

How I See It (Part III): Strategy vs. Tactics

What is the difference between strategy and tactics? Strategy is an overview of the whole situation, and what your response should be. As an example, I believe that currently, the United States has many difficulties, the least of which are our dependency on oil, terrorism, a falling dollar, public and private debt, an unsettled Federal Reserve, and a very, very, complacent investing public. There is, of course, much more. The response is to assume a defensive attitude, which is contrary to most people's thinking today. Tactics are the actions taken to implement the strategy. In this series of emails, I have been discussing the tactics implemented over the past year that deployed the defensive strategy. We've discussed housing, and most recently gold and silver. Over the next several emails, we'll conclude by examining the energy sector, from oil and gas to service, and the overall markets, and their direction.

Today, however, I want to focus on a tactic implemented last year. Tobacco is a defensive play. The tactic was to watch the tobacco industry, and all the pending and existing lawsuits. When it appeared the all-clear signal was given (a judgment call), it was time to step-up to the plate, and add at least 5% to the portfolio. Although uncertainty abounded, by buying best of breed and receiving a good dividend, it seemed like a judicious tactic to employ. As the months went on, and the stock declined, I never wavered (though I had some sleepless nights.) Tactics, you see, sometimes take longer to work out than one thinks. As we went into the new year, other investors came to the same conclusion that I did. Regardless of how bad things got in the world, smoking is a vice that would not go away. It seemed everybody liked best of breed. When everyone becomes a buyer, that's called a "crowded trade." A "crowded" trade means no one is left to buy, and the only direction for the stock is down. Therefore, the wisest course of action was to take the double-digit gain and the dividend, and say thank you very much, a tactic successfully concluded.

Having a solid strategy and implementing the necessary tactics can be difficult and troublesome at times because not everyone has the patience necessary in order for the strategy to develop. However, if you have patience, in the long run, it can be most rewarding.

Till next time,

Bill

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