



The Osbon Minute

Do You Own the Next BP?

The gushing oil well in the Gulf of Mexico is teaching difficult lessons about deep water drilling, industry regulation, and environmental protection. The spill is also a stark reminder for investors about the dangers of owning the wrong stock at the wrong time.

In the two months after BP's Deepwater Horizon rig exploded, killing 12 workers, the company's stock price fell by half. Although there have long been concerns about deepwater wells, no one could have predicted this specific event and its effect on the region, local businesses, and BP and its stockholders. Even now, ten weeks after the explosion, no one can be certain of the disaster's final price tag or ecological impact.

Events like this demonstrate the danger of holding any single stock. Things can go wrong, and do without warning – accidents, lawsuits, product failures, fraud, aggressive competitors, regulatory surprises. The impact on stock prices can be harsh, swift, and, in the worst cases, irreversible.

Rarely worth the gamble

Despite these dangers, generations of investors have scoured the market for the next Apple, Google, or Microsoft - a sure thing stock that could only go up. Unfortunately, making a sizeable bet on any such stock is just that – a gamble. For most investors thinking of the long term, the opportunity for a big win is just not worth the risk of a company-specific disaster.

Instead, we recommend staying out of specific stocks in favor of index ETFs and other investments that offer exposure to many securities within an asset class. Spreading assets over hundreds or even thousands of companies, index investors build a barrier against unknowable disasters like the one now depleting BP's value and reputation.

We suggest investors forget about divining the next invincible Microsoft – which, by the way, is down more than 50% from its peak in 1999 – and just make sure they don't own too much of the next BP.



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Next time: Beware faux diversification.

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