

“DEAL OR NO DEAL?”

July 2008

Too often I find myself wasting time at the end of the day surfing channels in the hope of finding something to watch on television before calling it a day and going to bed. Most of the time I find nothing of consequence and recently I found myself watching the game show *Deal or no Deal*. This game show requires no skill from the contestants and winning the game is due mostly to chance and luck. But while watching this episode it dawned on me how decisions made by contestants in the context of this game are similar to how investors make decisions relating to investments in the stock market.

If you are not aware of how the game is played, a contestant selects one of 26 sealed briefcases which contain a dollar amount ranging from \$0.01 to \$1,000,000. The object of the game is to pick the \$1,000,000 briefcase and keep it until the end. As the game progresses and you reduce the number of remaining briefcases the “banker” offers you money in exchange for your originally selected briefcase. After each offer you are asked the question – “*Deal or No Deal?*” If you can’t finish the game with the \$1,000,000 then you want to take the best deal possible and walk away with the highest offer from the banker.

As the banker makes offers to the contestant throughout the game the contestant is faced with a dilemma – accept his offer *which is known at that one moment in time* or turn down the offer *in hopes of receiving a higher offer later in the game*. In a sense this game is being played every day with investors in the stock market.

As I mentioned in my March 2008 article, “Fighting Your Emotions” the stock market is a discounting mechanism. It is important to understand that the stock market does not typically decline in an exponential fashion. As prices decline the rate of decline tends to decrease. As prices decline *risk is reduced!* Historically the stock market turns down before economic data show problems worsening in the economy and begins rising before data shows the economy improving. At this moment in time the stock market has already discounted known future challenges facing our economy and prices have adjusted to reflect this. The question now being asked is “*Deal or No Deal?*”

If you say “Deal” you are cashing out *after* prices have already declined in anticipation that things will only get worse. In other words, you are selling low. Of course you may be right and the stock market may continue to decline – for a while. But if you believe in capitalism and a free market society over time the stock market will likely rise as it has throughout all of history. If it does, you will likely receive a higher offer in the future.

The adage “buy low, sell high” is as relevant today as in years past. Instead of being fearful be opportunistic as the price declines of today offer the opportunity of gains tomorrow.

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