Longbranch Research Associates *presents*:

# So-Called Experts

*a book always in progress & free.*

CHAPTER 7

## Finance

*as of July 26, 2015*

Citigroup, a buildup from CitiBank, was once the largest bank in the United States. Did it ever serve the nation's interests? In 2009, David Weidner wrote: "Citi has, in fact, a 12–year history of scandal, mismanagement, underperformance and shareholder disappointment."[1] That seems to be the common view, and I would say the correct view.

Sanford Weill, who headed Travelers Insurance, merged it with CitiCorp in October, 1998, putting together Citi Group. Travelers had purchased Shearson Lehman, becoming Travelers Group. They merged Shearson with Smith-Barney. Travelers now was an insurance company and an equities-specialty brokerage. By acquiring Salomon Brothers, and merging it with Smith-Barney (to create Salomon-Smith-Barney), Travelers became a full service brokerage. What they needed to be king of the financial roost was to become a bank. Why not?

At the time, the answer to that question was contained in the Glass-Steagall Act, post-depression legislation meant to prevent banks—which lent mortgage money backed by stable, physical property—from engaging in the more speculative activity of brokerages, which sold paper backed with paper. Weill was convinced that there would be legislation repealing that Act and, not coincidentally, there was. It happened, again not coincidentally, when the Republicans took the majority of House of Representatives seats for the last two years of the Clinton administration.[2]

Regulation, they said, was hampering growth. Never mind that such regulation of the finance industry had prevented crises (the Savings and Loan crisis of the 1980s being outside this regulatory scheme) for many decades.[3]

This worked out well for Weill who, through the early years of the 21st century, took a huge salary and sold hundreds of millions of dollars worth of Citi stock. It did not work out well for other owners of Travelers and Citi, those who held on to Citigroup stock, which lost 90 percent of its value before 2010. Weill emerged from well-deserved obscurity in July, 2012, to announce on CNBC television that perhaps the repeal of Glass-Steagall was a mistake, that large banks should be broken up and the wall separating retail banking from brokerage-type banking should be re-erected. His seeming about-face was talked and written about for a week. Then it died down because, although Glass-Steagall should be reinstated, it won't be. Weil, who came to the correct position a decade after it was relevant, cannot be considered an expert, and should not be given a national media platform.

Like any business, the financial management business needs customers. Financial managers pose as experts in helping you make money. Most are not. Some are honest and capable. Others? Here is an example:[4]

> SAN FRANCISCO (MarketWatch) -- Shares of Petrosonic Energy Inc. tumbled 26% Wednesday on an exclusive MarketWatch report that the oil-technology company paid celebrity money manager Tobin Smith to endorse its stock. Petrosonic paid Smith's company $50,000 for an advertising campaign that was featured as a special edition to his newsletter, MarketWatch columnist Chuck Jaffe reported. Petrosonic's stock fell 27 cents to 77 cents a share at last check.

Even honest managers take a percentage of your *wealth*, whether they do better at increasing it than you would or not. You might want to pay a percentage of your *increase* in wealth, as a reward for helping to create that increase. However, that is not what you are offered. The deal these so-called experts foist on you is to take a percentage of your portfolio in exchange for "managing" it. Seldom is this a good deal for you. To give up a percentage of all of your assets, including what you came in with, rewards your financial manager for just being there.

It should come as no surprise that, when asked to recommend how to deal with an employee's benefits, when that employee leaves a company (or the government),

money managers recommend actions that maximize *their* returns, not those of the departing employee. The Government Accountability Office (GAO) looked into the advice these employees were getting. It was to open an IRA—a managed retirement account.[5]

> Having workers move their money into IRAs typically allows money management companies to harvest bigger fees for handling the retirement money, the report said.

The money managers told the workers that management was free, which is simply not true. The basic principle of this chapter is: Do not let someone else manage your money. You can do it, and you will be better off, if you act sensibly. An IRA does not have to be managed by someone else. Manage it yourself.

Jim Cramer, the liveliest talking head on TV, and a man worth listening to (but not following blindly), also thinks that you, the ordinary, careful amateur investor, can do better on your own than with mutual funds or a financial advisor.[6] Let's be careful to understand what Cramer is saying, because I am saying the same thing. The question is not whether you could do better on your own than the financial manager does. The question is whether you are better off with or without one, that is, whether *your* return is greater if someone else manages your money. You do not have to do as well as a financial manager to come out ahead. You have to do as well *after deducting that person's cost to you*. There always is a cost. Run away from someone who tells you there is not.

Some people fix their own cars not because they do it better than the local mechanic, but because buying their own parts and doing the work themselves leaves them better off. Fixing a car takes time, as does managing a portfolio. Most car freaks find working on their own car enjoyable, but even if not, they pay less for car repairs than you and I do. Managing your own money may not be fun. However, it should be profitable, not because you are a better manager than the "expert," but because you avoid the manager's costs.

The first way to come out behind is to pay someone a percentage of what you give him, not a percentage of what he earns for you. This is the same problem as that posed by a real estate agent, who wants to take a percentage of the gross sale proceeds

of your house to help you sell it. Part of that gross value is what you paid for it. The agent did not create that value, and should not profit from it. The real estate agent should take a percentage of the sale price minus what you would have been able to sell the house for yourself. I would give her up to 50% of that margin, and you would see very different behavior from an agent if you made that deal. Of course no agent will, which should tell you something.

## Talk of the Town

"The depth of our financial ignorance is startling," writes James Surowiecki.[7] Startling also is the large amount of conversation material that finance provides. We are strange creatures, willing to discuss topics about which we know little, while not trying to use that conversation to improve our knowledge.

I was in the barbershop. The guys were talking about how to make money: Buy land. "They ain't makin' no more of it." Yet the barber had just purchased a bank certificate of deposit (CD). "Three and three quarters percent" he said. "I hated to do it, but I didn't see anything better to do." How about buying land? Some people do not take their own advice. Perhaps he had factored in the 6-8 percent of the total the real estate agent would take when he sold. Because of this commission, the first years of holding land are worth nothing even when land values are steadily increasing. And, as we learned in the 2000s, land does not always increase in value.

Land is lumpy, as well as illiquid, two important terms. "Lumpy," of course, means that it comes in large parcels. Money above a penny is not lumpy, because you can always break it up into smaller pieces. You probably cannot break up a housing lot into even two pieces, and sell one of them. "Illiquid" just means you cannot readily turn your lump into cash. Obviously cash and a bank account are the most liquid assets you can have. Stocks can easily be turned into cash, but you cannot be sure into how much. When you manage your money, be sure to have some liquid reserves, i.e., money in the bank.

Security is good, also. Stock in Enron turned out to be worthless. That is as non-secure as you can get. Treasury bills (90-day notes from the federal government) are both liquid (they will turn into cash in 90 days) and secure. An insured bank account is equally secure and even more liquid. A certificate of deposit (CD) is illiquid

until it comes due, and is a fool's idea of security. Usually, certificates of deposit pay a lower interest rate than the rate at which prices are rising. When prices are not rising, they pay a lower interest rate than many other financial assets. If, in real value, you get less at the end than you put in at the beginning, you cannot call a CD "costless." But you can call what is left "secure."

Twice the bank's CD rate is easily and safely available. It does require having contact with a strange institution, a brokerage firm. Really, is a bank any less strange? Not that the broker has expertise. What he has is an institution that can perform services, much like a bank performs services you cannot do for yourself. How do you convert a check to cash? A bank is good for this. It has functional expertise that is worth paying for, such as the ability to issue a cashier's check that will be accepted as if it were cash, or the ability to change currency of one country into that of another. It is a safer place than anywhere in your house to store money. But you will not run across anyone at one of these places who can make better decisions than you can about how to invest your money. Do not let them and, above all, do not pay them to.

To get customers (they would prefer the word "clients"), money managers send circulars to people they think have money. Some ask the recipient to join an exclusive club, some tell about the good investment advice they have issued in the past. Some ask the recipient to write or email for more information. Many offer a free meal. One, Fisher Investments, Inc., sent a salesman to my door. He had a smooth presentation of a number of points that made some sense if you were trying to beat the stock market. "It's not which stocks you hold," he said. "It's which stocks you hold *when*," by which he meant at each stage of a business cycle. Ultimately, I saw two problems: One: Trying to "beat" the "market" is either trivially simple (dollar cost averaging will do that) or a fool's task.[8] To follow his own advice, Fisher has to know where he is in the business cycle, even though being there is defined *ex post*. (If a recession is defined as a reduction in national income for two successive quarters, you cannot know that you have been in one for its first eight months, the two quarters plus time to gather and report the data.) I have a different approach, which I will outline below. Two: My wealth would not only pay for Fisher's staff of presumed experts, and Fisher's lavish property in Woodside, California, but for this salesman, also. I am not wealthy enough, and Fisher is not good enough, to throw money away like that.

I have a problem with insurance, also. I would be happy to merge my resources in a pool with similar people, where having sudden, extraordinary expenses is essentially a random event. The "expected value" of the money I put in is that which I would get out. If I am average, I will come out even; but if I am unlucky, I have some protection. Real insurance is a "fair" bet. On the other hand, insurance you purchase pays the company's costs, including advertising, rent, salaries, sales commissions, office equipment, and profit. If insurance company stock is a good investment (some are very good), how can its product be a good deal for its customers? Insurance outside of a no-cost cooperative is simply not a fair bet. If I am average, I will lose.

Then there is the problem of collecting. Insurance companies will try to avoid any large claim you make. Didn't people learn that from Hurricane Katrina? Flooding in Queensland, Canada, in March, 2010?[9] If it pays something on a claim, it will increase your rates, so you end up paying much of it back. That violates the principle of insurance as pooling risk to cover a random event. I do not buy insurance, which is the same as saying I "self-insure." That is another reason to have some liquidity, to cover a random emergency. I do not know the proportion of people who benefit from insurance of any particular type, but it is small. I would think that at most one-fifth of insured persons come out even or ahead, and that may be a grossly high figure. Calculate how much you have paid for insurance in the last five or ten years, and how much insurance has paid you. See what I mean?

Not only does the money manager or stock broker have to leave you better off, after his expenses, than you would have been on your own, but you have to know in advance that he will do so. It is too difficult.

## Newspaper Columns and Blogs

There is a long history of columnists—joined later by radio and television "personalities"—specializing in finance for the common man, uh, person. From Sylvia Porter to Sally Quinn to Suze Orman; from Irving R. Levine to Louis Rukeyser to whomever you read or watch now, this comment (about Orman) applies:[10]

> her money wasn't earned by investment savvy or astute savings strategies but by convincing many of us that we were so helpless we needed the help of her books and product lines.

Newspaper columns and television programs have the same feature: Anything you think you are learning from them, thousands of other people are learning, also. You do not want to rush out and buy the stock, or land, or follow whatever the "secret" to success is that you just "learned." If it had any value before you heard about it, it does not now.

It's not that experts are worthless, their expert "advice" useless. The question is better phrased, "Where do good financial ideas come from?" You will have to determine which are the good ones, but it is better to read and listen than to live in a hermit's cave. Yes, the so-called "experts" are not very expert, and you may never be, but that does not mean you can't be pretty good at saving and investing. People who tell you that you can never get ahead in the financial world will lead you to a bank savings account, a sure way to get nowhere.

The 21st century version of a newspaper column is a blog, an internet column. There are thousands of these, and one might want to know which are the better ones. That is difficult to say. One site, www.tipranks.com, says it will provide metrics. Well over half of those who give out specific financial advice are wrong most of the time. Tipranks sees a market opportunity: sell metrics to the investing public. If you are looking to follow a single guru into investment land, finding one whose advice is more often good than bad sounds like a good path to follow.

However, there are easier ways to let others make your investment decisions, as I will discuss in the next chapter. I will also suggest that you develop your own criteria for what a "good" stock is, although I think cash flow—which essentially means dividends—is one such criterion. Tipranks, like most of investment information sites, is about buying and selling. And their scope is limited. I looked up Ian Wyatt, who does get a favorable rating from tipranks, but based only on his free posts, his blogs. He also sells a subscription service, but tipranks does not assess it. In short, although their information is interesting, tipranks is not the way to find your investment experts. Its metrics may not be your own, its data sources may not be yours, and, its generality may not fit your specific question.

## Industry Newsletters

Newsletters can be a source of ideas. There are essentially two kinds of

newsletter: those that specialize in a particular industry or country (touting the depth of their knowledge as the reason you should subscribe), and those that devise entire portfolios (touting the breadth of their knowledge as the reason you should subscribe). I think breaking up the world by industry, at least for investing, interposes undefinable terms and unintelligible concepts between you, the investor, and that in which you invest, companies. Is General Motors a car company or a finance company? Is Johnson & Johnson "big pharma"—a pharmaceuticals company—or a multi-dimensional medical supply company? General Electric and Tyco may be great conglomerate companies. Their very diversity may be their strength. However, with that diversity they cannot be categorized by industry. We thought Comcast was a cable company, the transmitter of content. Then it purchased NBC, which had specialized in creating the content that others transmit. So which industry is Comcast in now, creation or distribution? Don't try to answer this question. It does not matter.

Those who invested in IBM, in the 1980s, were purchasing a computer hardware company; but if they held on, they now own a computer software and services company. We once thought the Pennsylvania Railroad was a poorly operated passenger train company. It was, we later learned, a real estate conglomerate with enormously valuable holdings. Wang turned out not to be a computer company, at least not a successful one, but an owner of office buildings. Michael Dell says the company bearing his name is a very different company in 2011 than it was only five years before. So what category is it in?.

Avoid classifying companies by anything other than what you care about as an investment outcome: likelihood to survive into the future (or be purchased), current return (dividends), total return (dividends plus growth), and a record of having increased dividends over time. How they get these characteristics may be of some interest, but little use in evaluating them. *The Economist* expressed the quandary:[11]

> . . . Terry Semel [the new President of Yahoo!] felt pretty clear about what media companies were. He was running them, after all [at Disney and Warner Brothers]. . . . He already had the ambition to turn Yahoo! into the archetypal "21st-century media company," but suddenly he was no longer so clear on what that meant.

"Media" has become just bits downloaded and "passed around among friends." As with

Comcast, must the media company have created the bits, or can it be the interface, the transmitter of bits to the final user, or what? Ask the same thing about Netflix.

People know only so much, and those who know what they know and can tell you what that is—with some indication of how well they know it—are worth some attention. Those that tell you they know the secrets of how to get rich, and you don't—and want to service you, not educate you—are not experts. The "get rich in real estate" ads (because real estate always increases in value, they said) left the airways around 2008. New real estate ads (buy and then rent out for more than your mortgage payments) are appearing at the same time people are urged to own their own homes (in 2014) because rental rates are high. And how about "Free Credit Report dot com" which requires that you give them your credit card number and, guess what, puts a charge on it?[12]

There *are* experts out there who do put good advice into paid-subscription newsletters. It is always worth while to ask, however, if they are so good, why don't they spend their time making money, instead of telling you and me how to? Maybe they do the former by doing the latter, which again raises the question: are they good enough to be worth the expense?

By and large, I look for some limitation in newsletters. An internet newsletter I once subscribed to specializes in dividend-paying Canadian firms, most formerly income trusts. Not an industry, but some restriction that tells me the writers are likely to know what they are talking about. (See www.canadianedge.com.) Another specializes in Asian companies that I am not likely to know much about on my own. (See www.asiastockalert.com.)

Mezzanine finance is large loans to companies that are off the ground (above the ground floor—I get it) but not large enough to go to the capital market for serious debt or equity financing. Snapple was once one such company. The venture capitalists we hear about having financed Google, for example, offered mezzanine finance in return for stock, and have made back many times the amount they put in. So the concept exists, but successful venture capitalists offering mezzanine finance do not take deposits from the likes of us. We cannot, on our own, participate in the capital market this way.[13]

The Lesson: There is money to be made in mezzanine finance—*but not by you*

*and me*. Sequoia Capital not only financed Google, it put $11 million into YouTube. When Google bought YouTube, Sequoia took out over 40 times what they had put in. That is a gross figure, not deducting Sequoia's costs, and not considering their losses on other ventures. Nonetheless, their profit was enormous. You and I are not going to make that kind of money. Let's try to be realistic.

We have to be smart about doing what we can do. No one is going to open doors for us unless they profit from doing so, and that profit reduces our return while increasing theirs. Sequoia takes funds from private investors, and does well by them, but it isn't open to you and me. Those that are usually spend a considerable amount trying to recruit us. Who do you suppose pays for that? Let's use low-cost advice to make ourselves some money, understanding that we cannot access private deals like Google and YouTube.

Roger Conrad was ahead of others in his coverage of Canada, and he also, for even longer, has been covering utilities. Despite my mistrust of the "industry" concept —if a company both distributes power it generates from natural gas and imports, warehouses and wholesales natural gas itself, is it a utility or an energy company?— you need to get information in digestible chunks. Conrad's utilities newsletter informs, but also recommends. He does not pretend to take over your portfolio. For that part of your portfolio that you want to put into "utilities"—though, again, I cannot see why anyone would parcel out a portfolio this way—you need the kind of information that Conrad provides.

However, newsletters can be annoying. Here is Conrad in *Canadian Edge*, on September 9, 2011:

> **Freehold Royalties LTD–Hold from SELL**. Near-term pressure on the dividend is reduced by a 33 percent surge in second-quarter funds from operations. Equally important, the stock's price has come off sharply.

The last line implies that if you did not sell it when I told you to, you fool, it is too late. The preceding sentence implies that a bad situation has been corrected, you would have been wrong to sell it, although Conrad did not know it when he told you to. I do not care about the share price of dividend stocks (as I will explain in the next chapter). I held Freehold through Conrad's sell advice, and still do.

In sum, there are people and firms that gather information, put it into a common form and send it out regularly. This is a service that might be worth paying for, information worth considering. How valuable these services are depends on the extent to which you cannot get the same information, as easily, elsewhere. It depends on how correct and useful the information turns out to be. And how timely. It is a tool, not a substitute for your own decisions. I'm all for gathering and disseminating information. As long as that is what a firm offers, it is worth checking out and, at reasonable cost, if you find that information influencing your decisions (for the better), even paying for.

## Investment Newsletters

Other newsletters are more general. They will advise you on your entire portfolio, and recommend a "stock of the month" or different portfolios, one based on income, one on growth, one on "value," etc. One such newsletter in the late 1980s, *Personal Finance*, said that the Alger Fund was the Magellan Fund of the future. Magellan had been the Fidelity fund through which Peter Lynch gained a well-deserved reputation as a stock-picker. It, and he, became legends. I followed the Alger Fund (and, later, Funds) for years. They were mediocre. I did not open that newsletter's mailings until it changed editors, years later. The former editor, Stephen Leeb, is still around, telling you how great he his recommendations have been. No, they have not. With a new editor, Neil George, I again watched the limited information I got, but this time I liked it, and eventually subscribed.

In 2009, Eliot Gue became the editor. This history implies a problem with newsletters. You begin to have some faith in the information you get from one source, and then it changes. Gue brought along other resources from the Conrad stable, and *Personal Income* was a valued source of information and ideas. Then Gue expanded, grew the recommended portfolios too large, and seems to have been dumped by Conrad, who at the time controlled this newsletter. Conrad later replaced Gue with Philip Springer, presumably someone he trusts.

Then Conrad had some kind of falling out with his publisher, and now has no connection with *Personal Finance* or, for that matter, *Canadian Edge*. Should I stay with them, or switch to Conrad's new amalgam of newsletters? You can count on nothing being the same over a long period of time—not the companies, and not the

newsletters that write about them.

You can get investing ideas from newsletters, from newspaper columns, even from watching "business" television programs on CNBC, CNN and Fox. You can get them from magazines like *Kiplinger's*, *Money*, even *Business Week*. It's just that, besides now being "known" by tens of thousands of people, many of these are bad ideas. The problem isn't getting names of stocks thrust at you, with some reasoning. The problem is evaluating that advice, little of which comes from real experts. You will have to make some judgment. Most of those ideas are about trades, which stock will likely go up two points in the next three months or sooner. If you want to trade, read some other book. I care only about investing, the goal being to provide a steady stream of income over a long run. Nothing I say here should be interpreted as advice about trading or even about how to get information on trading.

Some advisors will tell you what winners they have recommended. They aren't lying. However, most of them recommended just as many losers. As you can get just as many good ideas free from TV or from the internet (to be explained below), most general advice newsletters are a waste of your money. Specialized newsletters are a different story. For example, Singapore is undoubtedly a good place to invest, but how would you or I know which companies to invest in? This is specialized information that could well be worth its cost, though I have no Singapore-centric newsletter to recommend.

## How To Use Newsletters

The June, 2010 issue of *Money* Magazine included an article called "The Future of Investing Advice."[14] It discussed discount brokers, money managers, investment websites. What it did *not* discuss is periodicals, like newsletters and magazines, like *Money* itself. Are they predicting their own demise?

Stansberry and Associates from Baltimore has a number of subscription newsletters. Weiss Research in Florida also puts out several periodicals, including *Real Wealth*. Ian Wyatt does the same. These publications not only discuss and recommend investment opportunities—leaving it up to you what advice to take or reject—they also maintain portfolios. Each month they tell you how well each portfolio is doing, and what changes they are making. You use a broker to effectuate

whatever actions you want.

Once they know about you, these publication houses will flood you with emails. Each email tells you how Jane Doe or Jack Smith made so many thousands using a method you can learn if you only subscribe to some *other* publication. I find the practice insulting, and even more so now that they are increasing the type size. Some require that you listen to an audio narrative. I do not have that kind of time.

Newsletters like *Utility Forecaster* often advise selling when the price has dropped. There are times when it is wise to do that, because the price will drop further. Sometimes that the drop has already occurred when you find out, and all that lies ahead is gain. My decision whether to hold is based on the dividend's not appearing to be at risk. I hold utilities for their dividends, not to trade. Interest rates go up and your home is "worth" less. So? Is it for sale? Are you planning to borrow against it? If not, then why would you care about its "value" measured that way?

What should you do if a newsletter recommends buying a stock up to $24, but when you look it is $24.20? What you do is look also at where it has been and where it seems to be going ("chart it"). You can do this easily at www.bloomberg.com, or finance.yahoo.com, or at your broker's web site. What often happens is that next month this same newsletter will tell you to buy it up to $25. I appreciate that newsletter writers revise their goals, but you lose opportunities by following them too precisely. When you get the next issue, the price has risen to $24.95 if not $25.10. You will now pay $750 more on 1000 shares than you would have last month had you taken a larger picture of the stock, and purchased at a price slightly above the guideline.[15]

You need a way to make this decision, and it is this: How much better is this stock than the next one you would buy to achieve the same purpose? If it is still better at this "high" price, then buy it. The world does not always provide us with the information we would like to have at just the time we would like to have it. Too bad you didn't get this recommendation two weeks ago. Make do with the information you have. If it is a great buy under $24, it might still be a good buy at $24.20. If, on the other hand, it has a history of volatility (price fluctuations), perhaps you want to keep watching it and buy on a pull-back. Put in a buy order with a limit of $22.99 (that means you will buy it if it dips below $23), good till canceled.[16] Yes, there is some cost to this, including your time and possibly the lost dividend while you wait. There might

be more cost: This stock's price may never dip this low again, and you have lost the opportunity. These are the decisions still left to make after you spot a stock you want. At what price do you want it? How can you get it at that price? If it never dips to your offer price, you will never buy it; but if it does, you will buy it at a bargain price, unless it keeps going down. This is tough stuff, because you are always buying the future, whereas all you can know about is the past.

One note of caution: One reason the price of a stock fluctuates is when that stock gives an owner access to its dividend. Purchasing on a given day, called the "ex dividend" day, a new owner will not get the next dividend. That dividend is paid to owners of record the previous day. Therefore a high dividend paying stock will always fall in price on the ex-dividend day. Whether that is the dip in price you were looking for depends on how much of a decline in price the stock suffers, compared with the amount of the dividend. This may seem like an obscure topic, but if you follow stock prices, you may see that a) the stock price falls by more than the dividend on the ex-dividend day, and b) that price does not immediately begin to increase, to reflect the next dividend for which a buyer is eligible. Don't panic. You have time to think about whether you want this stock.

Regardless how you make your decision if and when to purchase a stock, you can see it go down. This is what happened, for example, when Jim Cramer recommended Annaly Mortgage, or oil tanker stocks, or Legg Mason on his "Mad Money" television program on CNBC. He recommended Frontline when it was over $50 a share. He kept recommending it as it dropped to $43 a share. Then, only a few weeks later, he turned around: Too many tankers have been built, rates are going down, dump the tanker stocks.

Cramer's information told only part of the story. Although tankers are being built, other tankers are being scrapped. The industry is substituting double hull tankers for single hull tankers, partly to reduce insurance rates, partly because the single hull tankers are old, partly because there is an international agreement to have only double-hull oil tankers by the end of 2014. If you are going to buy a tanker company, you should know something about the tanker business.

You also have to project the future. Surely, despite cries for "energy independence," whatever energy technology we have today will last for tens of years.

But will it grow? We can be sure that tankers will bring crude oil from around the world to refineries in the United States, and in China. But will they bring more and more such crude, or less and less? Crude from the Alberta tar sands will get to U.S. refineries by pipeline or rail. Even estimating what demand for crude will look like over the next ten or twenty years is not sufficient. You have to anticipate where it will come from, and how.

Industry specialists have always recommended tankers as good generators of cash, but only at the right price. In the summer of 2010, looking for high dividend stocks, Cramer once again recommends oil tankers, especially Nordic American Tanker (NAT).[17] Cramer is a generalist, and therefore is not to be trusted as a holder of industry information (except the brokerage industry itself, on which he is truly an expert). Tankers are not built in three weeks. An oil transport specialist would have known how many were on order, at what stage of construction. Such a specialist would also know the age of the fleet, how many tankers are about to retire, which ports can accommodate what size of ship, and about the coming ban on single-hull oil tankers. A specialist would know about the opening of the Caspian pipeline and its implication for tanker use (increase? decrease?), and the extent to which China and The United States will be substituting their own production for oil they now import by tanker.

You and I aren't going to know the answers to these questions. And to the extent the answer is a forecast, you and I might not know whose to believe. This is the kind of information you need in order to invest wisely. It is available from real experts.

I purchased Prime West, Inc. (PWI), a Canadian energy trust at $20.15 and then $20.45 while *Canadian Edge* said buy up to $20. Three months later it topped $25, their new buy limit. At that point I waited, and purchased more on a pullback at $23.30. With perfect timing, I could have done better, but it never again sold at the price at which I originally purchased it, until the Canadian government pulled the rug out from under the trust form. Now that's a risk I do not know how to evaluate.[18] Thailand did something similar in December, 2006, causing a dramatic decline in the value of all Thai stocks. No one saw either move coming.

If you wait to time your transactions perfectly, you will never make any. What I do comes from studying the firm, its products, its production history, its price history.

To some extent, it comes from ignoring specific newsletter recommendations, while adhering to their general tone. Sources of advice lead me to stocks. That is all I ask. What to do about it (ignore, buy, sell, hold) is up to me. That is, newsletters generally demonstrate some expertise, enough on occasion to generate my interest, but not enough to generate a purchase or sale.

## Mutual Funds

Mutual funds are collections of stocks. When you buy a share of the fund, you buy a share of the collection. Mutual funds serve several interests for investors like you and me—people with some money, but not what anyone would think of as great wealth. I am against managed funds that claim to be superior to no-think funds, and charge you for their expertise in that regard. Most, in fact, do not do better for you than index funds, "no-think" funds that just track a published index. A mutual fund allows you to purchase a collection of stocks as a single item. It makes sense, in theory, even if the person picking the stocks is not especially good. After all, you might not be good at it, either; but you do not have enough money to own, say, fifty to a hundred different stocks. So you buy into the fund.

And you notice: Like a money manager, they take a percentage of the value of your shares, as their commission for doing the work they do. Not a percentage of the value they add. Oh no. If they add no value to your shares, they still get paid. Is that reasonable? Do you pay the automobile repair guy if he fails to fix your car? I don't think so, and yet in finance that is the *only* deal available. The only thing that varies among funds is how much of your total value they take, and when.

That is why, if you must purchase a fund, you purchase a *no load* fund. A "load," more precisely a "front end load," is an up front commission. Say the load is 2 percent. Then when you spend $10,000 for a fund, you have invested only $9,800. In order to get a 4 percent return on your money, that is, to end up with $10,400 at the end of the year, the fund has to return more than 6.12 percent. Why not just 6 percent —the 2 percent load plus the 4 percent increase—you ask? Because the fund does not have $10,000 of yours to work with. It has $9,800, even though you are going to calculate your investment as $10,000. It has to be a very good fund to get you anywhere. Few funds are that good, and fewer yet are identifiable at the start.

The fund has to return *more than* 6.12 percent" because you still have to pay a fee for this service. Let's say the fee is 1 percent, but it is taken out at the end of the period. Then the fund would have had to earn over 7.19 percent for you to see a 4 percent gain at the end of the year. Here is the arithmetic:

| | |
|---|---|
| 10,000.00 | Start of year |
| -200.00 | load, deducted down front |
| 9,800.00 | to invest. |
| 10,505.05 | Required for 4% return |
| -105.05 | 1% fee deducted |
| 10,400.00 | end of year |

That $10,505.05, the amount the fund must have at the end of the period for you to have 4 percent more than your original investment, at the end of one year, is the amount you spent plus a 7.19+ percent return on the $9,800 actually invested.

The fund manager might be better than you, but is he *that much better*? If you could get something over a 4 percent return without the load, you would do better on your own. Again, the same lesson: Don't ask if you are as "good" as the fund manager. Ask if he is enough better than you to justify his costs.

On July 19, 2011, Southern Company (SO) pays a 4.7% dividend. Duke Energy (DUK) pays over 5.0%. Both are in growth areas. It is not hard for you to make 4-5 percent annual returns, whereas it is quite hard for a mutual fund to do that well for you. Some funds do perform this well, but can you select them at the start of the time period, or do you only know which ones they are at the end? I purchased SO.

Two years later, at the close of July 19, 2013, SO is listed as paying a 4.45% dividend, and DUK, 4.39%. SO is worth 13 percent more, and pays a 7 percent higher dividend than it paid in 2011. Because the increase in the dividend has been lower than the increase in price, the dividend as a percent of the price has declined. That is irrelevant to me. I am earning over 5% on what I invested, and I have more value "in the bank." SO is not a fire-burner, but it is a keeper.

Duke Energy wanted to be seen as a higher priced stock, and so between these two dates it did a "reverse stock split," providing one new share for three previous

shares. In 2013 terms, DUK's price was 26 percent higher than it had been two years earlier. Its dividend (per share, per three former shares) is more than 38 percent higher. Had I purchased DUK in 2011, I would now be making over 5.5% in dividends. DUK would have been the better buy in 2011, but how would I have known that? How much would that information have cost me? Would that advisor's other information have been as good? I do not know. I am satisfied, however, that, purchasing SO, I made a reasonable choice. That is as good as I am going to do.

Writing about hedge funds, which we can consider to be unregulated mutual funds, John Cassidy makes the same observation I have been making:[19]

> Typically, hedge-fund managers charge their clients a management fee equal to two per cent of the amount they invest, plus twenty per cent of any profits that the fund generates. (This fee structure is known as "two and twenty.") On top of these charges, funds of funds often add a management fee of one per cent, plus a commission of ten per cent on investment gains. Thus, people who invest in funds of funds are effectively paying a three-per-cent management fee plus a "success fee" of thirty per cent —"three and thirty."
>
> This arithmetic helps explain the astronomical wealth of leading hedge-fund managers, and suggests why even less successful competitors make plenty of money. If a fund manager does well, he gets to keep a large portion of the profits he makes using his clients' money; if he does poorly, he still receives the generous management fees, at least until his clients withdraw their money, which isn't always easy to do.

When asked by a friend around 2002 what she should do with her first $10,000 available to invest, I recommended a no-load fund that reflects or tracks the Russell 2000. I did not know a particular fund. I suggested she search Vanguard for one, as their funds do not have loads. What is this Russell 2000? It is an index of the second largest 2000 companies, after the largest 1000. Two thousand starting with the 1001$^{th}$ largest. Between 2000 and 2005 it generated an average of over 18 percent growth per year. This was a good index to follow until 2007, but not since then. My solution would have served her well, better at that time then than any other simple recommendation I could have made. I do not know if she did it.

Why is a fund based on the Russell 2000 more likely to be worth while than other funds? Because you know the names of the largest 1000 publicly traded

companies—Apple, Google, General Electric, IBM, Exxon, Chevron, Archer Daniels Midland, etc. You do not need a broker to find them. What broker, or individual, will find Supergen or Cyberguard or Concept Therapeutics, Inc.? On the internet, go to http://www.russell.com/US/Indexes/US/membership.asp. You will see "Membership lists as of (date)" in bold. Click on "Russell 2000® Index" and you will get an Acrobat document listing all 2000 companies, with their stock ticker symbols.

You might do better with a selective "small cap" fund, but you might not. My point here is that there is an easy first step to not paying out a portion of your wealth for so-called expert advice. You will, of course, pay out a small percentage when you own any mutual fund, but it's a simple step, and it is liquid—you can sell at any time. I see no advantage to paying for "expertise," however, until we start talking about funds specific to foreign countries. Some such fund managers go to these countries and look around, something we are not likely to do.

Except for such expertise—which might or might not be expert enough to justify itself—start with a no-think fund that mimics the Russell 2000 or some other index, and you are an investor. Then continue to read this chapter, because learning is a process.

Over all, load funds do no better than no-load funds in return on invested funds—funds after the load. So the load, on the average, is money you just give away. This should not be news to you. Every independent advisor tells you to avoid front-end loaded funds. The Motley Fools tell you that. Suze Orman tells you that on television, as does Bob Brinker and the non-commercial program "Marketplace" on the radio. Most also tell you to avoid funds with any load (as some funds charge you to leave, a back-end load). They are right.

You might ask, if everyone gives a certain piece of advice, is it "expert" or commonplace? Most advice posing as expert is indeed commonplace. You should not have to pay for it. See, for example, www.seekingalpha.com, where you can sign up for daily emails or a few general tracts about high dividend stocks. Free.

## Brokerage Account

No-load funds give you a representation of "the market," or "a market." You can purchase a fund that tracks all stocks, all large stocks, small-cap stocks (that's how

Russell characterizes its 2000 index), all stocks in a particular industry, etc. The Vanguard funds have a good reputation. They do an honest job and, because they do not pretend to exercise "expert" judgments, their fees are low, most under .5 percent per year.

There is another option, the Exchange Traded Fund, or ETF. To purchase an ETF you open an account with any broker. I like Charles Schwab, where the person you talk to will get no commission for signing you up. Personnel are salaried, and those I have dealt with are informed, courteous, helpful. Schwab manages its own ETFs, I presume as good as any. On the other hand, Schwab will charge an excessive amount for your purchase of some foreign stocks, where Fidelity or Interactive Brokers, Inc. will process the trade for their ordinary commission. There is no over-all best broker. There are just brokers with different features. That is why I have several accounts spread over several brokers.

I most like Schwab, and was pleased to find that Neil George recommended them (bad-mouthing internet-only institutions) in his free email newsletter *By George!* on May 15, 2006. He was assessing brokers for bond purchases only, but that reinforces that Schwab (or Fidelity, George's second choice) is where you want your account, as I come to the same conclusion dealing almost exclusively with stocks.

You can also purchase regular mutual funds through any broker. At Schwab's internet site they are listed under "Research" and then "Mutual Funds." Besides the brokerage cost, a mutual fund charges a management fee. This fee is not apparent for exchange traded funds. Indeed, the phrase "exchange traded fund" is not well defined. To brokers, it appears to mean funds listed on the American Stock Exchange, for example the QQQQ fund, which tracks the Nasdaq 100 average. Or "Spdrs," pronounced "spiders."

ACAS, American Capital Strategies, was a mutual fund traded on Nasdaq. The Newberger-Berman Income fund, symbol NOX, is traded on the New York Stock Exchange. That is, there are funds, traded like stocks, that are not found in lists of ETFs. If you know the general kind of fund you are looking for, a good broker can help you find one. But you and you alone have the expertise to know what kind of thing you want, in what quantity. Or you soon will. Do not say "I want a mutual fund" and let someone else select which one.

The first step towards investing is to open a brokerage account where you will take service but ignore advice. The next step is to select at least one fund, being sure it is a no-load fund (front or back), and looking in a universe of funds that includes managed funds (with brokerage names) and un-managed funds (based on an index), whether proprietary or EDFs.

Mutual funds will not be a large part of your eventual portfolio, because you will be able to do better. Yet, even if you hear elsewhere (as here) that you should own stocks, not funds, think of that as your eventual result. It is not your opening position, and not your intermediate position. Expect funds to diminish as a percentage of your portfolio, over time. A low-cost fund is a good way to start investing in "the market." You did dog-paddle before you learned the Australian crawl, didn't you?

## Calculating Rate of Return

The "rate of return" is the flow of income (real or potential) from a stock of financial assets. If you purchase a property for $200,000 and get $20,000 a year in rents, your gross return is 10 percent. "Gross" means we have not deducted expenses, such as maintenance, property tax, insurance (if you insure, which a mortgage will require), mortgage interest. One version of net return would be cash flow, or rents minus these expenses. Divide that figure by your investment to get your cash flow as a percentage of cost. Some accountants will tell you to deduct amortization, which is the annual reduction in value of your assets. True, refrigerators and water heaters will decrease in value, but your property should not. Ultimately, you cannot calculate your return on real estate—or stocks—until you sell. Whatever the asset, I define my return as its net cash flow—the cash I have after all expenses. I invest to generate a flow of funds, some of which I reinvest, and some of which I take out and spend. Capital gains are welcome, and may affect my decisions, but they are not the point.

Suppose you put $100,000 down, and borrowed the other half. You still get $20,000 a year in rents, but you are paying interest on the borrowed money—let's say 5 percent, or $5,000 in the first year. Yes, you have to pay off principal, also, but your tenants are doing that for you (reducing your available cash flow). Paying off the loan, although it uses cash, is not an expense. It is a conversion of one form of asset (cash) into another (ownership of the building).

Your cash flow before taxes and other expenses is $15,000 ($20,000 less interest cost), but now your "basis," the amount you invested, is $100,000. Your gross return is 15 percent. Just as with buying stocks on "margin," this is called "leverage," using borrowed money with which to invest. If your return from what you do with that money is higher than your cost of that money, it is a worthwhile strategy. On the other hand, it does reduce available cash flow—you have to pay interest, and convert cash to increased ownership according to the terms of your mortgage. And you take the risk that you will not have enough cash flow in to finance the cash flow out. I would not finance more than three-quarters of the cost of property, and that much only if you think rental income is secure. Home-owners borrowing too much, followed by the way Wall Street packaged such loans into securities graded way too high, led to the financial chaos of 2008-2010.

The rate of return, then, is the net amount you get to keep, per year, divided by your investment. But you do not actually know that rate until you sell whatever asset we are talking about. When you finally can make that calculation, allocating the gain over the time you held the property is tricky. I would not worry about it. A rate you cannot calculate is not a good criterion for investment. What you care about is your current net cash flow. If borrowing increases your net cash flow, do it in moderation. If borrowing absorbs all of your cash flow—even though it is buying the property, increasing your net worth—I say, do not do it. You need to get something out of your investments every year. Rents, interest from bonds, and dividends from stocks or mutual funds serve that purpose.

Dividends are the "rents" you collect from stocks. Dividends (as are capital gains) are taxed at a lower rate than interest or rental income, as long as you continue to own the same stocks. Bonds have a prior claim over stocks (if a company fails, the stockholders only get money if all the bondholders have been paid), which is why some people prefer them. Many so-called experts advise that bonds be part of your portfolio. I started out with municipal (tax-free) bonds, when interest rates were high, but have not bought any in decades. With stock dividends being favored by a lower tax rate and both the stocks and dividends having the opportunity to increase in value far beyond anything a bond will see, I no longer find bonds delivering the rate of return I want.

Confusion between stock and flow is rampant, not helped by the fact that this word, stock, has several meanings. I do not here mean ownership of shares of a

company. A stock is a collection of something, like the stock of firewood in your back yard. A flow is additions to or subtractions from that stock. The federal government's deficit is a flow. The national debt is a stock. That stock increases each year there is a deficit. So, if we have a deficit of $250 billion, that adds $250 billion to our let's say $14 trillion or so national debt. I do not want to get into a discussion of national debt policy here. I just want to distinguish stock from flow. A reservoir is a stock of water; usage and evaporation are out-flows; rain and streams may provide inflows. On balance, you either have more or less water in reserve since the last time you measured. That is how you calculate net flow. A stock is evaluated at a point in time. A flow is evaluated over a period of time.

We are told that buy-and-hold is dead. What you have to do, to earn money in "the market," they say, is trade. I say, no. You and I will not be successful traders. Most people are not, and we do not have the time or interest to put into that activity. We will buy and hold, and collect dividends, maybe interest, maybe rents. As in trading, the secret is in buying the right stock, the right property. Unlike trading, we have to do this only occasionally.

## Rental Property

This chapter is about finance, not "investing." It is a start in helping you avoid the so-called experts, while generating some savings. If you are young and handy, and willing, the best way to start accumulating wealth is to purchase beat-up rental property in a place you believe a better property would have no trouble finding a tenant who would pay a reasonable rent. Rents are the same thing as dividends, except that they are a bother. This is just a suggestion, and just for some people. The property has to be close to your home, and you have to be willing to deal with it at any hour. It has other negative aspects, like property taxes that increase as you improve the property.[20] But it is the single best way to start investing, if you have the time, skill and patience to do it.

The reason it is the best initial investment is that you invest time, in addition to money. Fixing apartments becomes a second job. As you are not paid directly for your time, you avoid taxes. Whether you put down a deposit or manage to fully finance this property, you will have a mortgage. You will have to pay interest plus principal for a long time. Your rents may not even cover your mortgage payments at first. You get

money, you pay money—it seems like you are getting nowhere. But your tenants and your time are buying this property for you, property that will continue to produce income after the mortgage has been paid off, if you have chosen it well and manage it well.

I can't advise you—and neither can so-called experts—on how to find apartments that will be worth your time and effort. As The Music Man said about selling trombones, you have to know the territory. Western North Carolina, where I live, is growing. Indeed, in Hendersonville, the death rate exceeds the birth rate, but nonetheless it is growing. It is mostly growing from in-migration of old folks, which explains the high death rate. Asheville, Brevard, and Waynesville, for examples, appear to be growing more by attracting young people.[21] Young people will rent. The best of them will rent for a few years and then buy; that is, they are serious people who will not destroy your property.

A rule that describes reality in realty is that higher-cost properties will continue to be higher-cost properties over time. The best property to buy as an investment is a previously poorly maintained building in an otherwise upscale area, with a few (let's say, four) apartment units. Make sure the structure is sound, upgrade the outside and one apartment. Offer a good rental deal for two years while you work on the other units, one at a time, so you can get some cash flow.

When you sign for a mortgage, you have to get more insurance than you would otherwise want. You will have to pay utility bills and mortgage payments while fixing it up. You may have to pay a finder's fee to get tenants. There are a lot of reasons why you might not want to do this.

Here is the other side. In the 1980s I purchased the three-unit house next to my single family house in Takoma Park, Maryland, not thinking of it as an investment, but mostly to control who my neighbors were. In truth, *mostly* to gain access to their back yard, which went deeper than mine. So there I was in the apartment-owning business. I ripped out the central heat (having noticed that the top floor tenant kept her windows open in the winter), installed separate units. In this way I "let" each tenant manage his heat and cooling—and pay for it. The cost to run separate water lines was prohibitive, so I would pay for water, cold and hot, forever.

Over time rents and the value of the property have both increased. One splendid

couple told me, although the basement apartment was rented, that is where they wanted to live. When it became vacant I notified them. They stayed for twenty years.

Yes, it was a bother. No, I did not get the "bug;" I did not invest in other apartments until I purchased fifteen units in Milwaukie, Oregon, decades later. But I knew the street. I knew what a wonderful street it was to live on—I lived there myself for over fifteen years. I waited until others appreciated the street—a cul-de-sac on a creek, the other side of which was a park. Free, plentiful on-street parking, a place to walk your dog, away from the noise of the city. If I found this to be an extraordinary, quiet street a short bus ride from the Metro, the subway to downtown Washington, D.C., a walk to shopping, why wouldn't others?

Then I moved to North Carolina. I became a landlord at a distance. At first my property was managed by a friend. Later, I got professional management. I now have a steady income from the properties, with little bother. Rents based on property worth several times what I paid for it. I am old and distant. The management fee (7% of rents) is well worth the cost. Well-maintained apartments in the Washington, DC area will not stay vacant for long. These three units, plus the next-door house I used to live in, all mortgages having been paid off, could alone provide a livable retirement.

The Oregon apartments are another matter although, again, I chose a place people are moving to, not from. They are well-managed by a friend who finds the tenants, collects the rents, and maintains, even upgrades the units. He relies on fees for this work as part of his retirement plan. In return, he treats the units like they were his own. Rents more than cover ongoing costs, including the mortgage. That is, they produce net cash flow.

One could calculate my "return" in many ways, especially as it is hard to put a value on the risk I took. But regardless of the precise return, here is my evidence that, if you choose well and early, buying rental property can be a successful part of a retirement portfolio.

What is the property returning? On its purchase price, it is returning 4% per year to me, plus an unrealized capital gain.[22] But I did not pay that price. I paid a deposit. The tenants have paid down my mortgage, along with interest. At the same time, I was claiming "depreciation" of the property, although in fact it was appreciating. Depreciation is one of those rich-person devices that turns income into

capital gains, which will be taxed only if I sell. My annual return—net cash flow divided by my down payment—is 13.5 percent.

As this was a later-life purchase, I am still paying down the mortgage. Or, I should say, my tenants are. I still come out ahead on a cash basis, as I acquire more equity. I turned time invested while young, and not so young, into cash flow received when older. I did not need a money manager to tell me to invest in rental property in the Washington D.C. or Portland, Oregon areas. Just look around where you live. You will know if this is a good place in which to become a landlord.

## Alpha

"Alpha" is the return to investments over and above that which is achievable from no-think funds, from "the market." It should by now be clear that I think an investor should only pay a manager who generates a positive alpha, and should pay him a percentage of that alpha, not a percentage of wealth or total gain. Experts should be paid for their expertise, not for doing as well as "the market." So-called experts are not willing to make that deal.

Most of these people have sources (perhaps the same newsletters you can read) that suggest stocks to buy, but they know little about the stocks, or the companies, themselves. Most of these people have the language of expertise, but not the expertise of the language. They are not experts. Do not deal with them.

Quoting Harry Kat, who has been in the finance industry and now views it from the outside, as a professor, John Cassidy writes:[23]

> "Our research has shown that in at least eighty per cent of cases the after-fee alpha for hedge funds is negative," Kat told me. "They are charging more than they are adding. I'm not saying they don't have skill; I'm just saying they don't have enough skill to make up for two and twenty."[24]

And that's the point. You don't have to strive to be better than the "experts." You strive to come out with more than they would leave you with. If you start with a few indexed mutual funds, you will beat what a money manager or fund manager would leave you with, in most cases. Your return may be lower than his, but it is higher than what you would make after he takes his cut.

## Footnotes:

1. David Weidner, "A History of Citigroup Misfires," in the "Market Beat" column of the *Wall Street Journal*, December 29, 2009.
2. Republican congressman Phil Gramm led the Gramm–Leach–Bliley Act of 1999, allowing banking and brokerage and insurance services all under one roof.
3. See Bert Ely, "Savings and Loan Crisis" in *The Concise Encyclopedia of Economics*, http://www.econlib.org/library/Enc/SavingsandLoanCrisis.html.
4. This notice is dated June 19, 2003, at 12:52 pm eastern time. I took it from the Charles Schwab web site, although I presume it was available at any brokerage site. As of July 23, 2015, Petrosonic shares were worth 4 cents.
5. Michael A. Fletcher, "GAO: 401(k) companies often mislead account holders," *The Washington Post*, April 3, 2013.
6. Jim Cramer, "Mad Money," CNBC television week-nights at 6:00 pm. He has made this statement often, for example on December 25 (Christmas day), 2006, and on July 9, 2010.
7. James Surowiecki, "Greater Fools" in "The Financial Page," *The New Yorker*, July 5, 2010 at 23.
8. To dollar cost average, spend the same amount of money on a stock at regular intervals. You will necessarily buy more shares when the price is lower, and fewer shares when the price is higher. Your average purchase price will be lower than the average of that stock's price over the time you are buying.
9. See http://www.unitedpolicyholders.com/disaster/katrina_articles/katrina_despair.html, Will Rothschild, "Homeowners Despair As Insurers Refuse to Pay." See also "Eight insurers identified by *The Courier–Mail* have refused claims [up to $6 million] because a hydrologist report said homes were inundated by flood– water rather than stormwater." "Insurers refuse to pay for flooding," *The Courier–Mail* May 28, 2010.
10. Helaine Olen, *Pound Foolish*, Portfolio/Penguin (2012) at 40.
11. "The gazillion dollar question: So what is a media company?" 379 *The Economist* 8474:17, April 22-28, 2006.
12. Ask the Federal Trade Commission: "AnnualCreditReport.com is the *only* authorized

source for the free annual credit report that's yours by law."

13. At least one firm says it will link lenders with borrowers, but then you are on your own. That is, it does not offer expertise, only match making. "Crowd sourcing" is mezzanine finance, an interesting reaction by the non-mega-rich to get in on the action.

14. 39 *Money* 5 at page 104.

15. Roger Conrad wants us to follow his advice precisely, warning us against "chasing big gainers beyond our buy targets" (XL *Personal Finance* 8, April 24, 2013). Think about it: Are his price targets really that precise? I think they are suggestive. Use your judgment.

16. Good-till-canceled orders are not effective forever. A broker will have a rule—60 days, maybe 90 days—and will tell you, when confirming the order, when it will expire.

17. NAT has never been a good investment. Every "expert" has his own reasons, not always based on keen analysis, for recommending which stocks to buy.

18. PWI was taken over by Abu Dhabi National Energy Company (TAQA), in January, 2008. Although its price was still suffering from the Canadian government's revocation of trust status, owners of PWI did get a premium—a price higher than "market"—from TAQA.

19. John Cassidy, "Hedge Clipping: Is there a way to get above-market returns on the cheap?" *The New Yorker* July 2, 2007, pages 28-33.

20. A better rule would be to tax the property at what it might be worth. Then you would not only have an incentive to maximize the value of the property, you would keep all of the increased rental income from doing so. That is the Henry George principle of taxation, unknown to most so-called expert economists.

21. Asheville is a highly recommended retirement paradise, an opinion with which I concur. Most of these retirees settle in "communities" built for them. Asheville itself attracts young people, some because the retirees create jobs, but some because it is a youth-centric city, with a world class music venue (The Orange Peel) in which you stand for hours, and "tap rooms" offering many kinds of beer. It is less clear what drives Brevard or Waynesville, although both have small colleges.

22. Real estate agents comb the records to find out-of-state owners of property, as they are the most likely to want to sell. So I constantly get letters and telephone calls with

estimates that my property could sell for far more than I paid for it.

23. Again from “Hedge Clipping” in *The New Yorker*, July 2, 2007.

24. As mentioned above, “two” is 2% of the value of your position calculated at some point—usually the start of a year—which the fund manager takes as a fee. He then also takes 20% of any gain, usually at the end of a year.

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