BLOOD AND GUTS
MEET BITS AND BYTES

Chapter 1

Bulls, Bears, and Everything In Between

The Internet is home to expert investors of all kinds—die-hard buy-and-hold Buffetologists, hyperactive day traders, slightly calmer momentum players, number-crunching technical analysts, passionate stock fundamentalists, cynical short-sale artists, discerning options traders, scholarly academics, and broad-minded economists. There are bulls, bears, and everything in between.

We have not discriminated against any types of financial-markets participants in this book. In the following pages you will read interviews with investors who approach the market with widely differing strategies. On the surface, some of the various moneymaking methods discussed in this book may appear to be in conflict with each other. As you progress through the book and come to understand fully the tenets of the individuals whom we profile, however, the lines between investing styles will begin to blur. Technical analysis will become a necessary complement to fundamental research. Options will become tools for understanding the price movements of equities. Short selling will become as valid a strategy as going long. The day-trading mindset will become powerful as an approach to uncovering long-term investments. Investing will turn from black and white into a complex portrait that blends wide-ranging strokes of various investing strategies.

There are many valid methods of making sizable sums of money in the world’s financial markets. There are fabulously wealthy day traders, and there are absurdly rich long-term investors. But the best of the best are financial chameleons, combining all methods into a dynamic wealth-generating strategy. As one of the investors in this book explains, “There are no rules when it comes to investing because the rules change all the time.”
The implication of this statement is simply that you must be prepared for the unexpected. Individual investors have been led to believe that buy-and-hold investing is the safest and surest bet. But what would have happened to buy-and-hold investors who decided to stash money away in “innovative” and “ground-breaking” technology companies back in 1999 or 2000? Only time will tell for certain, but our best guess is that these investors would have been crushed in the market downturn. Even if some of those stocks do rebound from their burst-bubble levels, can most investors afford to wait out an extended bear market? Indeed, blindly buying and holding is a luxury that only the superrich can afford.

This is not to say that we are advocates of neurotic short-term trading. The point is that there is no simple answer. Day traders should not dismiss long-term investors as ostriches with their heads in the sand. Long-term investors shouldn’t label day traders as commission-crazy volatility inducers. There is a valuable lesson to learn within every methodology, and this book will introduce you to investors who beat the market with a wide array of tactics.

Consider technical analysis, one of the many strategies discussed in *Bulls, Bears, and Brains*. This book is by no means a study in technical indicators or historical data analysis. In fact, some of those profiled herein pooh-pooh technicians as practitioners of market voodoo. Despite that, words such as *resistance* and *trend lines* are bound to come up in conversation with certain successful investors. There is no reason to ignore technical analysis as well as its entire arsenal of quantitative and graphical tools simply to claim a devout allegiance to fundamentals. Even if technical analysis is utter mumbo jumbo, the fact that it provides investors with unambiguous alerts, signals, and targets means that those who follow even a small portion of technical tactics will be more disciplined in their transaction approach. For example, technical analysis might provide an investor with a specific sell price, freeing him from endless second-guessing and constant worries about when to pull the trigger. Understanding the past price movements of securities can help put future price movements in perspective, and this perspective gives the technical investor the ability to execute decisions with more precision and confidence. Indeed, professionals on Wall Street are almost unanimously proficient in some form of technical analysis. No one in this book claims that technical analysis can predict the future. It is merely one approach that may help fill in many of the gray areas in the risky game of investing.

Being a “fundamental technician” might be one key to profitability in an increasingly volatile market, but profitable “oxymoronic” in-
vestment ideals and ideas don't stop there. For example, in your quest to reach the pinnacle of investment understanding, you should consider the possibilities of being a “long short seller” or a “buy-and-hold day trader.” Why would any investors resign themselves to profiting merely from the upside of the market? Even if you have been investing for only a few years, you have undoubtedly seen how quickly the market can turn from “sky’s the limit” to “batten down the hatches.” In a market that is going down the tubes, it is much easier to profit from short selling than it is to find promising buying opportunities. By the same token, as investors take financial matters into their own hands, trading styles are converging rapidly. Most so-called day traders have considerable medium-term, if not long-term, positions to augment their daily trading activity, and traditional buy-and-hold advocates are now recognizing additional profits—not to mention sheer pleasure and education—by setting aside a portion of their assets for short-term opportunities. Little by little, these apparent contradictions are beginning to roll off the tongue as logical complements. Indeed, over the next few years investors will be forced to acquire a broader financial skill set in order to survive.

Remember, the key to winning the investing game is not to be right about your own thinking. The key is to be right when it comes to knowing what other investors are thinking. It doesn’t matter how you personally interpret a piece of data; it only matters how correctly you predict how other market participants will interpret the information. Bulls, Bears, and Brains will help you beat the mind games of the market.

Most books profess to teach you a specific method of investing, with defined rules, theories, and practices. By the time those books appear on store shelves, the methods described within are outdated, and there isn’t anyone around to tip you off to the new rules of the game. You don’t want to rely on a one-trick pony. Bulls, Bears, and Brains is a book about people who can join your investing team, and the strength of their involvement is that they (and you, too) can adapt their investment strategies as the rules of the game change.

We like to think of this book as an investing bible for the early twenty-first century. Not only do the investors profiled in this book utilize cutting-edge technologies to take Wall Street to the next level, but they also represent the mélange of participants that have come to control the modern-day financial markets. If you read this book from front to back, you will have a respectable understanding of dozens of investment strategies, and you can select those that you will take on as your own. You certainly won’t know everything, and that’s precisely the point.

With this book as your tour guide on an interactive investment jour-
ney, you will get to know 20 impressive individuals who will divulge the secrets of their success. Then, with this invaluable Rolodex in hand, you must snuggle up to your computer and connect with these individuals on a regular basis. You must get inside their heads and merge their strategies with your own. You must leverage their talents to enhance your own level of performance. That is the whole idea behind teamwork, and it is the crux of this book.

**Information Commoditization**

In December 1999 a Minnesota man paid $210,000 at auction for Warren Buffett’s 20-year-old wallet. True, it was a wallet with a fairly storied past, having traveled on the backside of a billionaire, but that was not the bidder’s motivation for doling out all that cash. Inside the wallet was a golden egg: a stock pick from none other than the Oracle of Omaha himself. Each of 30 additional individuals donated $1,000 to charity at the behest of the auction winner in order to learn the two-letter ticker symbol of the stock pick, which happened to be real estate investment trust (REIT) First Industrial Realty. On top of all that, after the *Wall Street Journal* published the stock pick in a printed article, the Morgan Stanley REIT Index registered its largest gain in over a year.

Ah, the power of information! For $210,000 one individual was able to recruit Warren Buffett temporarily to his investing team. But why pay so much moola for a single stock pick? Can’t people come up with their own ideas? The troubling answer is that a good stock is darn hard to find. The only way to rake in above-average profits is to harness information that is not already priced into the dollar value of a stock. But obtaining an information edge is harder than ever in this wired world where every bar is tuned in to CNBC and every other web site is a financial news portal. Yes, blame your troubles on the Internet. Information travels so quickly and in such massive quantities across the Internet ether that everyone seems to know everything all the time. It’s not information anymore; it’s entertainment.

Although the Internet has in this sense leveled the playing field for investors, it can also give them an information edge. Don’t regard the Internet as merely a tool for distributing existing data more rapidly. Instead, capitalize on the Internet’s ability to create new ideas and information. That’s what everybody is pining for, right? A new idea. An undiscovered gem. A diamond in the rough. A fresh financial opportunity.

For the majority, the Internet is not about new ideas. The Internet
and computers in general are very good at providing detailed data relating to past events and existing information. If General Electric is a stock in your portfolio and you want to perform some due diligence, you can gather reams of information about the company via the Internet. That’s all well and good, but it’s certainly not diamond-in-the-rough material. The subtle difference is that you must know what you are looking for when you type “GE” into the ticker search.

So where do investors unearth the next big thing? Traditionally, investors might stumble across an interesting investment concept in a financial newspaper or magazine. But the obvious problem is that everyone else is finding his or her ideas in the same place, which renders the information useless. The truly valuable information and ideas can be plucked from the minds of the collective online investment community, where, shining through amidst pages of hype and hyperlinks, the top financial minds come out to play. This book is all about bucking the trend of information commoditization; it’s a guide to the Internet’s investor-to-investor communication playground where you can join the fun and make investments to secure your financial future.

Don’t jump to the conclusion that information suddenly turns from garbage to gold once it’s converted into bits and bytes. More than 14 million messages have been posted on the leading investment message board, Silicon Investor, and five million on competitor Raging Bull; there are thousands of financial web sites; and there is constant discussion in hundreds of online chat rooms. We’d be generous if we said that any less than 99 percent of all that content—that mass (and mess) of information—were garbage. Hype. Scams. Spams. Useless posts. Wasted time.

Despite the gargantuan amount of blather, there is a precious micropercentage of information that is arguably more useful than any other investment resource you can obtain, online or offline. This book leads you to the virtual doorstep of the most valuable information available on the Internet. Not only that, this book provides you with the background and theories that allow you to interpret the information in the right context. Take Bill Ginsberg, for example. Consider yourself lucky to have ever heard that name at all, because most people know Ginsberg only as “Shortboy.” Ginsberg runs Shortboy.com, a bare-bones investment-advice web site with a stick-figure mascot and an enviable track record of beating the market consistently from the short side. As the market blazed ahead in the late 1990s, Ginsberg trounced the averages by betting in the opposite direction. “Like Mike Tyson said—he’s the baddest man on the planet,” boast Ginsberg in our interview. “I feel that I’m the best short seller on the planet.” Ginsberg may very well be one of the best short sellers on Wall Street; luckily for all of us, he’s willing to prove it in
an open forum on the Internet by providing terse, daily commentary on the market and by suggesting regular short-sale candidates.

If you stumbled across a guy named Shortboy pitching investment ideas on a rainbow-colored web site, chances are you would click your browser’s “Back” button without thinking twice. We could not blame you for such a visceral response. But once you read our interview with Bill Ginsberg, we bet you will be itching to log on the Internet to get to know this colorful character. Our profile of Ginsberg and his Shortboy.com web site will provide you with an understanding of how Ginsberg attacks the market and racks up stellar gains year after year. You will hear about his transformation from math whiz to business school dropout to Wall Street floor trader to millionaire short seller. You will begin to see how tapping into the network of networked investors can expose a wealth of investment opportunities.

That’s the experience we hope you will have over and over again as you read the interviews in this book. Plenty of investment books contain interviews with market gurus, fund managers, and famed traders. But all of these books suffer from the Michael Jordan syndrome. You’re not going to “be like Mike” from reading an interview with the slam-dunk celebrity. Interviews with investment pros are entertaining, but the value proposition doesn’t extend much further than a few hours of enjoyable reading. Not that we’re discounting the significance of entertainment. On the contrary, we structured this book as a set of candid interviews precisely because we felt it would be the most appropriate and enjoyable way to introduce the world to our Bulls, Bears, and Brains. But where other investment books end, this book only begins. An introduction to a whole new slate of investing allies, Bulls, Bears, and Brains will become a trusted and well-worn addition to your office desk or computer table.

That Was Then, but When Is Now?

Although we believe that the content in this book is timeless, it never hurts to put things into perspective. The bulk of the interviews contained in this book were conducted from January 2001 through May 2001. Consider the charts from January 2000 to May 2001, of the Standard & Poor’s (S&P) 500 index (Figure 1.1) and the Nasdaq composite (Figure 1.2).

One chart is unpleasant, and the other is downright nasty. The first half of 2001 was not a fun time for equity investors—especially if you were keeping up with the news. Tales of dot-com deaths were all the rage,
and the financial media spewed bad news around the clock. Pundits were mixed about whether the economy was teetering on the edge of recession or whether it was poised to rebound upwards. Tech was the bogeyman, and “IPO” was a dirty word. There is no question that stocks took a sobering nosedive in 2000, and the market continued its downtrend throughout 2001. But you’ll notice something peculiar about the tone of the investors profiled in this book. Not one of them is particularly pessimistic or sour. They are all upbeat, attentive, excited, and—most important—consistently making plenty of money.

This is even more surprising when you consider that many of these individuals rose to prominence during the go-go days of the late 1990s. But these investors are not one-night stands. Even as stocks were skyrocketing in 1998 and 1999, these investors were attacking the market with a disciplined approached that in most cases had been honed from years of prior practice. Yes, the golden months of the Nasdaq bubble were an anomalous time when investors seemed to be printing nearly free money on a daily basis. It won’t be that easy for a long, long time to come. But that’s okay. When others are finding it hard to eke out a dime, it means that there are more substantial profits to be reaped by the few who can master the less palpable markets.
At the conclusion of each interview in this book, we inquired about the investor’s motivations for sharing his or her insights with the rest of the world. The answer is more obvious in some cases than in others. A number of individuals profiled in this book charge a fee for access to their services and commentary, and you get what you pay for. The for-fee services that we profile in these pages are unquestionably of the highest quality, and they are well worth the expense. In addition, plenty of free information is always available, and temporary free trials are typically offered for any portions of the site that require payment. But the majority of the investors interviewed dole out investment advice free of charge. Most of these folks simply love to teach, to talk, and to think. Some of them really relish the attention; these investors use the Internet as a sounding board, sharing ideas with the world and receiving volumes of feedback in return for their outspoken opinions. It’s a symbiotic system that is made possible by the Internet.

What none of these investors profit from is hype, scams, or fraud.

Figure 1.2  Nasdaq composite, January 2000–May 2001
Not one is out there sharing information in hopes that desperate speculators will blindly follow his or her word and bid up the prices of particular securities. Several who deal directly with making stock picks don't even maintain active personal portfolios—they don't want there to be any chance for real or apparent conflicts of interest. A considerable portion of this book's value lies in helping you to identify trustworthy mentors. Plenty of investment sites that claim to offer profitable advice are operated with questionable integrity. Slews of sites publish stock picks in return for cash payments or even stock options from the same companies that they recommend. If you venture off on your own to find untapped online information, make sure you read the fine print carefully.

This book solves many of the problems associated with investor-to-investor communication and online financial communities. As you read each interview, you'll understand the motivations behind each individual's Internet endeavors. If you're willing to feed a few financial egos, you may even get a tasty and profitable free lunch on Wall Street.

**Beating Wall Street, Literally**

Many of the investors profiled in this book have substantial peeves with conventional financial markets and like to beat up on Wall Street frequently and feverishly. Their concerns stem from an industry profit structure in which investment-banking fees bring home the bacon and so-called “research” acts merely as a loss leader for major financial institutions. Banks don't make money issuing “strong buy” and “accumulate” recommendations; they rake in the dough by financing deals and trading securities. The research exists merely to please the companies that they finance and to urge their clients to trade.

If research is not a profit center for these institutions, you can expect that the motivations for its production may not be in tune with your reasons for listening. When was the last time a major brokerage house issued a “Sell” recommendation? The ratio of “Sell” recommendations to “Buy” recommendations is miniscule. Investment banks’ coffers are drained when the markets turn sour and financing deals dry up, so you can bet that they'll attempt to buoy the market for as long as possible by squeezing every last drop of naive bullishness from any investor who will lend an ear. The bottom line is that your interests and banks’ interests are not aligned.

The individuals profiled in this book prosper only when you pros-
per; they provide impartial analysis. That’s a profoundly important difference between these folks and the talking heads you see on television every day. We don’t hate Wall Street; most of our business-school pals are prepping themselves for prosperous careers in investment banking, and they’re certainly not evil people. But financial institutions don’t make money from issuing good advice and picking good stocks—it’s a simple fact with dramatic ramifications.

**Peter Still Hasn’t Been Lynched**

Nearly everyone is familiar with ex-Fidelity fund manager Peter Lynch and his “buy what you know” approach to investing. The basic gist of Lynch’s proposition is that individuals hardly realize the abundant valuable investment information that is all around them in their everyday lives. Doctors should have a leg up on understanding the medical, health care, and biotech fields. Engineers should be able to identify the most promising technology companies. Shopping addicts should be able to pick out the most popular stores and lucrative retail investments.

In many ways, Lynch is the granddaddy of the individual investor revolution. His philosophies still ring true today, and many of the investors profiled in this book promote his tenets. We’re fond of the “buy what you know” strategy, but we believe that the corollary—“buy who you know”—can make the approach even more effective. “Buy what you know” is about capitalizing on personal expertise, insights, and information. The Internet and this book make it possible to connect with experts who can show you how to buy what they know. By participating in online forums and communities, you’ll experience an expansion in your intellectual sphere of competency. You’ll share your insight with other investors so that they can learn to buy what you know, and they’ll share information interpreted through a different expert lens so that you can enhance your ability to buy what they know.

Interestingly, traditional Wall Street doesn’t play the “buy what you know” game. Money managers are typically not recruited from industry; rising through the ranks from junior analyst to fund manager, they are trained and polished from inside Wall Street itself. They are “very good observers,” as one of our experts puts it, but they typically do not have actual domain experience. The investors profiled in this book have a wide range of backgrounds, some financial, some far from it. We will not claim that there are any superior routes to investment success, but
make certain not to write people off simply because they don't have Harvard MBAs.

"It seemed to me that most of what I learned at Wharton, which was supposed to help you succeed in the investment business, could only help you fail," wrote Wharton alumnus Peter Lynch in his do-it-yourself manifesto, One Up on Wall Street. We're Wharton students ourselves, but we made it a point to pick up an engineering degree along the way, too, just to ensure that we don't get financial tunnel vision. This book is about broadening your horizons, connecting with other minds, and enhancing your investment prowess. We hope that Peter Lynch would be proud.

Enter the Electronic Jungle

In an entertaining Morgan Stanley Dean Witter Online commercial, a man sits in a dark room by a computer, his eyes glued to an Internet stock chat room. "VBNM," writes an anonymous chat room member, seemingly offering a hot stock tip. "Are you sure?" asks the man, suddenly excited at the prospect of great riches. "VBNM. VBNM. VBNM. VBNM," shouts the entity on the other end of the computer line. The commercial now switches to another setting: a bustling office party, where a particularly large lady's rear end is bouncing up and down on her keyboard, inadvertently typing out the letters VBNM, VBNM, VBNM. The commercial ends with an amusing platitude: "Know your source."

Count on good old Morgan Stanley to scare individual investors away from the Internet and into the offices of their financial advisers. Sadly, Morgan Stanley's scare tactics are partially justified. Traversing the Internet's communal underworld can be a journey into the dark side, a trek through the electronic jungle. According to David Gardner, co-founder of The Motley Fool and one of the investors profiled in this book, you could fill four books with the 10,000 messages posted to The Motley Fool message boards on a daily basis. There are literally millions of messages sitting on the boards of Raging Bull and Silicon Investor, two additional leading financial community sites.

In our opinion, the colossal quantity of content on these boards represents a problem that is far more daunting than stock fraud stemming from these communities. Sure, seedy pump-and-dump schemes take place on the Net on a regular basis. Mostly, though, these scamsters stick to dirt-cheap, low volume penny stocks that are responsive to manipulation. Usually, these scams are blatantly too good to be true. If you
fall for a get-rich-quick scheme on the Internet, you probably have yourself to blame. You also need to keep yourself educated by regularly visiting the Securities and Exchange Commission’s web site (www.sec.gov) for updates on the latest known scams. Several web sites are dedicated to alerting investors to fraud; we mention two such sites in Chapter 3.

Ignoring scams for the moment, consider the difficulty of wading through millions of messages in search of valuable, authentic, and relevant information. Browsing through message boards is like watching a three-ring circus of wackos, irate shareholders, and hypesters, with an occasional impressive act performed by a talented, anonymous stock guru. The signal-to-noise ratio is dismal, which makes jumping into the financial discussion game incredibly difficult. The same goes for most Internet chat rooms, as exemplified by Morgan Stanley’s comical commercial.

The trick to turning this worthless geyser of prattle into beneficial investment enhancements is to identify the pockets of competency within these communities. Intelligent minds seem to gravitate toward each other even in the virtual setting of the Internet. They’re out there, somewhere—you just need to find them. Bulls, Bears, and Brains identifies 20 shining stars on the Internet. But if you want to broaden the possibilities and explore even further on your own, you simply have to be willing to take the time to wade through thousands of boards, threads, and messages until you find a promising dialogue. Once you stumble upon apparent intelligence, bookmark the link and visit the board frequently for several days before you jump into the discussion.

Look for less populated boards or boards that cater to specific investment niches. At LuskinReport.com you can join a clever crowd of message-board posters and discuss expansive investing themes and trends. Another web site, eRaider.com, hosts message boards for stock investors who want to rally with other investors and force changes at public companies through shareholder activism. Le Metropole Café at www.lemetropolecafe.com is a unique, bare-bones site where investors can learn from economics experts and mingle with other investors, especially those who are interested in gold and other commodities. Designed for experienced investors, ClearStation.com is a unique community site that integrates technical and fundamental analysis tools with a communal stock recommendation and analysis platform.

After acquainting yourself with several online forums, you’ll probably realize that taking part in these exchanges is less about finding hot stock tips and more about forcing yourself to think critically by taking part in an animated community. If you are taking financial matters into
your own hands, chances are that you get some level of enjoyment out of the investing process; otherwise, you would hand your money over to a mutual fund manager or financial adviser and steer clear of the details. Financial communities take the investing game to a whole new level, introducing you to bright folks from all around the globe and enhancing your ability to identify new trends and opportunities before the rest of the world takes notice. The 20 investors profiled in this book are indisputably among the most talented financial minds on the Internet, and once you become addicted to the networking game, you will no doubt be able to uncover others who can join your investing team to great success.

About This Book

*Bulls, Bears, and Brains* is structured so that interviews toward the beginning of the book contain information and explanations that may be relevant in later interviews. That being said, the book is very flexible; you will enjoy a complete reading from front to back, but you can also jump to specific interviews and return to read the others later. We urge you not to skip an interview simply because the individual doesn't appear at first glance to be consistent with your traditional market approach. Remember, there are kernels of knowledge to be gleaned from every investing style and from every investor in this book.

The glossary at the end of the book is provided by Campbell R. Harvey's Hypertextual Finance Glossary, a 7,200-word financial dictionary available in hyperlinked form at www.duke.edu/~charvey. Harvey is the J. Paul Sticht Professor of International Business at Duke University's Fuqua School of Business. In keeping with the theme of this book, Harvey is an acclaimed expert who uses the Internet to educate the investing public. We're grateful for his willingness to provide us with a snippet of his glossary's massive content.

Finally, make good use of the charts and figures within each interview. We do not intend for this book to be a how-to guide in technical analysis or any other type of investment approach. There are times when investors discuss complex strategies of investing, and we have chosen not to dwell on these topics with advanced graphs and charts. There are many satisfactory guides to fundamental analysis, technical analysis, options investing, behavioral finance, and many other market methods. *Bulls, Bears, and Brains* provides a taste of many strategies and shows how you can learn more by involving yourself with experts online. Most of the illustrative charts are provided by Prophet Financial
Systems, an innovative company that excels in combining the powers of technology with investing. Prophet Financial Systems’ products and services can be accessed at www.ProphetFinance.com.

The advice offered in the pages of this book can help you become one of those investors who wins when the going gets tough in the zero-sum financial game. As the rules of the game change dynamically, you will be able to see how 20 proven investors react.