

J. Christoph Amberger's Hot Trading Secrets

*How to Get In and Out of the Market
with Huge Gains in Any Climate*

J. Christoph Amberger



John Wiley & Sons, Inc.

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To
Joanna, Maximilian, Sebastian, and Sophia

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FOREWORD

I have an intellectual weakness for contrarian investing. Buy quality when it is unpopular and prices are cheap. Sell it when the crowds have finally caught on and prices are zooming.

This is the sort of moneymaking philosophy that appeals to a certain snobbish tendency in me: that most investors, the lumpeninvestoriat (as Bill Bonner calls them in his *Daily Reckoning*) are financial lemmings who don't have the sense to recognize value when they see it. Instead, they buy on hype and frenzy and contribute to bubbles that inflate and burst, as bubbles must do, and are justly punished for their folly.

Or, to paraphrase Mick Jagger: You can't always get what you want as an investor, but if you live long enough you will get what you deserve.

As I say, that's the way I *like to think* about the financial markets and when I talk about investing and investors, that's the sort of perch I'm happy to acquire.

But when I look at what I have *actually done* as a businessman and investor, I have to admit that most of my wealth has been accumulated by doing almost exactly the opposite. Of the considerable money I have made in my lifetime, the great majority of it has come from investing in trends—not foolishly running behind the herd (I'd like to think), but shrewdly going with the flow.

I once heard it said that there is a rule of probability that states that there is a seven-to-one chance that any trend that exists today will continue to be in place tomorrow. That dovetails with my experience as a builder of businesses. Yes, trends change. But most of the time they go in exactly the same direction that they were going in yesterday.

Betting against the trend can provide rich emotional rewards, but it's generally bad for the pocketbook. If kids today like low-cut pants so that their boxer shorts can show, chances are they will like them tomorrow. Sometime in the future higher-cut jeans and cotton briefs will be back in vogue, but I'm not going to invest in a business that is starting to manufacture them now.

If you look at the history of the stock market over the past 25 years (since I've been more or less involved with it) you will notice that there have been about a half dozen major trends. The pattern of investing during those trends is pretty well documented: as one trend gradually or somewhat suddenly comes to a halt another trend almost immediately takes up movement. Those who get in the new trend at the beginning do very well, but those that get in toward the end often get killed.

The secret to becoming wealthy as a trend investor is timing. And for every trend there are at least a half dozen investment theories that aim to profit from it. As a consultant to the financial publishing industry, I've been studying those theories for almost three decades, and if there is one thing I've learned about them, it is this: there are all sorts of investment strategies that work, but very few—if any—that work consistently.

Which brings me to Christoph Amberger and his exciting new book *Hot Trading Secrets*.

There is an inside secret in the investment advisory business that goes something like this: if the investor likes the shade of your glasses he won't care so much that the numbers he's looking at don't add up to that much. Put differently: if your reader likes your political and economic worldview, he will stay with you when your track record for recommending winning stocks is in the toilet.

As someone who has watched the investment advice business for many years, I believe that perspective is largely true. And there's a good reason for it. Most investors—most people—are not all that concerned about what return on investment they get. They feel that they should be. And it can indeed affect their purchasing power. But when you consider all the uncertainties that are incorporated in the world of investing and after you've had the experience of seeing your winning streak turn bad on you several times, you gradually start to pay attention to other things.

Those other things are often more philosophical in nature: Why,

for example, is there such a variance between the average income of a new family in the United States and the average cost of a start-up home? If the world were a reasonable place, you'd think that there would be a clear and calculable connection.

Or, given the fact that most new wealth in America is created by small companies, shouldn't investors who put their money in small-cap stocks do better than the rest of the investing public?

Or, considering the fact that God created the world and it's meant to have some sublime order (though we may not know what that order is), shouldn't good investors—that is, investors who put their faith in solid, value-producing companies—be rewarded in the end when the universe rights itself?

Such speculations are endlessly entertaining for those investors who have (subconsciously or wittingly) given up the goal of attaining wealth through stocks (or even, in many cases, the much less ambitious objective of beating market indexes.) But Mr. Amberger is not content to merely entertain. A compelling theoretician and amusing lampooner, he has spent 15 years as the publisher of the Taipan division of Agora Publishing's financial newsletter empire excoriating fools, lambasting intelligent dimwits, and poking fun at pundits whose theories are always richer than those who follow their recommendations.

That said, he has never given up the goal of finding investment theories that actually work. In fact, he's been so dedicated to what seems to most industry insiders to be an impossible task that he has practically invented a process of hiring, training, and then testing young people with a talent for this game and has, in the process, developed an enviable record of gurus and investment newsletters with impressive performances.

A few years ago I had a conversation with Christoph about his success. I told him I was impressed with the individual results of individual writers who had matured their game under his direction, but I still wasn't convinced that any one of them can sustain their records indefinitely.

"And that's why I start them young," he explained. "Because I want them young enough to change as the market changes—to correct and refine and, if necessary, entirely reinvent their systems in order to get those good returns."

I wondered aloud whether that would be possible.

“Look at it this way,” he said. “During every market trend, isn’t there always one predominant investment theory that is working?”

“Yes,” I said. “But that’s exactly my point. As the market changes, so do the investment systems. What worked ten years ago doesn’t work today, and what’s working today won’t be working ten years from now.”

“In fact, you are making my point,” he said. “My program is meant to take advantage of that one irrefutable fact about the stock market: that it is endlessly changing. In an endlessly changing environment, only a fool or zealot would stick to a single, unchanging system for dealing with it.

“My system is dynamic. It’s a dynamic market theory.”

“You should write a book on that idea,” I told him.

And so he did. And that’s why I’m excited to introduce you to *Hot Trading Secrets*. In this book, Christoph not only lays out the analytical approaches of his ambitious young team of editors and analysts, but also provides you with his big-picture view of how he sees the next five years unfold in the global markets. It’s no pretty picture. Worse even, Christoph has an uncanny track record of being right in his analyses and forecasts.

But despite the looming crisis in the financial markets, this book has a very optimistic message: By explaining how his analysts harness each move in the markets for fun and profits, he provides you with the tools needed to meet this crisis head-on—enabling you to come out not only wiser, but potentially vastly richer.

—Michael Masterson
December, 2005

PREFACE

We at 247profits, the Taipan Group, and its affiliate publications and web sites consider ourselves researchers, compilers, and publishers of independently assessed information and opinion. We do not nor will we ever accept compensation, fees, or payment for promoting or publicizing a company, stock, or any other entity as part of our editorial content. All opinions we publish are the result of independent analysis on the part of our editors.

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Every effort is made to ensure the utmost accuracy of all information, opinion, research, and commentary contained in our publications, web sites, monthly bulletins, and special reports. But while this information is obtained from sources believed to be credible and reliable, such credibility and reliability cannot be guaranteed. Forecasts and projections of events are based on the subjective evaluations, analysis, and personal opinions of our editors. The maxim of *caveat emptor* applies—let the buyer beware!

The Taipan Group and 247profits do not provide personal investment, financial, or legal advice to individuals; act as personal financial, legal, or institutional investment advisers; or individually advocate the purchase or sale of any security or investment or the use of any particular financial or legal strategy.

Before pursuing any legal or financial strategies discussed in this book, our monthly publications, or on our web sites, you should consult with your legal or financial adviser or CPA. Investments discussed in any form should be made only after reviewing the prospectus or financial statements of the respective company.

Some of the information our editors and associates gather could be considered “insider information.” When we get it, we publish it—because regulations prohibit us, or anyone else, from trading on insider information not available to the public.

Members of the organization, its officers, directors, employees, and associated individuals may have positions in investments referred to herein and may add to or dispose of the same at any time. But while we encourage our editors and analysts to put their own money where their mouths are, the editors, staff, and associates of 247profits and the Taipan Group, as well as its directors, employees, and associated individuals, are prohibited from trading on this information until after such information is published—that is, at least three days after the publications have been mailed to our subscribers or posted to our web sites.

Our network seeks to take advantage of the disparity of knowledge and the inequality of its distribution to maximize investment profits for our network associates and subscribers. And even though in the past certain investment recommendations from the Taipan Group, 247profits and their affiliates have produced huge gains, past performance is no guarantee of future gains.

ACKNOWLEDGMENTS

No work successfully undertaken and completed by man is ever the result of one person's efforts. Writers especially rely on other people's intellects to come up with something worth saying—copying, adapting, adopting, and developing (sometimes even pilfering!) thoughts and ideas from thousands of sources until they're convinced it's all their own.

This book in particular owes its publication to the direct and indirect influence of many friends and colleagues: the editors and staff of the Taipan Group: Sandy Franks, Christian DeHaemer, Siu-Yee Ng, Erin Beale, Ian Cooper, Bryan Bottarelli, Alex Chinn, Martin Denholm, Brad Colburn, Briton Ryle, Abe Said, Adam Lass, Sarah Nunnally, Ann Sosnowski, Mike Wiles, Zhan Caplan, Amy London, Mia White, Jerome McLennon, Sherri Green, Sheryl Ivey, Alexa Landrus, Ned Humphrey, Howie Ng, Erick Hienz, and Alex Ferguson.

I am greatly indebted to my boss, William R. Bonner, for entrusting me with the responsibility of developing the Taipan Group into one of the most successful international trading publication groups in the world, and paying my salary during that time; Michael Master-son and Mark Ford for showing me how to create and run a business based on good products; and my mentor and Taipan's founding editor emeritus Robert W. Czeschin for guiding me in the early years of my career.

Special thanks go to John "W." Forde, Don Mahoney, Bob Bly, Brian Hicks, and James Passin for originally putting into words many of the ideas we came up with and have expressed in the pages that follow.

This book would not have been written without the valiant efforts of Wayne Ellis and Michael Ward, and the critical eye and indispensable hands-on help of Michael Thomsett.

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Thanks also to my aikido senseis Brian Sutherland and Jeff Mims, without whom I never would have grasped the complex concepts of flow, and to my fencing coach Bin Lu, for teaching me more about timing and positioning than a library of trading literature can offer. And my special gratitude to Dan and Phyllis Strayer for always asking the right questions.

INTRODUCTION

A VISIT FROM THE FBI

Social mood trends represent changes in human attitudes. Changes in social mood trends precede compatible changes in history and culture, indicating that the former causes the latter. Thus, there is powerful evidence that the pattern of mood change produced by social interaction of men is the underlying engine of trends of social progress and regress.

—Robert R. Prechter, Jr., *The Wave Principle of Human Social Behavior and the New Science of Socionomics* (2002)

In retrospect, it seemed like it was a particularly gray and depressing day. Outside, there was just enough of a drizzle coming down to make the late fall chill unpleasant. You heard car tires hiss on the asphalt and yet—when traffic had stopped and you happened to listen closely—windshield wipers were squeaking on glass that was neither quite dry nor quite wet enough for them to do anything but leave broad, sticky smears of whitish residue.

Inside our headquarters at 808 St. Paul Street in downtown Baltimore, the mood was tense. My colleague Adam Lass, our in-house attorney Matt Turner, and I were seated uncomfortably in our glass-enclosed conference room. At the head of the table, a stern-looking visitor, a Washington, D.C.-area FBI field agent, was readying a ballpoint pen. In front of her were a stack of papers, printouts of our daily e-mail letter, the *247profits e-Dispatch*, and various printouts of our web pages.

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“We all know why we’re here,” the agent began the conference. She handed photocopies to all of us.

I didn’t have to look at the papers. I knew exactly what was on them.

Dated September 10, 2001, they contained an urgent warning that we had broadcast to the 400,000 readers of the Taipan Group’s e-letter, the *247profits e-Dispatch*. This is what we wrote:

We were seeing a rally in the NASDAQ today. Don’t, however, confuse that with a RALLY. Rather, it is a completely predictable move from the bottom of the 10-day trend. Expect this short-lived upward move to peter out between 1,725 and 1,750 when it hits the top of the short-term trend.

Then put your head between your legs and kiss your gains goodbye: WaveStrength™ indicates this will be followed by a geometrically accelerating arc down toward my target of 1,619, now less than 75 points away.

But beware! 1,619 is no longer the worst thing you have to worry about. I am now working on my next long-term WaveStrength™ prediction, and my preliminary studies are indicating a move so gruesome, ambulances will be cueing up below Wall Street brokerage windows.

How could we possibly have known? Did we have tip-offs from people who were in the know about the attacks to come the very next day? If yes, who were they? Why exactly did we choose these words to convey our message?

I must say that I’ve had more than a few sleepless nights since we sent that message. Even for us at the Taipan Group, it is no everyday occurrence that our financial predictions unfold in as horrific and literal a fashion as the terrorist attacks of September 11, 2001. After all, we had no prior warning outside our own resources. No mysterious phone calls. No e-mails from anonymous servers in Yemen or Russia. There was no stranger in a parking lot dropping an envelope before disappearing in a dark SUV with tinted windows.

All we had were data. Reams of data. Charts as long as scrolls of wallpaper that took up the entire length of our polished mahogany conference table. And we had Adam, who translated the muddle of pencil lines, curves, and annotations into probabilities according to

the principles he established for his WaveStrength analytical system, the macro perspective tool of our Dynamic Market Theory.

Two long hours later, the agent left—and I like to think her goodbye was a bit more cordial than her hello. Did she understand all the mathematical intricacies of Adam’s theories and methods? Frankly, I doubt it: I myself occasionally have problems following when Adam is on a roll. But she seemed satisfied that this particular bunch of geeks she had just spent the better part of the morning with had no involvement with terrorism whatsoever, just an uncanny knack for making the right call at the right time.

Which still doesn’t explain just why Adam’s prediction was so eerily correct, or why we managed to turn one of the most horrifying crimes perpetrated on American soil (and one of the most drastic market drops) into hands-on investment opportunities for our subscribers.

MONEY, MARKETS, AND MAYHEM

In this book, I try to explain how our investing and trading philosophy works, how over the years we have established one of the best batting averages in the financial publishing industry, and what methods and tricks our analysts use to create superior profits not only in days of global crisis, but day in and day out—methods that will help you profit handsomely in the markets in the coming years, independent of where the various domestic and international indexes are headed.

At the Taipan Group, we have been doing just that since 1988. We took our name from the swashbuckling entrepreneurs who amassed great fortunes from the China trade during the nineteenth century. The Chinese called these ambitious, moneymaking men “taipans” or big bosses.

The name suits us because we, too, are after great fortunes. Our flagship publication *Taipan*, a small-circulation bulletin that is available by private subscription only, has always understood itself to be a window on the future, a preview of what is to come, an accurate source for advance information on the big ideas that will change the way we work, live, and play in the years ahead.

We call our trading philosophy Dynamic Market Theory. Like the theory of evolution, it is a convenient and descriptive rather than a

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specific handle that we use to reduce the complexities of market phenomena and the human behavior that cause them and translate them into dynamic new trading opportunities. Much like the theory of evolution, Dynamic Market Theory is based on an explanation for a set of facts that has been repeatedly tested and that can be used to make predictions about those phenomena.¹

As such, the individual facets of Dynamic Market Theory that we let you in on in this book are part and parcel of a constant process of evolution and adaptation themselves; data patterns that translate into excellent buying and trading opportunities rarely remain undetected by a wider circle for long. This system is subject to change. With growing volume caused by a further permeation of an “exclusive” set of indicators, the dynamics of the pattern itself can and do evolve dramatically. A new pattern emerges, with different segments that, at least for a time, can be analyzed and translated to create the basis of yet another (modified) trading strategy.

This flux creates a conundrum for the writer: Books are rather static objects that can only provide a snapshot of the current conditions. A year from now, market psychology and the further permeation of information—such as a wider public use and application of the unique constellations of catalysts our editors use to determine entry and exit opportunities of particular trades—may have created new challenges to be addressed and harnessed by further adaptation to the new parameters.

Despite having been in the business of publishing trading and investing information since the late 1980s, this is the first book the Taipan Group has ever produced. It’s not like we didn’t have enough to say. There is a very good reason for this: being part of a dynamic market environment and being steeped in the daily, even hourly, flux of information. Accordingly, we specialize in instant communication of these opportunities to the readers of our free e-letters and to the subscribers of our electronic trading information services.

This book is an attempt at putting on paper the principal ideas and thoughts that have gone into creating these services and to enable you to apply them for your own benefit. We make no claim that ours is the only or perfect way of profiting in the markets in the crucial years that lie ahead. But forgive my self-centeredness when I say it is one of the most successful and yes, most fun ways I’ve seen so far.

PART I

**DYNAMIC
MARKET THEORY**

CHAPTER 1

MARKETS RISE, MARKETS FALL— IT MATTERS NOT

(As Long As *You*
Are Making a Profit)

A ruler placed on a globe will give one answer; the same ruler applied to every indentation as one traverses the coast will give a vastly different one.

—Robert R. Prechter, Jr., *The Wave Principle of Human Social Behavior and the New Science of Socionomics* (2002)

“Bulls make money, bears make money, pigs get slaughtered.”

The idea at the core of this old chestnut of a trading rule is simple: If you pick an investment strategy and stick with it long enough, you’re bound to make money at least half the time. Only the greedy pig—the one who chases profits without any strategy—loses money all the time. Likewise, the nervous chicken—one who flees the market even with a well-formed strategy as soon as it ticks downward—cannot expect to profit. The concept, at least, that you can profit at least half the time, is fine . . . assuming that you are satisfied with just beating 50–50.

Unfortunately, that concept has one major weakness. It would have you accept that you lose money half the time. That's something I find both distasteful and unnecessary. Besides, what's wrong with a bit of greed? Hunger, when properly controlled and channeled, is a fine motivator. So after the bull, the bear, the pig, and the chicken, I would like to introduce a fifth investment creature to our little menagerie: the wolf, *Canis lupus*, a predator equally competent at catching mice or elk, an animal that will dine with equal fervor on bears, bulls, pigs, and chickens.

To become this kind of market wolf, the first thing you need to do is *stop caring—at least morally—whether it's a bull or a bear market*. To the predator and trader alike, it's a near-meaningless distinction: Every market has wheels within wheels, upstrokes and downstrokes that offer profit opportunities to the quick and the strong of heart—and to the strong of stomach. This is the principal insight of our Dynamic Market Theory.

After all, who needs a bull market anyway when there's plenty of opportunity to make money all over the world?

GOLDEN JONQUILS

Just a few days prior to the terrorist attacks of September 11, the Dow Jones Industrial Average dropped 200-plus stomach-churning points in only three hours. The Nasdaq, long off its 2000 bubble-market highs, was heading into numbers woefully reminiscent of the early settlement dates of the American continent. Sitting at my desk and following the market carnage on my computer monitor, I leaned back and thought of golden jonquils.

In the Ozarks, hopeful homesteaders used to plant golden jonquil bulbs by their front doors. A century or more after they were planted, some of these flowers still keep appearing each spring. Often, they rise around bare foundation stones deep in a deserted stretch of sky-high oak woods—symbols of peace and hoped-for prosperity that “bloom sunshine yellow against a sea of green.”

In *Country Living Is Risky Business*, author, fencing master, and gentleman farmer Nick Evangelista muses about the shattered dreams

and ambitions that are evidenced by these empty, deserted farmsteads deep in the Ozark Mountains:

Where did these people go? Where did their dreams disappear to? What sent them spiraling down to disaster and abandonment? When does a shout of assurance become a hollow cry of enough is enough?¹

I looked at the Nasdaq back then and I felt an inkling of that pain. Even today, as most U.S. equity indexes are trading well above their post–September 11, 2001, lows, or are even approaching their bubble boom highs, the memory of financial hardships is still evident.

More than four years have passed since the sociopathic attacks on New York City and Washington, D.C., but the economic fallout is still as real as falling concrete, less damaging to human life but just as lethal to perceptions of value.

But mark my words: Even back in 2001, you didn't have to lose money. You didn't even have to give up on high returns. All you needed to know is what to buy, what to sell, and when to take profits.

In September of 2001, the market was providing amazing ultra-short-term profit opportunities. (No one can tell me that you can't make money on 3 percent drops and 2 percent recoveries, even if the indexes end down overall.) With the emphasis shifted to ultra-short-term, this market was a day trader's nirvana. One buying opportunity chased the next. It was as if a scatterbrained store clerk had inadvertently put up the discount sale signs for the dollar store instead of those meant for Bloomingdale's.

But unless you were ready and able to rapidly jump on buying—and profit-taking—opportunities, you might have been better served by watching from the sidelines.

So why do some win where most others lose?

Because those who lose in the market have no idea how the investment world really works. They're still trapped in the nice, cozy idea that markets are about logic, rationality, and analysis.

But think about what the market is telling us right now. The investment world doesn't follow formulas. And it is not for amateurs. In fact, if investing were easy, it wouldn't be fun. There would be no challenge. No excitement.

And no big profits.

The fact is that real investment—the kind that yields profits worth mentioning—can be as unpredictable as a day on the battlefield. The way General George Patton saw it, “War is won by blood and guts alone.”

I think Patton would have made a shrewd investor, because playing to win is all about guts. Competitiveness. The timing and nerve to go for the jugular. It’s also about hunger . . . the hunger to be rich and beat all the other bastards out there—because if you don’t, they’ll beat you first!

Let me be blunt: Those who are made nervous by crisis and upheaval shouldn’t be in the market. Successful investing isn’t always pretty. If you win and you make money, it’s because the other guy lost. And if he wins, you lose. The rules change fast. But the plunder—the spoils of the investing war—can be huge.

Many American investors have turned their backs on the equity markets, liquidating their portfolios and reinvesting in real estate. (Germany, which had seen the number of households owning stock more than double from 8 percent to almost 19 percent between 1995 and 2001, saw almost all those new investors being shaken out of the market by the end of 2001.) The great majority of U.S. investors still remembers all of the money they’ve lost, wondering how long it’s going to take to make it all back. That’s a tall order. Consider that a 25 percent loser requires a 33 percent gainer just to get back to even. And a 50 percent loss demands you double your remaining money to break even. But you can make gains like this with relative ease by putting your money into the right kind of stocks *at the right time*.

It takes a sturdy disposition not to panic in the face of such prospects. And you may think—rightfully so—that these are the days for dynamic optimism in the face of adversity and a sense of gloom in the market.

THE TRUTH . . . VERSUS SMILING LIP SERVICE

To succeed in the fast-moving market, you need to have truth on your side. This is not a mere platitude. My associates and I call ourselves Taipan for a good reason. We don’t believe in telling investors