Chapter 1 – Using Mutual Funds:

- These are great starter points to get into investing – get started on a particular industry via the relatively safe mutual fund for that industry while you continue to learn about the market
- Fees:
  - Just say NO to: loads, marketing fees (12b-1), back-end loads, and share Classes (A,B,C)
  - Say YES to management fees that are reasonable
- Industry specific funds should not be more than 5% of the Core Portfolio (CP)
- General funds can take up roughly 10% of the CP very easily
- Open-End funds sell shares based on the price at the COB – when you put in your order, you actually buy it the next day (buy on Monday, get on Tuesday for Net Asset Value (NAV) at COB on Monday)
- Once you feel comfortable with investing in stocks, you can sell industry funds and go with individual stocks from that make up that fund
- Closed-End Fund (CEF) is not closed to investors, but is closed the day it is funded and sells shares on an exchange like a stock
  - If you buy it at a discount, you have a good chance of making money, period.
  - Check the Value Line Investor Survey for CEF data: www.valueline.com (or library)
  - CEF's are "well worth your effort"
- Exchange-Traded Funds (ETFs) – trades just like a stock, just like CEFs and are not "actively" managed and are great for CP index funds
- What to look for in a Fund?
  - Strong performance over 10 years – they don't lose as much as competitors in that decade
  - Don't buy based on only 1 year's numbers
  - Go after tried and true – not hottest fund from last year
  - Expense Ratio as close to 1 as possible
  - Strong 5-Year Annualized Return
- Too much enthusiasm blurs your vision and is bad for your WEALTH – makes you work too quickly and kills reasoning
- One-country mutual funds carry GREAT risk – beware
- Types of Funds:
  - Junk Bonds (High-Yield Funds) -- bad choice
  - Large-Cap – a good choice for the CP
  - Mid-Cap
  - Money Market (<1 yr notes) – good place to park cash while waiting to invest long term
  - Sector Funds – great way to add sector to the CP
  - Small-Cap
  - Value – low stock prices relative to earnings/assets – highly recommended for CP
- Vanguards funds are crazy low fees – use them as a benchmark when hunting

Chapter 2 – Find Your Comfort Zone:

- Never buy on a hot tip:
  - Don't do anything until you know the company well
  - People on TV, radio, parties don't know what's good for you – only YOU do
- Never buy too much of one stock
- Don't always enter market orders (a 'buy' or 'sell' order you place with a broker for a stock):
  - This will cost you money as it says you will pay the going rate or current bid
  - Market for a stock is usually set for 100 shares (a 'lot') – the price can move up or down after that 100
    - For liquid Stocks, this is probably no big deal (very high volume trades)
    - For illiquid stocks, this will be an issue. Ex) you place a market order for 3000 stocks, that could very well be 30 differently priced lots that you have no control over.
  - Use a "Limit Order" to put the price YOU want to buy/sell – you stay in control; this may mean you get odd lots (#'s not divisible by 100), but that shouldn't be an issue
- Don't follow the herd: Bulls and Bear make money – sheep get slaughtered
- Don't abuse margin (borrowing money, pledging the stocks you own as collateral)
  - Margin call – broker sends you a note saying that your account needs money – ruh roh!
- Always understand what you own – you MUST understand what the company does – short and simple
- Don't put too much money in stocks:
  - Never put more money in stocks than you can afford to lose
  - Never buy stocks if you need the money within 3 years (some say 10 years)
  - Don't invest unless your credit cards are paid off (their interest rates are WAY higher!)
- Never sell too soon:
  - Sell when you see that it's "growth engine" has stalled
  - Sell if the dividend is in jeopardy if you own it for income
  - Sell if you own too much of it after a stock split
  - Sell if it has risen WELL above reasonable valuations
  - Do not sell simply because a stock has gone up
- Always sell soon enough:
  - Hanging on to losers hoping for the better is the most common mistake people make
  - Rules for selling:
    - Come up with a 'floor' percentage that works for you: ex) if price goes below 10% then sell

        - If you bought the stock for a specific reason and it doesn't happen – don't hang around
        - Never let taxes get in the way of selling a fully values stock
            - Long-term investment tax is 15% (invest for >1 year)
- Don't buy the wrong stocks in an industry – you wants leaders, not dreamers (unless they have follow-through!)
- Don't day trade – day trading is stupid. You can't time the market, you don't have the education behind the science, you don't have the direct pipeline to real-time data (quotes are ~15 minutes lagged), you get charged for trades, and taxes are higher since <1 yr
- Don't try to time the market – no one can do it… this includes you
    - When the FED interest rates are going higher (which usually means stock prices will come down), then it is smart to go lighter in stocks, but never fully out of stocks
    - When the market is declining, instead put your money in industries that are necessities (drugs, groceries) – but only 1/3 to ½ as many shares as you normally would – put a big chunk of the rest in the money market, waiting to be invested again
- Don't sell your stocks and buy all new ones
- Emotions will cost you a LOT in the stock market – keep them out!
- Don't be blinded by possibilities or by hype and hope – there is no HOPE in the stock market, only PROFITS and LOSSES.

Chapter 3 – Common Myths and the Realities Behind Them:

- Penny stocks are cheap because they are worthless 99% of the time and are usually shell companies that will be gone soon – AVOID!
- Stock Splits do not mean the stock will go up – nothing changes but the number of shares – 100 shares @ $10 becomes 200 shares @ $5
- Stocks return an AVERAGE of 10% per year… but the standard deviation (the range of swinging back and forth) is large
- If all of the company insiders are selling off, you probably should, too; otherwise, their positions shouldn't be taken as very meaningful
- Inside information is a sure way to go to jail – do not practice insider trading – if someone tries to give you data, ignore it and do NOT act on it no matter what
- Rallies:
    - There are not "usual summer rallies"… it may happen, but it's not a decided thing.
    - There are usually January rallies as it is a new year and people are funding their IRA's and rebalancing portfolios
    - There are usually December rallies as people sell their losing stocks for tax purposes but can buy back for 30 days ('wash rule')
- A chart is a historical record… it cannot predict the future. Look at it as a history of lotto numbers or roulette 'hits' – pretty to look at
    - Charts can be handy for finding an 'entry price' for buying a stock
- Just because the company announces or promises a stock buy-back program, that does not mean the price will go up
- Comfort Zone people should forget about Initial Public Offerings (IPOs) – these are aimed toward the big guys/best customers
    - Also, think of IPO meaning It's Probably Over-priced
    - Dutch auction IPOs *can* be an entry into this arena
- NASDAQ stocks have symbols with 4 or 5 letters, if less than 4, then it most likely trades on the NYSE or AMEX
- Price-to-Book Ratio (P/B) measures how much equity is in a firm (equity is what a shareholder owns)
- Wall Street Analysts have the goal of getting more trades (more commissions for the company) – NOT only recommending the best stocks
- Never buy a company just because it is big – you need more data!

Chapter 4 – What's a Fed Head? The Big Picture and How to See it:

- The Fed (Federal Reserve) is the strongest influence on the stock market
- Dec. 23rd, 1913, President Woodrow Wilson signed into law the Federal Reserve Act – to furnish an elastic currency and "other purposes".
- The Fed can move short term rates pretty easily, but has a hard time affecting long term rates
    - Short-term rates can be something like the Federal Funds rate, which is what banks charge to lend money to other banks
    - Long-term rates can really only be affect by something called a coupon pass
- When The Fed changes short-term interest rates, the stock market really pays attention – especially when the DIRECTION of rates change (which usually signals a new cycle in the economy)
- All Fed meetings are scheduled in advance – good idea to review the major minutes (federalreserve.gov)
- Interest rates tell you the COST of money – higher rates = money costs more
- Interest rates plotted on a graph are called a yield curve
- Two major things influence stock price: (1) interest rates and (2) future earnings (see "risk premium")
- If interest rates go up, then the future value of earnings go down – that means the stock price goes down
- The higher employment goes, the more likely the Fed will raise interest rates
- Consider watching HUGE retail stores' performance for hints on how the average consumer is spending
- If GDP is increasing by ~3-4% on an annual basis, then that's solid improvement with little likelihood of inflation
- New home sales are a good indicator of the health of the economy
- Consumer Price Index (CPI) measures the cost of goods that consumers pay – this is a good inflation gauge (higher CPI = higher inflation)
- Producer Price Index (PPI) is what companies that make the stuff pay for the goods that we buy
- Consider increasing holdings in very defensive stocks during economy contraction
- When unemployment is very low (~<=5%), economy is doing well; when >=7% then doing poorly
- It's rare that any of these decisions will trigger a buy/sell on your part but it is the TREND of overall announcements that will help you determine the stats of the economy

Chapter 5 – Sectors and Industry Groups:

- Sectors are broad categories that include several industry groups:

- Basic materials
- Conglomerates
- Consumer goods
- Financial
- Health care
- Industrial goods
- Services
- Technology
- Utilities

- Your portfolio should never invest in only one sector – try to have at least 3 or 4
- The ultimate CP goal is to own 10-12 stocks that represent 3-4 sectors
- Sectors Break-down:
  - Basic Materials:
    - Agricultural, chemicals, metals, minerals, oil & gas, synthetics
    - good to own when economy is coming out of a recession or slow-down, but go down fast when boom finishing
  - Conglomerates:
    - GE, 3M, Tyco – bunch of varying divisions
    - move with economy and best bought at begin of recovery
  - Consumer Goods:
    - Appliances, autos / parts, beverages, business equipment, cleaning products, food, electronics, textiles / clothing
    - Varies, but the more basic or necessary the good, the less that company should be affected by the economy
  - Financial:
    - Insurance, credit services, banks, investment brokerages, mortgage, REIT, savings & loans
    - Very sensitive to interest rates; good to own when Fed starts decreasing rates or early in recovery – bad otherwise
  - Health Care:
    - Biotech, drugs, health care, health care plans, home care, hospitals, medical supplies/equipment, medical research
    - Indifferent to interest rates; these are defensive investments; these are good to own in bad times
  - Industrial Goods:
    - Aerospace / defense, machinery, building materials, construction, lumber, metal fab, pollution / treatment / waste
    - Good at the beginning and during a recovery, but will fall quickly when slowdown begins (or fear starts!)
  - Services:
    - Advertising, travel, broadcasting, department stores, grocery stores, periodicals, security & protection, trucking
    - This group is labor intensive – very highly influenced by weak economy (which leads to high unemployment rates)
  - Technology:
    - Software, hardware, microchips, computers, data storage, multimedia, games, scitech instruments, communication
    - Good when first coming out of a slowdown and *definitely* out when a slowdown starts – good to own through mutual funds
  - Utilities:
    - Electric, foreign utilities, gas, water, energy
    - Heavily in debt and are sensitive to the cost of money (captives of interest rates) – if high debt and using a large % of profits to pay dividends, then watch out
- When interest rates are high, try to minimize: financial, utilities, basic materials (lumber, metals, cement) and try to maximize: consumer goods, health care, and services
- When the direction of interest rates changes, then consider moving your portfolio around – don't sell your defensive stocks!

Chapter 6 – Build Your Core Portfolio (CP):

- Risk is not a bad thing – it's like a car: it dangerous if it's misused, but very useful when properly handled
- Treasury bills, bonds, etc will most likely NOT make you money – inflation will likely go up faster than your interest rates and you will LOSE
  - They can be a good *parking place* (<1 year needs) but not a permanent residence for your money
- You can buy treasury bills directly from the government @ http://www.treasurydirect.gov/
- When you are buying a stock, you are allying yourself with the other owners of the company
- Consider filling your CP with the following:
  - An Oil stock
  - A tech stock
  - An index fund: pick on that tracks the large-cap stocks (check the SPYDER/SPY and QQQQ) – www.indexfunds.com
  - A large drug company: find a good dividend and no major court-room problems
  - A large biotech company: look for strong revenues and health profits
  - One stock from the DJIA – one you've researched, duh
  - One brand-name stock
  - A consumer staples stock
  - An emerging technology
  - One dividend stock or income fund:
    - One that pays <50% of income out for dividend
    - Be suspicious of those paying WAY higher than average dividend
- Only use money that is set aside for investing – have your emergency fund done and CC's paid off
- Once you buy stocks or funds, assume you CANNOT touch for 5 years (do something if all signs point to sell but set your mind up to keep)
- "My favorite holding period is forever." –Warren Buffett
- Check your mutual funds every quarter:
  - The trend should be generally higher over a year's period
  - If you've lost money over 3 years, then should definitely get out
- Check individual stocks daily (eh… maybe a bit more out)
  - Look for *meaningful* changes in the company
  - Be reluctant to sell even if they go through 1-2 quarters of bad times
- Try and give each stock / mutual fund a year before you sell, unless: definite fraud or it has grown to 20% of your CP (get back to 10%)

- Use 90% of funds to invest in strategies above, 10% in the more risky approaches:
  - A busted blue chip – huge, guaranteed dividends?
  - Biotech mutual fund – small change at HUGE life changing drug/fix = $$$
  - Aggressive growth fund
  - Invest in local company that is not public, yet – look for (1) honesty, (2) hard-work, & (3) intelligence, in management
  - Buy a local company that is already public
- Swimming pool analogy (ranked from lowest risk to higher risk):
  - Sitting in a chair on pool deck, fully dressed ➔ go for treasuries only (know you won't make money, but loses will be nil)
  - In swimsuit on the water's edge, dangling feet ➔ buy mutual funds and short maturity bonds
  - Walk down the steps & move around in the shallow end ➔ buy mutual funds that are split between large-cap stocks & bonds
  - Willing to swim to the middle of pool ➔ buy mutual funds and large-cap stocks
  - Swim freely in the deep end ➔ go for the Core Portfolio (CP)
  - Head straight for diving board and do a triple somersault ➔ buy CP and try >= 2 of the "more risky approaches" from above

Chapter 7 – Six Elements of Great Stocks:

- Great Management
  - Management to look at are: CEO, President, COO, CFO
  - Look for a consistency of earnings over a period of years; be mindful that it's hard to do great in a bad economy
  - Forthright with shareholders – don't try to impress with hype – stick to reality
  - Commitment to grow, try new products, buy other , less efficient companies to streamline and add to bottom line/are useful
- Great Growth:
  - Stay away from big companies looking to buy their way into a new business – it rarely works out
  - Profits and revenues should be going up… it'd be much nicer if profits are growing much faster
- Great Return on Equity (ROE):
  - Equity is what you own when you buy a stock
  - What the company makes as net income or net profits is added to equity – that is your ROE
  - ROE is reportedly Warren Buffett's favorite number – it's VERY important
  - DO NOT BUY A STOCK BASED ON ONE NUMBER
  - If company can make >=15% ROE each year, then that's a good sign of great management – stay away from 1 year wonders
- Great Price-to-Sales Ratio (PSR or P/S):
  - PSR is how much you are paying for the sales or revenue of a company
  - Calculate PSR: determine sales, divide by # of shares = sales per share, then take price stock and divide by sales per share
  - The lower the PSR, the better your chances of success – but it needs to be bounces against the industry average
    - Knowing the revenue per share will help you with reality checks
    - Ex) Albertsons (ABS) has PSR below competition and a little less than industry average; if other signs look good, then this is probably a good buy (but please don't buy ABS)
    - Ex) Microsoft is WAY above competition AND industry – you'd have to come up with other reasons to buy MS
  - Companies with a monopoly-esque hold on an industry usually have a sustainably high PSR
  - The lower the PSR, the less you are paying for revenues
- Great Profitability:
  - Key ingredient – the higher the number the better
  - Use net profit margin to determine which company is most efficient at providing goods & services for an industry
  - The higher the net profit margin, the better – look at the trend and the context
    - Value Line is great for looking up the trend
- High Management Ownership
  - You want management and directors owning a lot of the stock
    - As a guide (2007), mid-cap company ($1B to $3B) management should have ~10-20% ownership at least
  - Be concerned if you see management / directors selling all at the same time – you should, too

Chapter 8 – Bountiful Bonds:

- Bonds are mainly meant for institutional investors but you can and should own bonds
- Bonds are promises to pay (AKA 'debts') you whatever the 'face' amount of the bond ($ amount printed on bond) upon maturity
- Bills < 1 yr; 1 yr < Notes < 10 yrs; Bond > 10 yrs
- Bonds are sensitive to interest rates
- A bond 'coupon' is the stated interest rate for the bond
- Paying 'par' for a Bond is paying 100% of face value
- U.S. Government Bonds and AAA-Rated corporate bonds are about as safe as it gets
- Treasury Inflation Protected Securities (TIPS) are U.S. Government issued and will adjust the coupon based off of inflation %
- Municipal bonds can be bad – if you have too much income, then you pay the "Alternative Minimum Tax" (AMT) – go fund if you have to
- Standard & Poor's AAA rating is the best, D is the lowest – others follow similar ratings
- If a bond goes below BBB grade, then it is considered noninvestment grade and could be too dangerous / not worth it
- Stick to 'A' rated bonds or better to make sure you know your income stream is safe – 'AA' and above are just about guaranteed
- The longer you hold your bond, the more you will make off of interest
- For extra safety and security, purchase a Ladder of Bonds:
  - Buy a note that matures in 2 years

  - Buy a note that matures in 5 years
  - Buy a note that matures in 10 years
  - Buy a note that matures in 15+ years
  - Keep all rungs of the ladder full of investment grade bonds and returns should be good no matter what the economy is doing
  - Equally distribute across all rungs (i.e. – in example above, each of the 4 rungs would get 25% of investment money)
  - Can try other forms, too, as long as the ladder structure is maintained (e.g. - 1, 3, 5, 7, 10)
- Good rule of thumb – invest your age in Bonds – but never 100% - you just have to have some Stocks, too!
- You buy bonds in increments of $1000 from your broker – bond desks don't deal with individuals – you're just a nuisance to them
- You can offer a price below the listed price – you might just get it
- Watch out for company debt downgrades – if the rating dips below investment grade, it's time to get out!
- Pick 5 different companies with five different maturities and just relax!
- Stay away from bond funds with longer maturity dates – keep it <5 years
- Zero-Coupon bonds won't pay you interest, but you can get them well below par and still get 100% of face value on maturity – but watch out, you pay income taxes on imputed value of the bond until maturity – you're paying money for income you don't have, yet! Consider these for your IRA – tax-related catches won't apply!
- Convertible Bonds can be converted into stock anytime you want – but these are mostly for the big boys
- Preferred Stock is a cross between an equity and a debt but is neither – these are totally not for the small guys

Chapter 9 – New Industry, New Company, New Markets:

- The answer to winning with the small-fry value stocks is by buying a small number of a lot of them! – but no more than 10% of your CP
- Look at the backers behind the new companies – big guy investors won't pick losers!!! (but that doesn't mean all of their picks will win!)
  - Check www.nvca.org for the National Venture Capital Association and the SEC website at www.edgar.gov for backing information

Chapter 10 – Exploit Your Computer: It's Your Money Machine:

- "The market, like the Lord, helps those who help themselves." –Warren Buffett
- Check for Reports:
  - Form 10-Q – quarterly report companies have to file with the SEC, but no longer required to send to shareholders
  - Fork 10-K – this is the annual report shareholders receive
  - Form 8-K – any material change with a company is filed with the SEC with this form – there is an EMAIL notification service
  - Form 4 – states changes in ownership of stock for directors and officers
- Check "Investor Relations" departments on company websites
- Sites to check on:
  - The Online Investor (www.theonlineinvestor.com) is run by Ted Allrich (author) and James Hale
  - The Value Line (www.valueline.com) – free copy available at the library
  - Morningstar (www.morningstar.com) – great info on stocks and mutual funds
  - The Motley Fool (www.fool.com) – good, solid long-term approach to investing
  - Check your brokerage firm's website for good information
- Watch out for sources / commenters that are 'long' (meaning they own the stock) on a stock – they may be biased!

Chapter 11 – Day Trading is For Dummies:

- Trading is a loser's game – you will NOT make money from it as a small timer – it is WAY best left for the professionals
- The 'wash rule' has a huge hit on individual traders – you have to keep track of losses for tax purposes and trading makes this tough
- Your comfort zone approach invests in stocks, not trades in them
- NASDAQ's big placer is a "market maker" while it is a "specialist" on the NYSE or AMEX
- Some general good investing tips (not for traders!):
  - "I shall buy no stocks before its time" – its being the stock's… you must know the stock and be comfortable with the purchase
  - Ease into the purchase: buy 1/3 one week, the next 1/3 the next week, and then the last 1/3 the 3rd week
  - A good portion of your CP should have very large cap stocks – at least market cap of $5B
  - Don't get emotionally involved – the market is irrational in the short run but rational in the long run
  - Don't let the noise get to you – listen with a detached sense of calm – don't get caught in the hype

Chapter 12 – Invest Like a Pro:

- Always look ahead – the future is what counts to a real investor
- Stocks will always move on emotions – one is FEAR and the other is GREED
- True investors see adverse times as great opportunities – dare to be a buyer when everyone else is selling (only if you've done research)
- After you do your research on a stock, then determine what you will pay for it – they keep up with it and buy when right (email alert?)
- Do your due diligence – it really is important – keep on top of things
- Don't fight the Fed – when it is tightening interest rates, go defensive positions, when Fed is loosening, go aggressive
- Spread your risks so your wealth won't be overly affected by the economy
- Always buy companies/stocks with revenues
- Beware of biotech – they are ALWAYS "just that close" to the next breakthrough
- Always stay in the game – you have to play to win.

Chapter 13 – Four Ways to Invest and a Few Words About IRAs:

- There is no central exchange floor for the NASDAQ
- Quote programs and websites’ quotes are 15-20 minutes lagging actual prices
- Never let your broker sell you an in-house mutual fund (one that has the house name on it)
- DO NOT, EVER, give your broker “discretion” over your account – that means they can do whatever they want with it… BAD!
- Order Types:
    - Market Order: You want your broker to sell at whatever the market will pay for it (bid) or to buy at market price (offer) – use this for high trade volume stocks (not for illiquid stocks – use limit for those)
    - Limit Order: this order limits the buy or sell of a stock to the price you pick
    - Stop Order: this is an order to buy at or above a certain price and to sell at or below a certain price. Remember, the order is put in AT the stop, but might sell a bit lower or buy a bit higher depending on actual trade
    - Stop Limit Order: - just use the stop order, please
- Timing:
    - Day Only Command – it keeps your order in for the day you request it – this is what you want 99% of the time
    - GTC (Good Til Canceled) – not recommended as it keeps your order around for 90 days or until you cancel it
    - Fill or Kill: your order is filled in its entirety or you kill the order (you want 9000 and 7000 is offered, sorry, order killed)
- Dividend reinvestment means you buy very small amounts of stocks at a time – each dividend reinvestment has a different price – this makes tax time messy and you never really control how much you pay for the reinvestment… just get the check!!! ☺
- Only use minimum quantity criteria if odd lots bother you… otherwise it doesn’t matter
- Ex-Dividend means “without the dividend”; if the dividend date is Monday, the price on Tuesday will be ex-dividend the dividend amount – you’d have to wait another quarter to get the dividend as it trades as ex-dividend until then
- You MUST have an IRA (individual retirement account) as a priority when you start investing – the income and gains grow tax free
    - Traditional IRA: can contribute up to $2000 per year – amount deductible on taxes is based on Adjusted Gross Income (AGI)
    - Education IRA – can be up to $500 per year – very restrictive
    - SEP IRA – simplified employee pension IRA
    - Simple IRA – employee-sponsored and administered
    - Roth IRA – contributions are not tax-deductible but earnings accumulate tax-free and remain tax-free upon distribution. You must be eligible to contribute – based on AGI and marital status; can’t withdraw for 1st 5 years after IRA start w/o penalty
    - Income reinvestment is okay with IRA as tax-time issues don’t apply as they are tax-free vehicles

Chapter 14 – Get Going! The First Steps:

- “One must learn by doing the thing, for though you think you know it, you have no certainty until you try.” –Aristotle
- Steps you need to do to start investing:
    1. Don’t buy anything – do your studying, research, and *maybe* buy research information
    2. Open a brokerage account – get past the hurdle of opening an account and put some money in it – this will get you set up, your money will begin to earn interest, and you will be ready to invest when the time comes
    3. Find a mutual fund for your CP
    4. Buy a computer – you need to stay on top of things!
    5. Select the information sources you want to use – research and time are keys to success in investing
    6. Wait a month before you buy your 1st anything – but not any longer