

## **An excellent trading lesson from Dennis Gartman, October 2011**

**THIS WAS BAD ADVICE:** A well known hedge fund manager... who shall remain anonymous for we see no reason in making more enemies than we already have on The Street... was short of the Netflix last year, selling it at prices above \$200/share. One would think that this hedge fund manager would be ecstatic about what has happened to Netflix since but one would be wrong, for this gentleman covered his short position at or near \$250/share, losing a great deal of money, all the more sad given that NFLX is now trading nearer to \$75/share and has been rather obviously bearishly in the news of late.

What do we find sad about this manager's position and his advice given earlier this week in an interview with The Wall Street Journal? We find it sad that the manager said that in retrospect he should have believed his own analysis; should have remained short and should have added to his losing position as the price moved above \$250/share rather than covering. This is nonsense; this is bad trading of the worst kind and this is the sort of thing that the public really must needs avoid. Having had the stock move against him from \$200 to \$250, the market was shouting at this manager that he was wrong and badly so. Adding to a losing trade is the only sure way to eventual failure in this business of trading. Ask Nick Leeson, or ask the boys at Long Term Capital Management... they'll tell you.

There was plenty of time as NFLX began to falter to have been short of this stock, and indeed, it was a much better short at \$175 and was falling than at \$250 and rising, for at least when it was falling one who was bearish had the bearish wind at his back. 'tis always better to trade that way than to be heroic and try to find the top... which one never, ever can anyway. Ask us; we know!

To this we add our own story, for we were short several thousand shares of NFLX a month or so ago in our own personal account and got the benefit of the first \$35/share plunge. What did we do? We handled this poorly, covering that day because that seemed like an excessive... an egregious... over-extension to the downside. How wrong we were, however, as NFLX stock has fallen another \$45/share from that level and we are out and have missed that plunge. Our error was almost as ill-advised as was that of the hedge fund manager noted above; indeed, in many respects it is worse, for our trade was never behind; it was profitable from the outset. We should have sat tight and we should have added to the trade. Live then and learn. Live then and very much learn.