Hey guys, It's so great to see you taking this step and signing up to receive these parts of my best-selling investment books. Investing and taking control of your financial future is something you can do, and probably do better than most professionals. The small investor has a lot of advantages over the massive hedge-fund manager and financial advisor and these excerpts will help you learn how that can be the case.

If you're interested in going through my entire books, you can purchase them online at the links below.

[Purchase the full copy of Rule #1]

[Purchase the full copy of Payback Time]

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Myths, Lies & Mutual Funds

"Successful and unsuccessful people do not vary greatly in their abilities.
They vary in their desires to reach their potential." – John Maxwell

Myth 1:
You Have to Be an Expert to Manage Money.

The first myth I want to bust is that it takes a lot of time and expertise to manage your money. It would if investing were hard to learn or if getting the information to make a decision took a lot of time. I'll prove to you that it doesn't, even though the financial services industry wants us to believe it does. The industry stands to make billions from commissions and fees if it can keep you thinking you can't **invest your money yourself**.

Myth 2:
You Can't Beat the Market.

It's true that 96% of all mutual fund managers have not been able to beat the market in the last 20 years. But you're not a fund manager and you're not judged by whether you beat the market. Your financial skill is judged by whether you're living comfortably when you're 75. You shouldn't care whether you beat the market. If the market goes down 50%, but your fund manager loses only 40%, he may have beaten the market, but he still lost 40% of your hard-earned dollars. Does that seem good to you?

Rule #1 investors expect a minimum annual compounded rate of return of 15% a year or more. If we can get that, we don't care what the market did. We're going to retire rich anyway. Judged by that standard, Rule #1 investors . . . well, rule.

Myth 3:

The Best Way to Minimize Risk is to Diversify and Hold (for the Long Term)

Diversify and hold. Everybody knows that's the safest way to invest in the stock market, right? But then again, at one time everybody knew the earth was flat. If you know how to invest—meaning you understand Rule #1 and know how to find a wonderful company at an attractive price—then you do not diversify your money into 50 stocks or an index mutual fund. You focus on a few businesses that you understand. You buy when the big guys—the fund managers who control the market—are fearful, and you sell when they're greedy. Today, more than 80% of the money in the market is invested by fund managers (pension funds, banking funds, insurance funds, and mutual funds). This is what is known as **"institutional money."**

Out of $17 trillion, the big guys manage more than $14 trillion of it. In other words, the fund managers are the market; when they move billions of dollars into a stock, the price of that stock goes up. When they take their money out, the price of that stock goes down. Their effect on the market is so huge that if they decide to sell suddenly, they can generate a massive crash.

Understanding this fact is central to Rule #1: The fund managers control the price of almost all the stocks in the market, but they can't easily get out when they want to. You and I, however, can be in or out of the market within seconds. And this is a massive advantage for us.

Lies:

A Higher Rate of Return is Contingent on Incurring Significantly More on Risk

The gold standard of low-risk investing is a ten-year United States Treasury bond, which has a return of about 2-3%. Invest in nothing but these bonds and you're guaranteed that 2-3% haul. The only problem with such a strategy, especially for the millions of soon-to-be-retired baby boomers, is that, at 3%, it takes over 20 years to double your money.

In addition, after 20 years, even with a low inflation rate of 2 to 3%, most of the gain is absorbed. Despite this reality, investors buy billions of dollars of these bonds. Why in the world would anyone want to own a bond that barely keeps pace with inflation and realizes almost no real gain in wealth?

Because almost everyone is convinced that a higher rate of return necessarily means a lot more risk. And they're more afraid of losing money in an attempt to get a higher return than of their inability to retire comfortably. **The fact is, a higher rate of return does not mean more risk.**

Lies:

The Price of Something is Always Equal to its Value

If I want to buy a new car, I have a pretty good idea what it's worth before I walk into a dealership—I know its sticker price and I know it's sold for a range of prices, usually less than the sticker price. I don't plan on paying whatever the dealer asks.

But suppose I don't know what the car is worth? The dealer can get away with selling it to me for a lot more than its value—above its sticker price. If I pay $200,000 for a Mercedes-Benz that has a retail value or sticker price of $100,000, when I sell it I'm going to lose a lot of money. But if I could buy it for $50,000, when I sell it I'm going to make money. Buying stocks as businesses is just like that, except there is no sticker price on the window. We have to figure out what the sticker price is, and then pay less.

Mutual Funds:

If you own mutual funds that are attempting to beat the market, and you're hoping your fund manager can give you a nice retirement, you're highly likely to be the victim of a huge scam. You're not alone —100 million investors are right there with you. Fortune magazine reports that since 1985 only 4% of all the fund managers beat the S&P 500 index ("the market"), and the few who did it, did so by only a small margin. In other words, almost no fund managers have done what they're paid by you to do— beat the market.

That significant fact went unnoticed through the roaring 1980s and 1990s as the stock market surged with double-digit growth, bringing your fund manager along for the joyride. But now the ride is over, and investors are starting to notice that their fund managers are pretty much useless.

"Professionals in other fields, like dentists, bring a lot to the layman, but people get ***nothing*** for their money from professional money managers." - Warren Buffett

The key word here is nothing. And yet, what do you do? You give your hard-earned money to one of these guys and hope he can deliver those 15-percent-or-better returns. Why? Because you don't want to invest your own money, and because you've been convinced by the entire financial services industry that you can't do it yourself.

Come on, and get real. From 2000 to 2003, mutual funds lost half their value. You could have lost 50% of your money without the help of a professional. In fact, in 1996 a chimp was hired to compete with the best fund managers in New York. He beat them two years in a row.

Rule #1, Buying Wonderful Businesses (Not Just Stocks), and Betting on the Jockey

It is possible to fail in many ways. . .while to succeed is possible in one way.
— ARISTOTLE (384-322 B.C.), NICHOMACHEAN ETHICS (AN EARLY RULE #1 INVESTOR)

There are only 2 rules when it comes to investing:

Rule #1: "Don't Lost Money."

Rule #2: "Don't forget Rule #1."

Some things don't change. Rule #1 is one of those things. It's been the basis of excellent investing for the last hundred years and it will be the basis of excellent investing a hundred years from now. A Rule #1 investor looks at stocks as businesses that have a determinable value, and then waits patiently for market fluctuations to bring him or her that business at a great price. First, understand that Rule #1 literally is "Don't Lose Money," but what it means in practical terms is to invest with certainty. Certainty comes from this: buying a wonderful business at an attractive price.

Memorize the following: Knowing you will make money comes from buying a wonderful business at an attractive price.

Rule #1 investing comes down to four straightforward steps:

1. Find a wonderful business.

2. Know what the business is worth.

3. Buy it at 50% off.

4. Repeat until very rich.

Buying Wonderful Businesses

The word wonderful actually encompasses three simple elements that we'll explore in depth in upcoming chapters. First, wonderful implies that the business has Meaning to you—that you under stand it enough to want to own the whole thing if you could, that you'd be proud to own it, and that the business **reflects your values**.

I use the 10-10 Rule: I won't own this business for ten minutes unless I'm willing to own it for ten years. On a second level, wonderful means that the business meets certain criteria in terms of financial strength and predictability; in particular, it must have a so-called Moat. And, third, it must have good Management.

Rule #1 demands that the business has a wide Moat, that the business be able to defend itself against attacks by competitors, as if they were attacking armies trying to sack the castle. In other words, you'd better be able to accurately predict this business's long-term future.

Finding a business with a wide Moat is key to finding a successful business to own, because a business with a wide Moat is much more predictable for the next 20 years than a business with no Moat.

If an industry looks as if it might be very easy to get into, there probably isn't a Moat. On the other hand, if it looks as though it might be really hard to get into and be successful,you'll probably find some wide-Moat businesses.

We also want to make sure the management team knows what they are doing. When I look at companies, I want to make sure the leader has the same views as I have. I call this:

Betting on the Jockey

In horse racing, there's a theory that you bet on the jokey and not the horse. When it comes to investing, we take a similar approach, because the leader or CEO is in control of the business and if you invest in it, they control your money, too.

What we're looking for is a leader. Someone who is going to take our company to the moon. Someone who lives and breathes this company. Someone who has a Big Audacious Goal that he wants to drive the business to achieve. If we get someone like that, who's honest with you about what's going on, we can sit back and watch miracles happen. If we get the wrong guy, we can easily get Enron'd or WorldCon'd. The good news is the clues are easy to spot—and if we're not sure, we don't invest. Same as always.

Debt, Taxes, and Retirement

Money is better than poverty, if only for financial reasons.
— WOODY ALLEN (1935)

Get Rid of Bad Debt

The first barrier to success is bad debt. **Yes, there's good debt and bad debt**. Good debt is money you borrow at a low interest rate, with which you make a high rate of return. This idea goes by the name of OPM (other people's money) or leverage. An obvious example is the money you borrow to buy an apartment complex. The debt is covered by the rental income—or it will be in a few years.

Bad debt, by contrast, is **consumer debt**—money you borrow at a high interest rate to buy things that don't produce income or grow in value. Things like cars, refrigerators, clothing, and trips to Europe. All of us have done it, and all of us have paid the price.

The price of bad debt is the impact of compounding rates of return working against you instead of for you. If you have credit cards or bank loans costing you 18% or more a year, that's 18% compounding against your retirement. Since Rule #1 is all about not losing money, the first thing most of us must do to become successful Rule #1 investors is to pay off bad debt.

Think about it: If our target rate of return for The Rule is 15% and we have credit card debt we're paying 18% on, essentially that means we're borrowing money at 18% and making only 15% on it. Even though we're doing well as a Rule #1 investor, we're going backwards at the rate of 3% compounded per year. That's a heck of a barrier to successful investing. The only way you'll get rich that way is to hit the lottery. Otherwise, you're going broke with great certainty.

Taxes

If we could just buy and hold, there wouldn't be a tax issue. Unfortunately, we're not geniuses enough to know the stock can't go lower, and Mr. Market is far too irrational to be trusted. So we use specific tools to get in and out with the big guys (the big, bad, fund managers), and avoid the danger of holding in a market that can crash. Great. Except now the Feds can tax us.

As much as possible, it's our duty as good citizens who intend to take care of ourselves in our wobbly old age to avoid paying taxes whenever it's possible to legally do so. In fact, our government has seen fit to provide us with a vast array of tax loopholes we can use to defer taxes. These **loopholes** are called SIMPLE IRAs, Roth IRAs, SEP IRAs, 401ks, and Defined Benefit Plans (among others). We can even set up a trust that will defer taxes for us.

Now, since I'm a former river guide and not a tax attorney or CPA, I'm not going to advise you on how to set up these plans. I will tell you I'm not a huge fan of company 401k programs because most of them force you to invest in mutual funds. The only time a 401k is better than an IRA is when the company you work for is matching at least 50% of the funds you put in there. In that case, take the free money, but put in only the amount they're going to match.

Beyond that point, open up an IRA and max it out, because you can do Rule #1 investing in an IRA that's self-directed. **Roth IRAs are tax-free forever!** You put the money in after you pay tax on it, and it grows inside the Roth IRA tax-free. Then when you retire and take it out, you never have to pay tax on the gains. I like that one. That's the one my kids have, because they're in a very low tax bracket and will be for some time, so it makes a lot of sense to jam as much into a Roth as they can after tax, and then never pay tax on the gains.

Any online brokerage can tell you over the phone how to set one of these up. It's easy and takes about five minutes. They can also show you how to roll over a 401k that's no longer being matched by your employer.

The key thing is to get the money into a tax-deferred or tax-free account. Obviously, not all of the money all of us are able to invest is in a tax-free account. Some of us have more money to invest than Uncle Sam lets us put away in a retirement account.

Let me summarize my feelings about taking your profit versus leaving it in stocks in the business for the long term to avoid short-term taxes. You can do the math and convince yourself that staying in for the long term is clearly the better choice, but I don't stay in. The reason I don't is that a stock market that's been overpriced for as long as this one may be in for a serious crash sometime. It doesn't have to happen, because the past does not necessarily predict the future, but it certainly can happen, and if it does and you're in for the long haul, the long haul just got very long indeed. If you ride a stock down from $100 to $20 in a serious market meltdown, that stock has to go up 400% just to break even.

Wouldn't it make more sense from a risk perspective to just pay the taxes and take your gains off the table every time the big guys start to get out? **Up to you.**

Retirement

What's Your Number?

Your **"Number"** represents the amount of money you will need to enjoy the life you desire, especially in retirement. Let's look at four types of people and how they might approach their Number.

A Procrastinator has no sense of their Number, no plan for retirement and is in denial. A Plucker picks the Number out of thin air and has a plan based on a wild guess. The Plotter has a rationally determined Number, a defined plan to plod toward it, and no sense of what life is all about. The Prober has a Number and a plan determined by downsizing everything, and chants "I'm okay, you're okay" while watching Oprah.

Because of all the variables in these four types of people, it's tough to tell what "your" Number is, but I'm going to give it a shot: Let's take an average couple, mid-forties, who want to retire at sixty-five. They figure they had better plan to be around for a while in retirement. And they realize that it's going to take some money for two people to live comfortably for thirty years without an income and be able to handle the inevitable medical bills and eventually the nursing home.

They figure that they could live comfortably for the balance of their lives if they can spend $50,000 a year after taxes. That doesn't seem like so much. Between the two of them they're making double that now. Of course they don't actually bring home $100,000. They pay out about $30,000 in taxes, between social security tax, federal income tax, and state income tax. So they are really living on $6,000 a month after taxes today. These people have $50,000 to invest. They intend to add $10,000 a year to it for the next 20 years. Yes, they procrastinated.

And now they are guessing about the Number, while plodding dutifully toward it while reading The Secret. If they keep their money in mutual funds and the markets manage to do 8% average for the next twenty years, they might accumulate $690,000 by the time they retire.

At age sixty-five, they will begin drawing down that amount while keeping it invested at 5% a year in bonds. They will spend $50,000 a year and because of inflation they will run out of money in five years.

This is terrible news. So terrible that right now you're thinking it can't be true. That I've somehow played with the inflation rate to make it massively expensive to live in 2029. I haven't. I've assumed an average inflation rate of 4% per year. It's actually expected to be quite a lot higher than that by a number of professionals, so the situation could be much worse than this, but it's unlikely to be any better.

The alternative scenario is deflation ... and the depression that goes with it, in which case their dreams of putting away $10,000 a year will go up in smoke. They'll be lucky to have enough left over after payday (if they have jobs) to cover the cost of living. Think 1934. Believe me, the inflationary scenario is prettier, even if it is rather grim.

So in 2029, the equivalent of $109,000 a year will buy what $50,000 buys today. Our hypothetical couple have $690,000. Invested in a 5% bond, this amount is going to earn about $25,000 after tax their first year in retirement. They'll have to supplement the bond income by withdrawing $84,000 from their 401(k).

But wait. There's more.

The money they pull out of their 401(k) is also fully taxed. In order to have $84,000 after tax, assuming a 25% tax rate overall, they'll have to pull out a total of $112,000. Their $690,000 goes down by $112,000. That leaves $578,000. They will do that again the next year and they will then be down to less than $460,000. By the time they turn seventy they will have burned through the $690,000 and be broke. Five years. If they win a nice lottery or have a rich old uncle and somehow get a million dollars in 2029, they'll last seven years.

Okay, so here's my best guess for your Number if you want to retire in 2029 on $50,000 a year in today's dollars, plan to live to be ninety-five, and don't want to rely on anyone else: $3,600,000. That's a lot. And that's why we need to start doing things correctly. The right way. **The Rule #1 way**.

Stockpiling and Playing with House Money

"There are risks and costs to a program of action. But they are far less than the long-range risks and costs of comfortable inaction." — John F. Kennedy

When a Stock Goes Down, We Get Rich.

When a stock price drops and I know the value of the stock is unchanged, it's time to load up the truck, or as I like to say, **"Stockpile."**

Stockpiling can also be referred to as "Stashing", "Accumulating" and "Collecting." Simply put it is piling up on your stock. The essence of stockpiling is to buy stock in a business you'd be excited to own all of, with hopes that the price of the stock drops so you can stockpile as much of it as possible. When the price goes down, we buy more and when it goes back up, we get rich.

Remember, the key to stockpiling is knowing that **price does not equal value**.

The only secret to stockpiling is to make sure the value of the business is substantially greater than the price you are paying for it. Be sure to look beyond the stock price and look at the value of the company.

If the value of the thing you bought is greater than the price you paid than you are guaranteed to make money, but keep in mind if you buy at a price well below the long-term value you won't be able to sell it for a profit immediately.

Playing With The House's Money

When investing into a business, you should be asking yourself, "How long before I get my money back?"

In other words, what is the Payback Time? If you buy the whole business and pocket all the earnings, Payback Time is just the time it would take you to get your money back.

Once you get all your money out of the business you have no more risk and you're essentially playing with the house's money (in casino terms). And the good news is there are tools and strategies that can lower your payback time and get your money off the table faster.

I also refer to this as reducing our basis – meaning we reduce our risk by taking our original investment (our basis) off the table. Here are a few examples:

Dividends - Dividends are paid by public businesses for two reasons, only one of which is a good reason. The good reason is the business has more cash than it knows what to do with. A good CEO knows that this excess cash belongs to you, so they return it to you in the form of a dividend. The only justification he has for keeping it is if he can use it to grow the business at a rate high enough to justify keeping the money.

Buybacks – Buybacks are one way a CEO can get rid of excess capital – she can invest it by buying back stock from current investors at the market price. This is a great allocation of capital if the stock is selling at a discount to its value. Here's why: Let's say the value of a lemonade stand is $100 and there are 100 shares of stock owned by 5 people, 20 shares each.

Each of those shares has a value of $1 but the market for lemonade stands is depressed and the shares are offered for only $0.50. If the CEO has an extra $20 she can try to invest that in a way that produces a 20% Return on Equity by expanding the business or, in this case, she can just buy back some stock and get the same result without all the work. She pays $0.50 per share with $20 and buys back 40 shares.

Now the company only has 60 shares left and now is worth only $80 (since $20 cash is gone to pay for the stock). After the buy back, each share of stock has a value of $1.33 (80/60). That means the shareholders who didn't sell saw the value of their stock go up from $1 per share to $1.33 per share overnight. That's an instant 33% return for them.

Buybacks when done right create instant great returns for the remaining shareholders.

Derivatives (options) - Essentially, a call option example is a coupon to get cheap milk. There are two sides to this coupon. There's the grocery store, which is essentially selling the coupon at a very, very, cheap price and there's the buyer of the coupon who is getting a right to go buy this milk.

So, when we use the coupon between the store, the store has an obligation to sell the milk at a set price and the buyer of the coupon gets the right to buy that milk at a setprice. That's just a coupon and we're used to using them all day long.

When a Stock Goes Down, We get Rich.

Call options are just like that. Basically, if you sell a call option to someone, you are now obligated to sell them your stock at that price. If you buy a call option you now have a right to buy that stock at that set price for a set amount of time.

Selling Call Options

Why would we do that as Rule #1 Investors? If we own this company, and we sell someone the right to buy our stock at a price higher than we think it's worth, then we have almost no risk whatsoever. Because, if the stock price goes up to that super high price, we want to sell it anyway. **We want to sell into greed and we want to buy into fear.**

If there is greed going on and the stock price is shooting up like a rocket, we want to be a seller of that stock. We can pick up cash flow, by putting out and selling c all options, which basically gives someone the obligation to buy our stock at that higher price so that they buy it from us. They pay us a premium and we can put that money in our pocket.

If the stock price doesn't go up we get to keep our money. If the stock price does go up, then we sell the stock. **Either way we win**.

You're on your way...

To learning the secrets of Rule #1 Investing strategy and building your wealth with an inflation proof porfolio. These are the same strategies used by some of the world's top investors like **Charlie Munger** and **Warren Buffett** and it's a strategy anyone can learn and put into practice.

For more about how to find your first investments and get started on your own path to financial freedom, **register for my free webinar**.

Register for Free Today!