

POWER TIP

Fire and Rain (Keeping Your Gunpowder Dry)

Maintaining at least some cash level, or available equity-buying power, along with a “wish list” of stocks that you would like to buy if prices become attractive enough is an excellent way to create wealth. A cash level of 10% of your total portfolio represents a good starting point. When things get ugly, selling begets selling, and often quality companies see their stock prices cut to unreasonably cheap levels. This is when you want to be the buyer and not the seller. These opportunities might not present themselves for years, but when they do you need to have the ammunition necessary to shoot the fish in the barrel. Maintain the discipline of having your target list and the means to buy them at fire-sale prices. When people need to raise cash, they will sell at virtually any price. That is where you step in. Remember, since your portfolio likely has exposure beyond your long stocks by way of short puts and short calls, even though you have 10% of your capital in the form of cash, your total portfolio exposure may well exceed 100%. This is another advantage of using options in your portfolio; it allows you to maintain high levels of exposure to the market while still keeping your gunpowder dry for future opportunities.