Part One

LEARN THE POINT AND FIGURE METHODOLOGY

Chapter 1

INTRODUCTION

Point and Figure Charting: A Lost Art

I would never have thought we would be embarking on the third edition of this book when I wrote the first edition. I know now that this will not be the last edition either. Technology and the Internet have significantly changed the way we approach technical analysis. Over the years, we have been able to develop new and interesting indicators that the founders of the Point and Figure method over a hundred years ago could not have fathomed. Dorsey, Wright & Associates (DWA) has been in business for 20 years now and the changes we have seen are amazing. When we first started DWA, we used a Tandy 3000 computer that was considered to be state of the art. We did not have enough money to buy it outright, so we leased it. When all of those rent payments were totaled up, that computer cost $3,000 and only did a small fraction of what computers today can do that cost one-tenth the price. Twenty years ago, there was no such thing as an online charting system. We updated 2,500 stock charts by hand for close to a decade. Our Relative Strength charts were updated by hand once a week. It was a right of passage for each intern to maintain the Relative Strength charts each week. Distribution of our research each day was done by fax machine. The machine we used to fax out our 20-page report each day cost $1,800. This fax machine was state of the art technology, and we borrowed it from friends. Since we had no money, only debt, in the beginning we had to go downstairs each day and fax out our report by hand, page by page. This machine could only fax to one phone number at a time. This was in 1987. I think we paid seven cents a page to use this fax. When you start a business with nothing, you do what you have to do to make it work. By 1994, we were on the Internet; however, our clients were not up on that technology curve yet and still wanted our reports by fax. Those who wanted to take down stock charts did so through the, by then, outdated DOS system. Most of us will hold on to the old way of doing things when new technology and new ways of doing things come into existence. This is called the technology gap. I remember one of the largest brokerage firms on Wall Street saying the Internet was a flash in the pan, and they were not putting any significant resources into it. We knew from the start how important this new technology would be and put all our resources into it. With this new technology, we were able to begin creating new and important indicators that stemmed from the Point and Figure method of analysis. We continue to push the envelope with technology, and every few years we have new and innovative things we have created to help investors and professionals become more successful at the investment process. This is why I am sure that at some point in the future there will be a need for *Point and Figure Charting,* Fourth Edition. For now we have more than enough new things to discuss in the Third Edition.

Let's start with the basics. The Point and Figure method is not new by any stretch of the imagination. It is, however, a lost art simply because most investment professionals and individual investors have lost sight of the basics that cause fluctuations in the prices of securities. Even though we have been championing this method of analysis for 20 years, we have barely made a dent in the 50 million investors in America. We've scratched the surface; that's about all, and our business has grown every year for 20 years. We have a lifetime of work ahead of us. In today's rapidly evolving technologies, the irrefutable law of supply and demand has been all but forgotten and that is one thing that doesn't change in any market. In the end, the only thing that will outlive technological change that is truly sustainable is the transcendent competence of an individual's workmanship. New methods of security analysis continue to crop up capturing the ever-expanding curiosity of the investing public. It seems everyone is searching for the Holy Grail, yet few are willing to become craftsmen at the investment process. Many are looking for a computer program that will define the winning trades each day without any effort from the investor or professional who has ultimate responsibility for the portfolio of stocks. A long time ago when I was a stockbroker at a major firm on Wall Street, I learned there is no Holy Grail. The key to success in this business, and any business for that matter, is confidence. According to my dictionary, confidence means "firm belief or trust; self-reliance; boldness; assurance." In the securities business, the key term in that definition is *self-reliance,* and it is the one trait most investors and stockbrokers lack. Investors today are increasingly averse to making their own decisions, which is why the mutual fund business has grown to record levels. Not only that, investors look to the television to provide them ideas on where to invest their hard-earned money. There are also investors who have taken control of their own investments and of their training and education in the investment process. The irony is that 75 percent or more of professional money managers never outperform the broad stock market averages, so looking for professional help has proved ill fated in many cases. Nevertheless, most investors look at the stock market as an enigma. It confounds them that the market reacts in what seems to be an illogical pattern. Increased earnings expectations should result in price appreciation of the underlying stock, right? Not necessarily. In many cases, the opposite happens. In the year 2000, we saw exactly that. Stocks with great fundamentals collapsed under their astronomical valuations. Companies like Lucent Technologies declined from 80 to the single digits. Major firms on Wall Street were in love with the stock's fundamentals at 80. Lucent's only problem was not in the company itself, but in its customers' ability to pay for the products they had purchased from Lucent. This information did not show up in the fundamental research until the stock collapsed. It did, however, show up in the Point and Figure chart. Those who were well versed in evaluating the supply demand relationship of the stock saw trouble early on. The game of golf is like the market, often counterintuitive. It took me a long time to realize that the harder I hit at the ball the less distance it would go. I found that if I hit down on the ball it made the ball go up. Like I mentioned earlier, the market, like golf, can often seem counterintuitive.

Over the past 11 years, since the first edition of this book was published, my confidence in this methodology has increased tremendously. While nothing in the method has changed, how we use it has expanded and grown. We have developed a number of new indicators, many based on the Bullish Percent and Relative Strength concepts covered in the first edition, and have found new ways to use many of the old indicators. One of the most interesting and useful products that was just coming into existence when the last edition was published was the Exchange Traded Fund. This class of investment vehicle is growing by leaps and bounds and I think it is the most important new product to hit the market in my 30 plus years in the business so we discuss this investment vehicle extensively throughout the entire book.

In the past five years, we have gone through some of the most volatile markets anyone has seen. Negotiating the markets in this volatile and changing economy points out the need for an operating system to guide investors. This book provides that operating system. The old paradigm of buying quality stocks with real products and visible earnings has gone right out the window. At least the media and most investors think so. In the late 1990s, the mantra on Wall Street was: "Forget earnings they aren't important, only revenues are important." We heard 22-year-old CEOs suggesting that the old-line companies, the backbone of the United States, "just don't get it." Well, the crash of the dot-com companies that thought they "got it" has awakened Americans to a market that both gives and takes away. The 22-year-old CEOs "didn't get it." Investors have come to realize that real wealth is made in the stock market. They have also come to realize that the market can take it away just as fast. Attention to the bottom line is now back in vogue as investors recognize that net earnings are in fact important. In the latter part of the 1990s, firms attempted to create brand names by simply throwing millions of dollars into advertising. Companies were trying to create solid brand names in one month that took companies like Procter & Gamble 40 years to create. Some companies even sell products below cost, with the expectation of making up the difference in advertisement revenues.

This all came to roost in the second quarter of 2000 when the Nasdaq stocks literally melted down in a matter of a few weeks. All of a sudden, the market that once valued The Street Dot Com (TSCM) at 71 now valued it at 3. MicroStrategy (MSTR) once traded as high as 330, fell to $14, and is now back to $108. The high-flier Priceline.com was as high as 165, declined to $5, and is now at $22. How quickly the market corrects over exuberance, as Alan Greenspan warned. The high-fliers were not the only ones that were hit in 2000; some stocks, many New York Stock Exchange names, hit their peaks in 1998 and are just beginning to show signs of life again. Quality companies like Eastman Kodak, Cisco Systems, AT&T, Worldcom, and virtually countless others have seen their stocks become burned out stars as their stock prices have been cut in half or worse. There was basically nowhere investors could hide. It was an interesting market from April 1998 to March 2000 in which the indexes did fairly well while the stocks underlying them were killers. Since 2000, the Dow Jones, only considering price change, no commissions to buy it and no dividends, is down 2.5 percent at this writing in 2006. So a buy-and-hold investor, who wanted the safety of the largest capitalization stocks available today, would have basically been spinning his wheels for the past five and a half years. If, however, an investor had a way to know that the play was in small capitalization (small cap) stocks, not large capitalization (large cap) stocks, and bought the Standard & Poors Small Capitalization Universe stocks, he or she is up 90 percent at this writing in 2006.

You know what concept never wavered once during this treacherous period? It was the irrefutable law of supply and demand. In almost all the cases cited, the charts foretold trouble down the road and they also foretold demand taking control in instances like the small cap stocks. In later chapters, I point out how these supply-and-demand indicators "saw" the 2000/2002 crash coming and told us the risk was high. We were then able to get our clients out of harm's way. We have once again gone through a market condition never seen before. The Internet has injected change into the whole game on Wall Street. Barriers to entry in almost any business are nonexistent and the freedom of the Internet brings tremendous competition. The playing field is being leveled every day. The one constant that has not changed in over 100 years is supply and demand and the Point and Figure method of analyzing markets. It's interesting that the Internet stocks that became so inflated and eventually collapsed are the very stocks that have the most potential in the weeks and months ahead. The Internet is here to stay and, in my opinion, is only in the first foot of a 26-mile marathon. Knowing "when to hold 'em and when to fold 'em," is the key to success.

What Do Investors Have in Common with an 18-Year-Old Bungee Jumper?

The answer is no fear. During the 1990s, investors came to believe that buying the dips is the key to success: Stocks always come back, don't panic; just buy more. Some people leveraged their homes to put money in the stock market. This kind of situation never ends well, and in the year 2000 it didn't. The crash in Nasdaq stocks caught just about everyone off guard, and massive losses were generated buying the dips, averaging good money after bad. I don't believe investors have broken this habit yet, because not a week goes by that I don't talk to someone who still owns a Cisco Systems or SunMicrosystems or Microsoft in their account. Many investors have recently turned to the real estate markets but now that the housing markets are losing strength, investors are wondering if there is a safe haven anywhere on the investing landscape. The only safe harbor an investor has is his own education and training in the investment process.

The "buy every dip" mentality is what I call false courage. False courage is confidence you may feel when under the influence of alcohol or drugs. It dulls the senses and gives you the confidence to do things you otherwise would not consider. A friend of mine, the late Cornelius Patrick Shea, used to say, "My pappy use to tell me the 'sauce' makes ya say things ya don't mean and believe things that ain't true." The "sauce" for investors consisted of the seemingly never-ending rise in high-flying tech stocks and of late in real estate. It was so intoxicating that investors were "saying things they didn't mean (buy 1,000 more) and believing things that weren't true (revenues are increasing with no end in sight)." During the latter part of the 1990s and first quarter of 2000, investors were enamored with the seemingly never-ending ascent of the stock market and in particular the Nasdaq. The media aided this belief with the ceaseless chant of zero inflation and endless increases in worker productivity due to technological advances. Because of their intoxication, investors kept taking more risks through leverage in high volatility stocks beyond any rational measure. I even had a broker call me with a story of how her aunt was not allowed to use margin at her firm because of her advanced age (she was 80). Do you know what she did? She took a second mortgage out on her house, put the money in her stock account, and continued trading. In essence, she skirted the brokerage firm's margin requirement and margined the account anyway with the money the bank loaned her when she margined her house. I wonder how she fared after the crash of March 2000, May 2000, and November 2000. She may have lost her house.

The decline in stocks from 2000 to 2002 certainly woke many an investor up to the fact that markets go both ways—up and down. But I also fear that markets of 2003 through 2006 have lulled investors back to sleep. From July 1998 to present, someone who bought and held the S&P 500 is finding him- or herself with an annualized rate of return of about 1 percent per year. You might first think, that's not too bad, at least I didn't lose any money. But the fact of the matter is for a great many people that means you have lost, although maybe not in actual dollars, almost a decade of investing. When you consider that so many investors were made to believe that they would get 11 percent a year rate of return on equities, dropping that just 1 percent a year can really put a dent in your retirement planning. Not only are you not making any headway, but you've now lost eight years. Many investors have forgotten that having a logical, organized, well-founded method of investing in the markets is the only way to success. Haphazard, overleveraged, method-less investing will always lead to disaster, just as it did in 2000. The Nasdaq not only corrected, it headed south like a migrating bird. Its decline was so swift that, in a matter of weeks, it had lost 37 percent from its high, and that even masked what happened to so many stocks. Many individual stocks lost 80 percent or more of their value. Investors with a whole portfolio of high-tech/high-wreck Internet and technology stocks may not see the light of day in their accounts for many years to come, and it's now 2006. The average gain in the stock market over the past 80 years is around the 10 percent level. If an investor loses 50 percent of his portfolio value, that portfolio will have to rise 100 percent to get back up to even. How long will that take at an average 10 percent per year? About seven years. We are now five and a half years after the bottom and the Dow Jones has not made any headway. If an investor bought at the top in 1973 and rode the market down, it took seven and a half years to get even. Can you wait seven and a half years to get your money back if you ride a bear market down as the media and mutual funds suggest you should do? If your answer is no, then you are ultimately interested in risk management, which is what this book is all about.

I was in a store the other day purchasing a new laptop computer. I got into a conversation about investing in the market with the head of the computer department. He was having a hard time understanding what I did. I told him that successful investing requires an operating system like the one in every computer. The computer's operating system allows it to effectively read and run all the software products. Operating systems like Windows 2000 simply provide a set of instructions that tells the computer how to run. Without an operating system, software cannot run on the computer. Investing is the same. Investors must have an operating system firmly in mind to work from *before* they can become successful at the investment process.

This operating system is the core belief in some method of analysis an investor both understands thoroughly and embraces wholeheartedly. It's like getting religion on Wall Street. At some point, all successful investors have to find some church on Wall Street that they can attend every week. This is why we entitled the motivational book we wrote; *Finding Religion Among the Rapids.* Many investors subscribe strictly to the fundamental approach of investing. This method only delves into the internal qualities of the underlying company. It does not take into consideration timing entry and exit points in that stock and, above all, supply and demand imbalances. Supply and demand imbalances are nothing more than investor sentiment. Other methods of analysis might involve astrology, Fibonacci retracement numbers, Gann angles, waves, cycles, candlestick charts, bar charts, or any other method you are willing to embrace. At DWA, we only subscribe to one irrefutable method—the law of supply and demand. If you want to go back to the basics, with a methodology that has stood the test of time, in bull and bear markets, and one that is easy enough to learn whether you are age 8 or 80, then you are reading the right book. This operating system will carry you through your investment endeavors, from stocks and mutual funds to commodities.

Why Does This Method Make Sense and Where Did It Originate?

We humans have certain limitations when coping with rapid decision making. Most investors find it difficult to think through the complex decisions they need to make when it comes to investing. The problem is not that we have too much information. The problem is managing and processing this information. It is like a fire hose of information that hits us in the face every day. The question is how to control that massive information flow and break it down into understandable bits that we can use to make effective decisions. In essence, we have decision overload.

To help you organize this information, we have some powerful tools (see our web site: www.dorseywright.com). The simplest example of how information is organized is telephone numbers. We have an ability to remember three or four numbers in succession easily but seven is difficult. This is why our phone numbers are divided up in threes and fours. The pound sign and the star sign on the phone were there for years with no apparent function. Now we routinely use them. They had no function when they first appeared on phones, but the phone companies knew that eventually there would be a use for them in managing information. Similarly, Charles Dow found a way to organize data back in the 1800s. He was the first person to record stock price movement and created a method of analysis called Figuring that eventually led to the Point and Figure method described in this book. The Point and Figure method of recording stock prices is simply another way of organizing data.

At the turn of the twentieth century, some astute investors noticed that many of Dow's chart patterns had a tendency to repeat themselves. Back then, there was no Securities and Exchange Commission; there were few rules and regulations. Stock pools dominated the action and outsiders were very late to the party. It was basically a closed shop of insiders. The Point and Figure method of charting was developed as a logical, organized way of recording the imbalance between supply and demand. These charts provide the investor with a road map that clearly depicts that battle between supply and demand. It allowed the outsider to become an insider.

Everyone is familiar with using maps to plan road trips. When we drive from Virginia to New York, we start the trip on I-95 North. If we don't pay attention to our navigating and inadvertently get on I-95 South, we are likely to end up in Key West, Florida. To prepare for a journey with your family to New York from Virginia, you need to familiarize yourself with the map, check the air in your car's tires, begin with a full tank of gas, and make sure the children have some books and toys. In other words, plan your trip. Most investors never plan their investment trip. The Point and Figure method of analyzing supply and demand can provide that plan. Nothing guarantees success, but the probability of success is much higher when all the possible odds are stacked in the investors' favor. Somewhere along the road, you may be forced to take a detour, but that's okay as long as you stick to your original plan. This book outlines the best plan for financial success when you are investing in securities.

When all is said and done, if there are more buyers in a particular security than there are sellers willing to sell, the price will rise. On the other hand, if there are more sellers in a particular security than there are buyers willing to buy, the price will decline. If buying and selling are equal, the price will remain the same. This is the irrefutable law of supply and demand. The same reasons that cause price fluctuations in produce such as potatoes, corn, and asparagus cause price fluctuations in securities.

Two methods of analysis are used in security evaluation. One method is *fundamental analysis.* This is the method of analysis familiar to most investors. It deals with the quality of the company's earnings, product acceptance, and management. Fundamental analysis answers the question: What security should I buy? *Technical analysis* is the other basic method. It answers the question: When should I buy that security? Timing the commitment is the crucial step. Fundamental information on companies can be obtained from numerous sources. There are many free Internet sites that deal strictly with fundamental analysis. The technical side of the equation is much more difficult to find because few securities professionals are doing quality technical analysis that the average investor can understand. This book is designed to teach you how to formulate your own operating system using the Point and Figure method, coupled with solid fundamental analysis.

Why You Should Use Point and Figure Charts

Although the investment industry is overloaded with different methodologies to evaluate security price movement, the Point and Figure method is the only one I have found to be straightforward and easy to understand.

The charts are made up of X's and O's. Recording the movement of a security using this method is very much like recording a tennis match. A tennis match can last 12 sets. Each player can win a certain number of sets, but the final count determines which player wins the match. In the Point and Figure method, we are only interested in the culmination of the match, not the winner of the underlying sets. The patterns this method produces are simple and easy to recognize—so simple that I have taught this method to grade schoolers in Virginia. I have always maintained that simple is best.

The concept underlying any method of analysis you choose must be valid. Supply and demand is as valid and basic as it gets. I am not criticizing the validity of other methods; it's just that most people can easily understand supply and demand because it is a part of everyday life. Why not make it a part of your everyday investing?

The greatest market indicator yet invented was developed by A. W. Cohen in 1955 called the New York Stock Exchange Bullish Percent Index. We have used it for many years with great success. In that time, we have refined it as the markets have changed, but the basic philosophy is still intact. I have devoted a whole chapter of this book to a discussion of this indicator. A part of our sector analysis, which is explained in another chapter, is a derivative of the Bullish Percent concept and we have other sector rotation models based on relative strength, just another way of measuring supply and demand. Once you learn these basic principles, your investing confidence will increase tremendously. You will soon find yourself acting rather than reacting to different market conditions. This method changed my life, and it can do the same for anyone who takes the time to read this book and then implement the investing principles contained therein.

In the Beginning

It took me years of operating in a fog in the brokerage business before I came across the Point and Figure method. I started my career at a large brokerage firm in Richmond, Virginia, in late 1974. When training new brokers, the firm focused primarily on sales. As trainees, we were drilled in the philosophy that the firm would provide the ideas and our responsibility was to sell them. We were in essence intermediaries doing the exact same work a computer does today. The first four months at the firm we devoted to study. Every potential broker must pass the Series 7 examination to become registered with the New York Stock Exchange. The course was extensive—covering everything from exchange rules and regulations to complicated option strategies. Once we had passed the exam and completed five weeks of sales training, we were ready to be unleashed on the public. I think back 32 years now and realize how unprepared I was to handle investors' hard-earned money. In fact, I came to work totally unprepared to do anything but pass on my firm's research.

As in any other profession, experience counts a lot, and we were severely lacking in that area. The market had just gone through what seemed to be a depression, losing about 70 percent of its value. Prospecting for new accounts was a difficult task at best, but those of us who survived spent the next four years building a book of business and learning by trial and error. Each morning, we had mounds of new recommendations from New York to sift through, all fundamental. We were not allowed to recommend any stocks our firm did not have a favorable opinion on; the rule was: No thinking on our own—it could cause a lawsuit. Our job was to sell the research, not question it.

Over the years, we had some tremendous successes and some spectacular failures, definitely not a confidence builder. In my spare time, I kept searching for some infallible newsletter writer. This search, however, only proved that the newsletter writers were better at selling newsletters than at picking stocks. The ship was basically rudderless, but somehow we forged ahead. Now, almost 32 years later, the landscape has changed significantly. The brokerage business now is done by computer. The broker asks some questions and gains a feeling for the investors' risk tolerances. They then key this into a computer and the computer spits out a Strategic Asset Allocation Pie. The computer makes recommendations on what funds to have in the pie and the pie is then rebalanced (good things sold and bad things bought) twice a year. That is primarily what the basic broker does today. During my tenure at that firm, I specialized in option strategies. Options were relatively new, having been first listed for trading in April 1973 on the Chicago Board Options Exchange. I spent much of my time studying this investment tool, and in 1978 I was offered the opportunity to develop and manage an options strategy department at a large regional brokerage firm based in the same town. It was an irresistible challenge, so I embarked on this new adventure.

Overnight, my clientele changed from individual investors to professional stockbrokers. I was now responsible for developing a department that would provide options strategy ideas to a salesforce of 500 brokers. At this moment, I had to be totally honest with myself. Just how much did I really know about the stock market? I knew that my success at selecting the right stocks to support our options strategies would ultimately determine the success or failure of my department. The answer to that question was startling.

After four years of working as a stockbroker, I had very little knowledge about selecting stocks on my own, much less evaluating sectors and the market itself. I was used to doing what the firm directed. The one thing I did know was that relying on any firm's research was likely to be hit or miss. I would have to be self-contained with respect to the research that came out of my department. Developing a successful options strategy department meant I would have to find someone who was adept at stock selection.

During my search for a "stock picker," one name continued to crop up: Steve Kane, a broker in our Charlotte branch. I contacted Steve and explained my new adventure to him and offered him a position in my department. He decided to join me. My grand plan was that Steve would provide the stock, sector, and market direction; and I would provide the option strategies to dovetail his work.

As any craftsman would, Steve brought along his tools, which consisted of a chart book full of X's and O's on hundreds of stocks and a Point and Figure technical analysis book written by A. W. Cohen (this book is no longer in print). The basic principles of the Point and Figure method were developed by Charles Dow, the first editor of the *Wall Street Journal.* Later, a book was first published on the subject in 1947, the year I was born, and the book was called, *Stock Market Timing.* Each week, Steve would fastidiously update these charts of X's and O's and use these charts to make his stock selections. Over the first year, Steve did very well. Stocks he selected to rise generally did. Stocks he felt would decline generally did. His calls on the market and sectors were also very good. The team was working well, and best of all, we were self-contained. We were a technical analysis and options strategy department rolled into one. We weren't always right, but we were more right than wrong and, most important, we had a plan of attack.

Just as things were looking good, a specialist firm on the New York Stock Exchange offered Steve a job with the opportunity to trade their excess capital. It was an offer Steve could not refuse, and I supported his decision to go. I found myself back in the same predicament that I had been in a year earlier. Rather than try to find someone else who understood the Point and Figure method of technical analysis that I had become accustomed to, I decided it was time to learn it myself.

Steve explained the basics to me and recommended I read his closely guarded copy of A. W. Cohen's book. That weekend I started reading it, and after reading the first three pages, my life changed. All the years of operating in a fog, searching for answers, and believing it was all too complicated to learn, came to an end. What I found in the first three pages made all the sense in the world to me. I knew in that moment what I would do for the rest of my life. This was the missing link that all brokers needed to effectively service their clients. I knew my job from that day forward was to teach this method to my brothers and sisters in this business. We now operate the only Stockbroker Institute in the United States, and it is the culmination of my dream that night. We have trained hundreds of stockbrokers in this method and watched their confidence and client profits climb. We have also held our first Individual Investor Institute in concert with Virginia Commonwealth University, and the auditorium was packed. Something right is going on here.

On Taking Risks in Life*

There are many similarities between the principles in sports and the psychology of the stock market. I am a world record holder in powerlifting, and in my endeavors to improve my lifts, I learned a lot from Judd Biasiotto's articles in *Powerlifting* magazine. I have gotten to know Judd personally, and we see so many similarities between our two businesses that we have written articles together. In fact, we published two books together in concert with my analysts at DWA. The books are entitled *Keep Peddling Zen Farmer* and *Finding Religion Among the Rapids.* These books explain how some of the psychological aspects of sports competition can be applied to investing. I think this story Judd tells about

* This section was written with the assistance of Judd Biasiotto, PhD.

taking risks really hits at the heart of investing—it is just an exercise is continual risk management.

When Judd was working with the Kansas City Royals baseball team, his roommate, Branch B. Rickey III, "met a guy who was willing to let us buy into a condominium project being constructed in Florida. The deal was that we could purchase up to 10 condominiums at a price of $10,000 each. At the time, $10,000 was a pretty good chunk of money, but the deal was extraordinary. If everything went as planned, there was a good chance we could double or triple our money in no time. Still, there was a risk—there always is a risk. Because it was beachfront property, the taxes were very high. Unlike Branch, I did not have the money to invest long term. I would have to borrow the money at a fairly high interest rate and then hope that I could turn the property over in a short period. Otherwise, I would lose a lot of money. In the end, I decided not to do the deal. Of course, you know the end of the story already. The property is now worth anywhere from $500,000 to $1 million.

"Yes, I could have been living in the Bahamas relaxing on the beach, but I failed to take the risk. There is one thing I'm certain of—if you don't have the guts to put yourself on the line now and then, your chances of success are limited. To reach the top, athletes—or anyone else for that matter—have to know how to live on the edge. They have to enjoy the elements of risk and a little danger. I'm not talking about taking needless, senseless, incalculable risks, like running with the bulls in Pamplona or attempting a 500-pound dead-lift when your personal best is 300; such actions prove nothing except that you have the brain of an infant. What I'm talking about is intelligent, calculated risk-taking in which the risk in question has a legitimate cost-reward relationship."

Judd's comments really speak to the business of investing. You have to be a risk taker to even survive in this business, much less flourish. Every time you buy a stock, you are risking your hard-earned money. If you are a broker, you are risking your clients' hard-earned money. If you can't operate in a high-risk environment, then the business of investing is not for you. I have met many investors and brokers who just couldn't make a buy decision for fear of losing their or their clients' money. It's good to have a healthy dose of trepidation in this business of investing money. That way you don't make stupid mistakes, but freezing only causes you to miss great opportunities. There is a big difference between having a healthy respect for risk and allowing risk to paralyze your thought processes. Many investors and brokers simply can't deal with market volatility. A fine line exists between managing risk and being controlled by risk. The stock market is not a place for the faint of heart. To reach the pinnacle in the personal or professional investment field, you have to learn to live on the edge, to enjoy the element of risk and danger—at least to a reasonable degree.

Look back through time and you'll find that people who had the courage to take a chance, who faced their fears head on, were those who shaped history. The people who played it safe, who were afraid to take a risk, well, have you ever heard of them? I love what Theodore Roosevelt said about this very issue:

> It is not the critic who counts, not the man who points out how the strong man stumbles or where the doer of deeds could have done them better. The credit belongs to the man who is actually in the arena, whose face is marred by dust and sweat and blood, who strives valiantly, who errs and comes up short again and again because there is no effort without error and shortcomings, who knows the great devotion, who spends himself in a worthy cause, who at the best knows in the end the high achievement of triumph and who at worst, if he fails while daring greatly, knows his place shall never be with those timid and cold souls who know neither victory nor defeat.

Roosevelt's words remind me of this business of investing, and how many critics are out there ready to pounce on your every misstep although they never step into the ring; they never actually put their reputation or their money on the line. In the case of a professional, these critics never lose one minute of sleep because they are worried about other peoples' well-being.

Do you see yourself in the preceding quote? Those of you who are reading this book are the people in the ring. You are here to learn this method to better help you fight the battle. You realize that nothing is perfect and at times you will err and err again; but quit, you will never do. As time goes on, you will begin to intuitively understand things in the market that used to baffle you.

Eventually, you will reach craftsman status. The critics will continue criticizing because that is what they do best. Just turn the television on to any financial station and you will come away with gibberish. I often call these TV stations, Public Enemy #1. Once you nail down these principles of analysis, you will have no need for business periodicals or financial TV.

I remember vividly my broker years. My face was marred and bloodied many times but I was in the ring trying, striving for excellence. I just didn't have a plan back then. What a difference this information and way of thinking would have made if they had been available to me when I was a broker. Mix this with my enthusiasm and dedication to excellence and the combination is unbeatable. Many of you have already done this, and it makes me feel so good to see so many of you actually making a major difference out there in your own and others financial well-being.

Theodore Roosevelt was right, the credit goes to you the investor or broker who is actually in the arena, who at times comes up short again and again but in the end experiences triumph. This is why I wholeheartedly recommend you learn these methods and manage your money yourself. Win or lose, be the one in the ring where the action is. Make the decisions; take the calculated risk; live. Don't find yourself at the mercy of others or at the end of your career having ridden the bus and looked out the window, watching others reach greatness. It's all here for the taking. You just have to want it. Sports are full of great physical specimens, but there is a real shortage of athletes who are willing to play their game with reckless abandon, and athletes who are willing to put themselves and their careers on the line. Those who do are usually the ones at the top.

The truth in that last line inspires me. If you're not willing to risk, you have no growth, no change, and no freedom. And when that happens, you are no longer involved in living; for all practical purposes, you have no life. You're dead, but you just don't know it. So risk, for goodness sake. Be a part of life. You have the power to be or do anything you want. You can produce miracles if you have a mind to. You have the magic; you just have to tap into it. Get in touch with it, make things happen, live—journey to the stars, push on to new galaxies. If you don't, you will never know your greatness!