

Posted to the Gilder forum - April 4, 2001

WALDO SHEARS THE SHEEP

WALDO is here to shear the sheep. He can do it only with the sheep's consent.

WALDO says:

>>>Trading human emotion is so easy, it repeats over and over. I think that's why people here hate me so, I told exactly what they would do and they did and are. As much as they want to believe different they can't stop their emotions and their failures.

I have said it before and I repeat it now. WALDO is part of a conspiracy that works the forums where a lot of novice investors congregate. The GTF is one of them. How many people here have confessed to being newbies? The plan is simple, as admitted by WALDO above: work on the fears and hopes of people who don't quite know how to handle a falling stock market. The WALDOs don't appear in bull markets because the psychology of the investors is wrong for them, in bull markets the investors are hopeful and a big bad wolf does not scare them. The WALDOs only appear when the mood of the investors is ripe for harvesting them, for shearing the sheep. As soon as the bear market shows itself, some investors turn nervous. Being new at it, they don't have the courage of their convictions. Actually, they don't have convictions, just dreams.

I don't want to mention people by name because I respect their pain, but how many have said that they were wiped out by margin calls? There was at least one post to the effect just yesterday. This is bad but not shameful. Bernie Ebbers also got a margin call when he bet too much ON HIS OWN company! Stanley Druckenmiller was fired by George Soros for performance issues. Can you picture WALDO going up to Ebbers or Druckenmiller and insulting them by telling them they are stupid idiots? Well, he might, but will that stampede Ebbers or Druckenmiller? The important thing is to know what you are doing. You will get some things right. You will get some wrong. Let the good ones run and fix the bad ones. This is an ongoing process that can only be done with clear thinking. Don't let WALDO muddle your thinking. If he does because you don't have sufficient self control, it's better for you to leave the forum. He won't leave, WALDO is doing business here at your expense. Better yet, learn to cope with the WALDOs of

the world, where there is money there are flies.

WALDO keeps saying that he has your money. That is absurd. The market is not a zero sum game. What you lose is not gained by someone else. When stock prices are cut in half, half the wealth disappears, it does not move from one pocket to another. But in a different sense it is true. If you buy a share at \$100 and later sell it at \$50, you have lost the \$50 difference. If WALDO now buys the share at \$50, he made a better purchase than you did at \$100. The underlying value of the share, the business it represents, has not changed that much if at all. What is different is the price you and WALDO paid for that business. And this is exactly what WALDO wants, to lower the price of the shares so he can buy at a better price. Or if he is short, highly likely, to make a bigger profit on his short trade. Both objectives are achieved by getting you to sell low.

Now we come to the tough part. Some people are traders and some people are holders. Although you can compare their performance from start to finish, you cannot do so on a daily basis because they are playing different games even if they do it in the same ball park. A trader's performance is correctly measured on a daily basis. A trader's performance can be compared to the indexes on a daily basis because the trader's aim is to outperform that index in a short time frame that can be measured in hours or days. A holder's game is totally different, he is betting that he has accumulated the best performing businesses that will, over time, outperform the market and the indexes that track the market. You can have people as different as day and night, investing long term. Buffett shuns technology and loves soda pop while GG shuns soda pop and loves technology but both invest the same way, for the long run. Their stock picking mechanics are as radically different as night and day, but they do it for the same purpose, to outperform the market over long periods of time.

The world is rigged against the holder. Can you imagine the following news cast:

"We were informed by sources close to the transaction, who have asked to remain anonymous, that Warren Buffett has bought shares of USG. Buffett believes that the fears created by the asbestos scare are overblown."

"Tune in again TEN YEARS FROM NOW, when we will give you the results of this investment."

Not likely, is it? The press needs daily fodder for its mill. Sure they can use Buffett, but only if they measure him with the wrong measuring tape, how he did against the market TODAY. For Buffett and for all long time holders, that is the wrong measure to apply. This does not faze WALDO. He'll use whatever is at hand to scare you out of your stocks.

But just as GG didn't put a gun to your head to buy the stocks, WALDO is not putting a gun to your head to sell them. Both actions are your choice. If your emotions, greed and fear, are not under your rational control, you will fare badly in the stock market.

One more time I would like you to read what the SEC has to say about the WALDOs of this world:

[Internet Fraud: How to Avoid Internet Investment Scams](#)

Excerpts:

"The Internet allows individuals or companies to communicate with a large audience without spending a lot of time, effort, or money. Anyone can reach tens of thousands of people by building an Internet web site, posting a message on an online bulletin board, entering a discussion in a live "chat" room, or sending mass e-mails. **It's easy for fraudsters to make their messages look real and credible. But it's nearly impossible for investors to tell the difference between fact and fiction.** " [emphasis mine]

"Also, you never know for certain who you're dealing with - or whether they're credible - because **many bulletin boards allow users to hide their identity behind multiple aliases.** People claiming to be unbiased observers who've carefully researched the company may actually be company insiders, large shareholders, or paid promoters. **A single person can easily create the illusion of widespread interest in a small, thinly-traded stock by posting a series of messages under various aliases.** " [emphasis mine]

The SEC is saying: "Get the facts."

I'm saying: "Get a plan and stick to it." Become a trader or a holder, but don't switch from one to the other as your mood swings in reaction to the market and

to the touts. Trading and holding are as different as day is from night. Whichever you choose as your investing style, learn to do it well. ([Right and Wrong](#))

I have said that I would buy and hold: [Bulls, Bears and Chickens](#). The bubble did burst as predicted but the drop was much bigger than expected. I was prepared to deal with a 25 to 30% drop in the market. When it became clear that the drop would overwhelm my defenses, I increased my defenses: I got rid of the margin and created a cash cushion large enough to last me for two or three years without further selling. This I did in two stages, June-July and October-November, 2000. All in all, I followed my own advice and I have no need to capitulate because, save force majeure, I am well prepared to deal with this bear market.

Can I prove that holding is better than trading? If I am forced to use the market index as it stands today, no, I cannot prove it because that is the wrong measuring tool. I can ask you to look at how Buffett has done, he holds long term, but again, that is not a fair comparison. The best I can do for you is to ask you to read: [Stock for the Long Run](#) by Jeremy J. Siegel and let you make up your own mind.

But, back to WALDO:

>>>[I am mostly in cash waiting for denny to sell out\(he will\) and then I will ride em all up again.](#)

Sorry WALDO! You will not see your wish come true. Go pick on orphans and widows, they are about your size!

I came across a very good piece of advice: "You cannot unscramble eggs." But you can lay some fresh ones and take good care of them! Now is the time to take whatever measures are necessary to lay the foundation for your secure future. If you still have a house of cards, tear it down and do it properly. Today (April 4, 2001) 50% of the 42 stocks I follow have again made a new 52 week low. No bottom yet! My suggestions:

- At a minimum, you must get rid of any margin you may still have.
- Don't sell any stocks that have sound fundamentals such as Global Crossing no matter how much trash the talking heads spout.
- Don't buy anything just yet.
- Accumulate as much cash as you can by selling anything that you no longer

want or need. I bet your attic is full of oldies and goodies that you no longer use. Get ready for a healthy Spring Garage Sale.

When will the bottom arrive? I don't know. But I will be prepared for that hopeful day with as much cash in hand as possible. And you? How are you preparing yourself?

Denny

"Demand creates queues. Supply gets rid of them."

[Software Times](#)