

Hello Everyone,

We have all heard buy low and sell high. But, what is low? And, what is high? We all know, not everything that is “bargain basement priced” is a deal. Nor is something hitting a new high necessarily a rip off.

Today’s missive will use South African farm land to illustrate that “low” is not determined by price alone.

I hope you find it helpful.

Signed, Your Hey!-Cleveland-Won-A-Football-Game!-Financial Advisor,

Greg

KKOB 09.21.2018 Cheap & Smart or Just Cheap

Bob: So, Greg, we have been on theme of trying to be right—early. Meaning, I should make investments that are initially out of favor----- then wait for the trend to come to me. But, how do I know if the trend will ever come to me?

Greg: Great question, especially as we explore where today’s opportunities are. So, first, just because something is out-of-favor doesn’t mean it’s a deal.

For example, South African farm land prices are down almost 50%. This is some of the best agricultural land in the world. And selling food can be very profitable. So, you might think, “50% off! Woo hoo! Let’s buy!”

As you know, however, in the name of “righting past wrongs”, the South African Government is likely to authorize the ***uncompensated confiscation*** of all white-farmer land. That means, the government could show up at your newly purchased farm and escort you from the premises---paying you nothing. Thus, the half price sale is no deal at all.

Or...let’s look at a less political situation...emerging markets. These are places like Viet Nam, Thailand, & Brazil. That sector is down 20% this year alone. Seems like a buy, right? I’m not so sure. There are structural issues of trillions in bad-debt, coupled with unstable currencies. So, even though Emerging Markets seem cheap, I’d tread cautiously.

Bob: OK, I get that. Just because something is cheap doesn’t necessarily

Bob: OK, I get that. Just because something is cheap doesn't necessarily mean it's a reason to buy. I guess that's also why we don't buy stock in flip phones or 8-tracks. Even if they were down 99%, you'd never make money.

Greg: Right. And, let's expand on that last thought...because you've hit on something that is a common investor mistake. The thinking goes something like this: "Wow! Look how low that stock is! It's way down! I'll throw some money at it. What have I got to lose?"

So, let's unpack that thinking by playing a quick game. Bob, pretend you have a friend who bought a stock for \$100/share. And, for whatever reason, it turns into a disaster. The stock falls to \$1.00. How much has your buddy lost?

Bob: Well, 99%. He's probably written it off as a total loss.

Greg: Right. So, now you come along and say, "Ha ha ha! I'm so much smarter than my friend. I can buy that stock on sale for 99% off." So, you do. Let's say you buy 1000 shares at a buck a share. Then the stock drops from a dollar to 50 cents.

Now, your buddy is thinking, "Oh well, it's gone from down 99% to down 99 ½%....another half percent... who cares?" Meanwhile, what's happened to you?

Bob: Well, my \$1.00 stock fell to 50 cents, so my thousand is now only 500. My friend has an additional half percent loss---mine is a 50% loss. That means I must double just to get even. Now, granted, I'm still ahead of my friend, but no one likes losing half.

Greg: Right. And this is the fallacy buying low, when the only factor you're considering is price. But, people do it all the time.

So, circling back---if South African farm land fell 99%, I, being white-guy Greg, probably still shouldn't buy.

Same for the Emerging Markets--- as I said a minute ago, Emerging Market debt issues are not insignificant. There is a lot of restructuring that must happen, before you'll be able to say, "This sector is fundamentally sound ...and cheap."

Bob: So, you're telling us to look for a combination of structure and price...like we had in the early 80's. I know back then President Reagan

had just taken office and stocks hadn't moved in 17 years. But, in order to survive, corporate America had gotten leaner and meaner in the turmoil of the late 60's and 70's. Thus, you had low prices in a structurally sound environment. Time to buy.

Greg: Bingo. A+. So, on Monday, let's keep going with this theme. And, we'll use the railroads to refine the point...sound good?

Bob: Sounds good. How do people reach you?

Greg: My number is 508-5550. 508 triple 5 zero. Or, my website zanettifinancial.com.

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