Market Dynamics

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Performance Management System

Successful Stock Investing Is A Two Step Process

Portfolios heavy with under-performing stocks almost never outperform the market.

Ignat's Law

Don't just buy a stock and hope for the best, as so many investors do!

Use a long-term chart of the stock's market performance to verify that the stock is performing as desired.

A collection of recent newsletters is available on the web site.

Please visit the web site at http://www.clayallen.com/

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Experience shows that successful stock investing is a two step process: Step1. Develop expectations about the future performance of the stock, Step 2. Monitor the performance of the stock to make sure that the actual market performance of the stock lives up to the expectations generated in step 1. Many investors only go so far as step 1.

The expectations formulated in step 1. can be based on many factors, some factual, others totally based on guesswork and hope. These expectations can be drawn from personal research and analysis or, as is the case with many individual investors, those expectations can be based on the opinions and analysis of others. Many times the forecast about the stock can be based on inputs from total strangers on Wall Street or in the media and the investor probably does not know how good the record of investment success by the source of the opinion really is. Regardless of the source of the forecast, the investor needs to apply step 2. to make sure that the actual performance is as hoped.

It seems so simple that the verification process tells the investor that his expectations are being fulfilled or not. What if they are not being fulfilled, as is so often the case? Should the investor remain committed to the forecast in the face of evidence to the contrary? Absolutely not! When the actual performance of the stock in the market does not confirm the forecast, the investor should quickly decide to scrap the forecast and sell the stock. If the market performance confirms the expectations generated by the forecast, the position in the stock can be maintained for as long as the performance remains good.

Anyone with even a casual involvement in the stock market knows that Wall Street analysts, money managers and the media are often completely wrong about the future performance of a stock. It is also true that company management's opinions and forecasts can be just as wrong about their own company stock as anyone else. There are just too many variables in the determination of a stock price to produce a high confidence forecast of future performance. Investors should do the best that they can to produce the best forecast that they can, but they must go to step 2 and verify that the expected performance by the stock lives up to the forecast.

A long-term chart of the stock's performance in the market is the best way to verify its performance. Many investors have been so thoroughly indoctrinated in the academic belief that charts don't work that the application of a stock chart to verify a stock's performance is not even considered. It should be noted that the application of the stock chart is not to predict the future of the stock, but to verify its primary trend of performance. Primary long-term trends of a stock's performance are usually not accidental and often provide an insight into the financial performance of the company. The only prediction that is involved is the common sense belief that the primary trend, once in place, will probably continue.

How else will the investor know when change and unforeseen developments are producing an undesired outcome.

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