Practical US Stock Investment Strategy

A Complete Guide for Korean Investors

From Basics to Practice: The Definitive US Stock Guide for Korean Investors

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CHAPTER 1

Fundamental Principles of Stock Investing

A Journey to Build Your Investment Foundation

1.1 Why Invest in Stocks

Everyone has probably had this thought at least once: 'Wouldn't it be safe to just put the money I earned from hard work into a bank? Won't I be incredibly wealthy in the future?' Of course, bank deposits guarantee the principal, and under the deposit protection system, up to 50 million won is securely guaranteed. But there is a fact that most people overlook here. That is inflation — the rise in prices. Entering the 2020s, inflation intensified globally. South Korea's consumer price inflation rate has been fluctuating between 2-5% annually. Meanwhile, bank fixed deposit interest rates have remained at similarly low levels. In other words, the money earned from interest is mostly offset by inflation. While your money in the bank grows numerically with interest, your real purchasing power actually decreases. If something costs 10 million won today but will cost 10.3 million won next year, and you only earned 200,000 won in interest, you've effectively lost 100,000 won. So what investment vehicles can beat inflation? Historically, the investment method with the highest long-term returns is stocks. In the case of the US stock market, the S&P 500 index has recorded an average annual nominal return of about 10% over the past 100 years, and after excluding inflation, a real return of about 7%. The Korean stock market has also shown an average annual return of about 7% since the KOSPI launched in 1980.

Of course, unlike bank deposits, stocks carry the risk of principal loss, which is called risk. In some years, stocks experience drops of over 30%. During the 2008 Global Financial Crisis, the KOSPI index plunged about 36% from its peak. However, the important fact is that after every major crash in history, the stock market eventually recovered and reached new highs. The problem is not stock investing itself, but how you invest. However, most people simply 'invest in stocks' without thinking about how to develop their own investment approach.

Bank Deposits vs Stocks vs Real Estate: Long-term Return Comparison

One of the most important criteria when choosing an investment vehicle is long-term returns. Since each asset class has different characteristics, it's important to choose the one that fits your situation and goals.

Asset Type	Avg Annual Return	Volatility	Liquidity	Entry Barrier
Bank Deposits	2.5%	Almost None	Very High	Very Low
Domestic Stocks	6~7%	High	High	Low
Foreign Stocks (US)	10~11%	High	High	Low
Real Estate	6~9%	Medium	Very Low	Very High
Bonds (Domestic)	2~3%	Low	Medium	Medium
Gold	6~8%	Medium	Medium	Low

There are several noteworthy points in this table. First, stock returns are higher than other asset classes. Second, high returns come with high volatility. Third, unlike real estate, stocks have a very low entry barrier. You can start stock investing with just tens of thousands of won. Real estate has traditionally been the most preferred investment asset for Koreans. However, real estate investment requires initial capital of hundreds of millions of won, has poor liquidity, involves management costs, and carries a heavy tax burden. It is also heavily influenced by government regulations. In contrast, stocks can be started with small amounts, and with the development of online markets, buying and selling can be done with a single click, freely choosing from tens of thousands of companies worldwide.

The concept of 'making your money work for you' — Many legendary investors and people who have amassed enormous wealth commonly say this: If your money cannot earn money, you cannot achieve financial freedom. A salaried worker's income has physical limitations. There are only so many hours in a day to work, and there are limits to stamina and age. This is called 'earned income.' On the other hand, when you hold stocks, even while you sleep, while you travel, and even after you die, the company uses your money to run its business and generate profits. This is the essence of 'capital income.' There are broadly two ways to make money from stock investing.

The first is capital gains from stock price appreciation. If you buy a stock at 10,000 won and it rises to 15,000 won, you earn a 5,000 won gain. The second is dividends — a portion of the company's profits distributed to shareholders. Dividends can

be received regularly like bank interest, making them attractive to investors seeking stable cash flow, but they are not attractive if the investment amount is small. Ultimately, the essence of stock investing is 'owning a part of a good company.' If you buy one share of Samsung Electronics, you become one of Samsung Electronics' owners. When Samsung Electronics sells semiconductors and makes a profit, a portion of that profit belongs to you. Once you adopt this perspective, your fundamental view of stock investing changes.

1.2 The Difference Between Investing and Speculation

Among the many people participating in the stock market, a significant number believe they are 'investing,' and I was the same. However, when you look at their actual behavior, many cases are closer to 'speculation.' Distinguishing between investing and speculation is not merely an academic classification — it is a crucial difference that separates profit from loss.

Definition of Investing

Investing is the act of analyzing a company's fundamentals, buying when the market price is cheap relative to that value, and holding for the medium to long term. One of Warren Buffett's famous quotes says: 'If you aren't willing to own a stock for ten years, don't even think about owning it for ten minutes.' An investor should carefully examine a company's revenue, profits, growth potential, and competitiveness, and make decisions based on rational grounds — this is investing.

The biggest characteristic of investing is that there is 'rationale.' There is a clear plan for why you are buying this company, when you will sell, and how you will respond if your expectations are wrong. Additionally, an investor acknowledges that their judgment may be wrong and prepares countermeasures. The 'rationale' mentioned here is based on the company's fundamentals, not technical analysis.

Characteristics of Speculation

Speculation, on the other hand, is the act of betting on short-term price movements regardless of a company's value. Many people call this 'day trading.' Speculators rely on a vague feeling that 'this stock will go up,' herd mentality because everyone around them is buying, or baseless conviction that 'the chart looks like this so it will go up.' The most dangerous aspect of speculation is that even when successful, you cannot distinguish whether it was skill or luck. After making profits once or twice, you develop the delusion that you have special abilities, and you bet increasingly larger amounts. Then one large loss frequently wipes out all previous gains and more. It's hard to find any difference from 'gambling.'

Am I an Investor or a Speculator?

If you are currently holding stocks, try honestly answering the following questions. 1. Why did I buy this stock? 2. How long do I plan to hold it? 3. What does this company do?

4. Did I read the business report before buying? 5. How did I determine my investment allocation? 6. Do I have a stop-loss criteria? If more than three of the above answers were vague, what you are doing now is closer to speculation than investing. But there is no need to worry. You can change one thing at a time through this book. What matters is recognizing what you are currently doing.

Mindset for Transitioning from Speculation to Investing

For someone with speculative trading habits to transition to an investor, the first thing to change is their 'time perspective.' Predicting what stock prices will do tomorrow or this week is virtually impossible. Day-to-day price movements are close to random. However, on a 5 to 10-year time

scale, there is a clear tendency for a company's value to be reflected in its stock price. The second thing to change is 'expectations about returns.' Speculators dream of unrealistic returns like 10% per month or 100% per year, harboring a strong desire for financial freedom in a short period. Meanwhile, investors know that an annual return of 15%~20% is world-class. Remember that Warren Buffett's long-term average annual return is about 20%. Even at 20% annually, you can build enormous wealth through the compounding effect. The third is 'attitude toward studying.' Speculators look for 'secrets' or 'shortcuts' to making profits. They easily fall for temptations like 'some cafe tells you winning stocks' or 'some paid reading room guarantees profits.' Meanwhile, investors steadily build fundamentals like company analysis, reading financial statements,

and tracking industry trends. There are no shortcuts, but solid skills accumulate instead. "Speculators try to predict the market, while investors analyze companies. Predictions can fail, but analysis accumulates."

1.3 The Magic of Compound Interest

The most powerful weapon in stock investing is neither outstanding stock-picking ability nor perfect market timing. It is the combination of 'time' and 'compound interest.' Compound interest means that interest is earned not only on the principal but also on the accumulated interest, and this grows like a snowball over time. This is one of the things Warren Buffett emphasized most.

Simple Interest VS Compound Interest Simulation

Let's examine the difference between simple and compound interest with specific numbers. Assume you invest 10 million won at an annual return of 10%. With simple interest, 1 million won (10% of the 10 million won principal) is added consistently each year. After 10 years it becomes 20 million won, after 20 years 30 million won, and after 30 years 40 million won. Since interest is only applied to the principal, the growth rate is constant. With compound interest, it's completely different. In the first year, 1 million won is added making 11 million won, but in the second year, 10% of 11 million won (1.1 million won) is added making 12.1 million won. After 10 years it becomes about 25.94 million won, after 20 years about 67.27 million won, and after 30 years a whopping 174.49 million won.

Period	Simple (10%)	Compound (10%)	Difference
5 years	15M won	16.11M won	+1.11M won
10 years	20M won	25.94M won	+5.94M won
15 years	25M won	41.77M won	+16.77M won
20 years	30M won	67.27M won	+37.27M won
25 years	35M won	108.35M won	+73.35M won

30 years	40M won	174.49M won	+134.49M won

The most important lesson from this simulation is that 'the earlier you start, the better.' Even investing the same amount at the same return rate, the final assets differ enormously between someone who started 10 years earlier and someone who started later. The legendary investor Warren Buffett himself said that his biggest regret is not starting stock investing sooner. Let me give an example. Person A invests 500,000 won monthly from age 25, stops at 35, and leaves it without additional investment. Total principal invested over 10 years is 60 million won. Person B invests 500,000 won monthly from age 35 to 55, investing for 20 years. Total principal invested is 120 million won. Assuming a 10% annual return, at age 55, Person A's assets exceed Person B's. Person A invested only half the principal. This is the 'magic of time.' This fact sends a powerful message to those who haven't started investing. Don't wait until you find the perfect stock. There is no perfect stock in the world. Don't wait for the perfect buying timing either. The best time to invest was '20 years ago,' and the second best time is 'now.'

The Synergy of Systematic Investment and Compound Effect

Even if you don't have the means to invest a large sum at once, there's no need to worry. Systematic investment — investing a fixed amount regularly each month — maximizes the compound effect while greatly reducing the burden of investing.

Systematic investment has several advantages. First, you naturally buy fewer shares when prices are high and more when prices are low, automatically lowering your average purchase price. This is called the 'Cost Averaging Effect.' Second, since you invest automatically on a set date each month, you don't need to worry about market timing. Third, you can start with small amounts, helping to build the habit of investing. Let's assume you invest 300,000 won monthly at a 10% annual return through systematic investing. After 10 years it becomes about 61.45 million won, after 20 years about 227.89 million won, and after 30 years about 678.15 million won. The total principal invested over 30 years is only 108 million won, but the returns created by the compound effect exceed 5 times the principal.

Monthly Investment	Period	Total Principal	Est. Final Assets (10% annual)
300K won	10 years	36M won	~61.45M won
300K won	20 years	72M won	~227.89M won
300K won	30 years	108M won	~678.15M won
500K won	20 years	120M won	~379.82M won
1M won	20 years	240M won	~759.64M won

1M won 20 years 240M won ~759.64M won

1.4 Things to Prepare Before Starting to Invest

If you understand the appeal of stock investing, let's now check the things you must have in place before actually starting. Many people skip this preparation step and go straight to pressing the buy button, only to fail. Just as a solid foundation is the most important part of building a sturdy building, thorough preparation is essential for successful investing.

Securing an Emergency Fund: At Least 3~6 Months of Living Expenses

The first thing to do before starting to invest is to set up an emergency fund. An emergency fund is safety money to prepare for unexpected situations such as sudden job loss, illness, or accidents. Generally, it is recommended to secure 3-6 months' worth of living expenses as an emergency fund. Why is an emergency fund important? If you invest without an emergency fund, you may face situations where you need to sell stocks urgently when money is needed. The problem is that this timing could coincide with when stock prices are at their lowest. When the market crashes is exactly when you can buy good stocks cheaply, but without an emergency fund, you have to sell at a loss instead. Emergency funds should be kept in places that guarantee principal and allow immediate withdrawal. Checking accounts or short-term government bond funds are suitable. Don't expect high returns from your emergency fund. The role of an emergency fund is not to generate returns, but to protect you during crisis situations.

Determining Your Investable Amount

After securing an emergency fund, you need to figure out how much you can invest each month. The core principle here is to invest only with money that won't affect your daily life if lost. Never borrow money to invest or use living expenses for investment. There is a simple way to calculate your investable amount. Subtract essential expenses (housing, food, transportation, insurance, etc.) and emergency fund savings from your monthly income, and the remainder is your surplus funds. Allocating about 50-70% of these surplus funds to investment and using the rest for personal spending and leisure is the recommended ratio. It's perfectly fine to start with a small amount. Even if you start with 100,000 won per month, building the habit of investing is what matters. As your income grows, gradually increase the investment amount. What matters is consistency.

Opening a Brokerage Account and Basic Setup

Once you're ready to invest, you need to open a brokerage account. These days, you can open an account non-face-to-face via mobile in just 5 minutes. When choosing a broker, consider commissions, app convenience, quality of research materials, and support for overseas stock trading. Most brokers offer free commission periods for new customers. However, be sure to check the commission rates after the free period ends. For long-term investors, commission differences aren't that significant, but for those who frequently do short-term trading, commissions can significantly impact returns.

After opening an account, you need to take time to learn the basic functions of the MTS (Mobile Trading System, mobile app). Familiarize yourself with order types (market order, limit order), how to read the order book, chart settings, watchlist registration, and trade alert settings. Using a paper trading feature before real investing is also a good approach.

Setting Investment Goals and Time Horizons

Before starting to invest, there are questions you must answer: 'Why am I investing?' and 'When will I need this money?' The answers to these two questions determine everything about your investment strategy. Investment goals must be specific. Rather than 'I want to make money,' goals like 'I will prepare 30 million won for marriage in 5 years,' 'I will save 500 million won for retirement in 20 years,' or 'I will prepare 100 million won for my children's education within 10 years' should have clear amounts and timeframes. Goals must be specific for you to build strategies accordingly. The appropriate strategy varies by time horizon. For short-term goals of 1-3 years, low-volatility assets like bonds or bond funds are suitable. For medium-term goals of 5-10 years, a balanced portfolio mixing stocks and bonds is good. For long-term goals of 10+ years, you can increase the stock allocation to maximize the compound effect, as the risk of stock price fluctuations disperses over longer periods.

1.5 Basic Structure of the Stock Market

Now you need to understand how the US stock market works. Jumping into the market without knowing its rules is like driving without knowing traffic laws.

NYSE vs NASDAQ

The US stock market is broadly divided into two major exchanges: the New York Stock Exchange (NYSE) and NASDAQ. The NYSE is the world's largest and oldest stock exchange, established in 1792. It has a physical trading floor located at 11 Wall Street, New York, and traditional large blue-chip companies like Berkshire Hathaway, JP Morgan, Coca-Cola, Walmart, and Visa are listed there.

Listing requirements are stringent and maintenance costs are high, but in return, listed companies have high credibility. NASDAQ was established in 1971 as an electronic trading-focused exchange. It operates fully electronically without a physical trading floor. World-leading technology companies like Apple, Microsoft, Google (Alphabet), Amazon, NVIDIA, Meta, and Tesla are listed there. Being centered on technology innovators, it has high growth potential but also greater volatility.

Category	NYSE	NASDAQ
Established	1792	1971
Trading Method	Physical + Electronic	Fully Electronic
Characteristics	Traditional Large Blue-Chips	Technology/Growth Stocks
Representative Companies	Berkshire, JP Morgan, Coca-Cola, Visa	Apple, NVIDIA, Google, Amazon
Key Index	Dow Jones Industrial Average	NASDAQ Composite/NASDAQ 100
Volatility	Relatively Low	Relatively High
Listed Companies	~2,400	~3,300

As an investor, you don't need to worry much about the difference between NYSE and NASDAQ. Regardless of which exchange a stock is listed on, you can trade it identically through your Korean broker's app, with no difference in commissions. However, it's good to know that NASDAQ-listed companies, being technology-focused, may have higher volatility.

Major Indices: S&P 500, NASDAQ 100, Dow Jones

To understand the US stock market, you need to know three major indices. These indices serve as thermometers showing the overall health of the market. S&P 500: An index of 500 US large-cap stocks weighted by market capitalization. Because it covers about 80% of the total US stock market capitalization, it's called the representative index of the US market. When people say 'the US stock market went up/down,' they usually refer to the S&P 500. VOO, SPY, and IVV are representative S&P 500 tracking ETFs. NASDAQ 100: An index of 100 non-financial large-cap stocks listed on NASDAQ. It has a very high technology stock weighting, with Apple, NVIDIA, and Microsoft holding large positions. It has higher volatility than the S&P 500 but also higher long-term returns. QQQ is the representative NASDAQ 100 tracking ETF. Dow Jones Industrial Average (DJIA): The oldest index composed of 30 representative blue-chip US companies. Created in 1896, it uses a price-weighted methodology, meaning stocks with higher per-share prices have greater influence. While frequently cited in the news, with only 30 stocks, it has limitations in representing the entire market. DIA is the representative Dow Jones tracking ETF.

Trading Hours (Korea Standard Time)

The US stock market operates from 9:30 AM to 4:00 PM Eastern Time (ET). Converted to Korea Standard Time: Category US Eastern Time Korea Time (Winter) Korea Time (Summer/DST) Pre-market 4:00 AM ~ 9:30 AM 6:00 PM ~ 11:30 PM 5:00 PM ~ 10:30 PM Regular Open 9:30 AM 11:30 PM 10:30 PM Regular Close 4:00 PM 6:00 AM (next day) 5:00 AM (next day) After-hours 4:00 PM ~ 8:00 PM 6:00 AM ~ 10:00 AM 5:00 AM ~ 9:00 AM US Daylight Saving Time is applied from the second Sunday of March to the first Sunday of November each year. During DST, the market opens at 10:30 PM Korea time, and in winter at 11:30 PM. It's confusing at first but you'll adapt quickly. For office workers, the fact that the regular session opens at night Korea time can actually be an advantage. You can analyze after work in the evening and place orders at night. However, staying up all night watching charts and trading is bad for both your health and investment performance. For long-term investors, it's wise to use limit order reservations and check the results the next morning. Note that the US stock market is closed on US public holidays, and no trading occurs.

Order Types

US stock order types are not very different from Korea. The core order types are as follows. Market Order: An order that executes immediately at the current market price. Used when you want to buy or sell quickly. No problem with high-volume large-cap stocks, but for low-volume small-cap stocks, you may get filled at a less favorable price than expected. Limit Order: An order where you specify your desired price. You can buy at your desired price, but if the price isn't reached, the order remains unfilled. Stop Loss Order: An order that automatically sells when the stock price falls below a specified price. Very useful for automating stop-losses. For example, if you set a $180 stop loss on a stock bought at $200, it automatically sells when the price falls below $180. Stop Limit Order: A method where a limit order is triggered when the stop price is reached. Offers more precise price control than a stop loss, but may not execute during sharp drops.

For beginner investors, a Limit Order is recommended. Since trades only occur at a price you find acceptable, unnecessary losses can be reduced. And if you have a clear stop-loss criteria, actively use Stop Loss Orders.

Commissions and Taxes

Understanding the costs associated with US stock investing is very important. Taxes in particular operate under a completely different system from Korean stocks. Trading Commissions: Most US brokers (Schwab, Fidelity, Robinhood, etc.) offer free stock trading commissions. Trading through Korean brokers incurs commissions of about 0.1~0.25% each for buying and selling. Many brokers

offer discounted or waived commissions during promotional periods, so check for those. Currency Exchange Fees: To trade US stocks through Korean brokers, you need to convert won to dollars. Exchange fees (spread) are typically around 0.1~0.25%. You can reduce this cost by taking advantage of exchange discount events. Some brokers allow you to trade directly in won without separate currency exchange. Capital Gains Tax: This is the most important tax in US stock investing. When a Korean resident sells US stocks at a profit, 22% (20% capital gains tax + 2% local income tax) is levied on gains exceeding 2.5 million won annually. For example, if you realized 10 million won in trading gains for the year, you would pay 22% of 7.5 million won (after deducting the 2.5 million won exemption), which is 1.65 million won in taxes.

Dividend Income Tax: When you receive dividends from US companies, a 15% withholding tax is automatically deducted in the US. Since Korea's dividend income tax rate is 15.4%, under the Korea-US tax treaty, because 15% has already been paid in the US, there is virtually no additional tax to pay in Korea. However, if annual financial income (interest + dividends) exceeds 20 million won, it becomes subject to comprehensive financial income taxation. Tax Type Rate Basis Payment Timing Capital Gains Tax 22% Annual gains exceeding May of following year 2.5M won (tax filing) Dividend Tax (US) 15% Total dividends Withheld at payment Dividend Tax (Korea) ~0.4% additional Per Korea-US tax treaty At income tax filing Comprehensive 6~45% Annual financial income Over 20M won Financial Income Tax The surest way to save on taxes is to reduce the number of trades. If you hold long-term, you don't sell, so no capital gains tax is generated. Additionally, the 'Tax Loss Harvesting' strategy of selling losing positions at year-end to offset gains is also useful.

1.6 Establishing Your Own Investment Principles

So far, we have examined the basic concepts and market structure of US stock investing. Now we move to the most important step: establishing your own investment principles. Investment principles are a method that protects you when the market is turbulent.

Why Are Principles Necessary

Humans are instinctively designed to act on emotions. Emotions like fear, greed, regret, and overconfidence cause fatal mistakes in investing. When stock prices surge, FOMO (Fear Of Missing Out) drives you to buy at the top, thinking 'if I don't buy now, I'll miss this opportunity forever.' When prices plunge, fear drives you to sell at the bottom, thinking 'I must sell before it drops further.' US stocks are traded at night Korea time, making these emotional traps even more dangerous. Many people stay up at night watching charts and making impulsive trades. Sleep deprivation impairs judgment, leading to worse trading decisions in a vicious cycle. The only way to escape this trap is to

mechanically follow pre-established principles. The biggest difference between professional and amateur investors is not stock-picking ability but the presence of principles and the discipline to follow them.

Investment Principles Writing Guide

When writing your own investment principles, you should include at minimum the following items. 1. Investment Goal: Set a clear amount and timeframe. Write specifically like 'retirement fund of 500 million won in 10 years.' 2. Investment Targets: Decide whether you'll focus on S&P 500 ETFs, invest in individual tech stocks, include dividend stocks, etc. 3. Asset Allocation: Set ratios for US stocks, Korean stocks, bonds, and cash. Example: 'US stocks 60%, Korean stocks 20%, Bond ETFs 10%, Cash 10%'

4. Maximum Allocation Per Stock: Determine what percentage of total investment you'll allocate to a single stock. Set rules like individual stocks up to 10-15%, ETFs up to 30%. 5. Buy Criteria: Specifically define what conditions must be met before buying. Include valuation criteria, earnings growth rates, technical analysis conditions, etc. 6. Sell Criteria: Pre-set target profit rates (e.g., 30%) and stop-loss criteria (e.g., -10%). 7. Prohibited Actions: Specify things like 'no leveraged ETF purchases,' 'no trading after midnight,' 'no Reddit meme stocks,' 'no going all-in on a single stock.' 8. Trading Time Rules: Since US markets open at night, health-related rules are also important. Set rules like 'no new trades after midnight,' 'place orders as pre-market reservations before the market opens.'

Starting an Investment Journal

Just as important as investment principles is an investment journal. An investment journal is not merely a trading record, but a tool for observing and improving your own investment behavior. It is recommended to record the following items for every trade. Record Item Example Purpose Trade Date/Time 2026.04.04 (Korea time 11 PM) Pattern analysis Stock Name & Ticker NVIDIA (NVDA) History management Trade Direction Buy / Sell Basic record Quantity & Price 5 shares / $142.50 Return calculation Exchange Rate 1,550 won/$ Real return calculation Trade Reason AI demand expansion, Forward PE Verify judgment basis

25x reasonable Emotion at Trade Confident / Felt FOMO Identify psychological patterns Post-Evaluation 20% up after 3 months, analysis Learning and improvement correct Consistently writing an investment journal brings remarkable changes. You can see the mistakes you repeatedly make, and you can verify with data what types of trades work best for you. Especially since US stocks have the additional variable of exchange rate fluctuations, recording the exchange rate at the time of each

trade allows you to accurately calculate real returns later. The very act of writing an investment journal curbs impulsive trading. The moment you ask yourself 'What would I write about this trade in my journal?', it becomes difficult to make baseless trades. Before pressing the buy button driven by late-night FOMO, check yourself whether the trading reason you'd write in your journal is clear.

Chapter 1 Key Summary

In this chapter, we examined the fundamental principles you must know before starting US stock investing. Topic Key Message Why US Stocks World's largest market, 10%+ average annual return, access to global innovative companies Investing vs Speculation Evidence-based analysis vs rumors, emotion-based betting. Lessons from meme stocks Magic of Compounding Even just monthly systematic investing in S&P 500 produces 30 years

later amazing wealth Pre-investment Prep Emergency fund → Investable amount → Brokerage account (Korea vs US) → Goal setting Market Structure Understand NYSE/NASDAQ, trading hours in Korea time, familiarize with taxes (22% capital gains) Investment Principles Trade by principles, not emotions. Avoid late-night trading. Keep a journal. With these fundamentals firmly in place, you are now ready to learn full-fledged investment strategies. In the next chapter, we will deeply cover 'Value Investment Strategy,' an investment methodology tested for nearly 100 years. You will learn how to read US company financial statements, how to use SEC filings, and the company valuation methods used by Warren Buffett.

2.1 What Is Value Investing

Among the countless strategies in stock investing, the one boasting the longest history and most proven results is Value Investing. In a nutshell, value investing is the strategy of buying when a company's market price is below its intrinsic value, and waiting patiently until the market properly recognizes that value. This concept appears simple, but it is never easy to practice. You must buy when the majority of market participants are selling in fear, and maintain composure when everyone is euphorically buying. Value investing can be said to be a strategy where psychological ability is more important than intellectual ability.

CHAPTER 2

Value Investment Strategy

Finding the True Value of Companies

The History of Value Investing: From Graham to Buffett The father of value investing is Benjamin Graham. As a professor at Columbia University, Graham laid the theoretical foundation for value investing through 'Security Analysis' published in 1934 and 'The Intelligent Investor' published in 1949. He argued that stocks should be viewed not as mere numbers on a ticker tape but as actual ownership stakes in real businesses. Graham's most famous analogy is 'Mr. Market.' The market is like an emotional business partner who comes to you every day offering to buy or sell stocks.

Some days he is extremely optimistic and offers absurdly high prices, while other days he is extremely pessimistic and offers to sell at bargain prices. A wise investor does not get swayed by Mr. Market's emotions but buys cheaply when he is pessimistic and sells at high prices when he is optimistic. The most successful student of Graham is none other than Warren Buffett. Buffett added the philosophy of 'buy wonderful companies at reasonable prices' to Graham's strict quantitative value investing, influenced by Charlie Munger. While Graham's strategy was about 'finding and buying cheap stocks,' Buffett evolved it into a strategy of 'buying outstanding companies at fair prices and holding them forever.'

Buffett's investment company, Berkshire Hathaway, has recorded an average annual return of about 20% from 1965 to the present. Compared to the S&P 500's average annual return of about 10%, this means he has beaten the market by more than double for nearly 60 years. This remarkable achievement most powerfully demonstrates the effectiveness of value investing. Core Concept: Margin of Safety

The most important concept in value investing is the 'Margin of Safety.' The margin of safety refers to the difference between a company's intrinsic value and its market price. If you determine a company's intrinsic value to be $100, you don't buy at $100 but purchase at $70 or below to secure a margin of safety of 30% or more. There are two reasons why a margin of safety is necessary. First, our analysis could be wrong. No matter how sophisticated the analysis, it is impossible to perfectly predict the future. If we thought the intrinsic value was $100 but it was actually $80, an investor who bought at $70 is still safe, but an investor who bought at $95 incurs a loss. Second, unexpected events can occur. Black swan events like pandemics, financial crises, and regulatory changes can temporarily impair a company's value. With sufficient margin of safety, these shocks can be absorbed. What Is Intrinsic Value? Intrinsic value is the sum of the present values of all future cash flows a company will generate. Simply put, it is the answer to 'How much would you be willing to pay to buy this entire company and hold it forever?' It is impossible to calculate intrinsic value precisely, but reasonable estimation is possible. The various valuation methods used for this estimation will be covered in detail in the next section. What matters is not the precise calculation of intrinsic value but

having confidence in the question 'Is this company's market price clearly below its intrinsic value?' Buffett expressed this as follows:

'You don't need a scale to know a fat person is fat when they walk into the room.' The point is that you can recognize a clearly undervalued company without knowing the exact price.

2.2 How to Read US Corporate Financial Statements

To practice value investing, you must be able to read corporate financial statements. Financial statements are like a health checkup report showing a company's health status. US corporate financial statements are prepared according to US GAAP (Generally Accepted Accounting Principles) and consist of three core documents. Income Statement The income statement shows how much a company earned and spent during a certain period (quarterly or annually). Let's examine the key items from top to bottom. Revenue: The total amount a company earned from selling products or services. It is the most basic indicator showing the company's size and growth. Check whether revenue is steadily increasing and whether the growth rate is accelerating or decelerating. Gross Profit: Revenue minus the cost of goods sold (COGS). Calculated as Gross Margin = Gross Profit / Revenue. The higher this ratio, the more value-added the company's products are. Apple's Gross Margin is about 45%, while software company Microsoft reaches about 70%. Operating Income: Gross profit minus operating expenses such as selling, general & administrative (SG&A) and research & development (R&D) costs. It shows the actual profit earned from the company's core business.

If the Operating Margin is higher than the industry average, the company is being operated efficiently. Net Income: The final profit after deducting interest expenses, taxes, and all other items from operating income. Calculated as EPS (Earnings Per Share) = Net Income / Outstanding Shares. This is the key number used to calculate PER. Income Statement Item Meaning Key Checkpoints Revenue Total Sales YoY Growth Rate, Growth Trend Gross Profit Revenue - COGS Gross Margin above 40% is excellent Operating Income Operating Profit Operating Margin Trend, Industry Comparison Net Income Final Profit EPS Growth Rate, Exclude One-time Items R&D Expense Research & Development Ratio to Revenue, Future Investment Level Balance Sheet The balance sheet shows a company's assets, liabilities, and shareholders' equity at a specific point in time. That is, Assets = Liabilities + Shareholders' Equity. This document is used to assess a company's financial health and safety.

Current Assets: Assets that can be converted to cash within one year. Includes cash and cash equivalents, accounts receivable, and inventory. Companies with abundant cash have the stamina to

weather economic downturns. Apple holds over $200 billion in cash equivalents, giving it the capacity to endure any crisis. Total Debt: The total amount of debt a company must repay. Debt itself is not bad. Appropriate debt has a leverage effect that increases return on equity (ROE). The problem is excessive debt. If the Debt-to-Equity Ratio is significantly higher than the industry average, caution is needed. Shareholders' Equity: The pure share of stockholders after subtracting liabilities from assets. If shareholders' equity is steadily increasing, it is a positive signal that the company is accumulating profits and growing. On the other hand, companies with significant share buybacks may see shareholders' equity decrease, but this is a result of shareholder return policies and should not be viewed solely negatively. One of the most important ratios on the balance sheet is the Current Ratio (Current Assets / Current Liabilities). If this ratio is above 1, it means there are more assets that can be liquidated than short-term debts to pay, signaling no short-term liquidity issues. Above 2 is considered very safe. Cash Flow Statement The most important yet most overlooked of the three financial statements is the cash flow statement. While net income on the income statement can be adjusted according to accounting standards,

cash flow is difficult to manipulate. The adage 'Earnings are opinion, cash is fact' captures this well. The cash flow statement is divided into three areas. Operating Cash Flow: The actual cash coming in from the company's core business. If this is consistently higher than net income, it means the quality of earnings is good. Conversely, if net income is positive but operating cash flow is negative, the earnings may be merely accounting numbers rather than actual cash. This is called checking 'Earnings Quality.' Investing Cash Flow: Cash used for capital expenditures (CapEx), acquisitions, investments, etc. Growing companies spend a lot of cash on investments, so it is normal for this item to be negative. However, companies with excessively large CapEx may have low capital efficiency. Financing Cash Flow: Cash flows related to fundraising and returns such as stock issuance, borrowing, dividend payments, and share buybacks. The metric value investors should focus on most is Free Cash Flow (FCF) = Operating Cash Flow - CapEx. FCF is the cash remaining after maintaining business operations, which can be freely used for dividends, share buybacks, debt repayment, and new investments. Companies with steadily increasing FCF are the most attractive investment targets.

Cash Flow Item Meaning Good Signal Operating CF Core Business Cash Generation Higher than Net Income, Increasing Annually CapEx Facility/Equipment Investment Appropriate Level (5~15% of Revenue) Free Cash Flow Operating CF - CapEx Steadily Increasing, High FCF Margin Dividend Payments Shareholder Cash Returns Below 50% of FCF is Safe Share Buybacks Reducing Share Count → Increasing EPS Conducted Consistently Each Year

2.3 Valuation Methodology

Once you can read financial statements, it's time to learn valuation methods for determining a company's fair value. Valuation is a tool for determining 'Is this company expensive or cheap at the current price?' There is no perfect valuation method, but using multiple methods comprehensively enables reasonable judgment. PER (Price-to-Earnings Ratio) PER is the most widely used valuation metric. Calculated as PER = Stock Price / Earnings Per Share (EPS). If the current stock price is $150 and annual EPS is $10, the PER is 15x. This means that assuming the current earnings level is maintained, it would take 15 years to recoup the investment. The historical average PER of the S&P 500 is about 15-18x. If the current market PER is higher than this, the overall market is relatively overvalued; if lower, it's undervalued. Comparing with individual company PERs is more meaningful. For tech stocks, PERs of 25-35x are common, while for utility stocks, 12-15x is the normal range.

There are caveats when using PER. First, you must distinguish between Trailing PER (based on last 12 months' results) and Forward PER (based on next 12 months' expected results). For rapidly growing companies, Forward PER is lower than Trailing PER, so it's important to look at Forward PER as well. Second, one-time charges or gains can distort EPS, so you should also check Adjusted EPS. PEG Ratio (PER-to-Growth) PEG is the PER divided by the earnings growth rate. Calculated as PEG = PER / Annual Earnings Growth Rate (%).

For example, if PER is 30x and earnings growth rate is 30%, PEG is 1.0. If PER is 15x and earnings growth rate is 5%, PEG is 3.0. The first company has a higher PER but is more attractive on a PEG basis. Generally, PEG below 1 suggests undervaluation relative to growth, 1-2 is fair, and above 2 suggests overvaluation. PEG is a useful metric that complements PER's limitations, especially when evaluating growth stocks. However, it has the limitation that growth rate estimates themselves can be subjective. PBR (Price-to-Book Ratio) Calculated as PBR = Stock Price / Book Value Per Share (BPS).

A PBR below 1 means the market price is lower than the company's book net asset value. Traditionally, PBR below 1 was considered a strong undervaluation signal. However, for modern US companies, especially tech companies, PBR's usefulness is limited. The reason is that tech companies' core assets are intangible assets like brands, software, patents, and network effects. These intangible assets are not properly reflected on the balance sheet, so PBR distorts

the actual value. This is why you cannot conclude Google is overvalued just because its PBR is 6x. PBR is more suitable for financial stocks, real estate companies, and manufacturing companies centered on tangible assets. EV/EBITDA EV/EBITDA is the ratio of enterprise value to EBITDA.

Here, EV (Enterprise Value) = Market Cap + Net Debt (Total Debt - Cash), and EBITDA = Pre-tax Profit + Interest + Depreciation & Amortization. The advantage of this metric is that it enables comparison between companies with different capital structures (debt ratios). While PER makes it difficult to equally compare companies with high and low debt, EV/EBITDA provides a fairer comparison because it's based on total enterprise value including debt. EV/EBITDA is also used as the standard valuation method in the M&A (mergers and acquisitions) market. The average EV/EBITDA for S&P 500 companies is about 12-15x. Lower than this suggests relative undervaluation, higher suggests overvaluation. Since there are significant differences by industry, comparisons must always be made within the same industry. DCF (Discounted Cash Flow) Analysis DCF is theoretically the most sophisticated and correct valuation method. It calculates a company's intrinsic value by discounting all future free cash flows (FCF) to present value using an appropriate discount rate.

The basic formula of DCF analysis is as follows: Intrinsic Value = Sum of PV of FCF for the next N years + PV of Terminal Value. The discount rate typically uses WACC (Weighted Average Cost of Capital), generally around 8-10% for US large-cap stocks. DCF's strength is that it calculates a company's fundamental value, and its weakness is that results vary significantly depending on future cash flow and discount rate assumptions. Changing the growth rate by just 1% can alter the intrinsic value by 20-30%. Therefore, the correct use of DCF is not to arrive at one precise number but to estimate a range of intrinsic values across multiple scenarios (optimistic, neutral, pessimistic). Valuation Method Calculation Suitable Company Type Limitation PER Price / EPS Stable Earnings Companies Can Be Distorted by One-time Items PEG PER / Growth Rate Growth Stocks Subjectivity of Growth Estimates PBR Price / BPS Finance, Manufacturing, Real Estate Unsuitable for Intangible Asset Companies EV/EBITDA Enterprise Value / EBITDA Companies with Different Leverage Does Not Reflect CapEx Differences DCF Sum of Discounted Future FCF All Types (Theoretical Standard) High Sensitivity to Assumptions FCF Yield FCF / Market Cap Cash Generation Assessment Does Not Reflect Growth Potential

2.4 SEC Filings and Information Gathering

One of the greatest advantages of US stock investing is information transparency. The US Securities and Exchange Commission (SEC) imposes strict disclosure obligations on listed companies, and all filing documents can be viewed for free by anyone through the EDGAR (Electronic Data Gathering, Analysis, and Retrieval) system. Key SEC Filing Documents 10-K (Annual Report): The most

comprehensive report including business description, risk factors, financial statements, and management analysis. Filed within 60-90 days after the end of each fiscal year.

This is the most important document that value investors must read. It typically runs 100-300 pages, but you don't need to read all of it. Reading just the Business section, Risk Factors, financial statements, and MD&A will give you a grasp of the company's essentials. 10-Q (Quarterly Report): A report containing quarterly financial results and updates. Think of it as an abbreviated version of the 10-K. Filed within 40-45 days after each quarter ends. 8-K (Current Report): A report filed immediately when a significant event occurs at the company.

Events that may affect investment decisions such as CEO changes, major acquisitions, earnings pre-announcements, and restructurings are disclosed here. Proxy Statement (DEF 14A): A document sent before the annual shareholders' meeting containing information about executive compensation, board composition, and shareholder proposals. You can check how much the CEO is paid and what incentive structures are in place.

Form 4 (Insider Trading Report): A document that must be filed within 2 business days when company officers, directors, and shareholders owning 10% or more buy or sell company stock. If insiders are buying in large quantities, it could be a positive signal; if selling in large quantities, it could be a cautionary signal. Filing Document Content Filing Frequency Investor Use 10-K Annual Comprehensive Report Once/Year Basic Material for Company Analysis 10-Q Quarterly Earnings Report 3 Times/Year Quarterly Performance Tracking 8-K Immediate Disclosure of Material Events As Needed Monitoring Major Changes DEF 14A Shareholder Meeting Proxy Once/Year Executive Compensation, Governance Review Form 4 Insider Trading Report Within 2 Days of Trade Tracking Insider Buying/Selling Order and Key Points for Reading 10-K You don't need to read the 10-K from start to finish in order. Here is an efficient reading order and the key points to look for in each section. The first section to read is 'Part I - Item 1. Business.' The company itself explains what it does, how it makes money, and what markets it competes in. If you cannot explain the company's business model in one sentence after reading this section, it's too early to invest. The second section to read is 'Part I - Item 1A. Risk Factors.' It lists all the risk factors the company faces as required by law. Most are general risks, but occasionally there are specific risks unique to that company. Information such as high dependence on a single customer or an upcoming expiration of a key patent can have a significant impact on investment decisions.

The third section to read is 'Part II - Item 7. Management's Discussion and Analysis (MD&A).' This is where management directly analyzes results and explains future outlook. You can understand the context beyond mere numbers. Check why revenue increased, why costs rose, and what strategies

will be pursued next year. Fourth, review the Financial Statements and Notes to Financial Statements. Verify the actual numbers from the income statement, balance sheet, and cash flow statement as learned earlier, and check the notes for accounting policies or unusual items. Free Financial Data Sources While reading the 10-K directly is ideal, the following websites are useful for quickly checking financial data. Site Features Cost SEC EDGAR All original filing documents Free Yahoo Finance Stock prices, financial statements, news aggregate Free (premium option) Macrotrends 10+ year financial data graphs Free Seeking Alpha Analyst reports, earnings call transcripts Partially free Finviz Screener, valuation at a glance Free (elite option) GuruFocus Automatic DCF calculation, insider trading Partially free

2.5 Competitive Advantage Analysis: Economic Moat

Financial statements and valuations alone are not enough. No matter how good current performance is, if competitors can easily catch up, those results will not be sustained. Warren Buffett compared a company's

sustainable competitive advantage to the 'moat' of a medieval castle. Just as a deep, wide moat around a castle prevents enemy invasion, an economic moat protects a company's profitability from competitive intrusion. The wider and deeper the moat, the longer a company can maintain high profitability, making it suitable for long-term investment. Companies with weak moats may show temporarily good results, but profitability can deteriorate rapidly as competition intensifies. Five Types of Moats 1. Network Effect: A structure where the value of a service increases as more people use it. Meta (Facebook/Instagram) has 3 billion users, making it extremely difficult for a new social media platform to replace it.

Visa and Mastercard's payment networks are also classic examples of network effects where value increases with more merchants and users. 2. Switching Costs: When the cost (time, money, effort) for customers to switch to another product or service is high. Microsoft's Office and Azure require enormous cost and time for enterprise customers to migrate to another platform, so once adopted, they rarely switch. Adobe's Creative Suite and Salesforce's CRM are the same. 3. Intangible Assets: Assets that are invisible but provide powerful competitive advantages, such as brands, patents, licenses, and regulatory barriers.

Coca-Cola's brand power, Pfizer's drug patents, and defense contractor Lockheed Martin's government contract relationships fall into this category. 4. Cost Advantage: The ability to produce products at lower cost than competitors through economies of scale, exclusive resource access, and efficient operations. Costco has price competitiveness that competitors cannot match through

overwhelming purchasing power and low-margin policies. Amazon's logistics infrastructure is also a cost advantage that latecomers cannot easily replicate. 5. Efficient Scale: When market size is limited and only a few companies can operate profitably.

US railroad companies (Union Pacific, BNSF), utility companies, and waste management companies fall into this category. New competitors entering would cause everyone to lose money, naturally forming entry barriers.

Moat Type Representative Companies Moat Strength Investment Perspective Network Effect Meta, Visa, Mastercard Very Strong Check User Growth Trends Switching Costs Microsoft, Adobe, Salesforce Strong Check Customer Churn Rate Intangible Assets Coca-Cola, Nike, Pfizer Strong Brand Value, Patent Expiration Timing Cost Advantage Costco, Amazon, Walmart Medium-Strong Margin Trends, Competitor Price Comparison Efficient Scale Union Pacific, Republic Services Strong Market Share, Entry Barriers A note of caution when analyzing moats: Moats are not permanent. Technology changes, consumer behavior shifts, and regulatory changes can break down once-impregnable moats. Kodak's film business, Blockbuster's video rental stores, and Nokia's feature phones are prime examples. Therefore, you should look not only at the current state of the moat but also the trend of whether it is strengthening or weakening.

2.6 Value Investing Practical Checklist

Let's compile everything we've learned so far into a step-by-step checklist to follow when executing value investments in US stocks.

Make it a habit to go through this checklist before every purchase. Step 1: Understand the Business The first step is to fully understand what the company does. Read the Business section of the 10-K and be able to clearly answer the following questions: 'What is this company's main revenue source?', 'Who are this company's customers?', 'What is the growth outlook for the industry this company belongs to?', 'Who are the main competitors, and why does this company win in competition?' If you cannot answer these questions, it's too early to invest. As Buffett put it, only invest in companies within your 'Circle of Competence.'

Step 2: Verify Financial Health The second step is to check the company's health through financial statements. Review at least 5 years, preferably 10 years of data. Check whether revenue and profits are steadily increasing, whether the debt ratio is at a reasonable level, whether FCF is consistently generated, and whether ROE is maintained above 15%. Step 3: Evaluate Competitive Advantage (Moat) The third step is to assess whether the company has sustainable competitive advantages.

Analyze whether it falls under one or more of the five moat types learned earlier, and whether the moat is strengthening or weakening.

Companies with weak moats are not suitable for long-term investment no matter how good current performance is. Step 4: Valuation The fourth step is to determine whether the company's current price is fair. Comprehensively check multiple valuation metrics including PER, PEG, EV/EBITDA, and FCF Yield, and if possible,

conduct a simple DCF analysis as well. If multiple metrics consistently point to undervaluation, it's a buy signal. Only buy at prices that ensure sufficient margin of safety (at least 20-30%). Step 5: Execute Purchase and Monitor In the fifth step, you finally execute the purchase. It is recommended to use dollar-cost averaging, buying in 2-3 installments. After purchase, check quarterly earnings releases to verify your investment thesis remains valid. If the company's fundamentals haven't changed, don't be shaken by short-term price fluctuations. Sell only when your investment thesis has broken down. Step Key Question Essential Reference Material 1. Understand Business Can you explain what this 10-K Business, Industry Research company does? 2. Financial Health Are revenue/profit/FCF stable over Income Statement, Cash Flow Statement, 5 years? Balance Sheet 3. Competitive Advantage Is there a sustainable moat? Competitor Comparison, Market Share 4. Valuation Is there sufficient margin of safety? PER, PEG, EV/EBITDA, DCF 5. Execute/ Dollar-cost averaging + Quarterly Earnings Call, 10-Q, Insider Trading Monitor earnings checks

2.7 Pitfalls and Precautions of Value Investing

Just because value investing is a proven strategy doesn't mean it's foolproof. Knowing the common pitfalls of value investing can help reduce mistakes. Value Trap A value trap is a stock that appears undervalued based on metrics but is actually cheap for legitimate reasons. A stock with PER of 5x and PBR of 0.5x looks incredibly cheap, but the industry itself may be declining,

management may be incompetent, or the company's future may be dim due to technological change. For example, traditional offline retailers in the 2010s were extremely undervalued by metrics, but their actual value kept declining due to the rise of Amazon. To avoid value traps, you must always ask 'Why is it cheap?' You need to distinguish whether the market is irrationally pricing it cheaply or whether the company's value is actually deteriorating. The key to this distinction is checking whether the company's competitive advantage (moat) is still valid and whether structural changes in the industry are working against the company. Beyond the Growth vs. Value Dichotomy The investment world often categorizes 'Growth Investing' and 'Value Investing' as opposing approaches.

Growth stocks have high PERs, value stocks have low PERs, and so on. However, Buffett says this distinction is meaningless because growth is a component of value. If a company growing at 30% annually has a PER of 40x, is that expensive or cheap? On a PEG basis, it's 1.3x, a reasonable level. Conversely, if a company with zero growth has a PER of 8x, is that really cheap? Without growth, value also stagnates. The key is not the absolute level of PER but the relative value considering growth rate and sustainability of growth. Modern value investing masters like Bill Ackman, Pat Dorsey, and Terry Smith all take the approach of 'buying high-quality growth companies at reasonable prices.'

This is the modern form of value investing that has evolved since Graham. The Importance of Patience The most difficult part of value investing is not the analysis but the waiting. Even if you've found a good company, you must wait if the price is expensive. Even after purchasing, it can take months to years for the market to recognize the company's value. The stock price may decline further in the meantime. Buffett's statement 'If you aren't willing to own a stock for ten years, don't even think about owning it for ten minutes' is no exaggeration. Value investing is fundamentally a game of patience. To maintain conviction while waiting for the market to properly value the company, thorough analysis must be the prerequisite.

CHAPTER 3

Technical Analysis Strategy

The Language of the Market Told by Charts

is essential. If you have conviction in your analysis, you can wait; if your analysis is weak, you will sell in panic at the first decline.

3.1 Fundamentals and Three Premises of Technical Analysis

Technical analysis is a method of predicting future price direction by analyzing past price and volume data. If value investing answers 'What to buy,' technical analysis answers 'When to buy.' Combining the two can yield better investment results. Technical analysis rests on three basic premises. First, all information is reflected in market prices (Efficient Market). Second, prices move in trends (Trend). Third, history repeats itself (Pattern). While these premises are not perfect, they provide useful tools in practice. The US stock market is the world's most active market with the most participants and algorithmic trading. Interestingly, because algorithms themselves trade based on technical analysis patterns, patterns tend to work like self-fulfilling prophecies. Because many participants look at the same indicators and act at the same time, the patterns become realized.

3.2 Complete Guide to Moving Averages

The moving average (MA) is the most fundamental yet most powerful tool in technical analysis. It is a line connecting the average closing prices over a certain period, smoothly showing the price trend.

Key Moving Averages in the US Market In the US market, the 50-day moving average (50 MA) and the 200-day moving average (200 MA) are the most important. This is because institutional investors, hedge funds, and algorithms trade based on these two lines. 50-Day Moving Average: The average price over about 2.5 months. Shows the medium-term trend. If the stock price is above the 50 MA, it's considered a medium-term uptrend; below it, a downtrend. Many institutional investors buy when prices pull back to the 50 MA. 200-Day Moving Average: The average price over about 10 months. The baseline for long-term trends. If the stock price is above the 200 MA, it's considered a long-term bull market; below it, a bear market.

The 200 MA acts as a strong support or resistance line. Golden Cross and Death Cross A Golden Cross occurs when the 50-day line crosses above the 200-day line from below, signaling a strong bullish reversal. Historically, the average return in the S&P 500 one year after a Golden Cross is about 15%. However, not every Golden Cross succeeds, and it's important to confirm whether volume accompanies it. A Death Cross occurs when the 50-day line crosses below the 200-day line from above, serving as a bearish reversal warning. Death Crosses occurred just before the 2020 COVID crash and at the beginning of the 2022 inflation-driven downturn.

When a Death Cross appears, refrain from new purchases and review stop-loss levels for existing positions. Signal Condition Meaning Caution Golden Cross 50MA crosses above 200MA Bullish Reversal Confirm Volume Accompaniment Death Cross 50MA crosses below 200MA Bearish Reversal Possible Whipsaw (False Signal)

Price > 50MA > Alignment Strong Uptrend Suitable for Trend-Following Buys 200MA Price < 50MA < Reverse Alignment Strong Downtrend Refrain from New Purchases 200MA

3.3 Support and Resistance Lines

Support is the price level where a declining stock stops falling and bounces back, while resistance is the price level where a rising stock stops climbing and declines. The Power of Round Numbers In US stocks, psychological price levels (Round Numbers) serve as particularly strong support/resistance. Buy/sell orders concentrate at levels like $100, $150, $200. For example, when Apple's price approaches $200, sell orders accumulate from people who previously bought at $200 and lost money, creating resistance; conversely, when it falls to $150, buy orders accumulate from people who judge it as cheap, forming support. Breakout Trading When a stock has been trading sideways between support and resistance for a long time and breaks through resistance with volume, this is a strong buy signal. Conversely, a break of support is a sell signal. Volume is key in judging the authenticity of a breakout. A breakout without volume is likely a fakeout. An interesting phenomenon is that once a resistance level is broken, it subsequently becomes a support level. If a stock breaks through $150 resistance and rises, then comes back down, $150 now acts as support. This is called 'Role Reversal.'

3.4 Candlestick Patterns

Candlestick charts originated in Japan and show the open, close, high, and low of a day at a glance. They are the most widely used chart type in the US market as well. Key Reversal Patterns Doji: A candle with almost no body where the open and close are nearly the same. Represents equilibrium between buying and selling pressure, and can be a precursor to trend reversal. A Doji at the top of an uptrend signals exhaustion. Hammer: A long lower shadow candle appearing at the end of a downtrend. It dropped significantly during the day but bounced back to close near the open, signaling a bottom reversal. Engulfing: A large candle that completely engulfs the previous candle's body. A bullish engulfing (large green candle after decline) is a strong bounce signal, while a bearish engulfing (large red candle after rise) signals a downturn. Morning Star: A 3-candle pattern of large red candle → small body (gap down) → large green candle. One of the most reliable patterns

signaling a bottom reversal. Pattern Location Meaning Reliability Doji Trend Top/Bottom Trend Reversal Precursor Medium Hammer End of Downtrend Bottom Reversal High Bullish Engulfing After Decline Strong Bounce High Morning Star End of Downtrend Bottom Confirmation Very High Shooting Star End of Uptrend Top Reversal High Evening Star End of Uptrend Top Confirmation Very High

3.5 Key Technical Indicators

RSI (Relative Strength Index) RSI is a value between 0 and 100 that measures the speed and magnitude of recent price movements. Generally, above 70 is considered overbought with high probability of decline, and below 30 is considered oversold with high probability of bounce. The most effective way to use RSI in practice is to look for 'Divergence.' If the stock price makes a new high but RSI is lower than its previous high, this is called 'Bearish Divergence' and is a downturn warning. Conversely, if the stock price makes a new low but RSI is higher than its previous low, it's 'Bullish Divergence' signaling a bounce.

MACD (Moving Average Convergence Divergence) MACD is a trend-following indicator using the difference between short-term (12-day) and long-term (26-day) exponential moving averages. When the MACD line crosses above the signal line (9-day average), it's a buy signal; when it crosses below, it's a sell signal. MACD's greatest strength is that it shows both the strength and direction of trends simultaneously. When the MACD histogram is getting larger, the trend is strengthening; when it's shrinking, the trend is weakening. Even if the stock price is rising, if the histogram starts shrinking, it's a warning that upward momentum is fading.

Bollinger Bands Bollinger Bands draw bands at 2 standard deviations above and below the 20-day moving average. About 95% of stock prices move within these bands. The key way to use Bollinger Bands is through 'Band Squeeze and Expansion.' When bands narrow (Squeeze), volatility has decreased, signaling that a big move is coming soon. It's like a spring being compressed before explosively bouncing. You trade based on which direction the breakout occurs after the squeeze. VWAP (Volume Weighted Average Price) VWAP is the volume-weighted average price and one of the indicators most referenced by institutional investors.

If the stock price is above VWAP, most buyers for the day are in profit; if below, they're in loss. Because institutions use VWAP as a benchmark for buy/sell timing, support/resistance forms around VWAP.

Indicator Key Signal Buy Condition Sell Condition RSI Overbought/Oversold, Divergence Below 30 + Bullish Above 70 + Bearish Divergence Divergence MACD Signal Line Crossover, Histogram MACD

Upward Crossover + MACD Downward Crossover + Histogram Increasing Histogram Decreasing Bollinger Bands Squeeze/Expansion Lower Band Touch + Bounce Upper Band Touch + Band Expansion VWAP Institutional Benchmark Settled Above VWAP Break Below VWAP

3.6 Volume Analysis

Volume is the indicator that shows the 'truth of the market.' Price shows direction, but volume shows the reliability of that direction. Rise + Volume Increase: Healthy rise. Many participants are joining the buying. Rise + Volume Decrease: Warning signal. The rise is losing momentum. Correction possible soon. Decline + Volume Increase: Strong selling pressure. Further decline possible. Decline + Volume Decrease: Selling force exhausted. Possibly near the bottom. What to particularly watch in the US market is earnings season volume. On earnings release days, volume surges to 3-5x normal with large gaps. When there's an earnings surprise with a gap up and volume explosion, it's an 'Earnings Breakout' — a strong buy signal. Conversely, a gap down with volume explosion is a sell-off signal.

3.7 Limitations and Proper Use of Technical Analysis

CHAPTER 4

Diversification and Portfolio Strategy

The Wisdom of Managing Risk

Technical analysis is a powerful tool but not a panacea. Its greatest limitation is that there is no guarantee past patterns will necessarily repeat in the future. Especially during black swan events (pandemics, financial crises, wars, etc.), all technical patterns become ineffective. In the US market, the fact that 60-70% of total trading volume is algorithmic trading must also be considered. Algorithms use technical patterns to trigger individual investors' stop losses and accumulate positions at favorable prices. This is called 'Stop Hunting.' The proper approach is to use technical analysis as a supplementary tool to fundamental analysis. Finding good companies through value investing and timing optimal entry points through technical analysis is the most effective combination. And don't rely on a single indicator — only trade when at least 2-3 indicators point in the same direction. Chapter 3 Key Summary Topic Core Message Moving Averages 50-day and 200-day lines are key in the US market. Watch Golden/Death Cross Support/Resistance Round numbers, Role Reversal principle, Confirm volume on breakout Candle Patterns Reversal patterns near support/resistance have highest reliability Indicators RSI Divergence, MACD Histogram, Bollinger Squeeze, VWAP Volume Reliability of volume matters more than price direction Limitations Use as supplement to fundamentals. Beware of algorithmic stop hunting

4.1 Why Diversification Is Essential

If there is one 'free lunch' in investing, it is diversification. Nobel Prize-winning economist Harry Markowitz described diversification as 'the only free gain in finance.' By spreading investments across multiple assets, you can reduce overall portfolio risk while maintaining expected returns. Let's look at the risks of concentrated investing through real examples. In 2022, Meta (META) stock plunged 77% from $380 to $88. If 50% of a portfolio was invested in Meta, a single stock would have wiped out 38% of total assets. On the other hand, if Meta was only 10% of the portfolio, the total loss would have been 7.7% — a manageable level. No matter how confident you are, over-concentrating in a single stock is dangerous.

4.2 Four Dimensions of Diversification

Stock Diversification: Diversify across 10-25 stocks. Research shows that diversifying across 20 or more stocks eliminates about 95% of individual stock risk. However, beyond 30, management becomes difficult and the diversification effect becomes negligible. Sector Diversification: Invest in different industries such as technology, healthcare, finance, consumer goods, and energy. In 2022, while tech stocks crashed, energy stocks rose over 60%. Sector diversification would have absorbed much of the shock from the tech decline. Asset Diversification: Invest in different asset classes

beyond stocks — bonds, REITs, gold, cash, etc. Take advantage of the inverse correlation where bonds rise when stocks fall. Geographic Diversification: Diversify not only in US stocks but also in Korea, Europe, emerging markets, etc. However, US large-cap companies (Apple, Google, etc.) already have high global revenue exposure, providing geographic diversification on their own.

4.3 Modern Portfolio Theory

Modern Portfolio Theory (MPT) is a theory published by Harry Markowitz in 1952 that mathematically analyzes the relationship between expected return and risk (volatility) of assets. The core concept is the 'Efficient Frontier' — the combination of portfolios that maximize return for a given risk level or minimize risk for a given return level. The key is combining assets with low correlations. Diversifying across two assets with perfect positive correlation (correlation coefficient +1) provides no risk reduction. Conversely, diversifying across two assets with perfect inverse correlation (correlation coefficient -1) can theoretically reduce risk to zero. While perfect inverse correlation is rare in reality, combining assets with low correlation coefficients can significantly reduce risk. Asset Combination Correlation Coefficient Diversification Effect US Large Cap + US Small Cap +0.85 Low US Stocks + US Bonds -0.2~+0.3 High US Stocks + Gold +0.0~+0.1 High US Stocks + Emerging Market Stocks +0.65 Medium US Stocks + REITs +0.55 Medium

4.4 Asset Allocation Models

Asset Allocation by Investor Type Investor Type US Stocks International Stocks Bonds Alternatives/Cash Characteristics

Ultra-Aggressive 65% 15% 10% 10% Maximum Growth (20s) Aggressive (30s) 55% 15% 20% 10% Growth-Focused Balanced (40s) 40% 15% 35% 10% Balanced Conservative (50s+) 25% 10% 50% 15% Preservation-Focused

3-Fund Portfolio

The 3-Fund Portfolio proposed by John Bogle is the simplest yet most effective portfolio. It consists of just three ETFs: VTI (US Total Stock Market) + VXUS (International Stocks) + BND (US Bonds). Proportions are adjusted based on age and risk tolerance. All Weather Portfolio Ray Dalio's All Weather strategy seeks stable performance in any economic environment. It consists of 40% US Long-Term Bonds, 30% US Stocks, 15% US Intermediate Bonds, 7.5% Gold, and 7.5% Commodities. It is suitable for investors who prioritize stability and consistent performance over aggressive returns.

4.5 Rebalancing Practical Guide

Rebalancing is the process of restoring portfolio weights that have changed over time back to their target weights. If stocks have risen significantly and become overweight, you sell some and buy more of the underperforming assets. Rebalancing Methods Time-Based: Rebalance regularly on a quarterly or semi-annual basis. Simple with minimal emotional involvement. Threshold-Based: Rebalance when the target weight deviates by 5% or more. For example, if the target stock weight is 60% but has reached 70%, execute rebalancing.

Cash Flow Rebalancing: Direct new monthly investments into underweight assets. Enables rebalancing without selling, so there is no tax burden. Since US stocks are subject to capital gains tax, you must consider tax implications when rebalancing. Prioritize cash flow rebalancing when possible, and when selling is unavoidable, combine it with Tax Loss Harvesting to reduce the tax burden.

4.6 Global Portfolio for Korean Investors

When investing in US stocks while residing in Korea, exchange rates are a factor that must always be considered. No matter how good the return on US stocks, if the KRW/USD exchange rate moves unfavorably, the real return in Korean won can be significantly reduced. The most practical way to manage exchange rate risk is to hold both dollar assets and won assets. A ratio of 50-60% US stocks, 20-30% Korean stocks, and 10-20% other (bonds, cash) provides appropriate diversification against exchange rate fluctuations. Another strategy is to dollar-cost average your currency exchange. Converting a large sum at once risks being caught at the exchange rate peak, so it's wise to convert a fixed amount each month to lower the average exchange rate. This follows the same principle as DCA in stocks.

5.1 Buy Strategy

CHAPTER 5

Practical Trading Strategies

From Theory to Practice

Scaling In Scaling in is a strategy where instead of buying your target quantity all at once, you split the purchase into 2 to 4 tranches. For example, if you've decided to invest $10,000 in Apple, you buy $2,500 at a time over four purchases. If the stock price drops after your first purchase, you can buy more at a cheaper price; if it rises, some of your position is already profitable, giving you psychological comfort. The interval between purchases varies by investor, but generally 1 to 2 weeks is appropriate. You can also divide by price levels. After the first purchase, buy again if the price drops 5%, and again if it drops another 5%.

The important thing is to plan ahead and execute mechanically. Dollar Cost Averaging (DCA) This method involves automatically investing a fixed amount on a set date every month. If you set up automatic monthly investments in ETFs like VOO or QQQ, you can steadily grow your assets without the burden of market timing. Currency fluctuations also naturally average out through monthly conversions. DCA is statistically known to produce slightly lower returns than lump sum investing. Because the market tends to rise over the long term, investing the full amount as early as possible is theoretically advantageous.

However, the true value of DCA lies not in maximizing returns but in psychological stability. If you invest a lump sum at the peak and then experience a crash, most people panic sell, but DCA eliminates this risk. Pyramiding Pyramiding is a strategy of adding to a position that is already profitable. If a stock you bought is rising as expected, it's a confirmation signal that your analysis was correct, so you can grow profits through additional purchases. However, the proportion of each additional purchase should progressively decrease. A structure like 40% for the first purchase, 30% for the second, and 20-10% for the final addition (an inverse pyramid) is safer.

5.2 Sell Strategy

Target Price Selling

This method involves setting a target return in advance when buying and mechanically selling when it's reached. For example, if your target is 20-30% profit, you sell all or half when reached. This prevents giving back gains due to greed. Trailing Stop A trailing stop is an order where the stop price rises along with the stock price. For example, if you set a 15% trailing stop, it automatically sells when the stock drops 15% from its high. It's a strategy that continues to grow profits during uptrends and protects gains when the trend reverses. The trailing stop percentage should vary based on the stock's volatility. Low-volatility large caps (Coca-Cola, Johnson & Johnson, etc.) suit 10-15%, while high-volatility tech stocks (Tesla, Nvidia, etc.) suit 15-25%. A trailing stop tighter than the stock's volatility may trigger a premature sale from normal fluctuations. Selling on Fundamental Changes

Even if the target price hasn't been reached, you should sell if the fundamentals that were your basis for buying have changed. If earnings have deteriorated significantly beyond expectations, the competitive landscape has fundamentally shifted, or serious management issues have emerged, it's right to sell even at a loss. Sell Timing Condition Execution Method Notes Target price reached Return 20-50% Partial or full sell Set in advance Trailing stop -10-25% from high Automate via broker Set to match volatility Stop loss -10-15% from cost Stop loss order Mechanical execution essential Fundamental change Earnings miss, moat weakening Sell immediately Check earnings call Tax optimization Year-end gain/loss netting Tax Loss Harvesting Annual strategy

5.3 The Art of Stop-Loss

The most difficult yet most important skill in investing is the stop-loss. Human psychology extremely resists admitting losses, so most investors hold losing stocks thinking 'it will come back eventually.' This is exactly why small losses turn into large losses. Stop-loss criteria must be set before buying. If set after buying, emotions will continually shift the criteria. Generally, individual stocks use -10 to -15% from purchase price and ETFs use -7 to -10% as stop-loss levels. These criteria can be automatically executed by setting stop-loss orders with your broker in advance. Mental Stop vs Hard Stop: A mental stop is just thinking 'I'll sell if it drops to here,' while a hard stop is actually placing the order. Mental stops are almost never executed in real situations. Once emotions get involved, it turns into 'let's wait just a little longer.' Always use hard stops (actual stop-loss orders).

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5.4 Tax Optimization Strategy

Tax Loss Harvesting Tax Loss Harvesting is a strategy where you intentionally sell losing positions at year-end to realize losses, then offset those against realized gains to reduce capital gains tax. For Korean investors, US stock capital gains tax is 22% after an annual exemption of 2.5 million won, so this strategy offers significant tax savings. For example, if you have 5 million won in gains from Stock A and 3 million won in losses from Stock B this year, selling Stock B to realize the loss brings your net gain to 2 million won, which falls within the 2.5 million won exemption, making your tax 0 won. If Stock B is still a good company, you can repurchase it after 31 days. Utilizing the 2.5 Million Won Exemption Since up to 2.5 million won in capital gains per year is tax-free, you can strategically leverage this. If you partially sell profitable long-term holdings within the annual 2.5 million won limit and immediately repurchase, you raise your cost basis and reduce the tax burden on the final sale later. However, you should calculate whether the net benefit exists after considering commissions and currency conversion costs.

5.5 Currency Strategy

When investing in US stocks from Korea, two variables affect your returns: stock price movements and exchange rate movements. Even if the stock price rises 10%, if the won/dollar exchange rate drops 10%, your won-denominated return is nearly zero. Split Currency Conversion: Like DCA for stocks, convert a fixed amount to dollars each month. This prevents getting stuck at exchange rate peaks. Exchange Rate Analysis: A strategic approach is also possible where you reduce conversion amounts when the exchange rate is at historical highs (above 1,350 won) and increase them at lows (below 1,150 won). Natural Hedge: Holding both US stocks and Korean stocks partially offsets exchange rate risk.

5.6 Earnings Season Trading

The biggest stock price movements in US stocks occur at quarterly earnings releases. Every quarter, approximately three weeks of 'earnings season' begin in January, April, July, and October, during which most companies report their results. When earnings are released, you need to check two things. First, whether earnings beat or missed market consensus (the average analyst estimate). Second, what management's guidance (forward outlook) looks like. Even if earnings beat expectations, if guidance is disappointing, the stock often declines. Earnings Surprise + Gap Up + Volume Spike: A strong buy signal. Trend-following purchases possible. Earnings Miss + Gap Down: Requires re-examination of the company's fundamentals. Determine whether it's a temporary or structural issue. Pre-earnings Trading: Predicting results is akin to gambling. Avoid new purchases before earnings releases, and it's wise to act only after direction is confirmed following the announcement.

CHAPTER 6

Investment Psychology & Mental Management

Your Greatest Enemy Is Yourself

6.1 Behavioral Economics and Investing

Traditional economics assumes humans act rationally. However, research by behavioral economics pioneers Daniel Kahneman and Amos Tversky proved that humans systematically make irrational judgments. These 'cognitive biases' are particularly deadly in investing. Kahneman divided human thinking into two systems. System 1 is fast, intuitive, and emotional thinking; System 2 is slow, analytical, and logical thinking. While investing requires System 2, when markets move rapidly, our brains instinctively rely on System 1. When stock prices crash, the reaction 'I need to sell right now!' comes before 'Let me analyze this.'

6.2 The 6 Psychological Traps

1. FOMO (Fear Of Missing Out) This is the fear of being left behind when others are making profits. When you hear stories like 'My friend who bought Tesla made 200%' or 'Everyone on Reddit is all-in on this stock,' an urge to jump in without analysis arises. Most FOMO purchases happen after a major rally has already occurred, near the peak. When everyone is excited is the most dangerous time. 2. Confirmation Bias This is the tendency to selectively absorb only information that supports your investment thesis. After buying Nvidia, you only read AI optimism articles and ignore AI bubble warnings.

To overcome this, you must intentionally seek out opposing views. A habit of reading 'Bearish' reports on the stock on Seeking Alpha is helpful. 3. Loss Aversion According to Kahneman and Tversky's research, people feel the pain of losing a given amount about 2 to 2.5 times more strongly than the joy of gaining the same amount. The pain of a $100 loss is more than twice the joy of a $100 gain. Because of this, people sell winning stocks too quickly (locking in small gains fast) and hold losing stocks too long (delaying the confirmation of pain). 4. Overconfidence Bias After a few profitable trades, people develop the illusion that they have special investing ability.

Especially in bull markets where most stocks rise, people often mistake this for their own skill. Overconfidence leads to neglecting risk management, and ultimately one large loss wipes out all previous gains. 5. Anchoring The tendency to be excessively influenced by the first number encountered. Someone who saw Tesla at $400 feels $250 is 'cheap,' while someone who saw it at $100 feels $250 is 'expensive.' A stock's past price is irrelevant to its future value. What matters is the current price relative to the company's intrinsic value. 6. Disposition Effect The tendency to sell winners too quickly and hold losers too long.

This is a direct result of loss aversion. Research shows that winning stocks sold by individual investors tend to continue rising afterward, while the losing stocks they hold tend to continue

declining. You should be doing the exact opposite. Bias Symptom Solution FOMO Impulse buying from others' gains Pre-write purchase checklist Confirmation Bias Collecting only favorable info Intentionally read opposing views

Loss Aversion Can't sell losing stocks Automate stop losses Overconfidence Excessive leverage/concentration Review investment journal objectively Anchoring Fixation on past prices Judge only current valuation Disposition Effect Quick sale of winners Use trailing stops

6.3 Psychological Risks of Overnight Trading

The fact that US stocks trade during nighttime in Korea creates unique psychological risks. According to sleep science research, human judgment and self-control significantly deteriorate after 11 PM. As prefrontal cortex function declines, impulse control weakens and the proportion of emotional decision-making increases. In reality, many investors regret impulsive trades made during late-night price swings the next morning. A trading decision made at 2 AM is likely to be of lower quality than one made at 2 PM. Rule 1: Do not open new positions after midnight. Rule 2: Set limit/stop orders before market open, and don't keep watching during trading hours. Rule 3: When you feel the urge to trade at night, first write the reason in your investment journal. If you can't articulate the reason in writing, don't trade.

6.4 Market Cycles and the Emotional Curve

Markets constantly oscillate between fear and greed. Understanding this emotional cycle allows you to stand on the opposite side of herd mentality. Stage Market State Investor Emotion Wise Action

1. Disbelief Early recovery after bottom Distrust, caution Analyze then buy gradually 2. Hope Uptrend forming Cautious optimism Full-scale buying 3. Optimism Clear bull market Confidence, conviction Hold; refrain from additional buying 4. Excitement Surge, new highs Euphoria, FOMO Begin partial selling 5. Greed Bubble territory Feeling of invincibility, leverage Active selling/secure cash 6. Fear Sharp decline Panic, despair Execute stop-loss criteria then observe 7. Capitulation Near the bottom Giving up, surrender Seek analysis-based buying opportunities CNN's Fear & Greed Index shows the market's current emotional state from 0 (extreme fear) to 100 (extreme greed). The contrarian strategy of buying when this index is below 20 and selling above 80 has historically shown excellent results.

6.5 Practical Mental Management Tools

Investment Journal The investment journal introduced in Chapter 1 is the most powerful tool for mental management. If you record your emotional state with every trade, over time your emotional patterns become visible. If records of 'FOMO-driven purchases' keep repeating, you can recognize the pattern and apply the brakes next time. Pre-Trade Checklist Create a checklist that you must review before pressing the trade button. 'Is the investment thesis clear?', 'Is the portfolio allocation appropriate?', 'Has a stop-loss been set?', 'Am I in a calm emotional

state right now?', 'Is it past midnight?' Only trade when all five questions are answered 'Yes.' Media Diet Watching investment-related YouTube, Reddit, and Twitter all day is detrimental to investment performance. Short-term noise derails long-term strategy. Check news only 1-2 times a day at set times, and spend the rest of your time on company analysis or reading.

6.6 Surviving a Bear Market

Every investor will eventually encounter a bear market. The S&P 500 experiences a decline of 20% or more roughly once every 3 to 4 years on average. The most important thing in a bear market is 'surviving.' Secure cash: Good companies become available at cheap prices in bear markets. Without cash, you can't seize these opportunities. Use dollar cost averaging: Timing the exact bottom is impossible. In bear markets, buy in smaller amounts more slowly through staged purchases. Improve portfolio quality: Bear markets are opportunities to clean up your portfolio. Sell weak companies and use that money to buy companies with strong moats. Don't panic sell: This is the most important rule. Every bear market in history has eventually recovered. Act according to your predetermined stop-loss criteria, but never panic sell out of fear.

CHAPTER 7

US ETF Investment Strategy

The Gold Standard of Efficient Investing

7.1 ETF Structure and How They Work

An ETF (Exchange Traded Fund) is a product that allows you to trade funds tracking specific indices, sectors, or assets just like stocks. The US is the world's largest ETF market, with over 3,000 ETFs traded and total assets exceeding $8 trillion. There are two main ways ETFs track an index. Physical Replication involves actually purchasing all the securities included in the index, while Synthetic Replication uses derivatives such as swap contracts. Regular investors should choose physically replicated ETFs for safety. Advantages of ETFs Instant Diversification: Buying just one share of VOO gives you exposure to 500 US large-cap stocks simultaneously. You can invest in the entire market without the burden of individual stock analysis. Low Cost: Index ETF expense ratios are 0.03-0.20% annually, one-tenth of active funds (1-2%). Transparency: Holdings are disclosed daily. You always know what you're invested in. Tax Efficiency: ETFs are structurally more tax-efficient than mutual funds. NAV and Tracking Error The ETF's market price and its Net Asset Value (NAV) should theoretically be the same, but in practice a slight difference (tracking error) occurs. Large, heavily traded ETFs have tracking errors near zero, but small ETFs with low trading volume can have larger tracking errors, resulting in unfavorable execution prices. When selecting ETFs, always verify that the average daily trading volume is sufficient.

7.2 Essential US ETFs

Index-Tracking ETFs

Ticker Index Tracked Expense Ratio Features VOO S&P 500 0.03% 500 US large caps. The safest choice SPY S&P 500 0.09% The first ETF. Highest trading volume QQQ Nasdaq 100 0.20% Tech-focused. High returns + high volatility VTI Total US Market 0.03% Large + mid + small caps, ~4,000 stocks IWM Russell 2000 0.19% 2,000 small caps. Strong in economic recovery

Dividend ETFs

Ticker Strategy Expense Ratio Yield Features SCHD Dow Dividend Select 0.06% ~3.5% Dividend growth + value composite VIG Dividend Growth 0.06% ~1.8% Companies with 10+ years of consecutive dividend increases HDV High Dividend 0.08% ~4.0% Heavy energy, healthcare weighting JEPI Premium Income 0.35% ~7-9% Options strategy-based high yield Bond & Safe Haven ETFs Ticker Asset Expense Ratio Features BND US Aggregate Bond 0.03% Defense during stock declines TLT US Long-Term Treasury (20yr+) 0.15% Gains when rates fall SHY US Short-Term Treasury (1-3yr) 0.15% Cash alternative. Extremely low volatility

GLD Gold 0.40% Inflation hedge, safe haven in crises TIPS Inflation-Protected Bonds 0.19% Inflation protection

7.3 Sector & Thematic ETFs

If you want to concentrate investments on specific industries or themes rather than the entire market, you can use sector and thematic ETFs. However, since they offer limited diversification, it's advisable to use them as satellite investments rather than portfolio core holdings. Sector/Theme Representative ETFs Features Semiconductors SOXX, SMH Core beneficiary sector of AI growth AI/Robotics BOTZ, ROBT Direct AI theme exposure Healthcare XLV, IBB Aging population beneficiary, defensively positioned Clean Energy ICLN, TAN Policy support, high volatility Financials XLF, KBE Benefits in rising rate environments Consumer XLY, XLP Consumer discretionary vs consumer staples

7.4 Risks of Leveraged & Inverse ETFs

Leveraged ETFs (e.g., TQQQ - 3x Nasdaq 100) and inverse ETFs (e.g., SQQQ - -3x Nasdaq 100) are products that track daily return multiples of an index. These products are absolutely not suitable for long-term investment.

The reason is 'Volatility Drag.' When an index goes up 10% then down 10%, it doesn't return to its original value but ends up at -1% (100 → 110 → 99). With 3x leverage, this effect is amplified. Going up 30% then down 30% results in -9% (100 → 130 → 91). In a sideways market, the index stays flat while the leveraged ETF continuously loses value. When the Nasdaq 100 fell approximately -33% in 2022, TQQQ recorded -79%. To recover to its original value, TQQQ would need to rise approximately 380%. Only use leveraged ETFs for intraday short-term trading, and never hold them long-term. Warning: 'Long-term investing' in leveraged ETFs is like placing double bets at a casino every day. You might get lucky in the short term, but over the long term, you will almost certainly lose money.

7.5 ETF Portfolio Construction

Core-Satellite Strategy

The most effective ETF portfolio construction method is the Core-Satellite strategy. Allocate 70-80% of the portfolio to core ETFs that track the broad market (VOO, VTI), and fill the remaining 20-30% with satellite ETFs based on personal interests or market views (sector, thematic). Allocation

Percentage Example Role Core 60% VOO (S&P 500) Capture market returns Core Support 10% VXUS (International) Geographic diversification Satellite 1 10% SCHD (Dividend) Cash flow Satellite 2 10% SOXX (Semiconductors) Growth theme Safe Haven 10% BND (Bonds) Defense/stability

3-Fund Portfolio

The simplest portfolio proposed by John Bogle. With just three funds — VTI (Total US) + VXUS (International) + BND (Bonds) — you achieve complete global diversification. Adjust the ratios based on age.

7.6 ETF vs Individual Stocks — When to Choose What

Whether ETFs or individual stock investing is better depends on the situation. The choice should vary based on investment experience, available time commitment, and risk tolerance. Situation Recommendation Reason Investment Beginner ETF (VOO/QQQ) Capture market returns without analysis burden Limited Analysis Time ETF-focused + few individual stocks Automatic investing possible (for working professionals) Strong Analysis Ability Individual stocks + ETF supplement Can pursue alpha returns Uncertain Market Outlook Increase bond ETF allocation Defensive positioning Conviction in a Specific Sector Sector ETF Theme exposure without individual stock risk In conclusion, the best strategy for most investors is to use ETFs as the core and a select few high-conviction individual stocks as satellites. Remember that only 10-20% of fund managers beat the S&P 500 over the long term. Even just matching the market average with ETFs means you're outperforming most professionals.

CHAPTER 8

Investment Failure Case Studies

Lessons Learned from Others' Money

Lessons Learned from Others' Money The most effective way to improve your investing skills is to learn from failures. But experiencing failures with your own money is too costly. In this chapter, we deeply analyze 7 representative investment failure cases from real markets. Rather than simply 'this happened,' we dig into why those mistakes occurred, what psychology was at play, and how to avoid making the same mistakes. As you read each case, keep asking yourself 'What would I have done?' Most investment failures are not made by foolish people. Even smart, experienced people repeat the same mistakes when faced with emotions and cognitive biases.

8.1 Case 1: The Meme Stock Tragedy — GameStop (GME) 2021

Background: What Happened

GameStop was an offline video game retailer operating approximately 5,000 stores across the United States. Its business model was in structural decline due to the spread of digital downloads, and in early 2020, its stock price was only about $4. Several hedge funds held large short positions betting on GameStop's stock price decline. The Short Interest ratio had reached an extraordinary 140% of outstanding shares — meaning more short positions existed than actual shares, an abnormal situation. In January 2021, the WallStreetBets (WSB) community on Reddit noticed this abnormal short ratio. The logic was that if many people simultaneously bought GameStop, a Short Squeeze would occur, forcing short position holders to buy back shares, which would send the stock price soaring. WSB posts were filled with rocket emojis and memes like 'YOLO (You Only Live Once)' and 'Diamond Hands (never sell).'

Timeline: The Unfolding Frenzy

Date	Price	Key Events
2021.1.11	$19	WSB GameStop buying movement intensifies
2021.1.22	$65	Volume explosion, short squeeze begins
2021.1.25	$76→159	Doubles in a single day, makes headline news
2021.1.27	$347	Intraday $380 breakthrough. Goes viral worldwide on social media
2021.1.28	$483 (intraday)	Historic peak. Robinhood buy restriction controversy
2021.1.29	$325	Confusion from buy restrictions, decline begins
2021.2.4	$53	-89% crash in one week
2021.2.19	$40	-92% from $483

becomes even more difficult.

Sunk Cost and Group Pressure: The 'Diamond Hands' meme framed not selling as a virtue and selling as betrayal. Many people couldn't cut their losses because of group pressure that 'selling is a cowardly act,' even when losing money. Complete Absence of Exit Strategy: The reason people didn't sell even when they bought at $100 and it reached $300 was because they had no 'target price.' Unrealistic expectations like '$1,000 is coming' and '$10,000 is coming' prevented profit-taking.

What If There Had Been Principles

How would the results have differed if the principles taught in this book had been applied? First, applying the valuation analysis from Chapter 2 would have revealed that GameStop's actual business value was around $10-20, and purchases above $100 wouldn't have even been considered. Second, having the stop-loss criteria from Chapter 5 would have minimized losses at the -10% point. Third, using the FOMO response checklist from Chapter 6 would have led to abandoning the trade upon failing to answer the question 'What would I write about this trade in my investment journal?'

8.2 Case 2: The Illusion of Growth — Zoom (ZM) and Peloton (PTON)

Background: The COVID Beneficiary Stock Frenzy

The 2020 COVID pandemic provided unprecedented growth opportunities for certain companies. Video conferencing platform Zoom Video (ZM) saw revenue explode 326% year-over-year in 2020, and home fitness platform Peloton (PTON) saw revenue surge over 100%. The narrative that 'remote work and home exercise are the new normal' dominated the market, and both companies' stock prices soared. Zoom rose from $68 in January 2020 to $568 in October 2020 — a 735% increase — and Peloton rose from $25 to $167 in January 2021 — a 568% increase. At their peaks, Zoom's PER was approximately 200x, and Peloton's PSR (Price-to-Sales Ratio) was approximately 25x. These figures meant the prices could only be justified if the companies maintained pandemic-level growth for decades to come.

The Unfolding: Reality Returns

Stock Peak Low Decline $10,000 Result Zoom (ZM) $568 (2020.10) $60 (2023.11) -89% $1,056 Peloton (PTON) $167 (2021.1) $3.3 (2024.3) -98% $198

Teladoc (TDOC) $308 (2021.2) $11 (2024.4) -96% $357 DocuSign $310 (2021.9) $39 (2022.11) -87% $1,258 (DOCU) As the pandemic ended and return-to-office began, Zoom's growth rate decelerated rapidly. Peloton's fate was even more tragic. Excessive inventory, quality issues (a child

death accident leading to recalls), and subscriber churn combined to send the stock from $167 to the $3 range — a 98% collapse. Someone who invested $10,000 at the peak was left with just $198.

Psychological Autopsy: Why Buy at 200x PER

The Power of Narrative: Powerful stories like 'The world has changed' and 'There's no going back to the way things were' rendered valuation analysis powerless. Attractive narratives have a magical power that makes people ignore numbers. Recency Bias: The illusion that recent experiences will continue into the future. The explosive growth during the pandemic period was extrapolated as if it would last forever. Anchoring Effect: 'Zoom dropped from $568 to $300, so it's a half-price sale!' people thought, but $300 was still more than 5x above intrinsic value. Anchored to the previous high, they couldn't judge the absolute level of the current price. Complete Disregard for Margin of Safety: At PER 200x, the margin of safety is zero. Even a slight slowdown in growth sends the stock tumbling by half. If you had the margin of safety concept learned in Chapter 2, you wouldn't have even considered buying at this price.

How to Avoid the Same Mistake

The lesson from COVID beneficiary stocks is clear. You must distinguish between a company's 'temporary growth' and 'structural growth.' Temporary growth is a flash occurrence due to special circumstances (pandemic, regulatory changes, etc.), while structural growth is sustained based on a company's competitive advantages. You must coldly analyze TAM (Total Addressable Market), market penetration rate, and competitive dynamics. Also, you must distinguish between a 'good company' and a 'good investment.' Zoom was a good company with an excellent product. But Zoom at $568 was not a good investment. The quality of a company and the quality of an investment are separate things. Price determines everything.

8.3 Case 3: The Leverage Trap — TQQQ Long-Term Holding

Background: The Temptation of 3x

TQQQ is a leveraged ETF that tracks 3x the daily return of the Nasdaq 100 index. During the 2020-2021 Nasdaq bull market, TQQQ recorded remarkable returns. Many investors held TQQQ as a long-term investment based on the intuitive but fatally flawed logic that 'since the Nasdaq trends upward over the long term, holding 3x leverage long-term should yield 3x returns.' YouTube and Reddit were flooded with content like 'Retire early through TQQQ dollar cost averaging.' Especially popular were claims showing backtests from 2010-2021 stating 'if you had put $10,000 in 10 years ago, it would be $100,000 now.' However, these backtests did not include bear markets like 2022.

Volatility Drag: Why 3x Isn't 3x

The most dangerous characteristic of leveraged ETFs is 'Volatility Drag' or 'Volatility Decay.' This is a mathematically unavoidable structural problem. Let me explain with a simple example. Assume the Nasdaq 100 rises 10% one day and falls 10% the next. Index basis: 100 → 110 → 99. The result is -1%. 3x Leverage (TQQQ) basis: 100 → 130 (+30%) → 91 (-30%). The result is -9%. The index lost -1% but TQQQ lost -9%. When this difference compounds daily, it becomes enormous. Let's look at a more realistic scenario. Assume the Nasdaq 100 alternates between +2% and -2% daily for 20 days. After 20 days, the index is approximately -0.4% (nearly flat). However, TQQQ is approximately -3.5%. Nothing happened, yet 3.5% evaporated. When this accumulates over 100 or 200 days, the losses grow exponentially.

Scenario	Nasdaq 100	TQQQ (3x)	Difference
Strong bull market 1yr (+30%)	$130	$196	+$66
Bear market 1yr (-30%)	$70	$22	-$48
Sideways market 1yr (fluctuating)	$98~100	$70~85	-$15~30
2022 actual (-33%)	$67	$21	-$79

The Actual 2022 Results

The actual 2022 figures are even more shocking. While the Nasdaq 100 fell approximately -33%, TQQQ recorded -79%. An original $100,000 shrank to $21,000. To recover this principal, TQQQ would need to rise approximately +376%. Even if the Nasdaq 100 recovers to its previous high, TQQQ will fall far short of its previous high due to volatility drag. What's even more cruel is the case of those who dollar-cost-averaged into TQQQ. Someone who started investing $1,000 monthly in TQQQ from 2021 had a balance of only about $8,000 against total invested capital of $24,000 by end of 2022. If the same amount had been dollar-cost-averaged into QQQ, approximately $19,000 would have remained.

The Backtest Trap

The backtests shown by TQQQ long-term investment proponents have a serious problem. 2010-2021 was one of the longest bull markets in history. Aside from the brief crash in March 2020, there was no sustained bear market during this period. Backtests from this period are like claiming 'heads came up 8 out of the last 10 coin flips, so heads will come up 80% of the time going forward.' If you change the start date to 2000 (including the dot-com bubble), TQQQ's long-term returns are dismal. During the 2000-2002 Nasdaq -78% crash, TQQQ would have effectively lost all principal (-99.9%+).

Even if the Nasdaq recovered strongly over the following 20 years, recovery from near-zero is meaningless.

8.4 Case 4: All-In on One Stock — Meta (META) 2022 Crash

Background: Blind Faith in a Perfect Company

Meta Platforms (formerly Facebook) was objectively an excellent company. Through Facebook, Instagram, and WhatsApp, it had over 3 billion users worldwide, its advertising business had operating margins of 40%, and cash flows were robust. It was a company with the powerful moat of network effects. An investor who analyzed this company developed the conviction that 'this is absolutely safe' and concentrated 80% of their portfolio in Meta. In September 2021, Meta's stock price was around $380 with a PER of approximately 24x — a reasonable valuation. The analysis was done, the company was good, and the valuation wasn't bad. The problem was the 'degree of concentration.'

The Unfolding: An Unexpected Perfect Storm

In 2022, three headwinds hit Meta simultaneously. First, Apple's iOS 14.5 update implemented the App Tracking Transparency (ATT) policy, sharply reducing Meta's targeted advertising efficiency. Meta disclosed that this caused an annual revenue impact of approximately $10 billion. Second, TikTok's explosive growth shifted younger generation attention from Instagram to TikTok. In the Q1 2022 earnings report, Meta reported its first-ever decline in Daily Active Users (DAU), and the stock plunged 26% in a single day on this news. Third, Mark Zuckerberg changed the company name from 'Facebook' to 'Meta' and declared he would invest over $10 billion annually in the metaverse, which the market interpreted as 'gambling the core business's crisis on an unproven future.' The Reality Labs division recorded $3-4 billion in quarterly losses, with no concrete revenue model in sight. Timing Price Cumulative Decline Portfolio Loss with 80% in Meta

2021.9 (Peak) $380 — —

2022.2 (Q1 Earnings $210 -45% -36%

2022.6 $155 -59% -47%

2022.10 (Q2 Earnings $98 -74% -59%

2022.11 (Low) $88 -77% -62%

An investor with 80% of their portfolio in Meta lost 62% of their total assets. If they had invested 100 million won, only 38 million won remained. What made it more painful was that this didn't happen all at once but progressed slowly over 14 months. The psychological agony of watching your assets melt away month after month is beyond imagination.

The Irony: It Eventually Recovered, But

Here lies the most cruel irony of this case. Meta made a dramatic turnaround in 2023. Through AI investment-driven advertising efficiency improvements, Reels' success, and massive cost cuts (11,000 layoffs), earnings rebounded sharply, and the stock price surpassed $500 in 2024, hitting all-time highs. The analysis was correct. Meta was a good company.

However, most all-in investors did not reap the rewards of this recovery. Because during the $380 → $88 decline of -77%, they sold in terror around the $100-120 range. Maintaining conviction that 'it will eventually come back' while watching over 60% of your assets evaporate is humanly almost impossible. Sleepless nights, inability to focus at work, being unable to tell your family — when this continues, you eventually break.

Core Analysis: The Math of Diversification

Let's look specifically at how different the results would have been with diversification.

Portfolio Composition	Total Loss at Meta -77%	Psychological Pressure	Result When Meta Recovers
Meta 80% + Others 20%	-62%	Impossible to endure → Panic sell	Sold before recovery. Large loss locked in
Meta 30% + Others 70%	-23%	Painful but survivable	Held through → Recovered above cost
Meta 10% + Others 90%	-8%	Almost no stress	Overall portfolio stable growth

had a glamorous nickname. After listing, the stock price quickly soared above $50, reaching a market cap of approximately $12 billion. Investors were captivated by the story of a company poised to dominate China's massive coffee market.

Luckin Coffee's growth story was truly attractive. It claimed to have opened over 4,500 stores in just two years, surpassing Starbucks in China by store count. Revenue growth exceeded 100% every quarter, and the company promoted its app-based efficient operations as having lower costs than traditional cafes. Investors were captivated by the macro narrative that 'the coffee market of 1.4 billion people is just now opening up.' However, in January 2020, short seller Muddy Waters published an 89-page report alleging sales fabrication at Luckin Coffee. The report was the product

of deploying over 1,500 part-time investigators to directly survey actual customer counts and sales volumes at more than 600 Luckin Coffee locations. After analyzing over 11,000 hours of store surveillance footage and more than 25,000 customer receipts, reported revenue was found to be 1.5 to 2 times actual sales. In April 2020, Luckin Coffee officially admitted that approximately $310 million in revenue from Q2 to Q4 2019 had been fabricated. The stock crashed -75% in a single day and was subsequently delisted from Nasdaq. The SEC imposed a $180 million fine on Luckin Coffee, and several executives were indicted.

Nikola: The Rolling Truck

Nikola claimed to be developing hydrogen electric trucks and went public through a SPAC merger in 2020. Founder Trevor Milton presented a charismatic vision, and Nikola earned the nickname 'the Tesla of Trucks.' At one point after listing, its market cap reached approximately $34 billion (about 40 trillion won), while Nikola's annual revenue was effectively $0. A company with zero revenue was valued similarly to Ford ($34 billion). In September 2020, short seller Hindenburg Research published a 67-page exposé report. The contents were shocking. The 'hydrogen electric truck driving video' that Nikola had proudly unveiled was not actually an engine running — the truck had been placed at the top of a hill and rolled down by gravity. Camera angles were cleverly adjusted to make it appear as though the truck was driving on its own. Furthermore, much of the 'hydrogen infrastructure technology' Nikola had shown was actually another company's technology disguised as their own development, and Milton's claimed personal career and educational credentials contained falsehoods. Milton was subsequently indicted on fraud charges, found guilty on 3 counts, and sentenced to 4 years in prison. Nikola's stock fell from $93 to below $1.

Warning Signs in the Filings

In both cases, carefully reading the financial statements and filings would have revealed warning signs in advance. Warning Sign Luckin Coffee Nikola

Abnormal growth rate Per-store revenue 2-3x industry peers $0 revenue at $34B market cap Cash flow mismatch Revenue surging but operating CF persistently negative Cash consumed only in investing activities Management history CFO's prior company also had accounting issues Founder's prior business failures Short seller warnings Muddy Waters report (89 pages) Hindenburg report (67 pages) Auditor opinion No unusual findings (auditor was also deceived) Qualified opinion Lack of specificity Store efficiency data opaque Mass production claims without prototypes

The Value of Short Seller Reports

It's true that short sellers have bias since they bet on stock price declines. However, reports from prominent short sellers like Muddy Waters, Hindenburg Research, and Citron Research are based on months of field investigation and data analysis. When a short seller report comes out on a company you've invested in, don't defensively dismiss it — be sure to review the contents. If the short seller's claims are correct, you can avoid a major loss, and even if they're wrong, it becomes an opportunity to understand the company more deeply. Be especially cautious when you see these 'red flags': when revenue is surging but operating cash flow is negative, abnormally high growth rates (2x+ the industry average), frequent auditor changes, when management avoids questions in public settings, and when footnotes in financial statements contain complex related-party transactions.

8.6 Case 6: The Currency Counterattack — Investing After Converting at Peak Dollar Rates

Background: The 2022 Exchange Rate Spike

2022 was a year of dramatic won/dollar exchange rate movements. The rate started at about 1,190 won at the beginning of the year and surged to 1,440 won by October due to the Fed's aggressive rate hikes and global uncertainty — approximately 21% won depreciation. News outlets reported daily on 'new exchange rate highs' and 'deepening won weakness,' and many people rushed to stockpile dollars believing 'the dollar will keep rising.' One investor, in October 2022, judged that 'the dollar will remain strong' and converted 50 million won all at once at 1,430 won/$ to secure approximately $34,965. They used these dollars to purchase US ETFs like VOO and QQQ. The basis for the conversion decision was the logic that 'since US rate hikes will continue, dollar strength will also continue.'

The Unfolding: Stocks Rose, But

In 2023-2024, the US stock market rebounded strongly on the AI boom. The dollar-denominated return on this investor's purchases was an excellent approximately +25%. In dollar terms, $34,965 → approximately $43,706. However, during the same period, the won/dollar exchange rate fell from 1,430 won to approximately 1,280 won — about 10.5% exchange rate decline. Converting to won: Investment 50 million won → Recovery $43,706 x 1,280 won = approximately 55.94 million won. Won-denominated return is approximately +12%. Less than half of the +25% dollar-denominated return. What if the conversion had been split over 12 months? If approximately 4.17 million won had been converted monthly from October 2022 to September 2023, the average rate would have been approximately 1,320 won. With the same +25% stock gain and less exchange rate impact, the won-

denominated return would have risen to approximately +21%. Conversion Method Investment Average Rate Dollars Won Conversion Won Return (at 1,280) Lump sum 50M 1,430 $34,965 $43,706 55.94M +11.9% 3 splits 50M 1,380 $36,232 $45,290 57.97M +15.9% 12 splits 50M 1,320 $37,879 $47,348 60.61M +21.2%

Psychological Autopsy: Why Convert All at Once

Trend-Following Psychology: Watching the exchange rate continuously rise created urgency — 'I need to convert before it goes even higher.' However, exchange rates, like stock prices, tend to mean-revert. An exchange rate in the 1,400 won range was historically extreme. Illusion of Control: Asking 'Why did I dollar-cost-average stocks but convert currency all at once?' reveals that exchange rate risk was perceived as separate from investment risk. In reality, both are the same uncertainty. News Influence: Sensational headlines like 'Exchange rate heading to 1,500 won' and 'Dollar super-strength continues' overwhelmed analytical judgment. News tends to extrapolate current trends into the future, and most extreme predictions are wrong.

Principles of Currency Risk Management

The principles for managing exchange rate risk when investing in US stocks from Korea are simple. First, split currency conversions like you split stock purchases. Converting a fixed amount monthly prevents the average rate from skewing to extremes. Second,

reduce conversion amounts at exchange rate peaks and increase them at lows. Judge the current position based on the historical average of the won/dollar exchange rate (approximately 1,100-1,200 won). Third, achieve a natural hedge effect by holding both won-denominated assets (Korean stocks, Korean bonds) and dollar-denominated assets together.

> **Key Lesson:** Dollar-cost-average your currency conversions too. The exchange rate is a second stock price. Converting a fixed amount each month to lower your average rate is the safest approach.

8.7 Case 7: The Price of Not Cutting Losses — GE (General Electric) 20 Years

Background: The World's Greatest Company

In 2000, General Electric (GE) was the world's most valuable company. With a market cap of approximately $600 billion, it was world #1, led by legendary CEO Jack Welch and evaluated as 'the best-managed company in the world.' Fortune magazine ranked GE as the #1 'Most Admired Company in America.' GE was a massive conglomerate spanning diverse industries including

aircraft engines, power turbines, medical equipment, finance (GE Capital), and media (NBC Universal). The perception was widespread: 'The company Thomas Edison founded,' 'A symbol of American industry,' 'Too Big to Fail.' Many Americans held GE as a core holding in their retirement funds, and it was a 'generational stock' passed from father to son.

The Unfolding: A 20-Year Slow Death

Timing Price Cumulative Decline Key Events

2000.8 (Peak) $60 — Market cap world #1. Jack Welch's prime

2001 $40 -33% Dot-com bubble burst. Perceived as 'temporary correction' 2002 $24 -60% Enron aftermath, GE Capital concerns emerge 2007 $42 -30% Partial recovery. Relief that 'the crisis is over' 2008 $16 -73% Global Financial Crisis. GE Capital impairment

2009.3 $6 -90% Intraday drop to $5.73. Dividend cut

2016 $32 -47% Temporary recovery. New CEO John Flannery takes over 2017 $18 -70% CEO Flannery cuts dividend 50% 2018 $7 -88% Accounting issues exposed. SEC investigation 2020 $6 -90% COVID + aviation business impact

The Devastating Opportunity Cost

If someone had invested $100,000 (approximately 100 million won) in GE in 2000 and held for 20 years, by 2020 only about $10,000 (approximately 10 million won) would remain. In contrast, investing the same amount in an S&P 500 index fund would have grown to approximately $350,000 (approximately 350 million won). The opportunity cost of being locked in GE for 20 years was approximately $340,000, or about 340 million won. It wasn't simply losing money — it was completely wasting the compounding effect of 20 of life's most precious years. If invested in your 30s, you could have had 350 million won in retirement funds by your 50s, but in reality you'd only have 10 million won.

Why Nobody Sold: Psychological Autopsy

The 'Big Company = Safe' Myth: The past glory of being #1 in market cap was mistaken as a guarantee of the future. But history proves repeatedly: Kodak was the king of film photography but fell to the digital revolution; Nokia was the king of mobile phones but fell to smartphones; Blockbuster was the king of video rental but fell to Netflix. The Trap of Gradual Decline: GE didn't crash 50% in a day — it declined slowly over 20 years. Like a frog in slowly heating water, investors

kept convincing themselves 'this level is fine' and 'just wait a bit longer for recovery.' When it bounced back to $42 in 2007, they felt relief — 'See, it recovered!' — but that was only 70% of the all-time high, and it subsequently plunged back to $6. Sunk Cost Fallacy: 'I've already lost 50%, so selling now would be a real loss.' This is exactly the sunk cost fallacy. Money already lost doesn't come back regardless of what decision you make. What matters is 'from this point forward, does this stock have a chance of outperforming the S&P 500?' At most points in time, the answer was 'No.' The Anesthetic Effect of Dividends: GE paid dividends for a long time, and investors consoled themselves that 'at least I'm getting interest.' Even with the stock down 60%, receiving a 3% dividend yield felt

like enough rationalization. However, dividends were cut 50% in 2017 and reduced to $0.01 per share (effectively zero) in 2018. Ignoring Fundamental Warnings: GE's problems didn't appear suddenly. Excessive leverage at GE Capital, complex accounting structures (critics called GE's financial statements a 'black box'), consecutive strategic failures by management, and weakening competitiveness in core businesses accumulated over years. If you had read the 10-K and tracked debt ratio trends, FCF trends, and segment-level performance, you could have spotted these warning signs.

What If There Had Been Stop-Loss Criteria

Stop-Loss Point	Sell Price	Preserved Capital	Value in 2020 if Reinvested in S&P 500
-10% ($54)	$54	$90,000	~$315,000
-25% ($45)	$45	$75,000	~$262,500
-50% ($30)	$30	$50,000	~$175,000
No stop-loss (-90%)	$6	$10,000	$10,000

2. No matter how good the company, buying Zoom, Peloton (8.2) Ch.2 (Valuation) expensive makes it a bad investment 3. Never hold leveraged products TQQQ (8.3) Ch.7 (ETF) long-term 4. Never invest more than 15% in Meta all-in (8.4) Ch.4 (Diversification) a single stock 5. Trust numbers (financial statements) Luckin, Nikola (8.5) Ch.2 (Financial Statements) over stories 6. Dollar-cost-average your currency Currency counterattack (8.6) Ch.5 (Currency Strategy) conversions 7. Set stop-loss criteria and always GE 20 years (8.7) Ch.5 (Stop-Loss) execute them These 7 principles are not independent but closely interconnected. To overcome FOMO (Principle 1), you need valuation criteria (Principle 2); even with valuation conviction, you must diversify (Principle 4); even with diversification, stop-loss criteria are needed (Principle 7); and all of this is based on the ability to

read financial statements (Principle 5). When one principle breaks, the others collapse like dominoes.

Investment Failure Self-Diagnosis Checklist

Check whether any of the items below apply to your current investments. If even one applies, take action today. If you put it off until tomorrow, tomorrow-you will put it off too.

Check Item Risk Level Immediate Action Bought a stock seen on social media High If you can't write the investment thesis in your without analysis journal, consider selling Holding stocks with PER 50x+ Medium Re-verify growth sustainability. Check PEG One stock makes up 20%+ of portfolio High Gradually sell down to below 15% Holding stocks without stop-loss High Set stop losses today criteria Holding leveraged ETFs for more Very High Consider selling immediately than 1 week Have made impulse trades after Medium Set a no-overnight-trading rule midnight Converted a large currency amount Medium Switch to split conversions going at once forward Not keeping an investment journal Medium Start recording today