Upside Maximizer:

A Proven Buy Low, Sell High Strategy

"Buy low, sell high."
It's the oldest cliché on Wall Street.

That's not because it's untrue,
but because it's easier said than done.

This report lays out a strategy developed over decades to buy low and sell high for extraordinary gains—with the least amount of risk possible.

This being every speculator's goal, the idea requires no justification.

How to Buy Low

It turns out that the "buy low" part of the recipe is easy to identify. From a strictly financial point of view, the ideal time is a classic "blood in the streets" period. Such times are—happily for us as human beings—rare. But there are plenty of times when various markets or asset classes hit obvious cyclical lows that present compelling opportunities to buy low.

For anyone new to the resource sector, it's famously one of the most cyclical markets of all. Its boom-bust cycles are legendary—and the basis of the fortunes built by many famous speculators.

This isn't just because they're gold bugs, or myopically focused on commodities above all else. That's untrue of any of the great speculators I know.

It's because natural resources are always needed, and their prices must go up when they become oversold.

This is very different from fashionable ETFs, shoe designs, hot software products, or Wall Street trading ideas like "short vol."

Even the best of us can't time a commodity rally, but we can see when something necessary is oversold and a rally must occur.

In other words, in the resource sector, "buy low" opportunities are obvious to anyone who cares to have an objective look.

… markets often overshoot rising to ridiculously overbought price levels on the upside and falling to obviously oversold levels on the downside …

The problem is not a lack of clarity; it's a lack of courage.

By this I don't mean bold, reckless courage. I mean calm, calculated courage based on confidence in one's knowledge of the facts of the situation.

When something like the price of copper drops below what it costs to produce the stuff, copper prices must rise. It's either that or copper won't be produced. In our increasingly electrified world, that ain't gonna happen.

If this is so obvious, why don't more investors act on these opportunities?

Investor psychology.

Most investors seem to base their decisions on recent experience. That's not without good reason. If something is working, it generally makes sense to keep doing it. If something isn't working, it makes sense to stop doing it and stay away.

But like any pattern, such trends are only useful as long as they hold true. In our ever-changing world, no investment strategy works forever.

Still, it's understandable that if something like copper has done nothing but generate losses for investors for years and years, investors will stay away.

This is why successful speculation—buying low and selling high—requires a contrarian mindset—and the courage to act on it.

That's hard enough for an individual making her or his own calls. It's extremely difficult for financial professionals on whom the public relies, or who have to report to an investment committee.

That, in turn, is why markets often overshoot rising to ridiculously overbought price levels on the upside and falling to obviously oversold levels on the downside.

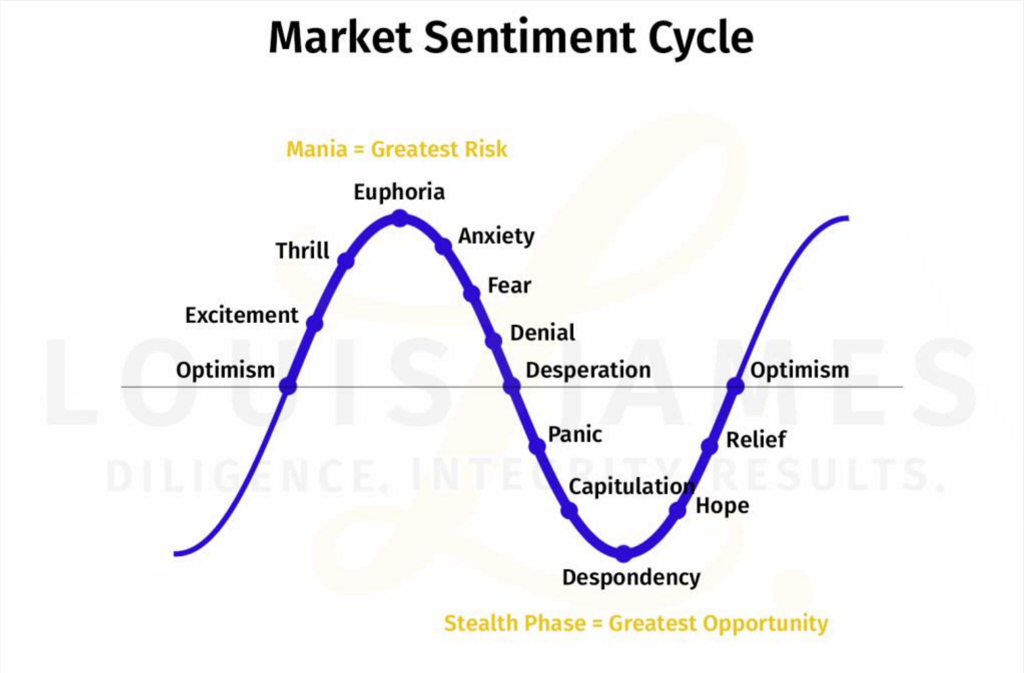
In short, it's not that difficult to find opportunities to buy low if one is willing to break from the investment herd and take calculated risks. It takes patience, courage, and discipline, but it can be done. Repeatedly.

Specifics for Buying Low

The principles above apply to any sector of investing. I focus on the resource sector due to the tremendously cyclical nature of commodities prices.

Here are some specifics for buying low in the resource space:

- **Make despondency your friend.** Anything *necessary* that's selling for less than the cost of production is a buy. Of course, any company in the space at such a time—and most investors in such companies—have gone beyond desperation and panic and fallen into despondency. That's what makes it the period of greatest opportunity.



Note the key word "necessary" in my statement above. When the price of Pet Rocks fell below what it cost to package and mail them, that business ceased to exist. But when the price of oil—something the world still finds quite necessary— went negative in early 2020, it was obvious to all investors that it would rebound. And it did.

… we have to be able to resist the fear of missing out (FOMO) while the bull market is raging. But we also don't want to chicken out way before the party is over …

The strange fact is that in the world of commodities, prices sometimes fall below the cost of production and stay there for years. Previously high prices often incent oversupply. Until that turns into an acute deficit, prices remain at fire sale levels.

So, while anything necessary that's selling for less than the cost of production is a buy, that doesn't necessarily make it an urgent buy. Patient speculators can buy the best of the best in the space—ideally when offered at stupid-cheap prices—and wait until Mr. Market belatedly realizes the opportunity and piles in. This can take a while, but usually results in the biggest wins.

- **Make use of the "stealth" phase of the market cycle.** Less patient but still disciplined speculators can wait for signs that the commodity has bottomed and is recovering—but is still cheap and ignored by most investors. This is the period after hope, but before optimism in the chart above. At this stealth phase of the cycle, "everyone" remembers that the metal or commodity in question was a loser for years, so it's still relatively easy to get on board at good prices. It still takes courage to be in a tiny minority among investors, but it's precisely because the commodity has yet to become a hot trade that it's still possible to buy low.

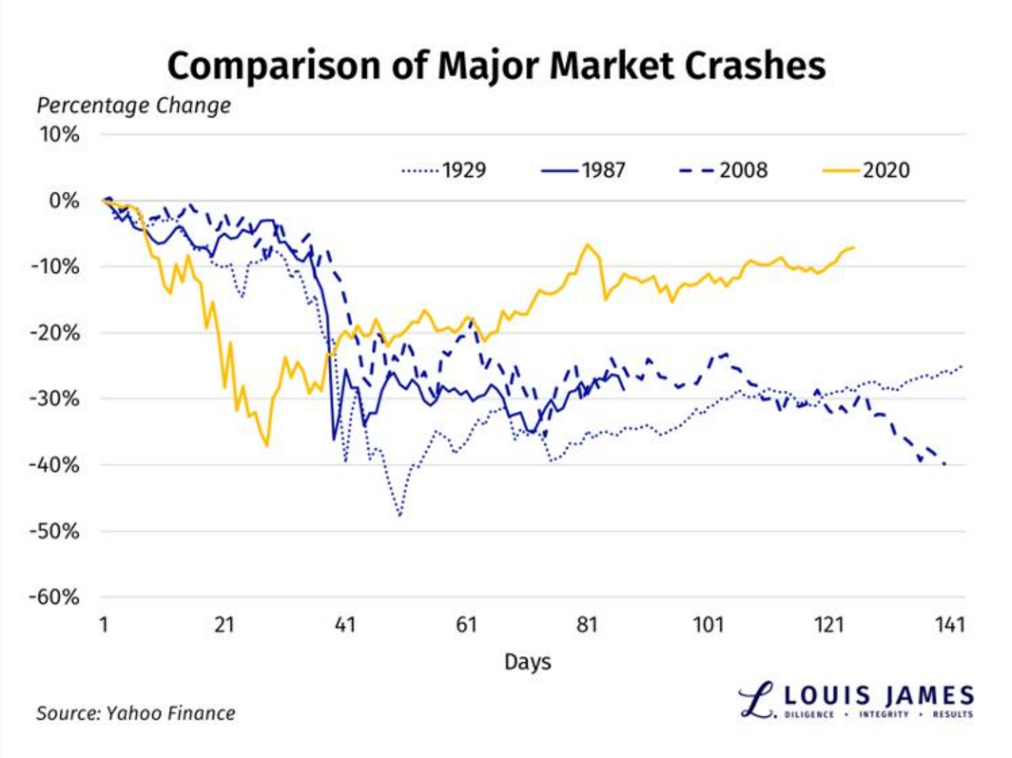
- **Make volatility your friend while climbing the wall of worry.** If you missed the bottom in a cyclical commodity, the game isn't over. Commodity prices are infamously volatile. Major corrections and retracements are common along the long climb up to levels that could be called fully valued, let alone overvalued. Buying during such retreats also takes great courage, as others will be panicking and bailing out. And those who never bought in will be crowing, "See, we told you it was a bad idea!" As long as the fundamentals for the commodity in question remain bullish and prices can't be called overbought, the odds say we can treat corrections as buying opportunities.

- **Don't kid yourself about assets that are no longer opportunities to buy low.** This may seem obvious, but it's important to keep in mind, because once an asset goes into a bull market everyone can see, it will attract a group of cheerleaders who will tell investors it's still cheap, it's still going higher, it's going to the moon—right up to the point prices fall off a cliff… and even after this point. One clear sign that a commodity can no longer be called a "buy low" opportunity is when its producers are raking in cash. At any time after that point, it may be possible to "buy high, and hope to sell higher," but it can't honestly be called a buy low opportunity. It's best to face that truth and look for new opportunities to buy low.

- **It's possible to "buy low" in an overbought market by going short—but beware.** Short contracts require one to not only be right about the price direction of an asset, one has to get the timing right as well. This requires a rare skillset, even among contrarian investors. It can be done, but the risks are much greater for most folks.

One more point of general guidance for buying low:

- **Dead cats rarely bounce more than 15%.** If we look at the major market crashes in the last 100 years, as per the chart below, we can see the clear dangers of trying to catch a falling knife.



(The declines in the chart above are all of the Dow, which was not hit so hard by the Dot-Com Crash of 2000.)

But market meltdowns do bottom. And with few exceptions, recoveries ("dead cat bounces") on the way down rarely exceed about 15%. This meshes with the common definition of a new bull market being "official" when the recovery reaches 20%. That's not always true. There was a 50% rebound early in the Crash of 1929, for one famous instance. But history says it's a reasonable bet that after a 15% to 20% recovery, the bottom is in and it's time to speculate while prices are still relatively low.

> **This buying trigger does not apply to individual stocks.** It applies only to entire markets experiencing "blood in the streets." It's a rule of thumb for answering the "when is it safe enough to get back in the water" question.

For more guidance on speculation in general, please see our free report, ***Speculation 101***.

How to Sell High

Selling high is the opposite of buying low in more ways than one. Opportunities to buy low tend to be pretty obvious, needing only courage to act on. But selling high is much trickier for most investors.

Predicting a peak price is extremely difficult. I've never even heard of anyone doing it reliably. Getting lucky on timing doesn't count.

And the attribute required to sell before a peak while prices are still high isn't courage. I'm not sure what the right word for it is. It's a contrarian sense, certainly.

Instead of taking courage, selling high takes caution.

More specifically, it takes an ability to give due consideration to one's fears without letting them prompt us to hasty action. By that I mean we have to be able to resist the fear of missing out (FOMO) while the bull market is raging. But we also don't want to chicken out way before the party is over.

> *… the problem with the CFR formula is that it turns 10-baggers into 5-baggers …*

In the same way we needed calculated courage when it's time to buy—not bold, reckless courage—we need calculated caution now.

We need to be willing to face the facts, accept the odds, and book our wins while we have them, whatever may come next.

That's the hard part: the psychology.

Knowing when to sell used to be very difficult for me as well, but I've developed a method to help us make these decisions…

The Upside Maximizer

Since none of us can know the impossible in advance (when prices will peak), what signals can we use to help us lock in our gains without selling too soon?

In short, how do we know it's time to sell high?

Years ago, Doug Casey taught me to sell half on the first double (a practice Marin Katusa later dubbed the Casey Free Ride—"CFR"). This gets all of our initial investment back out of potential harm's way while retaining the same upside we started with. Great for sleeping well at night.

The problem with the CFR formula is that it turns 10-baggers into 5-baggers, doubles into 50% wins, and so forth.

But staying long after the first double keeps all the risk in the play.

No gain is an actual win until shares are sold and profits realized.

Having a fortune within grasp that could evaporate at any second is no recipe for sleeping well at night.

Answer: we use trailing stop losses.

However, since we're not using them to prevent losses but to lock in gains, this tool should be called an **Upside Maximizer Gains (UM)**.

We still own our full position in the stock as long as it continues to rise within its normal range of volatility.

When a stock becomes a big winner—a double or better—we put a UM on it rather than take profits or recover initial investment. **Unlike the CFR strategy, this doesn't automatically cut the remaining upside in half.** We still own our full position in the stock as long as it continues to rise within its normal range of volatility. If it goes up 10x before correcting sharply, we get our full 10-bagger.

Of course, few things ever shoot up 10x without some serious retreats along the way. I'm not sure I've ever seen that happen. A gains lock that actually did its job of locking in gains would likely be triggered long before a stock rose that high.

Let's say the first big correction in a smashing success story—one that goes on to rise 1,000%—happens when the stock is up 300%. If we recover our initial investment then, we still end up with a much bigger win by the time the shares do go up 10x than we would have if we'd sold half on the first double.

And we still get to sleep at night.

The only case in which this strategy underperforms the CFR formula is if the stock drops immediately after doubling without rising any further. That precise a peak at 100% may be as rare as a stock that goes up 1,000% without any serious correction along the way. And the difference between CFR and the Upside Maximizer in this rare case isn't that much, so I'm not going to lose any sleep over it.

Upside Optionality

Better yet, we have options when an Upside Maximizer is triggered on a big win. We can…

- Sell entirely and move on.
- Recover only our initial investment and leave most of the money exposed to the remaining upside.
- Take more profits, cashing out a bigger initial win, but still leaving some money in the play.
- Sell some amount in between (as needed for kids' college tuition, buying a house, for a new speculation, etc.)

How we play this has to do with the level of risk we perceive in the speculation going forward.

How to Set UM Triggers

Every stock or asset price has its own characteristic volatility—and that changes over time. Our UMs need to be sensitive enough to get us out if our big win takes a real downward turn, but not so sensitive that we get stopped out on normal daily volatility.

Also, each of us has our own tolerance for risk. The more risk-averse among us will want to set tighter UM triggers. Those who want to swing for the bleachers will want the opposite.

Our outlook on the stock or asset in question, as well as our general outlook for that market sector, can and should also influence our decisions on how tightly to set our UMs.

There is no single formula for setting Upside Maximizers. This is important to keep in mind because there are services that will send you trailing stop-loss signals. I'm not sure that these can be customized enough to make them right for each of us in our individual circumstances.

But I can give you some guidelines:

- **We can easily determine typical trading volatility by just looking at a stock chart.** Remember that we're talking about locking in gains on a stock that's rising. So we can look at the price declines after interim highs (because we're looking for downward volatility). That shows us what's normal and what would be abnormal and should trigger a UM. We can enter these declines in a spreadsheet and calculate the average typical volatility. Or we can just eyeball it—honestly, the difference won't be very significant.

- **For resource stocks, which are famously volatile, I do not use intraday volatility.** I count price movements from close to close. I've seen stocks soar 50% intraday just because of some trader's momentary madness, or because a broker types the wrong number into a terminal by accident.

- **I never let a machine do my selling for me.** Most online brokerage platforms have trailing stop-loss functions. But these are triggered intraday. That's too prone to false positives. Also, at the time a UM is triggered, I may want to take more or less profit than I had thought before. I want to make that call with the latest market information in hand. And, under exceptional circumstances—like getting triggered by something which I'm sure is being temporarily misinterpreted by other investors—I may not want to execute on the UM trigger at all. Consequently, I never use the stop loss functions on online trading platforms. I watch my stocks daily. **When a UM is triggered by a closing price, I execute my trades myself online, or via instructions to my brokers, the next day.**

  If you subscribe to ***The Independent Speculator***, I'll send you an *IS Alert* the day the UM is triggered, and another the next day, reporting the results of my selling. You can do this on your own, of course, as long as you're willing to watch the stocks daily. But don't trust a machine to do it for you.

- **Consider relevant time frames.** I want to set my UM triggers at levels that exceed typical downward volatility in the current market context. What happened 10 years ago is not relevant. What happened a few months ago may not be relevant if the company has made a game-changing discovery since then. The same goes if the market has changed since (for example, after a major event like the meltdown last March). I generally look for the typical volatility over the months or weeks in which the stock has been visibly behaving in the same way. This is easy to identify on a stock chart. (See example below.)

- **Tailor your UM to your needs.** How you make this strategy your own is to apply a multiplier to the typical volatility. If I'm skeptical that the stock will keep rising or I'm worried about the market topping, I might set my UM at 1.5x typical volatility. I might even set it as low as 1.25x typical volatility, if I'm convinced the stock is peaking, or if I want to go ahead and book the win in the near term anyway. If I'm much more confident and really don't want to get stopped out too easily, I might set my UMGL at 2x typical volatility. I might even set it at 3x, if I'm extremely bullish and only want to be stopped out in case of a major setback.

- **UMs are for big wins—at least 100%.** Remember that the idea here is not to let big wins slip through our fingers. This and only this. **In general, resource stocks are too volatile to use stop losses for their normal purpose of preventing losses.** That can—and in my experience often does—result in selling at what turns out to be a great time to average down.

Let's consider an example. Suppose I had a big win on Ely Gold Royalties this year and wanted to put a UM on it when it took off after the March meltdown. Here's the chart.

First, notice that the volatility in 2019 looks much smaller than in 2020. That's partly a function of scale, but it shows a clear example of what I mean by picking a relevant context. If I had bought this stock earlier and put a UM on it, I'd have been stopped out in March for sure.

But say I liked the company and had bought after such stocks recovered 20% from their bottoms in March. I've circled three periods that we can call normal downward volatility, at which points I wouldn't have wanted to get triggered. The average drop in those cases was about 7%. So, I wouldn't want to set a UM too close to -7% from the highest preceding close, or it could get triggered too easily. If I set it at 1.5x vol, then I would get triggered on a 10.5% decline. At 2x vol, it would be -14%, and so forth.

It's interesting to note that any of these—even the more aggressive 3x UM trigger—would have been triggered in early June. That might have seemed like a mistake come July… but the stock is almost back down to that level again as I type in early August of 2020. Seems to me that the UM would've done its job.

And remember, if I was very bullish on the stock, it was up so much, I could have recovered my initial investment on June 1 and still have more money left in play than I started with. Or if I had turned bearish, I could have taken all my profits, booked a big win, and still have just as much money left in the play as I started with.

Executing UMs

Let's walk through another example to make sure we cover all the bases.

Say I buy a stock for $1 and it rises to and closes at $2. It's time for a UM.

Let's say the typical downward volatility is 10%, and I remain very bullish on the stock and the commodity. I don't want to get stopped out too easily, so I set my UM at 2x vol. That'd be -20%. At that moment, this would mean taking some sort of profits if the price fell to $1.60.

Remember: if the stock rose above $2 intraday but then closed much lower, say $1.50, I would not put the UM on it, because it hadn't doubled in a realizable way yet.

Then the stock shoots up to and closes at $3 without triggering my UM. The trigger is still -20%, but it's -20% of $3 now, so it equates to $2.40.

If the stock spiked to $3 intraday but then closed much lower, say $2.50, the UM would ratchet up to $2.50 -20% = $2.

If the stock spiked to $3 intraday but then closed back at $2 again, the UM wouldn't change at all.

Then the stock shoots up to and closes at $5 without triggering my UM. The trigger is still -20%, but it's -20% of $5 now, so it equates to $4.

And so on.

Suppose that in this example, I buy 10,000 shares for $1. I set a UM at -20% when the stock rises above $2. This gets triggered after retreating 20% from $5 to $4. I still like the commodity and the company, so I recover just my initial $10,000 investment. That means selling 2,500 shares, leaving 7,500 shares worth $30,000 on the table. Then the stock becomes a 10-bagger, rising 10x over my initial entry point. That's $10 per share. I decide that's good enough and exit the trade, selling my entire position.

Thanks to my UM, I have my original $10,000 back in hand and $75,000 worth of stock—a 750% gain.

Sure beats the 500% gain I'd have if I sold half on the first double.

And I still get to sleep at night.

In practice, it won't be so neat, remember that when I do get triggered, it will be on a closing price. I'll have time to consider the current market context and decide how much to sell the next day. This could result in me getting out at a lower price than my UM trigger. I'm fine with that. It's a price I'm willing to pay in order to call my own shots, rather than have a machine do it for me.

On the other paw, the market may rebound the next day, and I may be able to take my profits at a higher price than the one I was triggered at.

Key Point: Even if a stock is rallying strongly after a UM is triggered, I still want to execute.

After all, the stock could be rallying that morning—and then fall off a cliff by the end of the day. The idea here is to make sure gains don't slip through our fingers. If we don't follow through on our UM triggers, we might as well not have them.

And remember: just because our UM is triggered, that doesn't mean we have to sell our entire position. We can just scrape our initial investment back off the table and let the bulk of the money ride whatever upside remains—with no risk at all to our starting capital.

If the company is having problems, the country risk has risen since I bought it, or the market looks way overbought, I'm more inclined to sell outright or take a larger portion of profits.

If I like the play better than ever, I'm inclined to take minimal profits to retain maximum upside.

To each his or her own, of course.

Bottom Line

This is how I buy low and sell high.

It requires more patience and discipline than chasing after whatever investment fads are the flavor of the day—but it delivers great results more reliably. You can see how I've done so far on **my public track record**.

If you'd like to see which opportunities to buy low I'm pursuing with my own money—and how I'm executing my UMs to sell high—you're welcome to subscribe to ***The Independent Speculator***.

But the idea is yours, free of charge. I hope it serves you well… and that in the future, you'll remember who gave it to you.

Caveat emptor,

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