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by Richard T. Woulfe
Differences Make Markets: Or, The story of "Frug"

Some years ago when I was in the stock brokerage business, we were informed at the office that the "big kahuna" or "big boss" from Chicago was coming to the office for a review. A review of what was not made clear. He had a notorious reputation for being tough to please. We naturally cleaned our offices so it looked like we never even worked with paper. He was flying in from Italy we were told where he owned a vineyard just as a hobby. Yes, he did look a bit like Don Corleone. I was more than nervous and did not know what to expect. I wondered what we might chit chat about.

We were told to have our prediction for the best performing stock for the next year, as well as our prediction of the strongest sector and the final S&P 500 value for the year. He was to give us his view of the coming year.

When the morning arrived, we all gathered in the conference room. Then he said, "Well, let's go around the room and you each can tell me what your prediction is for the next year." As each broker stood and recited, I grew more and more impatient. I was well aware of all these guys and what they thought. I needed some answers please. I needed some guru stuff. Then I gave my speech and could relax.

When we all finished, it was time for "Frug" to speak. "Well" he said, I see you all have some real differences, and that is wonderful." There are certainly a lot of trades right here in the conference room. Dorthea loves medical, and Denis hates it; Denis likes technology and Dick hates it for next year. Dorthea loves utility stocks and I don't.

This is very healthy. In fact, these differences and your
ability to see them quickly and act on them, is the very skill you need to nurture in order to be successful in this business. Do not for a moment be discouraged when you see differences. Differences are what make America great. Differences make markets!

The meeting was over. It was nothing like what I had expected. "What a waste of time," I thought.

Over the years I have never forgotten a word of his speech, and yes I am very happy I did not go over my expertise in Boone's Farm Apple Wine.

**Wed Jan 23, 2008 | 10:08 AM |**
The Dialectic of the News; or; The Niacin Press Process

As an admitted "news junkie" I have observed over the years that within minutes of adverse, negative news in the financial press, there is a carefully orchestrated release of stories of just the opposite persuasion to calm the waters.

If you click on the post, you will see an article by a reporter who is described as an AP business writer who tells you that the plunge of the Nikkei stock market in Japan is really no problem when one looks back to the history since 2000. This is really reassuring for the American investor who these days is heavily invested in international stocks.

If one reads the recent stories of the problem in Iran, and that Iranian finance ministers are pulling their money from the West in preparation to avoid a repeat of the problem they faced when the US froze the assets in the Jimmy Carter days, one can see that this is exactly what the US treasury does not need, folks moving money out of dollar denominated investments, and even worse, out of US treasuries. A full scale panic could cause interest rates to skyrocket. Bad for everyone.

The effect of the "niacin" press is to calm, and freeze investors. However, folks need to be aware of the risk of investment and not be frozen from appropriate action. When we are children, we might have adult folks place a hand on our shoulder and tell us "everything will be ok." When we are adults, we need to make up our own mind.

Wed Jan 23, 2008 | 10:10 AM |
"Volatility"---the song

Some years ago, I had the pleasure of working in a brokerage firm, and while I was selling conservative bonds and stocks, the gentleman in the office next to me, Elvin R, was a very heavy options player. Mostly the S&P 500 options. In that option, on very volatile days, one could lose thousands in just a few minutes.

Whenever there would be an extreme period of volatility, Elvin would go to the entrance of his office, and intone "VoLLLLa TiLLLLa TTTTT". Just that short one word song would put terror in the hearts of rookie traders, including myself.

If you click on the link, and then scroll down to the natural gas spot pricing, you will see the chart of natural gas spot prices in the past year. You need to scroll down to the natural gas graph. It resembles a very high tent. In summary, the natural gas prices have spiked from $6 a 1000 btu to $16 a 1000 btu and then back to $6. Why does this matter to you?

Each fall, school districts have to plan ahead. They lock in an option but that price only locks them to January, when they have to lock again. For safety sake because it might go higher and they have only so much money.

The problem is that with the lack of regulation currently, with the locking process, the tent indicates to this Observer that schools, kids and taxpayers may be getting ripped off. The governors of Minnesota and Wisconsin have called for an investigation. So does the Observer.

The Observer thinks that school districts should be able to have enough regulation in matters of natural gas pricing so they do not have to pay excessive amounts for a product and be held hostage to speculation. This may bring back memories of Enron. Yes, and other energy trading schemes.

This especially rubs The Observer when school districts have to make cuts that in fact might not have been necessary if a fair energy price had been available.

I will leave it up to the experts to decide whether the markets were the "most efficient". My gut feeling is that they were NOT.

What do you think? You make the call.

Wed Jan 23, 2008 | 10:12 AM |
"The Plenty Rule"

While many a man would like to puke hearing women constantly go over, "Well how did that make you feel," ad nauseam, the one area that it is appropriate----is the one area that it is least applied----namely money and the sense of security or plenty.

Too often those revered financial planners---mostly men---possibly only folks that have passed some sort of exam that equates security with amounts of life insurance and mutual funds in hand--pontificate in a very abstract way that makes customers wonder---and rightfully so.

I would suggest that it is talked about in such mathematical terms since the investment in insurance and stocks is so high that one must begin at the age of 7 in order to make the numbers come out.

Phil Laut, famous author of "Money is My Friend," went over the essential rule in a Saturday morning seminar held at the St. Paul Hotel some 20 years ago. His rule was that if a person did not have a sense of plenty, even though lots of money was accumulated, that person was destined to lose it. This concept shocked me. Being a rational guy and all.

The feeling or anxiety of scarcity would cause that person to screw up and make inappropriate investments and lose. On the contrary, the person who had a sense of plenty even though poor had a better foundation for gaining a great wealth and keeping it----and being wealthy in every sense of the word.

So.

Is Plenty a feeling? Or is Plenty a fact?
You make the call.

Wed Jan 23, 2008 | 10:13 AM |
"The Pea Green Carpeting"---a true story

There is a philosophy of buying that one must concentrate on like a Zen monk. One must strive in all things--to reverse the pattern of human emotions.

When fear is in the street----
One must concentrate on greed.

When everyone is gasping with delight on how high the stock market has gone and how much they are worth---giggling like they have been sipping fine whiskey-----

Sell.

My brother-in-law---Mark Hector--gave the family a great example when he purchased his first home in Hopkins. It was just a simple rambler---but it had been neglected....big time. The front room was carpeted in a dark pea green that made even the most ardent buyer vomit on entrance to the home.

What turned everyone else off---got Mark excited. He could visualize the new gold carpeting and the fireplace roaring and his wife and he celebrating the remodeling.

He made the owner an offer---a ridiculously low offer. He pointed out all the things that needed to be corrected. The seller refused the first offer. That was good. Left him a little pride. Then Mark made him an offer, just a bit higher.

Bingo.

Even today, when my wife an I are out shopping or looking at homes and I see some pea green carpeting----she just smiles and says------"No way." She knows that given the killing Mark made on that home, I will always have a weakness for pea green carpeting.

**Wed Jan 23, 2008 | 10:14 AM |**
OpEd: A bit on Fear/Greed

This sell off from the opening is bringing just a little deja vu for the Observer...... since I did trade through the Crash of 1986. The problem with the plunge overseas that triggers the market lower at the opening, is that any stop loss orders are triggered but at the lower price of market or the limit price------It becomes a cascade of lower and lower prices as things keep going. Fear breeds on itself.

In each panic, the opposite of the panic is the greed---the bonds are going higher. ...and bond interest rates are going lower. Which means that for those who have have bonds or have mortgages, and have perfect or very good credit, one can sell the bonds at the top or look to refinance at the lower rates. So---in the market panic, there is always an opportunity to make a wise transaction on the other side--stay calm and look for it.

Click on the post for the current municipal and corporate bond rates, for various ratings and compare to last month, and yesterday. Enjoy.

Posted by Evansville Observer at 3:59 PM

Wed Jan 23, 2008 | 10:17 AM |
"Sipping Ice Water"

Saturday, September 22, 2007

During Times of Crisis----Drink Ice Water

It was the stock market crash of 1987. On the telephone squack box the senior brokers from New York were advising the younger brokers not to jump----in our office, as I looked around I saw all the older brokers sipping ice water. It was no time for nerves now. Use lots of ice. Stay cool.

The last time I had seen such ice sipping was in the room of a patient close to death who could only sip ice water.

So----sip ice water. Stay cool. And pray that when the opportunity for decisive action comes you will have the cool to make the clear headed decision.

Wed Jan 23, 2008 | 10:18 AM |
"The Limbo Rock"---or when to Buy

One always wonders when there are large stock market corrections.....when the "Limbo Rock Rule" applies. When to buy.

Usually you can see lots of stories by financial professionals these days with various theories. Usually they are based on a large....very large perspective.

I like to look at it from a very small perspective. Where there are entry level workers, A, married to entry level workers, B, who desire to purchase a home, C, -----How much do their wages have to be increased to allow them to qualify to purchase that home at fair value, using traditional mortgage ratios?

Just reflecting on that question brings one pause as to what percentage house prices might have to fall....... and on the other hand,....... how much wages might have to be increased to allow traditional lending to be restarted.

This equation and question will not be discussed in any of the pundit articles today, and yet, until it is discussed, nothing will be solved.

That is how I see it. From the small perspective of my world.

And you?

You make the call.

Wed Jan 23, 2008 | 10:20 AM |
OpEd: "JawBoning"-----Effective Method or Cruel Hoax

Sometimes when policy makers do not want to take concrete steps to solve problems, they indulge in an exercise called "jawboning." This "jawboning" has risen to a high art in financial and political circles, whether you are the Federal Reserve Chairman or the President of the US or whomever.

Last weekend I went to Wisconsin Dells to join my editor brother in a doubles game of tennis with two younger...and faster tennis players. My bro and I only had age and ..... whatever wisdom we called "experience" to work with. Speed, vision and deft of hand has been slipping for some time. O.K. You understand the situation we were in.

It was a furious paced game with lots of net play. Just the kind of game Denis and I have always loved. At a critical point, Denis hit from the baseline a direct ball toward the opposing net player, who hit it with his backhand, and popped a weak lob in the air, which I smashed for a winner.....one of the few of the day for me.

As I walked to the other side of the net, celebrating, I cheered my bro on and said, "Let's go big guy.....they may be losing their arm strength."

On the next play, the opponent smashed the ball at me and although I was ready for it, it came on the backhand and I blew the shot. The "Jawboning" had worked. I had the shot I wanted....just not the skill needed.

So------"Jawboning" as a rule of thumb is always the mark of
weakness.

Think of President Bush "jawboning" the mortgage industry to "work with" the holders of the mortgages that are going to be set to new higher interest rates---over a million of them this coming year. He has the power to take effective administrative action to modify the rules of handling, but instead uses "jawboning." That indicates weakness and .....portends trouble.

"Jawboning" in the mortgage case is his way of distancing himself from the problem---a problem that he cannot distance himself from since the Treasury supervises or.....should have supervised....the industry.

In fact.....over the past 30 years whether it has been the savings and loan industry in the 80's, the bond fiasco, the stock market crash, the techno bubble, or the current situation----money.....special interest campaign money has impaired the proper functioning of our government in the financial sector.

For years, the government has been trying to weaken the barrier between banks and the stock brokerage industry----the Glass Stiegel Act of 1933. To the extent that they have weakened this barrier, banks too have become vulnerable to the downdraft of bundled mortgage products they are financially tied to.

So---the problem: Right when we need effective decisive action from our government we get just "jawboning." Kinda like we got with Hurricane Katrina.

Today the stock market seems to be responding to the "jawboning."----and seeing right through it. That is how I see it.
Stay tuned.

Wed Jan 23, 2008 | 10:21 AM |