



Get on the bandwagon

By CK Wong 2006.06.21

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Introduction

Time for investment is important. If you buy the stock too early, you may pay too much or waiting for the appreciation too long that you could give up. If you wait too long you could also pay too much if the ascend already starts. The psychology of investor has this bandwagon complex that is hard to manage.

Trade or invest

If you are trying to maximize the profit by buy high and sell low, I would not able to offer you any recommendation. Trading is a very person thing which highly relies on one's experience, the timing and situation. A lot of people has been *time* the market to the best and mostly surprised by the market during the recent days. As Richard Russell continuously repeats on his classic Dow Theory Letter that the market can do anything. It could keep on going up when the stock is overbought or the converse. If you know the trick of the trade and can create a formulae, congratulation. There are many trading software and books selling this story. I just wonder whether they are as rich as Warren Buffet who only does a few transactions each year.

Investment means you understand the macro trend and follow the fundamental of the stock to decide the transaction. If you identify the trend correct, you become successful. If you don't you learn the lesson. It is not the end of the world unless you short. Short has the potential to be lost to the heaven because you sell at a lower price but try to buy back at an even lower price. If the price goes up, there is no theoretical ceiling. If you hold on a stock, the worse is that you lost all it worth; nothing more.

Case study

This case study is not a recommendation on the specific stock but just uses the fact to present a life example.

Husky Energy of Canada has been doing exploration in the South China Sea and owns the White Rose project off Newfoundland of Canada. The exploration at China has risk. From the string of report it has been promising. The White Rose project is high cost so the risk is also high. During the month of June, the Iran nucleus weapon situation has been become less tension. The price of energy stocks are under pressure. The price of Husky has been up from \$60 in May to \$67 and trading in this range. There is a string of good new on the NG discovery at South China Sea project, the Northwest Territory and at the White Rose project. The price of the Husky responded the news with a short lived rally. The lowest price during this good news period in June was \$62.

If we buy on good news, for sure you may panic to sell it when it falls another dollar or two. We are just mortal. However, if you believe Husky would have the capital to develop the projects and the world's economic would have the market for these new NG discovery, and you do the due diligent on what kind of revenue/profit would bring it to Husky then you could decide on the Husky's future and do the transaction.

Invest not trade is defensive

The market is very fragile and volatile. Although the long term of the commodity market is positive but the short term can shake you off the tree. Any speculative buy or sell would definitely not recommend. When you lost all the marbles or lost the critical mass of marbles, then there is not way you could win back the lost.

In such situation, let professional manage your moneys. Professionals do not mean any one who does the investment for living. Professions are those who have the expertise and ability to weather the tough sea of the volatility. In doubt, put your money in the T-bill or T-bill bond fund.