

***WHEN
TO
SELL***

**Inside Strategies
For Stock Market
Profits**

JUSTIN MAMIS

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Inside Strategies for Stock-Market Profits

JUSTIN MAMIS

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*TO MOTHER MARKET
whose rewards when we are right,
stern responses when we are careless,
and fickle changes of direction,
have kept daily life fascinating and challenging.*

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Foreword to the “Third” Edition

The original edition of *When To Sell* was revised in 1994, when markets were still reasonably “normal.” We want to take advantage of this opportunity to discuss what has happened in the five years since, without any need to revise the text itself because what was written originally about “selling” has stood up. Everyone always says “it’s different this time,” but that’s like saying losing 50 pounds on a diet makes one different—yes, but the underlying person remains the same.

Hindsight tells us that '94 (the year of what became known as a “stealth” bear market), marked the beginning of a change from normal to unusual. As the longer-term underlying up-trend resumed after Thanksgiving '94, “buy the dip” and “they’re never going to stop going up” increasingly became official sentiment; money poured in to buy stocks, and it wasn’t until the spring of '96 that even a short-lived correction came along. So bullish has been the aura, that the wonder is that each intervening correction was anticipated by the indicators discussed within, while many individual stocks sold down sharply enough to make one glad to have sold them. A more serious, but also short-lived correction came a year later (March-April '97), while a much more extensive correction later that same year culminated in the Hong Kong panic low, followed a year later by the 20% decline of August-September '98. A long-term chart of the Dow shows that each correction since '94’s “stealth bear market” has gotten progressively deeper in price and more extensive in time, suggesting, as we write this (Labor Day '99), that a fifth correction in such a sequence will be even more serious, making it all the more important to know “what to sell” and “when to sell” it.

The old-fashioned indicators (particularly those discussed in Chapter Five) work best when few believe that such a correction can happen. Investors holding stocks that still haven't done anything wrong can ride out such corrections, but not when oscillator signals coincide with longer-term negative divergences in breadth vs. a new high in the Dow. The major breadth peak of this entire mind-boggling rise was registered in April '98, and when the Dow went on to make a new high in July '98, breadth did not confirm; this, and other similarly serious negative divergences, forecast a more substantial downswing. Statistically, the 20% slide that followed qualified as a mini-bear, but from a portfolio point of view the degree to which individual stocks have made longer-term tops—after all, that's where breadth failures come from—and then have not rebounded profitably any more is of even greater significance. Ned Davis Research, arguably the best and most extensive statistical service, reports that as of the end of August '99, only 26% of 7736 stocks had returned to their April '98 highs, with the average stock still down 20% even as the media was reporting that “the market” was continuing to rise because the Dow Industrial Average was making yet another new high.

It is the purpose of this text to help you feel, and understand, and thus believe, no matter how they scoff on CNBC, that objective technical factors can help you time “what to sell,” and “when to sell” it. The one word answer to how one knows is “failure.” When a stock fails to make a higher high, and then fails to hold above its prior low (that is, a lower high followed by a lower low), it has changed its trend. (Everything stems from such failures—bottoms form on failures of the bear trend.) When an increasing number of stocks “fail,” it is summarized in the high/low and advance/decline statistics. It is the considerable extent to which that has been happening in 1998 and 1999—while the bigger capitalization averages keep rising—that has created a dramatic change in the cumulative breadth line to a degree rarely, if ever, seen before.

Cumulative breadth (as measured by the differential between advances and declines on a continuing basis—see page 116) has deteriorated right before our eyes. NASDAQ breadth peaked near the end of 1993 and something scarily similar has begun to

unwind the NYSE cumulative advance/decline line since its peak reading in April of 1998. The Dow has had several successively higher "all-time" new highs while breadth continues on a seemingly inexorable path downward—"saying" that fewer and fewer stocks have been actually going up. Newcomer investors believe that so long as the Dow and/or the S & P 500 and NASDAQ Composite are going up that their losing stocks will eventually come back up, too. But the ongoing deterioration of this long-term breadth indicator shows that such stocks haven't been able to rally well, if at all.

Many new readers will come to this book because they've been promised a long-term virtually forever bull market, so they haven't sold. And yet they can see, when they open their monthly statements, that they aren't doing well, and should have done some selling along the way. That's why investors should heed both broad market indicators and individual stock charts. Used in combination, they reveal, not perfectly but quite helpfully, what in the midst of the greatest bull market rise the Dow has ever had an investor has needed to know about "what to sell" and "when to sell" it.

Foreword

There've been so many changes in the marketplace since the first edition of "When To Sell"—futures, options, computerized program trading and fancy new indicators as well as the demise of old favorites—that the time seemed opportune to revise and rewrite. What was astonishing to me was not how much there was to change, but how very much remains sound stuff. I didn't think I knew so much back then...but what it really means is that there are some "eternal verities" about how the stock market works—and what to do about it, and when.

You'll notice that many of the companies whose charts are discussed have disappeared. I contemplated replacing them with similar, more current, examples. But "a chart's a chart." The discussion is what's pertinent, not the name attached to the market action, so I've reproduced them from the first edition, while adding to the text where something additionally useful was worth pointing out.

In addition to a complete revamping and re-discussion of the major changes in indicators, readers familiar with the original text will find fresh observations based on further experience during entirely different kinds of markets—different, that is, in their details, but similar in their consistent rhythms. Some of these insights are tucked away in odd paragraphs, parenthetical comments, and added analysis that will help in your battle about "When To Sell."

Lastly, for the sake of getting this edition rewritten within a limited time span, much of the prior language has been left untouched—it was simply easier and faster to pound away at the keyboard until something became necessary to change or to add.

This includes the carry-over use of the so-called masculine instead of the more suitable, but awkward, "his or her." In the "old" old days, Wall Street was a male preserve; women have brought to it a fresh approach (successful but burnt-out male salesmen are an industry-wide employment problem), particularly by not being burdened with the macho sports upbringing of a need to win. The conviction that "the game is never over till the last out" prevents many a sensible sale from being made. Winning and losing goes on all the time; that's why it's important to learn "When To Sell."

Chapter One

The Neurotic Investor

Dozens of books have been published on how to buy stocks. Perhaps the reason there are so few on the subject of how to sell them—deciding whether, when, and at what price—is that selling techniques are far more complicated, and subject to considerably more emotional pressure, than those of buying.

If you simply throw darts at the stock tables, you can hit any one of the thousands of stocks listed on the exchanges or traded over-the-counter, phone your broker, and tell him to buy it. Should you hesitate for some reason or other, and miss the opportunity, you've lost nothing; your cash, your purchasing power, is still available until another choice appears. To take the same approach to selling is obviously absurd. The situation is no longer casual or random; hesitation can cost. The rest of the 4,990 or so stocks that the dart missed now are not your concern: for better or worse, you're obliged to confront exclusively and continually the stocks you own.

This problem wouldn't be too severe if you could merely turn the buying process upside down and operate on the simple basis that whatever influenced you to spend your money in the first place will, in reverse, indicate the time and price at which to cash in your stock. That, unfortunately, is a quick way to losses. The law of opposites may be a plausible scientific concept, but stock market analysis is only a pseudo-science, dressed in the trappings of rationality while operating under rules which are consistent only in their perversity. Although the chart pattern of a top when turned around and upside down may resemble a bottom pattern,

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quite different influences are at work both in the marketplace and in your mind. Different decisions about whether to sell and when to sell are required.

Indeed, if the techniques of selling were but the mirror images of buying, one would expect that at least the “professional” managers, who are paid huge sums to buy and sell for mutual funds, pension funds, bank trust departments, and the like, would have learned by now how to execute sales with skill and dispatch. But this is not the case, as the only widely available statistics from this sector (on mutual fund activities, to be discussed in detail later) consistently prove. One erstwhile hot-shot manager of a supposedly venturesome mutual fund admitted that his firm had chalked up substantial paper profits in the wildly speculative period prior to the 1969-70 bear market, but that “we weren’t aggressive enough in selling and lost perhaps 90 percent (!) of the gains we had accumulated.” Obviously, he was venturesome only on the buy side but didn’t know when—or how—to sell. Indeed, he didn’t even learn his lesson; after recouping some of those losses during the next bull phase, and vowing not to make the same mistakes again, he made different ones as the 1973-74 bear market unfolded, and sadly acknowledged later that he’d not only lost those profits but some of the underlying capital as well.

By dint of their allegedly superior knowledge and skills, their access to huge funds which enable them to diversify more broadly than the public investor, plus their advantage of getting first call on brokerage firm analysis and research (and being able to be more objective, too, because it isn’t their money at stake), money managers ought to do better than the market even in adverse times. Indeed, some do; but many don’t. If 1974 was a bad year for the market, it was an abysmal year for mutual funds. Whereas one out of every eight listed stocks was able to close out the year with a gain, only one out of every fifty mutual funds had a positive record. These statistics suggest that at the outset of 1974 you’d have had six times better odds using a dart than entrusting your money to a professional fund manager.

Having subsequently spent over a decade talking directly with such portfolio managers, we know it is not that simple, but we re-

main convinced that even the experienced and reputable have trouble when it comes to selling. Had the mutual funds, non-profit foundations, college-endowment funds, and other similar institutions known how to sell properly during that great bear market, *and had they been willing to sell* (which is the harder, emotional, part), they would have cut their losses early in the decline and held a substantial amount of cash in reserve for a later buying opportunity. Instead, despite full-time concentration, Harvard Business School degrees, Brooks Brothers suits, and carpets on the floor, they rode the devastating 1973-74 bear market down with virtually fully invested positions. How do highly paid professionals succeed in chalking up a record little better than the most amateurish man in the street? The inability to sell when one should, often when one “knows” one should, repeated time and again by amateur and Wall Streeter alike, has all the earmarks of neurotic behavior.

Selling: The Irrational Fear

Stocks are bought not in fear but in hope. No matter what the stock did in the past, it assumes a new life once a purchaser owns it, and he looks forward to a rosy future—after all, that’s why he singled it out in the first place. But these simple expectations become complicated by what actually happens. The stock acquires a new past, beginning from the moment of purchase, and with that past come new doubts, new concerns, new conflicts. The purchaser’s stock portfolio quickly becomes a portfolio of psychic dilemmas, with ego, id, superego, and reality in a state of constant battle...especially since, in the stock market, one is never quite sure what the reality is.

Consider these nagging questions: If the stock has gone up, will it go up more? or is this the time to sell? Or, if it has gone down, will it slide some more or turn around and go up at last? probably the minute after it is sold. Should I take a small loss now? Could I swallow such a huge loss or should I at least wait for a rebound?

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Now that it is finally rebounding, should I hold until I'm even? Now that I'm even, shouldn't I reward my (albeit forced) patience by aiming for a gain? The decision *not* to sell maintains hope, thereby preserving a future. Indeed, the thought of selling a stock and thus abruptly ending the dream is so paralyzing that for every conceivable market situation there are ready-made excuses for holding on at least a little while longer. And these excuses invariably are based on the desire to believe that the future will be better than the present. Any excuse, however, absurd, becomes convenient as long as it postpones the necessity to act. Those in unhappy marriages will understand *that*.

You've probably seen brokerage-house reports that admit "the next few quarters are going to be lower" or "the stock could sell off further over the short term"—appraisals which give absolutely no selling advice in conclusion. Instead, hope is held out for the more distant future—"we are reiterating our long-term buy recommendation"—when these real troubles will be past and everything will be glorious. (How they can be so sure that far out in time, when they couldn't even predict the current trouble is a form of *chutza*) But while the advisor is daydreaming of a better tomorrow, the firm's margin clerk remains unconvinced. All he knows is that the customer's paper loss in following that advice is real enough right now to require more cash in the account. And to show how irrational this "it's only a paper loss until I sell" excuse is, the person getting such a margin call will actually shovel out more of his own money, just to prove to the margin clerk that it is only a paper loss, that he, and his dream, are still alive. This neurotic optimism is, unfortunately, abetted by the typical financial consultant (customer's man was the more accurate "title" in the first edition) at the brokerage house who also tends to reject the reality of today for the vague promise of tomorrow. "Let's give it another day" is the last sentence of many a phone conversation when neither customer (whose money is at stake) nor broker (whose ego is equally exposed) can bring himself to admit that the stock in question had better be sold right then and there.

After our earlier description of the selling decision as a "battle," it is not surprising to find a real battleground psychologically de-

scribed in the same terms. Just transpose these words about Vietnam to the Wall Street arena: “The overwhelming desire for the success of policies to which a strong emotional attachment has been made also leads to an attempt to alter those facts over which one has control, making them consistent with the outcome that is desired. It is as though there is an expectation at a magical level that events over which one has no control will then also fall into the desired pattern.” (From *Men, Stress, and Vietnam*, by Peter Bourne) In short, there’s also a light at the end of the stock-market tunnel; we’ll win in the future, so long as we don’t have to recognize that something negative is happening right now. And even if we *do* recognize it, we remain convinced that it won’t last. We develop a magical expectation for the future, rather than utilizing something over which we *do* have control: in the stock market, we control by our ability to sell.

How Do I Know When to Sell?

Is it even possible to know when to sell? Is there some way to separate hopes from real possibilities? It would be nice if there were an easy answer, a ready-made system to spell out. Sometimes you see something advertised that claims to have the perfect answer—but don’t believe it; there isn’t any. All those “how-to” books on buying stocks conveniently leave out the details of how to sell, unless it’s something banal like “Oh, you sell when the stock has finally stopped doubling, and then you find another supergrowth stock to switch to.” Chances are your broker skirts the question, too; neither he nor his firm’s market literature advises you when to sell, though both will willingly hound you with buying enticements. That’s because there are few moments that cry out for selling, and no simple way to lick the emotions that hinder cutting the cord. When the stock eases slightly below your purchase price, the situation is charged with doubt. Perhaps you *were* wrong, and should accept that small loss. But, then again, maybe it’s just a temporary fluctuation: you bought a trifle too soon or a

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mite too high. And isn't the market due for a rally tomorrow? And how about the earnings report to be announced shortly? Or that exciting new product which was the reason you bought the stock in the first place? Such factors should be considered, but not to an unreasonable extent just because the investor won't admit he's made a mistake. Comforting one's self with "nice" thoughts is no substitute for confronting reality.

Take the common plight of the recent purchaser who declines the chance to settle for a small loss because it would be too quick an admission of failure. In the scale of things, losing a few hundred bucks isn't nearly the serious defeat that his churning emotions make it out to be. The purchaser, though, would rather hold, nurturing the hope that the stock will come back shortly. But it keeps going down, and before he knows it, the whole list is joining in the decline. As the price sags considerably lower, he shields himself with ignorance: he stops looking at the closing prices in the newspaper; he stops phoning his broker every day. Weeks later, as the crashing prices make the headlines and become the featured news on television, with anchors adding their own emotional tone and experts forecasting even more dire developments, hope finally goes down the drain. So, along with thousands of other panic-stricken investors, our investor dumps his shares into the abyss, and at last releases himself from his torture. He's taken a much bigger loss, but at least he's out!

This is the way major bottoms are often fashioned, leaving these bewildered investors in the lurch as prices turn around and shoot upward through a virtual vacuum—everyone who has wanted to sell has, by then, panicked out. With newspapers full of bleak headlines, who would be fool enough to buy stocks at this juncture? Yet someone obviously is, for the ticker tape shows prices bouncing sharply back upward. The buyer is certainly not our investor, who has desperately tried to hold and then finally given up in despair, for he has sworn off the market forever. Nor are the buyers the many other investors who were weeded out along the way down, or those who, with the tenacious courage of Beau Geste, defended their honor throughout and are still holding at substantial paper losses. On the contrary, these tattered individ-

uals quickly toss their shares into the pot as soon as the rally manifests itself, believing it to be just another bear-market rebound designed to fail; if they get out without a loss, after the pain they've been through, they're delighted, and harbor no thoughts of buying even as they watch their stocks zoom on upward without them. So who has bought? there is a Wall Street truism of "stocks moving from weak to strong hands" which characterizes important bottoms: exchange specialists (who are required to buy anyway, according to the exchange rules, whenever there are no other buyers), and unemotional professional traders (who sense a change in trend brewing)—and those fortunate few who, having correctly sold long ago, are both emotionally and financially prepared to join those trading pros but with a longer-term (more value-oriented) view in mind.

A serious variation of this vicious cycle is recognizable through each bear market and back up through the next bull. During the rally, as the climate ostensibly improves, the public player (and even an all-too-human portfolio manager), vowing not to repeat his old mistake of selling too late, makes a new one: he sells too soon—as soon as he sees the slightest sign of struggling—because he doesn't believe the rally will continue. When it does persist, he makes amends for that 'selling-too-soon' mistake by making a different one: deciding that stocks will come back after a dip, he won't sell at all during the next phase. And thus he finds himself still holding at the top when that next dip proves to be the first decline in a brand-new bear cycle.

A Professional View

One explanation for why investors make certain mistakes at particular points in the trading cycle was supplied by a professional member-trader whom we'll call Charlie Fisk. "The public is most comfortable," Charlie said, "when they are sitting with losses." This is a judgment born of a dozen years as a customer's man dealing every day with amateur market players, followed by

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purchase of his own exchange seat. Now he trades for his own, and his firm's account, from a tiny office diagonally across the street from the exchange, with a day's collection of coffee containers on the desk near his only tool—the telephone that links him with the order clerk on the floor. It might be said, as the SEC once tried to insist, that Charlie is a typical member of the “they” club, “they” being that mythical body of money men the public suspects are always on the inside. “They” make a stock go up when “they” want to; “they” can always take it back down before the public gets a chance to get out...or so it seems. Before the SEC compelled the exchange to impose stricter trading rules, Charlie spent his day on the exchange floor and, while there, was a professional's professional, a man whom less nimble traders followed around to see what he was doing. So Charlie knows the market, the people who compose it, and how the game is played.

He has just conveyed to the floor a market order to buy 2,000 shares of Reading & Bates (which, when we first wrote this book, was a big-time stock). As he talks, he stares overhead at the ticker tape, which has the very same symbols and numbers flashing by that the public and its brokers also watch at the same time. Yet the end results are quite different, since Charlie Fisk makes a lot of money whether the market goes up or down. “Why is the public comfortable with losses?” he reflects, not bothering to relight the cigar jammed in the corner of his mouth; he is literally on the edge of his seat, watching. “Because if their stocks are down from where they bought them, they don't have to worry about selling them. Once he's got a loss, the typical investor is sure he isn't going to sell. He bears the lower price because in his mind it is temporary, even ridiculous; it'll eventually go away if he doesn't worry about it. So selling at a loss becomes absolutely out of the question. And since it is out of the question, and his mind is made up for him, the struggle of any potential decision vanishes and he's able to sit comfortably with the loss.”

The phone rings as the floor broker reports the details of the RB purchase: 2,000 bought at 30 1/2. By then, of course, Charlie had already surmised which tick on the tape represented his order and had *begun to concentrate on timing his sale from the*

moment the stock was bought. The smaller the degree of gain he's after—a point, even half a point—and the briefer the time span, the more significance each tick on the tape assumes. “Get me a fresh size,” he snaps back into the mouthpiece. The specialist is obliged to give the size to anyone when asked—information about how many shares are bid for at the current best bid and how many shares are being offered at the lowest asked price, and this information has over the past decade become readily available via desktop machines in front of virtually every broker.

By then we ourselves can see RB repeatedly printing at $30 \frac{7}{8}$ on the tape overhead. Charlie is concerned; he wants to see a trade at 31, the next round number, to keep the stock's upward momentum going, and it isn't appearing. “I worry about every tick,” he mutters. “Don't like that one...” as 100 shares prints at $30 \frac{3}{4}$. But it is followed by 400 more back at $30 \frac{7}{8}$. “Isn't that okay?” we ask. The floor broker phones back with the exact size at the specialist's post; Charlie scribbles on his pad as he repeats: “Three by two, a half, seven eighths,” meaning that the specialist has bids for 300 shares at $30 \frac{1}{2}$ and is offering 200 shares at $30 \frac{7}{8}$, even after we'd seen over 1,000 already traded at that price. Charlie scowls at the tape for a moment, then abruptly seizes the phone again: “Get me out.” Then silent, brooding, he watches the tape until he spots 300 shares of RB printing at $30 \frac{1}{2}$, followed by 1,700 more at $30 \frac{3}{8}$.

“So I took a little loss.” He shrugs. But why did he sell at that exact moment? “My business is trading for fast turns. All of a sudden the stock symbol stopped appearing on the tape and to me that said RB was having trouble eating up the stock offered at $30 \frac{7}{8}$, let alone being able to get through 31. To me, a stock that can't go up must go down and I don't want to sit around holding it while it does. It could get rolling again this afternoon, but that's a different game.”

The public, we remind him, is unable to go in and out on fractions of a point; they've got substantial commissions to pay on every such transaction. “Yes,” he replies, “but the principle is the same: sell when the selling is a sound idea, when the stock no longer does what it is supposed to do. My expectations happen to

have close tolerances. I take those 1/8 losses and half-point profits because that's my business. But to the public mind, selling is *never* sound. It always conveys the possibility of being wrong twice: first, admitting that they've made a buying error; second, admitting that they might be wrong in selling out. And if the stock has actually gone up, they're tormented: should they take the profit or hold for a bigger one? That creates anxiety, and anxiety breeds mistakes. But as long as they've got losses, and never have to decide, they can sit back comfortably and dream instead."

Public Misconceptions

Compare that discussion with a dialogue overheard one day while waiting for a tennis court in New York's Central Park. A couple seated on the next bench was reading the *Sunday Times* when suddenly the man looked up from the financial section. "Say, honey, remember the Jackson-Atlantic I bought at 14, and then it fell to 7?"

"Oh my God," she exclaimed, "you never told me that!"

"Well, I didn't want to worry you. No need to get upset; it's back up to 14 again, and made the 'most active' list this week."

"Great," his wife said, "now you can sell it and get our money back."

The man looked at her incredulously. "Sell it! Now that it's going up? I waited a whole year for this."

Whether the stock ought to have been sold or not sold at that point is a matter for discussion later in this book; certainly the facts that it then matched the original purchase price and that a year had elapsed should not have been relevant factors. Note that (1) having endured the loss willingly, he'd never even thought about selling until his wife raised the possibility; (2) he obviously expected her to be proud of him for having successfully stuck it out for a year; and (3) he now felt that he was being challenged to prove that he knew what to do about stocks.

He had willingly tolerated a 50 percent loss in his position on the grounds that "stocks always come back." Yet the manner in which they do, or the length of time it takes, to say nothing of the possibility that they never will come back *enough*, ought to be taken into account. The ranks of once-spectacular star performers that have never come back are legion. Total demise hit such popular darlings as National Video and Four Seasons. Memorex fell, in the course of three years in the early 1970s, from a high of 160 to delisting (and doubled twice while doing so, just to keep hopes alive), although it did survive as a company. And to these examples we can now add not only Wang but even, as a stock that'll be hard pressed to ever come back to the price levels many people paid: IBM itself. It took thirty years for the public's pet, American Telephone, to get back up from its depression low past its 1929 high. Nor does a company necessarily have to go bankrupt before being thought of as down for the count; if it was bought at 70, and now trades between 5 and 6, it requires a lot of blind faith to believe it should be held because "it'll come back" or to add, while whistling in the dark, "it's only a paper loss."

The Psychological Factor

There is evidence that the typical stock-market player not only endures the irrationality of his behavior but actually *relishes* losing. The repetition of this phenomenon is so reliable that it has long since become one of Wall Street's most dependable indicators, codified in the Theory of Contrary Opinion and expressed in the accurate adage: "The market will do whatever it must to prove the greatest number of investors wrong." With its elements of reward and punishment, the stock market is an ideal arena for one's emotions; the *need* to be perfect, in what is an impossible arena for that quest; the striving to lose, stemming from an investor's subconscious, is a matter for psychoanalysts to define (guilt, sexuality, self-doubt, aggression, etc.). Our concern, as a different sort

of analyst, is to recognize the phenomenon, and to use it for our own benefit.

For different reasons at different times in the market cycle, the average investor finds it difficult to accept a small loss or to lock in a profit before it evaporates. The formidable psychic struggle—to sell or not to sell—somehow invariably produces the wrong decision, selling prematurely when the advance has much further to go, and, having made that mistake often enough to decide it was a mistake, to leap to the other extreme with other holdings and refuse to sell at all after the top has arrived. Every once in a while the market tosses in some bait—like the pool or poker hustler who allows his victim to win a round or two—but for every person who sticks with a stock that continues to go up, there are dozens who lament that they never got around to selling “at 34 and now the stock is at 8,” or the inverse lament, “had a double, so I sold it at 8, and now it’s 34.” Naturally, there are innumerable variations on the loser theme, one of the most frequent being the way a person, subconsciously seeking punishment, manages to sell his strongest holdings while sticking with his weaker ones because he “doesn’t want to take a loss.” Taking a fast profit (by selling a stock that’s up) because of neurotic anxiety that the gain will “surely” be taken away is the path to seeing stocks that have been sold continue to rise while the ones kept remain weak. There is no rule that says a small loss can’t become larger, or that a large loss can’t end in bankruptcy rather than recovery. Yet as long as he doesn’t sell, such market players reason that there is a chance for redemption, like sinners who are sure others may be punished but not them. “I learned early that you don’t play day by day but year by year. If someone tells you they don’t lose, they don’t play. But a professional keeps losses at a minimum.” Those words come from a professional gambler, yet they precisely apply to the game going on at the corner of Broad and Wall. Just as in poker, a key ingredient to stock-market profits is knowing when to fold—and not being distraught if that decision, too, backfires; knowing when to take a loss, and when to stay out for a while. But others, particularly the public player, dreaming only of a more rosy future, has

yet to learn that what's happening right here and now is all that is applicable, all that counts.

The truth is that even the shrewdest professional on the floor of the exchange loses money at one time or another—sometimes when the dreaming of being perfect takes over, more often because the market itself is an imperfect game. To paraphrase the gambler: If you've never lost any money in the market, you've never played the game. But loss is not only ending up with less than you put in; loss is also missing a chance—a discernible, objective chance—to sell at a profit, for then you've given back money that could have been yours. Public players glibly proceed on the theory that they are playing with someone else's money, but since it would be theirs if they had sold at the sensible opportunity, that, too, is a rationalization.

It may not be surprising that the stock market, which has been a male province for so long, uses language that abounds with sexual imagery: getting married to a stock; glamour issues; love orders; as well as nicknames like Ma Bell and Bessie, ticker symbols like HUG and LUV. And there are, of course, a number of parallel patterns, too: the frequent mistake of selling too soon can be compared with premature ejaculation, of not being able to sell at all with impotence. Anything that goes up and down, with down being the losing side, certainly has sexual connotations, as does the gaining of money itself, the male manner of giving birth and proving power.

Too often, selling decisions are dictated by psychological factors rather than by what has been happening on the exchange floor. Consider the mathematics of the Jackson-Atlantic situation instead of the husband's own needs. Suppose this man sold at 12, when his position started to deteriorate, taking a loss of \$200 (plus commissions). When the stock dropped to 7, he wouldn't have cared; in fact, he might have become proud as a peacock to have sold so well. Having already sold long ago, his mind would be clear and he could consider the possibility of buying this, or some other perhaps more appealing stock. Unlike a holder with a huge loss, whose mind is consumed with getting out when the price comes

back, the investor who has already sold is both mentally and financially prepared to buy. That's an edge in itself. But let's suppose he had decided to buy back Jackson-Atlantic as soon as the stock began to show some life again. He might have considered that possibility when the stock was around 7, and acted upon it when it picked up some volume, buying, let's say, 150 shares at 8 with the \$1,200 he got when he sold at 12. Thus he would own fifty shares more than he originally held. The Monday morning after his tennis match he could sell these at 14, the same price at which he stood to break even with his original purchase, and his net profit would amount to \$700 (\$900 on this trade less the \$200 lost earlier). He would have grossed 50 percent on his original capital, with commission costs at least partially offset by the interest earned by keeping his \$1,200 in the bank for a year. Besides which, and perhaps even more important than the cash gain, add the psychic profit of not having had to rationalize the stock's slipping further from 12 to 7. Yet there he was, wanting to be complimented for having nursed the stock back to the break-even point.

This is not to be construed as advocacy of "dollar averaging"—but is, rather, to illustrate in simplistic fashion how selling frees. Whereas dollar averaging locks you into putting more money into a weak stock (the proof being its decline), what to do with one's money after a sale becomes a wide-ranging choice. Our ego-needy tennis player could have been twice gratified: the good sale, plus the chance to buy the stock (or any other stock) at a good price.

Tomorrow and Tomorrow...

Through the entire market cycle lurks the fear of finalizing the deed, of taking it from dream to reality by selling. This stems from the nature of the market itself—the great American indoor sport, a game which never ends. In a football game, the team that's losing throws a long "Hail Mary" pass on the outside chance that it might be successful; in hockey, in the last minute the losing

team's goalie is pulled out in favor of another forward, in an effort to salvage a score before the final bell rings. In gambling, that's an attempt to win back all you've already lost with one fling of the dice. But the stock market goes on day after day after day, and never comes to a definitive end. In fact, the N.Y. Stock Exchange defines the market on the floor as a "continuous auction." There's always tomorrow, where the unfulfilled dream lies. By not selling, by tightly holding onto his stocks, the investor never has to face reality. Thus the nature of time itself—the actual past, the promise of the future—tempts the typical investor to refuse to deal with the objective situation confronting him.

The nature of the market as ever-ongoing can be used as a discipline rather than a day-dreaming arena. You don't *have to* sell to prove yourself. There will be plenty of times when the sensible decision is not to be pushed too hastily into such action, and plenty of on-going time to shoot for a high batting average rather than staking one's entire ego on each decision. But you have to pay attention and keep a clear head so that you are ready to sell when the warning signals arrive. You don't have to be on the edge of a chair like Charlie Fisk is every time he makes a commitment, watching every tick every day. Once a day, once a week, in fact, should be ample when you know what to look for and what to do. So let's find out how to determine the right time and the right price at which to sell.