Preface

This book is for the individual investor. It is all about investing, not trading, because investing is the way to make money in the stock market. Transaction-oriented Wall Street, unfortunately, tends to discourage and even hinder proper investing. Brokerage advice can be misleading, even contradictory. Professional insiders know better than to take the Street literally. You need to take the same approach. Do what Wall Street does, not what it says. This book will show you how to avoid Street pitfalls, circumvent inappropriate research guidance, correctly interpret Wall Street commentary and opinions, properly assess statements by corporate executives, and put news media reports in their proper context. It will provide you with an understanding of the confusing and conflicted ways of Wall Street, so you can maneuver around these influences and make more profitable long-term investment decisions.

Life sometimes shifts in unforeseen directions. For 32 years, I was so consumed by my job as a securities analyst on Wall Street that my natural inclination was just to continue grinding away for a couple more years before hanging it up. I had no compelling new venture or life plan that I was anxious to embark on. But as the stock market bubble deflated in 2000 and 2001, the economics of brokerage firm research were permanently altered. The discrediting of analysts, elimination of investment-bank research subsidies, and shrinkage in commission fees ushered in an era of parsimonious research budgets. Senior analysts could no longer be paid the vast sums of the past. At the Four Seasons Resort on Hawaii's Kona coast, as I sat by the pool after my fifth Mai Tai, it hit me. I could add a couple more years of adventure to my life if I opted out. So the timing all coincided—in early 2003, I tossed in the towel and concluded a long career as an analyst.

On my first day of retirement, when depression might have ensued from the vast new void in my life, I headed off to Utah to ski with my son and attend the screening of my daughter's new short-subject movie at the Sundance Film Festival. This marked the first

time in over three decades that I boarded a plane without bringing along a carry-on bag full of work. I was savoring the prospect of perusing the newspapers and maybe reading a history book, when a guy in a suit plopped down next to me and inquired as to my business. Upon learning that I had stock market expertise, he began firing off a series of simplistic investment questions. After more than three decades of analyzing, researching, writing on, and talking about stocks, the last thing I felt like doing on my first trip free of Wall Street was to chat about investing—especially to educate a naive, nettlesome passenger who was probing me for silver bullets. I quickly wriggled out of the conversation. Then a jarring realization hit me—there was a whole world of individual investors out there, struggling to make money in the stock market with little knowledge of how the Wall Street investment game is really played.

Over the following two or three years, I filled up a notebook with observations and insights that might be useful to an individual investor. My previous book in the early 1980s, *The Coming Computer Industry Shakeout*, concluded with a brief chapter on basic principles for individual investors. Although rudimentary, it made a splash with readers and the press. This time, with *Full of Bull*, the entire book is devoted to such investment maxims. My style is opinionated, forthright, and direct. My views may be controversial, but I try to emulate the revered sportscaster Howard Cossell and "tell it like it is." These are my own conclusions—insight acquired during decades of working on Wall Street.

I grew up in Wilmette, Illinois, ran track at New Trier High School, and tooled around in a jeep delivering newspapers each summer. My initial intrigue with the stock market and Wall Street surfaced during college, so I buttressed my liberal arts economics major at Syracuse University by taking additional business and finance courses. When I heard that a two-person stock brokerage firm in Chicago might be in need of summer help, I leaped. Morton D. Cahn was an octogenarian and the most senior member of the Midwest Stock Exchange. His halcyon days had been the 1920s, but in the 1960s, he still kept a tiny one-room office going and spent his days on the exchange floor doing maybe a dozen trades a day. All summer in that office, I devoured every facet of the business—calculated commissions, messenger-ed securities around the city, took transaction

orders over the phone, studied a text on bonds during my downtime, and handled the office all alone when the old line office manager was away on vacation. By Labor Day, I knew my career would be on Wall Street.

Some of the paychecks I collected from that stint were destined for investment. I was gung-ho to become an honest-to-goodness stockholder myself. My dictatorial father, who was springing for my college expenses, vetoed the idea. But I was adamant and put in a buy order for five shares of Union Carbide at $91. When I divulged my "shareholder" status to him, he was furious and I was unyielding. I guess I was coming of age and beginning to stand up for myself. Everyday during my senior year at Syracuse, on shirt cardboards, I recorded Union Carbide's opening, high, low, and closing prices and its trading volume. I cared. You can't imagine the satisfaction I felt every three months when I received my dividend check for $6.25. And the next summer, I sold the shares for over $109—my maiden investment had produced an inspiring capital gain!

In those college days, New York City was our venue during Thanksgiving vacations. Amidst jazz clubs, hockey games, and other cavorting, I spent Friday (the market being open) wandering around Wall Street as an anxious outsider wanting to become an insider: at the New York Stock Exchange, the American Exchange, Trinity Church, the streets, bookstores, and even brokerage lobbies. My buddies were dumbfounded that I would waste a day of our precious, exciting school break in Gotham trolling the canyons of Wall Street. For me, though, it was Priority Number One.

In the Navy, as an operations officer aboard a ship based in Norfolk, I devoured *The Wall Street Journal* when in port, scrutinized *Forbes* magazine while on watch, compiled a notebook of research, and planned my strategy to reach Wall Street. I had a meager few-hundred dollars invested in one or two stocks. Shortly before mustering out of the military, while preliminarily knocking on Wall Street doors, I received some emphatic counsel from a Merrill Lynch personnel-department interviewer. I needed a Master's degree in Business Administration if I hoped to advance very far in the business, he told me (as if I could run across the street, grab a graduate degree, and be back that afternoon!). It was daunting to ponder the prospect of three more years in school before reaching the Street.

So, during the late 1960s as the Vietnam War raged, I donned my uniform, interviewed, and was rubberstamped at George Washington University Business School, where my dad had earned his law degree in 1929. Upon settling in Washington, D.C., I landed a day job with the U.S. Department of Commerce. There, I assisted the office equipment industry analyst, Jim Carr, a senior veteran who called me his amanuensis. Jim showed me the basics of how to write. I was immersed in tracking and publishing reports on the rising computer industry. Three years later, MBA in hand, I blanketed Street brokerage firms seeking interviews. With no clue as to what specialty I preferred—institutional sales, trading, investment banking, or research—I haphazardly tossed around glossy rèsumès. One boutique firm, Spencer Trask, noted my computer industry expertise and bumped me up to the research director, whose offer was the only one forthcoming. I took it instantly, starting at an $18,000 annual salary. The MBA turned out to be irrelevant; familiarity with the data-processing field was the trigger. Life is strange.

That debut day in 1971 was eons removed from my walk-off in 2003. My first six years on Wall Street were a steep learning experience at Spencer Trask, a small, respected, research-focused brokerage. I was mentored by the electronics analyst who hired me, Otis Bradley; became a full-fledged analyst myself; and enjoyed a coddled existence at this old-school, genteel, white-shoe firm. Six years later, in 1977, I made a leap to Salomon Brothers, an aggressive, trading-oriented, highly profitable firm endowed with stellar professionals and a recognized, confident èlan. It was a cauldron, but it introduced me to the changing real world of Wall Street. After eight years, I slid over to Merrill Lynch and stayed there for 18 years. Merrill was becoming a heavyweight in research, a household word and leader on Wall Street, and a good place to be as an analyst. At Merrill I achieved #1 status in *Institutional Investor* magazine's analyst rankings for several years, moved to San Francisco, and operated from there for the remainder of my career.

A couple of years ago, a casual investor mentioned at lunch, before a round of golf at our club, that he was about to purchase a particular stock in the aerospace-defense sector. His justification was something like "nine Wall Street Buy recommendations and only one

Hold, all the favorable Street opinions have been in place for a year or longer, and the consensus price objective is some $18 above the current level." He obviously believed all this Street talk, having no idea that, given precisely the situation he described, perhaps he ought to be avoiding the stock.

In contrast, as a Street professional, my interpretation was that the one lonely Hold stance was really a Sell indication (probably insightful and timely), and should be given more credence. Street analysts use the terms Hold or Neutral to subtly indicate a negative view, avoiding the word Sell in order to preclude adverse reaction from company management and major institutional owners of the stock. I also thought all the Buy opinions were likely growing stale, so there might be more downgrades ahead shortly. My golfing partner was late to the party and had undoubtedly missed the big gains in the stock. Further, I assumed those analyst price targets probably had been boosted a couple of times already to justify the continued Buy ratings—and insiders know that such price targets are nothing more than wild guesses anyway, concocted to help hype the stock. My skeptical assessment would be shared by almost anyone on Wall Street, but my golf bud, being a typical individual investor, misinterpreted the situation. From all my years on Wall Street, I understand that a key to superior investing is decoding the Street's confusing (if not misleading) doubletalk and ignoring or sometimes even defying its advice. Nevertheless, most investors fall right in line like true believers.

My golfing friend and I, when it came to investments, did not speak the same language. Wall Street directs its efforts and advice to the managers of big mutual fund portfolios and hedge funds. Similar to a baseball manager talking to his players or other league officials, the Street assumes that other professionals in the business understand the nuanced manner in which the game is played; assumes they are able to use research material appropriately (i.e., not take it literally); and expects them to react in a certain manner. But when it comes to the individual investor, there is a massive disconnect. What is needed is plain speaking, by a Wall Street veteran such as me, to unscramble the confounding practices of the Street in terms a layperson can comprehend.

The individual investor is often misled by Wall Street's ambiguous ways. What investors are missing is the knowledge necessary to deal with the Street; how to put the deluge of stock information in the proper perspective and make their own investment decisions. It's not enough to tap into the Internet, tune into CNBC, scan the financial section of the newspaper, devour magazines like *Money*, listen to a broker, or even read the typical book on how to invest. Keeping in touch with all these sources helps, but the information must still be utilized effectively. The misleading actions of Wall Street must be taken into account. What should you make of a Street recommendation upgrade from Sell to Hold or Neutral? If a stock is downgraded from Buy to Neutral, should you hold it or sell it? After a stock price target is reached, the target is raised and the investor is told to continue buying. Wasn't the initial target real? And if so, shouldn't the investor be told to Sell once the objective is achieved? You get the picture. You just don't have a chance unless you decipher all the confusing, unpredictable, and often counterproductive Wall Street babble.

The purpose of this book is to expose the puzzling, deceptive, conflicted behavior of Wall Street that so disadvantages individual investors, tripping them up in their attempts to invest properly and rationally. The output from securities analysts is highly useful as background research. Analysts are steeped in company and industry expertise, provide helpful commentary in reaction to events and news, and publish handy earnings estimates. But an investor needs to know what to discount and how to put Street research in perspective—how to separate the wheat from the chaff. An individual investor must grasp how the system works and be able to factor this aspect into his or her investment approach. Once armed with an insider's understanding of all the Street's subtleties, you can be your own investment analyst. My strategies will equip you to evaluate companies, select stocks, and take advantage of your position, free from the many constraints that inhibit professionals.

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September, 2007