

## **The No. 1 Way to Win Trading**

In 2005, 450 sheep decided to jump off a cliff.

Then 1,500 others followed.

Herd mentality created a chain reaction among these poor animals in the middle of Turkey. Fortunately, some did survive, though, having landed on a mountain of other sheep.

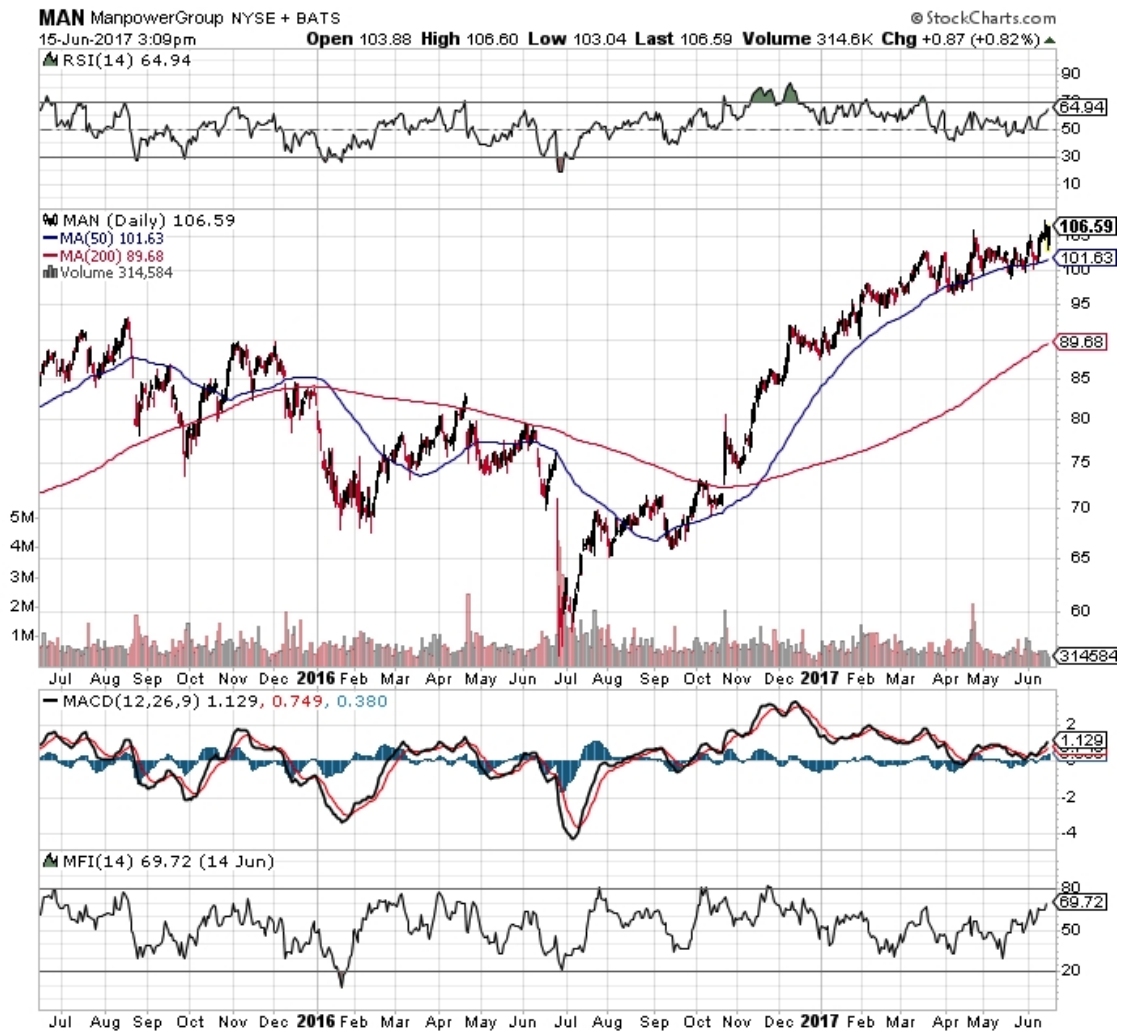
Many perished, unfortunately.

But this didn't just happen in Turkey. It happens every day in the stock market, too. We sell and buy because every one else is doing it. We never stop to think before we take the plunge. We become those sheep. The only difference between us, and the sheep is that we have no cushion.

So we avoid the herd altogether. But how do you do that?

We watch the herd, but never join.

For example, in June 2016, the UK voted to exit the European Union. It set off a chain reaction of fear, sending every one to the exit doors. Stocks such as Manpower Group (MAN) plummeted from \$75 to less than \$60 on the news, seeing that a good chunk of its revenue is derived from the European Union.



At some point, though, the fear got out of hand.

In fact, it's at that point when you want to buy. Look at what happens to MAN each time RSI gets to or below its 30-line, when MACD plunges, and when Money Flow drops to or below its 20-line. The stock has a tendency to rally.

Smart traders got greedy, as Warren Buffett would advise. Smart traders began to buy the blood in the streets, as Baron Rothschild would advise. They also began to buy the excessive pessimism as Sir John Templeton would.

**However, if it's not fear driving the herd wild, it's greed.**

Before SNAP ever went public, we began buying the Global X Social Media ETF (SOCL) to avoid the herd. We knew that SOCL was the better trade because it has historically run higher on the excitement of new social media issues.

There was no way we would touch the SNAP stock at all. Only foolish traders dared.

Rational traders wouldn't touch it either.

The stock was about to start trading at 60x earnings with a terrible bottom line.

It had already lost \$514 million last year on revenue of \$404 million. It lost another \$169 million in the fourth quarter on \$166 million in sales, too. Growth in users seemed to be slowing thanks in part to explosive competition. User growth dropped from 15% daily active users in the first two quarters of 2016 to 7% by the last two quarters of the year.

That's terrible news. Traders didn't seem to care, though.

Instead, when Snap Inc. first hit the market, traders raced to buy shares, sending it as high as \$29.44 a share. Many were attracted to the hype and glitz that SNAP could be the next \$100 social media stock. They got caught up in herd mentality.

Not long after, SNAP plunged, as SOCL rocketed higher.



Here's how SNAP performed.



In short, avoid the herd at all costs. As Warren Buffett would say, get greedy when others are fearful, and fearful when others are greedy. Never allow yourself to be another sheep in the herd.