discuss some basic Shark Investing concepts such as the use of charts (in Chapter 9) and a money management system (see Chapter 10, "Portfolio Management: The Key to Success").

The best Shark Investing style depends on your particular abilities, desires, and circumstances. After you master the thinking and foundational concepts of Shark Investing, you can adapt them in a way that works best for you. We will explore different stylistic choices in Chapter 12, "Developing Your Inner Shark."

As you commence your study of Shark Investing, keep one basic idea in mind: It is all about seizing control of your financial fate. Shark Investing requires that you spend some time and effort to understand it and apply it, but the rewards you gain for efforts can be life changing.