

Listen to the Sirens of the Stock Market at your Peril!©

by John Henry Smith, Grail Securities (Switzerland)

In Homer's *Odyssey*, the Sirens were dangerous and beautiful maidens, who irresistibly lured sailors with their enchanting, but sad, music and voices to shipwreck and death on the rocky coast of their island. In myth the two of them were purported to possess the gift of prophecy.



They were punished by the Goddess Demeter, because they had failed to protect of her daughter, Persephone, against Hades, the God-King of the Underworld.

The financial markets have always been awash with its own brand of Sirens, who dolefully prophesy the complete collapse of whole economic systems to the cataclysmic fall of stock, commodities, or bond markets as these summary examples show:

- Extract from 'The Great Financial Catastrophe' by Egon von Greyerz, dated 20 August 2015
"So the Great Financial Crisis of 2007-9 will now transcend into the Great Financial Catastrophe. This could very well involve a total reset or more likely a collapse of the world economy."
- Extract from Doom Gloom and Boom's 'Monthly Market Comment by Marc Faber, dated 1 September 2015
"Today, I should like to focus on two observations by Ludwig von Mises. According to Mises, "True, governments can reduce the rate of interest in the short run. They can issue additional paper money. They can open the way to credit expansion by the banks. They can thus create an artificial boom and the appearance of prosperity. But such a boom is bound to collapse soon or late and to bring about a depression."
- Extract from Market Watch 'Time for a pullback in the S&P 500?', dated 3 April 2014
"The S&P 500 will peak at around 1,900 to 1,950 then drop 30%: claimed Saxo Bank's Chief Economist Steen Jakobsen.
- Extract from Seeking Alpha 'The Ridiculousness of Ambarella' by Citron Research dated 19 June 2015
"So Wall Street has gone searching for another 'new new' in the technology sector and has found one in Ambarella (AMBA), whose parabolic frenzy has now launched it into a realm that can't possibly be supported by reality. Since the IPO, AMBA's revenue doubled -100%, from \$121 million in 2012 to \$248 for the past 12 months. Meanwhile, the enterprise value has gone up 6,000%, as the stock has gone from \$6 to \$126.
On the 19 and 20 June 2015, the stock fell 25.5% from \$126.70 to \$94.36, and after 14 days of consolidation on 14 July it recovered to \$124.23, a gain of 25.3%.

Every now and then these Siren Songs ripple with sweet certainty some impending doom across the waves of the markets, pleading with investors to heed their calls to save themselves. Should the

market barometer coincidentally and suddenly fall as it did on 20 August, it may appear to some that the Siren they had heard was indeed that of a prophecy in the making.



However, 'End-of-Days' prophecies, even those of the doom and gloom genre are notoriously non-fulfilling. The website www.cxoadvisory.com/gurus grades well known gurus, such as Jim Kramer, Marc Faber, Louis Navellier, and Ben Zacks, to name a few. 68 are evaluated according to the accuracy of the forecasts they make and of the total gurus only 26, or 38.2% range from 50.0% to 68.2% accuracy! The remaining 42 or 61.8% are between 49.2% and 20.8% accurate. Jim Cramer, of Mad Money and CNBC fame has only a 46.8% rating, and Marc Faber 44.6%.

Often such prognostications have their origins in past deeds and motives, as had the Sirens, and not of the altruistic kind. Can we be sure that Mr. von Greyerz's warning was absolutely not connected to his engagement with gold, or that Citron Research did not intentionally seek to cause Ambarella's steep losses over those two days? Perhaps the publications of these articles were really done by deep selfless convictions, but a modicum of doubt must remain, don't you think?

This article offers some ways of dealing with such assaults. Naturally, it is easy to feel resentful against such attacks, which may cause you losses, particularly if it turns out to be unsubstantiated. However, if the bad news does turn out indeed to be correct, there is little that can be said.

Long-only investors should rather invest their time in really getting to know the ebbs and flows of the market and the stocks they own so that they can make their own value judgements. The best approach is to focus market leaders. Every bull market has them, such as Apple (AAPL), Sketchers (SKX), and Netflix (NFLX), all Grail recommended stocks.

The key to Grail's identification of these high grade stocks are their very strong fundamentals. Not only do these resounding winners have strong percentage gains in quarterly sales, revenues and earnings per share, but the magnitude of their figures are huge. For example, Under Armour's revenue rose year-on-year by 23% to \$515 million in the 2nd quarter and beat earnings expectations by \$0.02. Sketchers (SKX) revenue rose in a year by 34% to \$800 million and beat Wall Street estimates of \$1.57 by \$0.56!

It is only common sense that you make your buy decision based on a stock's fundamentals and technicals, but a sale made foremost only after careful scrutiny your stock's chart. For example, did it slice through its 50-day moving average on huge volume and finish up well below the line? If so, that's possibly a sell signal, because it indicates that institutional investors are dumping the stock.

In summary I believe the best advice I ever found, was given by Pericles (c 495 – 429 BC), a Greek Orator and General, who proclaimed: *"The key is not to predict the future, but to be prepared for it!"* In essence, as Greek mythology has told us: the Sirens were only fated to live until the mortals who heard their songs had the strength to resist their cries and sail past them.