TYPICAL INVESTOR QUESTIONS

How can I safely make money by investing?

Learn how investment vehicles can be combined to mitigate risk, increase income, and safely leverage profits.

After I buy, how do I know when to sell?

You don't. One method might be to set a lower limit at a price that will trigger an automatic sell, and move the limit up with the investment as it gradually moves higher. Better yet, learn how to do the same using investment vehicles that are related to the underlying security, and don't have the drawbacks related to an actual "moving stop loss" system. This is called hedging.

How do I find the best investment for my needs?

First, determine your needs; second learn about investing.

Can I compete with the large institutional traders with their inside information and highly trained professional money managers?

Yes. Because institutions are big and have full time investment managers doesn't mean they have any greater ability to be successful. If that were the case, they would be able to outperform "the averages," which most do not.

With thousands of stockbrokers, investment advisors, seminar promoters, and so-called experts telling me how good they are, who do I trust?

Do not trust anyone, especially those who offer guaranteed results, outrageous profits, or quick solutions. Developing successful relationships in the investment world is no different than developing successful friendships or business relationships. It requires effort, hard work, and most importantly the test of time. Learn from others, but learn to trust yourself and make your own decisions.

Why can't I simply read a book about investing?

You could, but you would have to know which of the thousands of books that have been written offer sound advice - most do not. Also, it's important to know that the best books don't provide any magic solutions, and most importantly, can't provide you with real world experience. They can only provide a base of information.

It seems as though everyone has a special gimmick they use when making investments. Is there one best strategy?

No.

What is the safest investment versus what investment produces the greatest profit potential? Can the two be combined?

There is no "safest" investment, or investment with the "greatest" profit potential. However, investments can be structured to provide safety and growth. (And I'm <u>*not*</u> *talking about asset allocation)*

The problem is, I can't spend all my time learning and following investments. Is there a way to learn how to make my own investment decisions and still have a life?

Yes. However, there are no good "hands-off" methods of investing or easy ways to gain investment knowledge. You will typically have to sacrifice something.

I trust my broker, advisor, friend, associate, etc. Why do I need to learn about investing when I have a broker, advisor, friend, associate, etc., who is knowledgeable?

How do you know any of these people are knowledgeable? Do you have the investment experience or background to judge their qualifications? If you don't learn about investing yourself, you can't judge their overall competency.

What's wrong with just putting money into bank accounts and CD's?

The amount a bank pays on it's accounts is reduced by inflation and <u>*safer*</u> *investments with higher rates of return and more flexibility are readily available as an alternative.*

Are investments in real estate better than the stock market?

Historically, the answer is no. Stock performance has outperformed all other investments. Of course it also depends on what stocks are picked and how the stocks are managed. Enron stockholders might disagree that investments in stocks are better than real estate.

The problem with investments in real estate are they (a) don't always go up, (b) tie up substantial equity that is not easily converted to cash in the event of an emergency, (c) require constant attention or require funds to pay someone else to pay attention, (d) have associated expenses that can be draining (maintenance, insurance, etc.), and (e) cannot be protected against a decline in value, or a lack of income/profitability.

What tends to fool real estate investors is that they usually buy real estate and wait long periods of time before selling. When they do finally sell, the price tends to be very high in relation to the purchase price, which makes the profit seem large. For example, a 10% growth rate equals out to a 50% growth over five years or a 100% growth over ten years *(higher if compounded). That means a $300,000 investment in real estate has grown to $450,000 in five years, or $600,000 in ten years (plus tax benefits and in some cases income). However, it is important to compare apples to apples. Considering that the stock market has historically increased at close to a 12% yearly rate (and much higher if you were able to avoid the periodic declines) few real estate investments have been competitive. Plus, investment portfolios can be liquidated almost overnight can be borrowed against without having to fill out loan forms, produce income that rivals any real estate income, and finally, has the flexibility to make money when the market is declining. (Note: I am not including home purchases in these statements, which are used for living and are not "pure investments.")*

How do I know if someone giving me investment advice knows what they are talking about?

Most investors are usually not capable of judging the investment advice of industry professionals. In order to judge someone's capabilities, as stated earlier, you would have to have greater knowledge than the person giving you the advice. That said, I believe the following will help.

You should consider finding someone else if:

1 *If the person giving the advice does not discuss what they will do in the event things don't go the way they anticipate. One of the biggest drawbacks to mutual funds, for example, is that they can't be hedged or protected in a declining market. Protective puts, purchasing calls as a substitution, and a host of other strategies can be used to protect a portfolio in the event markets don't respond as anticipated. An advisor who does not discuss such strategies is selling, not managing.*

2 *If the person giving the advice promotes any investment strategy based on predicting the future.*

3 *If the person giving the advice presents an asset allocation model (a program that suggests that you maintain a percentage in bonds, stocks, and other investments) and tells you that this automatically provides absolute safety. The only safety provided is based on diversification. However, even then, under certain conditions, stock, bonds, and even cash can be at risk at the same time.*

4 *If the person giving the advice has little time to explain the suggested strategies and simply expects you to go along with the advice because they have been in the business for a long time, work for a major firm, or look, act, or talk a certain way.*

5 *If the person giving the advice uses a "gimmick" in a sales presentation. For example, such gimmicks might include investment programs based on eco-friendly, faith-based, contrarian, or other fringe investment strategies that play on the investor's faith, desire to be socially responsible, or fear of following the crowd. All investment strategies should be about making money for the investor. How the investor spends his or her profits should be up to the investor.*

What are the telltale signs of someone who may not be a good advisor?

If the person makes any of the following statements I would be wary:

"I guarantee you will make money" - No one can "guarantee" you will make money unless they are talking about government bonds, bank accounts and certain annuities. Even then they can't guarantee that you will not lose money due to inflation.

"This is what wealthy investors such as Warren Buffet and Bill Gates do with their money" - Buffet and Gates have more money than you and may have a different investment objective. Also, their vast amount of money prevents them from doing certain things you can do.

"I'm good at picking stocks" - Translation, I can predict the future.

"All the economic indicators point to… " (a direction) - If it were that easy everyone would simply wait till the indicators were released and make their move. Also, if this were true all the economists would be the richest people in the world.

"Options are risky" – Some strategies related to options are risky, some are conservative. It depends upon how they are used. This statement masks the fact that the advisor lacks expertise.

"Mr. such and such, or some analyst, or some news service, television program, or financial paper says …" (and then names the name). For example, "Jim Cramer on CNBC says we should buy or sell this stock or that the market is going to move this way or that way… - How do they know what is going to happen in the future?

"The mutual funds I recommend don't charge commissions". – Very misleading. No they may not, but the guy recommending them still gets paid, and in many cases, higher than other investment products.

"I don't believe in all that fancy stuff." - Translation, he or she doesn't understand how advanced strategies work and is afraid to admit a lack of knowledge.

"I believe you should buy quality and hold on for the long haul" – Sounds good, and seems conservative, but fails in the face of recent events were an investment in what was once considered quality 10 years ago may still not be in positive territory. For example, in 1999 Microsoft reached a high of $60 per share and was considered one of the darlings of Wall Street, recommended by virtually every major brokerage firm as a quality issue. The stock is currently less than $25 per share. Also, Enron was also considered a quality investment at one time. It no longer exists. Ditto for General Motors, Ford, Bank of America, Lehman Brothers, Xerox, Bethlehem Steel, Merrill Lynch, AIG, etc.