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The List of Contradiction

The world is upside down. I can still hear a voice in my head saying, "That doesn't make any sense." As I put pen to paper (what will become in time a figure of speech and not reality) I have derived a list of contradiction. It might as well be called when we are right we are wrong and when we are wrong we are right.

Why is this important? First, it is proof that the herd mentality, as it relates to investing, can actually make, or save you money. Second, it can also cost you money. Confused? Let's take some basic details and illustrate how this works.

Fact: Football is the most popular sport in America as evidenced by huge TV ratings and revenue.

Related Fact: Based on millions of stolen passwords that were dumped online, the word baseball is #11 on the list of worst (and popular) passwords of 2011. Yet, the far-more popular sport of football is #25.

Problem: If football is so popular how was it bested by baseball in the annals of "easiest password for me to remember?"

Fact: The MF Global fiasco caused Jefferies Group, Inc. to drop by a third on tremendous volume due to fears of European sovereign debt exposure.

Fact: Management reduced its exposure by 50%, has kept the Street abreast of the overblown situation, and the largest shareholder increased its holdings.

Problem: The stock continued to get hammered on strong volume despite the above assurances and events. Most Street insiders have further vocalized that they do not believe there is a problem here.

Fact: Bill Miller, major figure in the investment management world, ran the Legg Mason Value Trust for years and is noted to have amazingly beaten the S&P 500 for 15 straight years, from 1991-2005.

Fact: Note that the fund was called "Value Trust" when for many years it held large positions in such "value" stocks as Amazon. It is therefore unclear if he really kept the value mandate.

Problem: What this guy did was unreal, in an era of major, multiple economic and market shifts. There are a ton of Buffet copycats, but why no Bill Miller copycat investment styles and strategies?

Fact: Using stock options can enhance your investment strategy.

Fact: Using stock options can harm your investment strategy.

Problem: Investors are clueless about options but if they just took a little time, they could implement tactics and strategies that could do wonders.

Fact: The latest Internet IPOs (trading and filing) seem pricey, valuation-wise, yet demand is high.

Fact: Stocks with some of the best valuations out there are getting no love.

Problem: In a schizophrenic market, does it make sense? How does one play it?

You get the idea. This ying-and-yang can cause confusion and paralysis. The way it can be reconciled as it relates to investing is to understand that these events go on all of the time and the key is to be emotionless, tactical and consistent when it counts.

In the case of Jefferies, once the stock started to trade down on huge volume, it was screwed---a victim of the herd. In hindsight, it should be no real surprise that it dropped again this past week as it has no become a proxy for the prospects (good and mostly bad) for Europe.

The lesson learned here is this: If your stock is under attack with huge volume, take money off the table. You can always buy again at a lower price.

In the case of Bill Miller and the baseball password, the big takeaway here is to be flexible in tactics and not a creature of habit that settles for the common denominator. If you believe that a strategy in which you have used successfully in the past may need tweaking, do it. Without some changes you risk losing money.

Remember, most of investing mistakes are due to human nature and emotions.

Many of us wish to be associated with a leader or a success, despite the cost. Internet IPO valuations of exciting companies offer such rewards, despite the risk. By not succumbing to the temptation, risks are minimized, despite the potential rewards.

Limited option utilization offers rewards for the speculator buying naked calls, or selling puts and the prudent investor selling calls and buying puts.

To sum up:

- Sell along with others on heavy down volume
- Be patient when bottom fishing and ensure it is an oversold situation based on panic
- Be flexible in tactics, and don't rest on your laurels
- Do not give in to temptation, even if you want to be a part of it
- Engage in higher level investing through options, on a limited basis

It is Finally Here

I have been waiting for this week for months. While I still concerns that the knuckleheads in Europe and part of the super-committee in Congress can ruin it for us, I believe that we are close to the start of a small-cap rally.

People are starting to feel better (albeit marginally) and I think the holiday season will be ok. On Wednesday we will give you 3 Holiday Treats and 3 Holiday Turkeys.

Until Wednesday....

Analyst: Robert Goldman

Rob Goldman has over 20 years of investment and company research experience as a senior research analyst and as a portfolio and mutual fund manager. During his tenure as a sell-side analyst, Rob was a senior member of Piper Jaffray's Technology and Communications teams. Prior to joining Piper, Rob led Josephthal & Co.'s Washington-based Emerging Growth Research Group. In addition to his sell-side experience Rob served as Chief Investment Officer of a boutique investment management firm and Blue and White Investment Management, where he managed Small Cap Growth portfolios and *The Blue and White Fund*.

Analyst Certification

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