

Putting All Your Eggs In One Basket

This post was originally written in 2014, when thanks to [a Boglehead](#) I became aware of a company called [GT Advanced](#) (ticket symbol GTAT). I apparently owned a tiny amount of stock in this company for several years (along with stock in thousands of other companies through my index funds.) This company was apparently making something called Sapphire Crystal, which was going to be used in the iPhone 6 and 6 Plus. Except then [Apple decided not to use it](#). GTAT subsequently went bankrupt with little if any warning. It went from a market capitalization of \$1.5 Billion to zero in a few seconds.



The company started trading publicly in 2008. In 2013, shares were worth \$2.85. Share prices peaked at \$19.55 in July 2014, a gain of nearly 700% in a year. In August 2014, Jim Cramer was recommending the stock on his show. On September 8th, 2014 they were trading at \$17.15. On October 3rd, 2014 it was trading at \$11.05. Three days later, it traded at 80 cents, representing a loss of some 93% over the weekend as the [company went into bankruptcy proceedings](#). Many of us are too

young to really remember [Enron](#) and [WorldCom's](#) spectacular implosions, but most of us remember [Lehman Brothers](#). The fact is that individual companies can and do disappear all the time. This has very little impact on a highly diversified investor such as someone using primarily [index funds](#) for their stock market exposure. But for someone who has decided to take on the [uncompensated risk](#) of owning individual stocks, the impact can be rather incredible.

The Boglehead provided a link to a forum where GTAT investors had been discussing the company ad nauseum for years. The posts after the bankruptcy were illuminating but heartbreaking. While it's easy to laugh at just how dumb an investor has to be to put such a high percentage of their portfolio into the stock of a single company, there are plenty of investors out there making similar terrible mistakes. They sometimes do it out of ignorance, and other times, are simply gambling. Here were some of the more interesting posts from that forum:



From Looking Up:

I am totally numb. Just got home after working. I saved this money for over 25 years and it is gone in a day. I haven't sold my shares because I just don't know if the shares will be worthless soon or any chance that they may come back. I bought at \$18 and 18.25 and have about 4700 shares. This is

everything. My retirement and my savings for my son and me. This is so hard for me to take in because my son has special needs and this was for him and his future, especially when I'm not here any longer. He is getting off the bus soon so I need to dry my tears and put on a smile. He is the best son a mother could ever wish for. I just feel and know that I have failed him and trying to figure out what to do. Should I sell now and at least have a couple thousand for us to at least have a few weeks to figure out what to do. I feel for everyone on here who lost. I was advised by someone who I trusted dearly not to sell. My instincts told me otherwise but I put my trust in this individual because I just felt so inept at trading and believed he knew much more than me. I will more than likely have to sell our home and struggle with this only because change is so difficult for my son. I apologize for venting but I am too ashamed to share this with my family or friends. I shared this with the person who advised me to hold and my messages go unanswered.

From Todd:

All my shares gone. Lost a SIGNIFICANT amount of money to me, but not everything. Lesson learned. This will bite for a while. Index funds for me for a LONG time now

From JoeFromCranston:

ok well I am done, done managing my own retirement, done with everything. i just hope my wife does not leave me. my parents are not going to be happy, this is not good. sold it all, i am DONE.

From BgShanghai:

I can't think of a bigger lesson in life, business and investing than the one I have learned here on this day. I will not speak for others but I will reflect upon my own

mistakes and at the top of the list is having invested too large of a % in one stock. Even i knew it was wrong. I still did it.



From Bond007:

I am dead meat. All my money is in GTAT and on my stocks I was doing margin. Since I owe way more than what's in there, I don't know what will happen to margin. Some people were smart, I believed so much in GTAT potential and lost all my savings including my 401K, IRA. At this point, I don't know what to do. I told my wife about this and she was upset and angry at my stupid move. But she still loves me.

The next day the same poster posted this:

This would be my last post on this forum. I am officially signing off. Thanks for all the contributions. I am still in shock and all the money is gone and I owe \$107K in margin accounts. I have prepared my profit and loss for filing a case and here the final numbers...Basically my net loss is around \$750K in stocks and \$140K in options. All my earnings for the past 15 years are gone in one night.

All I can wish is, all of family members of TG and the crooked directors face some grueling death. Yesterday I was

in the verge of committing suicide myself and with a loving family, I didn't have the courage. Good bye to all. Time to start Life 2.0

From Stevens54:

I'm not coping well at all. I'm watching 25 years of savings going down the drain. I was stupid enough to have my entire retirement fund invested in this. All I can hope for is to eventually break even if it should ever get back to \$5. This was like a punch right in the gut.

From BillBreeder:

Holding way too many [shares-] 11,250. (previously 75% holdings, sold too many apples for this)

Today begins the rest of my life, knowing someday this will be behind me. ...From the moment i glanced at the ticker this morning, a state of shock took over. Didn't feel depressed, was upset but couldn't cry. But reading today's post I'm in tears not due to losses but knowing I'm in the company of so many beautiful people. This isn't the outcome any of us expected, but none the less, this forum has been the highlight of my investment career.

From Ocelot on Tuesday, October 7th:

I heard the news after getting off a plane yesterday. Ouch. I lost a lot of money. Probably the equivalent of me saving diligently for the next 12-15 years. Well, only myself to blame.

From Wonder:

I don't know what to write. It's just gone. All that money. I

don't want to think about what things I could have done with all that money. It makes no use. Now and then my mind wanders around and I feel a pain stabbing me, I also dreamt last night about some employers who tried to warn me but were punished in doing so. The dream was like a movie. That is exactly how I feel now, being in a movie. It just feels so unreal but it is real. I don't wanna look at the price anymore because I have sold everything at 0.98. It is incredible.

And my personal favorite, from Wisconsincheese, one month BEFORE the bankruptcy:

Anyway, it is not me you should be jealous of but my mom whose account I manage and has around 415k shares and probably doesn't know GTAT is on the Nasdaq. I have to set up separate accounts for her GTAT holdings so she doesn't see all her positions at once as she has been telling me to sell for it for more than a year and I have to keep telling her to wait and hide exactly how much of her portfolio is GTAT so she doesn't flip out about it.

If Wisconsincheese thought she was going to flip out about it because he still owned it in September, wait until she finds out he lost \$4-8 Million of her money gambling in the stock market.

Some of these quotes are pretty tough to read, but I think an important lesson can be learned here if you haven't yet learned it. That lesson is that the old adage "Don't put all your eggs in one basket" is an old adage for a reason.

Watch The Basket Closely?



Warren Buffett has said, "Keep all your eggs in one basket, but watch that basket closely." Many people take that as an endorsement to an [alternative investment philosophy](#) to [diversification](#) (protection against what you don't know.) However, it's important to understand what Warren Buffett means by watching something closely. When he buys stock in a company, he buys a big chunk of it and puts himself in a management position, where he can actually influence what the company does. That's similar to investing a lot of your money into a small business you are the sole owner of or a handful of investment properties that you actually manage. It doesn't mean buying a single stock (or even a few stocks) and following all the news you can find about the company on the internet or on an internet forum. It doesn't mean putting all your money in one private real estate fund or with one real estate syndicator or even in a few different crowdfunded properties.

The US stock market has "always come back" from market corrections and [bear markets](#) (although even that isn't guaranteed) but individual stock investments are a very different story. Do yourself a favor. Use [low-cost, broadly diversified index funds](#) or ETFs for your public stock investments. If you choose to invest in real estate, either diversify broadly or be very involved in the actual properties. Invest your money passively and your time actively.

What do you think? Do you buy individual stocks? Why or why not? Comment below!