



SPECULATION IS RAMPANT

Oil is not the only source of speculation. Too many investors have abandoned fundamental stock analysis for risky, raw speculation, even in stocks.

Many investors apparently have given up on the long term. They seem to have no confidence in the future of the economy. Specifically, they are seeing out of the corner of their eyes the Enrons and WorldComs from a few years back. There certainly could be more but more safeguards are in place. They won't catch them all but it sure lowers the possibilities. Most major U.S. airlines are on the edge of bankruptcy. General Motors has announced a loss and forecast anemic earnings. Stock after stock has been pummeled at the slightest whiff of accounting irregularities.

The SEC has issued several new regulations on accounting. Stock options must now be expensed. These SEC moves make reported earnings cleaner, but they also make comparisons difficult, causing confusion. How are we to deal with all these fears, changes, and risk? The most popular answer is to throw up our hands, fearing the future as a huge unknown, either abandoning all stocks, or trading them, day-to-day, week-to-week, or month-to-month. Give up analyzing the companies or the economy. Stop looking at stocks as a share in a business. Simply find the right program, chart and buy and sell stocks with clear intention of trading them for a short-term profit. That way, one doesn't have to dig into the fundamentals of national trade accounts, trends in interest rates, housing bubbles, and high oil prices. One pays more taxes, but at least he can ignore all the serious news in the world around us!

If there is any doubt about the popularity of trading, take a look at the New York Stock Exchange, where 8 million shares are now sold short. They borrow shares from owners, pay a fee, sell them, and hope to buy them back at a lower price.

Many worthy expert money managers are right when we advise holding for the long run, being patient, and keeping trading at a minimum. The crowd is surely not following this advice. Trading is rampant. Every money TV show, radio show, and trading service draw huge crowds. Investors apparently have given up on getting rich slowly and settled for hundreds of small-but-higher-taxed trading gains.

Trading is another form of speculation. The trader isn't interested in the company, dividends, or the long-term business prospects. The trader buys and hopes to sell at a profit very soon. Trading is a zero-sum game. You are betting that you can beat the other players. Speculation has swept the crowd, big institutions included. This leaves the time-tested, proven path to profits open to us.

Let the crowd keep trading. As they blindly push stocks around, you and I will be there to scoop up the bargains they create. Traders get scared when stock prices fall, because they don't pay attention to the fundamentals. Traders simply watch the trend. That produces an exaggeration, an overshoot. We pay attention to the fundamentals. We know how to spot opportunities.



SPECULATION IS RAMPANT (continued)

Partly due to the fears, we think the future of our portfolios is brighter than once expected. Despite high oil prices, the economy has picked up so far this year. Recent data indicate the economy ran at a 4% real rate in the first quarter. Also the recovery is quite sturdy, gathering strength in the face of rising short-term interest rates.

A stronger economy will fuel higher corporate profits and stock prices. At some point, there will be another surge in stock prices. Traders and speculators will be in shock as they miss the big long-term gains that make their short-term trading results look anemic.

[Our 2005 Disclosure Brochure filed with the SEC is now available to anyone desiring a copy.](#)