



Legendary Investors

## Buy When There's Blood In The Streets

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Baron Rothschild, an 18th-century British nobleman and member of the Rothschild banking family, is credited with saying that "the time to buy is when there's blood in the streets."

He should know. Rothschild made a fortune buying in the panic that followed the Battle of Waterloo against Napoleon. But that's not the whole story. The original quote is believed to be "Buy when there's blood in the streets, *even if the blood is your own.*"

This is [contrarian](#) investing at its heart--the strongly held belief that the worse things seem in the market, the better the opportunities are for profit.

Most people only want winners in their portfolios, but as [Warren Buffett](#) warned, "You pay a very high price in the stock market for a cheery consensus." In other words, if everyone agrees with your investment decision, it's probably not a good one.

### Going Against the Crowd

Contrarians, as the name implies, try to do the opposite of the crowd. They get excited when an otherwise good company has a sharp but undeserved drop in share price. They swim against the current and assume the market is usually wrong at both its extreme lows and highs. The more prices swing, the more misguided they believe the rest of the market to be. (For more on this, read "[Finding Profit In Troubled Stocks](#).")

### Bad Times Make for Good Buys

Contrarian investors have historically made their best investments during times of market turmoil. In the [crash of 1987](#), the Dow dropped 22% in one day in the U.S. In the 1973-'74 bear market, the market lost 45% in about 22 months. The terrorist attacks of Sept. 11, 2001, also resulted in a major market drop. The list goes on and on, but those are times when contrarians found their best investments.

The 1973-'74 bear market gave Warren Buffett the opportunity to purchase a stake in the Washington Post Co., an investment that has subsequently increased by more than 100 times the purchase price--that's before [dividends](#) are included.

At the time, Buffett said he was buying shares in the company at a deep discount, as evidenced by the fact that the company could have "sold the [Post's] assets to any one of 10 buyers for not less than \$400 million, probably appreciably more." Meanwhile, the Washington Post Company had only an \$80 million [market cap](#). (For more on Buffett's strategy, see "[Think Like Warren Buffett](#)" and "[What Is Warren Buffett's Investing Style?](#)")

After the Sept. 11 attacks, the world stopped flying for awhile. Suppose that at this time, you had made an investment in Boeing, one of the world's largest builders of commercial aircraft. Boeing's stock didn't bottom until about a year after the tragedy, but from there, it more than quadrupled in value over the next five years. Clearly, although Sept. 11 soured market sentiment for the airline industry for quite some time, those who did their research and were willing to bet Boeing would survive were well rewarded.

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Also during that time, Marty Whitman, manager of the Third Avenue Value Fund, purchased bonds of K-Mart both before *and* after it filed for bankruptcy protection in 2002. He only paid about 20 cents on the dollar for the bonds. Even though, for a while, it looked like the company would shut its doors for good, Whitman was vindicated when the K-Mart emerged from bankruptcy and his bonds were exchanged for stock in the new company.

Shares jumped much higher in the years following the reorganization, and then were taken over by Sears Holding, which produced a nice profit for Whitman. Thanks to moves like this, the Third Avenue Value Fund has earned a market-beating 14.3% return since Whitman founded the fund in 1990.

Sir John Templeton ran the Templeton Growth Fund from 1954 to 1992, then sold it. Each \$10,000 invested in the fund's [Class A shares](#) in 1954 would have grown to \$2 million by 1992, with dividends reinvested, or an [annualized](#) return of about 14.5%. Templeton pioneered international investing. He was also a serious contrarian investor, buying into countries and companies when, according to his principle, they hit the "point of maximum pessimism."

As an example of this strategy, Templeton bought shares of every public European company at the outset of World War II in 1939, including many that were in bankruptcy. He did this with borrowed money, to boot. After four years, he sold the shares for a very large profit. (To learn more about Templeton and other great investors, see the "[Greatest Investors Tutorial](#).")

### Putting It On the Line

But there are risks to contrarian investing. While the most famous contrarian investors put big money on the line, swam against the current of common opinion and came out on top, they also did some serious research to ensure the crowd was indeed wrong. So, when a stock takes a nosedive, this doesn't prompt a contrarian investor to put in an immediate buy order, but to find out what has driven the stock down and whether the drop in price is justified.

While each of these successful contrarian investors has his own strategy for valuing potential investments, they all have the one strategy in common--they let the market bring the deals to them, rather than chasing after them.

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