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Buy low, sell high

George Bernard Shaw, who distrusted doctors, thought that most professions were conspiracies against the laity. He also claimed that most doctors were no more scientific than their tailors--a grossly unfair comparison because tailors generally use English, whereas doctors, rather like their brokers and financial advisers, often speak a jargon nobody else understands. Doctors also share with finance people a passion for ratios and indices--such as the albumin globulin ratio, the thyroid diagnostic index, the Dow or the Footsie. At times, moreover, neither group knows what it is doing. Thus an astonishing number of people trading in common stocks, noted the legendary Benjamin Graham, "don't appear to know--in polite terms--one part of their anatomy from another," bringing to mind Voltaire's saying about doctors giving medicines they know little about to patients they know nothing about.

Extending the analogy further, doctors compulsively plot temperature, pulse, urine output, or blood chemistries; technical stock market analysts plot the price and volume of shares traded, and then draw trend lines and study patterns and moving averages on the basis that "the trend is their friend." By contrast, fundamental analysts are more like holistic doctors, evaluating a company's entire condition--its price, earnings, sales, cash flow, debt, assets, liabilities, and returns on revenue or assets.

Both doctors and investors also receive much "expert" advice, seemingly authoritative but often contradictory. When a stock goes up they are told to "let your earnings run," but also "it never hurts to take a profit" or "hogs get slaughtered"--advice as confusing as several doctors consulting on a case. Both disciplines have legions of gurus and experts who give talks, appear on television, write, and hold seminars. They are often wrong but rarely in doubt. Conventions on investing are like medical meetings, with boutiques, lectures, and meet the expert or professor luncheons.

There are also similarities in what makes for success. The seasoned investor knows why he buys a stock and stays the course, knowing that markets swing widely but generally reward the long term players. The good doctor likewise has developed Sir William Osler's imperturbability and "aequanimitas." He is not the first to try every new treatment, nor does he change course every day, just as the seasoned investor is not stampeded by mass hysterias.

Yet the market respects contrarian opinions and it often pays to be bullish when everybody else is bearish and vice versa. In medicine, by contrast, contrarian views are often poorly received. Remember how Ignaz Semmelweis was run out of town because his unconventional theories offended the medical establishment of the time. Had he invested accordingly on the Vienna bourse he might have become a millionaire. But Baron Rothschild, when asked about the secret of his success, anticipated the era of transgenic animals by explaining that he "bought sheep and sold deer."--