



MUSICAL STOCKS: DON'T BE THE ODD MAN OUT

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REMEMBER THE CHILDREN'S GAME, MUSICAL CHAIRS?

Everybody stands behind a chair, the music starts, one chair is taken away and you walk in a circle around the remaining ones. Suddenly, the music stops and everyone scrambles to claim a chair. The object of the game is to not be the odd person out.

It's a bit like the stock market. Many people are investing, most imitating their fellow investors, and marching the same direction around the same circle. At any time, the music could stop and result in a mad dash for the chairs. Except in this case, we'd substitute children for buyers in an overpriced market rushing toward the same stocks.

A sophisticated investor may realize that the music is destined to stop at some point. The stock market is all but static, so it may be wise to prepare for various market conditions. For instance, it may be smart to hold onto a stock through its ups and downs. Many investors may sell at the first sign of a downslide, which may make it tempting to join a selling craze. However, if that same stock rockets back up, these investors could find themselves either losing out on a major gain, or buying back the same stock at a much higher price. Either way, it could be regrettable to sell prematurely and lose out on a potentially golden opportunity.

By sticking to your guns in turbulent waters, you may be in a good position to face the music when it suddenly stops.

Another option to consider instead of clamoring to buy and sell the same stocks as everyone else is to employ a contrarian thought process when selecting equities. By turning to out-of-favor stocks with long-term growth potential, you may discover a hidden gem. An example may be investing in an unpopular sector and picking a stable company within that sector that could offer high returns should the sector become more favorable. You would likely face less competition, making it easier to acquire these types of stocks. Many other investors may be busy following the popular companies gracing the headlines, leaving a window for you to potentially uncover a great opportunity and be at the head of a new trend.

Given the stock market's penchant for swinging in various directions, it may be wise to have a repeatable strategy in place to hedge against these changes. Even the best predictions are just that—predictions. Without a crystal ball, it's impossible to know when the music will stop and a buying or selling frenzy may commence. Don't get left behind—if you see an opportunity, hesitating to act on it may find you without a chair.

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