Five Easy Ways to Be Greedy as Others are Fearful

Major index futures plunged.

The Dow Jones fell 2,506 points. The NASDAQ fell 1,050. The S&P 500 was down as much as 311 points. Investors panicked and sold.

> “Indeed, a wall of worry has morphed into [a] towering wall of pain as extremely fragile circumstance across the capital markets continues to undermine investor confidence,” said Stephen Innes, head of trading at Oanda Corporation, as quoted by MarketWatch.

All thanks to a mountain of worry.

Some believe the Federal Reserve made a mistake raising rates, which could make borrowing much more expensive. Mid-term election jitters can be blamed. The looming end of quantitative easing is ending in Europe. Earnings growth may be slowing.

And then of course, the trade war between China and the U.S. hasn’t been well received.

Interesting to note, this is all happening in the worst month of the year, mind you.

We did quite well in the panic with the following trades on September 24, 2018:

- Velocity Shares Daily 2x VIX Short-Term ETN (TVIX), which traded at $26.25
- iPath S&P 500 VIX Short-Term Futures (VXX), which traded at $26.85
- ProShares Ultra VIX Short-Term Futures (UVXY), which traded at $37.22

We recommended exiting half of each just last week. Now, we’re recommending that you exit the second halves of these as well.

That's because, it's time to…

Be Greedy when Others are Fearful

But remember, extreme panic typically gives way to opportunity.

To this day, Warren Buffett still advises that a "climate of fear is your friend when investing; a euphoric world is your enemy." And of course, we all remember his advice to "be fearful when others are greedy and greedy when others are fearful."

Sir John Templeton would advise to buy excessive pessimism. The best example was in 1939.

Europe was just about decimated. So, Templeton bought every European stock trading below $1.00 a share and made a fortune. He bought shares in 104 companies for about $10,400. Four years later, his account balance topped $40,000 even though 34 companies had gone bankrupt.

Investing legend Baron Rothschild once told investors, "The time to buy is when there's blood in the streets, even if the blood is your own." He knew that very well, considering he made a small fortune buying the panic that followed the Battle of Waterloo against Napoleon. In short, if you can embrace fear in times of max pessimism you can make a fortune, he'd tell you.

How to Get Greedy when Others are Fearful

There's a lot of lost ground to cover.

In fact, we believe that once the midterm elections pass, we could see bearish gap refills on all of the major indices.

The best way to trade that potential is by establishing a position in each of the following:

- ProShares Short VIX Short-term Futures ETF (SVXY)
- VelocityShares Daily Inverse VIX Medium Term ETN (ZIV)
- SPDR Dow Jones Industrials (DIA) Dec. 21, 2018 250 calls
- Invesco QQQ Trust (QQQ) Dec. 21, 2018 170 calls
- SPDR S&P 500 ETF Trust (SPY) Nov. 16, 2018 270 calls

To reinforce what Buffett often says in a pullback. The last thing you ever want to do – especially now – is panic.

Any time the market goes haywire, remember these key rules from Warren Buffett:

Rule No. 1 – Have Cash on Hand

"Cash, though, is to a business as oxygen is to an individual: never thought about when it is present, the only thing in mind when it is absent," Buffett says.

Rule No. 2 – Don't Follow the Herd

One of the key reasons that many investors under-perform in the market is because they move in and out of assets at the wrong time. Therefore, an investor sees everyone else making money from rising markets. This is when they tend to throw every spare dollar into their investments. Unfortunately, when that same investor sees a group of other investors selling, that investor sells too. According to Buffett, they are influenced by the herd mentality, which can be extremely damaging to a trading portfolio.

Rule No. 3 – Be in a Strong Position to Capitalize

With cash on hand, Buffett has the financial flexibility to take advantage of any opportunity that presents itself. As the billionaire often points out, keeping some cash on hand allows you to benefit from corrections without having to sell other investments from your portfolio.