



Worst Investment Ever

Dear Dr. Per Cap:

You once wrote that the most lucrative investment you ever made was a trade for a valuable hockey card at twelve-years-old. What's the worst investment you've ever made?

Signed,

Just Asking

Dear Just Asking

Fair question! Back in the nineties I was working in a pizza store and had just started investing. A seventeen-year-old coworker told me about a European media company with a seemingly bright future.

Yes, you read that correctly. I bought a hot tip stock on the advice of a teenager tossing pizzas. I'll salvage a little bit of dignity by not providing any details on the company other than to say it wasn't able to successfully make the leap into the digital age.

Within a nine month period I purchased 5,400 shares of this lovely little gem of a penny stock at share prices ranging from \$1.16 to \$3.10 using an online brokerage account. My total investment was just shy of \$10,000.

All went according to plan when two years later the stock broke \$5 a share and my holdings nearly tripled in value to \$30,000. I thought the stock's run was just getting started so I didn't even think to sell.

Big mistake - the stock never went much higher than \$5 before it tanked. However, it wasn't a quick dive so I held on hoping it was just a rough patch. Unfortunately, the stock didn't rebound and eventually struggled just to maintain a \$1 share price. This triggered a warning letter from NASDAQ because major exchanges don't like stocks that can't secure a baseline level of investor confidence.

Sadly, the company still couldn't get it together and faced delisting - being dropped from the exchange. So the company declared a 1:3 reverse split in an effort to pump up the stock price. Reverse splits are really bad news. Unlike regular splits where investors receive more shares, a reverse split leaves you with fewer shares; so overnight my 5,400 shares turned into 1,800 shares valued at less than \$2 each.

From here the stock continued its downward spiral dropping below \$1 again. The company didn't bother with any more reverse splits and the stock was delisted. No longer trading on an exchange the disgraced stock was exiled to Pink Sheets, an over-the-counter market for high risk distressed companies. There it continued to languish, trading every so often for less than a penny a share. I didn't even bother trying to sell and just stashed the brokerage statements listing my worthless shares in the bottom of a drawer.

Fortunately, there's a semi-happy ending. About ten years later when I bought my first house I used my \$10,000 loss to offset capital gains from other stocks I had bought and sold that actually went up in value. So I was able to effectively capture \$10,000 tax free towards my down payment. Yeah, not nearly as cool as if I'd sold at the top but certainly better than nothing.

Lesson learned – pizza shops aren't the best place for stock picking advice. Not the same kind of dough!

Ask Dr. Per Cap is a program funded by First Nations Development Institute with assistance from the FINRA Investor Education Foundation. For more information, visit www.firstnations.org. To send a question to Dr. Per Cap, email askdrpercap@firstnations.org.