Is Trading for a Living a Good Investment?

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Abstract

Investment and security markets are highly intricate fields of study that require immense knowledge and expertise, and any attempts to summarize any investment strategy with an absolute certainty of its results will be unsuccessful. What’s more, to do so in a brief book or investing guide is an even more ridiculous endeavor. The following article details the inherent flaws of the investing technique described in the book *Trading for a Living*, and its defects as an investing book. As such, it unveils the difficulties any short book may have in providing any useful information to be used in the stock market.

Key Words

Investing; stocks; security markets; Bollinger Bands; earnings growth, sales growth.
Is Trading for a Living a Good Investment?

What are the characteristics of a good how-to guide? Should it be long? Brief? Technical? Simple? As a hard and fast rule, a guide that instructs on how to do something should be simple to understand, avoiding technical words whenever possible, or if not, it should provide a concise and easy explanation for such words. Another aspect to consider is the length, a suitable guide should range between short and moderate length. If it is far longer than 150 pages, it becomes more like a novel than a quick how-to guide. However, another question arises, can anything be the subject of such a guide? Of course not. You cannot read a book titled “Neurosurgery for Dummies” and thus consider yourself a surgeon. Likewise, a tiny book on stock trading, and even more, how to make a living at it, can’t be fully reliable. This is what Matthew R. Kratter tries to achieve in Trading for a Living: Simple Strategies to Make Money from Home. Trading for a Living misleads its readers by diluting an extremely complicated analysis, showcasing unreliable proof of the chosen strategies, and writing with the sole purpose of adding more pages. Although some aspects prove to be in accordance with the general characteristics sought in a quick how-to guide (those of length and simplicity of language), the topic in question is far more complex and needs a much deeper analysis than what can be conveyed in this 38-page-long book.

Consider for a moment that the economy of any country is influenced by many interacting elements. Among these are natural resources, technological development, infrastructure, currency, education, and so forth. Similarly, a stock’s price is also influenced by several factors; so it would be erroneous to consider a stock a good investment just because it has earnings growth, or because it has a low price-to-earnings ratio. Oversimplifying would be an understatement for such a case. Above average investments are seldom found so easily;
otherwise, there wouldn’t be thousands of financial analysts and investors struggling to outperform the market. Examples of the latter are mutual funds or investment funds, who as class, fail repeatedly to provide a substantial return above the general growth of the market. The author of Trading for a Living states four simple rules to pick stocks: earnings and sales growth over 25%, the stock price closing above the upper Bollinger Band (a tool that indicates market volatility for a specific stock), a market capitalization of less than $1 billion, and a company doing something innovative, and.

A clear criticism to this fallacious technique can be found no further than in the first criteria, earnings and sale growth, which by definition, cannot be maintained indefinitely. Such measures are bound to decrease sooner or later. Eventually, the growth will fade far lower than 25%, and it will most probably be followed by a decline in the stock price. For example, if a company shows a stunning earnings growth of 100%, it would be much more probable that this company will show an earnings decrease in its next quarterly statement. Why such a company may continue to grow, it would be less plausible, and only determinable with further analysis of the business. The reader must bear in mind that growth is calculated from last’s year results, and not from a given starting point. As a result, if a company ought to maintain a 50% growth for 5 years, and it had earnings amounting to $50 million, it would have to earn a mind-blowing total of $1281 million dollars! Undoubtedly, this is an extremely high-reaching goal to be achieved. This shows that technique described in the book is not only excessively simple, but that it is also founded in arbitrary measures.

The lack of evidence supporting the technique chosen and its principles is also present in the decision to implement the Bollinger Bands as a stock selector. This analytical tool proves to be no better than its predecessor described in the previous paragraph; it also fails to sufficiently
determine the future profit of a stock, but nonetheless, try to convince the reader of the contrary. According to a popular investment dictionary, they “are not a standalone trading system. They are simply one indicator designed to provide traders with information regarding price volatility” (Investopedia). This technical indicator does not give any clue about the direction of the price of the stock. Again, it is just an indicator of volatility. Price volatility, stated in simple words, is how much the price of a stock changes in a certain period, the more it varies, the more volatile that stock is. Also, factors related to a company’s industry, such as working capital or seasonal earnings, greatly influence the price stability of a stock or the lack thereof. As an example, a regulation or law affecting a whole industry, like a heavy tax burden on tobacco, could make every tobacco-related company lose a lot of value overnight. Commodities are another industry-related factor. It is defined as an area of business where there is less differentiation between a product from one company to another, and thus, such companies rarely have any competitive advantages that enable power for growth (e.g.: Coke vs Pepsi). Therefore, contrary to the book’s lack of attention to research, it would be advisable for any investor to examine factors specific to an industry before risking any of his hard-earned money.

Going back to the problem of arbitrarily set figures and measurements, the market capitalization criteria is a point worth mentioning, with figures set not by studies or evidence but by preference and desire. To make things worse, the author contradicts himself, first stating that a market capitalization of less than $1 billion is needed, but then setting the parameters between $500 million and $2 billion. This may confuse the readers as to which should be followed, although they would be better off by not following any of the books investment advices. On the other hand, the requirement of a company doing something innovative is an awfully vague parameter. Innovation is not always readily welcomed by the consumer crowd, and a product
may be rejected on the basis of being too innovative and ahead of its time, with the business behind it facing little income or even future losses. If such a possibility becomes a reality, the readers will find themselves holding worthless pieces of paper.

The author goes on to illustrate hypothetical situations that deceive the reader, and that have the same probability of becoming true as do the prophecies of a fortuneteller. When attempting to prove the Covered Call’s investing strategy found in chapter 7, the writer gives the example of Coke to show the benefits obtained by such a technique. However, there isn’t any leeway for this strategy to fail. Kratter describes three possible outcomes for such an investment, all proving to be profitable. But another outcome exists, where the investor may lose money, and quite a lot indeed. Unluckily for the reader, such pessimistic but certainly possible scenario is not portrayed in the book, giving false hopes of a foolproof strategy. In fact, the following quote is the only warning the author gives of any possibility of losing money, and it alone is enough to discourage most from fully trusting that certain strategy: “Of course, if you are buying call options, there is a very real chance that after 1 year, you will have lost most of the $3,000. In fact, it is almost guaranteed unless one of the stocks that you have picked has made a big move” (Kratter 212-214 Kindle Locations). So, if it is almost guaranteed the investor will lose all his investment unless one of those $3000 bets pays out, why would anyone follow this strategy? The thinking behind this bet-placing strategy is completely unsound, because by not caring to lose money, it breaks both rules outlined in the following quote: “Rule No. 1: Never Lose Money. Rule No. 2: Never Forget Rule No. 1” (Buffet, Warren). What is more, the author of the book contradicts himself in the previous assertion, claiming to provide investing strategies but calling such investments “bets”. These words imply two very different meanings. If the readers were to bet, they may as well go to a casino or bet on a sports match, which would be probably more
exciting. In the end, the readers would only fool themselves, because the fact that such bet is being labeled as an investment doesn’t add any safety to it.

Neither is it safe to fully rely on the advice and lead of a short book about investing, regarding the complexity and difficulty of the topic. In an unsuccessful attempt to overcome this, the author seems to write in a fashion as to extend the length of the book rather than fill it with useful material. The latter happens not in a matter of content, but of technical issues such as spacing and format. To begin with, almost the first half of the book is written on a single-sentenced fashion. The reading becomes too paused and unnecessarily stretched; similar to hearing a person who talks with thirty second intervals in between sentences. Paragraphs are scarce, and when they appear, they are no more than three or four sentences long. Additionally, some content seems to be mere filling, lacking any correlation to the main topic. The writer goes on to enumerate eight alternative ways to make money, to be able to invest it later in the market. The latter ends up consuming one whole chapter out of eight in the book. Even more, these alternative income options are completely unrelated to investing. One of them is to write short books, like the one in case, and to self-publish them on Amazon Kindle. Another is to do web development, marketing or design. If the readers were to be proficient in any of these fields, they would probably earn much more money working in such a job, rather than betting and thus risking their money in stocks. Even if all this unwanted and useless information is counted for, the book is still shy of 40 pages. Such length is not enough to cover the grounds necessary to be able to safely invest on a stock.

There is a book with more than six hundred pages called The Intelligent Investor, which is the perfect proof to corroborate the claim that Trading for a Living is extremely short and lacking vital content. This book was written by Benjamin Graham, mentor of the famous
multibillionaire investor Warren Buffet. The books deals solely about investing, but as if it weren’t enough, Graham went on to publish another book with more than seven hundred pages, called *Security Analysis*. So how can a book with just thirty-eight pages, cover what more than a thousand pages could do, not completely, but just sufficiently? The clear answer is, it can’t.

The following pictures are perfect to provide an example of how the technique and the criteria provided from the book can be applied, and how overly simplified is the reasoning behind it.

As these images show, it would be very reasonable and safe to invest your money in these kids’ company. First of all, they clearly have an earnings growth far on excess of 25%, as can be seen from comparing the money shown in the left picture to the one in the right. They have progressed from a jar to three full bags! Although they have quite a lot of money, they are still shy of $1 billion, which meets the second criteria of market capitalization. Third, they are unarguably innovative, as they have successfully germinated a money plant from penny and quarter dollar seeds that have grown into the 10 and 20 dollar bills they are now holding on the right picture. Lastly, they have completed the Bollinger Band requirement, as their stocks have had been selling a lot in the last few days. Plus, it is obvious that they are smart because they wear glasses, and very big ones indeed. Kratter applies this same formula to his guide, misleading with both
symbols and imagery. Despite this being a highly satirized demonstration of the criteria detailed in the book, it may serve well to show the reader how unreliable it is, and therefore, how unpredictable may be the results derived from applying the technique outlined by the book.

Even though the book is flawed, it doesn’t need to be so entirely. If the author had chosen instead to write the real risks of investing in such a way, and had specifically warned the readers that the tactics explained are not always true, the book would be useful. The problem lies not with the content itself, because many investing strategies exist in the market and is fair to say that they are all up for debate, but it lies rather in the lack of warning provided to the reader of the potential mistakes or flaws that lie within the provided strategies. If these warnings were to be found in the book, it would be up to the reader to trust such approaches or to choose to corroborate their effectiveness. But because such cautions are in fact missing, the book, intentionally or not, attempts to deceive the readers into utilizing the techniques offered, risking their money in the process. Although the book does offer some practical information to the reader, it is hidden under a masquerade of false security and ease of profit that an unwary or unknowledgeable investor may not be able to uncover. Therefore, this book should be taken with a pinch of salt due to its misleading nature, which could in turn make most readers lose much money rather than earn anything. The $3 dollars the book cost proved to be a bad investment.
Works Cited


