Heretic Investor

A work smart, not hard, way to profit on Wall Street!

By Panayotis V. Sofianopoulos

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Preface and Acknowledgments

This is my first time, writing a book although I have writing experience on this topic. Why another book on investing? Because none of the existing, has spoken really efficiently. I would not have written a book, just to rewrite the known things, maybe in a different way; it would be useless.

I chose to write it in English, although is not my mother language. I acted like this, because investments is a field that interests many people all over the world.
So, I am grateful to my friends, Cassandra Campbell-Kemp and Apostolos Vranas that made the grammar corrections on my text and transformed it into readable English.

About the Author

Panayotis V. Sofianopoulos, is a stock market enthusiast and has extensive experience in the field of investments, as:

• He has worked in analysis departments of securities firms of Greece; as creator of these departments (because in older years, the securities firms in Greece did not have analysis departments), as an analyst and then, head of them.

• He has worked as head of analysis department of a monthly magazine on stock market; he was responsible for supervising the written material of the magazine and was writing a part.

• He was responsible for the training of his subordinates, in the investment field.

• He has worked as a financial consultant and advisor to several firms of wider financial services.

• Conducts seminars, as a Lecturer, on the field of investments.

Introduction

Tic-tac, tic-tac, time is passing and you'd better hold a big bag. You'll be blessed and by no mean messed, having invested in a 'golden nest'. Here you'll find a way to fly away, to your investments' success. I will tell you clearly how you will be a winner, even if today you are a beginner.

I made this poetic style introduction, to indicate that investments in stock markets are more art than science. And this can be good and bad. Good because as an art, investments do not need a lot of things and anybody can get involved in this field. Bad because, as in any art, you need talent and skills. And talent is something you either have it or not, but skills is something you can learn. Even if you have no talent, if you obtain skills, you can be a successful investor.

You know that you must invest. Tell this, to your loved ones and friends. If they don't know how to invest, they must learn and they must invest. Why? Because it is the less hard way to earn good money. Because it is a basic way of maintaining a good living standard. Because in Countries of the Western World, in the years to come, it is estimated that income inequality will become larger than it already is. So will you sit and grumble or will you do something about it? An intelligent person, seeing income inequality increasing, will act to reinforce his income. And investments in stock markets, is one of the best ways to grow your income. Bear this in mind: A study released by Northeastern University found that corporate profits captured 88 percent of US growth in real national income while aggregate wages and salaries accounted for only slightly more than 1 percent of growth. That was unprecedented for American workers, to receive such a tiny share of national income growth during a recovery, as the share of income growth going to employee compensation was quite larger in the four other economic recoveries that have occurred over the last three decades. Now, I believe you understand why is essential to invest: profits that are going to corporations and not to workers; the only 'easy' way to maintain your income and to increase it, is to participate in the capitalism's profit gathering mechanism through stocks and stock markets.

You just have to learn some basics – after all investing is not a science. That's why the best investors are not the best scientists: I imagine you will have notice that profound economists like Nobel prize winners etc, are not among the greatest investors. Indeed, I will remind you the case of Long Term Capital Management (LTCM), the hedge fund management firm that was run by a few executives, where two Nobel laureates (on Economics and for their Study on a method to determine the value of derivatives) were among them. So, those two Heads of LTCM had the absolute scientific knowledge that someone can have. Initially, in the first three years they did it wonderfully as LTCM outperformed the market strongly but in the years that followed, it lost much more that its previous gains, resulting in the liquidation and dissolving of the Fund in early 2000.

With the above, I think is very clear that I strongly discourage you from engaging in the Derivatives market, as this market is by its nature, short term and very dangerous. In this book, when I'm referring to investing or when I mention stock markets or just markets, I mean the traditional investing and the traditional stock markets and not the modern Derivatives (market). Nobel economist Paul Samuelson put it nicely, saying "Investing should be more like watching paint dry or watching grass grow. If you want excitement, take $800 and go to Las Vegas".

Furthermore, I do not mean that you do not need to have economic knowledge to engage in playing the stock markets. Of course you need this but you also need to know Economics 101. Other things are most important to succeed in investments field – the knowledge of an undergraduate student on Economics is enough. Other things that are important like to have a sharp mind, a clear mind and to be self-disciplined. Don't be afraid of the term 'sharp mind', as I do not mean you must be something like Einstein; I mean you need to be rational, to have the ability to analyze, filter and judge the substantial amount of data you receive and be able, to reach a useful conclusion. To reassure you, I'm telling you that many graduates of renowned universities, do not have these abilities while others that have not gone to universities and have only basic high school education, have this sharp mind. A simple test to check if you have or not sharp mind is the following: some messages appearing occasionally on Facebook that calling the users to copy – paste on their wall some text in order to save their profile, otherwise their Account will be blocked, deleted or charged with some amount -supposedly from Facebook itself. Those that copy – paste such messages, maybe don't have this sharp mind required to invest successfully on a long term horizon.

Many people think that investing is difficult; I tell you sincerely that it is not. Then why do so many people fail? The basic reason is that they are not in control of themselves, they are not systematic in their actions and disciplined to a method; in other words they are just part of the mob. And even the smartest persons, if they lose control of themselves and be part of the mob, become from an investment point of view, fools. I remind you of, Isaac Newton, probably one of the most intelligent humans in the last centuries. Back in the eighteenth century, Newton influenced by crowd and captured by greed, decided and put lots of money in a stock market bubble in order to make "easy money"; after a while, as the bubble burst, he almost became bankrupt. It is said that then, Newton stated "I can calculate the movement of stars, but not the madness of men." Undoubtedly Newton is seen as one of the most brilliant minds of humankind of recent history but in this particular case of investing, he acted foolishly. Why? Because he did not control himself and when he got in to the stock market, he did not get in as the bright-mind individual but as part of the foolish sheeple (people that act like sheeps). Newton did not analyze if the stocks he bought were well-priced or if they were expensive or if the prospects were solid and strong or weak and exaggerated. Not to mention that he did not have a system or an exit strategy. Fatal investing mistakes, I imagine that many of you, have also made in the past.

But if investing in stock markets is more art than science, then doesn't that mean that only the naturally talented can win? No. As in most of arts, talent is a big plus but many can stand out positively, if they acquire the essential skills.

Investing is difficult if you consider that for about two centuries, people have tried to understand how stock markets function. In order to succeed in this, two basic forms of analyses emerged and developed: Fundamental and Technical analysis. We can say that those two, consist the 'Investing Old Testament' – they are a useful background but by themselves, they are rather 'primitive', meaning by that, they are not leading us to investment success and that's why investing seems difficult. Those two analyses, are the major investment approaches till today. Yet, none of them is successful enough. Something obviously is missing from investors' arsenal to beat the markets.

Furthermore, in the pursuit of investing success, people tend to think in an overly complex way. As investing success is difficult in practice, people think that a difficult task must have a complex solution. As I will prove within this book, this attitude regarding investments, is wrong.

This book will speak to you simply but efficiently. Here, I will try to make a unified investment approach that combines Fundamental Analysis, Technical Analysis as well as Psychology. Psychology is a major factor because this is after all what moves the markets. The above combination, leads us to a deep understanding of how markets work and how markets react, thus, we can achieve a powerful approach that leads us to profit. It is an extra-ordinary investment approach for ordinary people. Furthermore, it is essential that this unified method, to be easy and understandable for everyone; not only for the markets initiates. This method has to demonstrate a *work smart, not hard*, way to profit on Wall Street.

I am talking about an intelligent investing method because what else is intelligence if not the simplifying of tasks day by day, moving a step ahead in terms of development, efficiency and success?

Additionally, the demonstration of an easy way to profits, wouldn't be pleasant for the professionals that sell investment services and management to the people. By reading this book, people will realize that have no need of Pros and they could invest like a P.R.O. (= Passive, Random, Optimist) by themselves… and commission free as they would be the Masters of their own portfolios.

Sounds provocative? It is! That's why you are holding in your hands a book titled "Heretic Investing". This book challenges the hard scientific approaches on investments and stepping on simple fundamental and technical backgrounds, will move forward. I note that I'm not analyzing the basics of fundamental analysis but also the technical. I consider that one must already know these. If not, there are plenty of books and internet sources (e.g. investopedia) to study them. The purpose of this book is not to repeat the known; it is to move forward.

Big and important discoveries in all fields are hiding often, under our nose. There are 'too far' to find them, just because they are too close to us. People always believe that the answer to a difficult task, is a complicated one. Well… maybe sometimes but some other times, not. The answer also is been discovered by an 'enlightenment' or by an accident. See again Newton for example: as tradition says, he understood gravity and the way it works, when he was resting, sitting under an apple tree he saw an apple dropping. And not only Newton: as also tradition says, ancient Greek Archimedes found by an 'enlightenment' as also an accident, the principle of buoyancy, when he stepped into a bath and noticed that water level rose; he instantly leapt out of his bathtub, shouting "Eureka!" (I found it!). Likewise, I had my "Eureka" moment when I read that a cute chimp, some years ago, beat the market's Pros, on investing.

Stock markets can be simultaneously chaotic and predictable, that's why they are so interesting and profitable to those who can understand the way they work. Stock markets are our big manic depressive friends and if we realize their manic and depressive periods and behavior, we can earn a lot of money.

So, in this book, we will talk about everything that interests an investor: How markets work, why they behave the way they do, when, how and what to buy, as also when and how we must sell, how we shall behave and many others. And you will be surprised at how easy it can be.

The book consists of four major parts. The First Part contains mainly description of how markets behave and function. The Second Part contains mainly techniques, testing and practices as also supplementary descriptions. The Third Part contains mainly psychology and motivation. The Fourth Part moves beyond science, examines mega bears and has the Conclusion.

Closing my introduction, I will dare a prognosis that may be particularly useful to youth – but not only to them: S&P 500 in 25 years from now will be at 8,000 points at least (in year 2041). This prediction, resulting from a really conservative estimated annual return as also from the projection of an uptrend line that is valid for about three quarters of a century.

Have a pleasant read!

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First Part:

Mainly Description …


NEW YORK STOCK EXCHANGE

Stock Markets are Volatile!

Bad things first: stock markets can plunge and plunge badly. In long-term history of the American stock market, we notice:

The Panic of **1837** – amid wild speculation in federal land and commodity imports. Government respond by issuing a ‘specie circular’ for the purchase of public land, requiring payment in gold or silver, which led to the collapse in prices and a wave of failures of banks and businesses. The nation suffered almost a seven-year depression, prices declined, thousands of workers lost their jobs and unemployment eventually, may have been as high as 25 percent in some locations.

In the year of our Lord **1873**, another wild crisis started forming, when heavy speculation appeared, firstly in the railroad industry, which was the nation's largest employer outside of agriculture and the boom growth business. Anxiety spread in stocks and led to wide business failures. The NYSE was forced to close for ten days starting on September 20 and by this wide and complicated situation, begun a six-year severe depression, that was called ‘the Great Depression’ until surpassed in 1929, when the next major crisis took its name.

Panic occurred again, in **1907**, when NYSE fell by almost 50 percent from its previous year peak. It was a time of economic recession and there occurred numerous bank runs. The panic eventually spread throughout the US when many banks and businesses went belly up. Major causes of the k runs included a retraction of market liquidity by a number of New York City banks and a loss of confidence among depositors.

Then, we go to the infamous year **1929** and the Great Depression. At October 29 of this year, the day that is called ‘the Black Tuesday’, the Dow Jones dropped 11 percent just in this day. Further decline followed. Plenty of businesses failed and bankruptcies occurred as a rule. Dow Jones kept dropping till July of 1932 when it hit bottom and began to recover. Dow Jones lost approximately 90 percent of its value from the peak of 1929…

Later on, in the wake of the Great Depression, in **1937** the American economy sank back into recession: Unemployment remained high, but it was quite lower than the 25 percent rate seen in 1933. The economy took a sharp downturn in mid-1937, lasting for 13 months through most of 1938. Industrial production declined almost 30 percent and unemployment surged again fast, from 14.3 percent in 1937 to 19.0 percent in 1938. Anxiety spread to the stock market and caused a disorderly retreat from peak to trough of about 45 percent, bringing back the 'fresh' – and bad – memories of 1929 and subsequent years.

From the beginning of **1973** and till September of 1974, the stock market experienced a dramatic decline of about 48 percent from peak to bottom especially due to the rise in oil prices that spread anxiety over the repercussions on the economy.

In **1987**, on October 19, Dow Jones dropped 22.6 percent just in one day – that being the largest single day drop as percentage in Wall Street's history. It stayed in history as the Crash. Right after the Crash, in December 1987, a group of 33 eminent economists from various nations met in Washington and collectively concluded that *the next few years could be the most troubled since the '30s*. However, the Dow Jones was positive for the year 1987. It also took it about two years, to regain its high price of August 25, 1987 (of 2,722 points). It is important to mention that the economy (GDP) never went negative (in recession) in the years surrounding the Crash. In the years that followed, nothing important happened, a clue that shows that the economy and stock market are too complicated and mostly not predictable.

The collapse of the dot-com bubble took place during **2000-2002**. Tech stocks had soared sky-high in the previous years, fed by unreasonable expectations. The market then collapsed.

Going on recent times, in **2008** we experienced the financial collapse. Driven by heavy leverage and the long term bubble growth of real estate, this collapse took birth in financial sector (banks etc) and, due to the extreme 'weight' and importance of banks to our economic system – banks are the foundations of our system – soon, spread to overall economy. The entire economic system was collapsing and FED had to step in and rescue the financial system - it took government intervention and the spending of many billions of dollars in bailouts to resolve this crisis and stabilize this awful situation. Some refer to this period as the Great Recession. The economy recovered but not strong and healthy enough and the conventional “ammo” (mainly interest rates) have almost run out.

… but the Big Picture is like this (see next page)…