



# Capital Drain

Rick's investment opinion newsletter

November, 2014

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Before printing, think about the environment

Hi Readers,

I've been working on a bigger macroeconomic presentation, but decided to get one idea out to you right away.

This will only take a moment. In my opinion:

## Executive Summary:

- Our economy is growing nicely, many others are not.
- Behavioral Finance: regret after a top; wanting 'one more chance' to sell
- Sell COP

The recovery continues, and many US companies are doing well, but the prices reflect high continued growth expectations. If you're holding shares of any of the conspicuous high-fliers, especially the "hot" new tech IPOs, you might consider selling into this enthusiasm. Better to risk a little less gain rather than a lot more loss.

As confidence in the economy spreads, investing in all-market index funds becomes more attractive. We are likely reaching the phase where a rising tide will lift (almost) all boats.

If you're inclined to pick among individual stocks, be conservative and be in the best of securities: stick to value, to safety, to short maturities (for debt), and call me to chat if you're concerned about anything you're holding.

Above all, avoid the investments that are at all-time extreme valuations: junk bonds, developing-country bonds, and headline-grabbing stocks with high P/E ratios.

## The Details:

The US economy is growing well, especially compared to elsewhere in the world. We still have some problems, to be sure, but I'm still convinced that we're comfortably in a long-term growth cycle in GDP, and therefore generally in stock prices.

Since I last wrote, the market dropped a bit and people started the gloomy talk again. Then it bounced back to new records, so the gloomy talkers fell silent. That sort of little pullback is inevitable from time to time, and shouldn't distract anyone from the bigger picture.

I'm still quite pleased with the portfolio of strong dividend-paying stocks that I've been with these past few years.

All good things come to an end someday (all bad things, too, of course) and Behavioral Finance has a warning for us. We really like to think that we're smarter than we really are. For example, it's hard for many people to sell a stock after it's dropped a bit from its peak price. Mentally, we were counting the value of that higher price as "our" money, even though we didn't sell. Once the price falls a bit, there's a strong temptation to wait for the stock to rise to that price again before selling. We feel regrets at not having sold at the top price. We feel slightly robbed that a profit that could have been bigger will now be smaller.

Left unexamined and unopposed, this can cause us to not sell a stock when we should, procrastinating in the hope of having our feelings soothed. Don't give in to this regret. When the facts change, change your mind.

Specifically, given the state of the oil and energy market, I'm planning to sell my Conoco Phillips (COP) stock by the end of the day December 3\*. I'd be happier if I'd sold near the peak price of around \$85 per share. Even at the current ~\$67 per share, it's delivered a very solid gain of 47% since I bought it, plus the healthy growing dividend. That's not counting that it spun off Phillips 66 (PSX) a while ago, which I sold for basically pure profit.

It is time to sell COP.

And thus I end what I think is my record-shortest newsletter.



It's time to check the spelling and ship this to you.

If you have any questions, please write or phone. If you want to read more, the company [web site](#) has archived editions of this letter, lots of charts, and links to other

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\* Although strictly speaking I'm not making recommendations, I do tell my readers in advance of my plans. I don't want anyone to wonder whether I'm getting myself a better deal by making transactions before they could.

interesting sites. There's also a [web log](#) where I discuss the process and progress of starting the mutual fund, along with occasional economic or investing thoughts..

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Take care,

Rick

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"Our doubts are traitors,  
And make us lose the good that we oft might win,  
By fearing to attempt."  
--W. Shakespeare



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A collection of fine industrial Boilerplate, but true:

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