

RESOLUTION REALITY

DECEMBER 2006

It's that time of year again. It is time for the media to roll out their yearly boilerplate pieces on "How to Improve Your Finances", "Top Stock Picks for 2007," and "Financial Resolutions." Every year the so-called financial guru's take to the talk show airwaves with their *brilliant insight* on how to turn oneself into the next Warren Buffet. What a croc! I know it's not sellable, I know the media cannot tease it with a sound bite. The **reality** is that there is no reliable list of hot stocks or funds. There is no quick and easy way to turn oneself into a multimillionaire. We have said it before, and I am going to say it again...Everything and anything in life that has worth or value involves work, time and effort. No exceptions!

Albert Einstein stated that compound interest is the "greatest invention of mankind" since it "allows for the reliable, systematic accumulation of wealth." Benjamin Franklin called compounding the "*eighth wonder of the world.*" Franklin proved this by willing \$4500 of his money to be loaned at interest for 200 years; it totaled \$5 million and was distributed to the city of Boston in 1993. Always take advantage of the best safe yields you can find, and more importantly stick with them over time. According to historic market research conducted by Professor Jeremy Siegel of the University of Pennsylvania, the bulk of all stock market returns actually comes from the payment and reinvestment of dividends. It's not as exciting as trading the Forex, buying penny stocks, or cruising for the next hot fund or technology stock, but it is proven and it works. Don't believe me...Warren Buffet's investment company, Berkshire Hathaway, greatest performance year was 24%.

Don't Be a Loser! Gordon Gecko in the film *Wall Street* warned his young broker Bud Fox, "*I don't like losses sport...Nothing ruins my day more than losses.*" Not losing money sounds pretty obvious, but the reality is that if you treat your portfolio like a casino you will eventually lose your money. No exceptions! We have articulated that creating wealth involves compounding small gains over long periods of time. The inverse is also true. Big losses force investors back years. In the July 2005 edition of the *Markowski Monthly* I covered this in the article [Downside Math](#).

Suppose you have a \$100,000 portfolio. You make the unfortunate decision to listen to some idiot broker and your portfolio tumbles to \$50,000. To recoup this 50% loss what percentage return does your portfolio need to grow? If you answered 50% stick on a dunce cap and join the other 90% of individuals who also answered this incorrectly. The answer is 100%. Unfortunately, most investors who have taken severe losses like this continue to take huge risks in an effort to trade their way back to profitability. This gambler-like mentality takes portfolios to even greater lows.

Mark Twain stated in 1873, "*October. This is one of the peculiarly dangerous months to speculate in stocks. The others are July, January, September, April, November, May, March, June, December, August, and February.*" He went on the next year to write [The Gilded Age](#), which skewered investment crooks and politicians and media liars. The more things change the more they stay the same. I honestly believe that the world's *second oldest* profession is get rich quick con-artists.

Sir Isaac Newton lost a small fortune when the South Sea investment bubble burst in 1720. He stated, "*I can calculate the motions of the heavenly bodies, but not the madness of people.*" It is a cliché, that most people ignore, "Buy low, sell high." Whether it is the South Sea Investment Company, railroad stocks in the late 1800's, dot coms in 1990's, or Southwest Florida condos two years ago, investors cannot avoid the Death Star gravity beam pull of ridiculously overvalued asset values. Asset prices move in long patterns, up and down. Why rush? If you miss something, you miss something, some of the best investments you will ever make, are

investments you didn't make. Buy when asset prices are low, or on sale, look for value! Doesn't it make sense to want to get more for your hard earned money? Not to mention the fact that when buying assets on sale you can collect greater yields on your stock and bond investments and the ability to create stronger cash flow from real estate. That in turn will compound over time, into a fortune, with your asset values growing along the way.

Once again...It's not cool, it's not sexy, but it works.