



How a Monkey Beats the Stock Market

Description

It takes a monkey to beat the market. Confused? [Warren Buffett](#), in a letter to shareholders, said, “A patient and sensible monkey, who builds a portfolio by throwing 50 darts at a board that includes the entire **S&P 500 Composite Index** could increase his capital.” Here, Buffett is referring to Princeton University professor Burton Malkiel’s book, *A Random Walk Down Wall Street*.

How the monkey beat the market

According to a 2012 *Forbes* [article](#), Research Affiliates tested this logic on 100 monkey portfolios of 30 stocks each and found that 98 out of 100 portfolios beat the market from 1964 to 2010. The market-outperform concept worked because only a few large-cap stocks make up for a large portion of the market.

It’s the 80-20 rule where 20% of the stocks hold 80% of the market cap and 80% of the stocks hold 20% market cap. So our blindfolded monkey will mostly pick small-cap stocks. Small-cap stocks are generally growth stocks. They are young companies with enthusiastic management looking to gain market share.

This is the law of nature. A child grows faster than an adult. Similarly, a small company has significant scope to grow. But at the same time, it has risks too. A child has low immunity and can easily catch diseases. Hence, it’s important the child gets a lot of nutrition and care in growth years to build immunity. A child also has the option of choosing his path and his strategy.

Similarly, small-cap companies are still exploring, developing new products, tapping new markets, verticals, and consumers. They succeed in some and fail in some. But they have the flexibility to make mistakes. If your portfolio is skewed toward small-cap stocks, and even one stock soars to great heights, it can offset the losses from other non-performing stocks and give you handsome returns. But with great returns come great risk.

The risk of monkey portfolios

Not all small-cap stocks give you strong returns. Some companies like **Facedrive** may even [perish](#), leaving a permanent red mark on your portfolio. There is a possibility that some small-cap stocks may never grow. But some small-cap stocks can be like Chinese bamboos.

You need to water and fertilize a Chinese bamboo tree every day. The tree won't even break the ground for five years, but once it does, it will grow 90 feet tall in five weeks.

A Chinese bamboo stock to hold in your portfolio

I would recommend buying **Hive Blockchain Technologies** ([TSXV:HIVE](#)). For less than \$3.5 a share, you can own this Chinese bamboo stock. If you keep investing even \$50 in this stock every month for about two years, you will have invested \$5,200. Now don't expect it to give you returns in a year or two.

It is a blockchain technology company that has data farms in cold countries. Blockchain is a future technology. Its most famous application is crypto mining. Hive mines Bitcoin and Ethereum and stores them in inventory. Whenever it needs money, it sells these cryptocurrencies.

The crypto prices keep fluctuating as any new technology takes time to settle. It needs a whole ecosystem, wider acceptance, necessary security measures. All this makes revolutionary technology risky.

But once Bitcoin gains larger acceptance and becomes sticky, Hive stock will grow 90 feet tall in five weeks. You must have seen the stock surged more than 1,000% in the past two crypto bubbles. It's no point investing in such a stock after it has surged. The trick is to buy when it's small and hold.

There is a risk that the stock will fall for several months and sometimes two to three years. But Hive is now working around this by exploring new applications for blockchain technology. If any of the applications click, they could become a billion-dollar market.

Final thoughts

Even a monkey can beat the market. All you need is patience and a diversified stock portfolio with one Chinese bamboo stock. When in doubt to sell the stock, read analysts' opinions or check The Motley Fool Canada stock page. The Fool contributors can help you make informed decisions based on fundamentals.

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