The Best of Steve Sjuggerud's DAILY WEALTH

Featuring select articles, essays, and research by DailyWealth editors and contributors.

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A special gift for new subscribers

Dear reader,

Welcome to *DailyWealth*. Thank you for your subscription.

In a nutshell, our mission is to show you how to avoid risky investments, and how to avoid what the average investor is doing. We believe that you can make a lot of money – and do it safely – by simply doing the opposite of what is most popular.

And now that you're on board, you're receiving our best investment ideas every day. But we cover much more than the day-to-day opportunities we see in the markets. We're also committed to sharing the world's best wealth ideas… strategies that will help you safely and steadily build a lifetime of wealth.

To give you a better idea of what I'm talking about, we've gathered some of our readers' favorite essays. These are all timeless pieces from our top analysts. They present unique, useful ideas that you can put to work immediately – both in your investments and elsewhere.

Enjoy.

Regards,

Brian Hunt
Editor in Chief, *DailyWealth*

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This Simple Strategy Hasn't Lost Money Since the Great Depression

By Dr. Steve Sjuggerud

I love simple investing strategies – the simpler and dumber, the better.

I prefer the simple strategies in part because the history of Wall Street is full of the failures of complicated strategies...

One of the most famous Wall Street failures is Long-Term Capital Management, which was run by two Nobel Prize winners in economics and some Wall Street legends. Its complex mathematical models lost the firm $4.6 billion in less than four months.

So I like to keep it simple. And the strategy I'll share with you today couldn't get any simpler... And yet, **since the Great Depression, you never would have lost money by following it.**

In the simple strategy I'll explain today, your wealth would have compounded at over 16% a year when this strategy was in "buy" mode since the end of World War II (1945), versus an 11% annual total return for the stock market.

This simple strategy did have a losing stretch during the Great Depression. But so did just about every other stock strategy. And it still beats the pants off the stock market when in buy mode. From 1900 to 1945, the stock market had an annualized total return of only about 7%. But this strategy returned 11% when in buy mode.

So it's easily delivered excellent returns **since 1900**.

Over history, this strategy has signaled "buy" 42% of the time from 1900 to today... and it's signaled "buy" 37% of the time since 1945. So it's not rare.

Here's all you do...

If one particular thing is true at the end of a month, you buy stocks and hold for the next five years. That's it.

The "one particular thing" that needs to be true is simple. It's the most basic measure of whether stocks are cheap or not – it's the price-to-earnings (P/E) ratio. All that is measuring is the price of stocks over their earnings over the last 12 months.

If you buy when stocks are cheap (at a P/E of 13 or lower) and hold for five years, it's very unlikely you'll lose money. This strategy hasn't lost money since the Great Depression.

Chances are, you haven't heard about this...

The reason you haven't heard about it is simple... With the exception of a brief moment in the recent stock market bust, **the last time it signaled was in the 1980s.**

But recently, according to Bloomberg, the P/E of the stock market hit 13 again. For the first time since the 1980s, stocks are cheap.

History shows that, if you buy the overall stock market (the S&P 500, which is easy to buy through shares of SPY) at the end of any month when the P/E is less than 13, the total return five years later has always been positive.

You might see different numbers for the P/E ratio. Economist Robert Shiller's ratio, for example, is currently at 21. But as I explained here, extremely low earnings in 2009 knocked Shiller's number out of whack.

In short, by using a different yardstick, stocks might not look as cheap. But history shows using this simple P/E strategy will provide market-beating returns... with very little risk.

When the stock market P/E closes below 13, buy stocks, and

hold for the next five years. You wouldn't have lost money in any five-year period since the Great Depression. And since World War II, you would have compounded your wealth at 16%-plus a year when in buy mode.

Good investing,

Steve

Your Government Is Spying On You... What to Do

By Dr. Steve Sjuggerud

Your government is spying on your life. And as I've learned, it wants to know a lot more about you...

Before 9/11, you just had to worry about hackers accessing your family's personal data and using it against you... like stealing $32,000 out of your online bank account (which happened to a family member of mine).

But after 9/11, your government can now know everything about you... under the guise of Homeland Security... completely ignoring the Fourth Amendment to the Constitution. (The Fourth Amendment guards against unreasonable search and seizure, requiring a warrant for a search).

I was shocked when I saw last week on Eliot Spitzer's Viewpoint show just how far the government wants to go to know everything about you...

You can watch the two segments that shocked me here and here.

To me, this is not right, at all... Law-abiding citizens have privacy rights protected by the U.S. Constitution.

I don't know how much of this is true or not... But the "experts" on Spitzer's show sure had the right credentials... Thomas Drake, a former senior executive of the National Security Agency (NSA), said:

> *... just getting access to incredible amounts of data, for people that have no reason to be put under suspicion,*

> *no reason to have done anything wrong, and just collect all that for potential future use or even current use, it opens up a real danger – and to what else they could use that data for, particularly when it's all being hidden behind the mantle of national security.*

With access to all your e-mails, phone calls, and everything you've ever done with Google and Facebook, the government can know your whole life... And it could probably find something in there to build a case against you of some sort. That's scary.

The government has access to this stuff... typically without your permission. For example, in the second half of 2011, U.S. law enforcement officials requested data on 12,243 Google accounts. Google complied with 93% of those requests.

The government doesn't have to notify you if it wants to check out your Google activity. It just has to ask Google.

And it's not just the search-engine giant... News came out that Microsoft filed an application to patent "Legal Intercept." This technology is designed to "secretly intercept, monitor, and record Skype calls."

The list goes on... The technical tools to spy on larger numbers of ordinary citizens are becoming more sophisticated every day. **We have to protect ourselves.**

This isn't a "criminal" or "noncriminal" thing. It's about privacy, plain and simple. History shows that when governments take steps to get involved in every aspect of citizens' lives, bad things can happen.

So what can you do? You can attempt to "anonymize" more of your life... starting with your online activity.

One simple way to do this online is to use a service like Cryptohippie's "Road Warrior." It connects your computer to the

"Cryptohippie anonymity network," which then encrypts your Internet traffic so no one can see who you are. "Once you connect to our network, you will not only surf the web in privacy, but everything you do on the Internet becomes private, including things like Skype."

You can visit www.cryptohippie.com for the details. It is not cheap... but it gives you some degree of control over your own privacy. Other services exist, but I have used this one myself. I trust the guys behind it, and it works.

You can also STOP putting all the details of your life on Facebook and such... You can use the Startpage search engine instead of Google's. (Note: Gmail users have to be logged out of their accounts for searches through Startpage to be private.) You should use your credit/debit cards less, and use cash instead. The point is to have less of "you" out there...

You see... taking these precautions makes it much harder for anyone to create a profile of you to use against you.

I know, I know... giving up or reducing use of some of these things is hard to do.

It is your call... How much information do you want out there about yourself that could potentially be used against you in the future?

Again, it used to be just hackers that you had to protect your personal data from... Now, you may have to protect your data from your own government as well.

So the next time you want to vent about something or someone online, just imagine if someone from the government was reading it... Because it appears we're heading toward a world where someone from the government could access it... and use it against you someday.

I don't know what the government really knows or wants to know. I don't think we will ever know exactly what they're tracking. We can't control that.

But we do have some control of how much of our lives we make "digital." We have some simple ways to keep more of our personal information away from prying eyes...

Remember, this has nothing to do with whether or not you're a criminal. It's about privacy and protecting your right to it.

These days, it's a smart thing to do...

Good investing,

Steve

What's the Point of Investing?

By Dr. Steve Sjuggerud

"*Nice to meet you... Hang on a sec... Let me text my husband.*"

My wife and I stand there waiting. The girl busily taps out a text message on her new iPhone.

She's not so quick with the typing, but we know what's going on... She's just showing off that she owns a $500 phone – hot stuff in rural Georgia.

We saw her arrive... She drove a black Suburban of some sort, with enough chrome to make a Detroit drug dealer blush.

She and her husband are young... probably in their late twenties. He's apparently a builder in Georgia. Of course, homebuilding in Georgia died in 2006... But even though their income must be down, their spending hasn't changed.

This young couple isn't the only one out here sporting an iPhone and a blingy black Suburban. What's going on here?

Me? I don't have an iPhone... Or a blingy Suburban... But I probably have one thing these conspicuous consumers don't: The house I live in is fully paid for.

I handle my money differently. I *could* buy an iPhone or a Suburban tomorrow. I wouldn't need a penny of debt to do it. But I won't... Why? Because I know those things won't make me the slightest bit happier. I'd be the same dolt I was before... only now, I'd be $50,000 poorer!

It took me a while to get to this point in my life. But I'm glad I made it... I'm at the point where I can buy what I want. But I don't. It's an important point to reach.

I don't try to keep up with the Joneses. I'm doing the opposite, actually. I'm downsizing. I'm reducing my "stuff."

Think about this... What good is all this stuff, really? You can't take it with you when you die... Doug Casey, the legendary newsletter writer who joined us on Jekyll Island, says it best:

> "*I've never seen a hearse with luggage racks.*"

Doug is extremely wealthy, and has been for a while. But he didn't arrive at Jekyll Island in a blingy Suburban, and he wasn't chatting on an iPhone.

My friend Bob Bishop is a wealthy guy like Doug. Bob wrote the excellent *Gold Mining Stock Report* newsletter for a few decades. He recently retired. Bob decided to sell some of his extraordinary possessions... for no particular reason I could see. He didn't need the money. And they weren't really taking up space. I asked him why he was selling. He said:

> "*After a while, you don't own your stuff... Your stuff owns you. Steve, you're young... so you're probably in the accumulation phase. Me? I've been there. Now I want to downsize and simplify. I don't need all this stuff.*"

Bob can buy anything he wants. But, like Doug, he doesn't drive a blingy Suburban, and I doubt he's got an iPhone. It's just stuff!

This brings me to the point of this essay... **What's the point of saving money anyway? What's the point of investing?**

When you get older (if you're not already older!) just what are you going to buy with that money you've saved?

Jonathan Clements gave a good answer to this in his farewell column for the *Wall Street Journal* (Clements has written more than 1,000 columns for the *Wall Street Journal*).

Clements says your savings "*can deliver three key benefits.*" Even better, he says, "*You can enjoy this trio of benefits even if you don't have great wads of cash.*" Here's how:

1. If you have money, you don't have to worry about it.
2. Money can give you the freedom to pursue your passions.
3. Money can buy you time with friends and family.

When I think about it, these three things are exactly what Doug and Bob are doing with their lives. The great thing is, it doesn't (usually) take millions to spend time with friends and family or pursue your passions. **You don't need a fortune to live well.**

But in order to get there, the Georgia homebuilder couple needs to skip out on his and hers blingmobiles.

The quicker you grasp this about saving versus spending, the quicker you'll be able to start living like Doug and Bob... even if you don't have many millions in the bank.

You might think it's hard to stop buying ultimately useless stuff... You might think it's hard to stop keeping up with the Joneses.

But actually, it is quite liberating... And even better, you'll be financially free much quicker. So give it a try...

Good investing,

Steve

Three Easy Steps to an Income-Rich Retirement

By Dan Ferris, editor, *The 12% Letter*

If you're a financial newsletter reader – and if you're reading this, you are – you hear dozens of promises of easy money from the stock market every week... maybe every day.

But I've found the only one that works. I've found the easy money. And it can guarantee you a rich retirement.

Don't close this e-mail. This is NOT the advice you're reading anywhere else. Give me three minutes, and I'll show you why...

The first step to a rich retirement is to buy dividend-paying stocks.

If you aren't earning dividends, the odds are against making money in stocks. Dividends beat all other sources of return from stocks (inflation, earnings growth, and changes in valuation) put together.

A few years ago, well-known researcher/investor Rob Arnott wrote about this in the *Financial Analysts Journal*. Arnott researched the sources of stock market returns during the 200 years from 1802-2002. Here's what he found (emphasis added):

> *The importance of dividends for providing wealth to investors is self-evident.* ***Dividends... dwarf the combined importance of inflation, growth, and changing valuation levels.***
>
> *This result is wildly at odds with conventional wisdom, which suggests that ... stocks provide growth first and income second.*

In other words, if you're not buying dividend-paying stocks, you're missing your best chance at making money in stocks. The only way to guarantee you'll always make money in stocks is to focus your investments on stocks that pay dividends.

But you shouldn't just buy any old income stock. The second step is to focus on *the very best income payers.*

This idea hit me like a ton of bricks when I read a study by Ned Davis Research, a well-known and widely respected investment and research firm.

Ned Davis compared the returns of all the stocks in the S&P 500 from 1972 to 2004. They studied the S&P 500 stocks by separating them into groups, based on the dividend paying policy of the company. And look what sort of returns they produced...

- Non-dividend-paying stocks: 4.3% per year
- Dividend cutters or eliminators: 5.2% per year
- Dividend payers with no change in dividends: 7.3% per year
- **Dividend growers and initiators: 10.6% per year**

Moving "up the ladder" from a plain dividend payer to a dividend grower increases your annual returns from 7.3% to 10.6%... that's almost twice as good. Imagine that difference over a decade or two of investing...

And that brings me to the final – and most important – step...

The Miller/Howard investment firm invests primarily in dividend-paying stocks. One of the principals, Lowell Miller, wrote a good book about dividend investing, *The Single Best Investment*.

Milller/Howard recently did a study of the S&P 500 from 1935-2010. They found that, if you invested $1 in the S&P 500 and relied upon price appreciation alone, it grew to $93.65 through the end

of 2010. That's almost 94 times your money. Not bad. But if you reinvested the dividends along the way, you turned $1 into $1,740.30.

Buying dividend growers and reinvesting your dividends is the only easy money in the stock market. If you're an income-focused investor, following this strategy will make the difference between a good investment... and decades of comfortable retirement living.

Good investing,

Dan Ferris

Four Must-Reads That Will Radically Change Your View of Stocks

By Dan Ferris, editor, *Extreme Value*

Most people view the stock market like a lottery game. They make short-term bets on businesses they know little or nothing about... and generally lose money.

But there's another way to practically guarantee you'll make money in stocks. It requires you to stop obsessing about the market's day-to-day fluctuations and learn something about the businesses you're buying and selling.

You can learn about this method in a number of ways. But I think a great introduction is to read three short books, and one important chapter of another book. By the time you've read all four, a lightbulb ought to switch on in your head. You should be convinced there's a better way to buy stocks than making random guesses about short-term share price movements.

At one of my publisher's annual lifetime-subscriber meetings, I was asked for a single book recommendation. I enthusiastically recommended Joe Ponzio's *F Wall Street*, which I had just finished a few hours earlier.

F Wall Street teaches you to think about the value of a business first and forget about the price of it until you understand the value well enough. That's what all the best investors say. Look past the noise. Look past the short term. Forget about market risk... F– Wall Street! Focus on value. Be a business analyst, not a market follower.

I probably shouldn't tell you any of this. If you gained expertise in valuing businesses, you'd almost never buy stocks. Most public companies are simply too hard to value. Those that aren't too hard to value spend most of their lives overvalued by Mr. Market.

When I tell my readers I'm having trouble finding "cheap stocks," it goes without saying I mean "cheap stocks I understand well enough to value."

Ponzio also provides a reasonable shortcut method "for 'armchair' investors who see the value in stocks, want to stick with large, stable companies, and don't want to invest hundreds of hours of research each year."

Ponzio's final chapter is on patience, another hugely important concept. As I've explained to my *Extreme Value* readers, mastering time is the most important factor in any investment plan. If you can't learn to be patient, you simply cannot make money in stocks. If you can be patient enough, success is virtually guaranteed.

Overall, *F Wall Street* is well-written and highly readable. It's also worth rereading. I keep it within arm's reach at all times when I'm at home. Most financial books stink. This one is great. Read it and learn from it.

Another valuable investing book is Joel Greenblatt's classic, *The Little Book That Beats the Market*. Using a simple story that's a joy to read, Greenblatt teaches the reader the ideas behind his Magic Formula investing concept. Magic Formula investing is a simple idea that says you should buy the best businesses when they're trading at suitably cheap prices. Greenblatt offers simple metrics and guidelines so you can learn to identify a good business and know when it's cheap enough. Greenblatt's book, too, is worth re-reading. It's next to Ponzio's book on my shelf.

Another book I often recommend is Frank Singer's little 27-page masterpiece, *How to Value a Business*. Singer's booklet provides a simple formula for valuing a business, which requires that you estimate the probability of a company's earnings occurring.

Think about that. Most people take the earnings for granted. They don't bother wondering about the likelihood of earnings occurring. There are many highly cyclical businesses out there.

Once you get real about the likelihood of a given level of earnings happening again, you start realizing **a lot of stocks are just too risky to fool with.**

Singer's book also prompts you to think about three different types of value: liquidation value, stock value (which is really IPO value), and ongoing business value. Liquidation value is not the subject of the book. And Singer admits there seems to be no sense or logic to IPO valuations.

What Singer does is provide you with basic tools to *understand the value of an ongoing business*. He also shows you how ongoing business value can be much higher for a strategic acquirer than for an investor like you or me. A strategic acquirer is another company in the same business. Businesses are worth more to strategic acquirers because the key inputs, the earnings, and the probability of the earnings occurring are higher for the strategic buyer. He buys the business because he thinks he can wring more profit out of it. And he thinks higher profits are highly certain. So he pays more. Like Ponzio and Greenblatt, Singer's book contains good examples and anecdotes.

The other must-read I recommend most consistently is Chapter 20 of Benjamin Graham's *The Intelligent Investor*. The chapter is called "Margin of Safety as the Central Concept of investment." I recommend you re-read it once a month. It's that important.

Once you learn about value, you have to keep in mind that business values are inherently imprecise. You can't pinpoint them. You can only estimate them within a given range. Margin of safety is simply the margin for error investors need because it's impossible to pinpoint business value.

For example, if you think a company's stock is worth $100 a share and you buy it for $95 a share, you don't have a real margin of safety. If that $100 company is a World Dominator and you buy it for $75 a share, you're getting a margin of safety. Say the company is

a riskier business, not a World Dominator. In that case, you'll want a bigger margin of safety. You might want to wait until it sells for $60, or even $50, a share.

If most investors learned to value a business, they might exit the stock market altogether. My guess is most stock investors who learn to value a business become very picky about the stocks they'll own.

They buy less often, sell less often, and hold longer.

And they make more money.

Good investing,

Dan Ferris

An Investment Story That Will Save You Thousands of Dollars

By Dr. David Eifrig, editor, *Retirement Millionaire*

I was shocked when my friend showed me her brokerage account.

I've known Sue for a dozen years. We went to medical school together, and she was top in the class (behind me). Her academic record was spotless and impressive. She trained at Johns Hopkins, probably the most prestigious place you can study. She's a rare – almost unheard-of – triple-boarded physician (medicine, hematology, and oncology).

And yet her brokerage account showed $40,000 in losses. And they had been there for a long time...

You might think this is nothing for a doctor – especially one as accomplished as Sue. But she's young, in her early 30s, and still paying off her medical-school debt. This was at least half of her savings. (Her face made me suspect it was even more than half.)

The losses highlight one of the most common mistakes (and among the hardest lessons to learn) of investing. They depicted perfectly what behavioral finance terms "loss aversion."

If you want to be a successful investor, you must pay attention to this behavior.

Loss aversion is a well-known phenomenon. It's been studied and reported in financial and economic literature. Yet it trips up educated and ignorant people alike. *It's very human.* And if you're not aware of it, you'll lose thousands of dollars before you know it. **It is the greatest trap there is in investing.**

Fortunately, once you learn a few simple techniques, managing losses is easy. But let me tell you one more thing about Sue...

Dr. Sue had been building a savings nest egg, just like everyone should – about eight to 12 months of living expenses. In case an emergency or job issue came up, she'd have the resources to support herself if needed. After graduating from medical school with large debts (more than $100,000) and the low pay of residency and fellowships, she was slowly building the nest...

Meanwhile, her parents had semi-retired... They had been relatively successful investing in the bull markets of the 2000s and were sharing some of their trading ideas with their kids. Like many people, they'd invested and bet on the China boom. They had been scoring big for a decade...

Sue had followed along. With a tip from her brother or dad, she'd made some good money along the way. Her savings (and investments) were growing – nearly $80,000 – while her debt was declining. She was starting to feel flush and carefree. Investing seemed easy.

But Sue failed to do one very critical thing as she kept racking up gains. She failed to protect those gains and prepare to prevent any losses.

When I initially looked at her portfolio, which was stuffed with Chinese-named stocks, she was too embarrassed to even talk about it. "*Just take care of it... I don't care anymore*," she kept repeating. "*Help me get something different*."

Her portfolio was a mess. Position after position showed startling percentage losses – 80%, 93%, 95%, and so on. At one point, she looked like she would cry. We closed up the computer and went on to some other fluffy conversation.

Weeks later, she was finally able to sit with me. We explored the issues she faced. The losses should be "booked" – if only for the tax losses they offered at year-end. And the psychological issues could be discussed and conquered, too.

Loss aversion drives people to simply look away from losses. The impulse is so strong, people are prone to sell winners early and let their losers run – the exact opposite of what you should do as an investor.

It was first described in the 1970s by psychologists Daniel Kahneman and Amos Tversky. The pair discovered how people feel more pain taking losses than pleasure booking similar-sized gains.

Loss aversion is related to a couple other behavioral finance concepts as well: endowment effect and disposition effect...

Researchers know that once we buy something, we value it more. It's as if the decision adds value to the object, above and beyond its worth the moment before we owned it. This is true not just with stocks, but other things as well – clothes, art, cars, etc... That makes it twice as hard to sell something once we own it, especially if it turns into a loser. This is the endowment effect. We buy something, and it gains value.

The disposition effect is what keeps people from selling, even when they know they should. People "feel" that by avoiding the act of disposing of the investment (or thing), everything's still OK. By not selling, we don't have to realize the loss – it's as if paper losses aren't real. Dispose of the stock, and the pain and bad feelings come flooding in.

The brain doesn't like those feelings. In Sue's case, it made her physically sick to even think about selling the stocks...

What can you do to avoid these psychological traps? It's simple...

You can easily avoid loss aversion by using stops and position-sizing rules.

In my *Retirement Millionaire* advisory, we regularly recommend you use stops of 20%-25%. On most recommendations, we suggest "trailing" stops... As the prices run up from, say, $50 to $80, you'll sell if the stock drops back down to $64 (20% stop) or $60 (25% stop).

Had Sue stuck to these rules, she'd easily have $30,000-$40,000 more to her name – enough to pay off her remaining medical school debt. Instead, she let 100% gains of $5,000 turn to losses of $4,500.

Of course, you can also consider simple stops based on your initial entry price. So if you bought a stock at $50 a share, you'd sell if the price ever got down to $40 (20%) or $37.50 (25%). I generally prefer the trailing stop. But until the price moves up, the two are identical numbers.

Similarly, there's position sizing. Never put more than 4%-5% in any one investment pick (single stocks and bonds).

Sue never stuck with position-sizing strategies. When her China stocks boomed to 10% or 15% of her portfolio, she never trimmed them back to rebalance the portfolio. Instead of selling the extra 5% or 10% and putting it into undervalued investments, she let them ride. So when they crashed, the losses capsized her entire portfolio.

The combined strategies of trailing stops and smart position sizing ensures you never lose more than about 1% of your portfolio on any one investment. (Using a 5% position-size limit with a 20% stop or a 4% size limit with a 25% stop both work out to about 1% of your portfolio at risk.)

I like to use Yahoo Finance's e-mail price alert function – which sends me an e-mail when a stock hits a certain point. But most brokers offer a similar service. Whatever you do, I encourage you to avoid entering the order with your broker. The orders are "sell on a stop" orders and trigger market orders... which alert the broker to your plans. It's like playing poker, but telling everyone your hand. The effect is probably minimal at the size most of us transact, but I still avoid it.

Avoiding losses is impossible to do... Even the best investors have stories to tell about losses. The key is to learn how to limit the losses and avoid the paralysis of loss aversion.

Recognizing that it's hard to take losses means setting up a plan for when losses appear.

Loss aversion led Sue to give up more than $50,000 of her hard-earned savings because she fell for the classic problem we all face as investors. The easiest way to protect yourself is to stick to simple trading rules like I've outlined, no matter what.

I can count on one hand the exceptions I've made to stop losses. And I'd say that in four out of those five cases, I lost thousands of dollars myself. Don't let it happen to you.

Here's to our health, wealth, and a great retirement,

Dr. David Eifrig

The Greatest Financial Gift You Can Give to Your Children

By Tom Dyson, publisher, *The Palm Beach Letter*

I wrote this essay for your children and grandchildren.

You've probably heard about America's huge debt load. The U.S. government's financial obligations now exceed $663,000 per American family. This burden will fall on the youngest Americans.

It's unethical. It's unfortunate. But it's the reality.

With this giant financial obligation bearing down on them, it's critical that now – right now – your children and grandchildren learn about money and finance. They need to know the basic principles... like how to be independent, why debt is dangerous, and how to grow money.

They don't teach finance in schools. If you don't teach them this knowledge, no one will. They call this financial illiteracy.

If our children are financially illiterate, they have as much chance of survival as a swordsman in a gunfight. **There will be no mercy for the financially illiterate in the future.** It's likely these people will live as indentured servants to the government and its creditors.

But if our kids have a grasp of finance and its basics – and they obey its laws – they will grow up rich. They will be in a position to help other Americans, too.

Below, you'll find the three vital financial concepts all children need to understand. Please pass them on to your children and grandchildren as soon as you can. I have two young children... And these three concepts are my starting point for their financial education.

First of all, our kids must know that they are not entitled to money or wealth... or anything for that matter, even Christmas presents. They must earn money. I want my children to learn that they shouldn't expect anything to be handed to them. I don't want them to rely on the government for their livelihood, like many people do right now.

So many people treat money and prosperity as an entitlement. The government even calls its welfare programs "entitlements." This word – and what it represents – gets stamped into young people's brains. Kids act as if they are somehow entitled to toys, video games, and cars. But why should they be? Just because they have parents, it doesn't mean they should get everything they want... or anything at all, for that matter.

I plan to regularly remind my children of this when they are old enough to understand it. And I'm not going to pay my kids an allowance. An allowance would reinforce the sense of entitlement. They can make money by earning it: doing the dishes, making their beds, mowing the lawn... there are a million things. My wife and I will pay them for doing those things. But I'm not going to just give them money.

The second concept our children need to understand is debt. Debt is expensive. If you abuse it, it will destroy you. Like the entitlement mentality, debt is an enslaver. It robs you of your independence. I avoid debt in my personal life... and when I'm choosing investments.

The best way to illustrate the cost of debt is to calculate the total amount of interest the debt generates in dollars over the lifetime of the loan, instead of looking at the interest rate (like most people do). Once you look at it like that, you can see how expensive borrowing money really is.

For example, say you borrow $100,000 with a 30-year mortgage at 7%. Over 30 years, you'll end up paying $140,000 in interest to

the bank. In the end, you're out $240,000 for a house that cost less than half that. Not a good deal.

The third thing our kids need to learn is the power of compound interest and the best way to harness it.

Compound interest is the most powerful force in finance. It is the force behind almost every fortune. The brilliant Richard Russell calls compound interest "The Royal Road to Riches." And it's mathematically guaranteed.

Let's say, for example, you have $100 earning 10% annual interest. At the end of a year, you'll have $110. During the second year, you'll earn interest on $110 instead of $100. In the third year, you'll earn interest on $121... and so on. This is the power of compound interest. The numbers get enormous over time, simply because you're earning interest on your interest.

Because time is the most important element in compounding, it's an incredibly powerful idea for children to understand. *They have the ultimate edge in the market: the time to compound over decades.*

The stock market is the best place to earn compound interest. You buy companies that have 50 years or more of rising dividend payments ahead of them. Then you let the mathematics work.

As soon as my kids are old enough to understand some arithmetic, I am going to sit down with the classic compounding tables and show them which stocks they have to buy. I'll use Coca-Cola, Johnson & Johnson, and Philip Morris as examples.

After that, assuming they have the discipline to follow through, **they *will* get rich**. There's no doubt about it.

In sum, you have the responsibility to educate your kin about finance. If you don't, no one else will, and they will suffer for it.

Encourage them to work hard and avoid the entitlement mentality. Teach them the power of compound interest and explain the dangers of debt.

If you do this, you will equip your kids and grandkids to survive financially in the difficult circumstances ahead. You'll provide them with something that nobody can place a price on: the power of independence.

Good investing,

Tom

A New American Socialism

By Porter Stansberry

No one knows what to call it...

That's part of the problem. It's difficult to criticize something that doesn't yet have a proper name.

You can't just call our economic system "socialism." It's not. There's a profit motive and private ownership of nearly all assets. Socialism has neither of these. Besides, far too many people have become far too rich in our system to simply label it "socialism."

If you have ever traveled to an actual socialist country – with a power grid that never works, little public sanitation, petty graft at every turn, and endemic, horrifying poverty – you realize our system and real socialism aren't the same at all.

But our system isn't truly capitalism, either. The State intervenes in almost every industry, often in a big and expensive way. With government at all levels making up more than 40% of GDP, it's fair to say we live in a State-dominated society.

And as with all socialist experiments, it is the poor who suffer the worst economic outcomes. It is their cash savings that get wiped out by inflation. It is their jobs that disappear when regulations reduce capital investment or government debt crowds out private capital in the markets.

If the poor knew the first thing about economics, they wouldn't keep voting for socialist politicians and their programs. Alas, they don't even know the basics.

The poor in America, like the poor everywhere, still believe you can rob Peter to pay Paul. They still believe their "leaders" are trying to serve their best interests. It is a sad hoax. What has really happened is clear: **Bamboozling the poor has become a way of life for American politicians.**

And the poor's willingness – even eagerness – to embrace the resulting economic slavery is the linchpin of our system.

But it's not only the poor who have become addicted to the system. Businessmen like Warren Buffett embrace it, too – despite its limitations and taxes. Buffett calls it the "American System." He says it's the greatest system for creating wealth the world has ever seen.

We're not so sure.

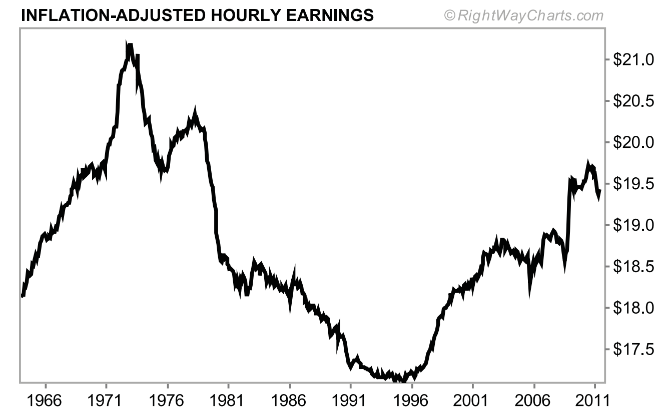
Yes, it certainly makes it easy for big businessmen like Buffett to become wealthy. But those same benefits don't accrue to the society at large. For example... even though the value of America's production has soared over the last 40 years and asset prices have risen considerably, our debts have grown even more.

When you adjust for debt and inflation, you discover America hasn't gotten richer at all. Yes, we have become more affluent. And yes, some individuals have gotten vastly richer. But as a whole, when you add back the debts we've racked up, the country hasn't gotten richer at all.

Since the end of the gold standard in 1971, real after-tax wages, per capita, stagnated. *On average, we haven't gotten any richer at all in 40-plus years.*

What happened over the last 40-plus years?

Why did so many people rush so eagerly into debt? Why did they borrow more and more to buy the same things at ever-higher prices – again and again and again? And why do people in America continue to work, day after day, for jobs that offer no opportunity and declining real wages? Most important, how did a few people end up getting so rich from this merry-go-round economic system that never takes us anywhere?



To answer this question, we need only answer one core question: *Who benefits*?

Whose wealth and power increases with inflation? Whose stature in society grows alongside the government? Who profits from increased spending on wars, prisons, and social programs that are doomed to fail? And most of all... who profits from an explosion in debt?

A certain class of people has the power to not only protect itself from these policies but to profit as well. These people have used the last four-plus decades to produce massive amounts of paper wealth. And they are now desperately trying to convert those paper accounts into real wealth, which explains the exploding price of farmland and precious metals.

This explosion of wealth at the top of the "food chain" is the main feature of what I call New American Socialism. It's a system fueled by paper money, the constant expansion of debt, and a kind of corruption that's hard to police because it occurs *within the boundaries of the law*.

One of the core features of the New American Socialism is the steady increase in asset prices and debts without a corresponding rise in wages or real wealth. Wages, in real terms, peaked in 1972

– at the same point Nixon moved the U.S. off the gold standard. Since then, our monetary base has exploded along with asset prices, foreign wars, prison populations, government domestic spending, and consumer debt. Wages, on the other hand, have fallen.

Like the European and totalitarian socialism of the last 100 years, New American Socialism harnesses the power of the State to grow and maintain production. Like in traditional socialism, the poor pay the costs of New American Socialism. But unlike socialist systems of the past, this new American version has one critical improvement...

In the New American Socialism, the power of the system produces private *profits*.

In this way, it provides a huge incentive to entrepreneurs and politicians to work together on behalf of the system. This is what keeps the system going. This is what keeps it from collapsing upon itself. And this, unfortunately, is why the imbalances in the world economy will continue to grow until the entire global monetary system itself implodes.

Regards,

Porter

This Is Why There Are No Jobs in America

By Porter Stansberry

I'd like to make you a business offer.

Seriously. This is a real offer. In fact, you really can't turn me down, as you'll come to understand in a moment...

Here's the deal. You're going to start a business or expand the one you've got now. It doesn't really matter what you do or what you're going to do. I'll partner with you no matter what business you're in – as long as it's legal.

But I can't give you any capital – you have to come up with that on your own. I won't give you any labor – that's definitely up to you. What I will do, however, is demand you follow all sorts of rules about what products and services you can offer, how much (and how often) you pay your employees, and where and when you're allowed to operate your business. That's my role in the affair: to tell you what to do.

Now in return for my rules, I'm going to take roughly half of whatever you make in the business each year. Half seems fair, doesn't it? I think so. Of course, that's half of your profits.

You're also going to have to pay me about 12% of whatever you decide to pay your employees because you've got to cover my expenses for promulgating all of the rules about who you can employ, when, where, and how. Come on, you're my partner. It's only "fair."

Now... after you've put your hard-earned savings at risk to start this business, and after you've worked hard at it for a few decades (paying me my 50% or a bit more along the way each year), you might decide you'd like to cash out – to finally live the good life.

Whether or not this is "fair" – some people never can afford to retire – is a different argument. As your partner, I'm happy for you to sell whenever you'd like... because our agreement says, if you sell, you have to pay me an additional 20% of whatever the capitalized value of the business is at that time.

I know... I know... you put up all the original capital. You took all the risks. You put in all of the labor. That's all true. But I've done my part, too. I've collected 50% of the profits each year. And I've always come up with more rules for you to follow each year. Therefore, I deserve another, final 20% slice of the business.

Oh... and one more thing...

Even after you've sold the business and paid all of my fees... I'd recommend buying lots of life insurance. You see, even after you've been retired for years, when you die, you'll have to pay me 50% of whatever your estate is worth.

After all, I've got lots of partners and not all of them are as successful as you and your family. We don't think it's "fair" for your kids to have such a big advantage. But if you buy enough life insurance, you can finance this expense for your children.

All in all, if you're a very successful entrepreneur... if you're one of the rare, lucky, and hard-working people who can create a new company, employ lots of people, and satisfy the public... you'll end up paying me more than 75% of your income over your life. Thanks so much.

I'm sure you'll think my offer is reasonable and happily partner with me... but it doesn't really matter how you feel about it because if you ever try to stiff me – or cheat me on any of my fees or rules – I'll break down your door in the middle of the night, threaten you and your family with heavy, automatic weapons, and throw you in jail.

That's how civil society is supposed to work, right? This is Amerika, isn't it?

That's the offer Amerika gives its entrepreneurs. And the idiots in Washington wonder why there are no new jobs...

Regards,

Porter Stansberry

How to Become Financially Independent in Seven Years or Less

By Mark Ford, wealth coach, *The Palm Beach Letter*

You are middle aged. Your net worth is meager. Your income is barely sufficient to meet expenses... And those expenses are going up. The Great Recession is looming. Economists are predicting things will get worse. What can you do?

Should you give up your dream of retiring comfortably one day? Should you accept a future of increasingly meager existence? Should you grow bitter and curse the powers that be for putting you in this situation?

Or should you take responsibility for your situation and make changes?

That last question was rhetorical, of course. But sometimes, I wonder if people really do understand their options. There are things that happen in life that we can't control. But we can control the way we respond to them.

I understand that when you are halfway through your life and are barely making ends meet, it seems like the only chance to become financially successful is to win the lottery (either an actual lottery or the stock market equivalent of one). So it may be frustrating to hear some rich guy from Palm Beach telling you that you can't quickly turn $25,000 into $1 million by investing in stocks.

But I believe – no, I am certain – that anyone who has modest intelligence and a positive attitude can become financially independent in seven years or less if he or she is willing to work enormously hard.

You do not have to give up on your dream of being wealthy.

You always have the ability to change your financial life. It will take a bit of time and patience. And it will require that you change some of the thoughts and feelings you have about wealth and your relationship to wealth.

The first thing you must do is accept the fact that you are solely and completely responsible for your current financial situation. Before you react defensively, read that sentence again... I didn't say you are the cause of your situation. I said you are responsible for it.

By taking responsibility for your current condition, you also assume responsibility for your future. Nobody can change your fortune but you. And nobody else will. The sooner you accept that reality, the sooner you will shed the anger and blame and begin to feel financially powerful.

I'm not giving you a pep talk. I'm telling you the truth. I've done it myself, and I've coached dozens of people to do it, too. It is a simple adjustment of your thinking, but it is extremely powerful. It works instantaneously. Without it, you cannot move forward, even by a single inch.

The next thing you must do is set realistic expectations. I've had people tell me that they don't want to make 10% or 15% per year on their money. They think returns like that are "ho-hum." They want some incredible stock tip or some secret get-rich-quick technique. But when I hear people say that, I think, "This person will never become wealthy."

Realize that 10%-15% is a high rate of return. Warren Buffett – the most successful investor of all time and the third-richest person on the planet – has averaged 19% on his investments over his entire career.

And realize that the journey to millions of dollars is earned $100 at a time. You must be willing to accept this fact to move your financial life forward. Your financial life is like a train that has stalled. And right now, you want to be driving it at 100 miles an hour. But it can't go from zero to 100 miles an hour in no time flat. Inertia is against you. Be happy with 10 miles an hour now... and then 20... and then 30. This is how wealth accumulates: gradually at first, but eventually at lightning speed.

The third thing you must do is thoroughly understand the difference between spending, saving, and investing. With every paycheck you get, cover your necessary expenses first (bills, mortgage, etc.). Then put some money toward saving. And then put some money toward investing. Then and only then – after you have "paid yourself" – should you add to your "spending" account.

The fourth thing you must do is recognize that your net investible income (the amount of cash you have after spending and saving) is the single most important factor in determining how quickly you will become wealthy.

Commit to adding to your income with a second income. Make an honest count of the number of hours each month you devote to television and other non-productive activities. Devote them to wealth-building instead. Cast aside the comfortable shoes of victimization. Put on the working boots of a financial hero.

It's not fun to realize, in the midst of your life, that you haven't acquired the wealth you want. But the good news is your past doesn't have to be a prologue... unless you allow it to. You can change your fortunes today by doing the four things I've just told you to do.

You are only 47, not 87. You have plenty of time to increase your income and grow your net worth. Why do you assume all is lost when – as any 87-year-old will tell you – you have a whole wonderful life ahead of you... a life that can be rich in 100 ways?

Regards,

Mark Ford

The Best of Daily Wealth

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