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Embrace Volatility: A Primer for the Lay Investor

A Monday Morning Musing from Mickey the Mercenary Geologist

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Over the course of the fall conference circuit, I was approached many times by lay investors who cried the blues about market volatility.

In early October I was an invited guest on a panel discussion at the **Chicago Resource Expo**. This was the same venue where I introduced my moniker, **The Mercenary Geologist** (**Mercenary Musing, November 2, 2009**), nearly four years earlier. Someone in the audience expressed concern about volatility in the equity and commodity markets. From somewhere way-far-out in the gray matter, my new mantra appeared out of the fog*: Embrace Volatility!*

Equity and commodity markets remain volatile amidst a European sovereign debt crisis that does not seem to have a resolution. Quantitative easing is still game-on in the developed world. Meanwhile, we are recovering from a brutal tax-loss selling season that left the year-end stock markets shaken up and beaten down. But say hey, what else is new?

2011 was one of the most volatile years in recent memory for all stock markets. At times it seemed almost normal that the Dow would record triple digit days on either the uptick or downside and the S&P 500 would gain or lose 5% or more. We saw gold go up or down $50 or more in a day and at times, in a few hours or even a few minutes; oil would record daily rises or falls of $5. Yikes!

Day traders love short-term volatility because it increases potential for quick gains. But for many of us, extreme volatility fosters a sense of insecurity, worry, and confusion that can lead to an emotional roller coaster ride of episodic fear, panic, and greed.

But I ask, why whine and worry about market volatility? Stock market veterans love volatile markets and so should you. Volatility gives the reasoned and seasoned speculator entry and exit points to generate trades and pocket repeated gains.

About 80% of trades on the New York Stock Exchange are executed by computer programs that often trade together, in sequence, or even in lock-step. Trading begets trading and then more trading, and that spawns more liquidity and higher volatility. However you may choose to view it, mega-scale, programmed, institutional trading is the system we have currently been blessed, burdened, or saddled with.

Since there is nothing you can do about it and it does no good to worry about things you cannot control, I will say this loud and clear again: Embrace Volatility! (**Mercenary Video, December 19, 2011**).

The daily perturbations of the market do not affect your real net worth, so concern about those ups and downs is not only added stress, it's an exercise in futility. Remember that you never record a profit or a loss until you sell a stock and the trade is booked by your brokerage firm. Volatility can work in your favor by offering a multiple choice of entry and exit points and presenting repeated buying and selling opportunities.

That said, volatile markets may require a change or a revision in your short-term trading strategy. Perhaps you buy and sell at shorter time intervals. Perchance you trade more frequently with smaller realized gains versus holding on for the next big thing. Or perhaps, at times you retreat to the sidelines until the downtick presents a no-brainer buying op in a favorite stock. If that happens, you can put in a stink bid and pick up a quality bargain.

The most important part of any trading philosophy is to eliminate emotion from the equation. An emotional trader is inherently a bad trader. Emotions can run the gamut from euphoria to anxiety to fear to panic to greed and back again, and they usually lead to missed opportunities, bad decisions, or stupors where nothing is done in a timely manner.

There is only one reason that you buy a stock: *Because you think it will go higher*. But there are many reasons that you sell a stock: Book profits; record a tax-loss; pay your taxes; take a vacation; bail your delinquent kid out of jail; pay off the mortgage, liquidate for the pending divorce; etc, etc.

Regardless of the reason, trades should always be made without emotion even when the market goes into its oft-repeated cycle of fear, panic, and greed.

One way to take the emotion out of trading stocks is to set target prices based on a well-researched risk/reward profile and then set programmed open orders to buy and sell. This concept is a big part of my trading philosophy called the "**Power of Two**".

You can choose to be intimidated by stock market volatility or you can use it to your advantage. If you choose the former, it is my simple opinion that you become a victim and a perpetual part of the 99%. In that case, you're probably better off going camping in Oakland Park with the Occupy Wall Street crowd.

Personally, my goal is to be among the 1%.

Ciao for now,

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The **Mercenary Geologist Michael S. "Mickey" Fulp** is a Certified Professional Geologist with a B.Sc. Earth Sciences with honor from the University of Tulsa, and M.Sc. Geology from the University of New Mexico. Mickey has over 30 years experience as an exploration geologist searching for economic deposits of base and precious metals, industrial minerals, uranium, coal, oil and gas, and water in North and South America, Europe, and Asia.

Mickey has worked for junior explorers, major mining companies, private companies, and investors as a consulting economic geologist for the past 24 years, specializing in geological mapping, property evaluation, and business development. In addition to Mickey's professional credentials and experience, he is high-altitude proficient, and is bilingual in English and Spanish. From 2003 to 2006, he made four outcrop ore discoveries in Peru, Nevada, Chile, and British Columbia.

Mickey is well-known and highly respected throughout the mining and exploration community due to his ongoing work as an analyst, writer, and speaker.

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