

INVESTING MEMO

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Feeding the Beast

Investing Strategy

Lessons Learned

Time

Aphorisms

Last Thoughts

This Investing Memo is not intended to be a static document. Changes will be made when warranted. Feel free to ask questions and to provide comments.

VERSION TWO

FINANCIAL SECURITY

- Attaining Financial Security
- Identify Financial Security Benchmarks

Benchmarks Change Over Time

Income Is Greater than Expenses

Having Adequate Emergency Funds

Saving for a Purpose, e.g., a Down Payment

Living on Unearned Income

Sufficient Funds for a Lifetime

- Financial Independence Is the Goal

What Constitutes Financial Independence?

Not Having (Rather than Needing) to Work

Maintaining Standard of Living on Unearned Income

Dividends

Interest Income

Pension Income

Realized Capital Gains

Monthly Social Security Benefits

Rental Income (After Expenses)

- A Healthy Balance Sheet

Assets

Art and Collectibles

Equities

Real Estate

Intellectual Property

Business Ownership

Liabilities

Short-Term, e.g., Credit Card Debt

Long-Term, e.g., A Mortgage

- Investing in the Stock Market Increases Net Worth

Save on Taxes When Contributing to Tax-Deferred Accounts

Earn Dividend Income

Dividends Are Similar to Annuities

Compound Dividends Behave Better than Compound Interest

Compound Interest Increases Wealth Exponentially

According to Albert Einstein, “The most powerful force in the Universe is compound interest.” He referred to it as one of the greatest “miracles” known to man.

Capital Gains

Portfolio Value Increases Over Time

KNOW YOUR INVESTOR SELF

- My Investing Strategy Works for Me

I Am Not Claiming My Strategy Is the Best Strategy

It's the One that Suits My Investor Personality

It May Not Work for Another Investor

Decide on a Strategy after Careful Consideration

Only Change it Upon Careful Contemplation

- This Investing Memo Was Written for My Benefit (and for those Who Are Interested in Investing)
- This Memo Can Be a Guide for the Novice and Inexperienced Investor
- Understand Your Psychological Makeup Regarding Investing (and Money)

Are You More Likely to Sell a Stock When It's Going Up vs. When It's Going Down?

Are You More Likely to Buy a Stock When It's Going Up vs. When It's Going Down?

Would You Sell During a Major Market Correction?

A Serious Mistake that Is Made by Amateurs and Market Lemmings

Would You Buy During a Major Market Correction?

Money Is Made When the Market Is Down

- Type of Investor

This Is the Most Important Decision in Planning an Investing Strategy

- Investor vs. Trader

I Am an Investor, Not a Gambler; Therefore, I'm Not a Trader

However, I Do Take Calculated Risks

Selling Puts Is a Calculated Risk

The Biggest Risk Is Not Taking Calculated Risks

- My Investor Nature

Conservative

Passive

Not Acting (Can Be a Weakness)

Not Acting (Can Be a Strength)

Aggressive

Selling Puts

Using Margin

Investing Decisions that Are Contrary to Market Sentiment

- My Investing Philosophy and Strategy Changed Over Time

Experience Enables You to View Investing Differently

Investing Seems Different Today Compared to When I First Started Investing

I've Been to this Rodeo Before

Investing Decisions Become Easier

Setbacks Are Easier to Absorb both Psychologically and Financially

- Until Recently, I Took Too Much Time Deliberating about Certain Decisions

What to Buy

Price to Pay

When to Buy

Number of Shares to Buy

Decision-Making Becomes Easier both Psychologically and Financially as the Amount of Contributions Increases and the Portfolio Value Grows

FINANCIAL ADVISORS and MARKET EXPERTS

- Having a Financial Advisor Is Invaluable
 - Providing Advice
 - Being a Sounding Board
 - Giving Assistance
- As in Any Relationship, It's Important to Understand Your Financial Advisor
 - The Advisor's Investing Philosophy and Strategy
 - The Advisor's Investing Biases
- Develop a Good Working Relationship with Your Financial Advisor
 - It's Important to Like Your Advisor
- Communicate with Your Financial Advisor
 - On a Regular Basis (Don't Wait Until You Have to Talk)
 - Ensure that the Advisor Understands Your Investing Philosophy and Strategy
 - Learn When to Take the Advisor's Advice
 - Learn When to Trust Yourself
- Market Experts
 - They Have Investing Biases
 - They Don't Own a Crystal Ball
 - Opinions of Experts Are Often Based on Past Events rather than Current Events
 - Other Times, their Opinions Are Based on Current Events rather than Future Events
 - Views of Experts Frequently Reflect Groupthink
 - Beware of Groupthink (It Often Drives the Market)
 - Avoid Groupthink

BUFFET* AND GRAHAM** ARE NORTH STARS

- Buffet Is Not an Especially Great Stock Picker (Experts Will Disagree)
- Buffet Is Not an Especially Great Stock Timer (Experts Will Disagree)
- Buffet and Graham Influenced My Investing Philosophy and Strategy

Warren Buffet is known to eat two of McDonald's breakfast offerings. If his portfolio is down, he orders the cheaper breakfast. If his portfolio is up, he has the more expensive McDonald's breakfast.

Buffet buys what he likes (McDonald's and stocks) – not what he can afford – and is not influenced by groupthink. He understands the value of the dollar and lives and invests accordingly.

Benjamin Graham is the father of value investing. Graham's mantra is: Expect volatility and profit from it.

“Investing in stocks means dealing with volatility. Instead of running for the exits during times of market stress, the smart investor greets downturns as chances to find great investments. Graham illustrated this with the analogy of ‘Mr. Market,’ the imaginary business partner of each and every investor. Mr. Market offers investors a daily price quote at which he would either buy an investor out or sell his share of the business. Sometimes, he will be excited about the prospects for the business and quote a high price. Other times, he is depressed about the business's prospects and quotes a low price.

Because the stock market is rife with these same emotions, **the lesson here is that you shouldn't let Mr. Market's views dictate your own emotions, or worse, lead you to make poorly thought out investment decisions.”**

*<https://www.suredividend.com/warren-buffett-quotes/> – See Quote 19

**<https://www.investopedia.com/articles/basics/07/grahamprinciples.asp>

INVESTING JOURNEY

- You Will Have Your Own Journey
- Here Is My Investing Journey

Investing Is a Life-Long Journey

I'm a Tortoise Investor – Slow and Steady

The Market Goes Up and the Market Goes Down (The Market Giveth and the Market Taketh Away)

Over Time the Market Will Be Higher

You Will Lose Money and You Will Make Money

Over Time You Will Make More Money than You Lose

I Don't Want to Lose Sleep When a Stock or the Market Corrects

I'm Always Learning and Modifying My Investing Strategy

Market Conditions Change

Personal Financial Position Changes

Experience Is Gained

My Point in Life

Portfolio Value Increases

- Decision-Making
 - Informed
 - Rational Not Emotional
- Set (Attainable) Investing Benchmarks and Goals
 - Short-Term
 - Long-Term

- Cash Inflow into Your Portfolio Is Critical both Psychologically and Financially
 - Contributions
 - Dividends
 - Option Premiums
 - Realized Capital Gains and Losses
- Stocks and Cattle Share Many Similarities
 - There Are both Stock and Cattle Futures
 - The Value of a Portfolio and a Herd of Cattle Changes Constantly
 - Over Time a Company Grows and Increases in Value
 - Over Time a Herd of Cattle Gains Weight and Increases in Value
 - Companies Issue Dividends and Cows Have Calves
 - Selling Stocks and Cows Result in Either a Capital Gain or Loss
- Over Time I Gained Investing Confidence
- Over Time I Learned to Take the Long View
 - When a Stock Corrects – Buy, Although it May Take Months or Longer before the Stock Price Recovers
 - When the Market Corrects – Buy, Although it May Take Months or Longer before Your Portfolio Value Recovers
- Over Time I Came to Understand How Savvy Investors Made Money When the Market Was Down
 - Buy as Much as Is Possible
 - Use Margin if Warranted
- Use Trigger Points as Buying Guidelines
 - Stock / Market Lows – Time Period (Year-to-Date, One-Year, All-Time)
 - Stock / Market Lows – Percentage (Five, Ten, Twenty Percent)

Stock / Commodity Lows – Price Point (Dollar Amount)

- My Investing Philosophy and Strategy Are Encapsulated in these Four Quotes:

"Know what you own, and know why you own it." — Peter Lynch

"Be fearful when others are greedy. Be greedy when others are fearful." — Warren Buffet

"Courage taught me no matter how bad a crisis gets...any sound investment will eventually pay off." — Carlos Slim Helu

"It's not whether you're right or wrong that's important, but how much money you make when you're right and how much you lose when you're wrong." — George Soros

- Data to Keep in Mind

"A 2021 test by Charles Schwab compared five investing styles, listed below:

1. Perfect market timing, investing \$2,000 once a year at the lowest point.
2. Investing \$2,000 per year on the first trading day.
3. Dividing \$2,000 into 12 pieces and investing at the beginning of every month.
4. The opposite of number one, investing \$2,000 at the highest point.
5. Left money in cash only, no investments.

The test found that if you are number one, and have the absolute best and perfect timing, you will come out with the highest returns. However, since that is nearly impossible to time, the descending order in terms of profit (after 20 years) was number two, number three, number four, then number five.

The study shows that if you have perfect timing you will come out ahead, but not by much. Number two and three were both within 11% of the perfect market timer.

Even the one with bad timing came out with three times the amount after twenty years when compared to number five, who held their money in cash."

INVESTING GUIDELINES

- Automatically Save the Same Amount on a Regular Basis
- Buy Quality Stocks
- Don't Pay Retail

Don't Buy When a Stock Is High

Buy When a Stock Corrects

- Buy Out of Favor Sectors

Housing (2008)

Financials (2009 and 2011)

Energy (2009, 2015, 2016, and 2020)

Entertainment and Communications (2022 – 2023)

- Buy During Market Corrections

2000 – 2002

2008 – 2009

2011

2020

2022 – 2023

- Buy Stocks that Pay a Dividend

A Primary Decision-Making Criteria (There Will Be Exceptions)

Don't Do Dividend Reinvestments

Be in Control of Your Cash and Investments

Use the Cash from Dividends (Along with Contributions, Option Premiums, and Realized Capital Gains and Losses) to Add to Existing Positions and to Create New Ones

Dividend Amount

At Least Two Percent

The Percentage Will Increase When the Dividend Is Raised

- Calculation of Dividend Percentage Should Be Based on the Price Paid for the Stock – Not the Current Stock Price
- Calculation of Stock Percentage Gain or Loss Should Be Based on the Stock Price When Bought and the Amount of Dividends Received

The Amount of Unrealized and Realized Capital Gains Will Be Greater Once Dividends Are Included

The Amount of Unrealized and Realized Capital Losses Will Be Less or May Even Be Capital Gains Once Dividends Are Included

- List Your Stocks in a Spreadsheet

Organize Your Portfolio by Constructive Criteria

Type of Position

Nifty-Fifty Stocks

Long-Term Stocks

Special-Situation Stocks

Options

Trigger Point Decisions

Identify Positions to Add Shares – Set Alerts (Brokerage Account / MarketWatch.com)

Identify Positions to Sell Shares or Calls – Set Alerts (Brokerage Account / MarketWatch.com)

Identify New Positions (Wish List) – Set Alerts (Brokerage Account / MarketWatch.com)

- Seventy Stocks (Plus Several Options) Is the Maximum Number I Am Able to Comfortably Follow

Nifty-Fifty Stocks (Seventy Percent of Portfolio)

These Are the Stocks to Hold Forever and to Increase Shares Over the Years

For Each New Nifty-Fifty Stock Added, One Position Should Be Closed

Ten Long-Term Stocks (Fifteen Percent of Portfolio)

These Are Stocks to Hold for Several Years

Ten Special-Situation Stocks (Fifteen Percent of Portfolio)

These Are Stocks to Hold for Months to a Few Years

- Dividend Payers

At Least Eighty Percent of Portfolio

- The Portfolio's Cash on Hand Amount Varies

Accumulate Cash as the Market Increases in Value

Use Cash and, if Warranted, Margin to Buy

When a Trigger Point Is Reached

When a Sector Corrects

Choose Two to Four Stocks within the Sector to Add to Your Portfolio (Either as a Nifty-Fifty, Long-Term, or Special-Situation Position)

- Live a Long Life

The Longer the Investing Years, the Higher the Investment Returns

- Options

Sell Calls if Warranted

On Long-Term Stocks

On Special-Situation Stocks

On a Good Quality Stock that Pays a Dividend Corrects

Buy Stock, Sell Call

Strike Price – The Option Premium Is Worthwhile

Expiration Date – Varies Depending on the Premium

If the Call Is Not Assigned, Rinse and Repeat When Warranted

Calculation of Return: Appreciation (Paid Stock Price to Strike Price) + Premium + Dividends (Until Assigned or Position Is Closed)

Sell Puts

On Stocks You Already Own

On Stocks You Want to Add to Your Portfolio

On Stocks You Don't Have the Cash to Buy

Only if the Option Premium Is Worthwhile

Choose Expiration Date as Far Out as Is Available

Buy Back Puts When the Return Is Around 75 Percent

If a Put Is Assigned, You Have Bought the Stock at a Lower Price than if You Had Bought it When the Put Was Sold (Psychological Hurdle)

- Avoid Stocks Over a Certain Amount

This Amount Will Increase as Your Portfolio Value Grows

Your Portfolio Should Not Be Concentrated in a Few High-Priced Stocks

- Remember the Cost of Transaction Fees
- Remember the Cost of Taxes (Non-Retirement Accounts)
- Tax-Loss Harvesting

Take Advantage of these Types of Trades

Psychological Hurdle

- Your Portfolio Should Not Be Concentrated in One or Two Sectors

This Doesn't Mean to Evenly Spread Your Portfolio Among Each Market Sector
Some Market Sectors Will Have a Greater Percentage of Your Portfolio than Other Sectors

- Market Sectors I Avoid

Airlines (From the Wright Brothers to the Present, Zero Percent Return)

Apparel (Fashions Change)

Auto (Not Interested)

Cruise Lines (Not Interested)

Insurance (Climate Change)

Retail (Walmart Is the Exception)

Alcohol, Tobacco, Gambling, and Cannabis (Personal Beliefs)

REFLECTIONS

Feeding the Beast

- Regular Recurring Contributions
- Tax Savings from Contributing to Retirement Accounts

Only Contribute to a Roth Account if You Are Ineligible to Contribute to a Tax-Deferred Retirement Account

Transfer Tax Savings to Portfolio

- Interest Income
- Dividends
- Realized Capital Gains
- Tax Refunds
- Cash Gifts
- Rental Income (After Expenses)
- Pension Income
- Monthly Social Security Benefits (Include Medicare Deductions)

Investing Strategy

- Outline a Plan of Action

Helps You to Invest More Rationally and Less Emotionally

- Follow the Plan
- Amend When Appropriate
- Buy Stocks During a Correction
- Utilize Options When Appropriate

- Be a Contrarian Investor

Stocks

Sectors

Market

- The Biggest Gains in Your Portfolio Occur on a Few Days Each Year

You Will Miss Out on Opportunities if You Are Sitting on the Sideline Waiting for the Market to Go Up

Time in the Market – Not Timing the Market – Beats the Market

Lessons Learned

- Top Three Mistakes

Not Being a Serious Investor Sooner

Not Holding Quality Stocks Forever

Selling Nifty-Fifty Stocks to “Take Money Off the Table”

- Top Three Best Moves

Being a Serious Saver

Maximally Funding My Retirement Accounts – Even When I Didn’t Have the Cash (Using Margin)

Buying Decimated Quality Stocks – Even When I Didn’t Have the Cash (Using Margin)

- To Be a Successful Investor, You Need to Be a Disciplined Saver

Contribute as Much as Possible

Regularly – Weekly or Monthly

Same Amount Each Week or Month

Increase the Amount When You Can

Important Life Lesson

“Pay Yourself First” Is a Common Saying

Few Actually Do So

I Learnt from a Client that it Works

The Client Had to Pay Back a Debt

No Matter How Empty the Coffers Were, the Client Found Funds to Make the Monthly Debt Payment

I Started Paying Myself Regularly (First Monthly, then Weekly) rather than at the End of the Year

It Makes an Enormous Difference

- Both Small and Big Investment Mistakes Will Be Made

Learn from these Mistakes

Don't Cry over Spilt Milk

This Takes Practice

- You Will Have Enormously Profitable Investment Plays

Don't Think You Are an Investing Genius

This Takes Practice

Time

- Spend Time on Your Portfolio

It Is or Can Be a Valuable Asset

There's a Direct Correlation between the Amount of Time Spent on Investing and the Increase in Value of a Portfolio

Investment Advisors Are Paid to Increase the Value of Portfolios

Exercising Improves Your Physical Health; Spending Time on Your Portfolio Improves Your Fiscal Health

If I Had Followed this Advice Years Earlier, I Estimate My Portfolio Would Be at Least Twice the Amount in Value

- Time Spent

At Least One Hour per Week

Once Spending Time Becomes Routine, it Will Not Feel Like a Chore

You Will Gain Investing Knowledge

You Will Become More Comfortable with Investing

Aphorisms

- Keeping a Perspective

You Will Lose Money (In Spite of Yourself)

You Will Make Money (In Spite of Yourself)

You Will Learn

You Will Re-Learn

And, then You Will Truly Learn

- Investing Knowledge Results in a Higher Net Worth

Spending Time on Investing Increases Knowledge

Knowledge Helps to Avoid Mistakes

Which Will Save You Money

Which Will Make You Money

- This Is How My Investing Has Played Out

Three Grand Slams

Several Home Runs

A Few Triples

Handful of Doubles

Mostly Singles

These Plays Have More than Made Up for the Strike Outs

Last Thoughts

- The Psychological Aspects of Investing (Google this Bullet Point)

Cannot Be Overestimated

You Will Have Doubts

You Will Second Guess Yourself

Even Investing Pros Are Susceptible to Market Psychology

- Investing Psychology Changes When

A Stock Dramatically Goes Down

The Market Is Going Down

A Stock Dramatically Goes Up

The Market Is Going Up

- Market Psychology Changes

During a Bear Market

During a Bull Market

- Closing Thought

Buy Low, Seldom Sell