INVESTING

You Can Have It All

You think you've found the next big thing. It's a technology that will fundamentally alter the lives of millions. Clearly, this market has mega potential. There's only one problem: There's more than one company to invest in. And all appear to have decent prospects. Which do you buy? How about all of them?

By Tim Beyers (TMF Mile High)
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How many times have you been told to make up your mind? Be decisive. Make decisions. Don't look back. Those three phrases would surely top the list of admonishments in any parenting handbook, right along with eat your veggies, stay out of the street, and clean your room. I'm certainly guilty of using these and other common reproofs on occasion.

So it's no wonder that we've come to accept as common wisdom the idea that it's *always* good to take charge and be decisive, even in the world of investing. But is it really? I'm not so sure. Think about it. What if, back in 1999, you thought

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personal digital assistants (PDAs) were the future, and that smartphones that pushed data were all but inevitable? **palmOne** (Nasdaq: PLMO), then known simply as Palm Computing, was the heavy hitter in the market, but up-and-comer **Research In Motion** (Nasdaq: RIMM) had a promising product in the BlackBerry. You'd have missed huge returns if you only bet on Palm. But look at the results if you'd also invested in Research In Motion, effectively buying the entire smart PDA market. Your thesis would have played out beautifully.

You could say the same using **Apple Computer** and **Dell** in personal computers, **Sirius** (Nasdaq: SIRI) and **XM** (Nasdaq: XMSR) in satellite radio, or **Amazon.com** and **eBay** in e-commerce. In each case, buying both stocks would have allowed you to mitigate at least some of the volatility and risk inherent with Rule Breaking, while preserving the opportunity for outsized returns. Indeed, sometimes indecisiveness is extraordinarily profitable.

Would you put on this gorilla suit, please?
This isn't a new idea. In the '90s, consultant and author Geoffrey Moore teamed with two co-authors to pen *The Gorilla Game*, a treatise on how to invest in tech stocks by focusing on "gorillas" -- companies such as **Microsoft** and **Intel**, whose market dominance ultimately led to outsized stock market returns. The idea was to invest in an early market by opening positions in each of the "basket" of stocks involved in the industry in question. Gradually, you'd consolidate your positions into a single stock -- the gorilla -- having hedged the early market risk and realizing gains from investments in profitable second bananas. The approach caught fire during the dot-com bubble and then flamed out -- along with just about everything else that smelled a little too techie once the recession hit. But that, Fool, was a little like throwing the baby out with the bathwater.

Gorilla? How about Rule Breaker?
I can understand why, of course. Moore's gorillas were purveyors of proprietary technologies with huge switching costs. Once customers were locked in, they were, well, locked in. And that gave the gorilla pricing power and near-monopoly status. Now, with the advent of open source technologies, the Internet, and government regulators bent on preventing future monopolies, that scenario no longer seems as plausible as it once was.

But Moore was (and is still) right about the way hypergrowth markets develop. The early stage is almost always characterized by a multitude of new companies, each vying to topple the leadership established by the first mover -- the Rule Breaker. Especially ripe markets often produce several such firms, many of which produce profits aplenty early in life, even as public entities. Take **BEA** (Nasdaq: BEAS), for example. It faced several very real and dangerous competitors before it came to dominate the application server market. The list included biggies **Sun Microsystems** and **IBM**, as well as several firms that ultimately went public, including

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Allaire, which was acquired by **Macromedia**, which is merging with **Adobe**; **Bluestone Software**, which was bought by **Hewlett-Packard**; **SilverStream**, which was acquired by **Novell** (Nasdaq: NOVL); and **Novera**, which was acquired by **Mercator**, which was bought by **Ascential**, and which was recently acquired by IBM. Got that? The list goes on and on, but the point remains: There were several good investments in the early market for application server technology.

Renewing the game today

Today there are plenty of nascent industries ripe for the indecisive Rule Breaker. We covered five of them in January and I still like renewable energy the best. That's because of the confluence of trends -- higher fossil fuel prices, greater investment in renewable sources -- and the number of stocks available. Indeed, the up-and-coming **PowerShares WilderHill Clean Energy Portfolio** is tracking an entire index of small caps participating in the clean energy sector.

The problem with the PowerShares ETF is that it probably invests in too many shaky enterprises, such as **Energy Conversion Devices** (Nasdaq: ENER). But what if you invested in the small-cap leaders in wind, solar, and fuel cells, topping out your selections at six and placing equal bets on each? You might find yourself sitting on a small fortune several years down the road. Of course there are no guarantees, but focusing on companies with steadily improving margins, earnings, and cash flow should yield results.

The Foolish bottom line

Decisiveness is for soldiers and singles, not investors. Rash bets on stocks can destroy a portfolio in record time. And I'm not just talking about the small caps, either. For example, lifelong **Coca-Cola** drinkers would undoubtedly be soured by the stock's performance over the past five years.

I know, this is the same argument we've used for portfolio diversification. The point is that it behooves investors to think not just in terms of stocks, but industries. If you think satellite radio is poised for the outrageous growth analysts predict, why not own both Sirius and XM? Both could, over time, grow to be outstanding stocks before a clear market winner is anointed. And don't tell me you *know* **Google** will triumph over **Yahoo!** You don't. But both are arguably phenomenal stocks in an explosive industry.

So go ahead Fool, *don't* decide. Try being a Rule Breaker instead. Every month our *Rule Breakers* service -- led by Motley Fool co-founder David Gardner -- formally recommends two stocks, and hundreds of other companies are vetted on our dedicated discussion boards. Want coverage of emerging industries? We provide monthly updates of early adopters, biotechnology, and nanotechnology. Just click here to try us out for 30 days -- for free. There's no obligation to subscribe. For a limited time, you can also sign up for a year and score a free copy of *The Innovator's Dilemma*. As always, the Fool's money-back guarantee stands behind the offer.

Fool contributor Tim Beyers often can't decide what he wants to eat for dinner. That's why he usually has chicken. Tim didn't own stock in any of the companies mentioned in this story at the time of publication. To see what stocks are in Tim's portfolio check out his Fool profile. Amazon.com, palmOne, eBay, and Dell are Motley Fool Stock Advisor *recommendations. Coca-Cola is a* Motley Fool Inside Value *recommendation. The Motley Fool is investors writing for investors and has a disclosure policy.*

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