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The Fascinating One-Stock Challenge

I am a member of a global network of investment professionals. This past June the network had a "One-Stock Challenge" with the following rules:

1. Submit the name of a stock by June 29th
2. List out the rationale for choosing the stock
3. The stock with the highest price appreciation from June 30th to December 1st would be the winner.

Simple rules! Fun! Game on!

The Picks:

Twenty-seven investment professionals from around the globe, including me, participated in the contest. The stock selections and rationale for purchasing various stocks were quite interesting and appeared very well-informed. There were familiar companies such as Hertz, Facebook and Blue Apron, but many of the stocks were companies I had never heard of, like Osisko Royalties and Immuron. All of the picks and their respective returns are listed at the end of this article.

For my pick, I decided to use **a random stock pick generator** from the internet to see how a random selection would do. The program provided me with ticker symbol NWY – New York & Company, a women's clothing retailer. I hated this stock pick. NWY had lost 42% in the first half of 2017 and had lost 3% in 2016 as compared to the S&P 500 Index's 12% return. The stock basically had been on a down escalator since its high in 2004, losing over 90% of its value. Ugly Ugly Ugly. I considered asking the program for another random pick, but I decided that random means random, so I went with it. Below is my official submission:

- **Name**: New York and Company
- **Ticker**: NWY
- **Reasons**: Totally random pick – selected using a random stock picker program on a website. Let's see how a random, uninformed pick works out.

How Did the Stock Picks Turn Out?

The winner of the contest appreciated 168% in price (Zogenix), and the worst performing stock lost 65% (Blue Apron). If real money had been invested in the 27 stocks equally, the group out-performed the S&P 500 Index by 4.6% during the five months of the contest (13.6% return vs. 9.0%). In terms of the pickers, 44% (12 of 27) beat the Index with their picks, while 56% (13 of 27) did worse. The median picker returned 3%.

How did New York & Company do? **Amazingly, it came in fourth with a 68% return!** It started at

$1.38 per share and ended at $2.30 (it is currently $2.90 per share as of this writing).

What Can We Learn From This?

This was a fascinating exercise. On June 30th, each stock pick (except mine) appeared to be well-reasoned, yet the majority failed to outperform the S&P 500 Index. The top performing pickers probably feel pretty good about themselves. The lower performing pickers either feel badly about their picks, or most likely have some sort of justification for their underperformance such as "I was early, the stock will do well later." Having submitted a truly random pick, I am most intrigued by the results of the contest. Here is what I learned from this exercise:

1. There is A LOT of randomness in the stock market. My random stock pick returned better than 23 of 26 professional, informed picks. If I had happened to randomly pick NWY in almost any other time-period in the last 10+ years, I would have been at or near the bottom of the stock picks. On June 30th as I read through the stock picks and the reasoning, I had no way of telling which stocks would perform well. In fact, I poo-pooed the Hertz pick because I know quite a bit about that stock and am aware of Hertz's struggles. Hertz finished third in the contest with a 76% return.
2. In areas where randomness and luck are material factors in outcomes, it takes many data points to untangle skill from luck. Five months is too short a period of time to judge stock-picking ability. It could be that many of the stocks picked will turn out to be good long-term investments. Or the top performers over the five-month period could turn out to be dogs. Or the dogs might turn themselves around. Being a patient investor is essential.
3. Most of the individual stock selections underperformed the S&P 500 Index, and eight of the 27 picks lost more than 15% during the five-month period while the S&P 500 Index was up 9%. Thus, investing in a single stock or a handful of stocks is a risky proposition. While tales of investments like Zogenix, make diversification seem less appealing, the likelihood of investing in a terrible stock, especially over short time horizons, makes a strong case for diversification.

In summary, as an investor it is important to have patience and realize the random nature of the stock market, especially over short periods of time. Having smarts, analytical ability and information does not guarantee good investment outcomes over the short-term. Diversification is the appropriate choice if capital preservation is a goal.

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