CONTRARY INVESTING FOR THE 90s

How To Profit By Going Against The Crowd

RICHARD E. BAND

Main Theme

Contrary investing is the art and science of going against the crowd. It is an investment philosophy based on the principle that the biggest profits are made by those who precede the general public in any investment field.

Anticipating the general market is not as difficult as it sounds. Contrary investing principles suggest that the key to deciding the future direction of any market movement lies in the attitude and mood of the market as a whole, and that regular cycles occur in all markets - securities, real estate, commodities, collectibles and currencies.

Contrary investing utilizes simple, reliable indicators to forecast general market turning points.

The maxim of contrary investing is; *"Buy into extreme weakness and sell into extreme strength."*

1. The Billionaire's Secret

The big money is made by doing things nobody else is doing. Find the niche nobody else is filling. Look for overlooked opportunities.

2. The Making Of A Mania

As long as governments control the money supply, there are going to be cycles of credit driven booms and painful busts.

3. I Saw It In The New York Times

Daily newspapers and business magazines give an accurate picture of the mood of the market as a whole. They can be used to identify coming trend reversals.

4. Roll Out The Polls

Opinion polls at either extreme suggest a market reversal is about to occur whenever a majority of people expect the trend to continue indefinitely.

5. Stock Market Timing

Buy stocks only at classic bottoms, sell only at classic tops. In the meantime, wait.

6. The Feeling Is Mutual

Contrary investment principles apply equally well to investments in mutual funds, and provide bigger, more consistent gains.

7. Bargains In The Wall Street Doghouse

If any stock is riding a huge wave of popularity, the best profits are already sitting in someone else's pockets.

8. The Crash And Beyond

Crashes balance out market excesses, and should be expected regularly.

9. The Income Investor Fights Back

Investing for interest income has been a losing battle for years. However, its time to shine may have finally arrived.

10. High Yields With A Hedge

Balance your investment by buying shares in companies like utilities who will increase their dividends if inflation rises.

11. If Inflation Roars Again

Don't count inflation out for the count. You should be prepared for inflation to take off again in the future.

12. More Bang For The Buck

Leveraged investments offer the possibility of huge gains, offset by the possibility of huge losses. Contrary thinking applies here too.

13. Be Your Own Person, Virginia

You'll often come to the conclusion that the crowd is invariably wrong when you sit down and analyze markets. Think with your head, not your heart.

14. It Pays To Be Contrary

Contrary thinking is insisting on thinking for yourself, and not just blindly following the crowd. You become a trend anticipator, not a trend follower.

1. The Billionaire's Secret

Main Idea

If you want to make money - the big money - do what nobody else is doing. Find the niches nobody else is filling. Look for overlooked opportunities.

Supporting Ideas

"Buy when everyone else is selling, and hold until everyone else is buying. This is more than just a catchy slogan. It is the very essence of successful investment."

— J Paul Getty

Was J Paul Getty just lucky, or did he know something the world at large didn't? Certainly his results were impressive - when he died in 1976 at the age of 83, it was estimated he was worth more than $3 billion. His entire life was an illustration of the fact that you can snare the best profits by putting capital into ventures that most investors either haven't heard of yet or are too afraid to touch. The best opportunities are found in the places where conventional wisdom sees none.

Contrary thinking is the art of thinking for yourself against the pressures of the crowd. It applies to many different investment fields. It works in any market simply because of a simple fact of human nature - most investors are followers rather than leaders. If you can train yourself to read the extremes and the turning signals for any market you choose, you can profitably invest by going against the crowd. Contrary investing takes self-discipline, courage and the ability to think rationally, even at times when emotions are caught up in market hype. Contrary investors are often labeled as mavericks, boat rockers or lone wolves.

People make markets. Even in the day and age of computers and high-tech analysis aids, final buy and sell decisions are still made by people. A market is a collection of people buying and selling. People, and therefore markets, are guided by emotions that are either rational or emotional. The market is rational in that it reflects the information being added to the pool of common knowledge, and sets prices according to those realities. However, the current price also has an emotional element - how strongly the investors feel the current trends will continue in the future. As future events unfold, market corrections are then made to reflect whether or not those predictions were, in fact, correct.

This means that every market must be shortsighted - the events of the foreseeable future have greater weighting in the current prices than the events of the longer term. Typically, markets project existing trends into the future rather than anticipating long-term trends with any degree of accuracy. Yet, whenever you buy something, part of the price you are paying is for the present value and part of the price represents a claim on the value of that asset in the future - partly a rational factor and partly an emotional factor.

The key to contrary investing is to understand the mood of the marketplace and profit from it. Only from this perspective can you decide the correct weighting's to give to the rational and emotional component of the price of an investment.

The mood of any market is somewhere on the following scale;

- Fear - Everyone believes the market is still going down, and will keep heading on a downwards spiral for as far ahead as you can see.
- Caution - Prices start to climb amid skepticism and doubt that it is a temporary aberration.
- Confidence - Everyone believes the growth pattern is well established and will continue.
- Euphoria - Everyone believes the market will go up forever, and that nothing can stop it.

A rising market goes from fear to euphoria. A falling market goes from euphoria to fear.

Contrary investors follow the maxim, "Buy into extreme weakness and sell into extreme strength." They buy only when the market is totally engulfed in fear, and sell only when the market is awash with euphoria. In between, they sit still and let the market do its work. Of course, this sounds easier than it is, as the real world has a number of corrections going against the underlying trends that must be separated from the actual major trend. It is precisely when the emotional pressure to join the crowd is strongest that the market is due to make its most dramatic reversals.

People do things in a crowd that they would never dream of doing if they were by themselves. They stop thinking rationally and allow themselves to be swept up in the emotion of the moment. Therefore, people at either the top or the bottom of any market expect that trend to go on forever. However, it is logically impossible for any market to follow the path that an overwhelming majority of investors believe it will take. If everyone believed an investment was rising in value, nobody would want to sell their share. The converse is true for a falling market. This could never happen in a free market, so a contrary investor looks for important market reversals when the overwhelming majority of investors expect the prevailing trend to continue.

Contrarians do not argue that "the majority is always wrong." They suggest that the larger the majority that agrees on the likelihood of a future trend, the more likely a major reversal is about to occur. A contrary investor may say, "When everybody thinks alike, everybody is likely to be wrong."

Contrary thinking is an art - not a science. It cannot, by definition, be infallible because free markets never actually produce perfect consensuses of opinion to mark the major turning points. In fact, if anything, contrary investors are more inclined to react to corrections assuming them to be major turning points. Contrary thinking should properly be viewed as a supplement to - not a substitute for - other analysis methods including rational thought and fundamentals of analysis techniques. Looking for overlooked factors is also vitally important, as is a willingness to change forecasts promptly when too many other people adopt the same point of view.

Remember, markets are still made up of;

- Technicians, who argue they can predict the future market price by past market actions alone.
- Fundamentalists, who argue the market price is calculated solely as a combination of a huge number of known factors alone.

The genius of contrary thinking is that it helps you lean the right way at those critical market turning points, when emotions drown out reason and other techniques fail. Both technicians and fundamentalists assume the market is solely rational - contrary thinkers realize the market is made up of people and that emotion in addition to reason are part of the process of setting market prices.

2. The Making of a Mania

Main Idea

As long as governments have the power to control the amount of money in circulation in any economy, there are going to be credit driven booms and painful busts occurring within the economy with alarming regularity. Anticipate it and profit.

Supporting Ideas

The symptoms of a soon-to-end boom cycle are;

1. Prices rise at an increasing rate and people predict the advance will continue indefinitely.
2. New standards of value are adopted to explain why prices are justified.
3. A proliferation of investments offer huge returns quickly.
4. Successful short-term speculations by uninformed members of the public.
5. An increase in the popularity of leveraged investments requiring small down payments.
6. Heavy selling by corporate insiders who have long-term viewpoints.
7. Extremely high trading volumes.
8. Irrational behavior by people getting in on the sure thing.

Summaries.Com

The Ultimate Business Library

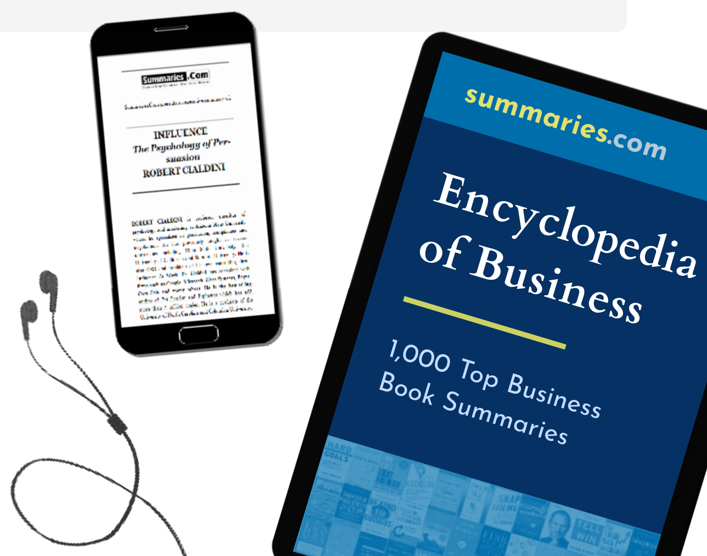
We condense **300+ page** business books into **8-page** summaries.

By reading summaries, you'll get the **key ideas** in **30 mins**, so you can spend more time turning your ideas into **dollars**.

Knowledge is Power — Invest in Your Future

For just **$2 per week**, you will...

> Learn from the mistakes and success of the smartest people in business;
> Get fresh ideas, strategies & motivation that could be worth millions to you;
> Follow emerging trends, so you can catch the wave before your competitors do;
> Catch up on the classics you always wanted to read.



1,000 Top Business Book Summaries

Our catalog includes summaries on a range of topics for aspiring entrepreneurs, managers, and consultants.

BUSINESS PLANS | MANAGEMENT | PRESENTATIONS | SALES | LEADERSHIP | MOTIVATION | STRATEGY

AND MORE