

Deals

## GorillaTrades Unmasked

Stockpicking site GorillaTrades and its anonymous founder have garnered some buzz with splashy ads, but the record fails to live up to the hype

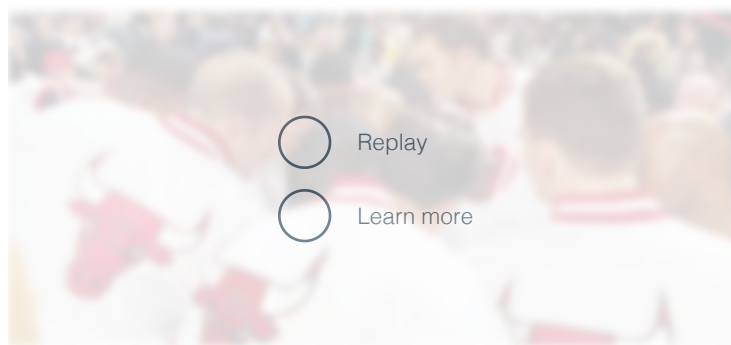
By [Ben Steverman](#)

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Thousands of people are investing their hard-earned money following the advice of a gorilla: not an actual primate, of course, but the mascot for a secretive but heavily advertised stockpicking service called GorillaTrades. The service charges members \$600 a year for stock picks based on a proprietary blend of technical-market signals.

But does the gorilla deliver for investors? A *BusinessWeek* analysis of the service's picks found they performed far worse than the stock market as a whole.

ADVERTISING



The company has attracted attention thanks to its quirky approach and heavy advertising. It has refused to divulge the identity of the firm's founder and chief spokesman, who calls himself "the gorilla." Nor does it give out results on the overall performance of his picks. However, *BusinessWeek* has learned that the gorilla is a former stockbroker named Ken Berman, in Jupiter, Fla., who has confirmed that fact in an interview.

GorillaTrades' frequent ads, on cable business channels and in financial publications, praise the gorilla's ability to pick stocks with "explosive" potential. The firm says it spent \$5 million on ads last year. Newly hired pitchman Davy Jones, of the 1960s band The Monkees, asks: "Why trade like a monkey when you can invest like a gorilla?"

### Too Good to Be True?

Here's how it works: Every evening the simian stockpicker sends out an e-mail recommending stocks to buy or sell short, along with a commentary on that day's stock market. Recent picks have included Fiserv (FISV) and Trident Microsystems (TRID), which provided double-digit losses this year, and First Data (a private equity buyout target this year) and McDermott International (MDR), each of which scored handsome double-digit gains. The \$600 it costs to join is an amount one ad says "many subscribers say they make back in their first trade or two."

But is it that easy? Readily available data from GorillaTrades make it difficult to evaluate its true, long-term record, but a *BusinessWeek* analysis suggests subscribers would do far better parking their money in low-cost, tax-efficient index funds, as many mainstream financial advisers recommend. While the broader stock market has racked up big gains in the past three years, a portfolio of GorillaTrades picks falls well behind the inflation rate. GorillaTrades picks even lost money in 2006, when the broad Standard & Poor's 500-stock index was up 12.8%.

Nonetheless, some subscribers say GorillaTrades is worth every penny. "I don't think you can miss with it," says Bruce Liebowitz, a small business owner in Farmington Hills, Mich., who first signed up after learning about the service on an Internet message board in 2000. He wishes the gorilla would start a mutual fund.

### The Origin of the Ape

Berman, 43, attended the University of Michigan and, after dropping out of medical school, worked in his father's furniture store. "It didn't interest me," he says. "I was sitting in the back room trading stocks with my broker." A recent GorillaTrade ad claims "the Gorilla" "maintains a network of

financial insiders gathered throughout his 25 years in the industry." However, Berman says that after moving to Florida he spent seven years as a stockbroker, at PaineWebber and Smith Barney, before starting GorillaTrades.

In his pre-gorilla days, Berman says, he turned \$250,000 into \$5.5 million in the dot-com-fueled bull market of the late 1990s, using both risky strategies like leverage and also a new stockpicking method he had developed. That method chooses stocks based on 14 technical criteria, two of which he won't disclose.

GorillaTrades, like many other technical players, entirely ignores the fundamentals of a stock—the company's earnings, sales, or the state of its industry—in favor of market data like price movements, trading volume, and other technical indicators. Requiring lots of trading, it's definitely not an approach for plain-vanilla, Warren Buffett-style buy-and-hold investors.

GorillaTrades began as a free service, with the site's Web server housed on a laptop in Berman's nephew's college dorm room. The site's nickname came from frequent references at the time to tech investors' favorite, Microsoft (MSFT), as the "800-pound gorilla" because of its size. But the name quickly took on a life of its own. The mascot, and the jungle theme of the GorillaTrades site, introduces a bit of humor to "an otherwise, cold, slick industry," Berman says. "If we can make people feel more comfortable and make it more approachable, this is a good thing for all of mankind."

## Effect on the Market

When, later in 2000, the site became a paid service, only 240 people signed up, Berman says. (That number has since grown to "thousands and thousands" in 55 countries, he says.) He tried to avoid the mistakes of other stock-picking sites: Many were dishonest, making money on illegal "pump and dump" schemes by driving up a stock price and then profiting by selling out. Berman says he doesn't trade in the stocks he recommends. He says he chooses larger companies and gives subscribers advice designed to avoid big impacts on the market. Despite this, many GorillaPicks do see higher trading volume and wider price swings immediately after being chosen.

GorillaTrades' rise in prominence has mirrored the recovery of the stock market. The size of GorillaTrades' presence on TV and in print—if funded by the fees of those thousands of subscribers—suggests do-it-yourself trading may be popular again.

The stocks listed in the gorilla's current portfolio are impressive, often showing double-digit gains. But that's because the gorilla sells off losing stocks quickly and holds onto winners for a long time. Evaluating the full record of GorillaTrades' picks is difficult, both because the company releases limited information and because there are several different ways individual investors could trade based on the gorilla's advice.

## Watching the Returns

One is to buy when a new pick hits an initial "trigger price." This is how Liebowitz, a subscriber who is featured in GorillaTrades ads, tends to trade. "I just like to find the freshest ideas I can," he tells *BusinessWeek*.

When a stock "triggers," it becomes a part of the GorillaTrades portfolio and is tracked on its Web site. A *BusinessWeek* analysis of this data is revealing: If you invested \$1,000 in all 311 gorilla picks that triggered in 2006, you would have lost \$1,051.25. That's a 0.3% loss in a year the market benchmark S&P 500 rose 12.8%. In 2005 the same portfolio would have returned 1.55%, while the S&P 500 was up 3.01%. The portfolio has returned 2.13% so far in 2007, while the S&P 500 is up more than 7%.

But Berman says these results paint an unfair picture because he advises investors to not buy at the trigger price. He says investors should wait until picks hit a higher price and a key volume level—what he calls the "confirmation level." Despite this advice, the GorillaTrades site doesn't provide data on performance based on confirmation picks.

## Don't Focus on Results

Berman provided raw data from 2007 to *BusinessWeek*, however. After calculations, it showed a portfolio of confirmed picks up just 1.6% so far this year. That does not include new confirmed picks that haven't been sold off yet. Berman says it's unfair to judge GorillaTrades by these results because no two subscribers use GorillaTrades in the same way. The gorilla provides "a great menu to start with," but no subscriber will buy all the picks.

"We're just giving you the best ideas out there," he says. Focusing on performance results also ignores the value of the gorilla's daily market commentary, he says, as well as other tools and indicators that tell investors when to buy and sell stocks. "If our performance wasn't good, people would cancel and they wouldn't want the service," says Berman. Of subscribers, 70% renew each year, he says.

The site's founder says that part of its purpose is educational. "A lot of people don't know what they're doing," Berman says. "They really don't

understand the concept of investing. We're trying to teach the concepts at the same time as the stock picks."

## Amateurs Focus on Gains, Not Losses

But financial planners and investing experts say even if investors get lucky in their stock picks, they tend to lose out in other ways. Transaction costs like broker fees and bid-ask spreads cut into returns. Also, taxes eat into gains. The sale of stocks held for less than a year are typically taxed at higher rates than those held long-term.

GorillaTrades may benefit from the fact that many amateurs don't keep good track of their trading results. Investors tend to focus on, and remember, their gains while forgetting losses or refusing to sell their losing stocks. "They don't want to admit they made a mistake," says Stephen Horan, head of private wealth at the CFA Institute.

Finally, the \$600 per year cost of GorillaTrades itself is a concern. Bonnie Reyes, president of BetterInvesting, a nonprofit for investors and investment clubs, advises keeping all trading expense at less than 1% of your portfolio. That's a portfolio of at least \$60,000 for GorillaTrades investors, not including other trading costs.

## "How Much Is Education Worth?"

Berman says that high taxes can be avoided by trading with individual retirement accounts (IRAs), and discount brokerages offer low fees. He says he tries to steer investors with portfolios under \$25,000 away from the service. But he adds that many subscribers don't listen. "Again, how much is education worth?" he asks.

Despite these concerns, GorillaTrades subscribers contacted by *BusinessWeek* are enthusiastic. Dan Tubbs, a subscriber in Las Vegas, says he only uses the gorilla's picks occasionally, but loves the daily commentary on the markets. "That's the best part of the service," he says.

Tim Lelek, who works in information technology at a bank in west Texas, wishes he had the money to invest in more than two or three Gorilla picks at once. He can't get access to his IRA for trading and wishes he could. "I feel like if I was to take my retirement [account], I could make quite a bit more money," he says.

## Helping People

Expect to hear a lot more from GorillaTrades in the coming months. The company says the launch of new TV ads with Davy Jones in September marks the start of a new, "multimillion-dollar" advertising campaign.

"It's fun to have something that was just an idea in your head explode into something huge," Berman says. "It's also good knowing you're helping people."

Subscribers may have fun learning about technical trading from the gorilla, but GorillaTrades' record suggests the people being helped financially by his picks are lucky—and rare. While GorillaTrades may generate the occasional savvy stock pick, the site's overall record suggests that a steady diet of bananas isn't healthy for investors.

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