

Colin Nicholson: Newsletter 91

31 July 2009

Hear Me Speak in Sydney

Monday 17 August 2009

5.15 – 7.15pm

Australian Technical Analysts Association Meeting

I will be repeating the presentation given at the AIA Conference in July:

Share selection 1 - What to look for and why

Before starting out on our investment journey, we must know where we are intending to go. I will explain my models for finding stocks with high potential, but with an all-important margin of safety. Once I have sketched the map, I will show where the journey leads. Even more important, I will show the guideposts to look for when beginning the journey.

Share selection 2 - How to find and assess good stocks

Once we know what to look for, good stocks do not just fall into our laps. I will demonstrate how to search for good candidates using charts and fundamentals. Having found a list of prospects, I will show how to sort the gems from the rubbish. I will conclude with an assessment of the current stock market landscape for stock selection.

Further Information: www.ataa.com.au

Further Speaking Engagements

I have now posted the dates and the available details for my 2009 speaking engagements on the *Hear Colin Speak* page on www.bwts.com.au.

The Snowball by Alice Schroeder

This newsletter continues and concludes the review and discussion which began in the previous newsletter (No 90).

The essential Buffett

In 1979, Buffett wrote something in *Forbes* that should resonate with students of his philosophy:

“The future is *never* clear... you pay a very high price in the stock market for a cheery consensus. Uncertainty actually is the friend of the buyer of long-term values.”

Ask yourself whether this is relevant to the current market we are in. There are endless arguments about whether we have seen the bottom or not and how it may all play out in the shape of various letters of the alphabet. I call it alphabet soup. Nobody knows where the exact bottom will be and only liars ever buy there. My analysis is that we are in the first phase of a bull market. That is all I need to know. I have started buying, moving towards being fully invested. I am moving a little more urgently than I was, but I am not in any great rush (did you read “Impatience was the enemy” in the previous newsletter?). My experience over forty years that being early and in a disciplined way is what is required. This applied to getting out of the last bull market and it applies equally to getting set for the next one. It requires

patience to find good opportunities and discipline to know them from the more marginal cases. Then more discipline to cut the losers and feed the winners.

In the 1980s, Buffett surged to become one of the richest men in the world. Berkshire Hathaway and Blue Chip (which together now housed the greater part of his portfolio) flew:

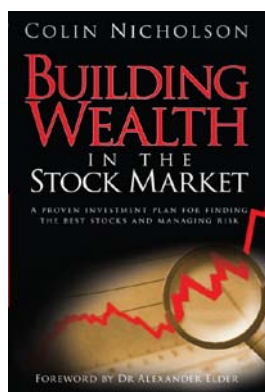
“Buffett’s hunt for things to buy had become more ambitious, free of the cigar butts and lawsuits of the decades before. The great engine of compounding worked as a servant on his behalf, at exponential speed and under the gathering approval of a public gaze. The method was the same: estimate an investment’s intrinsic value, handicap its risk, buy using margin of safety, concentrate, stay in the circle of competence, let it roll as compounding did the work. Anyone could understand these simple ideas, but few could execute them.”

There is more in this extract than in hundreds of pages in the book. The basic Buffett method is there. Readers should write it out and expand each element and think about them in depth. This should be the basis of any sound investment plan. This will not come easily as is noted in the final sentence. It may take most beginners many years to fully appreciate every aspect of this summary. It will take a lot of study, a great deal of thinking, patient development of actual experience and an ability to teach it because of the depth of understanding that is required.

“The managers... who ran the businesses that Berkshire Hathaway and Blue Chip owned were lucky because Buffett largely left them alone, his trick of management being to find obsessed perfectionists like himself who worked incessantly; then ignore them except for ... attention [and] admiration ... every now and again.”

Building Wealth in the Stock Market

My new book *Building Wealth in the Stock Market*, presented handsomely in a hardback format, is available for purchase directly from me postage free to Australian addresses.



Building Wealth in the Stock Market replaces *The Aggressive Investor*. Most of my basic method has not changed over many years. However, since I wrote *The Aggressive Investor*, I have refined a few things, notably how I view charts in the right time frame, my maximum risk per stock and my focus on an additional financial ratio. While these things are minor in some respects, they have improved what I do. In addition, I revised the way ideas were presented throughout the book. Of most significance, there are completely new and later case studies, plus examples that were not printed in the original book.

For a complete description of the book see <http://www.bwts.com.au/text.cfm?255>

I sign all copies of the book which are purchased directly from me.

Price: A\$65.00 including GST (Australia only). **Postage free to Australian addresses.** This price applies only to online orders and mail orders on a credit or debit card. Telephone orders and mail orders paid by cheque or money order attract a surcharge of \$5.00 for handling. On-line ordering on my secure website is perfectly safe and the cheapest way to buy the book from me.

Understanding leverage

Through the 2003-2007 bull market, just like 1982-1987, I had many people pooh-pooh my concern about leverage. Everybody seemed to be doing it, whether through margin loans or CFDs or mortgaging their house. So, pay attention to this extract:

“Leverage ... was like gasoline. In a rising market, a car used more of it to go faster. In a crash, it was what made the car blow up.”

“... Buffett and Munger considered [that] defining risk as volatility to be *twaddle and bullshit* ... They defined risk as not losing money. To them, risk was *inextricably bound up in your time horizon for holding an asset*. Someone who could hold an asset for years could afford to ignore its volatility. Someone who was leveraged did not have that luxury – leverage costs; moreover the lender’s (not the borrower’s) time horizon defines the length of the loan. Thus a risk of leverage is that it takes away choices. The investor may not be able to wait out a volatile market; she is burdened by the *carry* (that is, the cost) and she depends on the lender’s goodwill.”

“But betting on volatility seemed to make sense when the market rose as predicted. **When enough time passes and nothing bad happens, people who are making a lot of money tend to think it is because they are smart, not because they are taking a lot of risk.**” (my emphasis)

“The rules of the racetrack said... you don’t have to make it back the way you lost it. The reason is the math of losing money, which works like this: If someone has a dollar and she loses fifty cents, she has to double her money to make back what she’s lost. That’s difficult to do. It is tempting to borrow another fifty cents for the next bet. That way you only have to make fifty percent (plus the interest you have on the loan) to get back whole – much easier to do. But borrowing the money doubles your risk. If you lose fifty percent again you’re history. The loss has wiped out your capital.”

On the crisis that led to the failure of Long-Term Capital Management: [Buffett] “was only interested as [a potential] owner... Long-Term was behaving as though it could raise capital to wait out the crisis and profit from its turnaround. But with the kind of leverage it had taken on, it didn’t have that option. This was the fallacy of defining risk as anything other than losing money... no investor would put in money to save it without taking control.”

This helps understand many of the 2007-2009 company failures in Australia and overseas: leverage – got that?

Buffett: “anything times zero is zero... A total loss is a *zero*. **No matter how small the likelihood of a total loss on any given day, if you kept betting and betting, the risk kept stacking up and multiplying. If you kept betting long enough, sooner or later, as long as a zero was not *impossible*, someday a zero was one hundred percent certain to show up.**” (my emphasis). Nassim Taleb took two books to say this. Buffett has put it clearly in one sentence.

“Investors were fleeing anything risky in favour of anything safe, to a point that Long-Term’s models had never considered possible because it made no economic sense to them.”

“Buffett and Munger felt that using models to make investment decisions was like driving a car on cruise control. The driver might think he was fully alert and attentive, but would find out differently when the road turned winding, rain-slicked and full of traffic.”

Moreover, Buffett said: “Derivatives are like sex. It’s not who *we’re* sleeping with, it’s with who *they’re* sleeping with that’s the problem. ... Accept no excuses from anyone who doesn’t post collateral or make a margin call. Accept no excuses.”

Brokers

Buffett: "I never talk to brokers or analysts. You have to think about things yourself... Wall Street is the only place people ride to in a Rolls-Royce to get advice from people who take the subway."

Additions to my members' website

My website: www.bwts.com.au is in two parts:

There is a great deal of material on my **free website**: Ask Colin, Newsletters some resources for investors and real time disclosure of stocks which I personally hold.

On the **members' website**, there is all my published work except my books and what is on the free website. There are over 700 articles and columns there and I add to them as I write for newsletters or publications.

I have now begun to build a new resource on the members' website, which is aimed at adding value to my book *Building Wealth in the Stock Market*. These additions are:

- **Presentations**: The slides of all presentations I give.
- **Market Scan Examples**: I analyse the stocks which come up on market scans using the methods in my book.
- **Market Case Studies**: Analysis of the Australian stock market in terms of the market exposure strategy in my book.
- **Stock Case Studies**: Analysis of investments which I make and other stocks which I may not decide to buy, explaining why. For my current investments, I will not be disclosing sell stops in real time, to avoid readers front-running my stops. These case studies are teaching tools, not real time investment advice.

The members' website costs \$44 to join and \$55 per year (\$99 in the first year). Members may access, print out or download anything on the members' website.

Some keys

Buffett: "Then at dinner, Bill Gates Sr. Posed the question to the table: What factor did people feel was the most important in getting to where they'd gotten in life? And I said *Focus*. And Bill [Jr] said the same thing."

Schroeder: "It is unclear how many people at the table understood *focus* as Buffett lived that word. This kind of innate focus couldn't be emulated. It meant the intensity that is the price of excellence. It meant ... discipline and passionate perfectionism... It meant single-minded obsession with an ideal.

"Munger often attributed much of Buffett's success to the fact that he was a *learning machine*."

Bill Gates and Buffett: "...their shared intellect, interests, and way of thinking gave them considerable common ground. They shared the same intensity... It was the way Buffett had learned to think in models that impressed Gates most."

“If Buffett could have found more great businesses, he would have bought them all. He never stopped looking for them. The town where the Superinvestors of Graham-and-Doddsville lived was getting crowded, however... there were fewer and fewer odd pockets of overlooked opportunity... as the [nineteen] nineties progressed, the deals became larger – but more sporadic.”

“... [Buffett] cared far more about avoiding excessive risk. ... Even if he had been of the temperament to do so, Buffett didn’t need to make risky bets. Decisions made years ago were still compounding for him. ... The old days of scouring the *Moody’s Manuals* for teeny companies were long gone... But the mistakes were few and the home runs many...”

Many readers might be tempted to now think the game is easy. Just find some great companies and buy them. While the objective is sound, it is never easy to do. Buffett himself says that private investors should not even try to do it themselves. As I remarked earlier, superior stock pickers are a very rare breed. Some of these extracts should point readers to the level of focus and intensity with which they need to learn that game. Many will start out, but few will ever be prepared to really pay the price. It cannot be done with wishful thinking.

A Puzzle

Buffett and others in his group were very interested to explore “What gave a business a durable competitive advantage? What gave companies an edge, and why didn’t they keep it? – because most didn’t. ... What was it you couldn’t see that prevented you from remaining the leader? Most of the proposed answers, regardless of the company, revolved around arrogance, complacency and what Buffett called *Institutional Imperative* – the tendency for companies to engage in activity for its own sake and to copy their peers instead of trying to stay ahead of them. Some companies didn’t bring in young people with fresh ideas. Sometimes managements weren’t attuned to tectonic shifts in their industry. Nobody suggested these problems were easy to cure.”

Please note that I have changed something about the way I notify when newsletters are available. The email I send now has a “noreply” sender’s address. This is in order to automate the deletion of addresses from the list if emails to them bounce three times. The implications of this are:

1. If you want to send me feedback or a question, send it to my email address. **DO NOT JUST CLICK THE “REPLY” BUTTON.** If you do that, I will not get your email.
2. If you change your email address, newsletters will stop after the old address bounces three times. So please go to the NEWSLETTERS page on my website and alter your email address if it changes. **Bounces also include mailboxes over quota (often a precursor of a discontinued address) so if you go away for a while and do not clear your mailbox, your address may have been removed from the list.**

On reality and forecasting

“Big companies are not going to increase their earnings in the high teens over long periods of time. For a while you can do it, but it just isn’t in the cards to keep it up forever.”

And later: In his shareholder letter, Buffett “... had written that stocks were *not overvalued* – *if* interest rates stayed below average and *if* businesses kept delivering *extraordinary* returns on capital – in other words, if the unlikely continued to occur. This statement was oblique enough to avoid looking like a forecast. Buffett thought those who were always out prophesying some turn in the market’s direction usually would up being wrong ten times out of two. So, he rarely made statements about the market, and often played coy when he did. Still, it was unusually clever of him to work the words *not overvalued* into a sentence that said the market was overvalued. People could read this message any way they wanted, but if they were smart, they got it.”

“Thus, if Buffett was reshuffling his portfolio and focussing on bonds, perhaps it meant that he thought that it was now easier to make a living in bonds than stocks, and it was going to get easier still.”

Allow me one moment to repeat my consistent rant here. I never make forecasts if I can help it and deny that what looks like a forecast is intended by me to be one. A forecast is nothing but an opinion about something. Forecasters can dredge up endless data to support their forecast (while consciously or unconsciously ignoring data that it does not support it), but no amount of past data makes a forecast correct.

My approach to this is not unlike Buffett's, in the sense that I try not to even read forecasts or listen to them (it can't be helped sometimes out of sheer courtesy). Instead, I try to think through the strategy appropriate to the situation and get about quietly implementing it.

Buffett sees it similarly when asked whether it concerned him that people thought he was a has-been: “Never. Nothing bothers me like that. You can't do well in investing unless you think independently. And the truth is, you are neither right nor wrong because people agree with you. You're right because your facts and reasoning are right. In the end, that's what counts.

And when asked “... if being in the public eye for decades helped keep the criticism in perspective, Buffett paused for a long while. *No. It never gets easier*, he said soberly. *It always hurts just as much as the first time*. But he could not do a thing about it.”

I would add that what is perhaps worse is when that criticism is prefaced by misrepresenting what has been said or written. These people are setting up a rag doll that they say is someone's ideas and then sticking needles through it.

“No matter how much money [Buffett] had made and no matter how long he kept it up, sooner or later he would have a bad year or the momentum would slow down. He knew that. Over and over he had warned investors that trees don't grow to the sky. But that had never stopped him from climbing as fast as he could. And he loved to climb – but somewhat to his surprise, there was no blue ribbon waiting at the top.”

“Buffett repeated constantly... the ideas that had made him famous: the margin of safety, the circle of competence, Mr. Market's vagaries. He still maintained that a stock is a piece of a business, not a bunch of numbers on a screen.”

Investing in a fish-bowl

“In February 2000, the SEC had denied Berkshire Hathaway's request to keep some of its stockholdings confidential... From now on, acquiring entire businesses – which had always been his favourite way to use capital, anyway – would be the main use of money at Berkshire. It was going to become much harder to put large amounts of money to work in stocks.

The information technology and internet boom

[Buffett] “... and Munger carried on their regular dialogue with Berkshire shareholders, saying that while the market was overvalued, they could not predict how long it would last. Finally, for the record but as a warning and a way of teaching, Buffett explained his views once and for all and predicted that the market would fall for short of investors' hopes for two decades...”

“... to ... commit himself to such a forecast in the face of years of criticism and ridicule, took a different kind of courage, making the internet bubble one of the greatest personal challenges of his career.”

“He simply reframed investors’ expectations, writing that, because of its enormous size, Berkshire was now likely to grow in value only *modestly* better than the market.”

“Separately, Buffett announced that BRK was so cheap that Berkshire would now entertain offers from investors to buy its *own* stock. ... For the second time, Buffett was publicly announcing what he wanted to buy in advance. ... Once again investors had to ask themselves which side to play. This time, many people understood the message. His willingness to put up money for Berkshire stock made such a statement that, before he could buy a single share, BRK rose twenty-four percent.”

Buffett: “Investing in the internet is laying out the bird in the hand – money today – to get birds in the bush.”

Buffett: “Speculation is most dangerous when it looks easiest.”

“Anything that cannot go on forever will end. – Herb Stein” (used in a Buffett speech).

Tax Invoices

I am often asked for tax invoices. I email a tax invoice to **every** purchaser of my books, or to members of my website who are joining or renewing, even when the amount involved is less than \$82.50.

I am also sometimes asked to show the name of the entity making the purchase on the tax invoice. There is no requirement to do this under the tax law, unless the tax invoice is for \$1,000 or more. I have automated the way I issue tax invoices and to include the name of the entity purchasing the goods takes time, which I can better spend in other ways. My policy is not unusual. If you buy something in a retail shop, the shop will not show your name on the tax invoice. You may add your name or the name of your SMSF to the tax invoice later if you wish. The key thing is to be able to show that the cash for the purchase came from the SMSF. The easiest way for a SMSF to do this is to buy a debit card and use that for purchases.

General thoughts

“... [Buffett] explained his *Twenty Punches* approach to investing. *You’d get very rich ... if you thought of yourself as having a card with only twenty punches in a lifetime, and every financial decision used up one punch. You’d resist the temptation to dabble. You’d make more good decisions and you’d make more big decisions.*”

“Berkshire’s best opportunities always came at times of uncertainty, when others lacked the insight, resources, and fortitude to make the right judgements and commit. *Cash combined with courage in a crisis is priceless*, said Buffett.”

“Buffett had always said he’d rather have a lumpy fifteen percent return than a steady ten percent.”

“... [Buffett] was still buying mainly in the United States. Most foreign stocks, he said, were not in his circle of competence.”

This is one quote I must remember the next time someone asks me why I do not invest overseas. It isn’t in my book as a reason directly, but underlies some of my own rationale.

However, note that Buffett said “most” foreign stocks. See the next page.

“The ideal business is one that earns very high returns on capital and that keeps using lots of capital at those high returns. That becomes a compounding machine, Buffett said. You could keep redeploying capital at [those] same returns over time. But there are very, very, very few businesses like that... we can move that money around from those businesses to buy more businesses. ... It explained why Berkshire was structured as it was... It explained why he was always looking for new businesses to buy, and [as an example] what he was planning to do with Clayton Homes. He expected to invest part of Berkshire’s extra capital in Clayton so that it could survive to take market share away from its bankrupt competitors and to buy and service their portfolios of loans.”

Buffett: “Fault me for dithering. (Charlie calls it thumb-sucking.) When a problem exists, whether in personnel or in business operations, the time to act is now.”

This made me wonder why so many people sat on falling stocks as the bear market began in late 2007 and early 2008. Maybe we should have this quote stuck up near our computer somewhere to remind us. It is akin to the US Marine precept that if you come under fire, go forward or go back, but do not stay frozen under fire. So, in any investment situation, if a stock has gone past our sell stop (the price at which we know we are wrong about it), either sell it quickly, or put it in the bottom drawer for five to ten years (if it is a sound business, otherwise only the first option applies). We must know this instinctively before we start to manage our own money, or we will tend to suck our thumbs and then panic and sell much later at the worst possible time, when the Buffett’s of this world are buying.

Munger wisdom

Munger’s favourite construct was to invoke Carl Jacobi: *Invert, always invert*. Turn a situation or problem upside down. Look at it backward. What’s in it for the other guy? What happens if all our plans go wrong? Where don’t we want to go, and how do you get there? Instead of looking for success, make a list of how to fail instead – through sloth, envy, resentment, self-pity, entitlement, all kinds of mental habits of self-defeat. Avoid these qualities and you will succeed. Tell me where I’m going to die, that is, so I don’t go there.”

Earlier in the book and slightly differently: “They liked to ponder the reasons for failure as a way of deducing the rules of success. *I had long looked for insight by inversion, in the intense manner counselled by the great algebraist Carl Jacobi*, Munger said.”

Note the use of the words *in the intense manner*. This is not something done in a moment or easily. It requires a great deal of hard thinking work over a long time. This seems akin to Buffett’s manner of thinking in models. He and Munger developed models for failure and inverted them to gain insight into what were the models of success.

Buffett overseas

In 2004, Buffett looked around the world for undervalued markets. He hit on Korea and obtained listings of all stocks there. “... he began sifting and sorting... through hundreds of pages of numbers...” and “he could pick out which were important and how they fell into a coherent pattern. ...he quickly pared it down to a workable number... [and] he kept going, ... looking for the gems amid the dreck – until he finally arrived at a much shorter list... which consisted of at most a couple of dozen companies. A few were large – among the world’s largest – but most were very small.”

Buffett: “These are good companies and yet they’re cheap. The stocks have gotten cheaper than five years ago, and yet the businesses are more valuable... They make basic products

like steel and cement and flour and electricity, which people will still be buying in ten years. They have a big market share in Korea... Look, this flour company has more than its market value in cash, and it sells at three times earnings. ... The main risk, and part of the reason why the stocks are cheap, is North Korea. ... When you invest you have to take some risk. The future is always uncertain. I think a group of these stocks will do very well for several years. Some of them may not do well, but as a group, they should do very well. I could end up owning them for several years.”

How many readers do this sort of analysis on our market? I do, using my technical analysis and fundamental analysis scans and subsequent analysis. If readers want to become good stock pickers, what they have to do is in the previous paragraph. It requires hard work because we do not have the insights and skills that Buffett has developed over half a century. That is no excuse, though, to give up trying.

On 2008 and the Global Financial Crisis

Buffett: “... you just cannot be sure of anything. You have to think about things that have never happened before. You always want to have plenty of money around.”

Here he meant having a big cash reserve to deal with the crisis and to take advantage of opportunities.

Buffett: “...Charlie and I looked at the downside, and nobody else did very much.”

Schroeder: “Deleveraging could be a painful process... the whole economy withdrew – fast and painfully or slow and painfully – from the intoxicant of cheap debt. Asset returns could well stay sub-par for a long time... there sat Buffett, whose thinking about value and risk had not changed in nearly sixty years... There are always people who say that the rules have changed. But it only looks that way, he said, if [their] time horizon is too short.”

This last bit resonated very strongly with me. I always cringe when someone says that it is different this time. It will be in detail, but rarely in principle. Through 2008 I read story after story (probably feeding off each other) saying that 2008 was “unprecedented” (do they know what that word means?) and as bad as 1929. This came from people who were not alive then. Yet to me it was just like 1974 and I was alive then and active in the market - almost the same number of consecutive months closing lower. It felt just the same, but maybe I am fooling myself, who knows? Memory is a tricky thing.

Buffett: “The same fund will trade at the same time on the same day from the same dealer at interest rates of 5.4 percent and 8.2 percent.... If this is an efficient market, dictionaries will have to redefine *efficient*.”

Buffett: “But the most immediate and doable opportunity is weird things in the credit market. And the biggest opportunity is in mortgages. But I don’t understand them well enough, although I’m learning them so that I can understand them. And if I think I’ve got enough margin of safety, I’ll do it.” Schroeder: “but the average person should not do it.”

Advice to average investors

Buffett: “... **Stocks are the things to own over time. Productivity will increase and stocks will increase with it. There are only a few things you can do wrong. One is to buy or sell at the wrong time. Paying high fees is the other way to get killed. The best way to avoid both of these is to buy a low-cost index fund over time. Be Greedy when others**

are fearful, and fearful when others are greedy, but don't think you can outsmart the market."

"If a cross-section of American industry is going to do well over time, then why try to pick the little beauties and think you can do better. Very few people should be active investors."

Schroeder: "If there is any lesson the life of Warren Buffett has shown, it is the truth of that."

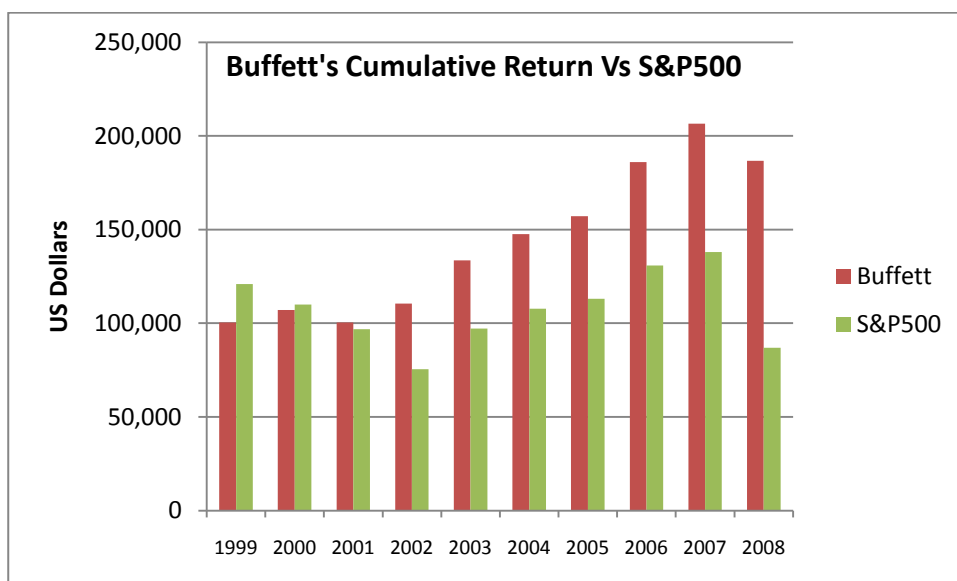
A Summary

From page 825 to page 830, Schroeder pulls it all together in a summary of Buffett's investing style and how it developed. I will leave my readers to discover and absorb this.

Assessment of Buffett Returns

One of my readers queried Buffett's return over the last ten years on the basis of an article, from which it was difficult to ascertain the source of the data on which the claim was made. The latest data Buffett has published on the Berkshire Hathaway website are up to calendar 2008. Remember that Buffett's objective in this period was to beat the S&P500 index by an average of five points a year.

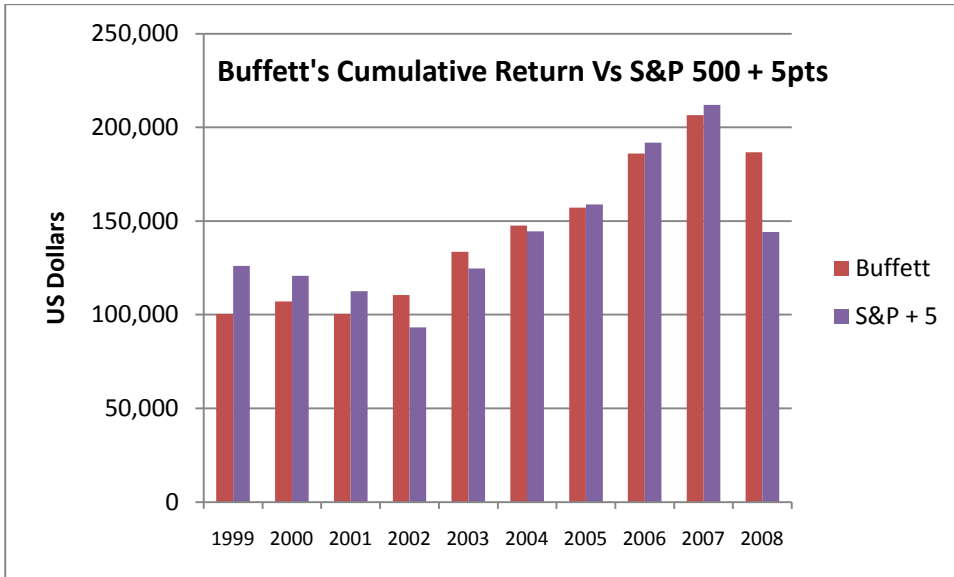
The first chart below shows a comparison between Buffett's cumulative return for the last ten years assuming \$100,000 was invested at the beginning of 1999.



So, over the last ten years he has beaten the market by quite a margin.

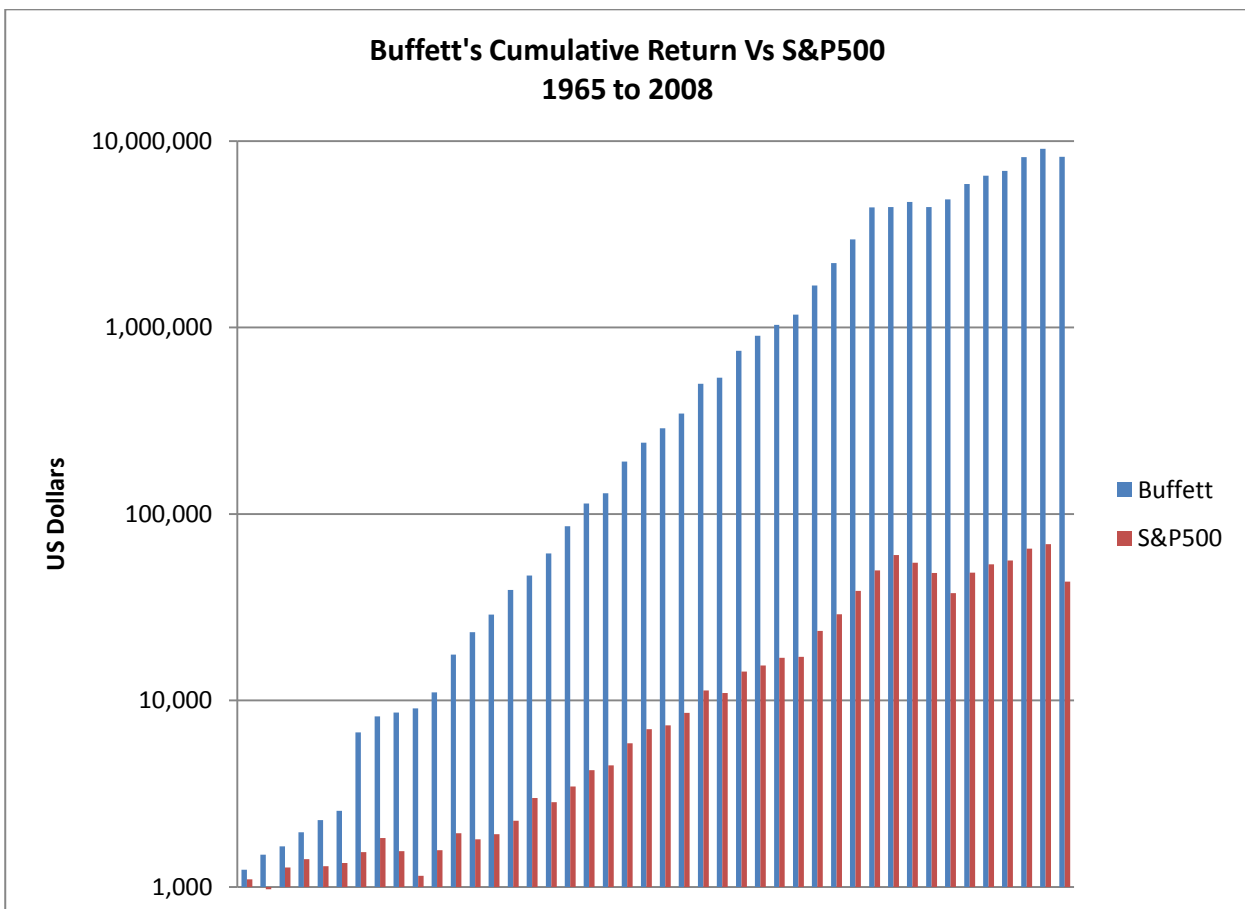
However, that was not his objective, so we need a different chart. In the chart on the next page, I have compared his cumulative return for the last ten years to the S&P500 index plus five points. This shows that Buffett has exceeded his target over that last ten years.

It should be noted that ten years is a short timeframe for Buffett.



The really interesting thing here is how Buffett's return has held up better than the index in bear markets. I feel that this is a tribute to his superior stock-picking skills. Great companies tend to hold up better in tough times.

The third chart below shows Buffett's return 1965 to 2008 versus the S&P500 index assuming \$1,000 was invested at the start of 1965. This is a semi-log chart, unlike the first two charts which were linear.



Final Remarks

I hope this review has been of assistance to my readers. I have had some critical emails after the previous newsletter saying that what Buffett has done is the opposite of what my investment plan is. This is only partly true and comes from a misunderstanding of both what I do and what Buffett really does. However, I will say this:

1. The objective of this two-part review has been to give readers a taste and basic understanding of the book *The Snowball*. I hope it will encourage many of my readers to buy and read this book.
2. Those who want to compare methods are probably still at stage one of their investing education – when they are looking for the guru or the perfect method. The truth is that there are no gurus and no perfect methods in my experience. Instead there are many ways to make money in the markets, whether as an investor, a speculator or a market maker and so on. Trying to say which one is the best is to misunderstand the problem.

What we must all seek to do is to understand that the last frontier in learning to master the market is psychology – our own psychology in particular. Every one of us is different, so our investment or speculation plan must be different. Which method gives the best return is the wrong question to be asking. The important question is to find which method is best for each of us. It is only when we reach this point of having a method that is comfortable for us that we start to do really well in the markets.

On the subject of psychology, my book *The Psychology of Investing* is for sale off my website. It sells steadily and is in its second printing. Most people feel that they are not ready for it yet and don't buy it. That is fine. However, when people do buy it, I am surprised by the positive feedback they send me by email. The first chapters of the book are a presentation of Albert Mehrabian's work on understanding your own temperament and what kind of investments you will be most comfortable with. After that I present some ideas on crowd psychology and many chapters on behavioural finance, which aim at improving our decision-making skills by avoiding common and largely unconscious biases and errors in the way we think.

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