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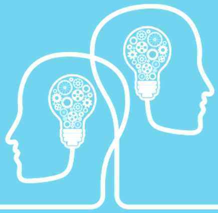
Insights



6 Investing Insights

- Jim Rogers

Pay attention to what everybody else neglects.

Most investors look only to strong markets.

If you want to invest, look or the bear market.

Many have frequently profited by investing where no one else saw potential – putting money into commodities in 1998, for example. By 1998, my research indicated that a commodities era was approaching and very few people noticed that the long downturn in the commodities market had severely limited supply. You can be rich if you have the courage to buy something while it is still under the radar of conventional wisdom.

Sometimes, the more ridiculous an investment sounds to other people, the better the chances that it will yield a profit.

It is difficult not to run with the herd. But the truth is that most long-term success stories are written by folks who have done exactly that.

The more certain something is, the less likely it is to be profitable.

Nothing in this world is absolutely certain. When many people are absolutely sure of something, you should be suspicious. Do not think in terms of what you wish. Never act without checking the facts. Whenever you see people acting in the same way, it is time to investigate supply and demand objectively. In 1980, everybody wanted to own gold pushing the price to $850 per troy ounce. But gold began to get overproduced as the suppliers were bound to increase production to match the price rise. A lot of individuals bought gold at inflated rates assuming it is not just "any commodity".

As more gold began to get mined, demand scaled back. Many who owned gold jewellery sold it to the refineries for melting, which further increased the supply. By 2000, the price had dipped to $250 per ounce. The exact same change in supply and demand happened with silver, which tumbled from $50 in 1980 to under $4 a couple of decades later.

When you see the mob mentality and see them being unrealistic, stop and make an objective assessment of the supply-and-demand equation.

Anything that is a "must see," "must try," "must read," should almost certainly be avoided, especially if it is popular.

A good rule of thumb is to sell during times of market hysteria and buy during times of panic.

As an investor, I am always in search of "what is bearish." When people are crazed about an overheated market and are oblivious of other investment possibilities, that's when I find a good deal.

Don't sell short simply because prices are high. Never sell short unless prices are astronomically expensive, and you detect negative change coming.

A cheap price alone is not sufficient reason to invest. If something is forever cheap, then it has no recognized value, and its stock may very well remain a worthless piece of paper. For a bargain to soar in price, there has to be a catalyst, and from an investment perspective, that catalyst is change. Whatever the change may be, it must have a significant impact within a country or an industry, and it must also be recognized as significant externally within a few years. If the change is real, others will notice the improvement, and prices will rise to reflect the new circumstances. New investors will catch on and prices can rise considerably for years.

Keep your eye on the future.

People used to call China a graveyard for investors. As recently as the late 1990s, few Westerners invested there. But those who did made a fortune.

Back in the 1980s, I sensed China's potential and decided to learn everything about it. When I began to invest, I was told I was insane. I drove across the entire country. China had more than 1 billion workers. The people worked from dawn to dusk. Over one-third of their annual income went into savings. I saw that the capitalism, driver and entrepreneurship that had characterized China for centuries had at long last re-emerged. And there was no going back.

Also, do not cling to anything that will eventually cease to exist. No matter how much time or energy or money you invest in it.

Rely on your own research and intelligence.

It's important to decide for yourself what's important to you and what you want before you turn to others. The only way to really evaluate advice is to first learn everything you can about the subject at hand.

Early on in my investing career, I made the mistake of basing a few important business decisions on colleagues' opinions instead of conducting my own research to arrive at an informed decision. I assumed that my senior colleagues knew more than I did, hence attributed too much significance to their opinions. Each of those investments failed.

Research your investments thoroughly. Make your own decisions.

Look through each and every financial statement you can get your hands on, including the detailed notes. If you just read the annual reports of companies, you will have done more than 98% of investors. If you read the notes of the financial statements, you will be ahead of 99.5%. Verify those financial statements, as well as future projections announced by the top executives, by doing your own legwork. Talk to customers, suppliers, competitors, and anyone else who might affect the company. Do not invest unless you can say with absolute certainty that you are more knowledgeable about this particular firm than 98% of the analysts on the Street. Believe me, it can be done. But only with the extra effort.

The most common reason why people do not succeed is that their research is faulty or limited to the confines of what is immediately available. Only through meticulous research will you obtain the knowledge necessary for success.

Know when to do nothing.

Anytime that you think you've become a financial genius – when, in fact, you simply have had the good luck to turn a profit – it is time to sit back and do nothing for a while. If you stumble upon success in a bull market and decide that you are gifted stop right there. Investing at that point is dangerous because you are starting to think like everybody else. Wait until the mob psychology that is influencing you subsides.

Ignorance is born of an outsized sense of self-importance. Never let yourself become arrogant. Study hard. The more you learn, the more you will realize how little you know - and armed with this humility, you will never lose sight of the distance that separates self-confidence and self-importance.

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