

BY STEPHEN BRENNAN

# Learn or be Doomed

THOSE WHO DO NOT LEARN FROM THEIR mistakes are doomed to repeat them. People remember their successes and work on forgetting their mistakes. This is, of course, basic human nature, and without this trait mankind would never have progressed to achieving incredible feats like flying through the sky. But while we remember the Wright brothers' first flight, we tend to forget all the earlier – and often deadly – failures. In bull markets people often brag about high-flying stock picks. But how many times do they talk about an investment that went bad or their overall portfolio's exact performance? For that matter, how often do columnists rehash their own mistakes? The sad truth is that unless you learn from previous mistakes your portfolio, like those first attempts at flight, is also likely to crash and burn.

## ONLY HINDSIGHT IS PERFECT

As a stock market commentator I had a good year in 2002. In fact I had a strong enough year that it would be pretty easy to pat myself on the back for my successes and ignore my market call misses.

But it was precisely because I did not do this that I made some of my best market calls. For example, in my November 2001 column I was hopeful about the coming year's economic performance. But when a fiscal stimulus package failed to pass Congress in December, I reversed myself and became one of the few commentators who were negative on the economy. The lesson here is to be flexible enough to let your pride go and to not stubbornly cling to an idea – or a stock – after the reason you embraced it changes.

A very important learning tool is to have some way to objectively measure your performance. When I say I had a good year as a commentator in 2002 I can ascribe a number to that. In my August 1st column, where I urged going long in the second half of the year, I recommended exchange traded fund investments in semiconductors (SMH), networking (IGN), software (SWH) and broadband (BDH). I also recommended small-cap (IWM) and small-cap value (IWN), as well as the S&P 500 (SPY), Japan (EWJ) and the Eurozone (EWZ).

On October 1st I added pharmaceuticals (PPH) and utilities (XLU) to that list. An equally-weighted portfolio of these respective investments made on their dates of recommendation would have produced a flat return of 0.67 percent by the end of 2002 before commissions and other expenses. Not great, but pretty good when you consider that the S&P 500 was down 23 percent for the year.

## PERFECTION ISN'T REQUIRED

My complete 2002 forecasting track record is proof that you do not need to be perfect in order to outperform the market by over 20 percent. Reviewing a few of my columns reveals some big misses. For example I predicted the S&P 500 would finish the year flat. Another miss was that I thought July marked a final bottom for the stock market, but September turned out to be one of the worst months in market history. Of course, on the flip side most commentators thought 2002 would be an up year for the market, and I did predict the October market rally, that the second half of the year would see no real strength in the semiconductor industry, and the massive July sell-off.

Yet the overall performance of my recommendations and the overall performance of a portfolio do not come from a few isolated actions. They come from getting the big decisions right. Staying out of the market for most of the year turned out to be a big right decision, and although I recommended getting back in a bit too early I did so in time to catch the October and November rallies. Now, don't get me wrong. I'm not encouraging readers to become market timers. Perhaps your big decision is buying and holding, or having a diversified portfolio. Whatever your big decision, focus on getting it right, on having a way to objectively measure your performance and on being flexible about admitting your mistakes.

On three final notes: I remain bullish on stocks and the economy in 2003, I still like buying semiconductor stocks against critical price support levels with stops and this year I expect the S&P 500 to rise by 40 percent or more. ☺

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