The 11 Secrets Every Wealth Builder Must Know

By Mark Morgan Ford

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Introduction

This e-book is not something you can glance at, put on the shelf, and "get to later." The ideas and advice contained in this book are essential reading. And I mean for right now.

You must read this e-book from cover to cover. And if you have time, read it twice. I wouldn't have spent the time I did to write this, nor would my colleagues have spent the time editing and publishing it if we thought it was expendable. It is essential.

This book contains the core of my entire wealth-building philosophy. It also incorporates some of the smartest investing ideas Tom Dyson and Paul Mampilly have ever told me. None of these are stock tips or little tricks. They are fundamental secrets and strategies that have worked over and over again for me.

Some of the ideas may seem familiar to you. That's because I write about them all the time. When you first subscribed to *The Palm Beach Letter,* you may have received some of them. And I've certainly written about them in my *Wealth Builder* essays.

But don't make the mistake of skimming through them. Most of these are secrets I learned incrementally over 30 years. They mean much more to me now than they did when I first encountered them. The more you know, the more powerful these will be.

If creating substantial wealth in fewer than seven years could be done easily, I'd give you the easy way. The good news—and I think you can see this already—is that we are going to be with you every step of the way.

So you won't be alone. We will be here to guide and motivate you. Our job is to make you ever wealthier as long as you are a member.

Achieving financial independence is a great personal accomplishment. Very few people do it. We will get you there, and when you arrive, you should and will be proud of yourself. And we will be proud too.

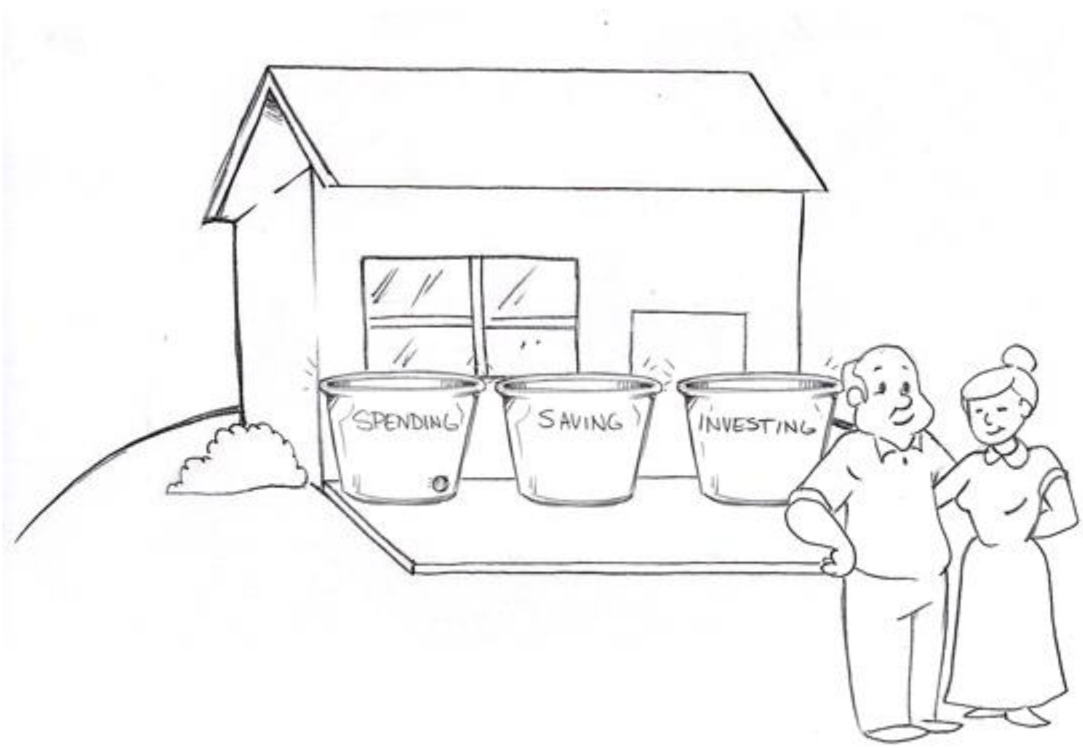
To your continued success,

Mark

Chapter One:

The Secret of the Golden Buckets

Imagine a golden well with three golden buckets on the ground in front of it. One is labeled "spending"... the second is labeled "savings"... and the third is labeled "investing."



There's a sign on the well that challenges you to try your hand at a game. To win, you have to fill all three buckets to the brim.

It seems to be an easy challenge, but there are two problems:

The well will give you only so much water within a given time period.

If you look closely at the golden bucket marked "spending," you notice there is a sizable hole at the bottom of it.

I'm using metaphors here, of course. The well represents your yearly income. The spending bucket, with the hole at the bottom, represents the money you must spend to enjoy the quality of life you want. The savings bucket represents money you absolutely can't afford to lose. And the investing bucket represents your future wealth.

If you manage to fill all three buckets, you win—i.e., you're rich!

So can you win this game? You can, if you play it smart. And you can win it relatively quickly if you use my system.

Simplicity Trumps Sophistication

The money-management system that I've used to generate more than $50 million in wealth is quite simple—a far cry from the complicated systems I was enamored with thirty years ago, when I was just beginning to learn about money. Those systems felt exotic, secret, exciting. But as the years passed, I found they did not work as advertised. Eventually, I realized that sophisticated financial programs are like complicated toys. They look fantastic on the shelf—but when you go to use them, they eventually break... and when they break, you can't fix them.

As simple as it is, the system I'm going to introduce you to today will provide for all of your financial needs. It will allow you to live well now... and live well in retirement.

As *Palm Beach Letter* subscribers know, our first rule for building wealth is "Never, ever lose money." The primary characteristic of this plan is safety.

Our second rule for building wealth is "Grow at least a little bit richer every day." And the second (and equally important) characteristic of this plan is its dependability. It will give you a regularly escalating net worth without significant setbacks.

I call my system "The Secret of the Golden Buckets."

The Golden Bucket of Spending

I grew up relatively poor, the second of eight children. My father earned $12,000 per year as a college professor. As a teenager, I was ashamed of our small house, my hand-me-down-clothes, and my peanut-butter-and-jelly sandwiches.

I dreamed, literally dreamed, of living like a rich man. And so, when I got my first job at age nine as a paperboy, and then at twelve as a lackey at the local carwash, I would spend my money on luxuries, like a pair of brand-new Thom McAn shoes.

I worked every chance I got through high school, and then worked two or three jobs during college and graduate school. I spent 80% of my money on necessities: food, clothes, and tuition. But I always spent a bit on little niceties. Even back then, I had the notion that I didn't need to deprive myself now for some better life later.

I tell you this to emphasize a key part of my system. I don't believe in scrimping severely to optimize savings. I believe you can live a rich life while you grow rich, so long as you are willing to work hard and you are smart about your spending.

Think of the typical earning/spending/saving pattern of most wealth seekers…

During their twenties, they spend every nickel of their modest income to make ends meet. At that age, it is nearly impossible to put aside money for the future.

During their thirties, their income increases. But this is also when they start a family. Expenses soar. There are more mouths to feed, a "family" car to buy, and the dreaded down payment on a first house. They manage to save a little during these years, but not nearly as much as they thought they would.

If they work hard and make good career decisions, their income climbs much higher in their forties and early fifties. They have more money to put aside for the future, but they are also tempted into buying newer cars, nicer clothes, more exotic vacations, and—the biggest wealth stealer of them all—that dream house.

In their later fifties and sixties, their income plateaus or even dips... and they may have to start shelling out for college tuition. Aware that their retirement funds are being depleted rather than enhanced, they invest aggressively to try to make up the difference.

Finally, sometime in their mid to late sixties, they realize that they don't have enough money to retire. They have spent almost forty years working hard and chasing wealth, but they never managed to attain it.

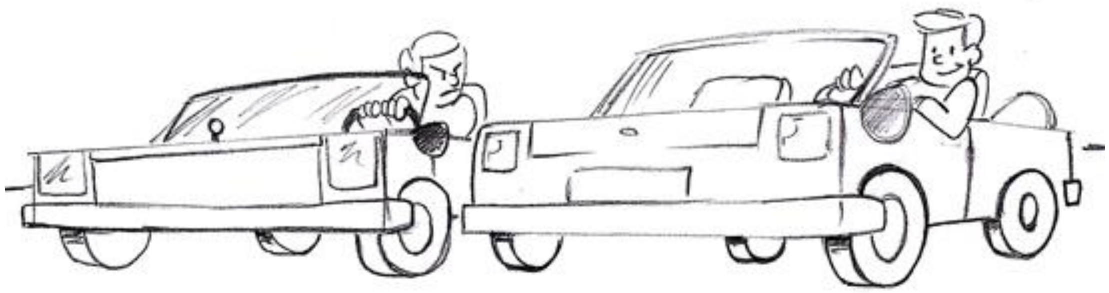
It's sad, but it's the reality for most people. And it is just as true for high-income earners (doctors, lawyers, etc.) as it is for working-class folks.

There are two lessons to be drawn from this: First, it is very difficult to acquire wealth if you increase your spending every time your income goes up. Second, setting unrealistic investing goals means taking greater risks. And taking more risks, contrary to what many pundits say, will almost always make you poorer... not richer.

The truth is, there is only a marginal relationship between how much you spend on housing, transportation, vacations, and toys and the enjoyment you can derive from them.

My golden bucket spending strategy is simply this: Discover your own, less expensive way to live a rich life. By a "rich life," I mean a life free from financial stress, but also filled with things that give you pleasure.

Your family can be just as happy in a house that costs $100,000 or $200,000 as one that costs $10 million or $20 million. Likewise, a $25,000 car will get you where you want to go just as well as a car that costs ten times that amount. In fact, there are dozens of ways to live like a millionaire on a modest budget. If you learn those ways, you will have a tremendous advantage over everyone else at your income level. (In future segments of the Palm Beach Wealth Builders Club, I will give you lots of ideas for "living rich" without spending more. But for the moment, I am just going to assume that you agree this makes sense.)



Make smart spending decisions. Remember, the spending bucket has a hole in its bottom. Every dollar you put into it will be gone by the end of the year. Stop thinking that because you're earning more money, you should be spending more. Your future wealth is determined by how much you save and invest, not by how much you spend.

So here's what I'd like you to do: Figure out how much you need to spend every year to live your own personal version of a "rich" life. It might help to spend a few minutes thinking about all the things you truly enjoyed last year. If you are like me, you'll find that almost all of the things you enjoy require very little in the way of money. (Those are the true luxuries.)

Keep the biggest wealth-stealing expenses—like your house, your cars, and entertainment—to a necessary minimum. And eschew any expenditure that has a brand name attached to it. Brand names are parasites that gobble up wealth.

What you are doing is determining the size of your spending bucket. It should be smaller than the bucket you used last year, but big enough to contain inexpensive luxuries that will make your life truly rich.

Don't nod your head and promise to get to it sometime in the future. Do it today. Estimate, as well as you can, what you need to spend each year to have the life you want. I call this your LBR (lifestyle burn rate). This is a number that you must have firmly in your mind, if you intend to be a serious wealth builder.

The Golden Bucket of Savings

Once you have figured out how large your spending bucket needs to be, you can start to figure out the size of your saving and investment buckets.

You may be wondering what the difference is between saving and investing. To most people, they are the same. But I like to distinguish between them because I believe it will help you acquire wealth safely.

Saving and investing are the same in the sense that you are setting aside some portion of your current earnings for the future. The difference is that the purpose of saving is to safeguard that set-aside money, whereas the purpose of investing is to grow it.

The money in the savings bucket should comprise two things really. One, money that I refer to as your SOA (start-over-again) fund—the money you put aside in case of a financial disaster. And two, anything you are saving for that you will be paying for in less than 7 years.

What if, for example, you woke up one day to find the company that has employed you for the last twenty years has shut its doors, and the pension plan it was holding for you is suddenly worthless?

You would have to start over, right? You'd need money to pay for your expenses while you found a new job, and you'd need money to start investing again. That's why you need money in your savings bucket. And that money has to be absolutely safe.

Imagine how you would feel if you called up your broker to let him know that you needed to cash in your start-over-again fund and he told you its value had suddenly crashed and was now worth 10 cents on the dollar? Well, that's exactly what happened to millions of Baby Boomers. The reason it happened is because these people did not distinguish between saving and investing. They had all their wealth tied up in investments advertised as safe, but were actually quite risky.

You don't want to take any risk with your start-over-again money. The primary purpose of that money is to preserve, not increase, the capital you set aside. Putting it at risk, even average market risk, is too dangerous.

["Capital" is defined as financial assets or the financial value of assets, such as cash. Capital is a vague term, and its specific definition depends on the context in which it is used. Generally, it refers to financial resources available for use.]

You need to be equally as careful with the money you set aside to repay debt. Because when the bill comes due, you must pay it. Keep that money safe. Put your debt obligations in your savings bucket, never into the market, even if the market looks safe.

Same is true of any future expenditure that is coming up relatively soon. By relatively soon, I mean, say, one business cycle—seven to ten years.

Why 7 years? It's somewhat arbitrary but it is considered by some to be an average business cycle. The idea is this: you can put money away for retirement and college into investment vehicles but when they get close… 7 years or closer… move them into safer instruments so that you can be extra sure you will have enough.

If, say, your retirement is still twenty or thirty years away, you can afford to invest money set aside for that purpose in vehicles that are safe, but not super-safe. However, if you will be retiring in less than ten years, you can't take the chance of seeing your retirement fund drop by 20% to 30%, because you won't have time to let the market correct itself.

So if you plan to retire in five years and you will be drawing on your retirement savings, you want to transfer at least five years' worth of your retirement fund from your investing bucket to your savings bucket. To ensure that you will be able to pay for the retirement life you want, you can't afford to have that money at risk.

To plan for this you will have to assume that the interest you will be getting for those 7 years will be small, because you'll be using the only the safest vehicles. So that means you will have to put more money into them than you would otherwise. This will take more work but it will provide more safety.

Are you with me?

For your savings bucket, your money should only be in super-safe investments—investments that are highly unlikely to go down in value in the next ten years. Given today's economy, we believe there are only four vehicles that qualify: cash, gold coins, quality municipal bonds, and well-bought rental real estate. For simplicity, my recommendation would be that you diversify your savings bucket funds evenly: 25% into each if you use four of them, 33% if you use three of them, or 50% if you use only cash and gold coins.

I have written and will continue to write about all four of these vehicles in both the Wealth Builders Club and in future issues of *The Palm Beach Letter*. For now, it is enough for you to understand the distinction between saving and investing… and segregate your set-aside money accordingly.

I've already asked you to estimate your LBR (lifestyle burn rate). Now, I want you to estimate how much you'll need in your savings bucket. That includes the money you would need in your SOA (start-over-again) funds if, for whatever reason, you lost everything. (I'll be more specific about this number in Chapter 8.) It also means identifying all of your debt obligations, and figuring out the totals of any future expenditures that will be coming due in the next ten years.

The Golden Bucket of Investing

As I said, the purpose of your investing bucket is to grow your wealth. This is the bucket you will use to fund all future, long-term expenditures. By "long-term," I mean more than ten years.

If you are young, you may use this bucket to put aside money for your children's college expenses. But for the most part, the money in this bucket will be for your retirement. And when you look at investment returns from a long-range perspective like that, even a few percentage points can make a huge difference.

I won't spend any time here talking about how you should manage your investing, because Tom and Paul do that in *The Palm Beach Letter*, and we'll be providing you with lots of this information through the Wealth Builders Club too. But I will say this: The kind of stocks they recommend are the only kind that appeal to me. Every other stock investing strategy I've encountered (and I've been in the financial publishing business for more than thirty years) makes me uncomfortable.

The recommendations that you get every month from Tom and Paul *in The Palm Beach Letter* are designed to give you an average, long-term return of 10%-15%. This might seem paltry to people who dream of doubling and tripling their money in the market every year, but those kinds of investors almost always end up broke. And making 10%-15% on your money over the long term will give you terrific results.

But—and this is a very big but—you won't get wealthy this way unless you invest enough money.

In other words, investing alone can't make you rich. So if you can afford to invest only a few thousand dollars a year, you will not get rich even if you make 15% a year for forty years. To fill your investing bucket, you need to invest more than that—and if you can't invest more than that right now, you need to generate more income so you can.

That brings us back to the metaphorical well that represents your yearly income—the well you're going to use to fill all three of your buckets.

Your Golden Well

If your income isn't sufficient to fill all three buckets, you have only two options: You must increase the flow from the well you have, and/or you must dig some new wells.

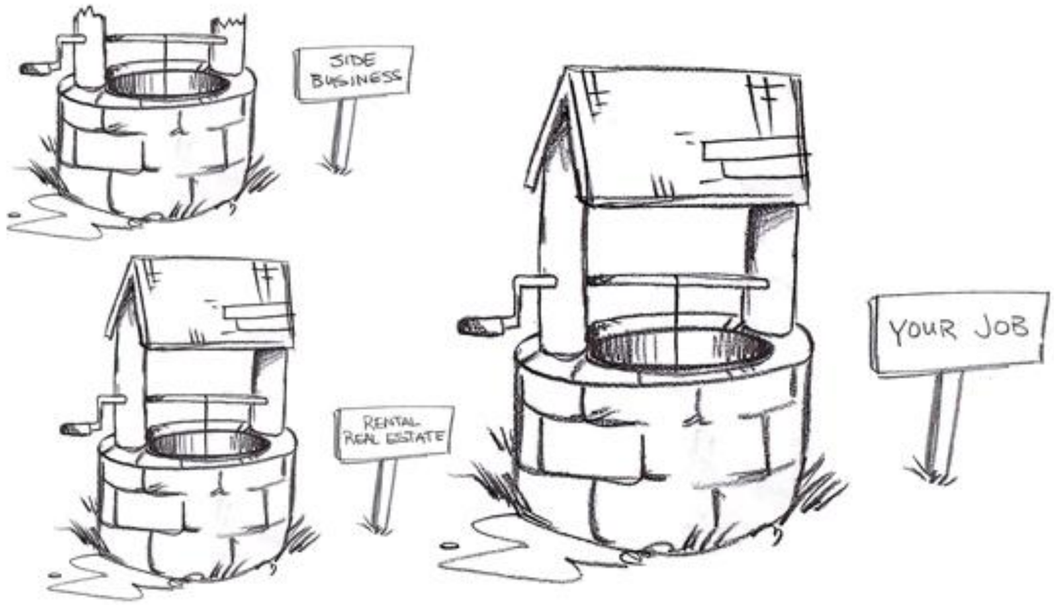
You can increase the income from your primary well (your job) by becoming a more valuable employee. I have written on this subject in several of the books I published under the pen name Michael Masterson. The one I recommend is *Automatic Wealth for Grads... and Anyone Else Just Starting Out*.

If you can become a more valuable employee, you should. But you may also want to create other streams of income.

One possibility would be to invest in rental real estate. If you decide to do that, it will become—after you have paid down the mortgages—its own well, pumping liquid gold to you every year thereafter.

Another option would be to start a side business and let your spouse or a relative run it. If you are interested in doing that, I recommend *Ready, Fire, Aim*, another book I wrote as Michael Masterson.

The *Palm Beach Income* system could be another well for you in the future.



Here's the point: If the income you are earning is insufficient to achieve your wealth-building goals, you should NOT try to get there by taking on more risk with your stocks. Instead, work hard to create more income.

The Only Strategy You Need

This simple system for managing money and building wealth can work for you if you commit yourself to it. As I said, it's the system I used to build a net worth of more than $50 million—and it's still working for me and everyone else I know who has tried it.

So today, spend the time it takes to establish your own approach to "living rich" now... and in the future. Make your spending bucket big enough to allow you to enjoy your life now, but small enough to enable you to fill up your saving and investing buckets quickly.

You don't need to try any other wealth-building strategy. This one is infallible. The day you have your saving and investing buckets filled... you will have no reason to worry about money ever again.

You already know that it will work, don't you? You know it will work because it is so simple. It is based on our two fundamental rules for building wealth: Never, ever lose money... and become wealthier every day.

If you are over forty, you have no doubt experienced how wrong 99% of the investment schemes out there are. You tried them and discovered they made you poorer, not richer. You are ready for something simple and true, a strategy you know in your bones will work.

When Tom and I started *The Palm Beach Letter*, we made a solemn promise. We vowed to tell the truth about building wealth, rather than exciting our readers with the myths and lies that dominate the investment media.

We are proud of what we are doing and confident that it will help you become wealthier. Our goal is not—and never will be—to make you a "clever" investor. We simply want to teach you how to become wealthy. If that's what you want, you are in good company.

Chapter Two:

How a $10 Bill Made Me Richer Than All My Friends

As you know, one of *The Palm Beach Letter*'s primary rules for building wealth is to make sure you get a little bit richer every day. It sounds simple, and it is. But I give it credit for getting me started on my personal road to wealth.

Thirty years ago, I had a net worth of zero, a salary of $35,000 per year, and college loans for both me and my wife that we were still paying off. With three small children, our expenses were gobbling up every nickel of my after-tax income… and then some.

[“Net worth” is the amount by which your assets (what you own) exceed your liabilities (what you owe). Assets are things like stocks, bonds, cash or gold. Liabilities are things like a mortgage, credit card debt, or student loans. Net worth can apply to both to individuals and businesses as a key measure of how much an entity is worth.]

I decided that I would do whatever it took to get out of the hole I'd dug myself into. And that decision had me reading and thinking about wealth building day and night.

I was bathing my brain in the elixir of ideas I was coming up with. It was very stimulating. I had fantasies of getting rich in all sorts of fancy ways. But deep down inside, I knew those complicated strategies were not for me. When it came to making money, I was extremely risk-averse (and I still am). In the race to a multimillion-dollar retirement, I was a tortoise not a hare.

And so my first wealth-building goal was small: I promised myself that I would get richer by just $10 a day.

I pulled a $10 bill out of my wallet and stared at it. "I really don't need this

$10," I thought. "I can brown-bag it tomorrow instead of going out for lunch." I knew that I would eventually raise the ante, but I wondered, "How much money would I acquire in, say, forty years by just putting an extra $10 aside every day in a bank account earning 5% a year?"

I did the math and was happy with the answer: almost half-a-million dollars.

My total capital invested would be $149,650. The simple interest would total $156,950, and the compounded interest would amount to $182,061, for a total of $488,661.

[“Simple interest” is a quick method of calculating the interest charge on a loan or investment. Simple interest is determined by multiplying the interest rate by the principal. For example, if I invest $100 and earn $5 in interest, I’m earning simple interest of 5% each year ($100 x 5% = $5)].

“Compound interest” includes reinvesting any interest you earn to your original principal balance. For example, let’s say I invest $100 in year one and earn $5 in interest. In year two I reinvest the interest I received. Now in the second year, I will earn interest on a higher balance of $105 instead of $100. In year three, I will earn interest on an even higher balance of $110.25. Each year I reinvest the interest it compounds and grows my initial investment at a faster rate.]

Then I wondered, "What would happen if I put away $15 a day?" That came to $719,604.

And then I asked myself, "What would happen if, instead of 5% on my money, I got 8%?" That came to $1,620,592!

You can imagine my excitement! And so I started to set aside a little money every day.

But I soon realized that I couldn't consistently follow my rule to get richer every day if I invested that money in stocks. The market fluctuates too much. One day I might be worth $110,000, and the next day I'd be worth $108,000.

People who knew more about investing than I did told me not to worry about these short-term fluctuations. They said that if I kept my focus on the long term, I'd get the 9% or 10% that the market delivers over time. But even though I understood the principle, there was no guarantee that I would have the satisfaction of knowing that I was actually getting richer every day.

That was a big problem for me—a problem I resolved when I came up with an early version of the "three-buckets" system I told you about in Chapter 1.

I put half of my set-aside money into super-safe municipal bonds, bank CDs, and rental real estate properties. This drastically reduced the volatility of my returns but it also, in theory at least, reduced my expected ultimate return on investment (ROI). So I compensated for that lower ROI by putting the other half of my set-aside money into stocks that could reasonably be expected to return at least 10% long term. That ensured that I was always ahead of my schedule—even if the ROIs I was getting on bonds, CDs, or real estate dropped.

[Return on investment (ROI) is a measure used to evaluate an investment's performance. ROIs are usually expressed as percentages or ratios. To calculate ROI, divide the investment's return by the initial cost of the investment. So if my initial investment is $1,000 and it "returns" $50, my ROI is 5% ($50 / $1,000).]

This simple, tortoise-paced program worked for me. Since I made the commitment in the early 1980s to get richer every day, I have never experienced a single day of being poorer than I was the day before.

Think about that.

But there is more. Making this commitment will change the way you think and feel about building wealth. It will help you appreciate the miracle of compound interest. It will make you less accepting of risk. It will make it easier to understand the benefits and drawbacks of every type of investing. And it will turn you into an income addict, which is, in my book, an essential component of thinking rich.

We will explore those aspects of wealth-building in future issues of both *The*

Palm Beach Letter and the Wealth Builders Club. For now, I just want you to consider making a commitment to get richer every day yourself.

You can begin, as I did, with a goal of putting away $10 a day. Once that becomes easy, you will find that you want to raise the ante. You could hike it to $15, as I did my first year. But soon thereafter, your addiction to income will make it possible for you to go much higher. (These days, my target is $10,000 a day—and I hit it more often than not.)

I have explained this strategy to lots of people over the years. And many of them didn't take it seriously. Perhaps it didn't seem clever enough. Or perhaps they felt they were already doing well by following the investment schemes they were already using.

But none of them ever acquired the wealth I did. They sometimes had great individual hits that they'd tell me about—or even winning streaks when the markets were favorable. But in the end, they were always beaten by Mr. Market.

Meanwhile, by following this simple rule of getting richer every day, I was able to do better than I ever expected.

Chapter Three:

Breaking the Chains of Financial Slavery

When we started *The Palm Beach Letter*, we were fortunate. Our essays on wealth building stimulated hundreds of subscribers to write. Most of the letters were complimentary. "Finally, I've found a publication that is willing to tell the truth," was a common statement. Readers recognized our commitment to telling it like it is.

We also received several letters from readers who were frustrated by what we were saying. One of them, a Mr. Jorge Izquierdo Jr., put it this way:

"What about short term? I've been trying to free my family and myself from the chains of slavery for far too long now. Show me the truth."

Here's the thing. Behind Jorge's question is the assumption that there are short-term wealth-building strategies that work. And that, for some reason, we are hiding these from him.

We understand why Jorge feels that way. It's much easier to sell financial advice if you promise short-term riches. But we know, from 60-plus years of trying, that such promises are mostly fool's gold. And since our goal is to make our subscribers steadily and reliably wealthier year after year, we don't generally talk about conventional short-term financial strategies because they are, essentially, gambling. And we don't want you gambling with your money.

But if you are in Mr. Izquierdo's situation—if you've been struggling for years to acquire wealth without success—we have good news for you. You can unshackle yourself from financial "slavery," as he calls it, in a *relatively* short period of time.

For the purposes of this essay, however, "*relatively* short period of time" means seven years.

You see, the real secret to getting wealthy relatively quickly is to invest soundly with a medium-term (seven-year) perspective, but with a mix of investments that can, as a group, give you a realistic chance of big returns.

So if you are in this situation, here is what you must do:

First, ask yourself if you are willing to give up the hope of getting rich quickly by investing in some hot new stock. In other words, are you willing to accept the fact that you won't go from broke to being a millionaire by investing in "the next Microsoft"?

Think about it before you answer. Many people simply aren't really open to giving up this dream. Such people are doomed to jumping from one exciting idea to another. They read furiously, get motivated by exciting stories, and then make big bets. Every once in a while they score big, but most often, they lose big. Years go by, and they are still poor. They are slaves *not* to a lack of information but to a myth.

So I ask you once again: Are you willing to give up—now and forever—the habit of chasing hot tips?

If you can't honestly answer "yes" to those questions, you might as well cancel your subscription to *The Palm Beach Letter* and the Wealth Builders Club right now and buy yourself another investment newsletter that will tell you what you want to hear.

But if you are ready to believe me, we can help you.

A Two-Step Plan for Financial Freedom

Let's start with this…

What does the term "financial slavery" mean to you?

For most people, it means two things:

- You earn less than you spend.

- You owe more than you own.

If you earn less than you spend, you are in a constant state of stress. You have to put off or only partially pay your bills. Your creditors are breathing down your neck. And all the while, your debt is mounting.

If you owe more than you own, you can't buy a house or lease a car or get a loan from anyone other than your parents. (And what if they are tired of helping you… or can't?) Because you are in so much trouble financially, you can't even think about taking nice vacations or retiring someday. Instead, you worry about losing your job. So you keep reading investment newsletters, hoping to find a quick way out. But as each month passes, your financial situation gets worse.

It's a miserable existence. But it doesn't have to last. You can break the chains that are enslaving you.

Here's how…

Problem #1: You earn less than you spend.

Solution: Start spending less and earning more.

Spending Less

You can't break the chains of slavery unless you hit them hard with a big mallet. By that, I mean that you won't be able to gain the independence you want in a few years or less by cutting $10 here and $50 there.

My recommendation is to cut your expenses by 30% to 50%.

I know that sounds crazy. And it may be impossible in your case. But don't dismiss the idea until you hear me out.

You won't hear this from anyone else, but the primary factor in how much you spend every month is the neighborhood you live in. That's because your neighborhood creates the financial culture that presents the spending choices you make.

If you live in a community of million-dollar homes, you will be looking at new BMWs and Audis when it comes to buying or leasing a car. When you go out to dinner, you'll be spending more than $100 per couple.

I have friends and family members who live in $350,000 homes in beautiful neighborhoods, send their children to $35,000-per-year private high schools, and buy $6,000 sofas. Yet they are essentially broke. They don't fully realize how much money they are wasting because everyone around them is doing the same thing.

I've counseled people like this many times. And I have yet to convince any one of them to trade their homes for less expensive ones. They give me all sorts of good reasons, but I know what's stopping them because I was in that situation myself at one time. The real reason they refuse to downsize is because they are ashamed to do so.

What they don't realize is that they would feel much richer if they were living in a neighborhood of nice $150,000 houses. They would feel richer because they would be richer. They would be able to pay their expenses and save.

Moving to a less expensive neighborhood would be the quickest, biggest, and surest way for them—and you—to drastically reduce their spending.

Earning More

In addition to *cutting* your expenses by 30% to 50%, you have to take immediate steps to *increase* your income by 20% to 50%.

Again, I know that seems crazy. But if you want a "short-term" solution to get yourself out of financial slavery, this is what you have to do.

There are dozens of ways to increase your income. I will talk about none of them here—but you can expect to see plenty of ideas on this important subject in future Wealth Builders Club essays and opportunities.

Problem #2: You owe more than you own.

Solution: Start owing less and owning more.

Owing Less

If you have accumulated a lot of debt, that tells me you don't see debt as financially dangerous.

Big mistake. You must accept the fact that most debt is bad for you. There are only a few exceptions: mortgage debt when interest rates are low, and business debt when the business is sound and you are not personally liable for the money your business borrows.

Your first step toward debt management is to get rid of every credit card you have, as well as any credit you have with banks. Use cash or debit cards only.

Yes, that means there will be lots of things you can't buy. But that's a *good* thing, not a *bad* thing. (To become wealthy, you must think like a wealth builder. That means, among other things, liking the idea of spending less and saving more.)

If you have a lot of existing credit card debt, you need to consolidate it. Then work with a professional to pay it off at reasonable interest rates.

If you are lucky enough to have equity in your home, trading it for a cheaper one (see above) will accomplish two important things: It will reduce your monthly expenses, and it will give you a chunk of cash that you can use to pay off debt or put aside as savings.

[In the context of real estate, equity is the difference between the current market value of the property and the amount the owner still owes on the mortgage. It is the amount that the owner would receive after selling a property and paying off the mortgage. For example, if you could sell your house for $200,000 and your mortgage balance is $150,000 you have $50,000 in equity.]

Owning More

When I say that you should own more, I do NOT mean more luxury cars or fancy boats or expensive jewelry. I mean assets that are likely to appreciate. These would include such things as gold coins, income-producing real estate, and the kind of companies Tom and Paul recommend every month in *The Palm Beach Letter*'s performance portfolio.

And since you will be making more money, you have to commit to invest every after-tax dollar of it to these sorts of investments.

Can you do that?

If you want to break those chains, you must!

That's the Plan… Now It's Up to You to Follow It

That's the plan. Spend less. Make more. And invest the difference in assets that will appreciate.

I know it's simple, but guess what? Simple works. What I just told you is exactly how I went from financial slavery (I owed more than I was worth at 30) to becoming a multimillionaire in less than seven years.

And don’t beat yourself up for being un-rich. There are millions of Americans—intelligent, educated, hard-working people—who are financial slaves just like Mr. Izquierdo.

They are in chains not because they haven’t invested in the right stock, but because they spend more than they make and owe more than they own. Their stress is just as great as yours, even though they may make more money, live in a bigger house, and drive a fancier car.

Being financially independent means having more income than you need. It means owing far less than you own. It means knowing that you won’t be harassed by bill collectors or embarrassed at the supermarket. It means having money hidden to take care of emergencies and a savings account that gets substantially bigger every year.

Becoming a multimillionaire takes years. But breaking the chains of financial slavery can be done quickly. You can make a huge leap forward in a single year by doing what I’ve just told you to do. Twelve months from now, you can be feeling a whole lot better about things, if you start right now. And then, every year thereafter, you will be richer than you were before.

The hardest part of becoming financially independent is recognizing the chains that are binding you—earning less than you spend and owing more than you own —and deciding to make a serious change.

Will you do it? I hope so. One thing you can count on: The advice you get from both *The Palm Beach Letter* and the Wealth Builders Club will be strategies that really work. No hot tips. No alchemy. Just the strategies that have worked for us.

Chapter Four:

The Palm Beach Letter Guide to Dealing With Debt

What it means... How to avoid it... And the only time you should ever use it

At some rudimentary level, we all understand that debt is dangerous. But in our daily lives, many of us view it as a necessity. We buy homes with it. And cars. And boats and electronic "toys" and vacations.

Debt may be useful, but it is *not* necessary. It is a luxury.

I had my first serious run-in with debt many years ago. My wife and I were renting a condominium in Washington, D.C. Our landlady came to us with an exciting opportunity: We could buy the condo for $60,000 with no money down. For just $100 per month more than what we were already paying for rent, we would be "homeowners." It sounded like a great deal, so we took it.

I was too foolish then to ask myself, "What is the cost of this debt?" What we wound up with was a *negatively amortizing mortgage* with a three-year term and an 11% interest rate. That meant that every three years we were paying $19,800 in debt service and another $3,000 in closing costs.

[A regular amortizing loan pays itself off over the term of the loan. For example, if you have a 30-year fixed mortgage, after 30 years your principal and interest payments would pay off your loan.

A negatively amortizing mortgage creates a payment schedule where your monthly payments do not cover the actual interest costs on your loan. This interest that is not paid is added to the principal balance of the loan. This leads to a situation where your loan balance increases instead of decreases.

Negatively amortizing loans are rare if not non-existent now but they were the rage during the housing bubble before the crash in 2007.]

Eventually, I managed to get us out of that condo and into our first house—but not before figuring out that, even after calculating the rental value of living in the condo, the “deal” had cost me more than $30,000, and I had nothing to show for it.

I learned that when banks make it easy for you to borrow money, it’s not because you are a nice, deserving person. I learned that if you can get a loan despite poor credit (as ours was at the time), there is usually a scam involved. It also taught me to always ask the two critical questions about debt: “How much will it cost?” and “Can I afford it?”

It was an expensive lesson. But the lesson seemed cheap 30 years later when, in 2005, the real estate market bubbled out of the pot. I sold my speculative properties and got out of the market. I made and saved millions, while my friends who ignored my warnings got killed.

Let me say it again: Debt is *unnecessary*, and it is *dangerous*. It is unnecessary because there are always less expensive ways of getting what you want. And it is dangerous because it can sometimes be very costly.

Let me give you two examples.

Let’s say that, like most Americans, you are in the habit of buying things with credit cards. After a while, you notice that you have accumulated $30,000 in credit card debt. You decide to cut up your cards and get rid of that debt. You can devote $400 per month to paying back what you owe. How long will it take, and how much will it cost you?

The answer may surprise you. It will take you 10 years to pay off your credit cards. Your total payments will be $47,428. Of that, $13,278 will have been in interest payments.

Or let’s say that you buy a $150,000 home. You take out a $120,000 loan with a 6.5% interest rate. Your mortgage payments are $914 per month, which you can afford. But how much will that house really cost you? You will end up paying $329,303 for it. Almost half of that—$153,050—will have been in interest payments.

The commercial community (including bankers and manufacturers) doesn't want you to be afraid of debt. Neither does the government. They want you to like debt. They want you to use it. They want you to go into debt because it is good for them.

When you take out a mortgage or sign a lease on a car or use credit cards to pay for your lifestyle expenses, the commercial community profits. The manufacturers make money on products you may or may not need. And the banks make money on your debt.

The mainstream financial media rarely talk about the dangers of debt. That's because they make their profits from the financial institutions and manufacturers whose advertisements support their publications.

And the government actually encourages us to take on debt. This was the strategy for getting us out of the Great Recession that the (second) Bush administration (and the Federal Reserve) advocated, and it's the same scheme that is being advocated by many politicians today.

Here's what you should know about debt…

There are some cases in which debt makes sense. Buying cash-flow real estate properties is one example. Real estate values in many markets today are as low as they've been in 10 or 20 years. And mortgage rates, at 3-5% for people with good credit, are very low. It may also make sense to take on debt to finance a business. But you have to be very careful. You must be sure that the return you are getting on your debt is guaranteed to be considerably higher than the cost of the debt.

In most cases, debt is unnecessary. And it is dangerous. As a general rule, you should live without it.

Unless you are wealthy, *don't* lease your car. Buy it. Buy the car you can afford, not the car you believe will make you happy. Any non-appreciating asset (such as a car) will never make you happy if you have to pay its debt service. I didn't buy my first luxury car until I was a multimillionaire.

[A non-appreciating asset is an asset that loses value the minute you start using it or take ownership of it. These are things like cars, boats, or RVs.]

Don't buy anything with a credit card. Use a debit card to buy clothes and groceries. If you don't have enough money in your bank account to use your debit card for a purchase, don't buy it. If you don't have enough money in the bank to buy something, it means you can't afford it.

If you can't afford the debt on your house, sell it (if you can) and buy something cheaper. In any case, start paying off the principal balance on your house (the amount you owe, not the interest you will owe) as fast as you can. Make it a goal to own your house free and clear as soon as possible.

[In this case, the principal is the amount borrowed or the amount still owed on a loan, separate from interest a bank charges you.]

When I started earning decent money, the first thing I did was pay off the mortgage on our home. I loved the idea of owning our home free and clear, so I put every extra dollar I had toward paying down that mortgage. And I'll never forget how great I felt the day I made that final payment.

If you have expensive debt, such as credit card debt, pay that off first. Debt that comes with double-digit interest rates (like credit card debt) is like a big hole in the bottom of your piggy bank. You have to plug that hole before you put another penny in the slot. But if you have less expensive debt, such as a student loan, you might be able to pay it off at the same time as you're putting money into savings and investing.

It's all a matter of math. You need to compare the annual cost of keeping the debt versus the annual return you would get on your savings and investing. You should expect to get, on average, only enough on savings to cover inflation—3-4%. And you should expect to get something more than 5% and less than 15% on your investing. The logic is this: Give priority to the highest numbers first.

[Inflation is the rate at which the general level of prices for goods and services rise each year. For example, if inflation is 3% the loaf of bread that cost you $1 last year will cost $1.03 this year. Its price went up… and because it went up, you'll end up buying less bread this year.]

Say you have $6,000 in credit card debt with an 18% interest rate and $10,000 in student loan debt with a 4% interest rate. You would pay off the credit card debt first because the 18% on interest you are paying is greater than the 3-4% you get on your savings or even the 5-15% you get on your investments.

After you've paid down the $6,000 in credit card debt (and, hopefully, shredded your credit cards), you are in a very different position. The cost of your student loan debt at 4% is more or less equal to what you can expect to earn from your savings. In theory, it makes no difference what you do at this point. However, in practice, I recommend that you pay off your student loan debt while you save and invest—and take care of all three obligations faithfully.

The main challenge is not arithmetical, however. It is psychological. You must develop what I call a "rich mindset." Someone with a rich mindset has a healthy appreciation for wealth and good financial habits. A person with a rich mindset enjoys saving and investing, just as the person with the "poor mindset" enjoys spending. The person with a rich mindset is uncomfortable with debt, whereas the person with a poor mindset sees debt as something desirable.

If you are troubled by debt, know this: You can get out of it, just as I did. And when you are debt-free, you can begin to use debt strategically. But to do so, you must always ask those two critical questions: How much will it cost? Can I afford it?

Chapter Five:

My Message to a 47-Year-Old With No Money

A reader wrote recently to say that, although he's "learned a lot from *The Palm Beach Letter*," he feels that most of the advice is not suitable for him, because he is forty-seven and has a net worth of only $25,000. He is not interested in long-term saving strategies. "What good will compound savings do for me?" he says. "I don't want a million dollars when I'm 70. I want it now."

He says that many of the wealth-building strategies we recommend are useful only for the rich:

> *What's the average person to do? He can't open six businesses in Nicaragua like Mark. He makes $27 an hour with no chance for overtime. He has debts. He needs a new car. He has very limited silver and gold. AND he doesn't write a newsletter for $49 a month with 100,000 subscribers, earning a cool $4.9 million per year.*

Since we started publishing *The Palm Beach Letter*, we've gotten a number of letters like this. This tells me two things: We are hitting a nerve by telling the truth, and there are lots of *Palm Beach Letter* readers who have few financial resources and are worried about the future.

If you have had some of the same thoughts or feelings, this essay should be very useful to you.

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?

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 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. But I also 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).

And so, when you hear some rich guy from Palm Beach telling you that you can't quickly turn $25,000 into a million by investing in stocks, it may be frustrating. And when he talks about what he and his rich friends are doing—buying rental properties and starting businesses overseas—you might feel that you can't use his advice.

If you feel that way, you are wrong. You do not have to give up on your dream of being wealthy. You always have the ability to change your financial life. But 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. To make these changes, you need to do four things.

Just Four Things You Need To Do

First, accept the fact that *you alone 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 you 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. Without it, you cannot move forward, even by a single inch.

Second, set realistic expectations. I can't tell you how many times I've had unwealthy people scoff at the 8% or 12% returns that we look for in our performance portfolio—the stocks we recommend every month in *The Palm*

Beach Letter.

They tell me returns like that are ho-hum. They want stocks that double and triple, they say, because that's the only way they can see themselves getting wealthy.

I remember once I made a presentation to a small group of investors about an investment I liked that was likely to return 30% a year. One guy interrupted to tell me I was wasting his time. "Unless you can give me a ten-to-one return, I'm not interested" he told me. A few people applauded him.

When I hear remarks like that I think, "poor bastard." His mentality is that of a poor man looking for a lottery-ticket type solution. If he wasn't financially poor when he made that remark, I'm quite sure he is now.

Know this: 10%-12% is a high rate of return. If you get a 10% return, you'll double your money every seven-and-a-half years. If you get a 12% return, you'll do it in six years. You can get very rich doubling your money every six years.

Or think of it this way: Warren Buffett—the most successful investor of all time and the third-richest person on the planet—has averaged 19.8% on his investments over his entire career. Expecting to make returns that are more than double that is just plain foolish.

The great thing about setting realistic investment expectations is that you can see very clearly beforehand how wealthy you can become over any given period of time. If you do the calculations and aren't happy with the result, then you know that you can't accomplish your goal by investing alone. You will need to increase your income.

Realize that **the journey to millions of dollars is earned one hundred dollars at a time**. As time goes on, the thousands become tens of thousands, and eventually they can get even higher. The most powerful rule of wealth building—the one that Albert Einstein himself talked about—is compound interest. But this takes some time. You must be willing to accept this fact in order to move your financial life forward. Wealth accumulates gradually at first, but it eventually builds up at lightning speed.

How Real Wealth Is Made

The third thing you must do is to understand how real wealth builders create wealth. The public today has been deceived on this important point by reading stories of Internet entrepreneurs or individuals who invested every cent they had in a single business idea that exploded into a billion dollar bonanza.

These are great, inspiring stories. But they are not normal. For every person who got rich this way, there are 999 who went broke doing the same thing. I'm not diminishing these guys. They were brilliant and shrewd, but they were also very lucky. Using them as models is like a kid in the ghetto deciding he's going to be Tiger Woods or Michael Jordan. It's not a good strategy.

If you don't have a clear idea about how to become wealthy, you must read this essay, please refer back to Chapter 1: The Secret of the Golden Buckets. It explains exactly how I built my wealth, starting from nothing and never, ever taking big chances. There is nothing especially brilliant about it. But it works. So please revisit the chapter if you need to.

The Single Most Important Factor

And the fourth thing you must do is to 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*. I will venture to say that you have never heard any other investment newsletter writer say this. But it needs to be said. You simply cannot get wealthy by investing unless you invest enough money.

Again, I will show you how to figure out how much money you need to achieve your goals.

If you discover that you don't have enough net investible income, don't worry. During the course of your Wealth Builders Club membership, I'll give you dozens of ways to increase that—even if you are 47 years old and making $27 an hour.

The world of wealth is governed by universal dynamics—supply, demand, wealth, greed, etc. These dynamics are as old as human civilization. Winning the wealth-building game is about recognizing and exploiting those dynamics, not denying them. Our job at *The Palm Beach Letter* is to highlight those dynamics on a weekly and monthly basis and then help you make smart, enriching decisions—the sort of decisions that have made men wealthy for thousands of years. I will further elaborate upon these ideas with the Wealth Builders Club, in which you'll receive additional and actionable advice for achieving wealth within seven years.

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 that 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.

Let me be a bit more specific:

- Accept responsibility for your future. Refuse to complain, criticize, or condemn. If you want us to help you achieve your goals, then trust in and follow our advice. Stop doubting it. Stop denying it. Have faith.

- Give up the foolish notion that you must get rich "now." Be happy to earn 8% or 12% on your stock market investments. Realize that if you make 8% to 12%, you will be ahead of 99% of your fellow investors. Embrace the huge impact this will have on your wealth over time.

- Begin to allocate your income according to the three-bucket system. With every paycheck you get, first cover your necessary expenses (bills, mortgage, etc.) Then put some money toward saving and then some money toward investing. Then and only then—after you have "paid yourself"—should you add to your "spending" account.

- Stop complaining about making "only $27" an hour. That's more than a lot of people make. Be grateful you earn that much. Commit to add to that 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.

If you are willing to do that, we can help you succeed. We are giving you investment recommendations that will give you realistic 8-12% returns (and sometimes much more.) You can buy the books I've written (under my pen name, Michael Masterson) on how to earn more money and save more money. And we will be preparing additional reports on these subjects exclusively for our *Palm Beach Letter* subscribers and Wealth Builders Club members. We are fully committed to giving our readers more valuable and realistic wealth-building advice than any other investment newsletter in the market. We have the experience and the know-how to do that. We will deliver if you do.

Starting With Just $1,000

Now I want to address two more comments you made:

You suggest that you don't have the wherewithal to implement some of my recommendations. You suggest that buying apartments and starting businesses in Nicaragua is something only wealthy people can do. You are dead wrong on this subject. If you are willing to work hard and smart, you can begin building a rental real estate empire with as little as a thousand dollars. And the businesses I've started in Nicaragua can all be started for that kind of money or less. Again, I will explain how this is true in future segments and reports through the Wealth Builders Club. If you stick around and trust us, you'll learn how you can do the same.

The other comment I want to address is the one about how much money I am making with *The Palm Beach Letter*. I am going to say something now that I haven't said before because I didn't think it was necessary. But since you made the comment about how much money we are raking in at *The Palm Beach Letter*, and about how much I'm making, I need to say it.

Why We Can Tell the Truth (and get away with it)

Personally, every cent of the compensation I am paid as a contributor to *The Palm Beach Letter* will be put directly into my charity in Nicaragua.

In other words, I'm not in this for financial compensation. I'm in this for the reason I spoke about in the sales letter you responded to: I want to see if I can help thousands of individuals attain more wealth.

If I were in this for the money, I might be tempted to tell you what you want to hear so that we could sell more subscriptions. I could tell you, for example, that you can invest $25,000 in certain stocks and end up a millionaire in just a few years. But we are hoping that we can be successful publishers of good and useful information without making such promises. We want to help you by telling you the truth.

You are only forty-seven, not eighty-seven. You have plenty more years to increase your income and grow your net worth. Why do you assume that all is lost when you have a whole wonderful life ahead of you, a life that can be rich in a hundred ways?

Everybody in your situation has the same choice: You can rue your situation or you can dedicate yourself to changing it. We can show you how. For the equivalent of a tank of gas, or a dinner out, you are getting a whole year of realistic investment and wealth-building advice from us. You have what you need to get your gravy train moving. But you are the engineer. Nobody but you can start the engine.

Chapter Six:

Don't Invest Your Money If You Want to Grow Rich

(Do these four things instead…)

In my ongoing effort to shock you with contrarian (and sometimes counterintuitive) truths about building wealth, I give you this little nugget to chew on today:

You cannot become wealthy by investing.

(Please keep this to yourself. If my colleagues in the investment advisory industry knew I said that, they would have me tarred and feathered!)

The investment advisory industry—and by that I include brokerages, private bankers, and insurance agents, as well as investment newspapers, magazines, newsletters, and internet publications—is a huge, multibillion-dollar business based on hard work, clever thinking, and sophisticated algorithms. But also on one teensy-weensy lie.

The Lie That Built an Industry

The lie is that you can grow wealthy through investing.

It's not a big lie. It's a teensy-weensy lie. There is plenty of evidence that strategic investing can provide returns that exceed investment costs (brokerage fees, management fees, subscription fees, etc.) and even produce positive returns after inflation.

But for that, you need time. More time than you probably have.

Let's say you have $50,000 to invest. And let's say you invest it according to a really good investment strategy (such as the one you get with your subscription to *The Palm Beach Letter*) and things go well. Over a 10-year period, you earn an average of 10% per year. If you started on January 1, 2012, by December 31, 2021, your $50,000 would have increased to $129,687.

That's not bad. But it hardly makes you wealthy. So let's say you extend your investment horizon to 20 years. Beginning with the same $50,000, you would have $336,375 on December 31, 2031.

That's still not enough to make you rich! So let's say you extend your horizon to 30 years. By December 31, 2041, you would have $872,470.

That would give you $87,200 of yearly income. After taxes, you'd take home about $65,000 a year. That's okay, but it's hardly wealthy. And that's after investing for thirty years!

Most People Don't Have 30 Years

Most of the people reading *The Palm Beach Letter* don't have 30 years to wait. Based on what I know about our readership, I'd say our average reader has ten to fifteen years.

So what's a middle-aged (or older) wealth seeker to do?

You can start by deconstructing that teensy-weensy lie.

Building wealth involves much more than just investing in stocks and bonds. Most rich people get that way by consistently doing five things:

1. They understand and manage their debt. They don't let debt manage them.

2. They spend their money wisely, getting maximum value for every dollar.

3. They continuously work to increase both their active and their passive incomes.

4. They are aggressive savers, far outpacing their peers.

5. They are disciplined investors. When they find a good strategy, they stick with it.

As you can see, investing is only one of five strategies you must follow to become rich. And of the five, it is arguably the least important.

Most of the rich guys I know spend little or no time investing.

Phil, for example, a very wealthy friend in his forties, is an expert in municipal bond investing. But he didn't become wealthy by investing in bonds. He got wealthy as a marketing and Internet entrepreneur and by leveraging some debts and eliminating others. Nowadays, he buys and sells bonds–but he spends only a few hours a month on it. For Phil, investing is a part-time way to increase the value of his savings. It is not—and never has been—his primary road to wealth.

The Rich Didn’t Get That Way by Investing
(at least not the way most people think of investing)

It's the same with all my millionaire friends. They all have their own investment preferences and practices. But like Phil, none of them spends more than a small portion of his working time on investing.

As for me, I paid almost no attention to investing until I started writing *The Palm Beach Letter*. And yet, I managed to go from broke to having a net worth in excess of $50 million—all without knowing the first thing about stocks or options or other sophisticated stock market strategies.

Don't get me wrong. I'm not saying investing has no value. On the contrary, I'm delighted to be an investor now, and I am certain that investing will continue to add to my wealth.

But I don't intend to spend forty hours a week studying the market. What I will do is spend an hour a week following Tom and Paul's advice. The rest of my wealth-building time will be devoted to increasing my income. And I have lots of ways to do that.

If you want to get wealthy in fewer than thirty years, you should do the same. Devote a couple of hours a week to managing your investments and spend the rest of your working time on the other four wealth-building strategies listed above.

I hope this message doesn't disappoint you. It's nice to imagine that you can get rich in 10 years or less by picking great stocks. But it's also a delusion. You may be thinking, "I don't need to be told to limit my spending or manage my debt. I already know how to do that." My response to that is: Do you?

A Hard Reality

Or perhaps you don't like my idea that you must (must!) increase your income. Most people reading *The Palm Beach Letter* have been working hard for 30 or more years to raise families and put their children through school. They want to stop working for income. They want to invest and take it easy.

Your level of income is essential to building your wealth. If you want to retire some day and don't have at least $250,000 put aside for that purpose, you need more income now.

The good news is that there are all sorts of ways to increase your income. Just as there are all sorts of ways to manage your debt, get more value out of your spending, and ratchet up your savings.

At *The Palm Beach Letter*, we consider our investment recommendations to be the core of our service, because we know that's what you want. But we also want to help you grow wealthy. And that's why we talk about other wealth-building strategies as well.

Each month, we bring you at least one solid investment recommendation. Tom, Paul, and the whole *The Palm Beach Letter* team spend hundreds of hours every month researching the markets and double-checking their facts to give you a very good chance for a 8-12% return on your money.

But Tom, Paul, and I also talk to you about saving… and how to efficiently manage your debt and limit your spending… and–yes–increase your income by actively engaging in business.

So please pay as much attention to those strategies as you invest in the stock recommendations we provide. Of course, it's up to you to take from *The Palm Beach Letter* what you feel you need. Our hope is that you take all of it.

Chapter Seven:

How the "Big White Lie" of Investing Almost Cost Me My Retirement

Learn from my mistake and discover the most important factor in building wealth quickly

I consider myself to be an expert of sorts on retirement. Not because I've studied the subject, but because I've retired three times.

Yes, I'm a three-time failure at retiring. But I've learned from my mistakes. Today, I'd like to tell you about the worst mistake retirees make.

It's a very common mistake. Yet, I've never heard it mentioned by retirement experts. Nor have I read a word about it in retirement books. The biggest mistake retired people make is giving up all of their active income.

When I say active income, I mean the money you make through your labor or through a business you own. Passive income refers to the income you get from Social Security, a pension, or a retirement account. You can increase your active income by working more. But the only way you can increase your passive income is by getting higher rates of return on your investment (ROI).

[Return on investment (ROI) is a measure used to evaluate an investment's performance. ROIs are usually expressed as percentages or ratios. To calculate ROI, divide the investment's return by the initial cost of the investment. So if my initial investment is $1,000 and it "returns" $50, my ROI is 5% ($50 / $1,000).]

When you give up your active income, two bad things happen:

First, your connection to your active income is cut off. With every month that passes, it becomes more difficult to get it back.

Second, your ability to make smart investment decisions drops because of your dependence on passive income.

Retirement is a wonderful idea: Put a portion of your income into an investment account for 40 years, and then withdraw from it for the rest of your life. Once you retire, you won't have to work anymore. Instead, you will fill your days with fun activities: traveling, golfing, going to the movies, and visiting the kids and grandkids.

Problem is, this idea never actually worked. The only generation that benefited from it *en masse* was the World War II generation. But they didn't have to rely entirely on their savings for retirement income. They had the real estate market on their side: They were able to sell the homes they had lived in for thirty years for eight-to-ten times what they'd paid.

The Big White Lie

For every generation since then, the promise of that kind of retirement has been nothing but a big white lie.

Consider this: A retirement lifestyle for two, like the one I described above, would cost about $75,000 per year, or $100,000 before taxes.

How big of a retirement account do you need to fund that?

Let's assume that you and your spouse could count on $25,000 per year from Social Security and another $25,000 from a pension plan (two big "ifs"). To earn the $50,000 balance in the safest way possible from a savings account, you'd need about $5 million, because savings accounts pay only about 1% right now.

If you were willing to take a bit more risk and invest in tax-free municipal bonds (this is the safety level I feel comfortable with), you'd need $1.25 million, assuming you could get 4% interest.

[A municipal bond is a debt security issued by a state, county, or city government entity. When you buy a municipal bond, you are lending money to this entity and they will pay you interest for use of your money each year. Municipal bonds are exempt from federal taxation, as well as from most state and local taxes.]

But let's say you were confident you could earn 12% from the stock market. You'd still need a nest egg of $416,000 to gross $50,000 a year.

Most middle-class American couples my age are trying to retire with accounts in the $250,000 to $300,000 range.

And that's where the trouble begins. To achieve a gross return of $50,000 on $300,000, you'd need a return of 17%. Getting 17% consistently over, say, 20 years may not be impossible, but unlikely–and too risky for my tastes.

I retired for the first time when I was 39. I had a net worth of about $10 million, half of which was liquid. I thought I had all the money I would ever need. But my retirement lifestyle was more expensive than I expected. I liked first-class travel and five-star hotels and fancy cars. My yearly nut was close to $500,000 after taxes. You'd think that with $5 million in my retirement account I could have easily lived on passive income from investing for the rest of my life. But I couldn't, because my retirement funds were in ultra-safe municipal bonds. They were giving me a tax-free return of about $300,000 back then, which was $200,000 short of my needs.

A Difficult Choice

I had a choice: I could drastically cut down on my lifestyle, or I could take a chance and put my money into the stock market. For several weeks, I tried to cut down on my lifestyle. But I discovered I was too attached to my toys to let many of them go. So I considered switching my retirement account to stocks. But when I studied the history of yearly stock market performance (by speaking with Mark Hulbert, the master of the subject), I came to the conclusion that I couldn't confidently expect to get the 18% return I needed to maintain my lifestyle, year after year.

So what did I do? I went back to work.

I went back to earning an active income because I didn't want to spend my days studying the market and my evenings worrying about ROI. And do you know what happened? The moment I started earning money again, I started to feel better.

Retirement isn't supposed to be filled with money worries. And yet, that is exactly what you will get if you try to get above-par returns on your investments. As I write this, millions of Americans my age are quitting their jobs and selling their businesses. They are reading financial magazines and subscribing to newsletters. They are hoping to find a stock selection system that will give them the 30% and 40% returns they need. But they will soon find out that such systems don't exist. They will have good months and bad years, and they will compensate for those bad years by taking on more risk. The situation will go from bad to worse.

You Don’t Have To Give Up Your Retirement

It doesn't have to be this way. Let's go back to the example of a couple with a $300,000 retirement fund and a $100,000-per-year retirement dream. Assuming that they have a total of $50,000 per year coming from Social Security and pension payments, they still need $50,000 per year in pre-tax passive income. To earn $50,000 on $300,000, they would need a return of about 17%. That is, as I said, highly improbable. But if they each earned only $15,000 in active income, they would need a return of only about 7% on their retirement account, which is very doable.

I am not saying that you should give up on the idea of retirement. On the contrary, I'm saying that retirement might be more possible than you think.

But you must replace the old, defective idea that retirement means living off passive income only. Paint a new mental picture of what retirement can be: a life free from financial worry that includes lots of travel, fun, and leisure, funded in part by active income from doing some sort of meaningful work.

Also, at least in my experience, earning an active income can be a very pleasing pastime. There are all sorts of enjoyable ways to make a modest additional income by putting in part-time hours. You could do some consulting, start your own Web business, or earn money doing any sort of purposeful work.

I know one couple, for example, that build whimsical grandfather clocks out of cheap materials. The man builds them and his wife paints them. They sell them at art fairs near their home and sometimes elsewhere (when they want to take vacations.) When I bought my clock (that is in my office now), I paid $1,500 for it and it probably cost them about $50 to make. That's a nice fun way to make $1,450. At the time they were selling about fifty clocks per year. Including the time spent making them (which was fun for them) and selling them (also fun) they worked about 10 hours per week. Not a bad way to make more than fifty grand per year after taxes.

Automatically Make Wiser Investment Decisions

The first benefit of including an active income in your retirement planning is that you will be able to generate more money when you need to. But the other benefit—the one that no one talks about—is that it will allow you to make wiser investment decisions because you won't be a slave to ROI. And if you find meaningful work and there are more options today than ever, thanks to the Internet, you can enjoy a very satisfying retirement.

How much active income do you need? That's easy to figure out:

A. You determine what you need to spend each year for your retirement.

B. You determine how much money you will have in your retirement account.

C. You determine how much income your retirement account will generate, assuming that you will get no more than a 10% yield from it.

Subtract C from A. That is what you need to earn.

Chapter Eight:

Three Numbers That Are Essential to Your Wealth

In marriage, there are three numbers you must know by heart: your spouse's birthday (October 18th, for me), your anniversary (April 19th, for me), and how many minutes you can be late before you are in trouble (12, for just about everyone).

To run a business, there are also three numbers you must know: net cash flow, the cost of acquiring a new customer, and that customer's lifetime value.

It is no different when it comes to financial planning. In this case, the three numbers you must know are:

1. Your lifestyle burn rate (LBR)

2. The amount of money you need in your start-over-again (SOA) fund

3. The amount of money you need to have socked away in order to be able to retire comfortably.

If you don't know these numbers, it will be difficult to plan for retirement and nearly impossible to feel good about the state of your finances.

Yet most people go through their lives, striving for financial independence, without any idea of what these numbers are or should be. As a result, financial peace of mind is always around the next corner. (By the way, this is just as true for high earners as it is for anyone else.)

Pursuing wealth without knowing these three numbers is like driving around a city searching for a particular restaurant without any idea of its address.

It doesn't have to be that way. I'm going to show you how to chart a direct path to wealth—and a comfortable retirement—with these three numbers.

Your Lifestyle Burn Rate (LBR)

This is the amount of money you need to spend each year to enjoy the lifestyle you want.

It's easy to determine. Simply calculate how much you are currently spending each year, and then increase that by the yearly cost of all the extras you'd like to have that you don't have now. (If you have everything you want, good for you.)

When you do the calculations, group your expenses into five categories: housing (including maintenance and taxes), basic living expenses (food, clothing, health care, etc.), education (if applicable), entertainment (including travel), and charity (if applicable).

Don't guess at what you are currently spending. Guessing, in my experience, is synonymous with grossly underestimating. Use your actual costs from the past year. An hour or two with your check register is all the time you'll need—and it may be illuminating. When I recalculated my LBR recently, I was shocked to find how much I was spending on cigars ($14,000!). You may also find that it alters your idea of a quality life. (I'm cutting back to one stogie a day.)

Your LBR is a critical number. Without it, you can't make any other financial-planning calculations. Your LBR tells you how much money you need to earn and how much money you can put aside each year for savings and investing.

The first stage is up until you have your first child. The second stage begins when you have your first child and continues until your children are gone and their college expenses (if you are paying them) are taken care of. The third stage begins after you are free and clear of dependencies, and it continues till you kick off.

For most people, the first stage has the lowest burn rate. You are young and relatively unburdened. If you are wise, you limit your expenses to necessities and drink cheap wine.

The second stage typically has the highest burn rate. You have a larger home to maintain, greater basic living and entertainment expenses, and educational expenses for your children. You may also have to provide for aging parents.

The third stage—your retirement years—has a burn rate that will likely be at least twice that of the first stage, but significantly less than the second. This is—or can be—a wonderful part of your life.

Your Start-Over-Again (SOA) Fund

As I mentioned in Chapter One, this represents the amount of money you would need if—for whatever reason—you lost everything.

Your SOA number is basically your monthly LBR expenses multiplied by the number of months you would need to get back on your feet, plus whatever money you might need to start a new business (if you are an entrepreneur or professional).

Most financial planners recommend establishing an "emergency fund" of three to six months' living expenses. I hate that idea because it is arbitrary and vague. Why three to six months? What if you need 12 or 18 months to get started again? You determine your SOA number based on what you calculate you would really need to start over.

The other reason I hate the emergency fund idea is that almost anything can be considered an emergency: an unexpected dental bill, a broken car axle, a Christmas bonus that was half of what you expected. These are not true emergencies, but they are expenses that everyone has to be prepared for. My recommendation is to add 5-10% to your LBR and keep it in a separate account earmarked for expenditures that you must be prepared to pay relatively soon (in less than 10 years).

This is money that you can't afford to lose, so it should be put into only super-safe investments like cash, gold coins, quality municipal bonds, and good rental real estate.

Your Retirement Fund

Your retirement fund is the amount of money you need to have in order to retire comfortably. And you can calculate this number in five easy steps.

Step 1: Write down how much money you have already saved toward retirement. This should include not only liquid assets (such as cash, stocks, and bonds), but also any illiquid assets (such as an auto collection or a second home) that you plan to sell prior to retiring.

Step 2: Write down how many years you have before you hit your retirement age. If you are 35 years old now and plan to retire at 65, that number is 30. If you are 55 years old now and want to retire at 65, that number is 10. But be realistic. If your retirement fund is small right now, you can't expect to retire relatively soon.

Step 3: The next step is to calculate your retirement lifestyle burn rate (RLBR)—the amount of money you will need to spend each year to have the retirement lifestyle you want.

A good way to do this is to start with your current LBR and add to it any "extras" you will want to enjoy. (Again, be realistic.) Let's say, for example, that your current LBR is $80,000 per year. To make your retirement more fun, you will want to own an extra car—a sports car—and join a golf club. This will cost you an extra $10,000 per year. Add $10,000 to the $80,000, and you have $90,000.

Now subtract from $90,000 any expenses that you currently have but will no longer have when you are retired. These commonly include expenses related to having a family with children. If those expenses were currently $15,000, you would deduct that $15,000 from the $90,000, and you would be left with your true RLBR of $75,000 per year.

Got it?

Step 4: Subtract from your RLBR any income you are confident you'll be getting during retirement.

For example, if you trust that Social Security will still be around, find out what your projected yearly Social Security income will be, and subtract that from your RLBR. You can do the same with any pension income you expect. And if you intend to work part-time during retirement, you can deduct that, too.

Working with that same $75,000 RLBR number, you might deduct $15,000 per year that you expect to get from Social Security, another $5,000 per year that you expect to get from some pension, and another $5,000 per year that you expect to get by working as a golf ranger two days a week. This reduces your RLBR from $75,000 to $50,000.

What you are looking for in your retirement fund is the amount of money that will generate your net RLBR number in after-tax income. That number will depend on the return on investment (ROI) you can expect to get, which, in turn, will depend on the kind of investments you use.

[Return on investment (ROI) is a measure used to evaluate an investment's performance. ROIs are usually expressed as percentages or ratios. To calculate ROI, divide the investment's return by the initial cost of the investment. So if my initial investment is $1,000 and it "returns" $50, my ROI is 5% ($50 / $1,000).]

A good average ROI to aim for is 8%. And you could earn about 8% by putting your money in stock index funds. (Since 1970, they have returned 8.14% after taxes of 20%.) But I don't like the idea of having my retirement fund in an index fund because the stock market can fluctuate greatly from year to year.

[An index fund is a basket of stocks you can buy in one fund that will track the performance of what well-known stock market indexes like the S&P 500 or Dow Jones Industrial Average do.]

A better choice would be the kind of stocks we recommend each month in *The Palm Beach Letter*. They are selected to give you—at minimum—an 8% after-tax return. But I wouldn't want all of my retirement funds in stocks, because even the best of them are still subject to annual fluctuations.

To compensate for the volatility of the stock market, I've designed a simple three-asset retirement portfolio that should return 8% reliably and steadily. (Or as close to that as one could possibly hope for.) This portfolio consists of high-quality dividend stocks, high-yielding bonds, and rental real estate.

Specifically, I would recommend an allocation of 50% rental real estate, 30% dividend stocks, and 20% high-yielding bonds.

I feel confident that you can expect the following after-tax minimums from each of these investment categories: 3% from bonds, 6% from dividend stocks, and 12% from rental real estate.

A portfolio that gives you 3% on 20% (your high-yielding bonds), 6% on 30% (your dividend stocks), and 12% on 50% (your rental real estate) is a portfolio that will give you just over 8% overall.

Step 5: Now you are ready to figure out how much money you need in your retirement fund. And all you do is take your net RLBR and multiply it by 12.5.

Why 12.5? Because unless you have 20 or 30 years to invest your retirement money a little more aggressively, this money should be held in safe vehicles (such as municipal bonds or rental real estate) that distribute regular income.

It’s not reasonable to expect these investments to pay you more than 8% after tax. (Municipal bonds pay an after-tax yield of 3%, dividend stocks pay an after-tax yield of 6%, and rental real estate can pay you a 10%-plus return.)

Got it?

Let me break it down for you using our original example. The following is just an approximation…

You need $50,000 per year from your savings to live comfortably in retirement. Knowing that you can expect to get an average yield of 8% per year on your three-asset portfolio, you do the math and determine that you need a total of $625,000 ($50,000 divided by 0.08).

Twenty percent of that amount ($125,000) would be in bonds, yielding 3% after taxes. That would give you $3,750 per year. Thirty percent ($187,500) would be in dividend stocks, yielding 6% after taxes. That would give you $11,250. And 50% ($312,500) would be in rental real estate, yielding 12% after taxes. That would give you $37,500 per year. The sum total of $3,750, $11,250, and $37,500 is $52,500.

Now remember, that is the minimum. If you got higher yields—even moderately higher yields—you’d do better. You would have more income than you'd need that year. And you would have a choice: You could either save it for a rainy day or spend it. You wouldn’t need to invest it, as your retirement fund would continue to produce 8% yields.

I’d like to end here, but there is one final number we haven’t looked at yet…

The Effect of Inflation on Your Retirement Portfolio

When planning for retirement, you have to consider the effect of inflation on the value of your portfolio. That’s because, in most cases, inflation makes future dollars less valuable. The $50,000 per year I’ve been using as an example in this essay will still be $50,000 in 10, 20, or 30 years… but it will buy far fewer things than it can today.

[Inflation is the rate at which the general level of prices for goods and services rise each year. For example, if inflation is 3% the loaf of bread that cost you $1.00 last year will cost $1.03 this year. Its price went up… and because it went up you’ll end up buying less bread this year.]

So how do you account for inflation in your planning?

One way is by investing in businesses that are able to raise their prices to keep pace with inflation. You can do that with many of the stocks we recommend in *The Palm Beach Letter*. Having 20% of your portfolio in such stocks will definitely help.

Today, at about 3%, bond yields are extremely low... but they are likely to increase in the years ahead. So that will be some help, too.

But the main inflation hedge you have in the portfolio I recommended is rental real estate. Real estate, as a tangible asset, appreciates during inflationary times. According to the Case-Shiller index, which has tracked real estate sales of existing homes since 1987, the average annual increase for real estate has been 3.6%. Compare that to the consumer price index, which, during the same 25-year period, has increased an average of 2.9%.

I didn't count this appreciation into the mix when we went through the numbers. What it means is that half of your retirement portfolio will likely increase by 0.7% above inflation, not counting the positive effects you might get from your stocks and bonds.

More importantly, as a landlord, you should be able to increase your rents to match inflation. I've been doing that with my rental real estate for more than 20 years.

These factors should go a long way toward protecting the validity of your retirement fund number. But if you want to be extra sure, you can simply use a multiplier of greater than 12.5. In the case of our existing example, you would multiply $50,000 by, say, 14, which would increase your target number to $700,000, rather than $625,000. Another reason to increase your multiplier would be if you have a long way to go—20, 30, or 40 years—before retirement.

A Lesson Learned

In my 30s, I managed to make and save a lot of money without paying much attention to any of these numbers. But I found out how much they mattered when, at 39, I retired and began to live on my savings and investments. It didn't take me long to realize that my living expenses were higher than I had anticipated. They were so high, in fact, that the millions I had put aside were insufficient to generate the income I needed to support my desired lifestyle. Shortly after that, I hit a bump that set me back more than a million dollars. I was still a multimillionaire, but I was not financially independent.

I had done so many things right in my career, but I didn't know my numbers. And because I didn't know them, I couldn't retire. I had to go back to work.

I remember the day I made the decision to go back to work. I went to bed that night angry with myself, but I woke up the next morning roaring with ambition. I was inspired. I was going to do it all again, but intelligently this time. I was going to do it by the numbers.

And that's what I did. I calculated my three numbers—a realistic LBR, my SOA number, and my retirement fund target number. I opened an account for my SOA money and funded it immediately with cash. Then I opened up a separate account for my retirement fund. Knowing what my goal was for that fund made my investment decisions much easier. As a result, I was able to reach my goal before I turned 50.

That's the great advantage of determining these three numbers. You will know exactly what you have to do to achieve your financial goals. More importantly, it will set a fire inside of you that will keep burning until you achieve them.

So please take the time to do your calculations today. The moment you have your numbers, you'll be motivated to begin the journey of achieving them. The sooner you begin, the sooner you can retire.

Chapter Nine:

How to Safeguard the Wealth You Are Building

Bill, a new subscriber, recently wrote us this note:

> *Dear Friends at* The Palm Beach Letter*:*
>
> *You guys do great work and I'm a huge fan, but I have a question.*
>
> *I have read from a number of publications that an exit strategy is as important as any other aspect of investing. I have gains in the fine stocks you have recommended, but I'm not sure about the exit strategies for each.*
>
> *I happen to believe that the good times are short-term, and that a day of reckoning, or prolonged austerity, is near at hand.*
>
> *1. So how do I protect the investments I already have?*
> *2. If it all hits the fan and we go into another downturn or worse, how do we*
> - *Protect what we have, and*
> - *If possible, grow our nest egg during the downturn?*

Bill is asking several related questions.

Protecting Your Performance Portfolio Gains

First, he wants an "exit strategy" to protect the gains he has realized following our monthly stock recommendations (in *The Palm Beach Letter* Performance Portfolio). This is a good question. A shrewd investor always has a Plan B in place to limit losses if his investment begins to move the wrong way.

Our exit strategy for the Performance Portfolio is to set a trailing-stop order of 25%.

[A stop loss is an order you give your broker to sell your stock if its price dips below a certain point. For example, if you buy a stock at $40 and set a 25% stop loss, your broker will sell it the moment it hits $32 (8 points, or 25% less than $40, the price you paid for it).

A trailing stop loss means that the stop loss is triggered not by the price you bought it at, but by its highest price. Thus, if the $40 stock goes to $50 and then drops, your broker will sell it at $37.50, which is 25% less than $50.]

Using a trailing stop loss means that, at worst, your stock portfolio won't decline more than 25%. When your stocks go up, as ours have done, then your maximum loss is less than 25%. In a rising market such as we've experienced, it's quite possible to protect not just your original investment, but also your profits with this strategy.

I know what you are thinking: You don't want to lose 25% or even 20% or 15%. But you can't have zero downside with stocks. My first rule of investing ("Never, ever lose money")—which I've recently discovered is Warren Buffett's first rule—is managed by doing all the other things I am about to tell you.

So that answers the first question about an exit strategy for *The Palm Beach Letter* Performance Portfolio stocks.

Bill's second question is, "How do I protect the investments I already have?"

We don't know what other investments Bill has, but let's assume he has some equity in his home, some other stocks, and some cash. He's worried that the economy and/or the stock market might take another nosedive—"or worse."

The classic way to protect against market fluctuations is by diversification. Diversification means that you don't invest in just a single type of investments. You spread your bets out, as it were, so that if one part of your investment portfolio goes down, other parts that may hold steady or even go up can protect you.

I'm a big believer in diversification because I've learned from experience that I'm not infallible or clairvoyant. As much as I know about my own industry, I don't know enough to predict the performance of the companies I own, let alone companies I don't. And as for other industries? I'd be kidding myself to think my investments were certainties.

Diversifying, like setting stop losses, is a statement of humility. I do it because I realize I can't be 100% sure.

Diversification works like insurance. There is a cost to it (getting lower yields), but I'm happy to pay that cost because I simply refuse to ever become poorer.

When most financial advisors talk about diversification, they mean a mix of bonds and stocks. That will give you some protection in normal times, but with most of the Western world in bankruptcy, this kind of diversification is not nearly enough. In fact, having a portfolio of only stocks and bonds over the past 20 years hasn't been effective. It may be even less effective in the next 10 years.

Here are the ways I have diversified my wealth:

Add Bonds to Your Portfolio

Bonds are generally less risky than stocks because they are loans, not equity investments. The profits of the company you have lent money to can go down, but your bonds are still good so long as the company doesn't declare bankruptcy.

[Bonds, also known as "fixed-income securities" are investments in which investors loan money to either corporate or government entities for set periods of time. In return for borrowing this money, these entities pay bond holders interest.]

I have always had a good portion of my money in bonds. Historically, about two to three times what I had in stocks. I used to get about 5% tax-free on my municipal bonds. That amounted to a pre-tax return of about 7.5% (in my tax maximum bracket). The difference between 7.5% with bonds and 9% (the long-term average return of stocks) was only 1.5%. I was willing to give that up for the safety.

Today I'm not buying many bonds because I have plenty and also because I really like the kind of stocks Tom and Paul are recommending. So the percentage of my overall portfolio in stocks, compared to bonds, is rising.

If you have no bonds at all, you should consider buying some. Go slowly and be careful. Please refer to our own bond-investing program, Perpetual Income, which is available to you through your subscription to *The Palm Beach Letter*.

Have Some Escape-and-Start-over-Again Gold

I have a considerable amount of money invested in gold (and now platinum) coins. I like coins for many reasons. They are tangible, portable, transportable, and private. In other words, they are perfect if things get "much worse," as Bill from above worries they might.

My coins have already tripled in value, so I can't feel certain they will continue to appreciate. But that's not why I own them. I own them because I know they will always have value, and I will always be able to spend them. I've put them in my escape-and-start-over bucket. (Refer to Chapter One: The Secret of the Golden Buckets.) And that's where they will stay.

If you have no gold coins, you should buy some, even at today's high prices.

And Don't Forget Rental Real Estate

Another excellent way to diversify today is by investing in rental real estate. I've been recommending this because, like precious metals, real estate is tangible. But better than coins, the right kind of real estate will give you a lifetime of income.

I've been investing in rental real estate for about 30 years, and, except for my first investment, I've never lost money on it. I stopped investing in 2006 because it was easy to see we were in a bubble. And I got back into it in 2010 because it was easy to see that it would be very profitable. Despite the idiocy of millions who "never saw it coming," real estate is the simplest and easiest investment in the world.

And there is one more reason I like real estate. It can be very profitable. That's because you can leverage it with financing. I've probably earned more than 20% per year on my real estate over the years. It's made me many millions of dollars.

If you have no real estate, I recommend it. This will likely be the best time in your life to get into it. But the window won't stay open forever. (See My Retirement Plan for the Unwealthy. I will also be discussing investing in rental real estate as part of a whole series in the Wealth Builders Club.)

Finally, you don't need to be rich to play this game. You need a minimum of $10,000 and a modicum of common sense.

And Cash…

The fifth element of my diversification is cash. I always keep a stockpile of cash around—not for emergencies (a dumb idea in my opinion) but for *opportunities*. Having a store of cash has allowed me to jump into the real estate market after it tanked. When disaster hits, cash is king.

Those five are the main components of my diversification: stocks, bonds, gold, rental real estate, and cash. For most investors, that should be enough to stay safe. But for *Palm Beach Letter* readers who are better heeled and more adventurous, I will mention some additional ventures.

For the Sophisticated Investor

I regularly invest in start-up businesses. This is an especially important tactic for anyone who is seriously worried about an economic collapse.

When I buy into private businesses, I don't take long shots. I invest almost exclusively in businesses that:

(1) I understand
(2) Are headed up by people I know and believe in
(3) Are likely to do well if the market crashes

Of all my investments, I have made the most money investing in start-up businesses. It takes hard work in the beginning, but the payoffs can be great. I have doubled, tripled, and quadrupled my money countless times this way. In future issues I'll be discussing this strategy.

Another way I hedge my bets is by investing overseas. I own businesses and real estate in probably a dozen countries. In every case but one I have trusted overseas partners. This isn't as "simple" as local real estate, but it can be very profitable.

A third way I have diversified is by investing in collectibles. Collectibles have the benefits of being tangible, portable, and private. Most importantly, investing in collectibles is fun. (If you are interested, see my *Intrinsic Art* report.)

And finally, I'm using the *Palm Beach Income* options strategy. I sell put options on high-quality stocks, and I use covered calls. I'm generating over 10% a year from this strategy, which has no correlation to my other investments. In fact, the *Palm Beach Income* strategy will work even better in hard economic times because volatility will rise, increasing my returns.

[Selling puts and covered calls are two options strategies for investing. While most options strategies are risky, the ones we use with *Palm Beach Income* are safe. By selling options we make low-ball offers on high-quality stocks. And by selling options you earn income. We'll explain more about options and how the *Palm Beach Income* strategy can help you in the future.]

Protect Yourself from Legal Risks

As you can see, I am extremely diversified in terms of the kinds of investments I've made. Again, I do this not because I am positive each of these sectors will perform especially well, but because I'm honest enough to admit that I'm not certain.

Besides all of these investment strategies, I take full advantage of any legal strategies I can to safeguard my wealth from legal attacks. I do that by using a variety of trusts and limited partnerships.

Pay the Taxman Only What He Is Due

And finally, I do whatever I can to safely minimize my taxes. In my tax bracket, saving $1 is like earning $1.50.

But I'm not a nut when it comes to avoiding taxes. By that I mean I won't spend a lot of time on it and I won't take any risks, especially with the IRS. I've been an advisor to tax-avoidance publications for more than 20 years, and I know first-hand many of the top experts in the field. There is nothing that any of them has ever shown me or told me that has tempted me to try to fool the taxman. If you are considering aggressive (i.e., possibly illegal) tax strategies, I advise you to put your energy into making money. It's easier and a lot less risky.

At *The Palm Beach Letter,* our first rule of investing is never lose money. That may sound like an impossible feat, but I can assure you from personal experience that it can be done. Using trailing stop losses, diversification, legal structures, and tax minimization strategies will go a long way to protecting your wealth. But to achieve my overall goal of *growing richer every day,* I do one more thing that I'll be recommending to you: I keep earning money, even when I don't need to, by creating multiple income streams.

Multiple Streams of Income

Having multiple income streams is the ultimate assurance that you will always be wealthy. I have worked very hard over the years to establish at least a half-dozen revenue streams that bring me lots of income every month. They all began small, but they all grew over time. Any one of them can keep paying for my lifestyle burn rate (see Chapter 8). So even if all of my assets somehow disappeared, I'd still be a wealthy guy.

I know this may be a lot to digest right now—especially if you are a novice investor. That's okay. If you stick with *The Palm Beach Letter*, Tom, Paul, and I will give you a blueprint for everything I've laid out here.

For the time being start with what you have. Make sure you understand how to set trailing stop losses on the stocks you've been buying. Then look into our Perpetual Income program (available to you through your *Palm Beach Letter* subscription) and the coins we have recommended ($20 Saints and $20 Liberty Heads in MS-65). And be sure to reread Chapter One: The Secret of the Golden Buckets before you do.

Each thing you do will make it easier for you to sleep at night, knowing your wealth will continue to grow.

Chapter Ten:
Making Friends With Your Financial Fears

In the previous chapter, I wrote about protecting your wealth by using stop losses, diversification, legal strategies, and tax planning.

I initially thought it covered everything I knew on the subject. But I've been thinking about it and realized that there was one important idea I did not include. It is perhaps the most important idea.

You see, that chapter was my "response" to a reader who was obviously afraid of losing the wealth he had. The fear of losing something you value is completely natural. And it is also healthy as long as the fear is not too great. But when fear is great—and I sensed that for this person it was—it can be destructive. Unbridled fear produces two negative responses: immobility and rashness.

When you fear too much, you won't take the positive actions you suspect you should. When opportunities are presented, you'll shun them for fear of the potential dangers and downsides.

Tim Mittelstaedt, your Wealth Builders Club director/liason, sent me the following note after he read the first draft of this chapter:

> *I've wanted to buy rental real estate since graduating from high school more than 13 years ago, but fear has prevented me from doing it all of these years. And at times I've wanted to start a business, too, but fear got in the way. Do you have ideas on how I can overcome my fears?*

Tim isn't alone. Years ago, when gold was trading at around $500 per ounce, fear was the reason why so many of my friends and colleagues were afraid to invest in gold despite my urging them to do so. It is the reason that many *Palm Beach Letter* readers are ignoring my advice to buy real estate now.

It's important to remember that the major media are almost always wrong about investing. When prices skyrocket, they write stories about people making money. When prices drop, they write stories about people losing money. Most readers have a hard time disbelieving the major media. They wonder, "How could all of these pundits on TV be wrong?" So they stay on the sidelines, waiting for positive confirmation from their favorite newspaper or television channel. But that never comes until it is too late.

Some investors who don't trust the major media are fearful, too. They are persuaded by what they read in the alternative press—about government debt and worldwide economic collapse. So they put all of their money into gold or bury it in their backyards. And when gold soars, they are afraid to cash in and invest in the stock market. The end result is just as bad for them as for those who foolishly trust the mainstream media.

I see how fear impoverishes people in the world of business all the time. Smart, hard-working people who want desperately to quit the nine-to-five routine and start their own businesses fail to do so because they can't get the threat of failure out of their minds. I spent 10 years writing books and essays on entrepreneurship and taught hundreds of thousands of people the secrets to business success. But only one in 10 was actually successful. When I met them at conferences and got to know them, the reason was obvious. They were simply scared.

If you fear losing money too greatly, you will never implement the knowledge you gain. You may invest money in investment education—thousands and thousands of dollars over time—but you won't put the ideas you learn into action. Instead, you will do only the few things you are comfortable with. As a result, you will make no progress toward your wealth-building goals.

So that's what I want to talk about today: how to make friends with your fear of losing money.

This is how I did it.

I was 26 years old. I was halfway through a two-year Peace Corps stint as a teacher of English at the University of Chad. (Chad is in Africa.) My new wife and I were living in a three-room, plaster-coated mud house. We had no kitchen, and the bathroom was a latrine.

But we had a porch that overlooked a garden of Eden frequented by a family of monkeys and a dog that barked at them insanely when they hung over the roof, begging for food. We also had neighbors who became lifelong friends. On weekends, we had parties at which African friends and Peace Corps volunteers would drink copious amounts of Gala beer and dance madly until the sun rose.

I was sitting on that porch one afternoon, sipping whiskey, when it suddenly occurred to me that I would never have a nicer house or a nicer life than I had right then. I knew—or I sensed—that one day I'd be wealthy and live in a mansion and all that, but I knew that it would never be better than the plaster-coated mud house.

So I said to myself, very consciously, "Mark, life will never be better than this." I said that because I knew that when I started making big money, I would become afraid of losing it, and I somehow knew that the fear of losing what I didn't need could hurt me. I didn't want that kind of hurt.

My intuition was right. I came back to America and became a writer for a newsletter on Africa. Six years later, I was a multimillionaire. I bought a $170,000 house and then a $550,000 house and then a $5.5 million house. But I never forgot the truth I had discovered then. I have loved all of the houses I've owned since then, but none better than that first house, which I could have bought for $1,000.

That thought helped me a great deal over the years, and it still helps me today. Whenever the fear of losing wealth invaded my consciousness, I was able to remind myself of how little I really needed to be happy.

So now, when I get that fear—and I have it from time to time—I simply remember how beautiful my life was when I was making $50 a week and living in a $1,000 mud house.

Warren Buffett seems to understand this, too. In fact, he's famous for still living in a house he bought 50 years ago for $31,500. He enjoys his wealth, but he doesn't fret over it. He makes better financial decisions because he doesn't let the fear of loss control him.

You may be thinking, "That's fine for you to say. You are rich. You can afford to lose money."

But that's exactly my point. Because I am not afraid to be poor, I don't make foolish mistakes born out of fear. I don't let good investments—investments that are sound and well-priced—pass me by. As I explained in the last essay, I don't put all of my eggs in one basket. But I do take action.

That's what I forgot to tell this reader: The most important secret of wealth preservation is to make peace with your fear of becoming poor.

You can't control the economy. You can't control the forces that affect your business. But you can control your emotions. By making friends with fear, you will enjoy the wealth you have and make smart, wealth-building decisions.

You don't want to be forever on the sidelines, watching other people make money. And you don't want to put all of your money in gold, hoping for Armageddon.

To make friends with fear, you have to imagine yourself living a simple life, one that can be supported by a modest income, enjoying your work and the time you spend with your family and friends. Imagine that until you feel comfortable with it. What will happen is that your anxiety will disappear and, counter-intuitively, you will make better financial decisions.

If you are scared to start a business, imagine yourself failing. Then imagine feeling okay with it. (You will be okay financially if you have limited your risk as I recommended in Chapter 9: How to Safeguard the Wealth You Are Building.) Imagine yourself smiling to your spouse and saying, "Well, that didn't work out."

If you are scared to invest in the stocks we are recommending, imagine your portfolio dropping 25%. (It won't, but you must imagine it.) Imagine yourself thinking, "Okay, I've been stopped out. Now I will pick myself up and start over again."

[Being "stopped out" comes from setting stop losses on your stocks. A stop loss is an order you give your broker to sell your stock if its price dips below a certain point. For example, if you buy a stock at $40 and set a 25% stop loss, your broker will sell it the moment it hits $32 (8 points, or 25% less than $40, the price you paid for it.]

If you are afraid of investing in real estate, imagine the worst thing that could happen. You sell the property and take a 10% to 15% loss. (This is highly, highly unlikely.) Imagine yourself being okay with that.

In other words, do everything I suggested in that essay. Use moving stop losses to protect your performance portfolio. Diversify your investments to include debt instruments, precious metals, and real estate. And take full advantage of legal structures and tax-minimization strategies. But don't live in fear. Life can very sweet—and rich in pleasure —even if you do lose money, which will probably not happen if you aren't afraid.

Chapter Eleven:

How to Invest in Stocks for Lifetime Wealth

A while ago, I wrote a short essay about how Warren Buffett became so rich. But I failed to mention how rich he became.

With a net worth of $44 billion, he's the second-richest man in America and No. 3 on the *Forbes* billionaires list (as of 7/18/12).

[“Net worth” is the amount by which your assets (what you own) exceed your liabilities (what you owe). Assets are things like stocks, bonds, cash or gold. Liabilities are things like a mortgage, credit card debt, or student loans. Net worth can apply to both to individuals and businesses as a key measure of how much an entity is worth.]

Most people know Buffett as a great investor. But few know that he wasn't always good at his trade.

When he took control of Berkshire Hathaway in 1965, he was a disciple of Benjamin Graham, an Ivy League professor who thought a lot about investing. Like many professional investors before and since, Buffett was intrigued by "hot" companies that had momentum. But Buffett discovered, after losing lots of money investing in them, that their heat was only temporary. Later, Buffett called these "cigarette butt" stocks. He said they were "good for one or two puffs, but no more."

After his cigarette-butt experience, Buffett had a life-changing insight. He realized that there were certain businesses that had strategic advantages—advantages that allowed them to continue to grow bigger every decade, crushing their competition over time. He figured that if he could buy those businesses when the price was right, the market would guarantee him huge, long-term profits.

And that's exactly what he did.

Berkshire Hathaway, the company Buffett took control of in 1965 to buy such companies, has produced an average 19.8% annual return on investment (ROI) since then.

[Return on investment (ROI) is a measure used to evaluate an investment's performance. To calculate ROI, divide the investment's return by the initial cost of the investment. For example, lets assume I invest $100 this investment returns $19.80 to me by the end of the year. The cost of my investment was $100 so my ROI is $19.80 divided by $100 or 19.8%.]

Being a new student of investing, I have been wondering: If Buffett's system is so great, why doesn't every investor—professional or private—follow it?

I believe I know the answer. It's an answer that anyone who has been successful in business over several business cycles knows. The investment advisory industry—at least the way it is practiced by more than 95% of the professional community—is not geared toward long-term wealth.

Why Doesn't Everyone Do What Buffett Does?

Although most wouldn't admit it, investment advisors (brokers or financial gurus) have an entirely different objective—one that runs contrary to the long-term acquisition of wealth.

That objective is *yearly* ROIs.

It is perhaps the greatest stupidity of the investing world, but the investment industry enslaves nearly everyone to yearly report cards. Investment bankers, brokers, financial planners, and advisors all have their performances rated annually. Once per year, the whole world gets to see how they did, compared with their colleagues.

This is *just as true* for the independent investment newsletter industry.

Our performances are calculated, rated, and reported every year by various industry "watchdogs." These yearly report cards are open to the public. And they get a lot of press. The advisories with the best **one-year** track records enjoy big influxes of new customers.

The industry watchdogs report longer-term track records too, but no one pays much attention to them. Consumers are hardwired to focus on "who's hot"—and that means who was hot last year.

This creates enormous pressure to produce short-term annual gains.

I was reminded of this just last month when Agora's founder and president sent out a memo to Agora's publishers saying that he wanted them to spend more money on research and the quality of our writing. He then said that he would like to see all of our publications at the top of Mark Hulbert's list—an annual list of the best-performing newsletters in the industry.

Hulbert tracks newsletters on a long-term basis, but the entire industry gives scant attention to that. The industry treats yearly winners like Academy Award winners. They get the attention and the spoils.

The irony here is that Agora's founder, the man who wrote this memo, knows that short-term gains have nothing to do with long-term wealth. He has created a family office to protect his wealth over many generations, and one of the primary rules of that office is to invest for the long term. By that, I mean 50-year increments.

[A family office is a private wealth management firm designed to provide investing and financial services to an affluent individual or family.]

The point I'm making here can't be understated. ***The bias toward short-term profits is antithetical to long-term wealth building.***

You need to understand this if you want to develop long-term wealth.

I can hear some of you shouting already. "I don't care about long-term wealth. I want to start making good money now. In fact, I want to get rich now!"

I hear you. But the fact is that you can't get rich quickly in the stock market unless you are both extremely foolish and also extremely lucky. But what you *can* do, if you are smart, is generate a *reasonable* amount of short-term income while you are building up a retirement nest egg that will cover all of your lifestyle expenses after you stop working.

I've written on both of those subjects before and will do so again, but today I want to focus on Buffett's secret: generating nearly guaranteed long-term wealth.

Putting My Money Where My Mouth Is

Since having my own, personal Warren Buffett insight, I've made some personal decisions. I asked Tom Dyson and Paul Mampilly to recommend four Warren Buffett-like stocks. (Not the exact same stocks that Buffett owns but ones that make sense for me at this particular time.) I then invested

$25,000 in each of them. Since then, I've made two more investments of the same size.

My intention is to have $1 million in that account in the next 12 months. I'd do it sooner, but I need to wait until Tom and Paul pick more stocks. One of the keys to this strategy, as I'll explain in a moment, is a modest degree of diversification. You can't do it with four or even six stocks. I'm thinking 10 stocks will be perfect, but we'll wait until Tom and Paul have completed their work before we will decide for sure.

That's a good start for me, but it does you no good. So we've built a new portfolio that recommends Warren Buffett-type stocks to *Palm Beach Letter* subscribers.

Before I recap exactly how this new portfolio works and how it will all but guarantee long-term wealth, I want to restate clearly something that I have just implied.

Three Different Kinds of Investing

When it comes to investing in stocks, there are, basically, three goals most people have:

- The production of current income
- Saving for retirement
- Developing wealth.

You know from reading this book, especially Chapter One: The Secret of the Golden Buckets, that I believe each requires a separate and distinct strategy.

The Palm Beach Letter has a very good strategy for current income. That is our options course and advisory, ***The Palm Beach Income Program.*** For those readers who can't invest at least $20,000, we are developing another strategy that will be available sometime in the near future.

To help *Palm Beach Letter* readers save for retirement (and other goals, such as college tuition), we have our **Performance Portfolio**, which is designed to produce solid, above-market returns year after year. This is the best *yearly* investment savings strategy I know of.

We also have the **Perpetual Income Program**, which comes free with your subscription. This is our bond-laddering strategy, the same one I used to create a seven-figure income for my family and me if and when I retire.

Introducing the Legacy Portfolio

This brings us to our long-term portfolio. We call it the **Legacy Portfolio**, because it will eventually be a fortune that you can retire on or leave to your children or give to the charity of your choice.

Of course, you might one day use the Legacy Portfolio to buy boats, houses, or any other unnecessary luxuries you want. But my hope is that you won't. You can use our other portfolios to take care of your present needs. If you follow the strategy I outline in "What Is Your Magic Number?," you won't need to draw from the Legacy Portfolio "bucket" for as long as you live.

You will be able to, if you want. But you won't need to.

Because it has a different purpose, the Legacy Portfolio also has a different investment time frame, a different buying-and-selling strategy, and a somewhat different selection of stocks.

The Five Benefits of an Extended Time Frame

To get the full benefit of the Legacy Portfolio, you need to follow the rules. You need to select only very safe and very protected businesses. And you need to stick with them regardless of yearly results.

If you do, you will benefit from the enormous advantages of Legacy investing.

The most important of these advantages is **the power of compound interest**.

[“Compound interest” includes reinvesting any interest you earn to your original principal balance. For example, let’s say I invest $100 in year one and earn $5 in interest. In year two I reinvest the interest I received. Now in the second year, I will earn interest on a higher balance of $105 instead of $100. In year three, I will earn interest on an even higher balance of $110.25. Each year I reinvest the interest it compounds and grows my initial investment at a faster rate.]

If you have ever looked at a compound interest chart, you've noticed that the upward curve of wealth accumulation begins slowly over the first 10 years and then increases rapidly after that. By year 30, the numbers are really enticing. At 40 years, they are simply unbelievable. For investors with meager means, they will be in the millions. For mid-level investors, they will be in the tens of millions. And for affluent investors, they will be $100 million or more.

The second advantage of this long-term time frame is **simplicity**. As I'll explain in a minute, you won't have to regularly monitor the markets or even worry which way they are going. You can pretty much set up the Legacy Portfolio strategy and leave it be.

The third advantage is **peace of mind**. With this sort of strategy, you don't worry about stock market fluctuations. Not even big ones like we've experienced recently. (Buffett says that if they closed the market for five years, he wouldn't care.) In fact, you are happy when the market declines—even when the stocks you are holding drop, as I'll explain.

The fourth advantage is that the Legacy Portfolio **prevents you from paying unnecessary fees** to money managers, brokers, and financial planners. Over time, the fees siphoned away by these professionals erode your wealth significantly.

Fifth, investing in stocks in the Legacy Portfolio **keeps you from being too conservative** with your money. One of the greatest risks you run is losing money to inflation in overly conservative investments such as cash, CDs, money market funds, and bonds. By investing in the best companies in the world, you'll grow your money at much higher rates of return. Rates that beat the pants off inflation's wealth-eroding effects.

Buying and Selling Strategy

The Legacy Portfolio has a different buying-and-selling strategy. Like Warren Buffett, we won't be selling our stocks if they dip down. Whereas a trailing stop loss is essential for the Performance Portfolio, it is unnecessary and even counterproductive for the Legacy Portfolio. If and when the share price of any of our stocks goes down significantly, we'll be buying more, not getting out.

[A stop loss is an order you give your broker to sell your stock if its price dips below a certain point. For example, if you buy a stock at $40 and set a 25% stop loss, your broker will sell it the moment it hits $32 (8 points, or 25% less than $40, the price you paid for it).

A trailing stop loss means that the stop loss is triggered not by the price you bought it at, but by its highest price. Thus, if the $40 stock goes to $50 and then drops, your broker will sell it at $37.50, which is 25% less than $50.]

The reason for this is that our objective **is not** yearly ROIs, which are the bane of the financial industry, as I explained above. The objective of the Legacy Portfolio is to accumulate as many shares as we possibly can of the 10 (or so) companies we believe in. We will be getting richer by having progressively larger shares of those companies, not by trading them to optimize profits.

Respecting this different objective, we won't be reporting on our performance in the usual way. We won't be sending you a yearly report card based on 12-month results. Instead, we will be using a new and unique program that projects forward the value of our investments over 10, 20, 30, and 40 years.

Looking for Enduring Strategic Advantages

Before I joined *The Palm Beach Letter*, I worked as an entrepreneur for 30 years. I invested in and ran dozens of businesses whose revenues ranged from $5 million to $500 million.

I learned many lessons about investing. Among the most important was that it very rarely pays to invest in long shots. Building wealth is much easier if you buy into proven businesses that have distinct, competitive advantages.

Take Agora Inc. (the parent company of our business, Common Sense Publishing) as an example. Agora has always attracted independent thinkers. This made it impossible to have a corporate-wide philosophy of publishing. No sooner had one group succeeded with a certain type of product than another would splinter off and create a second group that would compete against it. By providing a safe place to exercise this independence, Agora grew into a holding company of several-dozen independent publishing entities competing first against one another and then against the rest of the industry.

This was not only a competitive advantage, but also one that was very difficult to emulate. Other publishers were simply not interested in suffering through the chaos that such a free-market-based management system must allow for. This allowed Agora to grow during my tenure from a company with about 10% of the market to one that has more than half of the market today.

If you could have invested in any of Agora's competitors 30 years ago, you might well have chosen any of a dozen that were bigger and more impressive at the time. But had you recognized the competitive advantage that Agora had back then, your investment would have turned out very nicely indeed.

In fact, when I entered the picture, there were two "outsiders" who had shares in Agora. One believed in the company's prospects and held his shares continuously in the good times and the bad. The other sold his shares piecemeal when trouble seemed to be looming. The first investor's stake (an investment of less than $50,000) is worth tens of millions of dollars today. The second investor regrets what he did.

I can give you other examples, but I think you get the point. When you have an interest in a business that you believe in, you don't sell your shares simply because of some temporary downturn. Instead, you will use that advantage to buy up more shares, as Agora's founder did. Since your goal is not yearly profits or even yearly cash flow but long-term asset appreciation, you buy more when the price dips down, and you don't sell unless the competitive advantage disappears.

In constructing the Legacy Portfolio, we are seeking to replicate the lessons we have learned as private investors, as well as the lessons Buffett learned early in his career. Most of the principles are the same. The Legacy Portfolio stocks we are and will be investing in must meet the following criteria:

1. It must be a continually growing business. One that has demonstrated consistent growth over time.

2. It must be a cash-rich businesses. These are companies that regularly produce excess cash and have lots of cash on their balance sheets.

3. It must be a consistently profitable business. These are companies that have track records of relatively consistent profits over many years.

4. It must be an industry dominator. These are companies that dominate their industries and have established and well respected brands.

5. It should be a dividend-paying business. One that returns excess

cash to shareholders in the form of ever-increasing dividends.

6. It must have enduring, competitive advantages. These are companies that have a unique technology, a patent, a monopoly or powerful brand that will give it an edge over the competition for a long time to come.

7. It must be resistant to recession. These are companies that stay profitable even during extended industry downturns.

8. It must be well-priced: These are companies we can buy at price levels that are below their historic averages.