

INSIGHT

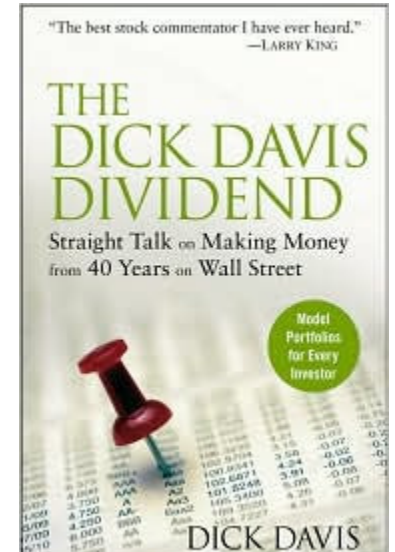
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Words of Wisdom from Dick Davis

We are always on the look out for sources of wisdom. Late last year we found such a source in our friend Dick Davis's new book entitled The Dick Davis Dividend. (Published by Wiley, December 2007)

This book is not for those who want to actively trade stocks or looking for the next great stock picking method. Rather, it is for the person seeking to become a better long-term investor and who wants to learn how to use her mind and the media to her advantage.

Dick Davis has spent 40 years following and commenting on the stock market. He founded "The Dick Davis Digest" in 1982, one of the nation's largest investment news-letters, and pioneered stock market reporting via radio and television (long before CNBC). Davis also wrote a stock market column for the Miami Herald, which was syndicated to over 100 newspapers, for over ten years.



www.thedickdavisdividend.com

Here a few key points from (but no substitute for) Dick's book:

- The markets can be baffling, bewildering, confusing, illogical, complex, unfathomable, random, perplexing and frustrating.
- The market's many moods are unpredictable – they will occur and we have to learn to cope with them. The job of predicting the market is simply not doable.
- By nature we are designed to take our beliefs and knowledge a little too seriously. We tend to view the world as far more explainable than it actually is. We have a compulsion to look for meaning in random events.
- Media reported news follows the market, not the other way around. In 1987, there was no trigger news event to explain the market's 22 percent collapse in one day – none. Yet there was no shortage of negative stories cited after the fact.
- Rarely is news as good or as bad as it sounds when first reported and the same news item can be spun in innumerable ways.
- In times of worldwide crisis, although unsettling initially, the news proved of little consequence to the long-term investor. 99 percent of what is reported is irrelevant to long-term investors.
- Focus on the long-term and you can ignore the media's distortions. Be not troubled by questions and fears of the future; they are usually groundless.
- Use news appropriately: to satisfy our intellectual and social need to be informed and entertained but not as a basis for understanding the day-to-day action in the market.
- **When seeking investment related advice, make sure the source is independent and not tainted by conflict of interest.**

- **There are few absolutes in investing. The best you can do is put the odds in your favor.**
- Decisions should not be judged solely on outcome. Sometimes bad outcomes can occur even if a good decision was made.
- Although there are always opposite views, they're harder to come by at market tops and bottoms when euphoria and gloom reach their peaks. It is at these market extremes that it is most difficult and most profitable to be a contrarian and go against a seemingly universal consensus.
- An integral part of the process of buying and selling stocks is being wrong. It can't be avoided. So taking losses in the stock market isn't a probability, it's a certainty.
- For investors who are saving on a regular basis, be thrilled if the market drops. This means you can buy new shares on sale. Accumulating good investments at lower prices is not a bad thing.
- Investing is not a game where the person with the highest IQ wins. The age at which one begins investing and one's temperament are the best determinants of success, not IQ.
- More sophisticated investments don't guarantee superior performance.
- Investment success requires our being fearful when we feel greedy, and greedy when we feel fearful. Acting contrary to human nature takes practice and great discipline.
- The markets are mean reverting – what goes up eventually comes down and what goes down eventually bounces back. The timing is unknowable.
- When dealing with the unknowable, luck is a powerful ally. Luck is often invisible. You were lucky, but you didn't know it.
- No trend lasts forever: Bull markets are always followed by Bear markets, and Bear markets are always followed by Bull markets.
- **The truth is that market weakness is what makes market strength possible. The bad sets the stage for the good and vice versa.**
- Almost everything good that happens in the market requires the passage of time, often lots of time. Most of the time stocks move indecisively within a trading range.
- Stay fully invested: its surprise that moves stocks and between 80 to 90 percent of their investment returns occur during only 2 to 7 percent of the time.
- Asset allocation is the key to managing risk - asset concentration can build wealth but diversification preserves it. Don't fall in love with your stocks. They are inanimate objects.
- One could argue that you are not properly diversified unless you're uncomfortable with something you own.
- Rebalancing – moving money from what's done well to what hasn't - is also important. It's an important means to managing risk. Even after trimming, you still own most of your winning positions, but you're less vulnerable in case of a reversal.
- There's no right time to invest. Practice random investing. Invest whenever you have the money. Don't diversify by time, diversify by assets.
- And lastly - **Staying healthy is near the top of the list for investment success. By taking lots of vacations away from your stock, eating well and getting plenty of exercise, you'll increase the odds of being here when the time comes to collect your rewards!**

Important Note: Please do not assume that any information contained in this Insight serves as the receipt of, or as a substitute for, personalized investment advice from Madison Wealth Management.