Opportunity during Market Volatility
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Published on Nov 26, 2008 on Physician's Financial News

Chicken Little keeps waiting for the sky to fall. In this pessimistic frame of mind, he never thinks about taking opportunities that arise while he is waiting for the sky to fall. (Maybe the sky won't fall.) This means he has little pleasure, because he is so focused on the negative. Some investors are like Chicken Little. They moan and groan in a volatile down market, but never think about what they could do to help themselves.

Enter the world of crisis opportunity. This refers to taking advantage of an up or downturn in a volatile market that has little to do with fundamentals. There are many ways to do this. One of the safest is to buy good stocks with excellent underlying value that are fluctuating with the general market. For example, in the current market, I include IBM (IBM), Verizon (VZ), American Express (AXP) and Microsoft (MSFT). By buying them in the downturns and selling them in the upturns, short term gains can be made. The risk is that there won't be an upturn and the buyer will be left holding the stock. The way to make this an advantage is to only buy stocks that you want anyway.

Actuating this process is easy. One approach is to use the Dow 30 to select stocks that fluctuate but that have excellent underlying fundamentals. A list of the Dow 30 is given on Wikipedia. Then, by going to Yahoo Finance and putting in the stocks' symbol, it is possible to determine the stock's price, how much it fluctuates, and its underlying value (for example price/book ratio, P/E and dividend). The lower the price of the stock, the better for short-term gain, as any spread between buy and sell is multiplied by the number of shares; therefore, the more shares, the better.

For example, take Verizon. In the last 5 days, it was as high as $33 per share, and as of Friday, it was around $29. The futures are up after a 2-day downturn. By putting in a limit order to buy the stock slightly above $29, it might be possible to buy it at that price and sell it later in the day or in the next couple of days at $33 or near there. The whole idea is not to get greedy and wait too long to sell, as the market is currently volatile and recent history suggests the stock will go down again soon.

There is a caveat I must include here. It is that I do not believe in short-term trading. In a study, 90% of day traders lost money over a few years. So, there is potential for loss when a market participant is not an investor (long term contributor), but a trader (in and out of market). Nevertheless, what I am suggesting is that an investor who keeps 90% or more of her/his money in a portfolio that is asset-allocated and broadly diversified with index funds can from time to time take advantage of crisis opportunity. Then that investor doesn’t have to squawk “Foul” like Chicken Little, but can chirp like a happy bird.