

Ying Wang, Oklahoma County, Spring 2006

Throughout history, money has proven itself to be a vital part of our livelihoods. I learned about the importance of money at an early age. I still remember how I saved dollar by dollar so I could buy the latest comic book for myself or Christmas presents for my family. I've wondered, "Can I make money with money?"

I've always had a curiosity about financial investments, and this semester I set out on a journey to discover their mystery. Out of all the investment options that were introduced to me in my Personal Finance class, stocks interested me the most because they provide the possibility of high capital gain. Although capital gains are *not* guaranteed, I was willing to take the risk because I knew that if I never experienced the risk, I would never learn.

I started my learning experiment by reading Marty Whitman's '*Safe and Cheap Approach*'. This article offered three ingenious tips. The first tip was to theorize what you could lose. If the company lacks assets to keep the shares from going to zero, there is no reason to waste time hypothesizing about the upside potential (Dobratz). I was sure the companies with "high-quality assets" must be blue chip companies, but I made a note to invest in both blue chip stocks and less-established stocks so I could use a real-life experiment to prove the applicability of the theory. The second tip was to invest in companies with tremendous underutilized resources (Dobratz). This tip made perfect sense. If a company has underutilized resources, it could turn them into assets and create wealth in the future. Investing in companies with high future potential is exactly what Warren Buffet did, and his financial success has proven the accuracy of the theory. The third tip was to choose a company with an "economic moat and balance sheet with no significant burdens" (Dobratz). I interpret the tip as "it is better to invest in companies that have large public appeal and the least amount of liabilities."

Memorizing the three tips like verses in the Bible, I began my research in January. I looked up the annual reports and basic charts of blue-chip companies and invested in the ones with highest PE ratios. However, I was very cautious in investing in expensive stocks because I knew that sometimes the popularity of a stock could drive it up to an unreasonable price, and this high price will eventually be followed by a

downfall. As a novice investor, I did not invest in less-established companies at first because I was not familiar with the current economy.

The company I had the most faith in was Google. Google was first incorporated in 1998 by two Ph.D. students who hypothesized a search engine that checked backlinks to estimate a site's importance would produce better results than existing techniques. Their hypothesis was proven accurate by the public's great attraction to this easy search engine. In January 2004 Google arranged an IPO which was projected to raise \$4 billion. However, when the IPO took place, it was valued at nearly \$52 billion (Google).

Google's upward trend caught my eye. It is certainly young, but it has great growth potential. Google is constantly inventing new features. For instance, Google Earth was not only a good "game" tool but also can assist civil engineers. When I went to the *Engineer for a Day* program, I found my sponsoring company using Google Earth to assist it in designing a section of the I-40 project. A few days later I read a news article which announced Google is forming an organization that will try to detect early signs of emerging, global health crises such as bird flu (Buckman B3). Google is expanding its market to various industries that affect our everyday lives, and its power cannot be ignored.

I realized that for me to successfully judge a company's potential, I not only needed to know the company's history but also its current performance. In addition to reading articles offered by Yahoo and watching Bloomberg news, I began to read the *Wall Street Journal* which was provided by my Personal Finance class to keep my economic knowledge updated. By reading the paper everyday, I began to notice that every part of society connects to each other like a charm bracelet—politics, weather, and every other aspect of our lives tie in with the economy and vice versa. For instance, the War in Iraq had caused the Federal Reserve banks to raise the interest rates. As a result the stock prices fell, and bond rates rose (Browning). I understood this teeter-totter trend and stopped worrying about the losses of my portfolio. Another fact I noticed was the increasing sale in raw building materials caused by hurricane Katrina. However, when I invested in raw building material industries, I knew I was investing in a cyclical stock which will not earn anymore profit after the rebuilding of

New Orleans. My hypothesis was proven accurate by the plunging value of Lowe's which lost -\$7,600 or -2.55% by the end of March.

During the project I sold ^W1SUSTRD and ^W1SUSTRE because I knew the shares are too expensive, and I could not gain a sizeable return unless I bought multiple shares which was impossible to do because of my lack of capital. In addition, I sold Disney and Texas Instruments due to their stagnant growth.

When I first started to invest in stocks, I only bought odd lots. As my financial knowledge increased, I started to buy thousands of shares and looked for large capital gains in a short time. At that time, I knew I'd become a speculator. I am a person who learns by experience, and I wanted to know how speculation would affect my investment.

Keeping my blue chip stocks, I began to reinvest my profits in the stocks that would split because I knew as more investors buy stocks at lower prices after the split, the price per share often goes up. The act was somewhat within my risk tolerance range which was above average. My risk assessment analyzed me as an investor who is willing to accept risks in different categories; however, it also stated my portfolio is most likely undiversified. My conduct in this project disproved the latter part of my risk assessment. While my willingness to accept more risk might make me seem like an impulsive investor, my portfolio diversification reduced my risk of high losses and allowed me to earn profit from both defensive and cyclical stocks.

After several successful stock splits, I decided to go to the extreme—day trading. On March 13 I began to trade Dillard's Inc. at various times of the day. My earning was only around three to four hundred dollars which was very disappointing. On the same day I realized the company which I thought was going to split did not only fail to split but also dropped tremendously in value, losing me -\$5,527.92 or -3.43%. I have tried to beat the market and failed miserably.

After my disastrous experiment, I went back to being an investor and again started to research the companies I thought might have great growth potential. As I browsed the Web for economic updates the Enron trial appeared repeatedly, and I began to take interest in the company's welfare. I learned that Enron not only used offshore entities to avoid taxes and offshore accounts to hide its losses but also gave

false information to Enron's investors to encourage them to buy more of the company's stocks while the insiders secretly unloaded their shares. The victims of this investment fraud suffered enormous financial loss.

If I am going to become an investor, I have to protect myself against such frauds. My Personal Finance teacher showed our class a video on investment fraud. The video, *Anatomy of a Fraud: Catching a Con in Pottawatomie County*, exposed con artists' tactics of luring their "preys." By watching this video I've learned I should always be skeptical about investment offers. When the offer uses the word "free" or promises large capital gains, it's most likely a fraud. I should never invest in a hurry or invest in anything I don't understand. Whenever I am not sure about the legitimacy of an investment option, I'll verify it with the Oklahoma Securities Commission.

My investment goal was to gain knowledge about how to invest and become financially literate and independent, and I've achieved my goal through experimentation and research. I learned that I need to diligently gather information on my investments and NEVER act on impulse. All stocks fluctuate, but in the long term overall capital gains from non-speculative stocks far exceed the gains made from day trading.

I view the stock market as a passive income that lets money work for me while I'm working in other ways. I could reinvest my earnings in more assets which not only makes capital gains that far exceed inflation rates but also allows me to defer tax to an infinite date. In this way I am controlling my money rather than allowing money to control me.

The knowledge I have obtained from this project has paved a road to financial independence for me. I plan to invest in securities during my first year in college, or if I'm ready during my senior year in high school. I will invest the money I have in savings and CDs. I plan to divide my investments into short-term, mid-range, and long term investments, but of course I will have to read many books on investments before I invest in the highly risky securities.

I've already expanded on my investment goals into the long-term goals such as home ownership and retirement. Currently the Social Security reform has deprived our generation of old-age insurance thus making financial independence harder to achieve.

I've decided to set up an individual retirement account as early as possible and further increase my retirement fund by obtaining a 401(k) and various investments.

Now I ask myself again, "Can I make money with money?" The answer is definitely "YES." During the two months of my investment, I've obtained a portfolio gain of 61.63% and a priceless amount of knowledge. I've learned that being an investor is not about how to time the market for short term return, but how to learn to be patient with time to obtain a larger return. Being an investor is like adventuring in the world of business. If I never experimented, how could I have learned?