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From the **#1 NEW YORK TIMES** bestselling author of **Rule#1**

PAYBACK TIME



BIG
MAKING MONEY IS
THE BEST REVENGE!



PHIL TOWN

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HOW the WEALTHY USE DOWN to GO UP

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

—JOHN F. KENNEDY

The best investment strategy I know is so counterintuitive, so shockingly upside down, such a crazy way of thinking about investing that hardly anyone who uses it wants to even try to explain it. It's not at all hard to *do*, but it is hard to explain. It just sounds so . . . impossible. But smart investors do it all the time and, man, does it work! I mean it really works. It's an "I can do whatever I want the rest of my life" kind of works. It works so well, it's the secret to the investing success of the best and richest investors in the world. Seriously.

I know that sounds like hype, but honestly it's impossible to overstate the effectiveness of this strategy. It really is the basis of the biggest fortunes in the world, including those of quite a number of Forbes's World's Billionaires list. For example, #3 is Carlos Slim Helu, the Mexican telecom entrepreneur who is worth \$35 billion and is currently buying into cheap media, energy, and retail assets, including the *New York Times*, using this strategy. Lakshmi Mittal, #8, of India, created a \$19 billion fortune and now runs the world's largest steel company, ArcelorMittal. He built ArcelorMittal using this strategy in

Eastern Europe in the 1990s after the Berlin Wall came down. Number 15 is Bernard Arnault of France, who built a \$16 billion fortune by acquiring Christian Dior with this strategy. Number 16 on the World's Billionaires list is Li Ka-shing of China, who made \$16 billion acquiring energy, banking, and utility companies with this strategy. Charles Koch and David Koch are ranked #19 with \$14 billion each, which they got by using this strategy to build Koch Industries—one of the largest, privately held corporations in the United States. Michael Otto of Germany is ranked #23 and is using this strategy to take advantage of weak markets in the United States to buy up shopping centers in America. Donald Bren is #26. He used it to become the sole owner of the Irvine Company and bank \$12 billion. The Irvine Company is one of the largest construction companies in California and the developer of about a fifth of Orange County.

The list of billionaires who used this strategy to become mega-wealthy goes on and on but wouldn't be complete without mentioning that the world's second wealthiest man, Warren Buffett (worth \$37 billion), the world's best investor, used this strategy of investing to build his immense fortune and to increase his ownership and compounded return in companies like American Express, Washington Post, GEICO, and Coca-Cola.

This strategy is also the basis of thousands of little fortunes, including mine. In fact, as any of the billionaires I mentioned above would agree, it's much easier to use the strategy if you are a *small* investor. Being a big investor is actually a huge disadvantage in using this strategy. Mr. Buffett once said, "Anyone who says that size does not hurt investment performance is selling. The highest rates of return I've ever achieved were in the 1950s. I killed the Dow. You ought to see the numbers. But I was investing peanuts then. It's a huge structural advantage not to have a lot of money."*

I used this strategy to build my wealth by buying shares of bio-science, software, and other private companies. And soon, if you pay

**BusinessWeek*, July 5, 1999.

attention and are willing to do a bit of fun work, you'll discover that this incredible strategy can be the basis of your fortune, too.

STOCKPILING

I call this amazing strategy “stockpiling” . . . as in “stash,” “accumulate,” and “collect.” It means exactly as it sounds — stockpiling, as in piling up stocks. Not just any stock at any price, though. The essence of stockpiling is to buy stock in a business you'd be excited to own all of, then hope the price goes *down* so you can “stash,” “accumulate,” and “collect” as much as you can afford at as low a price as possible. Sounds strange, I know. But again, all of the billionaires I listed above and many more on Forbes's World's Billionaires list are stockpilers of businesses. (Note: This list might have changed by the time you read this but not the stories behind these guys' wealth-building strategies.)

Buy a Business, Not a Stock

“Buy a Business, Not a Stock” was a chapter title in my first book. It's such a key way of thinking that I can't reiterate it enough: You must stop thinking that stock investing is any different from buying a business. When you buy a business you're buying shares of the business. If you buy some percentage of the total shares, you become a part owner. Buy all the shares and you own the whole business. *There is no difference between that process and buying public stock in a business.* As long as you treat owning shares of public stocks as different from owning a piece of a business, you will fail to understand and execute the stockpiling strategy. A typical stock investor is unhappy when the price of his stock goes down, because he has no understanding of the true value of the business that stock represents. But that's because typical stock investors are not *investors* at all. They don't understand stockpiling, so they inadvertently have become speculators and outright gamblers.

The unfortunate truth is that the financial services industry has conned many millions of people into their game of stock speculation via mutual funds. I'll have a lot more on that in the next chapter. For now, let's just remember that for this book and for the rest of your investing career, you must think of stocks as shares of a business, and yourself as the owner of that business. So if you buy just ten shares of Coca-Cola, you're a part owner of Coke—not a stock investor in Coke. Got that? When you begin to think like this, you're joining some truly great investors like Mr. Buffett, and you're on the first step toward becoming a solid stockpiler of stocks, er, businesses.

“The basic ideas of investing,” Mr. Buffett says, “are to look at stocks as a business, use a market’s fluctuations to your advantage, and seek a Margin of Safety. That’s what Ben Graham taught us. A hundred years from now, these will still be the cornerstones of investing.”

From the late 1990s until 2008, Warren Buffett bought very few public stocks. He mostly just sat on about \$45 billion of Berkshire Hathaway’s cash, waiting patiently for Mr. Market to become fearful enough about the future to bring the prices of wonderful public businesses down to levels at which he was willing to buy. In May 2008 Mr. Buffett told his fans at the annual Berkshire conference that he hoped the stock market would drop 50 percent so he could finally put all his cash to work. Then the market crashed, and in October 2008 he invested \$20 billion in public companies.

But here’s the classic part of the story: As prices of the businesses Berkshire owned—and still owns, as of this writing—

plummeted, and the Berkshire stock price dropped accordingly, Mr. Buffett was attacked, again, for being over the hill and out of touch. The proof? The prices of businesses he owns were going down.

This is not the first time he's been accused of losing his touch. In the late 1960s he was sitting on a lot of Buffett Partnership cash. His unwillingness to chase high prices disturbed enough Buffett Partnership partners that Mr. Buffett dissolved the partnership, gave his partners back their money, and shifted his stockpiling strategy to Berkshire Hathaway, where he would no longer be required to deal with limited partners whining about his lack of investing activity. Of course, he turned Berkshire into the world's most successful investment vehicle. Ten thousand dollars invested in Berkshire in 1969 is now worth \$40 million. Again in the late 1990s, as mutual funds racked up big gains by buying technology stocks, Mr. Buffett was accused of being behind the times. His ideas became more popular after the Nasdaq plunged 85 percent during the dot-com bust.

The fact is, stockpiling is something people either get right away or never understand at all, no matter how much sense the strategy makes or how much money the people who practice it make.

The Secret to Risk-Free Stockpiling Is Knowing Price Is Not Value

Okay, there's obviously more to stockpiling than just buying a stock and hoping the price goes down. What Warren Buffett and a lot of other billionaires know is that the price of a stock doesn't always have a whole lot to do with how much that business is actually *worth*. To

put it another way, you have to learn how to look beyond stock price and at a business's *value*.

The one and only secret to stockpiling is to make sure the *value* of the business is substantially greater than the *price* you are paying for it. I swear to you that's all there is to it. If you get this right, you cannot help but get rich. Most investors make the mistake of thinking the price they paid has some necessary connection to the value of the thing they bought. I don't know why stock market investors think that when it's so manifestly and obviously not true in any other sort of market they buy in regularly. Surely they bought a used car sometime in their lives. They wouldn't confuse the price being asked for a used car with the value of that car, would they? Just because a guy is asking \$5,000 for his old Toyota doesn't mean it's actually *worth* \$5,000. If you're reasonably smart, you go look the car over; you make sure its got an engine that works and the body isn't a disaster. You check to see what similar cars are going for and use that price as a guideline, but only if it's reasonable.

Why wouldn't investors do something similar when they buy stock? Because they don't know how to calculate the value of a business the way they do with cars. Well, we're going to fix that in this book.

I'm going to show you how to calculate value — and make sure it's higher than price — in Chapter 4, but for right now just understand this: price is just the amount you paid. That's *all* it is. It doesn't mean a damn thing other than that. If you want to know the *value* of the thing you bought, well, that's an entirely different question. Price is what you pay but value is what you get. Those two things can be and often are quite different. We'll start our lessons on how to stockpile undervalued companies and make millions with that: Price is not the same as value.

Since I haven't taught you how to figure out the value of a business yet, allow me to make my point with an example from my horse farm. I wasn't a very good rider but I wanted to learn, so I was looking for a horse that knew a lot more than I did about what I'm supposed to do.

My partner, Melissa, got a lead on a Level-4 dressage horse that was for sale because the owner died. The family was wealthy, so they were just looking for a good home for the horse. Melissa called and found out they'd bought the horse for \$60,000 plus shipping from Germany. They wanted \$35,000 for a quick sale. She told them we weren't interested but they should call us back if they didn't find a buyer at that price. Two weeks later they called and offered us the horse for \$10,000. We drove over for a look. We could see why they were having a problem selling him. He needed to get his feet trimmed and reshod. He needed to be fed better. And he hadn't been ridden for months. I got on him and he tried to toss me, but he was too out of shape to get into it. I wasn't impressed. A big, bony, out-of-shape, cantankerous horse wasn't what I was in the market for.

Melissa, however, is the former owner of a horse-importing and -training business and she's been a national champion rider several times. She knows horses. She took a ten-minute look at this guy moving around the arena, pulled me aside, and said, "Let's take him home. He's amazing."

Where I just saw the superficial problems, she saw a \$60,000 horse and a great horse to teach me to be a better rider. We paid \$2,000, and he's in our barn now with new shoes, getting fat. What's his value? I'm sure even in this market, if we sell him, we'll get more than we paid. Maybe a lot more. The lesson? In a bad market, superficial problems that have nothing to do with value can have a big impact on price.

Before we get back to businesses and the details of calculating value, I want you to notice one more thing about the purchase I made: It was essentially risk-free. There was no way I could lose money on that horse. Even if he died, I'd make money on the insurance.

Think about that for a second. If we know the price of a thing is less than what it's worth (its value), then something remarkable becomes possible: We can buy it and be certain we will make money.

"Certain?" you ask. "Come on. There's no way to be certain you're going to make money."

Yup, there is a way to be certain and it's really simple. Just put on your logical, rational hat and follow me: If the value of the thing you bought is greater than the price you paid, you are *guaranteed* to make money. You have gotten rid of the risk of making the investment. The only question is how long you have to wait for the price to come back into line with the true value.

In the case of our horse, Sherman, we bought him so cheaply we could sell him for a profit immediately after doing some basic maintenance. If we want to sell him for the maximum amount—his full value as a Level-4, 17-hand, beautiful dressage horse with amazing action—we'll have to be more patient and wait for a better market when the price will come up to the value.

The same thing applies to owning shares of a business. If you buy at a price well below the long-term value, you may not be able to sell for a profit immediately. In fact, the price may go down before it goes up. There's no guarantee that the short-term price for Sherman won't fall lower. But in the long term, the price will come up to the value. True for a horse. Especially true for a business.

I want to make another distinction between investing in things like horses, real estate, and art versus investing in businesses. The former have no real "floor" to their price. Their value is based on nothing more than fashion, history, and the greater-fool theory. (The greater-fool theory is the basis of all investment price bubbles: that a greater fool will come along who will pay more for this thing than you paid.) Therefore, it's difficult to determine the value. A Picasso might sell for \$20 million one year and \$10 million the next. Which was the true value? Who knows? Businesses, on the other hand, have real value based on future cash. We'll talk about that more in a later chapter as well. The point here is this: You don't know exactly when you'll make money, because you have to wait for the price to come up to the value. But because it's a business that produces cash, it inevitably will someday. So that's pretty cool, huh?

But it raises an important issue: How long might it take before the price gets back to the value? What good is "someday" if we can't cash

out when we need to? Well, here's where my 10–10 Rule comes into play: We don't buy a business for even ten minutes unless we are willing to own it for the next ten years. We do the 10–10 Rule for two reasons:

1. It forces us to think long-term.
2. We may be in such a bad stock market that we actually don't expect to see the price come back up to the value for ten years, and we want to be totally okay with that.

This puts quite a strong requirement on us that we know our businesses the way Melissa knows horses. You'll learn what to look for in Chapter 3. In the meantime, in case all this is scaring you, just remember: I've done valuations with both businesses and horses, and businesses are a lot easier. When you find a business with the price lower than the value, you can't lose if you don't have to sell. That's just for openers. But it gets way better than that.

The Secret to Riches Is Compounding Returns by Stockpiling

If you know the value of the business and you're intending to keep investing your money, then the more the price goes down, the better it is for you. If you keep buying as the price goes down, the average cost of your investment per share goes down, too. When the price goes back up to the value, stockpiling the stock at ever lower prices will massively increase your overall return. Stockpiling accelerates your compounded return.

According to Albert Einstein, one of the hardest things in the universe to understand is the power of compounding returns. So don't feel bad if the fact that you can become a millionaire simply by buying something as its price goes down doesn't seem to make sense. I told you before that stockpiling is not intuitive. It's easy and it's intensely

rational but it's not something that just leaps out at you with a big YES. So let's take this compounding thing slowly.

Let's say you're willing to have Vinnie pay you \$100,000 five years from now, in return for lending him \$60,000 today. You lend him \$60 large today; the deal is he pays you back \$100 large in five years. The reason you're willing to do that deal is because your financial calculator tells you that if you want to get at least a 10 percent compounded return on the money you lend Vinnie for five years, you'll have to get back close to \$100,000. You get your sixty grand back plus interest—*plus interest on the interest* when he pays you about \$100,000 in five years. Simple. I mean compounded. (Sixty grand compounded at 10 percent over five years equates to just under 100 grand; at 10.8 percent, however, you reach 100 grand.) As a lender, the less you lend him up front for the same backend payoff, the higher your compounded return. If you lend him \$50,000 and he pays you \$100,000 in five years, your compounded return jumps up to 15 percent. Lend him \$25,000 and get paid \$100,000 in five years and your compounded return explodes to 30 percent per year. The less you lend him for the same payoff down the road, the higher your compounded return and the quicker you get rich. (By the way, this is the way zero coupon bonds, like U.S. Treasury bonds, work: you pay a price that is discounted off of the face value of the bond, in return for getting the face value of the bond back in a fixed amount of time. The size of the discount determines the compounded rate of return you're getting paid to lend your money to the bond's issuer.)

You do exactly the same thing when you stockpile stock at a big discount to its value, only better. There's a limit to what you can get a borrower to pay you for a loan, unless you're ready to get violent. But there's no limit to how high your compounded returns can get by stockpiling. The less you pay to buy a set value, the higher your compounded rate of return. The lower the price goes as you are stockpiling the stock, the more your compounded return goes up and the faster you get rich.

EXPLODING RATES OF RETURN

Assume that you find a business you know is worth \$20 a share but is selling for only \$10. You have \$60,000 to invest. You decide to stockpile the business rather than lend the money to Vinnie. You start by using \$20,000 to buy 2,000 shares at \$10. A few months later the price is \$5. There is no change in the long-term value. (How do you know that? Well, you've done your homework, which I'll be showing you how to do later.) It's still worth about \$20. You invest another \$20,000 at \$5 per share for 4,000 more shares. The stock market keeps dropping like a brick and the stock drops to \$1. The business hasn't changed at all. Things have slowed down some but the business will pick up again with the economy. It still has a \$20 per share long-term value. So you invest another \$20,000 at \$1 per share and buy 20,000 more shares.

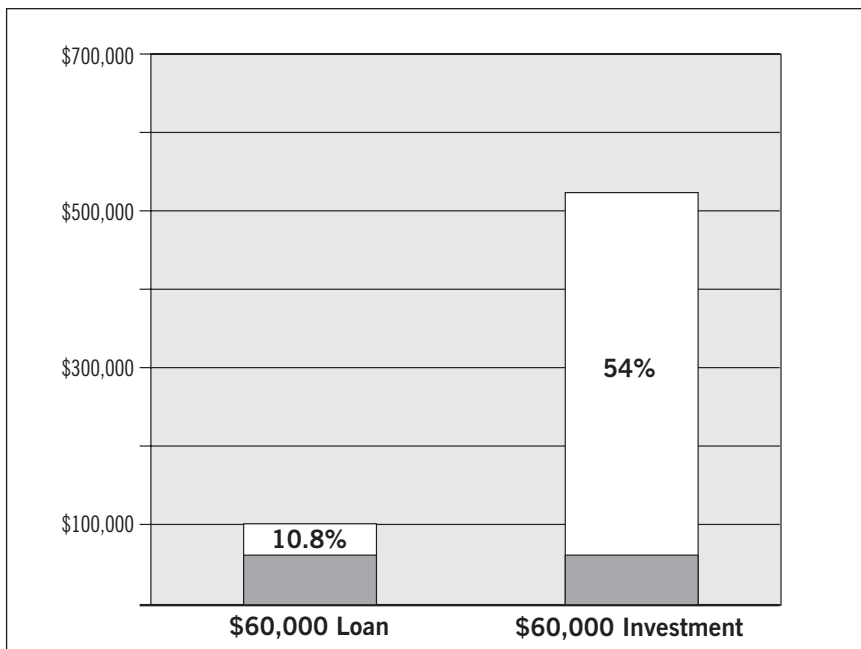
You now own 26,000 shares (2,000 plus 4,000 plus 20,000) and have invested \$60,000. The average price you paid per share is \$2.31. Five years later it's selling for its value of \$20 per share, \$520,000. Let's compare this with the loan to Vinnie:

With Vinnie you turned \$60,000 to \$100,000 in five years and made a 10.8 percent compounded return. Not bad, right? But in the second example, because you kept investing in the business as it went down in price, your \$60,000 investment is now worth \$520,000, and your return is 54 percent per year.

Instead of having \$100,000 you have \$520,000 because you learned how to stockpile.

And your risk went down, too. What do you do if Vinnie doesn't pay? You gotta deal with it. Go get some muscle. But as a stockpiler you don't have to strong-arm anyone. You just let the inevitable market forces deal with the price. You know eventually the price and the value will be the same, as sure as you know the sun will rise.

Stockpiling lowered your risk and exploded your return. You gotta like that. So what's the catch?



Investment Available	Value/Share	Price/Share	Shares Purchased	\$ Invested	Sale
\$20,000	\$20	\$10	2,000	\$20,000	
\$20,000	\$20	\$5	4,000	\$20,000	
\$20,000	\$20	\$1	20,000	\$20,000	
5 years later	\$20	\$20	26,000	\$60,000	\$520,000
Return on Investment					54%

THE CATCH?

The example I just used must have a catch in it, right? You probably saw one issue immediately. The stock dropped like a brick from \$10 to \$1 and you're still buying it like it's diamonds? How could you do that if everyone else is selling? Are they really that stupid and you're really that smart? You have to be a genius to do this stockpiling stuff. Maybe that's the catch.

No, you don't. And no it isn't. The guys who are selling aren't stupid, and you aren't that smart. It isn't about stupid versus smart. If you've got a reasonable IQ you're going to be fine with this, because it isn't about being clever. It's about being *reasonable*. If you are a reasonable person you can rock the financial world. As crazy as that sounds, it's so true. Making big money stockpiling stocks is about their emotions versus your reason.

We'll deal with our very emotional partner, Mr. Market, in another chapter. For now just understand that if you can keep your head when all about you are losing theirs, you are going to become very rich. You don't have to be real smart. I'm not. (By the way, I stole that "keep your head" and "losing theirs" line from Rudyard Kipling's famous "If . . ." poem.) You just have to be calm. Can you chill out when the Big Guys — the mutual fund managers who control more than 85 percent of the money in the stock market — are freaking out? Of course you can. You already are. Trust me, as I write this, they are tearing out their hair and some of them are ready to commit suicide. Meanwhile, you've gone about your life, dealing with the financial issues the way reasonable people do. You've been through financial problems before. You know you'll find a way through this one.

But the fund managers have never been through anything like this. They're terrified of losing their cushy jobs, big Manhattan co-ops, limos, private schools, special tables at restaurants, box seats at Yankees games, pictures in the society pages, and all the other perks these people kill themselves to get so they can impress the other guys who are trying to impress them. They buy stuff with your mutual fund money and they pray the price will go up. If the price doesn't go up in a short time — like in a few weeks — fear starts to set in.

They deal with that fear by buying lots of stocks. Hundreds of stocks. Do you think each of the 5,900 fund managers can keep up on hundreds of companies in dozens of unrelated industries? Not a chance. They buy all these stocks not because they are experts in the businesses behind them but because they think surely *some* of them will go up. Enough to keep up with the other guys who are doing the

same thing. For a guy like this, it's all about the price, not the value. The price has to be higher than the price he bought at within a few months at the most. Has to. Or he's going to dump it and buy something else. That's why a long-term down market is like a death sentence to these managers' entire way of life. When nothing is going up for months, their "buy and hold" advice starts to wear thin. They don't see anything but price. They can't buy more and hope it goes down like you can. If they did that, their ignorant clients would pull the money so fast the fund would be history in a month. In a long down market like this one, they have no answers and they are panicking.

They let fear get in the way of making rational decisions. When they get scared, they almost always do exactly the opposite of what they should. When they should be buying, they're selling. When they should be selling, they're buying. If it were otherwise, your fund manager would be on the Forbes 400 Richest list. But he isn't. None of them are, because they inevitably are dominated by their emotions: fear and greed.

This fact makes our job much easier: If we control our fear with knowledge and reason, we win. And that makes stockpiling simple. We are ready to buy when the dominant emotion is fear. We are ready to sell when the dominant emotion is greed.

Speaking of the Forbes 400 List, the richest people in America all own shares of a business. This is great news for the vast majority of us. If owning a business is one key element in getting über-rich, we're off to a pretty good start, because 66 percent of us say we want to start or own our own company someday, and another 15 percent of us own one now.* That means four out of five Americans already have the necessary basic urge toward business ownership that can lead to huge wealth.

Strangely, not nearly so many of us think we're capable of making a good decision about owning a piece of *someone else's* business. This fact accounts in turn for the fact that 50 million of us pay mutual fund

* 2006 Yahoo! Small Business and Harris Interactive survey.

managers outrageous fees (see Chapter 2) to do what amounts to nothing rather than make our own decisions. When President Bush suggested individuals be given control of the investing decisions for their Social Security money, more than half the congressmen and senators spoke out about the need to keep critical retirement funds out of the hands of their constituents for fear they would lose them.

Most of us seem to think it's a great idea to invest in our own business but a bad idea to make an investment decision about someone else's business. But what if it were just as easy, interesting, and fun to learn about someone else's business as our own? And what if learning about someone else's business and investing in it could be outrageously rewarding financially?

Of course, that's exactly what Ben Graham said for forty years and what Warren Buffett has been saying for fifty years: "Look at stocks as businesses."

THIS ISN'T THEORY, IT'S FOR REAL

The cool thing about all of this is that it isn't theory. It's proven. I've done it, but if I were you I wouldn't be impressed that some ex-river guide made some money. Big deal. Even a blind dog gets a bone once in a while.

But if the best investor in the world used stockpiling to become one of the richest people in the world, well, that would be another story altogether, right? So let's hear about stockpiling from Mr. Buffett in a letter written to Berkshire shareholders in 1997:

HOW WE THINK ABOUT MARKET FLUCTUATIONS

A SHORT QUIZ: If you plan to eat hamburgers throughout your life and are not a cattle producer, should you wish for higher or lower prices for beef? Likewise, if you are going to buy a car from time to time but are not an auto manufacturer, should you prefer higher or

lower car prices? These questions, of course, answer themselves. But now for the final exam: If you expect to be a net saver during the next five years, should you hope for a higher or lower stock market during that period? Many investors get this one wrong. Even though they are going to be net buyers of stocks for many years to come, they are elated when stock prices rise and depressed when they fall. In effect, they rejoice because prices have risen for the “hamburgers” they will soon be buying. This reaction makes no sense. Only those who will be sellers of equities in the near future should be happy at seeing stocks rise. Prospective purchasers should much prefer sinking prices.

So smile when you read a headline that says “Investors lose as market falls.” Edit it in your mind to “Disinvestors lose as market falls—but investors gain.” Though writers often forget this truism, there is a buyer for every seller and what hurts one necessarily helps the other. (As they say in golf matches: “Every putt makes someone happy.”) We gained enormously from the low prices placed on many equities and businesses in the 1970s and 1980s. Markets that then were hostile to investment transients were friendly to those taking up permanent residence.

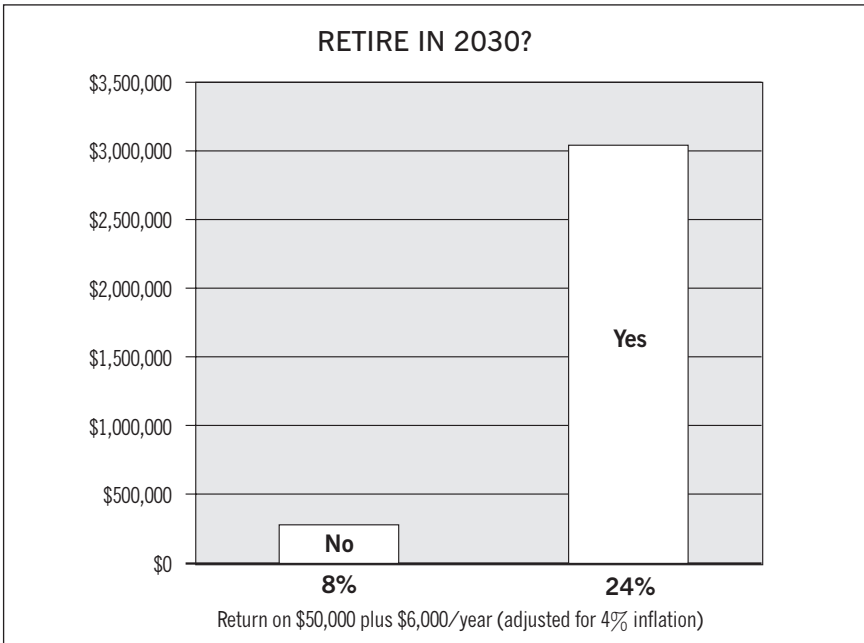
When Down Is Up: When does the price going down make the profits go up? When you stockpile a great investment.

As Warren Buffett points out in that letter, a down market is the best time for a stockpiler. A down market creates so many opportunities for the creation of wealth that even a little effort on your part will make you richer than you ever imagined you could be. This is, and I say this without any intentional hyperbole, the opportunity of a lifetime. Right now is like it's 1848 and you are standing at Sutter's Mill in California and dang if that isn't a bunch of gold lying right there on the ground. All you have to do is know the difference between fool's

gold and real gold — and any idiot can learn that — and then go pick it up. That’s all. It’s right there in front of you. **JUST PICK IT UP!**

A Stockpiling Rate of Return

Even a small piece of a gold mine can make you rich, and that’s exactly what a wonderful business is — a gold mine. But a special kind of gold mine. Wonderful businesses convert small amounts of money into real gold by compounding it consistently for long periods of time. When you buy a wonderful business on sale, however, you increase the rate of return dramatically. And when you *stockpile* a wonderful business at ever lower prices, your rate of return becomes golden. Amateur investors, little guys like you and me, who stockpile properly, get long-term compounded returns of 17, 20, and 24 percent and higher. I’m talking returns over twenty years. You compound \$50,000 at 24 percent for twenty years and you’ve made millions. Believe it. The numbers are right. And yes, you can.



The mutual fund industry will scream “*Impossible!*” but it isn’t. Professors at Ivy League universities will “prove” that no one can do it, much less a bunch of amateurs. But the truth is, amateurs like us do it all the time. And you can do it, too. As stockpilers, the little guy, you and me, have all the advantages entirely because we are little. When Mr. Buffett was first starting out, he made 100 percent a year. Then as he got bigger his returns dropped to a mere 36 percent per year. And as the capital he was managing got into the billions, his return dropped to 24 percent per year. Size matters and small is *all*.

“Anyone who says that size does not hurt investment performance is selling. The highest rates of return I’ve ever achieved were in the 1950s. I killed the Dow. You ought to see the numbers. But I was investing peanuts then. It’s a huge structural advantage not to have a lot of money. I think I could make you 50% a year on \$1 million. No, I know I could. I guarantee that.”

“I know guys who can make 50% a year with \$5 million, but not with \$1 billion. The problem with guys that do well is they attract so much money that it neutralizes their advantage.”

—Warren Buffett

Think about it: If Warren Buffett could do 50 percent a year with a million and if he knows a number of investors who can do 50 percent a year with \$5 million dollars, why can’t we do half as well as those guys? Assuming we’re willing to do what these investors do, shouldn’t we expect to get half of what they get? Is that expectation really out of line? I don’t think so. We offset their genius and Ivy League educations with the massive advantage of our smallness. Imagine playing basketball against LeBron James. If he had a 400-pound anchor in his pocket, you’d probably do okay, right? Our nimbleness offsets our lack of experience. Mr. Buffett said if we have normal intelligence we can do this. It isn’t about IQ when you’re as small as we are.

Bottom line is, I expect 24 percent per year compounded annually from my efforts as a stockpiling investor and that's what you should expect, too. Don't listen to the people who tell you it can't be done. The moment you believe you can't, you won't.

And remember, they *are* going to tell you it can't be done. They can't do it. Look at what the experts have done with their own money. Half of Wall Street went bankrupt in one year. This happened five years after Warren Buffett was on the cover of *Forbes* telling the world that the derivatives market was a great black hole that could swallow up billions. He was off by three zeros. It swallowed up trillions. So do you really have to ask yourself, "If the pros can't do it, why can I?" That might have been a tough question in 2007, but by the end of 2008 the question of the value of professional money managers had been answered once and for all. They are worthless. You want the gold, you're going to have to pick it up yourself. Those mercenaries don't care about you and they never have. You should know that by now. They're bankrupt, and so are their "buy and hold" and "diversification" sales pitches. You did what they said. How's that working for you?

Okay, you say, the pros aren't going to help. But, you say, I've got the federal government on my side now. A woman in Atlanta said, "Now that the government is finally on my side I'm going to get my gas paid for and I'm going to get my medical bills paid for." Well, maybe not. If you're thinking like that—that Big Brother is there for you—I've got some bad news. Right now our politicians are throwing everything they have at an economic system that got overheated from twenty years of borrowing and overspending. To soften this necessary and required contraction, they've borrowed about \$2 trillion, and they're going to borrow at least \$2 trillion more. But let's think about that for a minute: The entire stock market is worth about \$9 trillion at this writing. They are *borrowing* almost 50 percent of the value of all of the businesses in America. Do you think all that debt might have a devastating effect on the ability of the government to pay Social Security and health benefits in the future? Oh, you'll have Social Security and Medicare, but you won't like it. If you want to live a

good life, you're going to have to pick up the gold yourself. Big Brother is going to be too busy writing bad checks. And your financial advisers and 401(k) managers? Well, let's just say you aren't going to like what you read next.

GET READY TO BE UPSET

In the next chapter I'll explain why you haven't been introduced to the strategy of stockpiling before now — and how your financial advisers are using your ignorance to rip you off and keep you poor while making themselves rich.

Then I'll take you through the steps of stockpiling businesses that will make you rich.

TAKEAWAYS AND ACTION ITEMS

To get rich, learn to value companies and build a portfolio of businesses at a discount to their true value.

Follow the Stockpiling Strategy:

1. Determine the true (intrinsic) value of a business and buy stocks in those companies when they go on sale.
2. Continue to stockpile as long as you can buy them on sale.
3. Follow the 10-10 rule and don't own a business for ten minutes that you wouldn't own for ten years.
4. Make a significant profit by selling your businesses at or above their true value.

Only buy businesses that you can understand and have meaning for you. Find businesses that are right for you by taking my investor profile test at **PaybackTimeBook.com**. This is a cool personal assessment tool to quickly review your investments and find instant savings. It is a step-by-step questionnaire designed to help you better manage your money, and best of all, it's free.

MUTUAL FUND INVESTING MAKES NO SENSE

A long habit of not thinking a thing wrong gives it a superficial appearance of being right.

—THOMAS PAINE

If what happened to your retirement money in the last couple of years wasn't enough to prove to you the futility of the mutual fund industry, let me state the fact: You have been systematically brainwashed out of your rightful retirement by the very system into which you are putting your trust. The 401(k) you're using to stockpile your excess capital or the managed IRA you're pouring your retirement money into was set up for the benefit of *other* people — not you. They are not catering to your retirement out of altruistic concerns. Like sheep, you are being cared for only so you can be sheared.

The main beneficiaries of the investments in your retirement plans are the very people who created these funds: the fund administrators and managers. They've set up the system so that, in the end, they'll wind up with half to two-thirds of your money. You didn't know that, did you? You thought they were only taking a little piece. Not so. (Hang tight; I'll explain how this happens shortly.)

These fund managers are in the mutual fund business because it

makes them rich without having to be talented. They either don't have the skill set necessary to successfully stockpile businesses or they don't have the luxury of time to wait for a great opportunity to stockpile. Either way, they are not business stockpilers. Yet you give them your capital—your hard-earned money. And they, in turn, eviscerate that pile of money.

YOU DON'T GET WHAT YOU PAY FOR

Your 401(k) fund managers and administrators are charging you, on average, 25 percent per year of your expected Return on Investment. And they take that money whether they made *you* any money or not. In 2008, they took about \$100 billion in fees and commissions while lowering the value of your retirement account by over 40 percent. And if you think that's bad, consider this: What they take when they rip you off for 25 percent of your gain is far more than 25 percent. Over your investing life, that 25 percent fee off the top robs you of 60 to 70 percent of your expected gain by the time you reach retirement . . . and continues to rob you thereafter.*

I repeat: 60 percent of what you should have gotten from your investments is gone by the time you are sixty-five, taken by fund managers and fund administrators.

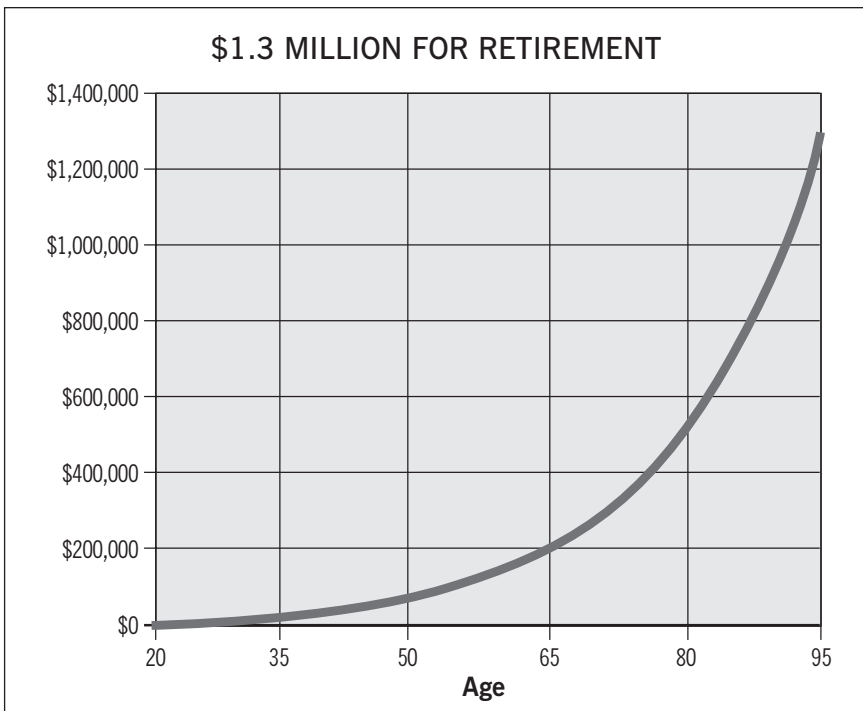
How is this possible? When you set up these accounts and signed on the dotted line, they certainly never told you they'd be putting 60 percent of your lifetime gains in their own pockets. It's a sneaky scam based, just like its polar opposite—*stockpiling*—on the power of compounding. As I mentioned before, Einstein said the most difficult to

*This figure is a general estimate that reflects most people's experience. The range depends on time—how long you stay invested in mutual funds. Less time, less rip. More time, more rip. It can be as much as 70 percent over a long life invested in mutual funds. For the purposes of this book, we'll stick with 60 percent as a conservative figure.

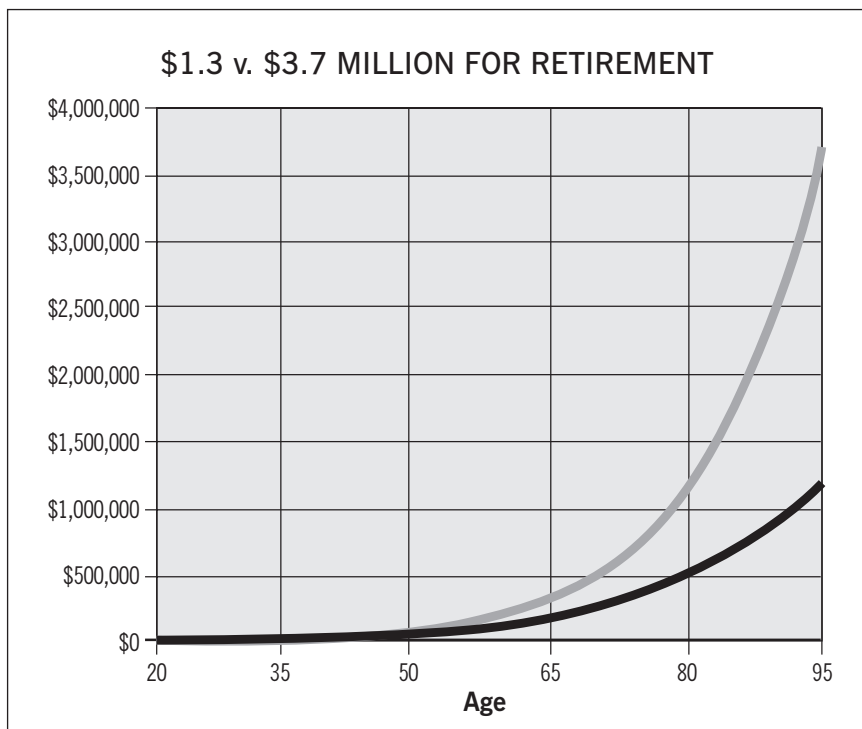
understand and yet most powerful force in the universe is compounded interest. While your eyes glossed over those itty-bitty fees and numbers, your fund manager figured out that they add up big-time.

Let's say Jane puts \$1,000 into a 401(k) account when she starts earning money in her first real job at age twenty and keeps adding \$1,000 a year until she's eighty-five. The money is invested in a broad-market mutual fund. The fund performs in the top 30 percent of all funds and achieves an annual rate of return that matches the S&P 500 index for all the years she is invested. For the last hundred years the S&P 500 index has averaged 8 percent. Her fund carries normal fees as follows: management fee of 1 percent, marketing fees of .05 percent, and an administration fee of .05 percent.

Jane accumulates \$1.3 million in her retirement account and congratulates herself upon her retirement on doing such a disciplined job of investing.



What she doesn't realize is that if she hadn't been stuck paying that tiny little fee, she would have \$3.7 million in her account (the gray line).



The black line is \$1,000 a year invested at S&P 500 index hundred-year average rate of return less mutual fund fees and commissions. The gray line is \$1,000 a year invested in the S&P 500 index itself (symbol: SPY).

Same market. Same diversified investment. The fees ripped \$2.5 million right out of her hands and into those of her trusted advisers. Granted, it does take time for those fees to add up and drag the return way down. There's little difference between the two lines until she's about forty, but the closer she gets to retirement from that point onward, the greater the impact. By the time she's sixty-five, the fees have removed half of her retirement capital. By the time she's in her nineties, they've taken two-thirds. Gone. And for what?

Since you're paying these fees, you should know what they cover. You're paying for the privilege of *active management*. That means that you're paying someone to use his best judgment every day to put your money to work and give you a high return in the long run. Your fund manager is supposed to get you out of overvalued stocks before they go down, and get you into great stocks if they are available at a good price. After all, that's the whole purpose of active management. If all he was going to do was match market returns, then there is no real purpose to active management, right? You'd be spending your money on something and getting nothing for it.

Now here comes the other half of the scam: *These highly paid fund managers can't outperform the market index*. More precisely, a recent *Forbes* study found that only 4 percent of fund managers beat the market over a fifteen-year period. Another study proved that the pension fund managers were no better. Only 4 percent of pension funds beat the market over a fifteen-year period, too. These facts might have been what Warren Buffett was referring to when he said, "People get a lot for their money when they hire a professional, like a plumber or a dentist. But people get nothing for their money from professional fund managers."

So maybe "active mutual fund management" is a waste of their time and your money. If that's so, then what does your money *really* buy? You pay for the fund's sales force, you pay for the fund's slick marketing, you pay for the Super Bowl halftime ads, you pay for their trading costs, you pay for their big offices on Madison Avenue, you pay for the fund manager's two-martini business lunches, you pay for the fund manager's kid's tuition at Dartmouth and his weekend home in the Hamptons. You pay for his first-class airfare to visit a potential investment in Hawaii. You pay for the Four Seasons hotel room and his \$300-a-round golf match with the CEO of the business that he's thinking of putting your money in. You pay for his company's massive propaganda campaign to keep you convinced that only [insert the name of any mutual fund organization here] can get you the results you're looking for in your retirement.

FINANCIAL PORNOGRAPHY

Here's a verbatim quote in an ad from the largest fund-management company in the world: "Our funds are . . . managed by some of the most experienced professionals in the business. Maybe that's why we offer you more 4- and 5-star funds than anyone else." Note the word "maybe." Well, maybe not. The reason they offer more top-rated funds than anyone else is that they have more funds than anyone else. Actually there are several fund companies that have more highly rated funds as a percentage of their total funds than these guys. In fact, these guys have one of the most dismal records for highly rated funds as a percentage of total funds of all the fund-management companies. But it sure doesn't read that way in their advertising.

Here's a lovely example of seeming to claim good performance without the track record to do so: "Growth Investing is making a comeback. At [mutual fund company] it never went out of style." This ad ignores the fact that their flagship fund peaked in 2000 and eight years later was down 40 percent from the peak. How does a -40 percent return for eight years equate with "Growth Investing"? What's so stylish about losing 40 percent?

Yet another ad from a huge mutual fund company claims you should just stick with them because in three out of every four of the last hundred years the stock market went up. True, but massively misleading. On average, the one year the market went down, it often went down so far that it took three years of going up to recover. Wow! Look, Dorothy! The market goes up three out of every four years!

Those are just a few examples of the statistics that are used to mislead you.

Mad yet?

Get this into your head: **Mutual fund companies are not in the stockpiling business or even the investing business.** They are in the asset-collection business. They call it AUM and, like the yoga mantra *om*, they repeat it endlessly to assure a happy life. AUM means

“assets under management” and that’s the name of the mutual fund game. The value of a fund to the owners of the fund, in cash, is about 20 percent of the AUM. If you are a fund owner and get \$50 billion AUM, when you sell the fund (or take it public), you get to take home about \$10 to \$18 billion, with a *b*. If you kept 20 percent of every dollar you raised, would you be in the *stockpiling* business or the dollar-raising business?

Gathering AUM requires heavy spending on advertising and marketing to sell the dream. But there’s nothing in there about *delivering* on the promises they make. They just have to sell the hell out of themselves and then not do too much worse than the other AUM boys. There’s always some hardworking, ignorant, and trusting soul looking for a place to put a bit of extra money who is clueless about how the game is played.

Peter Lynch, former manager of Fidelity Magellan, the largest mutual fund in the world, thinks you should absolutely be managing your money. In his book *One Up on Wall Street*, he writes, “The amateur investor has numerous built-in advantages that should result in outperforming the experts and the markets.” (But then he became the spokesperson for a huge mutual fund company and stopped saying that heinous stuff.)

They’re going to sell you every way they can, and if that includes hiding facts and twisting statistics, they’ll do that, too. Some of these people are the ones who brought you the derivatives-market meltdown and still paid out bonuses in 2008 in spite of the fact their wisdom, experience, advice, and management lost you a huge portion of your retirement.

And consider this: Do you really want to trust your investment decisions to a company that can’t keep its own boat afloat? In 2008, three of the Big Five investment banks — Merrill Lynch, Bear Stearns, and Lehman Brothers — went bankrupt or had to be sold to avoid bankruptcy. The other two — Goldman and JP Morgan — have been in critical condition, hooked up to IVs delivering much-needed capital from outside sources like taxpayers and investors. These are the same

guys whose analysts—who you’d think should have a better pulse on the market than the average person—were encouraging buying stocks when things were about to get ugly. In 2000, for example, Merrill Lynch analysts said there were 940 wonderful stocks to buy and only 7 to sell. Salomon said you should buy 856 and only sell 4. First Boston analysts were more negative. They only found 791 stocks to buy and all of 9 to sell. And Morgan Stanley said there were 780 wonderful businesses to buy and exactly none to sell. This, right before the market plunged as much as 90 percent in some of these recommended stocks. The week that Enron went bankrupt, nine of the fourteen investment banking companies who were covering the stock had a “buy” rating on it. None said to sell it. And how many were shouting “Get out!” in late 2007? None. Why? Because they aren’t in the business of investing. They are in the business of AUM. The investment banks that failed deserve what they got. They were greedy and they paid the price. **Too bad they are taking your retirement down with them.**

Oh. Did I mention that it gets worse? Well, it does.

YOUR “NUMBER”

In his book *The Number*, Lee Eisenberg tells us that “the Number represents the amount of money people will need to enjoy the active life they desire, especially post-career.” He describes four types of people and how they might approach the Number. A Procrastinator has no sense of the Number and no plan for retirement and is in denial. A Plucker picks the Number out of thin air and has a plan based on a wild-ass guess. The Plotter has a rationally determined Number, a defined plan to plod toward it, and no sense of what life is all about. The Prober is all about what life is all about, has a Number and a plan determined by downsizing everything, and chants “I’m okay, you’re okay” while watching *Oprah*. Because of all the variables in these four types of people, Lee doesn’t tell us what the Number is. But fools rush in where angels fear to tread, so I’m going to give it a shot:

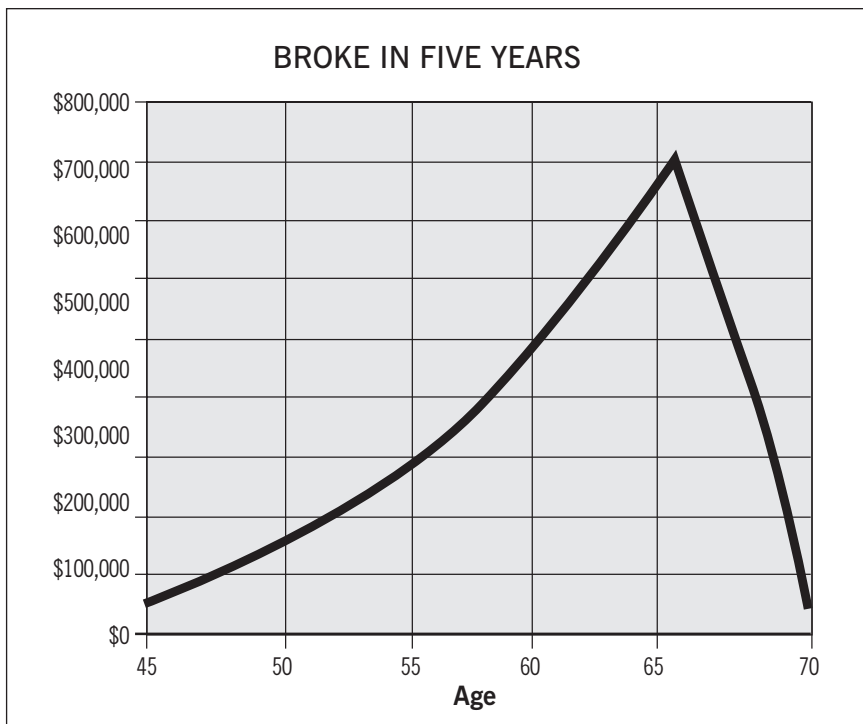
Let's take an average couple, mid-forties, who want to retire at sixty-five. They figure they had better plan to be around for a while in retirement. And they realize that it's going to take some money for two people to live comfortably for thirty years without an income and be able to handle the inevitable medical bills and eventually the nursing home.

They figure that they could live comfortably for the balance of their lives if they can spend \$50,000 a year after taxes in 2009 dollars. That doesn't seem like so much. Between the two of them they're making double that now. Of course they don't actually bring home \$100,000. They pay out about \$30,000 in taxes, between Social Security tax, federal income tax, and state income tax. So they are really living on \$6,000 a month after taxes today.

These people have \$50,000 to invest. They intend to add \$10,000 a year to it for the next twenty years. Yes, Lee, they procrastinated. They are guessing about the Number. They are now plodding dutifully toward it while reading *The Secret*.

If they keep their money in mutual funds and the markets manage to do 8 percent average for the next twenty years, they might accumulate \$690,000 by the time they retire. At age sixty-five, they will begin drawing down that amount while keeping it invested at 5 percent a year in bonds. They will spend \$50,000 a year in 2009 dollars. Because of inflation they will run out of money in five years.

This is terrible news. So terrible that right now you're thinking it can't be true. That I've somehow played with the inflation rate to make it massively expensive to live in 2029. I haven't. I've assumed an average inflation rate of 4 percent per year. It's actually expected to be quite a lot higher than that by a number of professionals, so the situation could be much worse than this, but it's unlikely to be any better. The alternative scenario is deflation . . . and the depression that goes with it, in which case their dreams of putting away \$10,000 a year will go up in smoke. They'll be lucky to have enough left over after payday (if they have jobs) to cover the cost of living. Think 1934. Believe me, the inflationary scenario is prettier, even if it is rather grim.



So in 2029, the equivalent of \$109,000 a year will buy what \$50,000 buys today. Our hypothetical couple have \$690,000. Invested in a 5 percent bond, this amount is going to earn about \$25,000 after tax their first year in retirement. They'll have to supplement the bond income by withdrawing \$84,000 from their 401(k). But wait. There's more. The money they pull out of their 401(k) is also fully taxed. In order to have \$84,000 *after tax*, assuming a 25 percent tax rate overall, they'll have to pull out a total of \$112,000. Their \$690,000 goes down by \$112,000. That leaves \$578,000. They will do that again the next year and they will then be down to less than \$460,000. By the time they turn seventy they will have burned through the \$690,000 and be broke. Five years.

If they win a nice lottery or have a rich old uncle and somehow get a million dollars in 2029, they'll last seven years.

Okay, so here's my best guess for the Number if you want to retire

in 2029 on \$50,000 a year in 2009 dollars, plan to live to be ninety-five, and don't want to rely on anyone else: **\$3,600,000**. That's a lot. But it's going to take that to get you to the end without going broke.

If you're a Baby Boomer and you want to retire today, your number will drop to about \$1.6 million, because \$50,000 today is still \$50,000. Inflation hasn't yet taken its toll. Of course, you have to already *have* that \$1.6 million and that could be a problem for some of you right now given the fact that the stock market just chopped your IRA and 401(k) in half. If you're looking for retirement in ten years, inflation will have kicked in somewhat, but not horribly, so the Number is a nice middling \$2.3 million. How close are you to that?



The above chart shows what would happen if you accumulated \$3.6 million in your 401(k) between now and 2029, at which point you retire, buy a 5 percent bond, and pay taxes on your withdrawals at a 25 percent overall rate. Assuming a 4 percent inflation rate, you can live the rest of your life on \$50,000 a year in 2009 dollars.

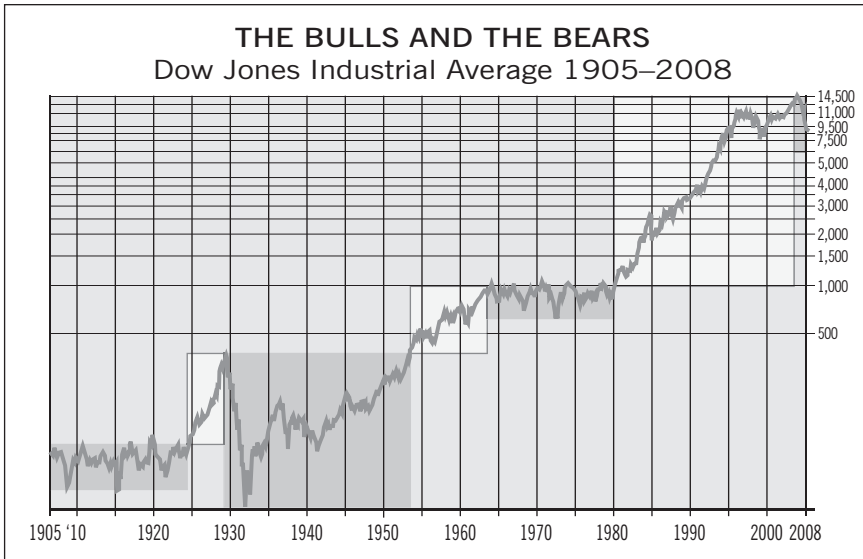
MAKING MONEY WHEN THE MARKET GOES CRAZY

As I'm writing this, my prediction at the end of the summer in 2007, when I told people to get out of the market, is ringing true: By March 2009 the Dow Jones stock market index melted down from 14,500 to below 6,600—a loss of over 50 percent from the high of October 2007. I told my readers to get back in at 6,600 and, as I'm writing this, the market rebounded to 9,500, where it was in 1998 when Bill Clinton was president and just beginning to tell Fannie Mae to push banks to make subprime loans. That means your retirement account has pretty much gone nowhere or worse for eleven years. That's not good news, because in order to get back up to that average of 8 percent a year starting in 1998 and going forward, the market would have to take off like a rocket.

For example, after eleven years of zero return, from 1998 to 2009, in order for the market to average 8 percent a year for twenty years (from 1998 to 2018), we're going to have to see the market go up for the next nine years at an average of 19 percent per year starting in October 2009. That would put the Dow Jones Industrial Average (DJIA) at 45,000 in nine years. Of course, in late 2009 the market is still being hampered by the collapse of a significant part of our financial system, so a sudden bull market that rockets off to 45,000 in the next nine years is probably not in the cards. In fact, it's *so* not in the cards it's almost impossible to imagine. Much more likely is a continuation of the last ten years with the market moving up for a while on some good news and then crunching back to earth on some bad news as we work out the wars and financial problems caused by overspending.

The Bulls and the Bears

If we define a “bear market” as a market that has not yet reached the previous “bull market” high point, we get a very interesting pattern of bull/bear markets.



The bear markets are all in dark gray. The bull markets are light gray. Sometimes we might not know we're in a long bear market until we can look back on it. But sometimes it's pretty obvious. Like right now. The bear market that started in October 2007 as the Dow came off the peak price of 14,500 follows the longest bull market in history. We partied hard. And now we're going to pay the price.

In my opinion, this pattern points to a strong possibility this market will not rise above 14,500 for many, many years. Maybe fifteen or more. Maybe it'll match the record set between 1929 and 1955—the market peaked in 1929 and didn't get back to that level for twenty-six years. Whatever happens, chances are a return to a bull market will take longer than most of us would like, and an investing strategy that's counting on a broad move upward may not produce much of a return on investment.

If, for example, it takes the Dow eighteen years to move permanently above 14,500 from, say, 9,500, the thirty-year average rate of return from 1998 to 2028 will be about 1 percent per year. Not so great. Not really what your financial adviser expected either.

Maybe I'm being too pessimistic, but that's a whole lot more likely than the market holding on to a 19 percent per year bull market for

the next nine years in order to give you mutual funders your expected 8 percent compounded return. I halfway expect it to bounce upward in big, hairy explosions of unwarranted optimism and then crash as Mr. Market gets completely depressed. But hold on to the gains? Let's get crazy and just say, "It ain't gonna happen."

What a Bear's Trampling Can Do

A much more likely scenario is that the market will get some really big economic shocks from a worldwide slowdown, yo-yoing the DJIA down between 14,000 and 6,000. Maybe lower. Here's why: Notice the range of stock market prices from 1965 to 1983. You can see that at its lowest, the market lost about 45 percent. A 45 percent drop from the 14,500 high point would put the Dow at about 8,000. But the Dow already hit below 6,600, *so we've blown through that floor already*. The 1970s were a tough time economically but the consensus of economic professionals suggests that we're in way worse shape now. That isn't good news because it implies the bottom could be lower than 6,600.

During the Great Depression, the stock market dropped to about 55 from its peak price of 375. That's a little more than an 85 percent collapse. I doubt we'll see things deteriorate that far, but they could. Japan has been in a severe recession for years and its stock market has dropped 85 percent. An 85 percent drop from 14,500 would put the Dow at 2,175.

All this is horribly depressing, I know. But remember, if you're a *stockpiler* of stocks, none of it will matter to your investments. You can get off the Dow Jones hamster wheel. If the market goes up from here, we're going to make money on the stocks we stockpile, because their prices will rise to their value in a rising market. And if the market goes down, we're going to be even happier, because we'll have lots of opportunities to stockpile more great businesses at great prices, which will make us even richer when the market does go up. A long-term down market like we had from 1965 to 1983 is a time for plant-

ing lots of seeds. When the fear finally dissipates and people start investing again, we'll have ample opportunity to reap the harvest. Stock-pilers make money in a good market, but we make fortunes in a bad one. In both cases we do well. So in the words of the old Nike ad, "No Fear." We just follow the example of the best investors in the world. Ben Graham made hundreds of millions in the 1930s and 1940s in the midst of the Great Depression and World War II. His student, Warren Buffett, made *billions* in the 1970s and 1980s when we lost a war, had years of stagflation, and suffered a national loss of pride and confidence. Lucky for us, we've got all of the above on the table for consideration for the next fifteen years!

The need to learn how to prosper as an investor in any sort of market—but especially in times of trouble and turmoil—is the whole reason for this book. We have to get you investing on your own so you can take advantage of the volatile market in ways your fund manager just can't.

WHAT YOU CAN DO RIGHT NOW

Many of you are investing in mutual funds now and are going to keep your money invested in the market while you learn to stockpile stocks on your own. But even if you're not ready to invest for yourself, there *is* an alternative to paying those mutual fund fees. If I were going to keep my capital in the market but not invest it on my own yet, I'd put my money into Spydex—the exchange-traded fund for the S&P 500 (symbol SPY). The average fund charges about 1.3 percent fees. SPY charges .08 percent. It's a big difference—you'll pay 16.25 times less for SPY. If you have \$10,000 invested in your 401(k) in the average mutual fund, you're going to pay about \$200 in fees. You'll pay only \$8 for SPY. You save almost the entire management fee. That's the first good thing, because it's a 2 percent return just for knowing

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a little thing about your money. And even better, today that 2 percent represents a significantly better return than you would get in a one-year U.S. Treasury bond. Again, just for having a little knowledge. The second is SPY is going to do the market rate of return because it *is* the market. It's a stock that mirrors the S&P 500 index by buying the index stocks. If the S&P 500 index goes up 20 percent next year, SPY will go up 20 percent, too. Same with going down 20 percent, of course, but SPY eliminates the mutual fund fee and then achieves what the vast majority of mutual funds fail to achieve—a market rate of return. This one change in your investing will solve the problem of being ripped off for fees. It doesn't solve the problem of making nothing for the next ten years if the market goes nowhere. But then again, you'd have made nothing in your mutual funds either and you'll be ahead the fee money.

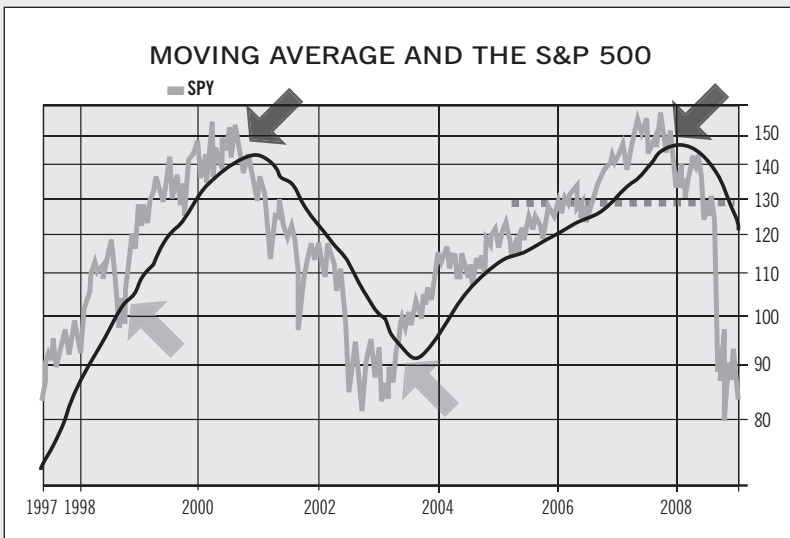
I just read an article about what to do right now on Yahoo! Finance titled “5 Ways to Fix Up Your 401(k) Plan.” Here's the gist of what those five tips are:

1. Save 'til it hurts and invest in mutual funds.
2. Save some more and invest in mutual funds.
3. Don't touch the money—leave it in the funds.
4. Pay attention to fees.
5. Get your coworkers saving more, too.

I'd laugh at the naïveté but I don't think the author meant it as a joke. With a little knowledge you can do better than just “leave it in the funds” even if the market goes nowhere.

You can make money on SPY by trading it using a simple computer tool called a Moving Average (you'll find this computer tool on investment and trading sites and many others. For my favorites, visit my website at PaybackTimeBook.com or read my first book, *Rule #1*).

Here's a real-world example: In mid-January 2009, the Dow was at 8,000, which meant it had gone nowhere for the previous ten years. This meant SPY went nowhere for ten years, too. The chart shows the price of SPY as the thick line and the Moving Average as the thin line. The gray arrows show the date when you would have bought; the black arrows show the date when you would have sold. Using this tool you would have bought and sold twice during those ten years.



Had you done so, your compounded return in SPY over those ten years would have been 7 percent and you would have doubled your money. Nothing to write home about, but it's a lot better than a zero return for the same investment. And maybe even better, if you had used this tool it would have forced you to sell and avoid the big nauseating price drops in your retirement account. Notice that you would have been out of the investment before the big drops could have done any significant damage to your profits.

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This is just a bare-bones introduction to the fun of Moving Averages—don't worry if all this doesn't quite make sense yet. You can get lots more information on my website at PaybackTimeBook.com or in *Rule #1*.

If SPY is not offered in your 401(k), demand it. Representative George Miller, a California Democrat who is chairman of the House Education and Labor Committee, is trying to pass legislation requiring all plans to offer at least one index fund.

The other way to make money on an index fund in this market is to stockpile it. But that's the next chapter.

What makes this all so gut-wrenching is that in a market like this, it's easy to believe that *nothing* can get you financial security. Nothing short of winning the lottery, anyway. The good news is that there *is* an alternative. *Stockpiling* businesses can get you to financial independence. But you have to get going on it *now*. And you can't just stockpile any old business that you think looks cheap. The mere fact that a certain stock has lost 50 percent in price since its high in 2007 doesn't mean it's 50 percent off. Like the people on the Forbes Richest List, you must know what businesses you *should* be stockpiling. That's what you're going to learn how to do next.

TAKEAWAYS AND ACTION ITEMS

Since 96 percent of mutual fund managers cannot beat the market, stop paying for active management and the fees that can rob you of more than 60 percent of your return by retirement.

- At minimum, invest in ETFs or a market index to avoid paying for active management.
- Review my website PaybackTimeBook.com to see how to calculate the amount you'll need to retire.