

# Dump Your Stocks

## Get A Financial Plan Instead



If you own an individual stock, can you say how much revenue its underlying business realized last year? Can you say what its operating margin was? Can you say what its earnings-per-share were? Can you compare those three metrics from last year to the past five years?• And if you don't know any of these metrics, should you really own the stock? Lately I've met with investors ? if you can call them that -- who own individual stocks, but can't answer any of these questions about the stocks they own. They know something about how the stock has performed, but they know almost nothing about the underlying business. Perhaps they know the industry the business is in because they work in that industry or because they are otherwise enamored of the business ? Tesla and electric cars! -- but they don't know how a lot of the revenue is generated, what might sustain it, what might threaten it, etc... Being enamored of a business or industry doesn't mean you understand it. And just because a business or an industry is new doesn't mean you have a good way to judge how profitable it will be. Airline travel has changed people's live, but up until recently, when a few major carriers decided to divvy up routes and keep competition at bay, the airline industry has burnt through an astounding amount of capital.

## Keep the technicals in their place

Buying a stock without understanding the underlying business is one of the dangers of emphasizing 200-day moving price averages and other technical metrics. The academic evidence is in, and momentum is a legitimate *factor* that drives stock prices. But over-emphasizing technical statistics or stock price movements runs the risk of directing investors' attention away from the performance of the underlying business. Technical statistics are very democratic -- can we call them populist? -- because they flatter everyone with a computer screen who can look at a stock price chart. The truth is they render owners of stocks into something other than investors because investors must be concerned with a stock's underlying business at least as much as the stock. Have you heard the phrase *the stock is not the business*? Well, ultimately, it is, and you will get destroyed if you don't realize that. Just ask former Enron shareholders. An ironic thing about those who doubt the validity of the *fundamentals* of a business is that they don't dispute why the stock of a bankrupt company is worthless. Nobody disagrees that if a company is bankrupt, the stock price should reflect the status of the underlying business. So why do they dispute that the price must relate to the business in every other circumstance but bankruptcy? Some might say that technical analysis would have gotten you out of Enron before it went to zero. But a good fundamental analyst realizing that it was impossible to understand how Enron made money -- that it was impossible to answer the fundamental question about Enron's business (or the fact that Enron wasn't a legitimate business) -- would have avoided it altogether.

## You're up against stiff odds

If technicals distract you from the underlying business, studying the underlying business pits you against the best fundamental analysts. Knowing the business doesn't only mean knowing -- without needing to consult the financial statements, because you've studied them already -- what revenues, operating margins and earnings-per-share are. Far from it. Knowing the business also means knowing what a company sells to achieve its revenues and earnings, and what the competitive threats are to those products and services. Do other companies sell the same kind of good or service? What makes the things your company sells better? Or what makes the stock underpriced based on the quality of its products and the future prospects for sales and earnings? Knowing the business also means understanding the financial health of the business. If it has debt, can it cover its interest payments comfortably? If you own a stock, you are competing against investors who are studying financial statements and trying to assess the prospects of the underlying business as their full-time jobs. Warren Buffett reads 500 pages of financial statements everyday. You can score some trading victories without knowing anything about a stock's underlying business, and, yes, sometimes analysts know so many details about the underlying business that they lose sight of its two or three most important drivers when evaluating what it's worth. But how long can that game of trading things you know nothing about go on? Can you really compete with this folks studying the underlying business full-time, if you're operating on a part-time basis? Every stock purchase is an act of arrogance, says hedge fund manager, Seth Klarman. When you make your purchase, you're saying that you know more than the market about what the stock is worth. You're saying you know more than others whose study of the underlying business is their full-time job. If you're an ordinary retail investor, why should you be able to compete with such people? The fact is, you shouldn't, and your arrogance in making the purchase is almost certainly unwarranted. **Get a financial plan** Instead of trying to pick individual stocks, go see a financial adviser and get a financial plan. Get yourself on the road to saving steadily for the important goals in life -- retirement and sending your kids to college. See a financial planner who can help you put a budget in place so that you control spending and have some money to save every pay period. Figure out a plan that gets you saving periodically, allocates your assets in a way that won't force you to sell when markets swoon, estimates future returns in a realistic way, and lets you know when you might be able to retire and what retirement might look like financially. All of

these things are much more important than wasting time thinking about individual stocks. Don't let trying to figure out which stock to buy, when to buy it, and when to sell it, get in the way of the steady business of saving money for your long term goals. If you're finished spinning your wheels trying to pick individual stocks, and you're ready to see an adviser, [click this link](#).