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The first part of the paper discusses the importance of the research and the objectives of the study. It then presents a literature review of the existing research on the topic. The next section describes the methodology used in the study, including the data sources and the statistical techniques employed. The results of the study are then presented, followed by a discussion of the findings and their implications. Finally, the paper concludes with a summary of the main points and suggestions for future research.

The research was conducted using a quantitative approach, with data collected from a large sample of participants. The results show a significant positive correlation between the variables studied, indicating that the hypothesis was supported. The findings have important implications for the field and suggest that further research is needed to explore the underlying mechanisms.

In conclusion, the study provides valuable insights into the relationship between the variables and highlights the need for continued research in this area. The results are consistent with previous findings and offer new perspectives on the topic.

How to Become a

Wealthy Investor

Listen to the Stock Market and it Will Tell you What To Do

Sydney Tremayne

Second Edition

Published by Wealthy Investor Limited

HOW TO BECOME A WEALTHY INVESTOR PAGE I

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HOW TO BECOME A WEALTHY INVESTOR PAGE II

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HOW TO BECOME A WEALTHY INVESTOR PAGE III

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INTRODUCTION Making it On Your Own

In the summer of 1983, after the stock market had made a dramatic recovery following the then-worst recession since The Great Depression an otherwise stable man in his mid-50s told me he was quitting his job to play the stock market. He had put a sizeable chunk of cash into stocks in mid-1982 and made a bundle following his broker's tips. Easy. Too easy for his own good in fact.

He knew nothing about investing. He'd sent away for a welladvertised home study course. His brokers (I think he had about six with a number of different firms) told him what to do. His total involvement was to agree with them, count his winnings, and to dream of a life of ease and riches. Nothing to it!

Naïve? Most people would think so, particularly if they had any experience at all with the stock market. Yet his story is similar to that of thousands of new investors who flock to brokerage offices each time stocks head upward. (There are not so many around when they should be: when stock prices are low and headlines talk of economic hard times.) We'll get you over than problem with this book, as you will see.

The man was so excited if he had been a balloon he wouldn't have needed helium. He needed to be brought down to earth. Had his name been Virginia perhaps I wouldn't have had the heart to give him the real low-down on Santa Claus; since it wasn't, I thought he'd be better off with a real dose of reality. A number of chats later, which included an orchestrated glimpse of the pitfalls awaiting the unwary, he came to realize he'd been just plain lucky, as gamblers sometime are. He kept his job, was able to take some profits before the market's subsequent decline, and then had the capital (and a little more knowledge) to have a reasonable chance at future success.

"Five of seven of my brokers' recent offerings lost money and two broke even," he told me some weeks later. "I guess almost anyone could have made money when I did. Now, it's not so easy."

He learned at least one valuable lesson: The key to making money in the stock market is correct timing. Each time the market hits bottom, a proportion of rank beginners get lucky and buy. Some make spectacular gains and their stories spread. People are quick to boast of their winnings, reluctant to talk about losses.

This makes it all look so easy to some of the uninitiated – and therein lies the trap. "Uncle Joe's broker gave him a real winner. I'll give him a call to see what he's got for me."

Uncle Joe's broker will always have **something**. That in itself is a problem; there are times to step back from the market. And even at the best of times what Uncle Joe's broker offers you may not bear the slightest resemblance to the goodies Uncle Joe got. And if what you get doesn't live up to expectations? Who do you turn to next? We all have to stand on our own two feet.

Brokers and analysts, some of them excellent, have their uses. With few exceptions, they want happy clients. Happy clients mean more commissions in the future. Why then do the majority of stock investors lose money most of the time?

The most common belief is that the "professionals" have the important facts first and the little guy is left out in the cold. But if stock price movements are based solely on facts, why don't the professionals do better?

Dozens of studies have been carried out in the U.S during the past many decades involving records of hundreds of analysts, pension fund and mutual fund managers and thousands of their favorite stocks. A whopping 71% performed worse than the average for the Standard & Poor's basket of 500 stocks. Since those stocks at any given time include a number of duds commonsense should say to avoid, one might suppose these people should outperform the average.

And if the professionals have a tough time, what chance for you and me?

Surprisingly, we have a better chance. We can make decisions in minutes while institutional decisions often involve committees. Managers under pressure to perform often try to play it safe – which means going along with the pack, which is usually wrong.

Analysts, particularly those working for stock brokerage firms, must avoid upsetting the management of those companies on which they report for two reasons: to do otherwise risks cutting off their source of information and, perhaps more importantly, corporations seeking to issue more shares may not give the lucrative underwriting to a brokerage house that has been critical in the past.

The essential conclusions to be drawn from all this are:

- We must take charge of our own destiny. It's our money; we must not expect someone else to do all the work so we can reap all the benefits. This, among other things, means avoiding high-priced full-service brokers and using much cheaper discount brokers who do not necessarily offer advice that, in any case, you will not need once you start to follow the system laid down here.

- Since we cannot have all the facts all the time (and if we could, how could we put an accurate value on each fact?), we need to know how to use the tools that are instantly available to everyone in making decisions. This book will show you how to do that.

- We need a system to know when to buy and, perhaps more importantly, when to sell.

- We need to be able to assess risk and to apply that assessment so the "risk" of making money is greater than the risk of losing it.

You wouldn't expect to start a business without knowing something about it. You wouldn't hire managers to make all the decisions. You'd also make sure you were psychologically suited to the new business. The same rules apply to the stock market. If you're prepared to work at it, to make it your business, you should find this book helpful. If you want a chance of money without work, we will even do the work for you for a very low price.

We started this introduction by talking about a man in the early 1980s who thought he would quit his job to play the stock market. Believe me, he is quite typical. Maybe you recognize him in yourself or in a friend or relative.

Fast forward 20 years and we were just coming out of another stock market slump. Forward a few more years and we recorded an exceptional event, the first since The Great Depression: Investors on average lost money over an entire 12-year period.

That period is covered in this book and you will see it provided great profits.

More people now are dubious about the stock market. As always after a bear market, many have locked in their losses and left never to return.

Retirement savings, shepherded so carefully by so many, were decimated, plans changed, dreams abandoned, retirements were delayed if there was that option among the millions of lost jobs.

But it did not have to be like that! I don't know how many times I have to say it, but investing **with a plan** is the easiest way I know of to make a lot of money without working for it. Contrary to popular opinion, you do not need a lot of money to start. The odds are strong that money you waste daily without even thinking about it can soon be quite sufficient to begin with.

Ask yourself this very important question: Was it the stock market that was wrong? Did it do anything it had not done before? Or was it that so many players were not able to deal with it in a way that would have **increased** their wealth rather than decreasing it?

The stock market is not as complex as the average person is led to believe. Most of it needs no understanding because you should not be involved with establishing your own strategies unless you are a pro. For now, you need a basic winning strategy uncluttered by all the rest. *How to Become a Wealthy Investor* is that strategy.

If you have a few thousand dollars left in the piggybank after the recent debacle, please don't despair

that there are fewer dollars now than there were before. I am going to show you – to *prove* to you – **such** an idiot-proof way to have **stocks tell you** when and how to invest in them. That's right: the stocks **themselves** will tell you.

In reality shares, when they are not merely computer entries as is the case with most today, are merely pieces of paper incapable of telling you anything. But knowing how to read instantly what people are doing with them and being prepared for what they may do next week can tell you everything you need to know to be right almost every time. It's like having a map for an area with only one street. You don't need brains, six degrees, a magic wand – just the ability to read a trail, just like a hunter, but a lot easier.

Let's talk about something you already know: stocks sometimes rise and they sometimes fall. Surely even the most skeptical can agree with that. That simple and widely-known fact is the starting point for our journey. At the end of this book, after I have given you a handful of very simple rules you can follow with no further help, we will see the statistics for each stock and each trade carried out with the 30 stocks in the Dow Jones Industrial Average. The data goes back beyond 1970 for some stocks.

I urge you to prove the results for yourself. Follow the summary of rules shown in this book with each chart and know why certain things were done at particular times. Get comfortable with what you discover. You will have seen nothing like some of the system's elements anywhere else.

You be the judge of whether what you learn really works. Those 30 Dow stocks were chosen to provide a group of senior companies without any ability on my part to choose ones that produced better results than others. A computer program was written to make sure exactly the same rules were applied to every stock; no fudging.

Once the computer is switched on, there is **no** human intervention. The program reads markets all by itself.

I can't swear to you that if you follow the rules precisely you will get exactly the same result during the next 30 or 40 years. Times and circumstances change – they did during the past several decades, too. But doesn't it seem pretty obvious that if the deer come out of the woods in early spring to graze in a field they will do so again next year?

I will tell you in the smallest detail and as simply as possible everything you need to do. But I'm also going to tell you it will mean regular work, not hard, but perhaps tedious. I'm not going to fool you.

But I will also tell you how to get all the answers from my company for each of the S&P 500 stocks every week with **no** work; you will know exactly what to do and what not to do to be as successful as you can be.

We will do all the work for you for a pittance! If that doesn't interest you, nothing ever will.

Speculators, gamblers and many who consider themselves investors spend hours, weeks and months trying the figure out when is the best time to get into the market. They are almost always too late (or they suffered all the way through the previous crash). When the majority is sure the time is right, the best profits have long gone and the bull market is closer to dying than rising from the ground.

The average investor buys close to market tops and sells close to market bottoms (or they buy and hold with no changes along the way). How can anyone expect to make better than average returns that way?

This book will lead you without thinking, worrying or wondering to buy low and sell high. You will usually buy near the bottom and sell near the top. What do you think would happen to your returns, to your net worth, if you were able to buy low and sell high most of the time?

Think about this for a moment: What would change in your life? What would you do that you cannot do now? How would it feel not to have to worry about money again? I have been there and believe me it makes a huge difference.

You will see that what is written here is pure commonsense. You will **know** that what I teach works

as advertised because you will be able to prove it and **see** it for yourself.

Not all will have the same experience or understanding as we start so forgive me for including some basics with the nuts and bolts.

Ready to get started? **HOW TO BECOME A WEALTHY INVESTOR PAGE 9**

Chapter 1 First, a Warning

Until you prove this system for yourself you will not find it believable

Completed Trades S&P 500 Dow 30

Number of trades 955 97

Profits trades 842 87

Losing trades 113 10

Average profit per share \$13.12 \$10.73

Average annual return on 49.08% 64.40% investment

Average length of investment 5.88 years 6.70 years

In fact, it has been an unbelievable journey that started more than 25 years ago when I wrote the Canadian best selling book, *Take the Guessing out of Investing*. That book and the program associated with it led to a career in the investment industry. The program averaged a fraction over 22%...but I always suspected it could do better.

In March 2009 I scratched out a plan on a scrap of paper torn from an exercise book. The intent was to simplify the old program, reduce the losses it had and increase profitability. Instead of trying to capture every hop, skip and jump of a stock I wanted a more patient approach that would reduce losses and commission expenses.

But you know how it is: you have what you think is a great idea and if only you added this...and this...and a little of that! Cooks know that does not always work. When the program was written to include all these extra little twists, results were a disappointing 11 or 12%.

(Eventually, the program designed on that scrap of paper was written by our excellent in-house programmer and chief technical officer. As expected, the average rate of return was around 30%.)

But before that program was ever written I got very frustrated. I threw out rules that for years I had understood were commonsense staples in the industry. Then late one night I just about fell over: the average annual return for the 30 stocks in the Dow Jones Industrial Average for some 40 years was then 56.46%.

I was ready to dance around the office...for all of two seconds! Then I realized that no sane person would believe this return and our business dreams came close to imitating the Hindenburg.

Our answer was to hire professionals to help us to show you that what we say here and on the website is absolutely true. There cannot be the slightest whiff of smell or our credibility (and our business) is gone in a flash. That's why every effort has been made to provide you with all the details of how we do what and why in this book.

Meanwhile, despite the returns, all was not rosy with the program. From time to time, it gave gut-wrenching drops of 50% or more.

We continued to tinker with it and, really by accident, found a way to eliminate most of those losses, cut out most of the gutwrenching drops along the way and – to make matters worse! – improve the average annual rate of return.

Losing trades with the addition of the final tool were cut to 10.31% for the 30 Dow Jones Industrials and 11.83% for the 500 stocks in the Standard & Poor Index. If you are a typical investor, you know how phenomenal that is.

The statistics at the start of this chapter are from February 11 2011.

Charts for all 97 Dow Jones trades are at the back of this book. They are annotated so you can see exactly what was done when and why. Spend some time with them to understand what is happening; that should give you some confidence to move ahead with the system yourself.

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Chapter 2 Fear, Greed and Getting the Timing Right

There's a time to buy stocks and a time to sell them. Knowing which is which is vital to our financial health. Even General Electric or IBM, solid though they are, can cause losses of sickening proportions if our timing is wrong.

It is often said that people who try to time the market, who try to gain from market fluctuations, typically make less money than those who hunker down and hang on to their stocks regardless of what the market does.

Frankly, for most people, this counsel is correct. What those who quote it forget is that the majority of investors rely on emotion. They typically buy too late in a cycle and then sell too late. They have no disciplined approach.

Our objective, quite obviously, is to buy low and sell high. The recipe for success is in recognizing when 'low' really **is** low and when the latest in a series of highs is the end of the ride.

If we're too subjective in making our decisions, those demons – Greed and Fear – tend to raise their ugly little heads. Joined by their good old buddies, Ego and Impatience, they can create havoc with a bank balance.

Here's how they often work: Let's suppose that Blunder Corp. traded as high as \$20 three months ago. It's a good, solid company with bright prospects but it is now trading at \$15.

"Just \$15?" Greed asks. It only has to go back up to \$20 and we have made 33% profit. Surely it will do that and more."

"But," we, the guys with the money, ask, "how do we know it won't go down further?"

"Let's figure out how low it will go," Ego chimes in. "Wouldn't we be smart if we bought it at a price lower than all those other folk paid?"

"Yes," agrees Greed, "and we'd make even more money then when the price goes back up."

And some days later, with the price just a notch higher than the target set by Ego, Impatience says: "Hey, guys, the price doesn't look as if it's going to drop any more. Let's buy now before the thing squirts up on us. We don't want to miss the opportunity."

So pressured by the four demons, we let them make our investment decisions. Our role? Stand by with the check book. And sweat a little!

Farfetched? We'd never allow such a thing to happen to us, right? Be truthful! In thousands of homes and offices across the country variations of this skit are played every day of the trading week.

Objectivity is our only protection and each of us must apply it in our own individual ways. We ask the **market** to tell **us** in which direction it is most likely to move next; it tells the truth often enough to make the questioning worthwhile. The questions and answers are communicated through stock price trends.

These trends are set by a combination of fear, greed, reason, calculation, invention, corporate success or failure, luck, the wish of one person or group to acquire more shares or to dump them...there is such a vast array of factors, most in opposition to others, occurring in the same instant and in secrecy that it is quite impossible for you or me to figure out what will happen in the next second, let alone the next week.

But the market gives us pretty accurate instant clues if we will but listen.

It would be supremely convenient if, in a bull market, stocks went steadily and predictably up, and

in a bear market they went steadily and predictably down. Real life ain't so convenient.

Anyone who has followed stocks knows they are damnable critters that wobble a lot, sometimes going down on good news, up on bad, often up on rumor, down on fact – even if the facts confirm the positive rumor.

For all that, they are not nearly as unpredictable as one might suppose. They tend to move in trends rather than in completely haphazard fashion. Spot those trends soon enough and the profits are good when we are right, the losses limited when we are wrong.

To work the *How to Become a Wealthy Investor* system, we need up-to-date weekly bar charts of stock prices over the past several years, a ruler, a sharp pencil, a bit of intuition, and an **inviolable** trading plan – oh, and the psychological attributes of a robot. We're back to that word 'discipline'. If you don't have it or if you are not willing to make a commitment to develop it, stay right away from what I am about to tell you. You are being given a virtually-guaranteed way to make a lot of money easily and with a good margin of safety. But it needs your robot-like contribution.

Don't try to 'improve' on the rules that took me 57 **years** to develop and improve **for** you. Just don't do it!

There are more than 1.5 million sources of charts on the Internet of varying quality and usefulness. Several are free. Many have far too much information that can simply serve to confuse you and lead you to experiment.

Re-read the previous two paragraphs! Then choose the simplest bar charts you can find. Make sure they are adjusted for splits, dividends and special cash payouts. And make as certain as you can that they are accurate. If you see stocks doubling in price and plunging back down the next week, anticipate data entry problems. Yahoo Finance and Google Finance both have long term charts.

There are many different ways to represent prices, their movements and trends. Our system uses simple bar charts in part because they determine more easily the breadth of a trend and they are easier for you to draw extensions. (Be **ultra** careful to get the spaces between the bars consistent when you add to these charts or you will get the wrong results.)

In a weekly bar chart (and that's what you want; not a daily or monthly one) the upright bar represents the price range from high to low of all trading in that week. To the right is a very short line representing the closing price for the week. There can also be a short bar to the left representing the opening price for that week.

Opening and closing prices represent one instant in time and for our purposes mean nothing, any more than would a trade at 10.43 a.m. on a Wednesday.

We want to measure what happens in successive weeks: are the weekly highs higher overall? Are the weekly lows lower? What is their overall trend and if the trend changes at what level will it confirm that change?

Do this well enough and we will be way ahead of the pack most of the time, actually setting targets for a specific buy or sell as much as a week in advance. What an advantage!

If we are using charts, how much fundamental knowledge do we need? Do we need a really detailed analysis of a company's balance sheet, or to know a company inside and out? In my opinion, the answer is usually no – which is good news for us poor mortals.

Some chart watchers don't want to know anything at all about the company, believing the stock's price fully reflects at any given time all there is to be known or assumed about it.

That's a *bit* too radical for my blood. I want at least to know the company is healthy and profitable or likely to be soon. What I most want to know most is whether we are in a bull market, when some 75% of all shares will rise, or in a bear market when about 90% of shares will fall. I want the odds to be in my favor. But don't expect analysts and newspaper columnists to tell you the direction of the trend (six months after it is obvious); *listen to the charts*

How do we know when is the right time to buy or sell? How do we know when a stock is too low or too high? The simple answer is that we don't for sure. But – and this is fundamental to these trading methods – we can easily know with a great degree of probability when prices change direction. It is this change which tells us when to buy or to sell.

The only practical way to tell directional change in a timely fashion is with charts; we cannot effectively determine price changes merely by keeping numbers in our heads. And we would be too influenced by emotion that way.

Sometimes the end of a downward trend is determined by a price leveling off rather than moving up. At other times, acceleration in the rate of decline (or climb) can signal the nearby end of a trend.

Even more obvious in a falling market is the occasional mighty crash at the end with, at least temporarily, a sudden reversal. It does not always happen but you will certainly know it when it does.

A rising market often terminates with a frenzy of buying – and joining this mad rush (and listening to the gushing words in news commentaries) is one of the reasons some novice investors lose their shirts and wonder what on earth happened to them.

Charts of most stocks other than the most volatile usually show periods of several months' duration when prices fit neatly into channels, up, down or sideways. These channels can be pathways to profits if we keep within their bounds.

A parallel line of a specific minimum length touching the weekly high of a falling stock that places it the greatest distance from its accompanying trendline can eventually signal a buying point when prices cross above that line. The trendline and the parallel line are at extremes which provide the widest possible channel over a period.

It is not quite that easy, but almost.

A short term high is the second important indicator; just crossing the parallel line is not enough; that could lead to many false trades. We also need to pass through resistance.

The mirror image is true for stocks that have been rising. A trendline across prominent recent lows, when violated by subsequent prices, is often a strong indicator that, depending on certain other conditions, we should get out fast and enjoy our profits.

No single set of rules will produce ideal trend and parallel lines for all stocks. In that case, don't try to make them fit. There are some 500 stocks in the S&P 500 Index, more than enough to satisfy all but the largest mutual fund company. There will be times simply to avoid a particular company and you will learn about those in *Wealthy Investor Weekly* if you subscribe.

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Chapter 3 Three Unique Tools

There are three key tools to the system I have not seen anywhere else:

- Flexible trendlines
- Short term highs and lows
- Red Line Alerts

Let's deal first with flexible trendlines. Most systems use trendlines that measure a relatively short time span. And typically in a bull market they are allowed only to move more acutely upward when that is possible, never the opposite way.

Our system uses trendlines of 161 weeks, an unusual length. The potential danger is that in a bull market of less than three years (not too common) you may not reap maximum benefit. Testing has proved, however, that 161 weeks is the optimum length. The fact that you are typically compensated richly for a sickening ride down does nothing to lessen the anguish while a bear market eats into capital. The question you have to ask yourself is can you stand the heat in the kitchen?

(We developed another tool we'll talk about later that prevents fingers from being burned too badly even in a warm kitchen.)

There are no protective stop losses until trendlines are in place. That means you are at the mercy of whatever the market throws at you for 161 weeks beyond the cycle low (not beyond the date on which you buy).

We tested dozens of different computations, some of which had trailing stop losses. The program we settled on had fewer and smaller losses because it was given freer rein to play out to an appropriate conclusion. The price for this was enduring sharp ups and downs once in a while, particularly near tops and bottoms.

There is nothing new about trendlines but what is different about ours, apart from the length, is that they can move *in either direction*. They are simply there to measure trends and to warn when a trend is changing direction.

In most cases, a price crossing a trendline is a signal to sell (or to buy). Ours need a certain level of penetration before action is called for. But what happens if the penetration is not sufficient to trigger a buy or a sell?

Here's where our trendlines are different: we assume the line is not correctly following the trend and move it slightly away from the direction in which it was headed. Any sort of travel – to grandma's house or to the moon – requires thousands of minor course corrections. Just watch the steering wheel movement on any vehicle. So why shouldn't trendlines adjust?

Those minor course corrections tend to keep us headed toward even great profits.

Short term highs and lows

This is not a new tool; I developed it back in the mid-1980s for the forerunner to this system.

I'll talk here about short term highs; just imagine short term lows as being the mirror image. A rise in a stock's price followed by a pullback graphically illustrates the tug-o'-war between buyers and sellers. On the way up, buyers are more aggressive than sellers. On the way down, sellers are more anxious than buyers are eager.

A short term high in our system is a high that is higher than at least the highs of the two previous and the two following weeks. Charts have dozens of them scattered about like measles! They are very weak signs of temporary resistance to higher prices.

To be sure that the crossing of a trendline is real, we want also to exceed the level of the closest high of a short term high that is above the level of the line. If you drew a horizontal line from the trendline in a particular week, which would be the first short term high to exceed it? A point just above that level is where we would buy.

If there is no viable short term high less than 5% above the line, a frequent occurrence, we use the line plus 5% as a buy target. The trendline is always drawn one week ahead so you have a target for the following week.

Short term lows are used to indicate where to sell once a trendline is penetrated.

Red Line Alerts

A strong and most-recent part of the system came about by accident: the Red Line Alert.

For all the things they can do, computers are simply gadgets filled with electronic bits and pieces. They have no intelligence. The only reason our computers "know" a line is rising or falling is through mathematics. Once correctly programmed, a computer can tell up from down, but not in the way you or I would; we can see, a computer has to calculate.

A computer cannot "see" where it has been, either, if the connection is broken. It's like following a wall with your fingers in absolute darkness. This is why on our charts you will see old trendlines or why there might be a line from a previous cycle low that appears to have nothing to do with a current investment. Lines often exist just so the computer does not get lost. Without lines to guide it, it would

be blind.

During development of the program, I used to mutter none too gently about "dumb" trades, buys that were made too close to what was a presumed cycle high. You or I would look at a chart with our eyes and see we were close to the level of a recent high. Our computers could not do that; they can now! There's a "dumb trade filter".

When the system "bought" at a high level there was invariably a nasty drop in price soon after. That should be easy to imagine. Now imagine this: the computer "thinks" it has bought and it should be drawing an upward sloping trendline. (It can't wait 161 weeks; it would get lost, so non-active trendlines start to be drawn immediately there is an assumed buy. You will see these on the charts at the back of this book.)

Maybe this investment rises for a few weeks (and so it is colored blue). I said computers are dumb, not color-blind! Imagine this common chart pattern: an M, a double top. We are now headed up the upward slope of the second half of the M. Blue! Fine!

But then comes the final leg of the M and the line is no longer heading up but down below where it began. The non-color-blind computer, with a little programming help, switches the color of the line to red. We have a bull trendline that is headed the wrong way: down.

Once I had stopped muttering about "dumb" trades I realized that these red lines without fail eventually found the next cycle low. That was their only function. There were no stop loss levels set from them. The system, as far as stop losses are concerned, ignored them until 161 weeks after they turned a corner and started heading up in the direction they were supposed to be going. And so was born Red Line Alert.

At first we thought we would have to rely on you to ignore buy signals that were too expensive. We told you where to find charts and how to simply see when something looked too high. The thought was that if you avoided these expensive positions a red line would ultimately be drawn and we would tell you in *Wealthy Investor Weekly* a short time after it had turned the corner – after it had found bottom.

There was a problem, of course. Isn't there always? How would we avoid short corrections in the downward slope that would fool the computer temporarily into thinking it had found the cycle low? Ah, wait 16 weeks (the first guess to be subject to rigorous testing). That should allow a correction to get over itself!

Well, it didn't make a lot of difference, but a delay of two weeks was more than 1% better than 16 weeks and better than all the other possibilities. Sometime a buy will be made too early, but the sum result was best with a delay of just two weeks.

But that left another problem: we had very careful statistics for the regular program; how could we keep track of what Red Line Alerts were doing? How could we know what expensive trades you would avoid?

The end of this story is that we have now managed to fold Red Line Alerts into the rest of the program. At the same time, we have shut out potential buys that seem too expensive. You no longer need to make that judgment unless you are making calculations manually.

The computer still "makes" the dumb trades but is prevented from telling you about them, just as it is prevented from telling you about short sales, which we never got to work very well. (So far!) The computer needs to "make" those trades so it does not get lost. Sometimes I think we should tie a bell around its neck!

To my knowledge, none of these tools are used anywhere else. But, also to my knowledge, these returns are not generated anywhere else without a great deal of risk and hard work. As close as possible, this is set-it-and-forget-it investing. Let's look at a couple of real life examples.



Figure 1: Bank of America, 1998–2002

Bank of America from 1998 to 2001 gives an excellent illustration of how Red Line Alert works. The cycle high of July 13 1998 at \$27.98 was followed by a rapid plunge to \$14.01. There was then an almost equally rapid rise that fooled the system. Had it not been suppressed, it would have recommended a buy on July 5 1999 at \$24.64. The program, however, will not allow a buy within 16% of the cycle high.

Just as well, given what we can now see would have been the result. But because the price fell, the system drew a falling bull trendline (red) and this line eventually governs where an allowable buy will be made. Notice the two red pins above the end of that line. You would have been alerted to each of them in the weekly report, but for our statistics (since we cannot see into the future) we always use the first of multiple alerts.

The original red line on this chart, before automatic adjustment, rested on the short term low two weeks ahead of the first pin. The pin is where the trigger was for first buy order which would have been issued two weeks later.

The red line adjusts for each lower low. The second and lowest pin is two weeks after the absolute low of December 4.

Using the first alert, however, the system bought at market on the open the next trading day, October 30 2000, at \$15.20.

If the original target (before Red Line Alert) had been used, profit over 8.32 years would have been \$15.57 a share, an annualized rate of return of 7.60%. But with Red Line Alert the profit from Bank of America was \$25.01 over 7.00 years, annualized at 23.52%.



Figure 2: American Express, 1987–1991

American Express gives a different example of Red Line Alert usefulness. The first buy at \$4.66 (the blue pin) on July 25 1988 is legitimate according to all the system rules. It is 27.1875% below the previous cycle high of \$6.40 on March 16 1987.

The stock rose quite nicely from there to \$6.78 on October 9 1989 and a temporary (not active at that time) blue trendline would have been tracking the trend closely. But the 161 weeks needed to make the line active and to set stop loss protection from it would not take place until December 31 1990, 161 weeks after the second of the double lows at \$3.35 on November 30 1987.

However, just before the red pin, the low on October 15 1990 was \$3.12, lower than the previous cycle low the trendline started from. This entire decline had forced the temporary line lower and lower and as soon as it was below the starting level of \$3.35 it became a red line.

Some people may not have bought at the time of the first signal (blue pin) but now have a second chance with a Red Line Alert. Just two weeks after the new cycle low, it called for a buy at market and, if carried out on the Monday opening, would have bought at \$3.15.

The first investment lasted a lengthy 12.65 years but, by the time it was sold on March 19, 2001 at \$28.01 it had an annualized return of 39.67%. Not shabby, but the Red Line Alert trade produced an annual 76.21% over 10.39 years.

The obvious question is, if you had bought the first time, could you buy again off the Red Line Alert? Yes, there is nothing to stop you but that would reduce your diversification and expose you to a slightly higher risk as a result.

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Chapter 4 Basics that must be included

There are some basic investment strategies that you must include in your investing program:

- Proper diversification
- Approximate portfolio balancing
- Patience
- Stop orders

We'll deal with diversification first as it may be one of the most important elements.

Proper diversification is essential for your well-being as an investor. Proper diversification means

choosing 10 to 20 stocks each from entirely different industries

Diversification is more important than most people recognize. Buy a single stock – as I did my first time – and it's like betting your entire bankroll on one roll of the dice.

You might win. That will tempt you to do it again...and again...until you lose it all and you have to explain to your irate spouse why there's no rent money – or food money – this month.

A man said to me a while back: "I've heard it said that stock diversification is a protective strategy but doesn't it guarantee you will have some not-so-hot investments among the winners?" That is exactly why, in my early days, I stuck with the best single stock I could find – often to find it was one of the worst!

Of course diversification means you will have some better and some worse choices than others. They can't all be the best, after all.

When I began investing I wondered why anyone would think diversification was a good strategy. Like most beginning investors, I wanted to find the very best opportunity there was. I didn't want to water it down with also-rans and divert scarce cash into something not likely to do as well.

Harsh experience soon taught me that nobody can pick just the most profitable shares and put all their money into them all the time.

Don't pay too much attention to selecting "the best" stocks. Just pick reasonable ones with a fairly reliable track record. Most people gasp with horror when I say that. After all, this is what most serious investors do: spend hours researching their next target.

It does not matter! To prove the point, on our website I started a [portfolio](#) with 12 stocks. Six were picked by an 11-year-old girl from a very poor Panamanian family, six by her 9-year-old brother. Neither have a clue what a stock is, never mind which might be the best ones. Oh, and neither speak English. They were given a single rule by an interpreter. That was all! They live in a cinder block house with no windows; survival, not riches, is their goal.

The rule: pick one only from each of the 12 major industrial groups printed on several sheets of paper. They were given different colored pens and the list you will see at the end of this chapter. That was it!

My belief is that results for the first while will be roughly the same as for the S&P 500 Index. But, using the rules in this book, they will miss most of the next bear market and get the best from the next bull market. Soon their results will be far better than those for the stock market. Follow their progress [here](#). If Juliesy and Andy can do it, so can you...and that's the point of the portfolio.

But doesn't diversification lead to merely being average? Well, yes, the Dow Jones Industrial Average and the S&P 500 Index collectively are both averages.

Their returns have averaged between 10% and 11% since 1928, a time that has included two world wars, numerous regional wars (have we ever truly been without war somewhere on the planet since then?), natural disasters, recessions, assassinations, financial turmoil – you name it.

And yet stocks have managed to move ahead and provide between 10% and 11% on average including dividends throughout all that difficult time. Those numbers include bear markets and companies that simply went broke.

What if we could miss out most of the major downturns? What if we could do that with very few losses and low commission costs, too? Wouldn't that absolutely produce returns greater than the average? That's what *How to Become a Wealthy Investor* does.

Let's start off with an explanation of **proper** diversification.

But first, a look at what proper diversification clearly is **not**. A man came into my office one day and wanted to buy a few thousand dollars worth of a common stock mutual fund. He showed me what he already owned: about 20 other common stock mutual funds all from the same country. He wanted a different one to further diversify.

"But that's not diversification," I complained.

"Yes it is; they all have different managers."

"But those managers all buy from the same pool of stock. There may be slight variations in what they each own, but that's not diversification."

He was more stubborn than me and I could not convince him so we parted company, him possibly thinking I was some kind of a jerk. I would not take his money for something that could not help him.

To be properly diversified, you need a number of stocks **each from a different industry**. If you have Schlumberger (an oilfield services company), Transocean (a contract oil and gas drilling company) and Ultra Petroleum (an oil and gas producer) among a list of 10 or 20 stocks, you are not fully diversified.

If oil goes into a tailspin, all three will get hammered at the same time.

I probably shocked a few people when I said it really doesn't matter what stocks you pick so long as you choose them from different industries.

Most investors spend the greatest percentage of their time asking questions and pouring over statistics just to find the best stocks to include in their portfolio. Sorry, guys, it's not worth the bother as Juliesy and Andy will prove. What **is** worth the bother is good portfolio management.

You don't believe when I say choice does not matter as much as many believe? A man in England set out a few years ago to prove his dog could do better than his stock broker. (I'm not sure whether he had a smart dog or a useless broker.) He spread the stock quotation pages from the newspaper on the floor and bought the stocks the dog "picked".

Don't ask!

The dog made a bundle and, of course, the tax man wanted his share of the proceeds. The man went to court and won because there was no provision in the British tax code to tax dogs. "But," the judge warned, "if anyone but the dog spends the money it will be taxable!"

So don't sweat the choices. Certainly don't look for tips from a newspaper (unless you have a smart dog!); most of those people are journalists, not stock gurus.

Don't listen to tips from your neighbor to satisfy his ego at your potential expense, or from anyone or anywhere else.

Do your own thing and feel more proud and more independent at the end of the day. You will not get hurt with what I'm going to show you.

Use the list a few pages hence of the various industrial groups and sub-groups together with the S&P 500 companies that comprise them. Don't pick more than one from each group or sub-group. I hope that helps.

People think they need professionals to tell them what to buy. **No you do not!** That's what professionals *want* you to think. You already **know** what to buy. Some people make much too much hard work out of stock investing. Truly, it is easy with a system.

Let's deal with a few things one at a time: What is your favorite brand at the grocery store? Do they sell a lot of that brand? Why? Is it the quality? The marketing? The cost? Add just one grocery item to your possible list. If you like two pick the best or go eeney meeney miney moe! Don't choose both.

What car do you drive? Why? What do your friends drive and why? Is it easy to service, safe, comfortable to drive, get good gas mileage? Is it a popular brand? Does the company make good profits or have to offer too many discounts to attract sales?

If you do house repairs or you are building an extension or even a new house, where do you like to buy your supplies? Why? Do they give you service above and beyond the competition? Do they seem to have plenty of customers? Is the staff polite and knowledgeable? Are their stores convenient and in busy locations?

The questions about things you buy are virtually the same whatever the category.

You probably don't buy steel girders, but it's not too difficult to ask around to see which company of those that make them is the most consistently profitable...if for some reason you think they are a good investment.

What are your hobbies, where do you buy your clothes or shoes for the kids, what health care or cosmetic products do you find to be the best?

A little thought will provide an almost-unlimited number of good, solid companies able to survive the next downturn and the downturns after that. Just think, for instance, how many downturns in the economy Kraft has lived and prospered through.

You see what I'm telling you? **You can do it.** You don't need some overpriced broker who doesn't know his ... never mind!

You can do it and pity your friends who worry over their choices or have to run to others to hold their hand. You don't need it; you already **know** how to diversify properly – more in fact than most brokers.

If you're still unsure (and that's understandable) choose 10 to 20 companies, follow all the rules here, and invest on paper for a while. Slightly change the old Nike slogan: "You can do it!"

Okay, here's the list I promised:

Consumer Cyclical Footwear:

NIKE, Inc. (NKE)

Recreational Products:

Hasbro, Inc. (HAS)

Harley-Davidson, Inc. (HOG)

Mattel, Inc. (MAT)

Audio and Video Equipment:

Harman International Industries Inc./DE/ (HAR)

Furniture and Fixtures:

Leggett & Platt, Inc. (LEG)

Tires:

Consumer Cyclical The Goodyear Tire & Rubber Company (GT)

Auto and Truck Manufacturers: Ford Motor Company (F) PACCAR Inc (PCAR)

Auto and Truck Parts:

Genuine Parts Company (GPC)

Johnson Controls, Inc. (JCI)

Appliance and Tool:

W.W. Grainger, Inc. (GWW) Snap-on Incorporated (SNA)

Consumer Cyclical Stanley Black & Decker, Inc. (SWK)

Whirlpool Corporation (WHR)

Apparel/Accessories:

Polo Ralph Lauren

Corporation (RL)

V.F. Corporation (VFC)

Capital Goods Construction - Raw Materials:

Vulcan Materials Company (VMC)

Construction Services:

D.R. Horton, Inc. (DHI)

Fluor Corporation (NEW) (FLR)

Jacobs Engineering Group Inc. (JEC)

Lennar Corporation (LEN)

PulteGroup, Inc. (PHM)
Quanta Services, Inc. (PWR)
Misc. Capital Goods:
Cummins Inc. (CMI)
Dover Corporation (DOV) Flowserve Corporation (FLS) ITT Corporation (ITT)
Illinois Tool Works Inc. (ITW) Pall Corporation (PLL)
United Technologies
Corporation (UTX)
Aerospace and Defense:
The Boeing Company (BA) Rockwell Collins, Inc. (COL) FLIR Systems, Inc. (FLIR)
General Dynamics Corporation (GD)
Goodrich Corporation (GR) Honeywell International Inc. (HON)
L-3 Communications Holdings, Inc. (LLL)
Lockheed Martin Corporation (LMT)
Capital Goods Northrop Grumman
Corporation (NOC)
Raytheon Company (RTN)
Constr. - Supplies and Fixtures: Fortune Brands, Inc. (FO) Masco Corporation (MAS)
Constr. and Agric. Machinery: Caterpillar Inc. (CAT)
Deere & Company (DE) Fastenal Company (FAST)
Transportation
Airline:
Southwest Airlines Co. (LUV) Railroads:
CSX Corporation (CSX)
Norfolk Southern Corp.
(NSC)
Union Pacific Corporation (UNP) Air Courier:
FedEx Corporation (FDX)
United Parcel Service, Inc.
(UPS)
Misc. Transportation:
C.H. Robinson Worldwide, Inc. (CHRW)
Expeditors International of Washington (EXPD)
Utilities
Natural Gas Utilities:
El Paso Corporation (EP) Nicor Inc. (GAS)
ONEOK, Inc. (OKE)
Spectra Energy Corp. (SE) Sempra Energy (SRE)
Electric Utilities:
Ameren Corporation (AEE)
American Electric Power Company, Inc. (AEP)
The AES Corporation (AES)
Allegheny Energy, Inc. (AYE)
Utilities
Constellation Energy Group, Inc. (CEG)
CMS Energy Corporation
(CMS)

CenterPoint Energy, Inc. (CNP) Dominion Resources, Inc. (D) DTE Energy Company (DTE) Duke Energy Corporation (DUK)

Consolidated Edison, Inc. (ED) Edison International (EIX)

Entergy Corporation (ETR) Exelon Corporation (EXC) FirstEnergy Corp. (FE)

NextEra Energy, Inc. (NEE) NiSource Inc. (NI)

NRG Energy, Inc. (NRG)

Northeast Utilities System (NU) PG&E Corporation (PCG)

Public Service Enterprise Group Inc. (PEG)

Progress Energy, Inc. (PGN) Pinnacle West Capital Corporation (PNW)

Pepco Holdings, Inc. (POM) PPL Corporation (PPL)

SCANA Corporation (SCG) The Southern Company (SO) TECO Energy, Inc. (TE)

Integrys Energy Group, Inc. (TEG) Wisconsin Energy Corporation (WEC)

Xcel Energy Inc. (XEL)

Technology

Computer Peripherals:

Lexmark International, Inc. (LXK) Communications Equipment:

Cisco Systems, Inc. (CSCO)

Harris Corporation (HRS)

JDS Uniphase Corporation (JDSU)

Technology

Juniper Networks, Inc. (JNPR) Motorola, Inc. (MOT)

QUALCOMM, Inc. (QCOM) Rockwell Automation (ROK) Tellabs, Inc. (TLAB)

Semiconductors:

Analog Devices, Inc. (ADI) Altera Corporation (ALTR) Applied Materials, Inc. (AMAT)

Advanced Micro Devices, Inc. (AMD)

Broadcom Corporation (BRCM)

First Solar, Inc. (FSLR)

Intel Corporation (INTC) KLA-Tencor Corporation (KLAC)

Linear Technology Corporation (LLTC)

LSI Corporation (LSI)

Microchip Technology Inc. (MCHP)

Micron Technology, Inc. (MU) National Semiconductor Corporation (NSM)

NVIDIA Corporation (NVDA) Novellus Systems, Inc. (NVLS) QLogic Corporation (QLGC) Teradyne, Inc. (TER)

Texas Instruments Incorporated (TXN)

MEMC Electronic Materials, Inc. (WFR)

Xilinx, Inc. (XLNX)

Electronic Instr. and Controls: Agilent Technologies Inc. (A)

Amphenol Corporation (APH)

Eaton Corporation (ETN)

Jabil Circuit, Inc. (JBL)
Molex Incorporated (MOLX) Software and Programming:
Technology
Adobe Systems Incorporated (ADBE)
Autodesk, Inc. (ADSK)
BMC Software, Inc. (BMC) CA, Inc. (CA)
Compuware Corporation (CPWR)
Cognizant Technology
Solutions Corp. (CTSH) Citrix Systems, Inc. (CTXS) Electronic Arts Inc. (ERTS) Intuit Inc. (INTU)
McAfee, Inc. (MFE)
Microsoft Corporation (MSFT) Novell, Inc. (NOVL)
Oracle Corporation (ORCL) Red Hat, Inc. (RHT)
SAIC, Inc. (SAI)
Symantec Corporation
(SYMC)
Verisign, Inc. (VRSN)
Computer Services:
Akamai Technologies, Inc. (AKAM)
Cerner Corporation (CERN) salesforce.com, inc. (CRM) Computer Sciences
Corporation (CSC)
The Dun & Bradstreet
Corporation (DNB)
Fiserv, Inc. (FISV)
Google Inc. (GOOG)
International Business
Machines Corp. (IBM)
Teradata Corporation (TDC) Total System Services, Inc. (TSS)
Yahoo! Inc. (YHOO)
Office Equipment:
Pitney Bowes Inc. (PBI)
Xerox Corporation (XRX)
Computer Hardware:
Technology
Apple Inc. (AAPL)
Dell Inc. (DELL)
Hewlett-Packard Company (HPQ)
Computer Storage Devices: EMC Corporation (EMC) NetApp Inc. (NTAP)
SanDisk Corporation (SNDK) Western Digital Corp. (WDC)
Scientific and Technical Instr.: Danaher Corporation (DHR) Emerson Electric Co. (EMR) Roper
Industries, Inc. (ROP) Waters Corporation (WAT)
Financial
Insurance (Prop. and Casualty): ACE Limited (ACE)
American International Group, Inc. (AIG)
Assurant, Inc. (AIZ)
The Allstate Corporation
(ALL)
Berkshire Hathaway Inc. (BRK-B)

The Chubb Corporation (CB) Cincinnati Financial Corporation (CINF)
 Hartford Financial Services (HIG)
 Loews Corporation (L)
 The Progressive Corporation (PGR)
 The Travelers Companies, Inc. (TRV)
 XL Capital Ltd. (XL)
 S&Ls/Savings Banks:
 Capital One Financial Corp. (COF)
 Hudson City Bancorp, Inc. (HCBK)
 Northern Trust Corporation (NTRS)
 People's United Financial, Inc. (PBCT)
 Financial
 Consumer Financial Services: American Express Company
 (AXP)
 Discover Financial Services (DFS)
 Fidelity National Information Services (FIS)
 General Electric Company (GE)
 MasterCard Incorporated (MA)
 SLM Corporation (SLM)
 Visa Inc. (V)
 Investment Services:
 Ameriprise Financial, Inc. (AMP) Franklin Resources, Inc. (BEN) CME Group Inc. (CME)
 E*TRADE FINANCIAL CORP (ETFC)
 Federated Investors, Inc. (FII) Goldman Sachs Group, Inc. (GS)
 IntercontinentalExchange, Inc. (ICE)
 Invesco Ltd. (IVZ)
 Janus Capital Group Inc. (JNS) Legg Mason, Inc. (LM)
 Morgan Stanley (MS)
 NASDAQ OMX Group, Inc. (NDAQ)
 NYSE Euronext (NYX)
 The Charles Schwab
 Corporation (SCHW)
 T. Rowe Price Group, Inc. (TROW)
 Insurance (Life):
 Genworth Financial, Inc. (GNW)
 Lincoln National Corporation (LNC)
 MetLife, Inc. (MET)
 Prudential Financial, Inc. (PRU) Torchmark Corporation (TMK) Insurance (Accident and Health):
 Aetna Inc. (AET)
 Financial
 AFLAC Incorporated (AFL) CIGNA Corporation (CI)
 Coventry Health Care, Inc. (CVH)
 Humana Inc. (HUM)
 Principal Financial Group, Inc. (PFG)
 UnitedHealth Group Inc. (UNH)
 Unum Group (UNM)
 WellPoint, Inc. (WLP)

Regional Banks:

BB&T Corporation (BBT)

The Bank of New York Mellon Corporation (BK)

Comerica Incorporated (CMA) First Horizon National Corporation (FHN)

Fifth Third Bancorp (FITB)

Huntington Bancshares

Incorporated (HBAN)

JPMorgan Chase & Co. (JPM) KeyCorp (KEY)

Marshall & Ilsley Corporation (MI) M&T Bank Corporation (MTB) PNC Financial Services (PNC)

Regions Financial Corporation (RF)

SunTrust Banks, Inc. (STI)

Wells Fargo & Company (WFC)

Zions Bancorporation (ZION)

Insurance (Miscellaneous):

Aon Corporation (AON)

Marsh & McLennan

Companies, Inc. (MMC)

Money Center Banks:

Bank of America Corporation (BAC)

Citigroup Inc. (C)

State Street Corporation (STT)

U.S. Bancorp (USB)

Casinos and Gaming:

International Game Technology (IGT)

Wynn Resorts, Limited (WYNN)

Retail (Catalog and Mail Order): Amazon.com, Inc. (AMZN) eBay Inc. (EBAY)

Rental and Leasing:

Ryder System, Inc. (R)

Motion Pictures:

Discovery Communications Inc. (DISCA)

Retail (Technology):

Best Buy Co., Inc. (BBY)

GameStop Corp. (GME)

RadioShack Corporation (RSH)

Real Estate Operations:

Apartment Investment and Management Co. (AIV)

AvalonBay Communities, Inc. (AVB)

Boston Properties, Inc. (BXP) CB Richard Ellis Group, Inc. (CBG)

Equity Residential (EQR)

Health Care REIT, Inc. (HCN) HCP, Inc. (HCP)

Host Hotels & Resorts, Inc. (HST)

Kimco Realty Corporation (KIM) Plum Creek Timber Co. Inc. (PCL)

ProLogis (PLD)

Public Storage (PSA)
Simon Property Group, Inc (SPG) Vornado Realty Trust (VNO) Ventas, Inc. (VTR)
 Printing Services:
Eastman Kodak Company (EK)
R.R. Donnelley & Sons
Company (RRD)
 Retail (Specialty):
AutoNation, Inc. (AN)
AutoZone, Inc. (AZO)
 Bed Bath & Beyond Inc.
(BBBY)
Big Lots, Inc. (BIG)
Costco Wholesale
Corporation (COST)
Family Dollar Stores, Inc. (FDO)
 CarMax, Inc (KMX)
Office Depot, Inc. (ODP)
 O'Reilly Automotive, Inc.
(ORLY)
Tiffany & Co. (TIF)
 Recreational Activities:
Carnival Corporation (CCL) Retail (Home Improvement): The Home Depot, Inc. (HD)
 Lowe's Companies, Inc.
(LOW)
Sherwin-Williams Company (SHW)
 Business Services:
Automatic Data Processing (ADP)
Equifax Inc. (EFX)
Iron Mountain Incorporated (IRM)
Moody's Corporation (MCO) Monster Worldwide, Inc.
(MWW)
Paychex, Inc. (PAYX)
priceline.com Incorporated (PCLN)
Robert Half International Inc. (RHI)
The Western Union Company (WU)
 Schools:
Apollo Group, Inc. (APOL) DeVry Inc. (DV)
The Washington Post Company (WPO)
 Waste Management Services: Republic Services, Inc. (RSG) Stericycle, Inc. (SRCL)
Waste Management, Inc. (WM)
Retail (Department and
Discount):
 J.C. Penney Company, Inc. (JCP) Kohl's Corporation (KSS)
Macy's, Inc. (M)
 Sears Holdings Corporation (SHLD)
Target Corporation (TGT)
The TJX Companies, Inc. (TJX) Wal-Mart Stores, Inc. (WMT)

Restaurants:

Darden Restaurants, Inc. (DRI)

McDonald's Corporation

(MCD)

Starbucks Corporation (SBUX)

Yum! Brands, Inc. (YUM)

Retail (Apparel):

Abercrombie & Fitch Co.

(ANF)

Coach, Inc. (COH)

The Gap Inc. (GPS)

Nordstrom, Inc. (JWN)

Limited Brands, Inc. (LTD) Ross Stores, Inc. (ROST)

Urban Outfitters, Inc. (URBN)

Broadcasting and Cable TV: CBS Corporation (CBS)

Comcast Corporation (CMCSA) The Walt Disney Company (DIS)

DIRECTV (DTV)

Scripps Networks Interactive, Inc. (SNI)

Time Warner Cable Inc. (TWC)

Time Warner Inc. (TWX) Viacom, Inc. (VIA-B)

Communications Services:

American Tower Corporation (AMT)

CenturyTel, Inc. (CTL)

Frontier Communications Corp (FTR)

Leucadia National Corp. (LUK) MetroPCS Communications, Inc. (PCS)

Qwest Communications

International Inc. (Q)

Sprint Nextel Corporation (S) AT&T Inc. (T)

Verizon Communications Inc. (VZ)

Windstream Corporation (WIN)

Retail (Grocery):

The Kroger Co. (KR)

SUPERVALU INC. (SVU) Safeway Inc. (SWY)

SYSCO Corporation (SYY)

Whole Foods Market, Inc. (WFMI)

Printing and Publishing:

Gannett Co., Inc. (GCI)

Meredith Corporation (MDP)

The McGraw-Hill Companies, Inc. (MHP)

News Corporation (NWSA) The New York Times

Company (NYT)

Advertising:

Interpublic Group of

Companies, Inc. (IPG)

Omnicom Group Inc. (OMC)

Hotels and Motels:

Starwood Hotels & Resorts Worldwide, Inc (HOT)

Marriott International, Inc. (MAR)
Wyndham Worldwide
Corporation (WYN)
 Personal Services:
Cintas Corporation (CTAS) Expedia, Inc. (EXPE)
H&R Block, Inc. (HRB)
 Services
Retail (Drugs):
CVS Caremark Corporation
 (CVS)
Medco Health Solutions Inc. (MHS)
Walgreen Company (WAG)
 Conglomerates Conglomerates:
3M Company (MMM)
Textron Inc. (TXT)
Tyco International Ltd. (TYC)
 Healthcare
Healthcare Facilities:
Quest Diagnostics Incorporated (DGX)
DaVita Inc. (DVA)
Express Scripts, Inc. (ESRX)
 Laboratory Corp. of America Holdings (LH)
Tenet Healthcare Corporation (THC)
 Major Drugs:
Abbott Laboratories (ABT)
 Bristol Myers Squibb Co.
(BMJ)
Johnson & Johnson (JNJ)
 Eli Lilly & Co. (LLY)
Merck & Co., Inc. (MRK)
Pfizer Inc. (PFE)
 Biotechnology and Drugs:
AmerisourceBergen Corp. (ABC)
Allergan, Inc. (AGN)
Amgen, Inc. (AMGN)
Biogen Idec Inc. (BIIB)
Cardinal Health, Inc. (CAH) Celgene Corporation (CELG) Cephalon, Inc. (CEPH)
Forest Laboratories, Inc. (FRX) Genzyme Corporation
(GENZ)
 Healthcare
Gilead Sciences, Inc. (GILD) Hospira, Inc. (HSP)
King Pharmaceuticals, Inc. (KG) Life Technologies Corp. (LIFE) McKesson Corporation (MCK)
Mylan Inc. (MYL)
Watson Pharmaceuticals, Inc. (WPI)
 Medical Equipment and Supplies: Baxter International Inc. (BAX) C.R. Bard, Inc. (BCR)
 Becton, Dickinson and Co. (BDX)
Boston Scientific Corporation (BSX)

CareFusion Corporation (CFN)
Intuitive Surgical, Inc. (ISRG) Medtronic, Inc. (MDT)
Patterson Companies, Inc. (PDCO)
PerkinElmer, Inc. (PKI)
St. Jude Medical, Inc. (STJ) Stryker Corporation (SYK)
Thermo Fisher Scientific Inc. (TMO)
Varian Medical Systems, Inc. (VAR)
DENTSPLY International Inc. (XRAY)
Zimmer Holdings, Inc. (ZMH)
Consumer/Non-Cyclical Beverages (Alcoholic):
Brown-Forman Corporation (BFB)
Constellation Brands, Inc.
(STZ)
Molson Coors Brewing Company (TAP)
Personal and Household Prods.: Avon Products, Inc. (AVP)
Colgate-Palmolive Company (CL)
The Clorox Company (CLX)
Consumer/Non-Cyclical Ecolab Inc. (ECL)
The Estee Lauder Companies Inc. (EL)
Corning Incorporated (GLW) Kimberly-Clark Corporation (KMB)
Newell Rubbermaid Inc.
(NWL)
The Procter & Gamble Company (PG)
Food Processing:
Archer Daniels Midland
Company (ADM)
ConAgra Foods, Inc. (CAG) Campbell Soup Company (CPB) Dean Foods Company (DF) General
Mills, Inc. (GIS)
H.J. Heinz Company (HNZ) Hormel Foods Corporation (HRL)
The Hershey Company (HSY) Kellogg Company (K)
Kraft Foods Inc. (KFT)
Mead Johnson Nutrition CO (MJN)
McCormick & Company,
Incorporated (MKC)
The J.M. Smucker Company (SJM)
Sara Lee Corp. (SLE)
Tyson Foods, Inc. (TSN)
Tobacco:
Lorillard Inc. (LO)
Altria Group, Inc. (MO)
Philip Morris International Inc. (PM)
Reynolds American, Inc. (RAI)
Beverages (Nonalcoholic):
Coca-Cola Enterprises Inc. (CCE)
Dr Pepper Snapple Group Inc. (DPS)
The Coca-Cola Company
(KO)

Consumer/Non-Cyclical PepsiCo, Inc. (PEP)

Office Supplies:

Staples, Inc. (SPLS)

Energy

Coal:

Peabody Energy Corporation (BTU)

CONSOL Energy Inc. (CNX)

Massey Energy Company (MEE) Oil Well Services and

Equipment:

Baker Hughes Incorporated (BHI) Cameron International Corporation (CAM)

Diamond Offshore Drilling, Inc. (DO)

FMC Technologies, Inc. (FTI) Halliburton Company (HAL) Helmerich & Payne, Inc. (HP) Nabors

Industries Ltd. (NBR) National-Oilwell Varco, Inc. (NOV)

Rowan Companies, Inc. (RDC) Schlumberger Limited. (SLB)

Oil and Gas - Integrated:

ConocoPhillips (COP)

Chevron Corporation (CVX) Hess Corp. (HES)

Marathon Oil Corporation (MRO)

Exxon Mobil Corporation (XOM)

Oil and Gas Operations:

Apache Corporation (APA)

Anadarko Petroleum

Corporation (APC)

Chesapeake Energy

Corporation (CHK)

Cabot Oil & Gas Corporation (COG)

Denbury Resources Inc.

(DNR)

Energy

Devon Energy Corporation (DVN)

EOG Resources, Inc. (EOG) EQT Corporation (EQT)

Murphy Oil Corporation

(MUR)

Noble Energy, Inc. (NBL)

Occidental Petroleum

Corporation (OXY)

Pioneer Natural Resources (PXD)

QEP Resources, Inc. Common Stock (QEP)

Range Resources Corp. (RRC) Sunoco, Inc. (SUN)

Southwestern Energy Company (SWN)

Tesoro Corporation (TSO) Valero Energy Corporation (VLO)

Williams Companies, Inc.

(WMB)

Basic Materials Chemical Manufacturing:

Air Products & Chemicals, Inc. (APD)

Airgas, Inc. (ARG)

CF Industries Holdings, Inc. (CF) E.I. du Pont de Nemours & Company (DD)
 FMC Corporation (FMC) International Flavors &
 Fragrances Inc. (IFF)
 Monsanto Company (MON) PPG Industries, Inc. (PPG) Praxair, Inc. (PX)
 Sigma-Aldrich Corporation (SIAL)
 Gold and Silver:
 Freeport-McMoRan Copper & Gold Inc. (FCX)
 Newmont Mining Corporation (NEM)
 Metal Mining:
 Basic Materials
 Alcoa Inc. (AA)
 Cliffs Natural Resources Inc
 (CLF)
 Titanium Metals Corporation (TIE)
 Misc. Fabricated Products:
 Allegheny Technologies
 Incorporated (ATI)
 Precision Castparts Corp.
 (PCP)
 Parker-Hannifin Corporation (PH)
 Forestry and Wood Products: Weyerhaeuser Company (WY)
 Iron and Steel:
 AK Steel Holding Corporation (AKS)
 Nucor Corporation (NUE) United States Steel Corporation (X)
 Containers and Packaging:
 Avery Dennison Corporation (AVY)
 Ball Corporation (BLL)
 Bemis Company, Inc. (BMS) MeadWestvaco Corp. (MWV) Owens-Illinois, Inc. (OI)
 Pactiv Corporation (PTV)
 Sealed Air Corp. (SEE)
 Paper and Paper Products:
 International Paper Company (IP)
 Chemicals - Plastics and Rubber:
 The Dow Chemical Company (DOW)
 Eastman Chemical Company (EMN)

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Chapter 5 Stop orders and emotions

In the previous chapter, after diversification, I mentioned other important elements to your investing success. In no particular order, they were:

- Approximate portfolio balancing
- Patience
- Stop orders

Let's devote this chapter to stop orders, what they are, and why they are so vital to your success.

One of the more difficult things about buying or selling shares is to know when to do so. This is most often done by guessing or by gut feeling, yours or someone else's, and is often a time of great

stress. Too often, it is a blind action based on hope or fear.

Selling, perhaps surprisingly, is more difficult than buying for most people. One of the first things we need to recognize is that all losses are real; just because we continue to hang onto stocks that have gone down in value doesn't make the loss any less real.

I can't count how many times people have said to me when holding stocks worth pennies on the dollar: "Oh it's only a paper loss."

The inference is that the stocks are still worth what they cost and that the difference between cost and what the market is willing to pay now is a mere bookkeeping entry so long as the stocks continue to be held.

Nonsense! A stock is worth today no more and no less than someone is willing to pay for it right now. It's real money, not Monopoly play stuff. Stocks, just like checks, can be cashed.

Ten dollars in the cookie jar and \$10 from stocks buys exactly the same amount of groceries. There is no such thing as a "paper" profit or loss; the term is a psychological crutch that can be hazardous to your financial health.

You've heard the expression time is money; even if you wait through a major dip and the stock comes back up to break even, you have **still** lost money. Just sitting in a dull old T-bill, the money you have patiently been waiting to return would have earned **something**. Time *is* money: if an investment is not working for you the way it should, get rid of it!

Money is rarely made with any consistency in the stock market by being stupendously right: it's made – and kept – by not being fatally wrong. Once we accept the fact that we're not gods, that some of our sure-fire winners will turn sour, we can devise strategies for cutting bait quickly when we have to.

A useful device is the stop loss order, an order specifically designed to prevent losing too much or giving back too much of the profit we have made. This tool, surprisingly, is not used by the majority of small investors and I believe that's the reason many of them own portfolios in which remain stocks that are now virtually worthless.

Most how-to books have little to say on the subject of stop losses and most brokers who have no hands-on commodities experience (where they **must** be used all the time) usually fail to recommend them.

A reader of one of my newspaper columns was told by his broker not to use stop losses. "You risk being sold out (of a losing position) and having the price go right back up." That's quite true and it is the reason perhaps that stop loss orders are not a universal technique.

The reader should have asked: "And what do I risk if it falls further?"

There is no such thing as a guarantee of success for any action related to the stock market. Our task is to find strategies that work more often than they fail; let others occupy themselves with exceptions which will always exist.

My reader sent me a list of 10 stocks he then owned. He had invested \$46,500 and had already lost \$18,000. He wrote that most stocks had been recommended by his broker.

Had he merely applied a 10% trailing stop loss (and I do not recommend something so untailored to specific situations) to each of the stocks when he bought them, his total loss would have been \$850 instead of \$18,000. (And if he had used the techniques described in this book he would have had a considerable profit.)

Let's look at a better way to operate than with a simple trailing stop loss order. But first, what on *earth* is a stop loss order? And what is a *trailing* stop loss?

A stop loss (often referred to simply as a stop) is a type of order logged with your broker ahead of time that becomes an order to sell "at market" (for whatever the broker can get) if the stock's price falls to the level of the stop loss order.

Let's suppose a stop is set at \$19.75 for the next week. That does not mean you will receive \$19.75

for your shares if they fall to that level. If the next bid is at, say \$19.74, this is the price you would get. But if you have put a 10-cent limit on your stop loss (not something I advise), it could not be sold for less than \$19.65.

Stop loss orders are quite rudimentary tactics. Far more useful is the **trailing** stop loss. They have the added advantage of preserving as much as possible the profit that has accumulated in a winning position, protecting us against giving back too much of our hard-won gains.

A trailing stop is one that is moved up in a rising market as successive highs are achieved by your stock.

A trailing stop is a one-way proposition; in a bull market it can be moved up but never down. So long as the stock's price continues to rise the trailing stop will rise with it locking in increasingly greater profit.

When, as it eventually must, the stock price starts to fall the level of the stop loss remains stationary. If the stock's price falls far enough the stock will ultimately be sold. No decisions, no anxiety attacks, no wondering whether or not the drop is temporary. Clean and simple! It's done! Next?

The easiest way to manage stop loss orders is to actually place your order at the start of the new week. (Do this even if they are unchanged; most brokerages will not hold stop orders open for more than one week.)

Setting stops takes pressure off you and prevents you from getting last-minute jitters during a price plunge and thinking, "Oh, I'm sure this is just temporary and the price will rise again." Your decision was already made in calmer, more-reasoned times.

In one of the earlier versions of our program, we applied stops when a stock had risen 25%. Then we used a 25% trailing stop. It seemed reasonable; in theory, we could lose nothing. But thorough testing showed that applied this way these stops reduced profitability by about onethird. Instead, our program waits until a trendline has been drawn and then sets a stop loss just below the level of that line. In a sense, it is a trailing stop but trailing the trend, not the stock price itself.

Sometimes, to allow the stock to settle on a new and higher trend, a stop loss can be so far removed from actual prices as to be virtually worthless. But results show that usually the trendline will accelerate eventually and the stop becomes more realistic and useful. When the share price is unrealistically far removed from where your stop should be there is no absolute need to enter a stop with your broker.

My preference is to enter the order whenever the current price is within 20% and could be triggered by a catastrophic event. Just remember to change it the following week when the stop loss level will likely be at a different price.

Setting the selling (or buying) level is then done in the cold light of day with zero emotional involvement. Do you think these decisions might be of better quality, probably leading to more wealth? Can you see how the degree of worry or pressure would be reduced?

Now let's discuss how Wealthy Investor uses stop orders by combining them with trendlines to make trendlines and stop orders "living accomplices" in gaining wealth.

There's a saying among investors that "the trend is your friend". *How to Become a Wealthy Investor* follows trends and changes horses when the trend changes.

But how do you do that? Let's look at it this way: If you wanted to draw a straight line you would use a ruler. The logarithmic mean of a stock's directional trend over decades is typically also a reasonably straight line but we know they also meander a lot within that general trend, sometimes violently.

We also know that trends, although following the same general direction, often change their angle of climb or descent. Such change would require a curved ruler to make an accurate measurement, but how can we find one with the right degree of curve – especially since every stock and every curve is different?

The answer is to use trendlines and lines parallel to them. Imagine them as parallel curbstones on

either side of a street, the street itself being the trend.

(Look at a typical old curbstone; they are rectangular blocks of stone, usually granite, each of a certain length. Ignore the concrete ones that are formed in any desired shape today. Laid end on end, these granite curbstones can quite happily follow bends. Trendlines being straight on a logarithmic chart can do exactly the same thing: follow changes in trend direction depending on the length of the trendline.)

We will talk more about trends and trendlines later. For now, let's just state two things: a trendline in a rising market is below prominent weekly lows along the path; it will touch at least two of the most prominent of these weekly lows. A trendline for a falling market is **above** the more prominent weekly **highs**.

Those trendlines and their parallels are there for a single purpose: to get us in and out of trades when the general trend gives an indication of changing.

Before I go on to explain more about various types of stop loss orders, let's just add one more thing about trends and the lines we use to determine their typical variance and direction.

A trend needs to establish itself before trendlines can be drawn. We cannot wake up one morning and decide: "Oh, the trend will change today so I will draw some lines on a piece of paper for it to follow." Remember this crucial point: We need the **market** to tell **us** the direction it is taking and will most likely follow for an unknown period. We must not try (futilely) There are already too many forecasters in the world creating losses for many of the investors who follow them.

Markets, either rising or falling, follow **channels** not straight lines. They flow typically between two parallels. Sometimes those parallel lines are reasonably close together; for other stocks they may be far apart. But even with the measurement between those two lines showing us the typical extent of fluctuations in price, they are not perfect limits, like strong concrete walls.

They are resistance points but that does not mean stock prices cannot cross them. Eventually, they will cross and the trend will be broken.

If we used the trendlines themselves as buy and sell points (as many systems do), we would be buying and selling far too frequently as stocks zigzag between the two lines. Stock trading is an art, not a science. Sometimes, stocks will blip across a line without triggering a trade in our system. Assume these blips are false breakouts and use them to correct the position of the line. That is an unusual treatment for trendlines probably making the *How to Become a Wealthy Investor* system unique in this regard. Trendlines cannot usually reduce their angle of climb; ours do under certain circumstances. The stop loss order in a rising market is placed just outside the lower line. It demands either a short term low be exceeded as well as the trendline or, in the absence of a useful short term low, that the line be exceeded by 5%.

If the stop is too close to the line, you risk having an otherwise excellent trade cut short by a temporary blip in price; if it is too far below the line, you give up too much profit.

There is also something called a stop buy that many brokers don't fully understand. I had to teach entire brokerage staffs in two different national firms the logic behind them. They are for *initiating* a trade in a rising market at a price *above* the current one.

Some brokers have merely shaken their heads when I explain the principle. "Why wouldn't you just buy the stock now at the current level instead of waiting until it rises?" they ask, looking at me as if I am totally mad. I hope you will understand when I explain.

It is one of the key points in your success. You want prices to give some reasonable evidence there are more buyers than sellers around.

In the 1980s I developed a system similar in some ways to this one (the subject of a now-out-of-print best seller, *Take the Guessing out of Investing*). The system was profitable with average returns, if I remember correctly, in excess of 22% after full-service commissions. (Discount brokerage was in its

infancy.)

But frankly it was far too convoluted and busy. It attempted to profit from every twitch stocks took. There were a lot of losing trades and high commission costs, too. Some clients enjoy a lot of activity and, I suppose, excitement.

The current system has stripped out most of the finetuned stuff and allows the market more breathing room, as it were. The result in most cases is one or occasionally two trades per stock for a bull market.

The greatest numbers of losses with the older system were caused at market bottoms.

How to Become a Wealthy Investor does not worry about every little twitch. It seeks to get into the market reasonably close to the bottom and initially uses no stop losses. For some people, including my early advisors, this is a radical approach, but extensive computer testing has proved that even with a stop loss allowing as much as a 25% loss the chances of being whipsawed or of missing an excellent investment altogether is too high and overall profit is actually considerably reduced.

Let me explain the reasoning. As an extreme, if a healthy individual stock is already down 50%, do you really expect it to fall a further 50%? Ten percent maybe, which it must soon make up, but a further 50% or anywhere close? Not too likely. You would probably lose more money protecting against this possibility than simply ignoring it. In fact, we proved you would during testing.

Some people who have held stocks throughout most of a downturn apparently think the danger of a further precipitous fall actually exists; that's when they get out...in panic at the bottom. If they ever return, it will not be until prices are high enough once more to give them renewed confidence.

They have it backwards.

How to Become a Wealthy Investor does not immediately apply protective stop loss orders to a long position (a buy) at the end of a bear market.

Let prices bounce around at the bottom for a while if that's what they want to do. Let them fall even, if you have picked solid companies. There's a lot of investor uncertainty here. That's why markets are often so choppy at the bottom.

Just be in place when they start to take off at the beginning of the bull market. This slower pace of trading saves a lot of wear, tear and commissions – even at discount brokerage fees.

Stop losses are not used until a trendline is in place. Then they are placed just outside the trendline. Unfortunately, you will suffer through rough patches that occur before a valid trendline is in place. Again, test results show it is worth the uncertainty.

Is this an appropriate approach to long term investing? Just look at the test results and then consider that the S&P 500 Index was at the same level in October 2010 as it was in July 1968, more than 12 years earlier. We think you will agree the figures speak for themselves.

We will talk more about trendlines later because stop loss orders and trendlines go hand in hand like bread and butter.

But, for the moment, it may help your understanding to know that trendlines cannot be put in place until 161 weeks after the market bottom when at least the beginnings of a trend can be detected and measured. This strange number is the result of many thousands of tests to find the optimum delay.

When a trendline is in place, the stop loss follows upward week by week just outside the trendline, always locking in increasing profit and protecting against the eventual trend reversal that must happen. Unlike a trailing stop, there is no fixed relationship between the price of the stock and the stop loss.

When the time comes to take your profit, you're not assailed by an anxiety attack; the decision to sell at a particular point was made earlier and without emotion. You made a business decision in a reasoned manner – the way that decisions in the stock market must be made if you are to be a consistent winner.

Stop losses cannot protect us against unexpected calamitous news. If trading is suspended, the

company announces receivers have walked in and the stock subsequently resumes trading down \$5, nothing is going to spare us a beating (unless you have a limit on your stop, then you might hold the shares through to bankruptcy).

But how often does that happen with the type of stocks we should even be considering as investment vehicles?

There is another very real hazard: stops should not be used to trade large numbers of shares in thinly-traded companies. By sticking with companies that make up the S&P 500 index you will avoid this problem.

Wealthy Investor Weekly sticks to the S&P 500 stocks but you might decide to explore other markets manually with this system.

There is a shortage of published material outlining a sensible strategy for stop losses. When they are mentioned at all, they get passing reference as a useful tool, but detailed rules for their application are usually missing. Investors are often told to determine the amount of money they are prepared to lose and to set stop losses accordingly.

What an idiotic idea! That has nothing to do with the stock you hold and its normal behavior. Why not throw darts and pick a number?

In bygone years, before working it out for myself, I asked a number of brokers what they thought was an appropriate gap between a stock's high and its trailing stop loss.

When I got more than a shrug, the consensus seemed to be "about 10%". But analysis of just a handful of charts quickly showed that 10% is insufficient room to allow for some fluctuations, particularly shortly after a stock enters a meaningful upward channel following a significant downtrend – and this is where the big and quick profits are made.

(There are reasons for this quick rise. Short sellers, anticipating the end of a bear market, scramble to unwind their positions by buying. Less timid members of the public see this as a buy signal and add to the buying volume. Professionals and day traders are also buying at this level – and getting ready to sell quickly. Prices rocket higher – for a while, until all the short sales are unwound.)

A stop that's too close at this point would often get us out of the market on a temporary downward blip after the initial buying binge dries up and just when we should be hanging in.

We need a more flexible set of rules that maximize profits by creating fewer trades and commissions and fewer short-term losses. The rules must also allow the stock to move more freely until it truly is time to leave the party.

Sometimes, when combined with a trendline, a stop loss can be 25% or more away from the stock's price. At other times it can be less than half of one percent away from the price.

The result of using stop losses in the manner you learn here is that we have true money management, not some sloppy pin the tail on the donkey hit or miss action. Inviolable management rules are one significant key to success.

No longer do we have to guess, to worry over a falling stock or to worry about where the top may be for a stock that is rising. The market will tell us all we need to know. When it's appropriate for us to sell, we'll usually be gone...but no system is perfect.

Apart from letting losses grow too large, another reason unseasoned investors tend to lose money is that they settle for lower profits than the stock is prepared to offer, particularly if they have taken recent losses.

Winning, as any significant or sudden winner will attest, is not as easy on the nerves as the uninitiated may assume. When a stock's price turns positive, especially after a bumpy ride, the temptation is to get out and head for the hills as soon as there's a small profit.

Reduced profit and unfettered losses give a one-two blow to aspirations of success. An appropriate stop loss strategy will normally do much to overcome both of these problems.

A commodities trader who spends his days with charts and stout-hearted clients who can win or lose thousands of dollars in mere minutes, clients for whom stop losses are essential if they are to survive financially, had this to say about the strategy I use:

"Just the fact that you use stops is useful. Most investors don't, and they get hurt because of that. If stops are used and you have only average success in picking stocks that go up you'll make money." Laughing, he added: "Your only problem will be deciding whether you want a condominium in Florida or a villa in the south of France!"

In my more innocent days, a seasoned trader once told me: "Forget about making profits, concentrate on limiting losses."

Forget about making profits? Why else, I wondered, was I in the market?

"Ride herd on the losses," he said, "and the profits will take care of themselves. Concentrate too much on making a profit and you'll get into too many speculative situations. Manage the losses or you'll soon have no capital left for the good opportunities."

That simple piece of advice bought me an ocean-front home in a location I could not otherwise have afforded. It also bought a spanking new sailboat that, when I wasn't out sailing, bobbed peacefully at its mooring just off my property.

It brought peace of mind as an investor and, because of the way some of the profits were spent, peace on a personal level.

But finding the methods for achieving all this, in my opinion, was harder than it should have been. All too often, the advice readily available to the novice is long on generalities but short on specifics. There's something almost immoral about an enterprise that lures with visions of wealth and then obscures the path. It's easy to learn how to open a brokerage account; stock tips are as numerous as raindrops in a thunderstorm.

Books have titles promising riches to their readers. Such titles sell books. Many are eager to tell Mr. Innocent Victim the basics of the game, but how to win at that game is another matter. I suspect many "advisors" with a fresh MBA simply don't know.

Mr. I. Victim is largely left to himself to discover even the simplest techniques. Result: too many people have the frustrating and painful experience of one of my financial column readers who asked me to comment on his holdings.

Despite two small profits which brought a questionable rate of gain considering how long he held the stocks, he had a loss of \$4,355 excluding commissions on a small portfolio. A simple 10% trailing stop loss applied to all his trades, with no other fancy footwork, would have reduced his total loss to about the price of a regular coffee: \$2.50!

No technique can undo poor timing or turn dogs into thoroughbred stallions. Nor was any battle ever won without good defensive strategy. Almost all my trades, winners and losers, are determined by stop loss or stop buy orders.

Stops, as I have already mentioned, can also be used to buy, not merely to sell. They save us a lot of headscratching and guesses.

Let's suppose a stock is trading at \$5 and we think it is a pretty good bet at that price. It used to be \$10. The natural instinct is to go in and buy it. But the very fact that trades are taking place at \$5 means the sellers' views are opposed to our own; if a stock can be bought for \$5, someone must be selling it at that price.

Suppose the sellers are right. The stock might drift to \$3 – or to nothing. How do we apply caution to our actions, assuring ourselves of the best possible chance of success if we buy?

One way is to look at recent price performance, searching for the lowest price above the current market that would convince us that the stock had changed direction in a positive sense. That level might

be anywhere above \$5.

We want to travel with the natural direction, not fight it, so we decide not to buy the stock until it has proved it has changed direction to the way we wish to head.

Of course, *How to Become a Wealthy Investor* also has a system for setting a "reasonable price".

If we buy with a normal buy order at a price above the current market level we'd be filled immediately by a most anxious and relieved seller. To avoid this, we tell our broker to "buy on a stop", often called a stop buy order, at the price we've determined.

If the stock continues to drop or to remain at the current level no purchase is made and we've kept ourselves out of a poor investment.

But if our earlier judgment was correct (that the stock is about to move up) someone will eventually trade at the level of our stop and our order will be entered "at the market" (protected by whatever price limitation, if any, we may have set on the order.)

The odds are that we have now bought a stock that is on its way up and we have paid a reasonable price for it. The extra few pennies we paid are the cost of insurance and for peaceful sleep.

Many investors buy stocks that have been falling on the basis that "surely it has fallen far enough and now will start to go up." More often than not, they are wrong. The best profits are made by buying stock that has just started to rise (good timing) and by protecting capital as fiercely as a female bear with cubs.

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Chapter 6 Patience: More Than a Virtue

The system you are learning here might be called ponderous! But you wouldn't expect a racehorse to last very long pulling a plow. The big guy that does that is ponderous; he would not win races.

This is a system for long-term investors bent on accumulating money for retirement as safely and surely as possible while at the same time making sure there *is* enough for retirement.

Recent years have been tough on savers. In this past decade alone, we had two recessions, the second the most savage since The Great Depression. In fact there are so many similarities it is being called The Great Recession. At one stage in 2010, the market had not gained a cent in 12½ years...and that was before factoring in inflation.

If you are looking to make a quick buck, this is the wrong place. The current length of the average completed S&P 500 trade is 5.88 years. Add to that the period you will be out of the market, sitting out a downturn, while your savings are tucked away safely in a low-yielding money market fund and you're probably looking at something not far short of 6.5 years to completely turn your money over.

But if you are looking to make an excellent return with a good measure of safety you will have to look elsewhere for excitement.

For your protection do not consider an investment horizon of less than 10 years and do not consider investing in fewer than three stocks each in entirely different industries, and preferably in 10 to 20.

Three stocks? Only if you do not have enough money to invest in at least 10. Three clearly means less diversification than 10. Let's say you have only \$6,000 saved patiently in mutual funds. Divide this amount into three equal portions. Put \$2,000 into your first available choice. Keep the other \$4,000 aside until you find two more opportunities in different industries. As you continue to save and to start taking profits, work your way toward a larger number of stocks until you reach at least 10.

(If you use a discount broker, it doesn't matter if \$2,000 buys an odd number of shares, such as 57. In most cases, the brokerage fee is the same as it would be for 100 or 1,000 shares.)

Because the system follows market trends most buy or sell orders come in clumps while at other times there will be none. At these inactive times, the system is doing its best to keep you out of trouble.

Remember, it's not just about making money but about keeping what you have, and the system is very careful about that. In early 2011, for example, there were almost no new positions being taken; the bull market was already two years old. That did not mean there were no further profits to be made, just that the easiest profits had already been accumulated.

This is not a system requiring you to be at your computer every day. You will work hard every weekend if you follow the system manually. But if you subscribe to *Wealthy Investor Weekly*, you will need a few minutes each weekend to review your open positions or new possibilities and then to contact your online broker with new orders or protective stop loss orders. That's it!

Patience, planning and persistence are the keys to success. Have a plan, the patience to let it work, and the persistence to follow it even when, temporarily, it lets you down. If we are to master the market we must first learn to master ourselves.

Chapter 7 Balancing Act, Investment Style

The last of the basic spices to be added to the recipe needs just a small pinch. That's why this chapter is so short. But without it you could ruin the meal.

It is a common failing among investors to have favorites. Do this and you wreck your diversification plan and risk large losses. Stocks do not know you own them; don't get attached to them or overly excited over one versus the others. One stock is just one part of your investment business, no better or worse than any other in terms of opportunity.

Ideally, and as closely as practical, you should have the same amount of money invested in each company. If you are starting with \$20,000 and 10 stocks, put \$2,000 into each. As your profits increase and you sell one or more positions, try to make sure your investment in each new company is roughly equal, in the case of a 10-stock portfolio, to one tenth of total value.

There will be times when you have money that is not invested. Put cash into a money market fund until you see another opportunity you like. Compare money market returns because they can vary widely. Money in a money market fund can be withdrawn quickly for your next stock investment. Some discount brokers will automatically sweep cash into a money market fund for you.

But remember to include this money in the total value of your portfolio. If you have bought eight stocks of a planned 10-stock portfolio you can quickly calculate how much cash is needed for your ninth stock investment.

On the other hand, let's assume you once had 10 stocks and all were sold at the end of a bull market. Assume you made a tidy profit, all now sitting in a money market fund. You might decide at the beginning of the next bull market you wanted to spread your investment across 12 stocks. That, too, is easy to do; just divide what is in the money market fund by 12 and restrict the initial value of each single investment accordingly.

As nearly as is possible, keep individual investments to roughly the same amount of money when the investment is made. Don't do the usual rebalancing trick of selling some shares in one to buy more in a laggard. That is a different type of investment strategy and has no place here.

Chapter 8 The Last Train Leaving the Platform Heads Downhill With Everyone Aboard

With the system outlined in this book it is unlikely you need to be warned not to follow the crowd. More likely you will be weeks ahead of it and wondering (until you get more comfortable with the idea) if you are headed in the wrong direction since your friends are headed the other way.

Forget that fear: you'll be headed in the right direction the vast majority of the time.

Some people just can't resist the attraction of a good crowd. Ever noticed how the majority of campers crowd into one small space leaving the peace of the wilderness to a tiny handful of the quieter types?

An important part of your stock market education – stock market 101 if you will – is to avoid crowds as much as possible.

We've talked a lot about strategy and a little about the psychology of investing. In this chapter it's time to speak about what typically drives fear and greed, two investor foes we talked about earlier.

Humans are very much affected by the outward appearances of other people. Yawn in a room filled with others and soon those who observe you will also yawn. Scratch a tickle and see what happens with others. One person stands to give applause and soon the entire auditorium is standing. That's just how we are.

The same is true of retail investors – but next time you have the urge to follow the crowd just remind yourself of the fate of lemmings. (A few head the opposite way and survive to produce a new crop; you will be one of the few.)

Enthusiasm is highly infectious; so is pessimism. When everyone else is excited about the stock market's future it is easy to get caught up in the optimism. It is much more difficult to be the only pessimist; it's all too easy to doubt your view when the rest of the world thinks you wrong.

That's why I'm taking an entire chapter right now, short though it is, to prepare you for what will come and to support you daring to be different.

Other steps in your stock market education have shown relatively safe and sure ways to earn greater comfort and perhaps luxury in your retirement. It will not happen overnight; most worthwhile things do not. But along the way you will live through market tops and market bottoms.

We were enjoying a market top in the summer of 2007, though most people at the time didn't realize it **was** a top. Next? Most people took a while and a lot of reassurance - long after the easiest money had already been made – to recognize the bottom in March of 2009. Red Line Alerts are set up to buy two weeks after a presumed cycle low is reached.

If you look at charts of previous market highs and lows you will frequently see at least one extremely sharp rise, often almost vertical, just before market tops and a dramatic off-the-cliff fall at many market bottoms. These are typically accompanied by significant increases in the volume of shares changing hands.

At market tops, hungry buyers are like piranhas, snapping up everything in sight. At market bottoms there's a mad scramble for the exits, something professionals watch for every time as they snap up bargains not seen for some time. The professionals gain at the expense of those who are fearful.

Retail buyers, those like you and me but without a valid plan, are very slow to start buying again. Many never will, hoping the little they can save from their earnings can by itself produce sufficient income to pay for their future dreams – a most unlikely circumstance.

You'd think people would learn, but the same mistakes are repeated over and over again. If only investors had to pass Stock Market 101 before putting their money at risk! Each time, it's almost as if there is a fresh generation of innocents being led to the slaughter.

The long-term successful investor, as I hope you will be, should not be swayed by general market psychology. But it can be difficult to remain on course while everyone around you is either drooling with greed or paralyzed with fear. These are highly infectious emotions.

When those times come once more – as they will – just remember this stock market 101 lesson: stand aside from the swarming hordes and your stock market experience will improve tremendously.

If your charts tell you to buy when everyone else is bolting for the exit, rejoice. You're getting in at approximately the right time and at prices not seen in months or even in years. It's the New Year's Day

sale!

At the other end, get out when the charts tell you to. They "know" far more than you ever will. Will you grab the last penny left on the table? Probably not, but who cares if you have the lion's share of the winnings? Leave something for the other guy or there will be no buyers for your shares.

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Chapter 9 Putting All the Pieces Together

All right, we've seen the pieces – but that's like trying to tell the time from parts of a watch that have yet to be assembled. Let's see how all the bits work together.

We'll go through a full market cycle from bear to bull and back to bear. Then we'll look at what would have happened over the past 40 years with each of the 30 stocks currently included in the Dow Jones Industrial Average. (Some do not have data going back 40 years.)

To begin our journey, assume we have been in a bear market for a few months. At some point we know the bear will end, but a few months. At some point we know the bear will end, but week parallel line for the bear market and a short-term high. Thirty-nine weeks is the *minimum* length of this line. It will continue to grow until the stock is bought.

Prices need to exceed the parallel line and the high of a short-term high (see description below). The latter indicates a temporary resistance level, however fleeting. But there could be dozens of short-term highs in a falling market, so which one is used?

We need the lowest short-term high that, if a horizontal line was drawn touching the

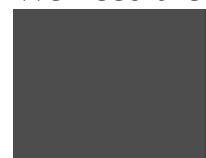


Figure 3: Short term high projected forward (dashed line) until it crosses the trendline

top, would exceed the level of the trendline at next week's projected level.

By exceeding both of these points, not only have we seen the trend broken but we have also gone beyond a recent level of resistance to rising prices.

While not infallible, exceeding the resistance gives some measure of protection against false breakouts. What happens if a buy is not made?

There can be two reasons for a buy not being made after a breakout above the downward trendline:

1. There is no nearby short term high that meets the rules. If stock prices continue to rise in the absence of a viable short term high, buy at a level 5% above the trendline.
2. Prices pop above the trendline and then back below it without passing a short term high or exceeding the line by 5%. In that case, the trendline is adjusted **upward** and uses the breakout high as Point 2.

Figure 4: Bear trendline before (purple) and after (blue) several upward adjustments for false breakouts.

But what happens if all these conditions are met but the recommended buy price is close to the recent cycle high? In that case, if you are following the program manually, ignore the recommendation. *Wealthy Investor Weekly* will ignore a potential recommendation within 16% of the previously-recognized market high and subscribers will never see it. The program then waits for a Red Line Alert.

Red Line Alert

When there is an apparent buy recommendation you think to be to pricey, start a line from the point a bull trendline would start. If you were right, the stock will eventually fall. Keep changing the angle of the line downward. It will eventually reach the cycle low (usually when everyone else thinks the end of the world is coming). As soon as you are sure the bottom has been reached, buy...at market, not even on a stop.

Wealthy Investor Weekly subscribers have no decisions to make. Buy recommendations considered too high are ignored by the computer other than to keep itself on track. Subscribers are alerted to buy just two weeks after a presumed cycle low has been detected.

There can be successively lower Red Line Alerts. Our statistics assume, if we do not already have an open position, that the first alert is used. You have choices. You cannot invest in 500 stocks so you may choose the wait until one has a second or even a third alert and invest only in those.



Figure 5: Three successively lower

Red Line Alerts

Long position

Once you buy, many advisers would tell you to apply a stop loss immediately to protect against prices falling too far. This system does no such thing for one very simple reason: market extremes are volatile. There is a lot of fear and uncertainty at market bottoms (and a lot of greed at tops). Investors working without a cut and dried system, and that's most, want to feel certain the bottom really has been seen.

Figure 6: Volatility at market bottoms is clearly visible quite often.

A stop loss at this time will result in far more losses due to whipsawing than it will save. Here's what we know for sure at this time: we have bought at a low price relative to prices at the beginning of the bear market.

So what if the price falls another 10% or 20% one in five times (not that it necessarily will)? In a good company that additional drop should come back quite quickly; meanwhile other stocks in our portfolio will likely compensate in the short term. This is partly why diversification among a number of stocks in different industries is vital.

Corrections, temporary reversals of trend, are perfectly normal. The market takes a breather once in a while. Look at what happened and the concern it caused starting in May, 2010 when some commentators suggested a double-dip recession was in the works. We do not want to be knocked out before a realistic and measurable trend has been established. The way to ensure that is not to use stop loss orders in the early months.

In fact, serious testing proved they should not be used until there is a measurable trend.

Trendlines

The system is extravagant in terms of trendline length to allow a more reliable trend to be measured and to avoid early volatility. Many analysts would be shocked but it's hard to argue with results.

Testing proved the ideal length is 161 weeks even though that means a stock might occasionally

suffer through an entire bear market. This 161 week period was tested in one-week increments and showed the best overall profit with 500 stocks over 40 years. The trendline is drawn 161 weeks after the absolute cycle low (regardless of when the buy was made) and begins on that cycle low.

Figure 7: Temporary downturns in bull markets are a frequent occurrence

It needs at least two points on which to rest. To find that second point, imagine anchoring a ruler on the cycle low and then swinging the free end up until it touches the first of the lows along the way.



Figure 8: The two support points of a trendline

Sometimes the cycle low and the low of the following week will be the same. In that case, the trendline will be horizontal and useless for setting a practical stop loss. The line will change the following week to a more acceptable level.

That week, 161 weeks will exist beyond what had been the second point. That point becomes the new Point 1 and the line swings upward to find a new Point 2.

This process continues until there is the appropriate number of weeks beyond that new Point 2. If the line can

Figure 9: 161 weeks after a Point 2 a new, more acute trendline is put into effect.

move at a more acute angle it does so, repeating the process as often as it can.

There is only one way in which a trendline can move to a lesser angle. If there is a false breakout, defined as one that does not trigger liquidation of the long position, the "blip" becomes a new Point 2. Look at this as a correction of the trend now that we have additional information.

This method of adding flexibility to trendlines is not found in any other program to our knowledge.

By the successive changes in Points 1 and 2 and the corrections caused by false breakouts, you can see the line has flexibility not only in direction but also in length since a new line cannot be drawn until after 161 weeks following a Point 2.

Figure 10: Bear trendlines can adjust just like ones in bull markets.

This is of major importance to the system in that it allows the market to tell us what to do.

Once a trendline is in position, our stop loss is set below the level of the line and the closest short term low or the level of the line plus 5% whichever is closest to the line. As the line rises week by week, so does the stop loss order. Just remember you are forecasting one week ahead with the trendline.

Wrong-way trendlines

There can be a circumstance in a bull market in which there is a pause wrongly identified initially as a bear market. Initially, a downward-sloping line is drawn but false breakouts – those too small to result in a buy – can push the line up until it is rising, not falling. In reality, it is a false trendline.

Sell Buy



Figure 11: A false bear trendline (red) rises instead of falling.

This is possible because of the brevity of bear market trendlines. Often, trading will be relatively flat. In reality, the market is taking a break but in so doing triggers the sale of an existing long position.

The rules for buying of a false bear line are different. It needs to be penetrated by just 1% and its price relative to the assumed cycle high is not taken into account.

What is a short-term high (or low)?

A short term high is a weekly high that is higher than that of at least the previous two weeks and also higher than the highs for

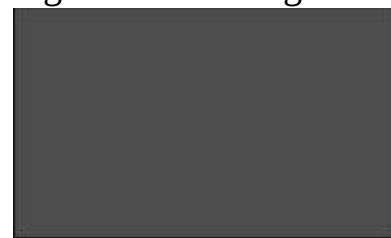


Figure 12: The short-term high is clearly visible here.

at least the following two weeks.

It is a minor 'bump' in the chart and indicates very weak resistance to prices rising above it. The bulls failed at this level before. Prices rising above this level would indicate buyers finally won a small skirmish with sellers.

Although minor in terms of resistance, this is an important aspect of this system and of the market telling us what we should do. Combined with a downward trendline it gives us a target above which to go long.

Next?

After a legitimate bear, the cycle begins again. We simply try to follow the major trends and avoid the hiccups.

Chapter 10 Rules: Quick Summary

- **Trendline in a rising market:** 161 weeks
- **Trendline in a falling market:** 39 weeks
- **Trendline initial support points:** Point 1 at the cycle low (or high for a falling market). To find Point 2, swing a ruler from Point 1 in the direction of the market until it hits the first prominent low (in a rising market) or high (in a falling market).
- **False trendlines:** See detailed comments in previous chapter. Markets are rarely as orderly as we might like and the rules for dealing with disorderly markets are quite complicated and detailed. A false bear trendline typically is seen during a sideways correction. The buy target is just 1% above the line. No short term high is needed.
- A **short term high** works in conjunction with a falling trendline to indicate when to take a long position. Entry point is just above the short term high or 5% above the line, whichever is closest. A short term high is represented by the high of one week that is higher than the highs of at least the preceding two weeks and the following two weeks. The high must be above next week's level for the extended trendline.
- **Stop losses for a long position:**
 - o No stop loss is used until a trendline is in position. This sometimes results in a long position being held throughout an entire bear market.
 - o When a trendline is in place, stop losses will be set from it and no other type of stop loss will be in effect.
 - o With a normal trendline, a stop loss is placed 5% below the trendline, rounded down, to accommodate false breakouts.

Chapter 11 In my Opinion, the System is Simple; You May Not Agree, So Here's a Solution

What has been described in *How to Become a Wealthy Investor* is straightforward and easy. It is also as safe as it can be made, but that does not guarantee there will not be occasional losses. No system can avoid them entirely. Testing has revealed an average of roughly one loss in every nine or 10 trades. That does not mean you will get the same results.

Average annual return on investment per profitable trade for the S&P 500 to February 11 2011 was 53.08%. The average for a losing trade was -6.02%.

The system is so simple I expect you have 'got' most of it in one very short reading.

But it has a failing: It takes painstaking and monotonous work every single week. Charts have to be extended and even the slightest difference in spacing between one week and the next will eventually throw off calculations.

In the Dark Ages of the 1980s, I used to subscribe to monthly printed chart books, photocopy charts with large magnification and spend a very long day adding to some 500 charts in the U.S and Canada. Not only were those charts expensive in the first place, but what was the cost of my time? That was before a somewhat clunky computer program was written, using up four programmers in three years...at least one of whom had a nervous breakdown.

Today, there are free charts on the Internet. Yahoo is one place where they can be found although it has occasional errors. But you still have to magnify charts and make visual calculations to determine exactly where stop loss orders or buy orders should be placed. There is plenty of charting software but none I know of that can do what this system calls for – or in plain vanilla manner get its results.

Some people will derive pleasure from the challenge of working with their own charts and may even regard it as a hobby – in which case this book is all you need along with the charts.

But the majority of people, I believe, are much like me: they would rather spend their time doing something else (and so would their spouse: "*Are you going to mow the lawn this weekend or do I have to do everything around here?*").

If you are one of these people, we have an absolute no-brainer solution for you. Every Saturday you can receive by email all the answers you need regarding buying, selling and protective stop losses in one neat, simple, no-fluff newsletter for all S&P 500 stocks.

You won't believe the price. Check it out at <http://wealthyinvestorweekly.com>.

Instead of wrestling with charts you need only to look at the list of precise and clear instructions in *Wealthy Investor Weekly* as they relate to your stocks. Phone or use the Internet to contact your discount broker, make any adjustments to the stop loss orders for stocks you hold and look to see if there are others that interest you. That's all there is to it.

You've read the book; there's no magic. It's straightforward and it works. If you spend some time with the charts, their notes and the summary of rules you *know* it works. What you do with it now is up to you – but it will not make you money if you don't use it!

Turn to the annotated charts now to see exactly how the rules have been applied to each. Take your time; it will be the most worthwhile thing you could do right now. You will see exactly how and why every move was made with the current Dow Jones stocks as far back as 1967.

Doing this will build your confidence and your ability to make more money over time than perhaps you have ever done before.

Maybe the recession has not trashed your eventual retirement dreams after all.

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APPENDIX Annotated Charts, Warts and All

Over the next 197 pages we will show you charts of the stocks presently in the Dow Jones 30 how the system behaves: the trendlines it draws, what adjustments it makes, and where to buy and sell.

April 17, 1978, bought at \$1.05

May 4, 1981, marked 161

weeks since this line began.

After exceeding a bear trend line

and the short term high of \$1.04

created March 20.



The line was adjusted to a October 22, 1979, was the original Point 2 for

this trend line 81

weeks after its start.

lesser angle July 13, 1981 and again on several subsequent weeks when the price penetrated the line but did not trigger a sale.

October 12, 1981, sold at \$1.37 when the line was penetrated by 5% and there was no viable short term low before that level. Profit 33 cents a share; annualized return: 9.18%.

March 29, 1982, bought at \$1.52 after exceeding bear line and short term high of \$1.51.

May 6, 1985, original

Point 2 for trend line.



August 12, 1985, line is 161 weeks old and would have been drawn at July 12, 1982, 161-week this Ume. No stop losses have existed line able to accelerate.
unUl now other than some fairly
useless ones off the original line.



November 5, 1990, is the original Point 2 for the new line.

October 19, 1987, exisUng trend line adjusted. It has now been running for 275 weeks.
161 weeks aIer the next week a new trend line is drawn. January 31, 1994: False breakout

repositioned line after 87 weeks turning it into a false bear trend line (one that rises instead of falling). This typically indicates that what was taken to be a bear market was merely a pause in a continuing bull market.

February 7: Different rules come into play with a false bear line. We buy on a stop 1% above the line, in this case at \$7.38.

February 1, 1993,

June 1, 1992 was the Point 2 for bear line. anchor point for an original 39-week bear trend line.

April 5, 1993: After additional



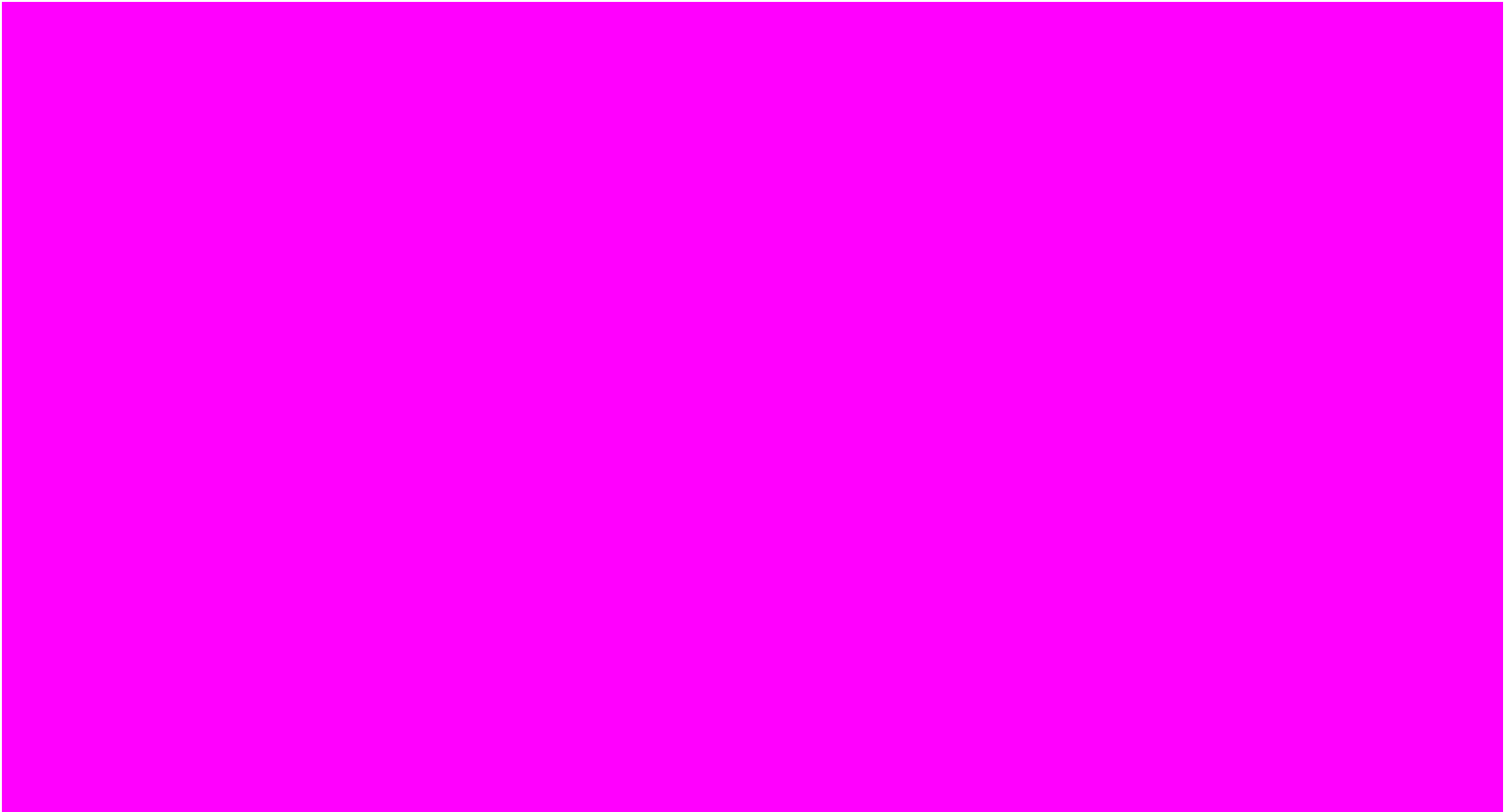
adjustments along the way, the trend line was eventually exceeded by 5% (in absence of a viable short-term low) and the position was sold at \$5.38 for a profit of \$3.87 and an annualized rate of gain of 23.17%.

A potential buy January 4 1999 at \$15.96 was ignored as being too high relative to the then-perceived cycle high. In fact, it would have made \$7.68 a share, an annual rate of gain of 13.64% over 3.53 years. The system errs as much as

August 24, 1998: Position is sold at \$12.27 possible on the side of caution, exceeding the line the line by 5% in absence of a viable short term low. Price did not meet normal sell criteria but a short sell target was surpassed and took precedence, even though we use potential short sales only to know when to make the next buy. Profit: \$4.91; annualized rate of gain: 14.64%. Had we taken part in the January 1999 trade we would have had a very uncomfortable ride.



Alcoa Inc. 2003-2007



April 7, 2003: the price crossed the bear trendline and exceeded a short term high to buy at \$18.70.

Alcoa Inc. 2008–present

The trendline was broken by more than 5%. Sold at \$24.78 for a profit of \$6.09 a share; 6.01% annualized over 5.42 years.

SUMMARY: There were four profitable completed trades and no losers for an average annual rate of return of 23.17%.



There is a current open posiUon bought \$10.91 less than three months aIer the stock's absolute low. There was a gain of close to \$7 by early February 2011.
July 31, 1978: Bear trend line anchored on this point.



May 21, 1979: Bear trend line and
April 16 high of \$0.92 exceeded.
Bought at \$0.93



October 12, 1987: This line is eventually exceeded by 5% in lieu of a viable short term low and the holding is sold for \$4.99. Profit per share: \$4.07; annualized rate of gain: 52.34%.

August 9, 1982: Point 2 for the original bull trend line eventually becomes the start point for the subsequent 161-week trend line.

Bought July 25 1988 at \$4.66 when price crossed both the bear trendline and a short term high.

Since this is the first Ume you have seen it, I had better tell you what the red line and the red pin is about. When prices fall below the previous or the assumed cycle low the provisional (not yet active) bull trendline starts to slope down instead of up. Eventually, the red line will always find the next cycle low and will issue a buy signal two weeks later. However, it will do so only if there is no legitimate position in place, one that when bought was at least 16% below the previous cycle high. See the description of Red Line Alerts in Chapter 3. In some cases, there can be a series of ever-lower red pins providing more opportunities, but our statistics count only the first (least advantageous) of these pins.

A series of increasingly acute trendlines follow AXP once it has settled down. Another buy is made December 24 2001 at \$27.58.




This trade finally ended March 19 2001 after the trendline was exceeded by 5% in the absence of a viable short term low. The trade lasted more than 12 years, gained \$23.36 a share and showed an annualized rate of return of 39.67%. If the Red Line Alert position had not been ignored, it would have lasted 10.39 years and had an average annual rate of return of 76.21%.

This position has another good run but volatility accompanied by numerous false breakouts keeps the channel wider than we would prefer. It means giving up some potential profit.

American Express Company 2008–present


We exit before the calamitous plunge of 2008 at \$43.75, a profit of \$16.18 per share and an annualized rate of return of 9.72% over 6.04 years.

A buy was made July 13 2009 at \$26.76 after crossing the bear trendline and exceeding the \$26.69 short term high of June 8. The position is currently ahead about \$20 a share.

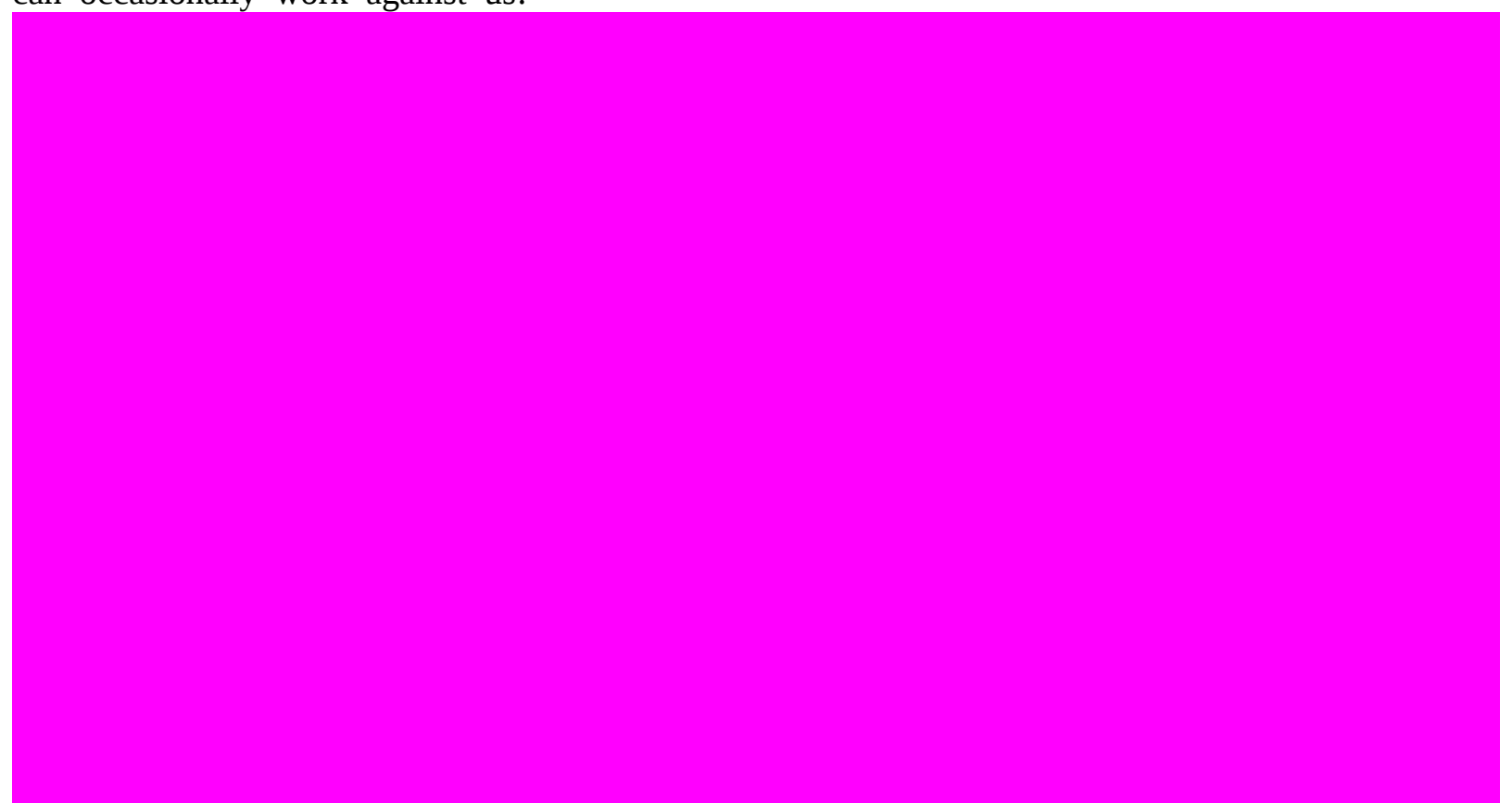


SUMMARY: There were three profitable trades and no losing trades showing an annual rate of return of 33.91% not including the open trade. A solid and well-defined bear market began July 31 1967. The trendline was greatly aided by adjustments for several false breakouts. It eventually led to a buy at \$0.40 January 5 1970, but the market kept falling for another six months.

There are several red pins here. Each would have issued a Red Line Alert but the only one we count in our staUsUcs is the iniUal one. We do not count any Red Line Alert buy in our staUsUcs if a buy has already been made according to normal rules, as was the case here.



Glubons for punishment, we bought back in at \$0.25 June 10 1974 when the price exceeded the bear trendline and a short term high. The earlier sale and the subsequent buy at a higher price just proves that stop losses can occasionally work against us!




The first half of the 1970s was not kind to Boeing. It resulted in a loss when the trendline was

penetrated by more than 5% on November 26 1973 and the stock was sold at just \$0.19, a loss of \$0.20 and an annualized rate of loss of 13.06% in 3.89 years.

We bought back on October 19 1981 at \$2.09 when the bear trendline and a short term high were exceeded.




VolaUility created a wide channel that worked against us when the trendline was crossed June 1 1981 and we sold early for \$2.38 to make way for a pending (ignored) short sale. However, that was still a profit of \$2.14 a share and an annualized rate of return of 122.84% for each of 6.98 years. Again, the Red Line Alerts were ignored in our staUsUcs because of the earlier (and legiUmate) buy. (The first alert January 4 1982 would have produced an annualized rate of return of 71.55%.)



After a nice run, the position was sold at \$7.60 when the trendline was crossed by more than 5% in absence of a valid short term low. The investment gained \$5.53 a share, annualized at 54.27% over 4.89 years. The system ignored the initial buy recommendation as too close to the previous cycle high. That avoided the nasty jolt in October 1987. The first Red Line Alert was issued two weeks after the cycle low, resulting in a buy at \$5.22. The market went straight up from there.

After reaching what turned out to be a cycle high in 1990 Boeing crabbed sideways throughout 1991 until the price broke through the bull trendline on December 2. The position was sold for \$14.79, an annualized rate of gain of 44.94%. Less than two months later, the system was ready to buy back in...and that would have been a mistake. Fortunately, the potential buy at \$18.80 January 20 1992 was within 16% of the cycle high and ignored by the system.



The first Red Line Alert took over
and September 28 2002 bought
at \$12.80.
The buy April 12 1999 at \$32.93 was
legitimate in that it was more than 16%
below the cycle high. Because of this, the
Red Line Alert was ignored by the system,
though hindsight shows it would have
been a better buy.

The trendline was penetrated by more than 5% July 20 1998 and we sold at \$33.68, a gain of \$20.89 a share, 28.11% annualized over 6.5 years.

The second Red Line Alert would have been even better!
Boeing finally took off. (Sorry, couldn't resist that!)

The Boeing Company 2007–present

We bought again on April 27 2009 for \$37.72 less than two months after the S&P low. The price had virtually doubled by early February 2011. We sold just before the worst



SUMMARY: There were five of the recession January 7 2008 profitable investments and one loser for \$79.25, a gain of \$43.33 a in the period. Not including the share, an annual rate of gain of nicely profitable open trade, the 16.10% over 8.74 years. average annual return on investment was 42.20%. The average length of each trade was 5.73 years. Total Ume you could have been invested elsewhere was 3.62 years. August 24, 1987: StarUng point of bear trend line

May 30, 1988: Bought at \$2.55 when the bear line and the February 29 short term high of \$2.54 were both exceeded.

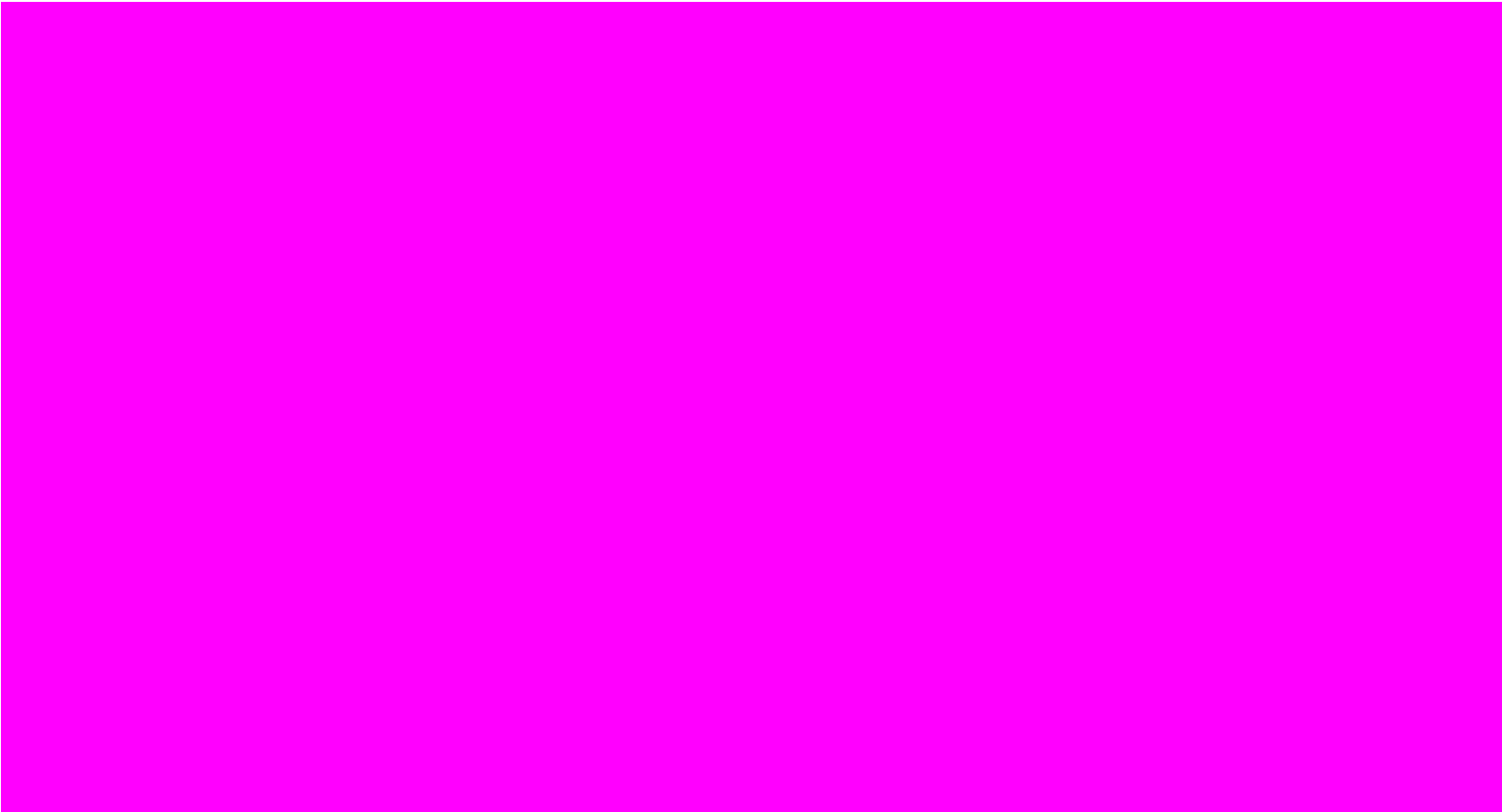


December 31, 1990: After an exhilarating ride up and roller-coaster plunge down, a 161-week trend line is drawn. The low of October 29, 1990, eventually becomes the starting point for the next trend line.



September 19, 1994: After several trend line adjustments in February and March, the position is finally liquidated at \$6.77 after exceeding the trend line by 5%. Profit: \$4.23; annualized rate of return: 26.39%.
The buy indicated for May 8 1995 was ignored by the system as being too close to the previous presumed market high. The system is cautious but with hindsight it is not always

clever! The annualized rate of return over 3.30 years would have been 50.03%
July 5 1999: another ignored buy for the same reason: \$24.64 was too pricey for the system.
August 24, 1998: The trend line is exceeded by 5% before a viable short term low is found and we sell for \$20.46.
Profit: \$12.74; annualized



rate of gain: 50.03%. A Red Line Alert came into play October 30 2000 with a buy at \$15.20.
An uneven ride made possible by trend line adjustments mostly in 2005.

Bank of America Corporation 2007–present

If the Uming was good before, it was terrible this Ume. The buy at \$36.88 September 15 2008 just qualified under the rules. It was more than \$20 down early in February 2011 though either of the ignored Red Line Alerts would have been in the money.

Almost perfect Uming at the start of the recession, the trendline was penetrated by more than 5% and the posiUon was sold at \$40.20. That was a profit of \$25.01 per share, an annualized **SUMMARY:** BAC had two profitable rate of return of 23.52% over 7.0 completed trades and no losses, years.

although an open position is losing money at time of writing. Average annual rate of return is 24.95%. The average length of each trade was 6.65 years. Your money was free to be invested in something else for a total of 6.11 years during the period. November 1 1982: Bear line and short term high of \$2.79 established October 11 are both exceeded, resulting in a buy at \$2.80. The provisional (not yet active) bull trendline eventually heads downward in preparation for a Red Line Alert.



The buy is clearly legitimate and so the Red Line Alert will be ignored by the system. (This does not mean you have to ignore it; it will be posted in the weekly report.) A succession of adjusted trend lines gets us through this period and through a sideways correction.



June 25, 1990: Position sold at the start of a bear market for \$4.28 when the trend line is penetrated by 5%. Profit was \$1.49, not bad for a

\$2.80 investment but with this trade lasUng
almost eight years the annual rate of return was
just 6.96%



February 10, 1992: Buy at \$4.11 aler exceeding trend line and the most-
recent viable short term high.



August 24, 1998: This trend line performed well with few adjustments. PosiUon sold for
\$16.92 aler
crossing trend line and short term low of \$16.97 set August 3. Profit per share: \$12.81;

annualized rate of return: 47.86%.
The potential buy off the bear trendline is less than 16% below the cycle high and is therefore ignored. As we can now see, the rule saved us from a pile of trouble. Nonetheless, what appears to be a very clear M top, even though the highs were exceeded a few months later.



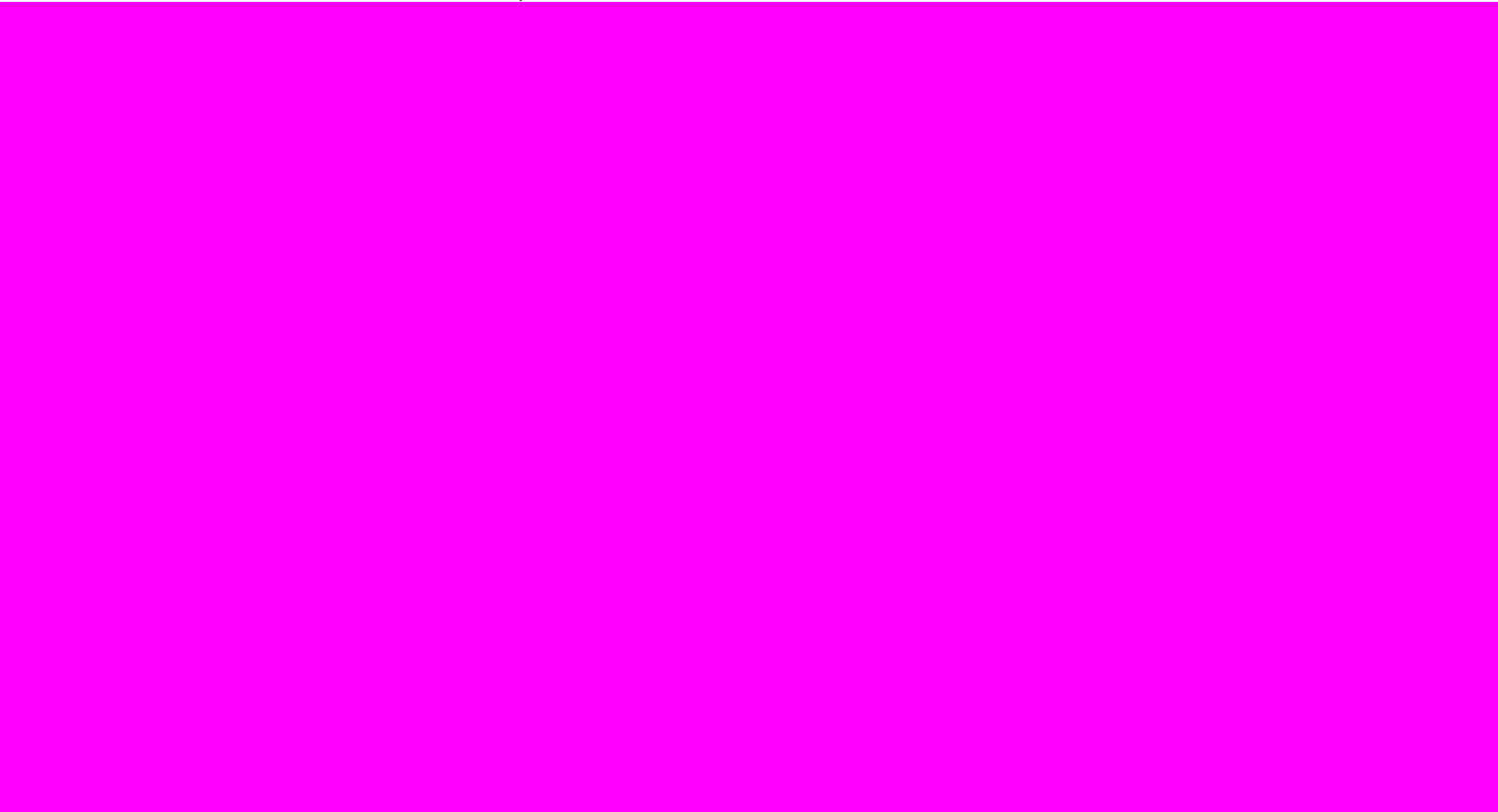
The first of the red pins offers a buy at \$13.74 February 21 2000. There are still several months of decline left to go but we avoided a chunk of it. An allowable buy had to be no higher than \$61.76, so this proposed buy on April 16 2007 was ignored.

This turned out to be an excellent investment and we sold at what looks like the first leg of an M double top October 16, 2006 for \$55.75. This was a gain of \$42.02 a share and an average annual rate of return of 46.01% for each of the 6.65 years.



Caterpillar Inc. 2008–present

SUMMARY: Not counUng the current open posiUon, there were three trades, all profitable for an average annual rate of return of 33.61%. The average trade lasted 6.94 years. (Without Red Line Alerts, there would sUll have been three profitable trades but the combined rate of return would have been 26.80%.)



Saved by the rules! We avoided much of The Great Recession. We bought from the first Red Line Alert November 3 2008 at \$35.30. Even though this was a little early, notice how the second alert was two weeks after the cycle low. This trade is still open and the early February 2011 price was just shy of \$100. The proposed buy of December 19 1994 was too pricey for the system and ignored.

Unlike our earliest days, the system is now completely automated. All it knows is that it has some data for a particular stock and just from that it decides what to do. This would have been a nice trade (with an annualized rate of return of 199.19% over 3.28 years) but the initial "trade" is always ignored to make sure our results cannot be tainted in any way. And that cost us another great opportunity. Sometimes safety provisions don't help at all!



The Red Line Alert was ignored given that the earlier buy met all the rules.



Bought at \$16.34 crossing the downtrend line in the absence of a viable short term high.

The potential buy of November 6 2006 was suppressed by the rules and would not appear in the weekly newsletter.

SUMMARY: There was a single profitable completed trade over 4.75 years that resulted in an average annual rate of return of just 2.57%. Diversify, diversify, diversify!

Sold at \$18.32 July 10 2006 for a profit of just \$1.99 over 4.75 years. The annualized rate of return: a little better than a bank savings account at 2.57%. Even fabulous programs can sometimes get everything wrong! That is why proper diversification is so important and stressed in the book. The Red Line Alert would have gained an average of 20.87% over 3.72 years.

The system bought at \$16.68 on the first Red Line Alert November 3 2008 after most of the bear market was over. That position was ahead more than \$7 a share in February 2011. Buy November 4 1974 at \$0.97 when bear trendline and short term high are exceeded.

Sold January 9 1978 at \$1.51 when trendline exceeded by 5%. Annualized rate of return 17.78% over 3.18 years. Hindsight shows the trade ended with a sideways correction (when the market takes a breather from rising prices by staying at roughly the same level without falling).

A legiUmate buy was made October 11 1982 at \$2.79 when both the downward trendline and a short term high were exceeded.
Subsequent potenUal buy of August 14 1978 at \$1.93 was ignored; it was almost as high as the then-presumed market high.
We avoided the October 1987 plunge and went on to fresh highs...



...only to stumble on what was another sideways correcUon. We sold

at \$9.03 when the trendline was penetrated by 5%. Profit was \$6.25 per share over 9.1 years, an annualized rate of return of 24.65%.

With the buy of February 1 1993 at \$10.42 you see a false bear trendline (one that rises instead of falling) at work. The line had started off normally, falling and colored blue. False breakouts forced the line higher until it was rising. Its purpose, where possible, is to detect sideways corrections and to resume a position as soon as the correction appears to be over. The false bear trendline needs to be crossed by just 1%. We made steady progress

until January 25 1999 when the trendline was penetrated by 5% and we sold at \$25.64, a gain of \$15.23 a share over 5.98 years and an annual rate of return of 24.46%.



Six months later, on March 29 1999 another false bear line gets us back in at \$31.11. At first, that looked like an awful idea...
...but...

Chevron Corporation 2007–present

June 1 2009: Buy at \$67.85. We still hold

this position at \$97.11
early in February 2011.

SUMMARY: Excluding the open position,
...although we suffered the first half of
the recession we came out October 6,
2008 at \$72.44 with a profit of \$41.34
over 9.52 years, an annualized rate of
gain of 13.96%. The duration would have
been reduced to 8.58 years if we had
used the first of the Red Line Alerts. The
gain would then have been \$46.17,
annualized at 20.47%.

there were four profitable trades and no losers for an average annual rate of return of
20.21%. Average profit per share was \$15.84. The average length of each trade was 6.95
years and during that time you could have been invested elsewhere for a total of 6.13 years.
Bought at \$1.25 crossing above
the downward trendline and a
short term high.



August 12 1974: \$0.62 profit sounds like chump change, but it was an average of 11.71% over 4.22 years when we sold for \$1.86. (All prices in these charts are adjusted for stock splits.)



We bought back in on April 7 1975 for \$1.40 and more than

three years later had made no headway.

March 24 1980: When we broke through the trendline we had still virtually made nothing. We sold for \$1.59, a profit of \$0.19 over 4.96 years, and annualized return of 2.77%.

The potential investment at \$2.23 on July 7 1980 was ignored. With hindsight this is one we should not have ignored! Absolutely not!

What can we say but “Isn’t hindsight wonderful”

Talk about pain!

February 7 2000: The embarrassment is finally over. The trendline is crossed by 5% and the stock we could have had at \$2.23 is sold for \$39.64, a profit of \$37.42 over an incredible 19.59 years. That would have been an annual rate of gain of 85.91%. Not embarrassed enough, we buy back in at \$32.15 on December 4 2000. Since the buy is legitimate, the Red Line Alert at \$26.19 is ignored.

Another skimpy little profit


when we sell October 6 2008 for \$33.57, a profit of \$1.43 in 7.84 years annualized to 4.02%.



E.I. du Pont de Nemours & Company 2009–present

July 20 2009: At last it looks as if we might make some money off this beast! We buy at \$28.46 crossing the downward trendline and by February 7 2011 the close was \$53.33. **SUMMARY:** We averaged a dismal 5.02% per year during the 17.02 years we held this stock. Fortunately (in one sense) there were 21.35 years in which our money could have been working elsewhere. Did we menUon diversificaUon?

January 13 1975: Bought crossing
trendline at \$0.45.
The Uming of the trendline acUvaUon
was unfortunate; we caught the tail end
of a bear market and sold at \$0.53
January 23 1978, a profit of \$0.08 and
an average annual return over 3.03
years of 6.18%.



With hardly enough time to catch our breath, we bought again May 15 1978 at \$0.65 when the downward trendline and a short term high were passed. After a while, the way ahead looks reasonable...

...but it isn't really. Yes, there's another profit but it's a skimpy \$0.17 over 5.48 years. That's an annualized rate of return of 4.81%, marginally better than a bank deposit.

We suffered and were stung by the October 1987 crash, but SUI sold at \$2.93 for an annualized rate of gain of 59.09% over 3.6 years. It is surprising how much difference a few weeks and \$0.10 can make: the Red Line Alert would have averaged



77.51% for each of 3.26 years.

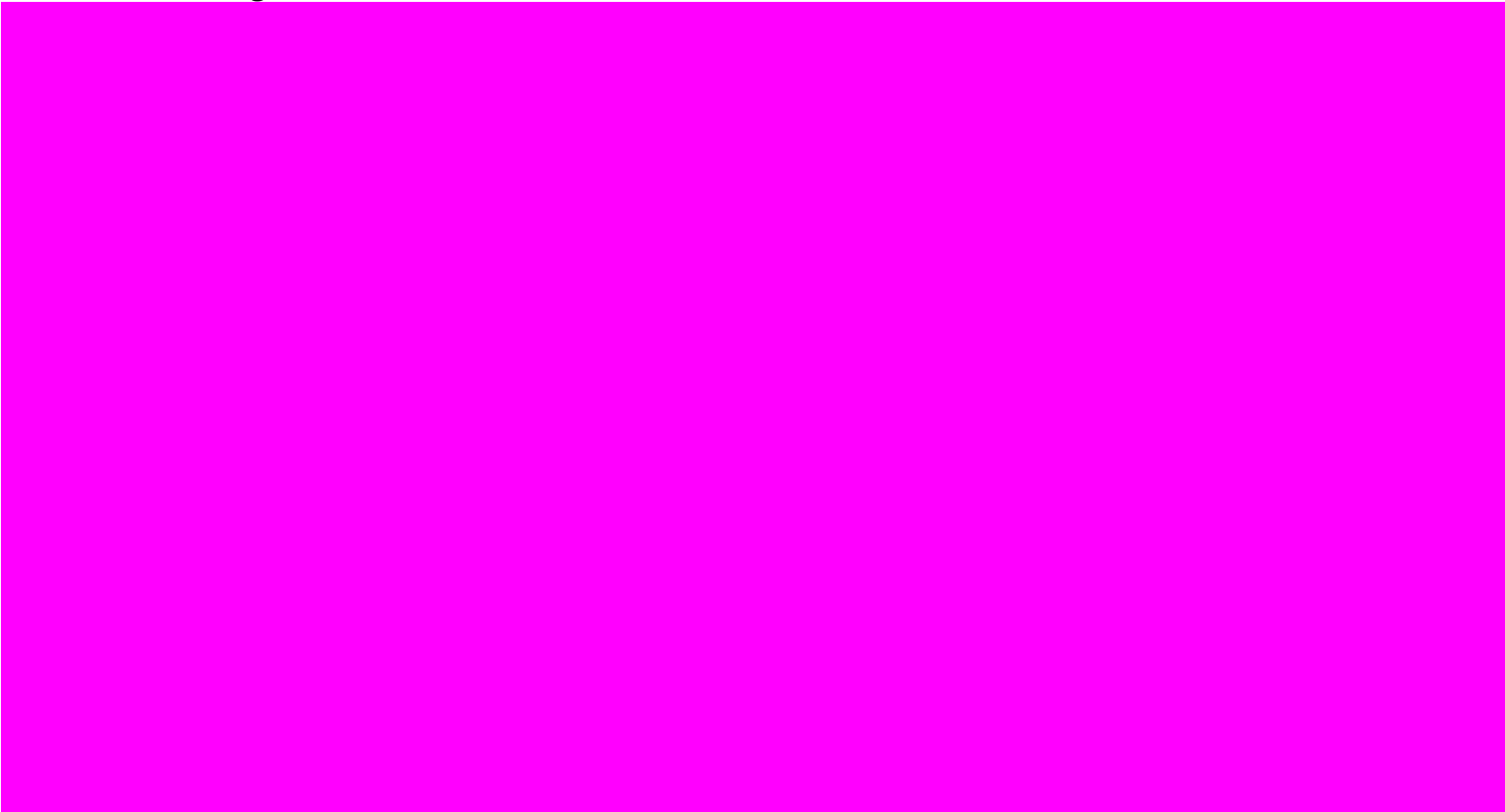
Undaunted, we try again March 12

1984, buying at \$0.94. The Red Line

Alert four months later is ignored

due to the existing position. It

would have bought for \$0.10 less.



On September 5 1988 we're back
with a buy at \$4.51 after exceeding

the downward trendline and a short term high. Life seemed to be going smoothly until we were caught by what we can now see was a sneaky little correction. We sold April 15 1994 for \$11.44, a gain of \$6.94 a share or an average of 27.46% over 5.62 years.



Pity we can't see the future and then change the rules! The potential buy at \$12.96 on December 19 1994 was too close to the presumed cycle high and had to be ignored. If missing that one wasn't foolish enough, we buy again at \$28.77 on January 3 2000 and celebrate for all of six months.

That ignored opportunity would have The Red Line Alerts are ignored gained us 18.46% over each of 3.74 years because of the existing trade.



After riding the bucking bronco from 2000 to 2003, Disney sebles down...



The Walt Disney Company 2008–present

July 20 2009 we are back again at \$25.41. This posiUon is sUll open and at February 7 2011 closed at \$40.94.

SUMMARY: There were five completed trades and no losers (by a whisker). Average annual ...and drops through the trendline January 7 2008 to avoid the worst of the bear market. However, it took 8.01 years to earn \$0.73, an annualized rate of return of

rate of return was 19.57%.

0.32%.

Length of the average trade was 5.15 years, we were invested for a total of 25.74 years and had cash available for investment elsewhere for 7.24 years. From 1967 unUl now two nicely profitable trades were ignored as being too expensive. Then, on December 21 1998 we get this one! A false bear trendline is penetrated and we buy at \$23.74.

We sell at \$21.63 aIer exceeding the trendline by 5%. The loss is \$2.09 over 3.45 years for an average of 2.56%.

Ah! That's beber! The price exceeds the trendline December 10 2007 by 5% and we sell close to the market top at \$31.97, a profit per share of \$11.50, an average return of 11.87% per year for 4.73 years.

Now what? We buy again
March 17 2003 at \$20.48 aIer
exceeding the bear trendline


and a short term high.

General Electric Company 2008–Present

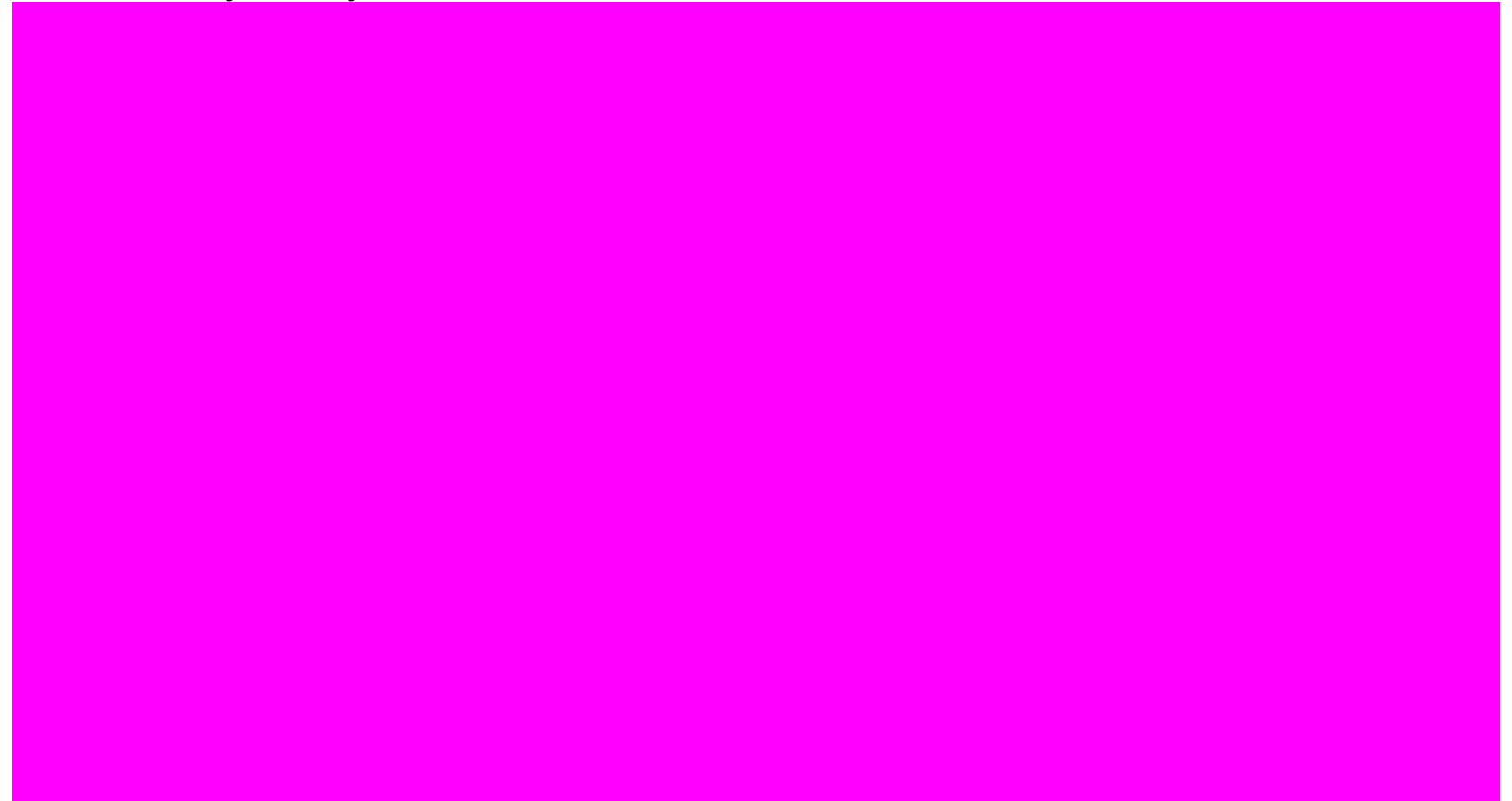
We finally seem to be getting it right. Paine pays off in this business. We avoid The Great Recession and buy GE again July 27 2009 for \$12.56. This position is still open and closed on February 7 2011 at \$20.87.



SUMMARY: Despite a rocky start with two missed opportunities, we eked out two profitable trades and one loser. Average annual rate of return was a poor 4.66%. The average length of each trade was 4.09 years. May 20, 1985: The bear trend line started from this point.



When a short term high is more than 7% away, we buy crossing the trendline, in this case at \$0.29. Are we having fun yet? Now you see why you should diversify - unless you think you can pull trades like this out of the box any Ume you feel like it.

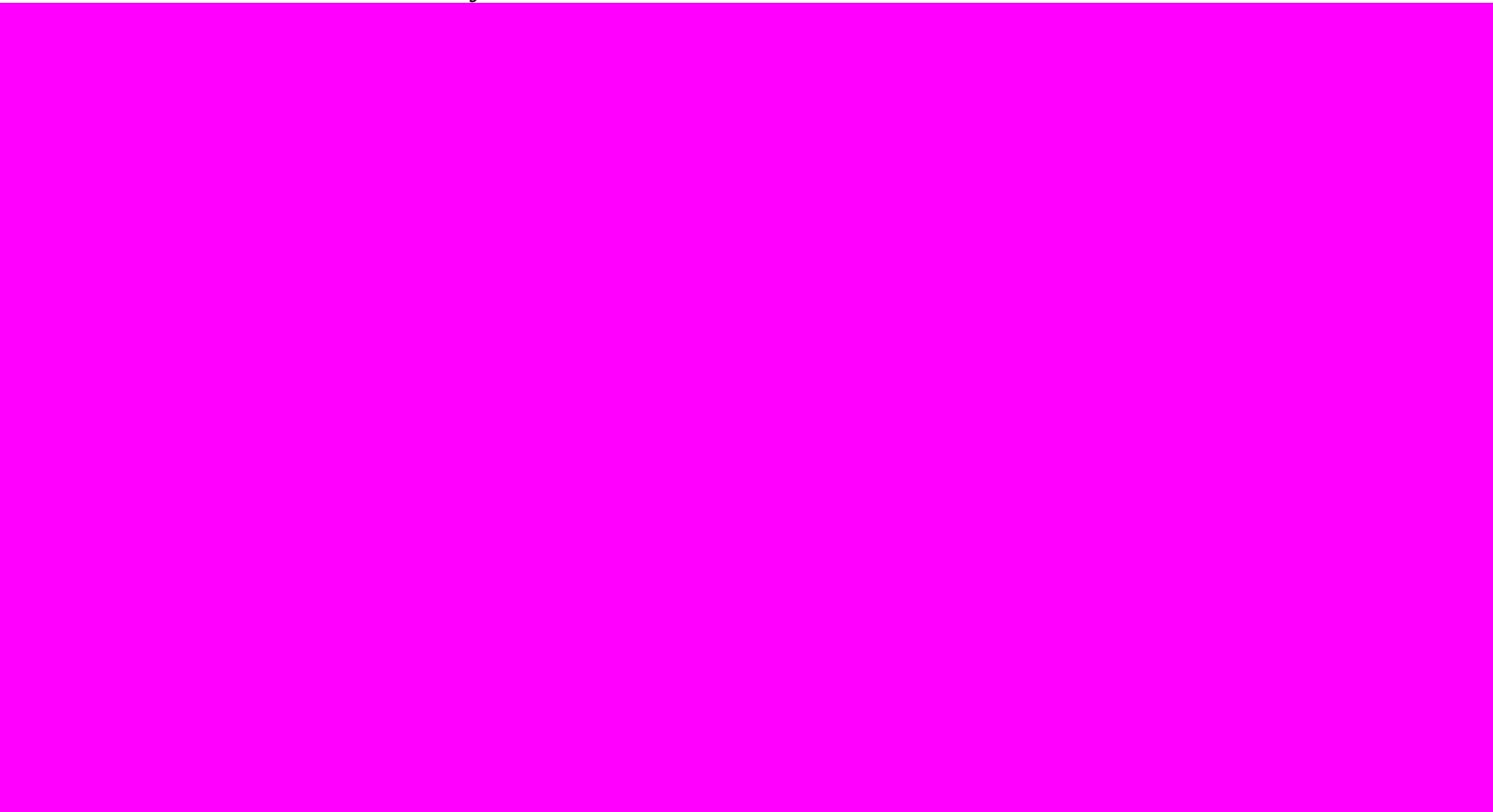


It is trades like this that make up for some

of the poor ones.



But then comes May 14 2001 when we cross the downward trendline and exceed a short term high. We buy at \$44.41 and endure most of the first bear market of the century.



The trendline is finally exceeded by 5% and we sell at \$37.24, an amazing gain from a \$0.29 investment (adjusted for stock splits). Our profit: \$36.96 over 14.6 years, equal to an annual gain of 893.83%.

The various Red Line Alerts are ignored given that we have a long-term open position. The proposed buy of January 1 2007 is too expensive and is ignored by the system. It would not have appeared in the weekly advisory.



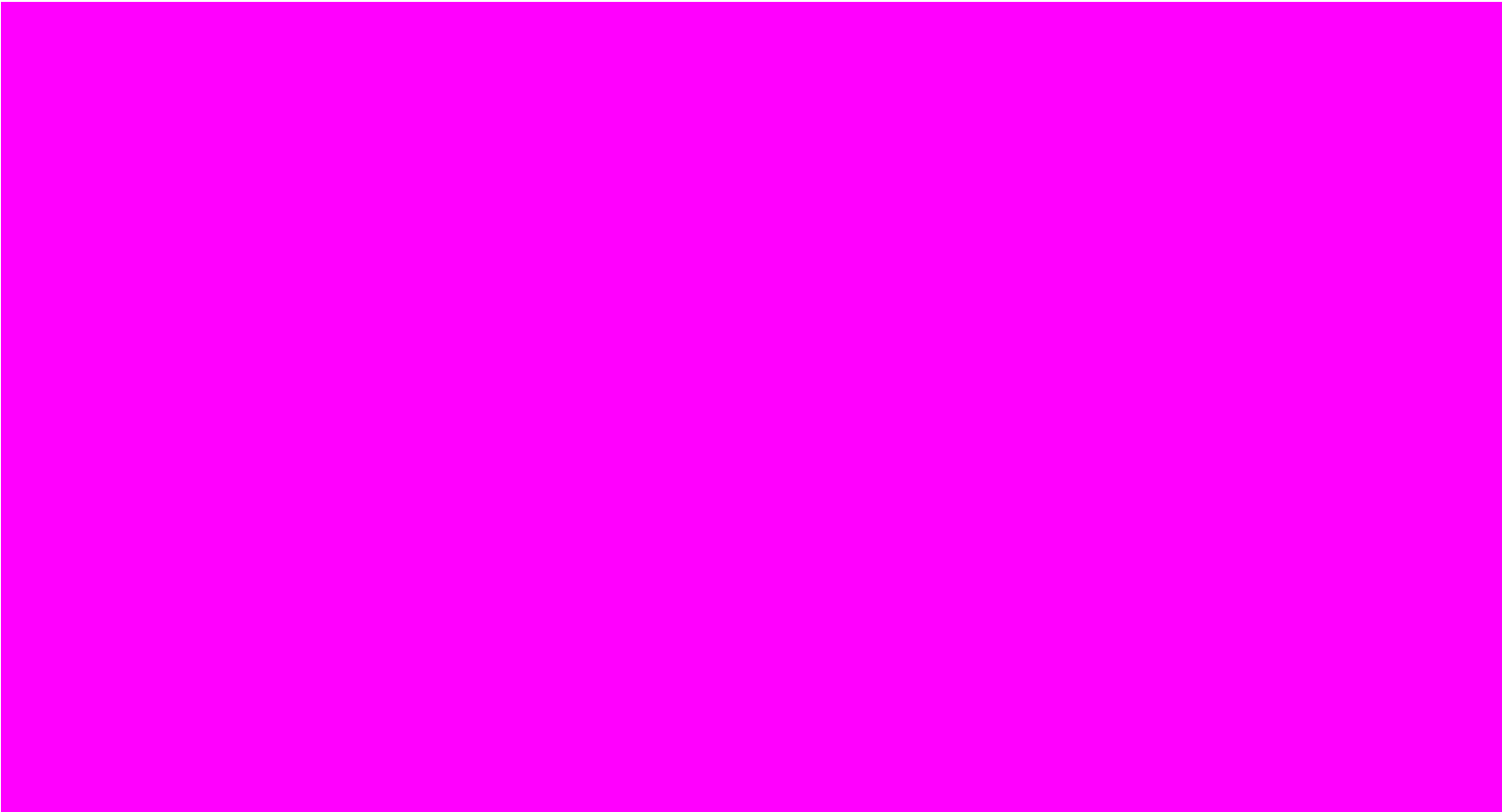
The trendline cuts off - just in time as it turns out - any hope of recovering our investment. We sell at \$34.61 for a loss of \$9.79 over 5.0 years or 4.4% annualized. However, the first of the four Red Line Alerts, the one we count in our statistics because, like most people, we cannot see into the future, creates a buy August 27 2007 at \$31.64.

The Home Depot, Inc. 2009–present

Although we suffered through the entire Great Recession, by the close February 7 2009 we had a gain of \$5 a share. I figure we earned it in stress!

SUMMARY: There were two trades, one loss and one of winner bordering on the ridiculous. Catching something like this is pure luck so don't even bother looking for its cousin. Without that first trade, Home Depot might have been an overall loser. As it was, the combined average annual rate of return was 444.71%. The average trade lasted 9.8 years. We sell at \$3.49 for a wild gain of \$0.54 in 3.89 years. That's a heady 4.71% annualized return on investment!

Aler giving up a good trade because of its price relaUve to the previous high, we buy at \$2.96 aler crossing the downward trendline. PenetraUng the downward trendline, the system buys at \$3.74 on May 14 1990.



This acUon caused the subsequent Red Line Alerts to be ignored. Crossing the false bear trendline May 10 1999 creates a buy at \$29.41.



The trendline is penetrated by more than 5% on June 15 1998 and we sell at \$20.42. That's a gain of \$16.69 in 8.09 years. The annualized return on investment was 55.18%.

After a poor start and an ignored Red Line Alert, the stock starts a steady climb.

The proposed buy of November 9 2009 at \$49.09 was ignored. The system judged it too expensive. At the close February 7 2011 the price was \$48.14 proving, for now at least, the system was right.

Close to the top of the market, we sell for \$39.93 after exceeding the trendline by 5%. That was a gain of \$10.53 but it took 8.7 years to achieve it. As a result, the annualized return on investment was just 4.11%.

SUMMARY: There were three trades, all profitable. The average return on investment was 21.34%. The average length of each trade was 6.89 years.

After a fairly standard bull move including a nine-month correction starting in October 1983, we sell for \$18.46 June 10 1985 when the trendline is penetrated by 5% in absence of a viable short term low. Gain is \$11.20 for an annual average rate of return of 44.18% over 3.49 years.

Bear market trendline and short term high exceeded; bought at \$7.27 December 14, 1981 right after the first recession of the decade. False bear trendlines (the upper of the two red lines) have an entirely different set of rules. For one thing, they frequently identify mere corrections, as was the case here. The stock moved sideways for long enough that the rising trendline is penetrated. Stocks in this situation are often merely gathering strength for another push upward, so once the bear market turns false and the line rises instead of falling a buy is made 1% above the line.


Whether it is at or above the level of a previous high is not taken into account, as it would be for a regular buy. We buy November 18 1985 for \$21.30.



The latter half of the 1980s were rough on IBM and we suffered through the 1987 crash with no protection. Red (wrong-way) bull trendlines do not set stop loss orders.

Because of the existing position,
the Red Line Alert is ignored by the
system.

A whole cluster of Red Line Alerts are ignored in 1992
and 1993 while IBM continues to have problems but
finally finds a bomb in the fall of 1993.



We sell close to the top on July 3 2000, just before the start of a recession. Price: \$91.51. That's a gain of \$70.22 a share, averaging 22.55% return over 14.62 years. It paid to have faith and endure the rough years.

The proposed buy on December 3 2001 at \$105.51 was within 16% of the cycle high and was ignored by the system. That brought Red Line Alert into play.

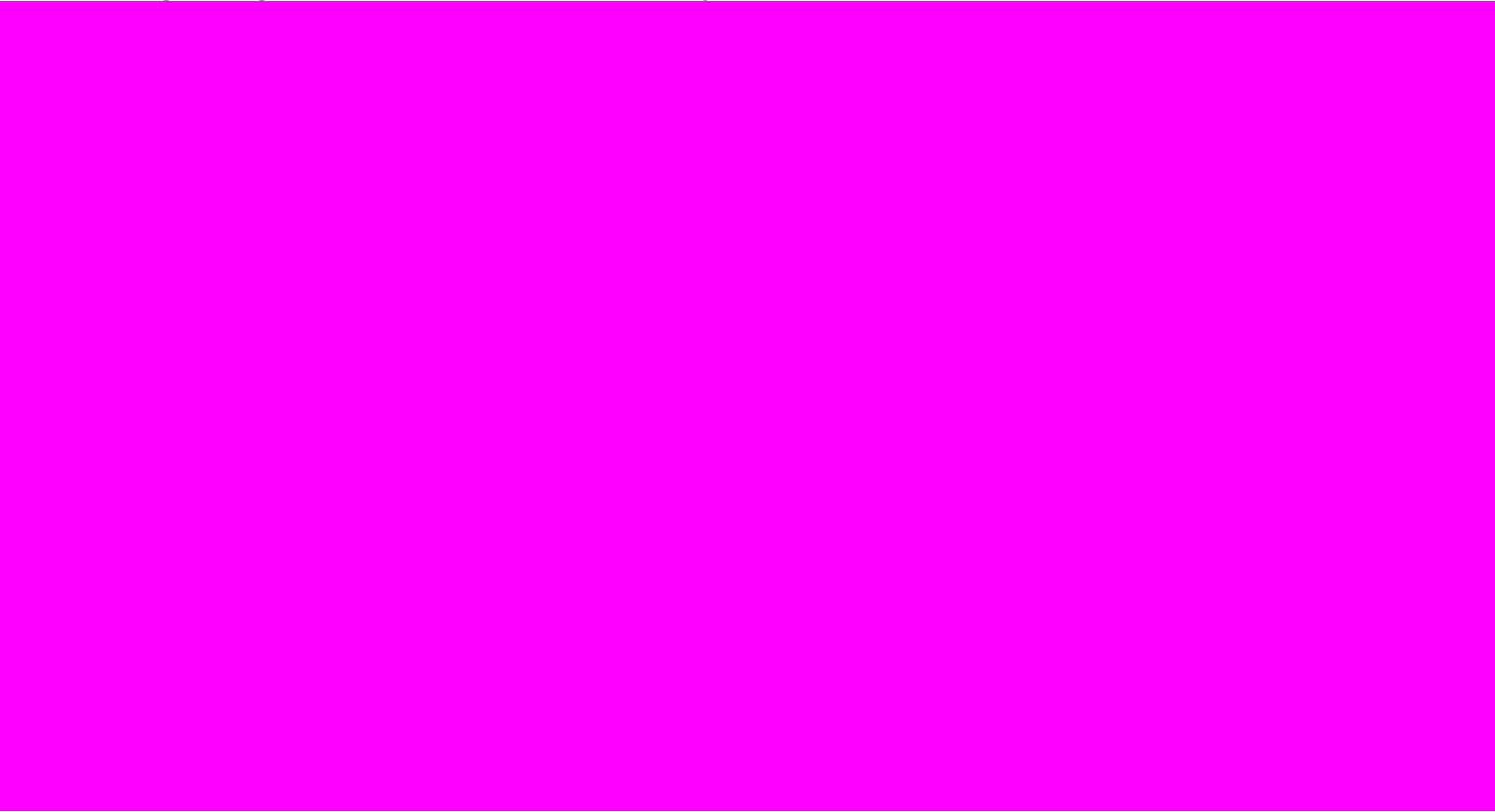
We buy on the first alert, May 20 2002 for \$74.46. From the perspective of our data, the following three Red Line Alerts are ignored.

The steep plunge of 2008 did not allow sufficient time for the bear trendline to adjust closer to the market. We bought at \$104.56 when the bear line and a short term high were passed. This open trade stood at \$164.82 February 7 2011.

The exceptional width of the trend channel gets us out late in the last recession, at \$74.47 for a marginal profit of \$2.58 and an annualized rate of return of just 0.54% over 6.42 years. The ignored regular buy would have lost \$28.45.

SUMMARY: There were three profitable trades and no losers, not counting the open trade. Average rate of return on investment was 22.42% over the 24.53 years we were invested.

The average length of each trade was 8.18 years.



Trendline and short term high are penetrated April 10 1989 and we buy at \$0.73.

A solid gain in the making. See how successive trendlines are tracking higher as the stock gains momentum? This should mean we don't give up too much when we eventually sell. Wide channels cause us to miss too much of the profit.

We get knocked out early in the recession that began in 2000 when the trendline is exceeded by 5%. However, from pennies, our holding has grown to \$34.19 a share, a profit of \$33.46 with an annualized rate of return on investment of 400.13% averaged over each of 11.48 years. We buy back in on June 4 2001 when the line is exceeded and the nearest short term high is more than 7% away.

Price: \$26.88.

The subsequent Red Line Alerts are ignored in view of the existing position. November 13 2006 qualified as a legitimate buy when the line and short term high were crossed. We bought at \$20.00.

The trendline is exceeded by 5% and in the absence of a useful short term low we sell at \$19.81 on January 16 2006 for a loss of \$7.06 over 4.62 years, 5.69% annualized. After a


roller coaster ride, which included The Great Recession, one of the comparatively rare holdings to endure that period, we ignored the Red Line Alerts due to the earlier position.

Intel Corporation 2009–present

Having gone through just about the worst that could be thrown at us, this open position was at \$21.69 February 7 2011 for a slight gain. The first ignored Red Line Alert would have been ahead almost \$9.



SUMMARY: There were two completed trades for this stock, one winner and one loser. Because of the unusual gainer, the annual rate of return was 197.22% averaged over 16.10 years. The potential buy at \$0.79 was ignored as being too expensive compared to the earlier high.



The Red Line Alert came
into play two weeks after
the cycle low and we
bought on October 29
1970 at \$0.73
When the bear trendline and a
short term high are exceeded,
we buy in again at \$1.30
November 5 1984.

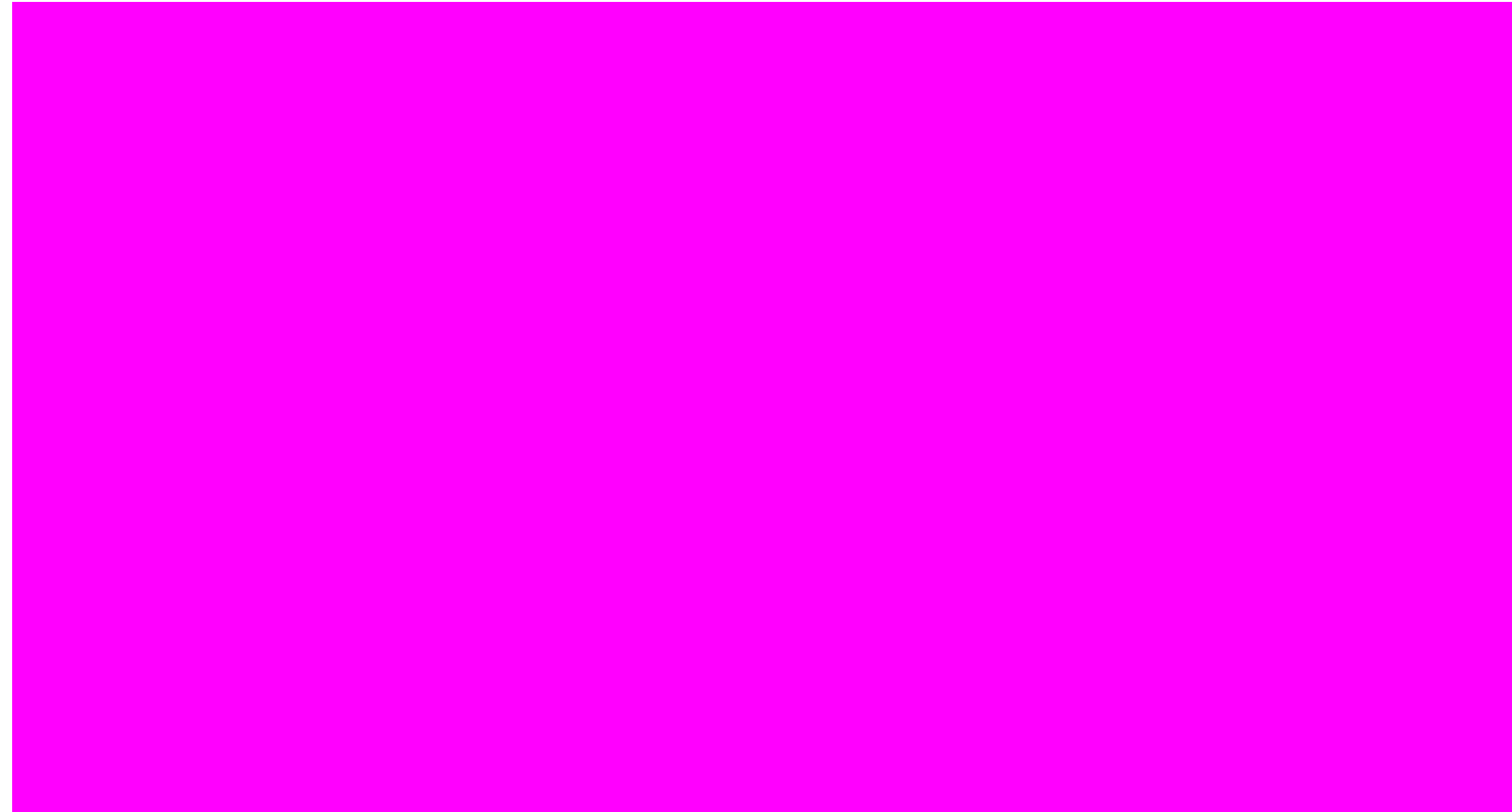
And it's straight up from there unUl we meet the October 1987 plunge and sell at \$2.55. Profit is \$1.27 over 2.95 years giving an average annual return on investment of 33.32%.

The difference in purchase price was just six cents, but our return was 17.62% compared to the ignored buy's 13.63%. We made a profit of \$0.55 over 4.27 years. The buy at \$3.31 on August 1 1988 is just legal and sets off on another nice run...

...until October 5 1992 when the price exceeds the bull trendline by 5% and we Weeks later, on December 14 1992 the "too expensive" rule keeps us away from a buy at \$9.35.

sell at \$7.68. That was a gain per share of \$4.38 over 4.18 years for an annualized rate of return on investment of 31.69%

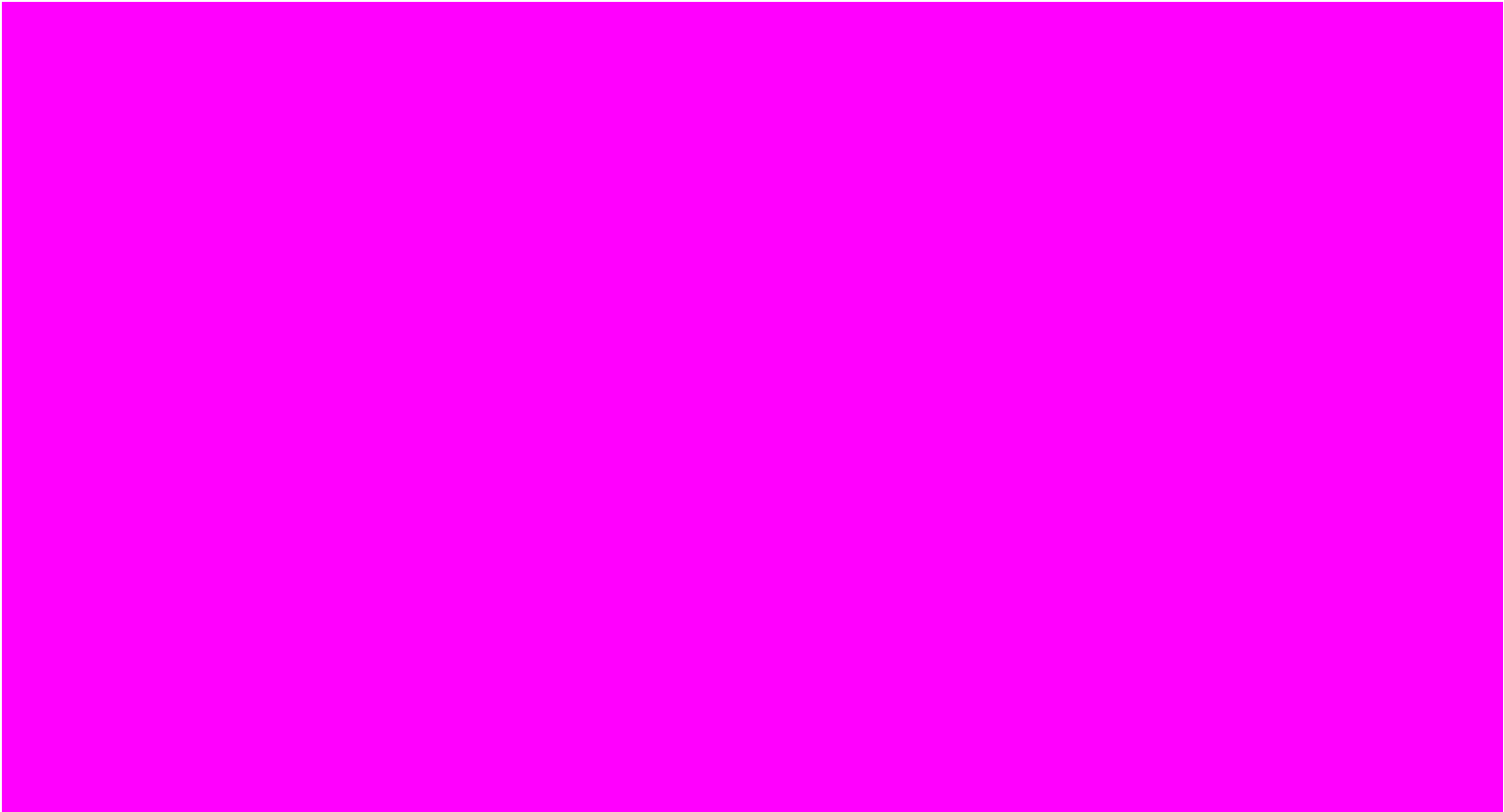
Instead, we buy March 8 1993 off the first Red Line Alert at \$7.21, close to the bobom of a saucer-shaped dip. JNJ breaks through the trendline by 5% just as the company stock changes momentum. We sell for \$21.36, a profit of \$14.16 over 4.64 years, annualized at 42.36%.



A false bear line gets us in again a few weeks later at \$26.07. The change in price momentum is clear on this chart. We survive (endure?) the first bear market of the decade and meander along the same route.



Johnson & Johnson 2007–present



The bear trendline kept geung Then we exit before the worst of the most-recent recession at \$59.00 on October 6 2008. Profit per

share over 10.81 years was
\$32.94 for an annualized
rate of return of 11.69%.

pushed up by false breakouts until it was at such an angle that the proposed entry at \$60.15 on October 5 2009 was ignored as being too expensive when compared with the previous high. We would have shown a very small loss at the time of writing.

SUMMARY: Five investments were made in JNJ and all were profitable. The average annual return on investment was 27.32% over the 26.85 years we were invested in this stock. There were 2.32 years when capital would have been available for investment elsewhere. Length of the average trade was 5.37 years.

After the plunge was over, we bought again May 30 1988 for \$4.16 when we crossed the trendline and no viable short term high was in sight.

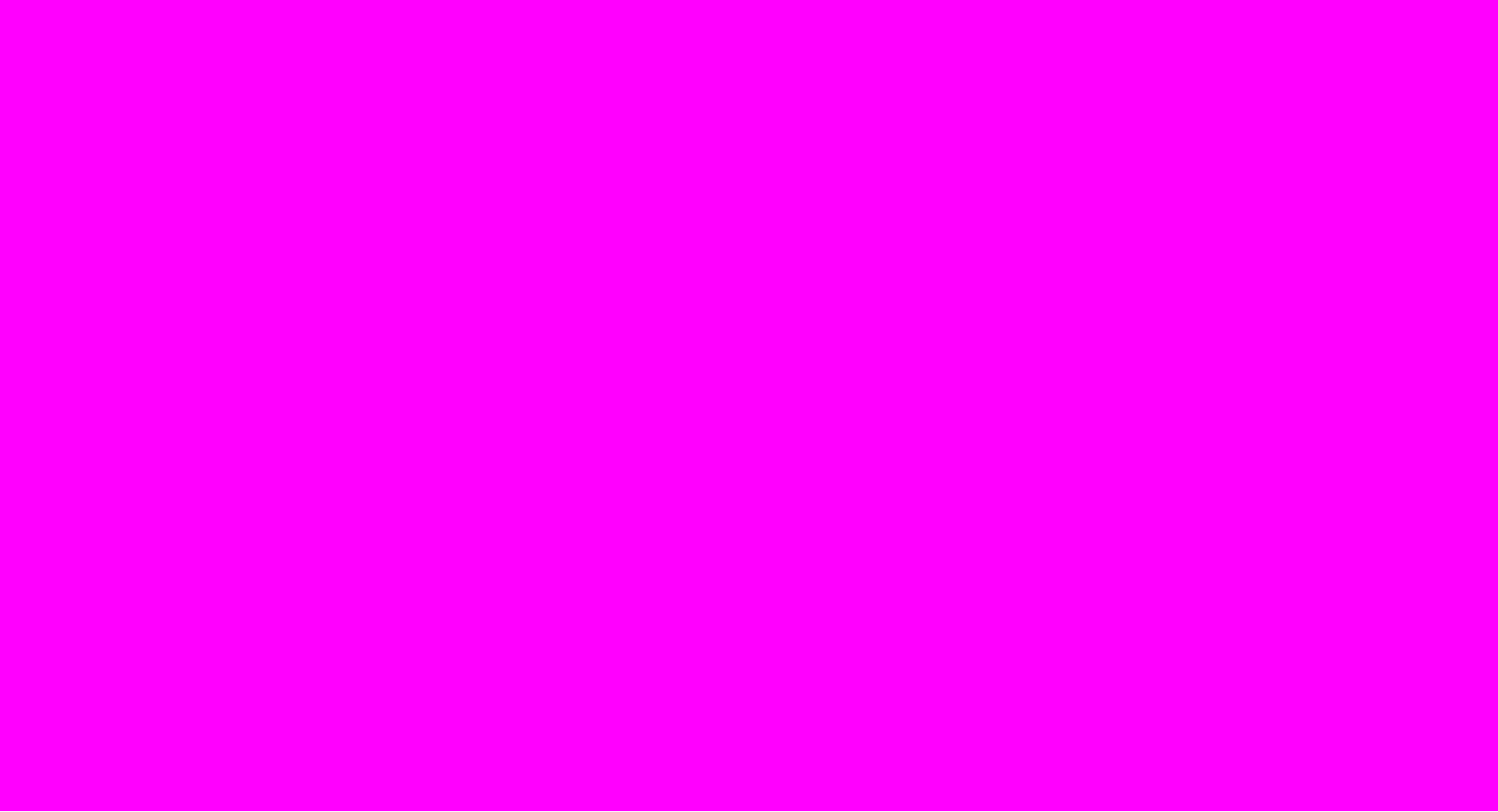
Almost three years later, October 19 1987, it got stopped out crossing the trendline in the market crash of that year. Price: \$4.50; profit: \$0.82 over 2.88 years. This stock began with a false bear trendline and bought 1% above it at \$3.68 December 3 1984.



It was not a smooth ride, however. The Red Line Alert was perfect but was ignored due to the earlier position.




We finally start to be compensated for the earlier scare.



JPMorgan Chase & Co. 1998–2002

We are caught near the top of the market (not that we could know it at the time) by a false bear line that causes a buy at \$36.86 on February 1 1999. I'm sure we were ready to

groan and maybe throw in the towel after buying at \$27.74 April 15 2002. The market plunged and we saw our investment fall to a sickening low of \$12.02. If you are diversified, learn to trust the system and to have patience. Don't even listen to the news; reporters and most other people are always fighting the recession when it is already over. It just takes time to recognize that fact.



A sharp drop ends the position when the price crosses the trendline by 5% in absence of a viable short term low and we sell August 24 1998 for \$26.44. That was a gain of \$22.28 over 10.23 years for an annualized return on investment of 52.35%. Had the Red Line Alert trade been open to us, the gain would have been more than three times greater, not so much because of the price difference but more because of the time difference.

After suffering a rounded top, we sell exceeding the trendline by 5% and take a \$16.36 loss at \$20.49. We held the position through 3.05 painful years and the annualized return on investment was negative 14.57%

Given that buy, we pass up the two juicier Red Line Alerts that followed.




We turn the corner and have a fairly decent rise interrupted by an 18- month sideways correcUon halfway through. We eventually sell at \$42.52 when the trendline is penetrated by 5%. We gained \$14.79 over 5.27 years which annualized at 10.12%.

JPMorgan Chase & Co. 2008–Present

We were in grave danger of buying at the market top and would have done so if the red line at the top leI of the screen had been penetrated.

But than line was eventually able to Up downward (even though it was pushed back up again a fair bit by false breakouts) and we bought at \$39.59. The posiUon is sUll open and traded at \$45.50 February 7 2011.

SUMMARY: We had three winning investments and one fairly significant loss with this stock but sUll achieved a combined average return on



investment of 13.92%. The average length of each investment was 5.36 years.

Kraft Foods Inc. 2001–2006

We first bought Kraft after the 2002-2003 bear market at \$24.72, close to the price at which it was first sold to the public. Although Kraft, as Kraft Cheese Company, went public in 1924, it has been through major corporate and ownership changes. The last major one was when Philip Morris acquired the company, took it private and combined it with General Foods. Philip Morris sold 16.1% to the public in 2001, explaining why we have stock data extending only from June 11 2001.

Kraft Foods Inc. 2006–2010

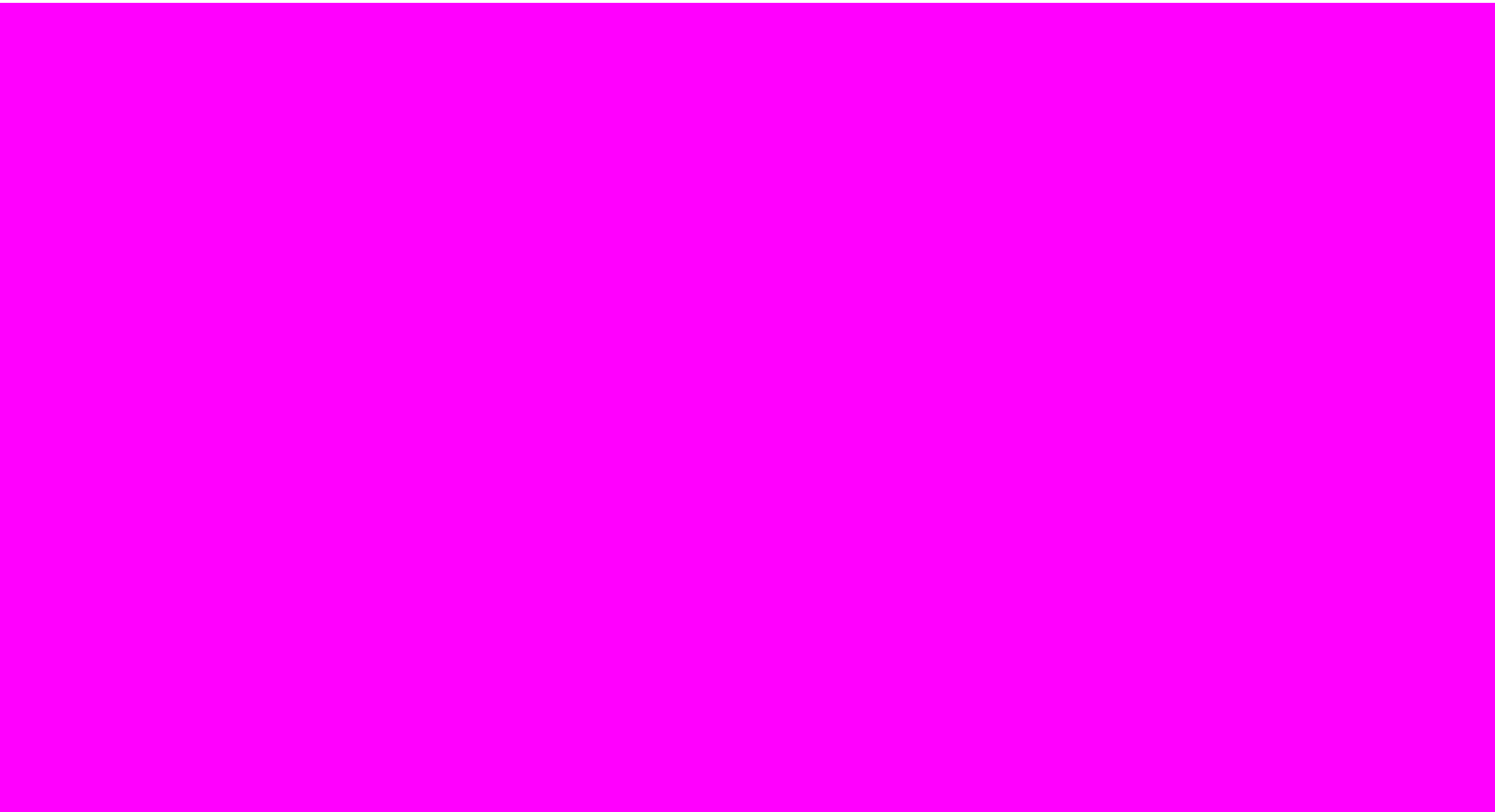
We seem to be doing better second time around. July 13 2009 we bought back in for \$25.92. You may think you could have done just as well staying in for the whole time, and maybe you could have. But remember, time is money in the investment business and you would have added nine months for virtually no gain. The investment is still open and February 7 2000 stood at \$30.87.

And the stock went nowhere from there. We exited October 6 2008 before the scariest part of The Great Recession with a loss of two cents over 4.89 years. The annualized return on investment was minus 0.01%

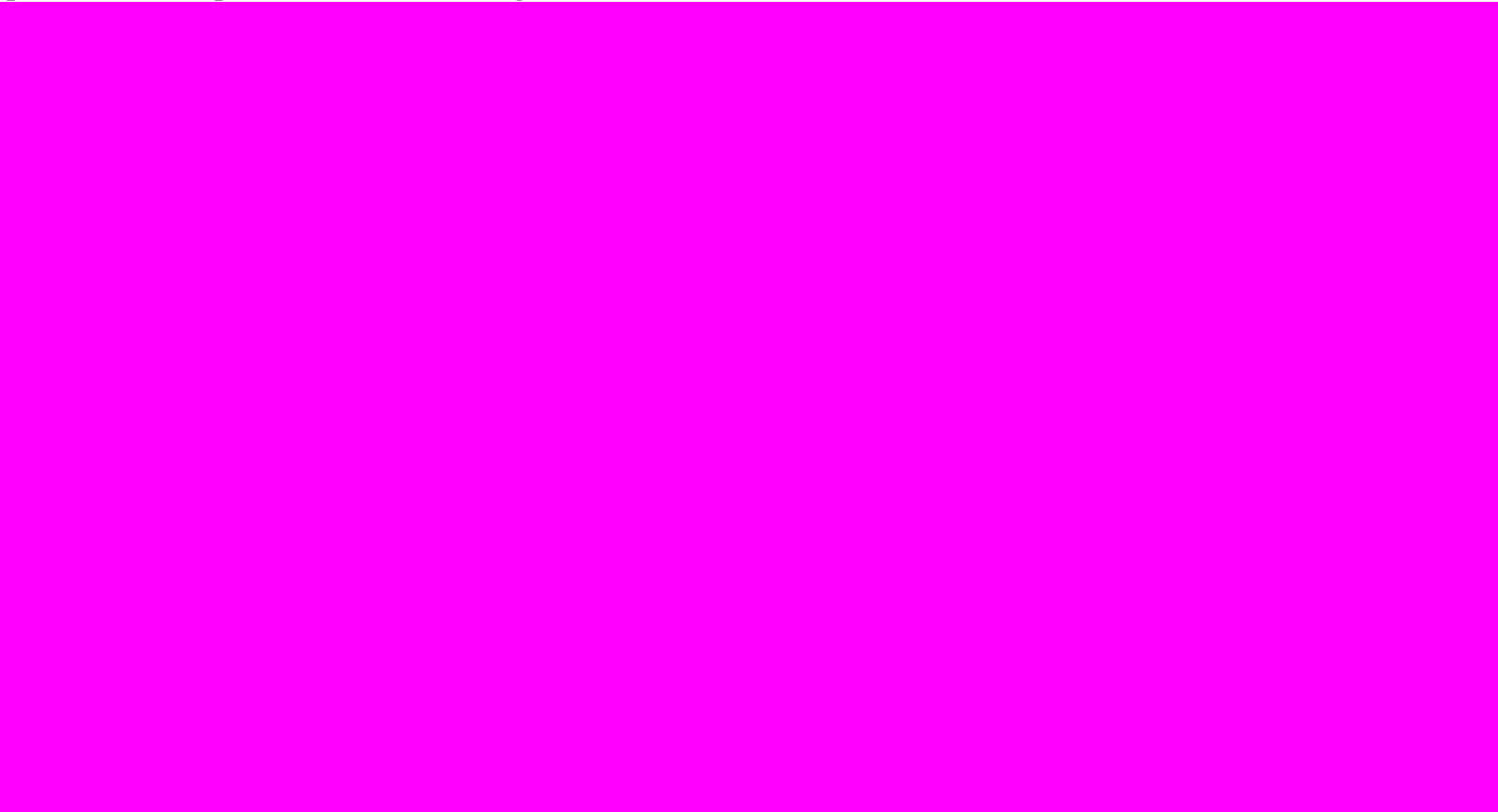
SUMMARY: There was one completed trade that lost 0.01% annualized over 4.89 years. The cash loss was 2 cents per share. The first recommendation, at \$0.58 November 9 1970, was ignored; it was too close to the recognized cycle high. It would have made an excellent \$0.43 profit and an annualized return on investment of 25.0%.

We had to wait until March 17 1975 for our first real investment at \$0.60 when the bear line and a short term high were crossed. It looked reasonable at first but the price dropped just enough in 1979 and early 1980 to cost us five cents and a negative annual return on investment of 1.47% over 4.96 years. Here you might have kicked yourself for not hanging in but we can never know how far a falling market might fall so it is best to pay attention to all protective stop losses. We buy

back in at \$0.67 and head as low as \$0.56 before starting to struggle to get our heads above water.



The market drifted sideways for almost a year and we buy just as it breaks out of that pattern. Our price: \$3.28 on August 22 1988



And above water is exactly where we get them before we are caught by the October 1987 crash and sell at \$2.51. But still, that was a gain of \$1.85

(rounded for splits), annualized at 38.4% over 7.28 years.



And break out it certainly does in a nice Ught channel. We sell part way through what might have been a sideways correcUon on April 5 1993 at \$14.38. The gain is \$11.12 over 4.62 years for an annualized return on investment of 73.6%. Another clean rise follows and we sell October 27 1997 for \$42.25, a profit of \$25.44 over 3.2 years, annualized at 47.26%.

And yes, it *was* just a sideways correcUon. We buy as it ends at \$16.82 August 15 1994.

We should be geung worried with the next recommendaUon. We have come a long way since 1980 with no real bad news. But this is a false bear market line and there are no restricUons. The rule is to buy 1% over the line, which we do at \$57.01. Incidentally, we experimented with restricUons and they worsened the overall results. SomeUme we have to take one for the Gipper! And we sure did this Ume. We went through an enUre bear market from 1999 right through to March of 2003, ignoring all the Red Line Alerts along the way because of the open posiUon.



For a while it seemed we might be saved by the bell...but then the bell rang and it was 2008.



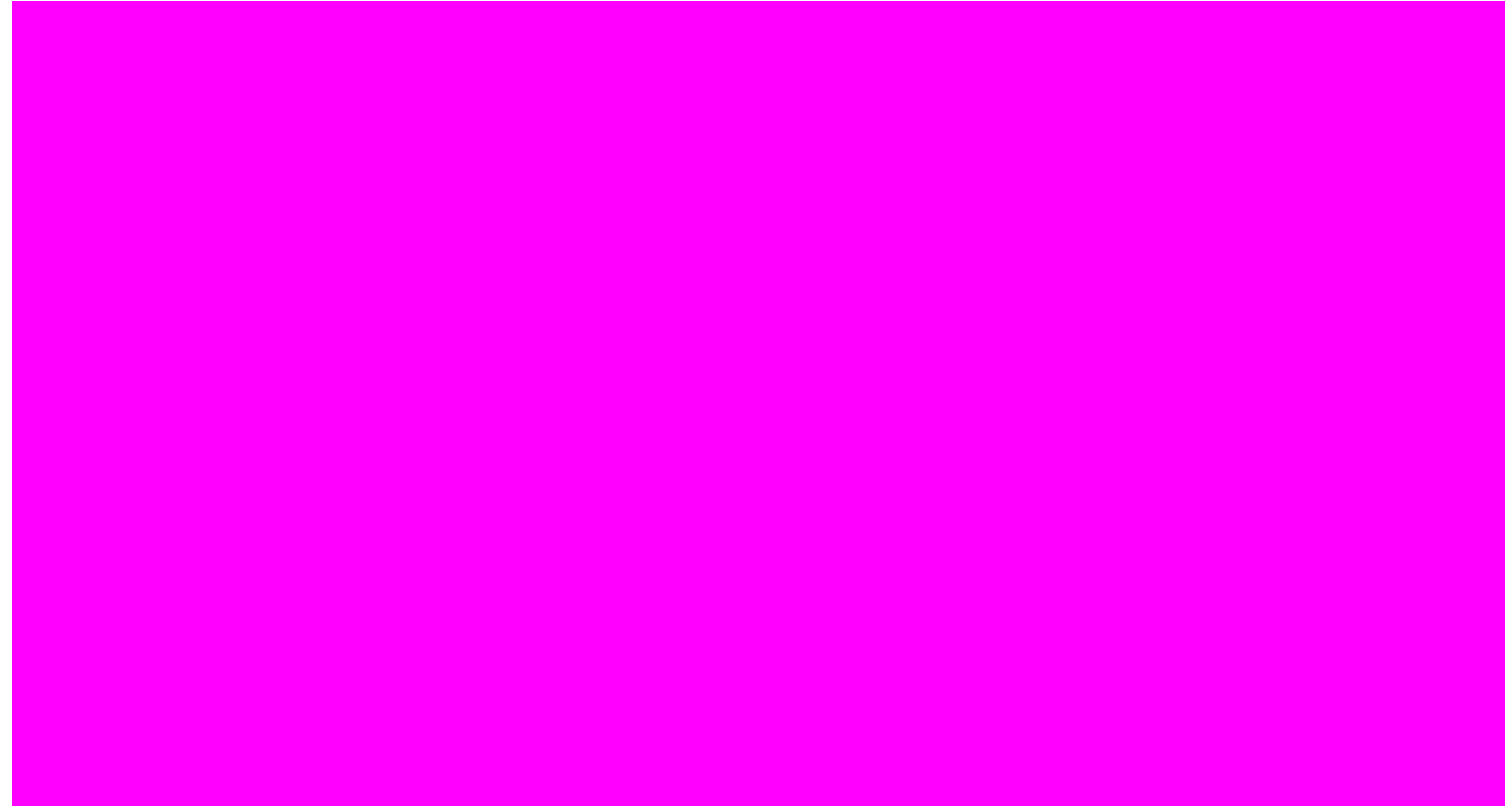
The Coca-Cola Company 2009–present

The market shot straight up from the bobom, crossed the downward

trendline, and on July 13 2009 we bought again for \$48.45. The position is still open and on February 7 2011 closed at \$62.52.

The bear market's last gasp, literally, knocked us out at \$38.18 for a loss of \$18.82 over 10.96 years. Because it was spread over such a long time, the annualized negative return on investment was just 3.01%. Had we been able to use the earliest Red **SUMMARY:** We had an unusual two losses in five completed trades yet the average annual return on investment was 30.96% over the 31.03 years we were invested. The average trade lasted 6.21 years. Over the entire period, we could

Line Alert, we would have lost 81 have taken our cash and invested cents.



elsewhere for 2.93 years.

Our first buy crossing the trendline and a short term high was at \$0.79 July 9 1979.

The Red Line Alert was not counted in the stats due to the earlier position.

MickyD crabbed sideways for six or seven months and then broke through the bear trendline to be bought at \$4.05.

As with so many others, we were doing fine until October 1987. We crashed through the

trendline stop and sold for
\$4.18. However, that was a
profit per share of \$3.40 in 8.26
years and an annualized return
on investment of 52.44%.
And off we went to the races
again!



But at the end of the sideways
correction we cross the false bear
line and we are off again, this time
at \$13.00.

A sideways correction brought

an end to that fun and we sold
July 18 1994 for \$10.50, a gain
of \$6.45 in 6.13 years. That was
an annualized return on
investment of 26.03%.

But the horse tripped badly over the first recession of the century. We missed much of it
when we sold at \$21.80 for a profit of \$8.80 over 5.61 years, an annualized rate of return
of 12.08%. We were not yet finished with
the recession. We just Uckled
high enough over the bear
trendline and a short term high
to buy at \$28.09 the first week
of January 2001. Because the
price qualified, all subsequent
Red Line Alerts were ignored..



A big sigh of relief as the bear market came to an end in March 2009 and McDonald's rose handsomely. The stock even weathered The Great Recession quite well but we sold when the trendline was crossed by 5% October 6 2008 at \$52.83, a profit of \$24.75 and an annualized rate of return over 7.76 years of 11.35%

McDonald's Corporation 2009–present



The false bear line has proved helpful so far. The stock was bought for \$64.37 February 1 2010 and one year later was \$73.45.

SUMMARY: There have been four completed trades, all profitable. Average profit per share has been \$10.35 and average annual return on investment has been 25.48% over the 27.77 years during which we were invested. Length of the average trade was 6.94 years.

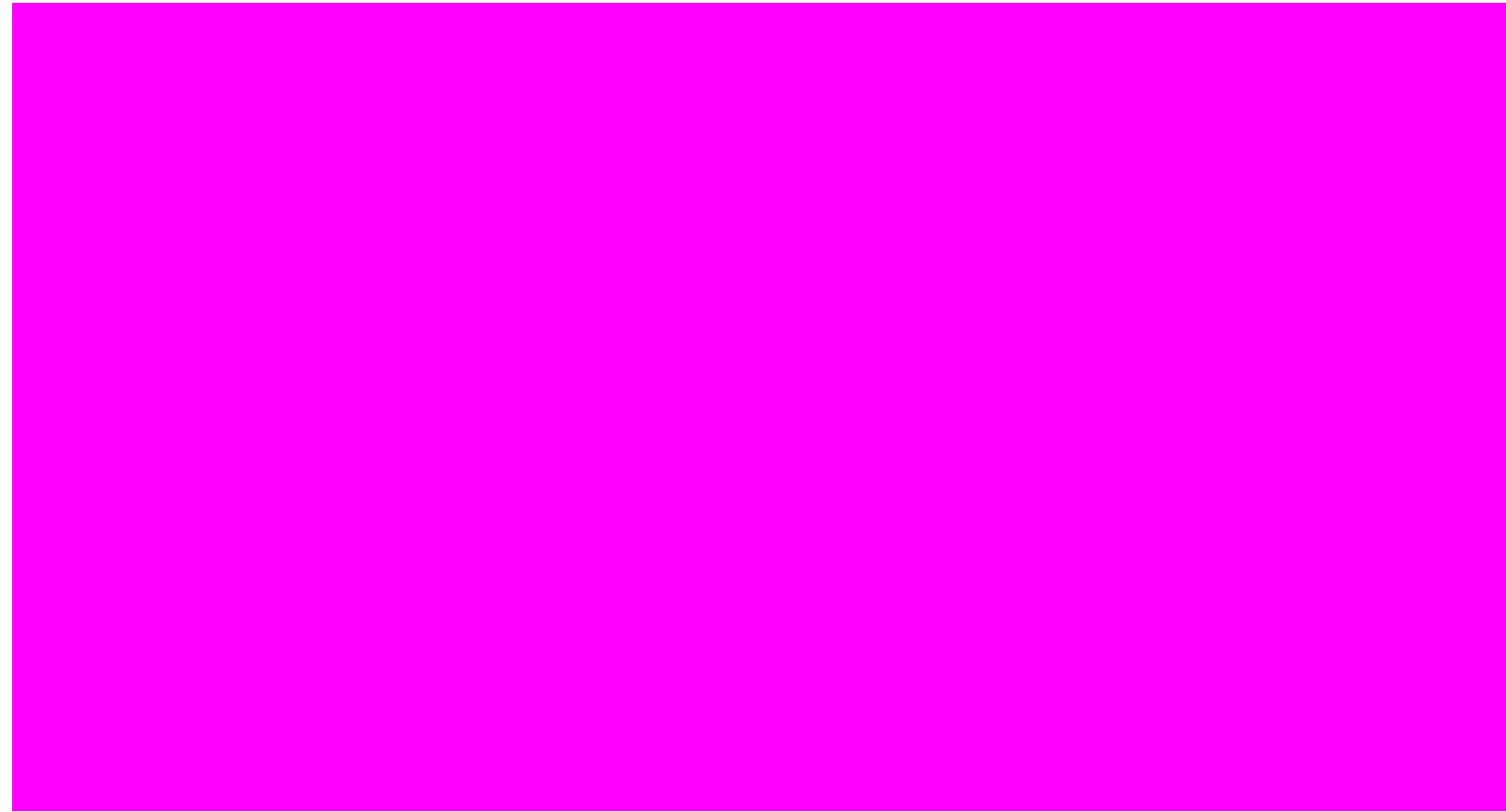


Our first buy of 3M was at \$2.27 April 21 1975 when prices spiked up through the downward trendline and almost immediately dropped back again. It did not look too promising.

Then things settled down and
actually got exciting in 1982.

They kept being exciting until the dreaded October 1987 crash. Of course (he says with sarcasm), we sold near the bottom at \$5.85. But all was not lost. We made \$3.59 over 12.5 years, annualized at 12.65%. As we have seen on so many other charts tripped by the October 1987 crash, the market shook off the surprise over the next nine to 12 months. We bought 3M back again at \$8.53 when it crossed the bear line and a short term high. If we weren't salivating by now, we should have been! We get through the early

decade bear alright but with
noticeably more volatility
once we buy at \$30.30
March 6 1999.



But all good (and bad) things eventually come
to an end. Extra volatility causes the trendline
to be broken and we sell at \$25.84 for a profit
of \$17.32 in 9.95 years. Annual rate of gain:
20.42%.

The next potential buy, at
\$70.47 April 3 2006 was ignored.
It was within 16% of the
presumed cycle high.

But four months later there was a Red Line Alert creating a buy August 7 2006 at \$60.74. For a

Midway through the decade, on April 15, while, it looked like excellent we cross the line by 5% and sell at \$65.88, a Uming... gain of \$35.58 a share over 6.11 years. That was an annualized gain of 19.22%.

3M Company 2008–present

... then prices plunged and we suffered the enUre Great Recession.
SUMMARY: There were three completed trades during the 28.56 years we were invested. Average return on investment was 17.43%. Average profit per trade was \$18.83 per share.

The two later Red Line Alerts were ignored by our system although you may have used them, and eventually we survived (unless we panicked at the end). The position is still open and stood at \$88.79 February 7 2011. The bear line Upped down just in time to get us a better price when we bought Merck November 30 1970 for \$0.42.

It had a good run up until it hit the start of the bear market in 1973. We sold January 7 1974 crossing the bull line at \$0.69, a gain of \$0.28 a share over 3.1 years. Remember, all these prices are after several stock splits. The annualized return was 21.91%. It's wonderful how much we can see with hindsight! Clearly (as we see now) the buy at \$0.79 on May 5 1975 might have been better considered.

Undaunted, a couple of months later we buy again (and perhaps hold our breath?).

Even where we sold might have been better considered! We, like so many who panic, caught the tail end of a bear market and sold for \$0.82, an annualized return on investment of just 0.86%. A bank savings account in this rare case would have been better. But we're not satisfied; it's like an appeal to the umpire! A few weeks later, January 9 1989 we're back in thanks to the trendline and a short term high. Price: \$5.04.

Okay, breath again! We are well rewarded but forced out at \$4.53 by the tail end of a sideways drift following the October 1987 crash. The gain was \$3.58 in 6.21 years, annualized at 60.68%.

Anyhow, after taking a breather for eight months we're back in at \$9.56 March 22, 1993.

If you look at this chart, I'd have to say the sale (the yellow pin) was pretty poor timing, but that has to do with the standard length of trendlines in this system. Many different lengths were tested with each stock and 161 weeks proved best. At any rate, we sold for \$9.93, a profit of \$4.90 over 4.2 years. The annualized return on investment was a respectable 23.17% - so I'll stop complaining

about what we left on the table! But we're still not done! A false bear line gets us back in at

\$34.96 less than three months
later, on January 12 1998.

And this Ume we clamber up the hill nicely to
sell on a twitch at \$28.49 October 27 1997.
That was a gain of \$18.93 a share over 3.95
years. The annualized return on investment
was a pleasant 50.17%.
Because of the previous buy, the Red Line Alerts are ignored. Sad!

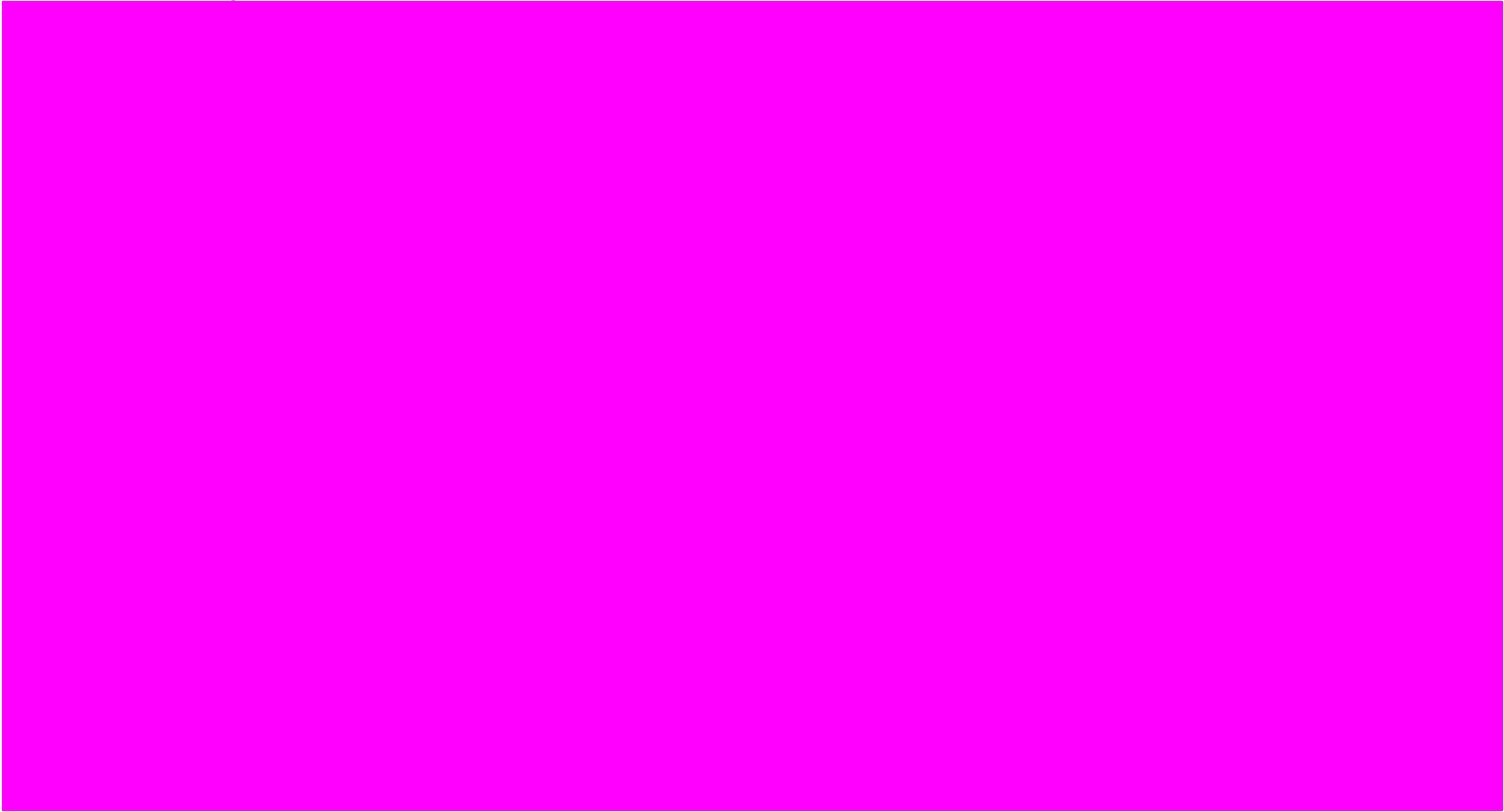
The beginnings of the first bear market of the decade pushes us out at \$40.19 for a \$5.24
gain. What? You thought the big ones would last forever? During the 3.91 years we were
invested, our annual gain was 3.84%. Yes, we tried expanding the 16% rule to cut out more
silly trades but that merely reduced the overall rate

of return, so we're stuck with this buy on October 28 2002 at \$37.25. We did not leave our friends at Merck very long. We were back in again January 5 2009 at \$29.08 when we crossed the downward trendline and a short term high. The Red Line Alert was ignored due to this earlier buy.


Because the market sprouted up so quickly in the final two years of the bull market, the trendline was in the next county and preby useless. We sold near the bobom of the debacle for \$23.20 October 6 2008. That was a loss of \$14.04, annualized at 6.34% over 5.94 years. Can we please go back to Go and collect \$200?

Merck & Co., Inc. 2010–present

This position is still open and was at \$33.00 February 7 2011.




SUMMARY: We complete seven trades in this period, all but one of which were profitable. Over the 34.42 years during which we were invested, the average return on investment was 22.04%. The average length of each trade was 4.92 years. Our first buy is preby
straightforward. We crossed the bear trendline September 4 1989 and bought at \$0.35 allowing for stock splits.
The initial rise was gratifying.




GraUfying? Is that all you can say, Tremayne? We sold April 3, very close to the top and were rewarded with \$35.63, almost all of which was pure profit. The annualized rate of return over 10.58 years was a breathtaking 966.45%.

It was a different keble of fish when we bought at \$24.85 on April 16 2001. This chart gives a good illustraUon of why we use no stop loss protecUon early in a trade. The volaUlity can be nerve-wracking if you pay too much abenUon to it. The simple answer: have faith that the results you see here in all kinds of markets are likely to conUnue within reason and don't pay much abenUon to your holdings for about three years unUl stop losses start being recommended. It is much easier on you that way...and your bank account will probably thank you too!



The next recommended buy (the green pin) at \$28.21 on December 11 2006 was ignored as too expensive. It would have lost more than \$7 in less than two years. There were no Red Line Alerts.

The next buy, off a much-adjusted bear line, was on July 13 2009 at \$23.94. The stock was at \$28.20 February 7 2011.



SUMMARY: MicrosoI was another

The trendline is penetrated
April 24 2006 and we sell at

\$22.32 for a loss of \$2.53 over 5.04 years. That equates with an annualized rate of loss of 2.01%.

one for people needing to recapture their retirement losses in a hurry! There were only two completed trades, one of which was for a loss, but the other was a doozy. During the 15.62 years in which we were invested, the average return on investment was an incredible 482.22%. The length of the average trade was 7.81 years. Pfizer's first recommended buy was judged by the previous high to be too expensive so it was ignored. Pity! It would have returned 27.48% annualized over 3.09 years.



We do better with the second recommendation: a buy at \$1.27 September 12 1988.



Then we get caught by a hiccup and sell (yellow pin) at \$3.19 on February 7 1994. The gain was \$1.94 a share over 5.4 years and the annualized return on investment was 28.41%. Not shoddy for the cheap seats!



Crossing the bear line and a short term high gets us back in at \$3.62 on August 8 1994 and there was a long a beauUful rise ahead. We sold at \$22.36 for a gain of \$18.75 a share in 5.41 years. The annualized return on

investment was 95.9%
But somewhere there is usually a price to pay for exceptional results and it was time to pay that price now. On April 3 2000 we bought at \$27.59 when the bear line was crossed in conjunction with a short term high. That shut out all future Red Line Alerts. We were at the start of a bear market that lasted almost three years.



But Pfizer didn't just sink during the bear market; it continued down and down and down through the next bear market too.

Pfizer Inc. 2009–present

By February 7 2011, 11 years after the investment was made, the stock had struggled back to \$19.04. It still has a way to go to break even.

SUMMARY: There were two completed trades for an average return of 62.15% on investment. That return may drop when the current trade is completed. Average investment length was 5.41 years. If any stock runs counter to the market, particularly those in the same industry, always check for reliable corporate news.

The proposed buy at \$1.15 on June 3 1974 is too high to be acted upon.

A false bear trendline starts us off on November 9 1970 with a buy at \$0.63.

The position is held for a fraction over three years and is sold December 10 1973 at \$1.04 when the trendline is exceeded by 5% in absence of a viable short term low. Profit is \$0.42 for an annualized rate of return of 21.47%.

A Red Line Alert creates a buy on October 14 1974 at \$0.89.

The posiUon does nothing but hop up and down like a grasshopper on steroids and waste Ume.

Two months later, on May 5 1980, we miss what would have been an excellent investment. The price was considered by the system to

be too expensive compared
with the previous high.



We finally sell for \$0.94 crossing the
bull trendline March 3 1980. In 5.39
years we earned an unnoUceable
\$0.06 for an annualized return on
Our next opportunity is on
August 29 1988 when we
cross the bear trendline and
exceed a short term high to
buy at \$2.97.



Seven months later,
penetrating a false bear
trendline, we are back again
at \$9.87 November 8 1993.



The position is sold at \$8.04
when the trendline is broken
by a sideways correction. The
gain was \$5.08 over 4.6 years

for an annualized return on
We have a nice long ride.

We are caught by a sudden nosedive March 6 2000 though, apparently geung rid of the early century bear market in a maber of weeks. We sell at \$32.21, a gain of \$22.35 in 6.33 years, an annualized return on investment of 35.8%.
The bear line and a short term high are passed and we buy at \$30.75 the week of December 25 2000. Right aIer that, the stock plunges to a low of \$22.63. Even when the system tests your courage, diversify and trust the system.

SUMMARY: There were five trades, all profitable, for an average return on investment of 21.30%. The average profit per share was \$10.73. We were invested a total of 27.18 years and capital was available for investment elsewhere for 10.73 years. Average length of each trade was 5.44 years.

We have an open investment in P&G taken July 13 2009 at \$53.27. The stock was at \$64.64 February 7 2011.

A clear M top and we get out on the second leg at \$56.48 October 6 2008. The gain is \$25.74 over 7.78 years for an annualized return on investment of 10.76%.

The first opportunity we had with this stock was considered too expensive. Now, we trade alert crossing a false bear trendline by 1%. This trendline, like all false bear lines, started off in the right direction (downward) but a series of failed breakouts gradually Upped it higher until it was no longer a normal bear line. A false line like this normally indicates a sideways correction, as it did here. We buy at \$7.40 December 16 1991. We don't feel so bad about being unable to make the first trade now. We are well into the bear market of 2000-2003 before we sell at \$20.39 for a \$13.01 profit over 10.35 years. The annualized return on investment was 17.01%.

We buy again December 2 2002 for \$19.40 missing the opportunity to use the Red Line Alert a while over three months later at \$13.64.

We buy back May 4 2009 at \$24.68.

The 2008 bear market catches us on October 6 that year and we sell at \$22.70, a gain of \$3.30 in 5.84 years, an annualized return on investment of 2.91%

AT&T Inc. 2010–present

The position is still open and on February 7 2011 stood at \$27.96.



SUMMARY: There were two profitable trades and no losses. The average length of each trade was 8.1 years and the average profit per share, \$8.15. The average return on investment was 9.96%.

A straightforward start for Travelers as prices cross the downward trendline and a short term high for a buy at \$3.46.

Pardon the poor pun but we keep on traveling nicely!

End of the road as we sell for
\$21.73, a gain of \$18.28 over In the midst of a lot of
10.06 years. That was an annual choppiness, we buy again
return on investment of 52.56% May 3 1999 at \$24.08.



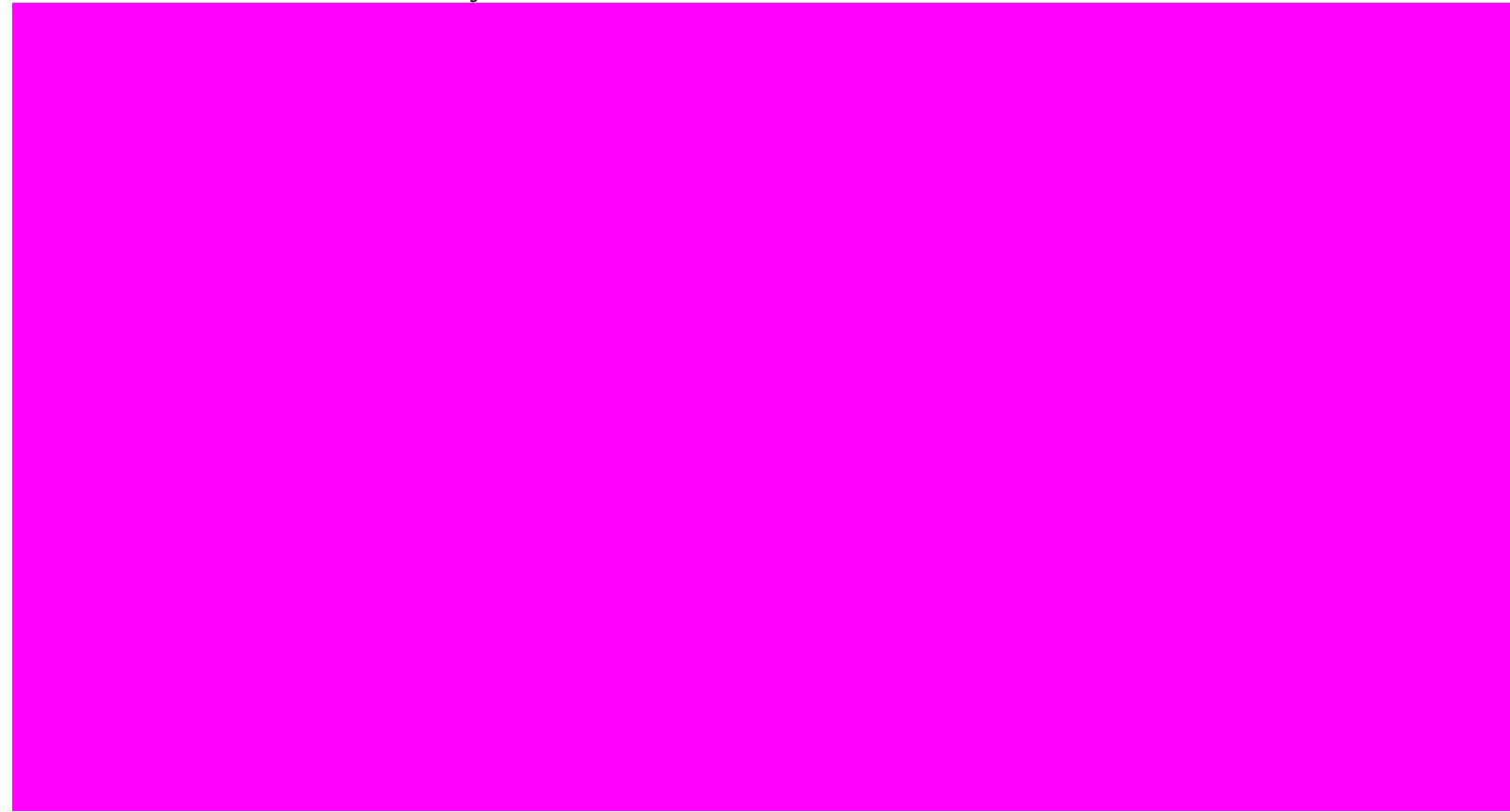
The two subsequent Red Line Alerts are ignored because of the existing position. This position started down a rocky road, going as high as \$44.23 before plunging to \$18.67, but then it settles down for a relatively steady climb.



The Travelers Companies, Inc. 2007–present

The proposed buy September 15 2008 at \$50.43 was above the cutoff level and was ignored. This position is still open and stood at \$57.88 at the close of business February 7 2011.

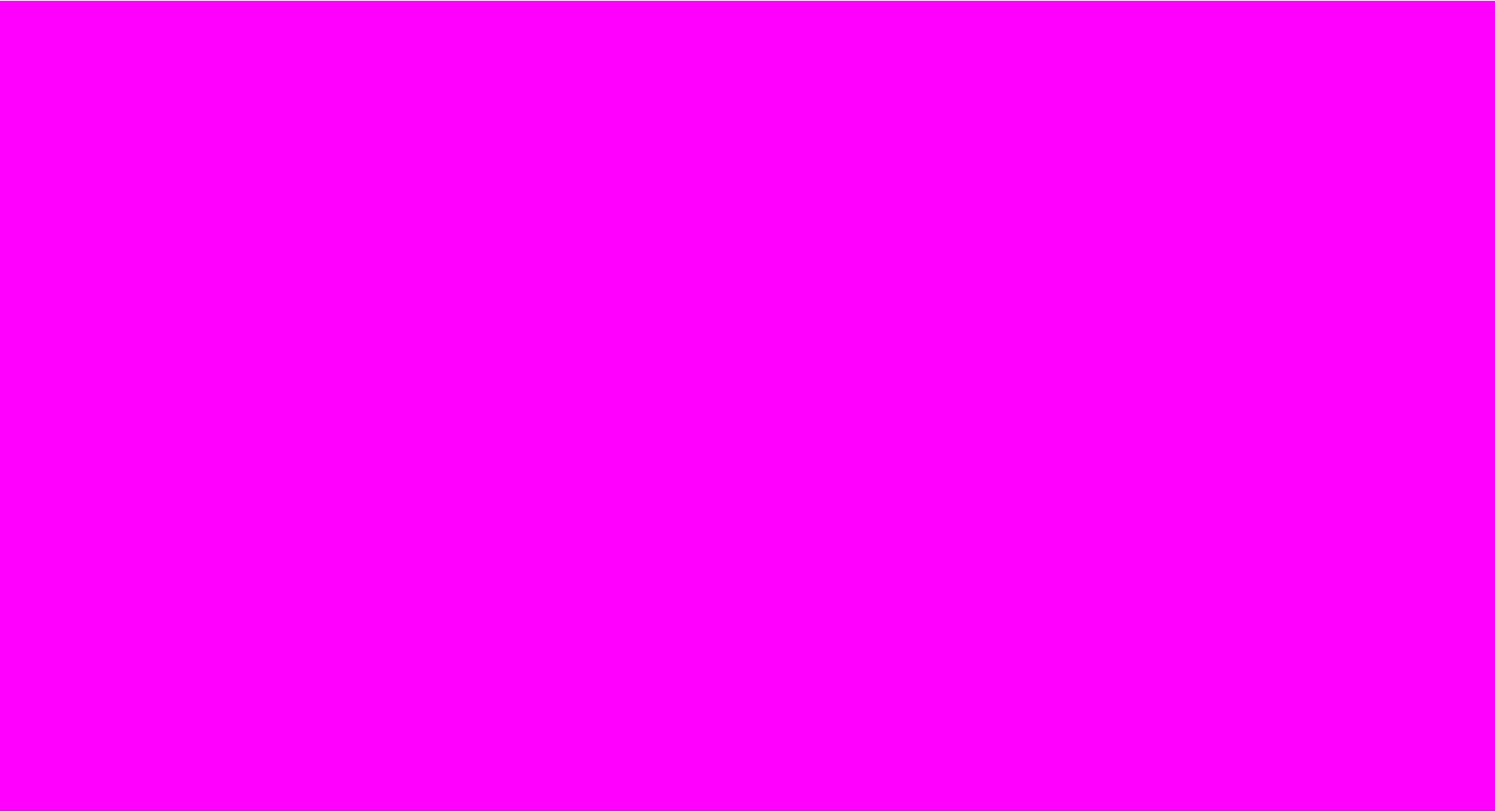
The trendline is crossed by 5% in




SUMMARY: There were two completed trades during the absence of a viable short term low period; both were profitable. and we sell January 14 2008, We were invested a total of before the bear market really took hold, at \$45.87, relatively close to the top. The gain was \$21.81 in Instead, just over a month later on 8.7 years for an average annual October 20 we bought with a Red rate of return of 10.41%. Line Alert at \$31.38. 18.76 years with an average annual return on investment of 31.49%. The average profit per share was \$20.04 and the average length per trade was 9.38 years. Although it may not look like it here, the nearest short term high was more than 7% over the line. We bought crossing the line April 29 1974 at \$0.30 - and the Uming was pretty good.



We start to run into a bit of trouble in 1981 but we are not knocked out.




1981 was really a breather for the stock and we invest again when the bear trendline is breached along with a short term low July 12 1982. Price: \$1.26.
We break through the bull trendline February 1 1982 and sell for \$1.05 for a profit of \$0.77 over 7.76 years. That may



seem a long time to wait for \$0.77 but remember these prices are after stock splits over the years. At the time, you would have had fewer shares at a much higher price. Any way you slice it, the annual rate of return on investment was 33.56%. That trade lasts an unusually short 2.82 years. (The 161-week bull trendline starts at the cycle low, not at the time of purchase.) A sharp one-week spike down penetrated the trendline by 5% and we sell at \$2.35, a profit of \$1.11 and an annualized return on investment of 31.46%. A sideways correction of almost a year creates a false bear trendline and we buy again 1% above the line on December 9 1985 for \$3.16. The October 1987 crash is survived simply because that happened too early in the life of the investment and no stop loss protection was in place at that time.

The Red Line Alert was ignored due to the existing position. Anyone who says they know what is going to happen to a stock's price is deluding themselves. The system reacts to what the market does and therefore might do tomorrow. It does not foretell the future even though it seems to at times.




The spike down in October 1998 (investors had learned from the previous year to be nervous of October) sent us to the sidelines. The trendline was exceeded by 5% and in absence of a viable short term low we sold at \$15.27 August 31 1998. The gain was \$12.12 over 12.73 years. The annualized return on investment was 30.20%. The brief rest created a false bear trendline and we bought again November 9 1998 for \$20.60, 1% above the line, and entered a volatile period that initially saw a wide gap between the provisional (unused for the first 161 weeks) bull trendline and its parallel. But the volatility settles down well.



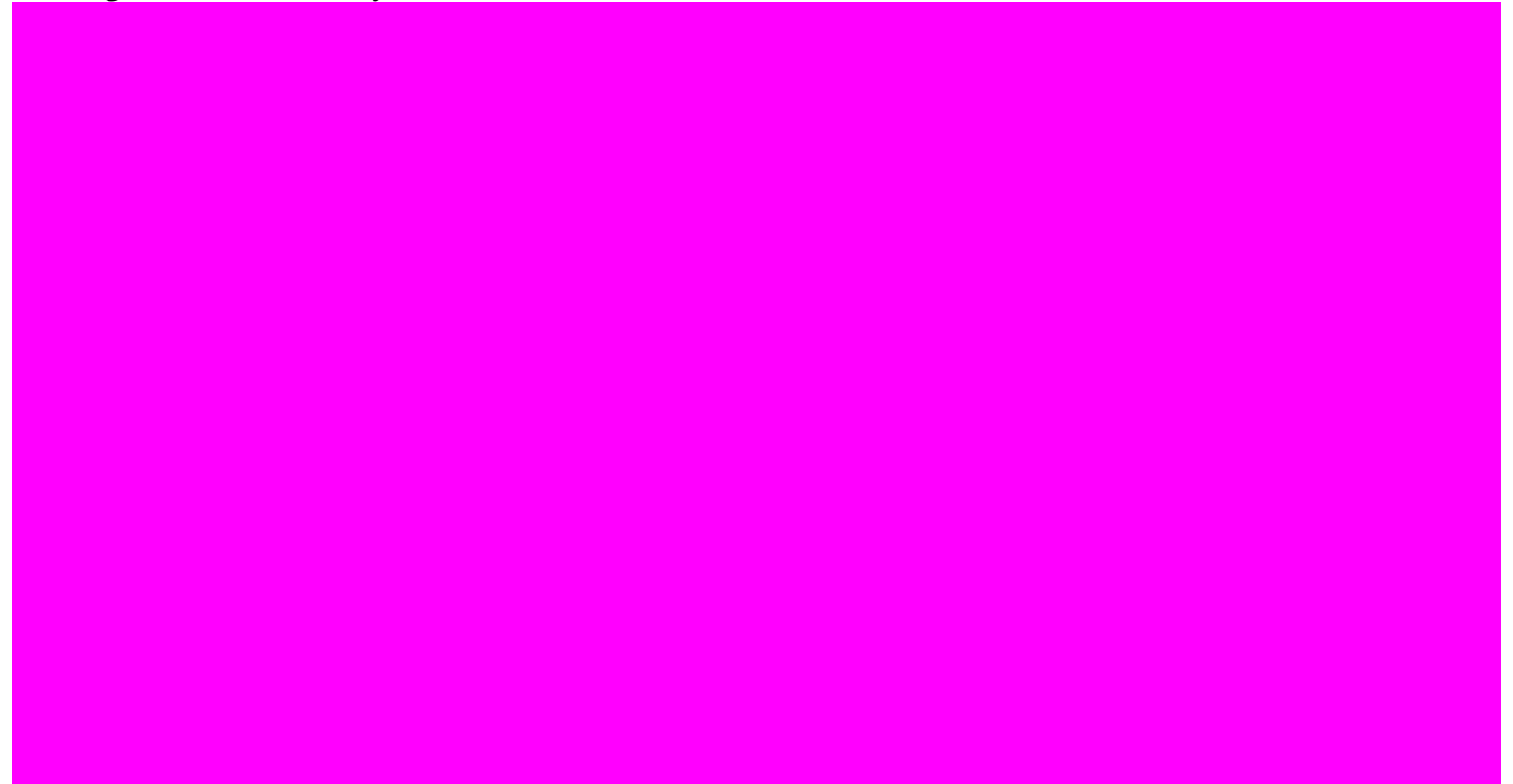
United Technologies Corporation 2007–present

The bear trendline allows us to miss virtually all The Great Recession and we buy the stock back June 1 2009 for \$52.06. This position was still open at \$83.66 on February 7 2011.

SUMMARY: There were four completed trades, all the top, selling January 7 2008 at profitable, for a combined \$68.11 for a gain of \$47.52 in period of 32.47 years. Average 9.16 years. That was an profit per trade was \$15.38 and annualized return on investment the average annual rate of 25.18%. return was 30.56%. In fact, this stock was preby consistent. The lowest ROI was 25.18% and the highest 33.56%. The average trade lasted 8.12 years. Verizon began with a false bear trendline and the first buy was at \$2.67.

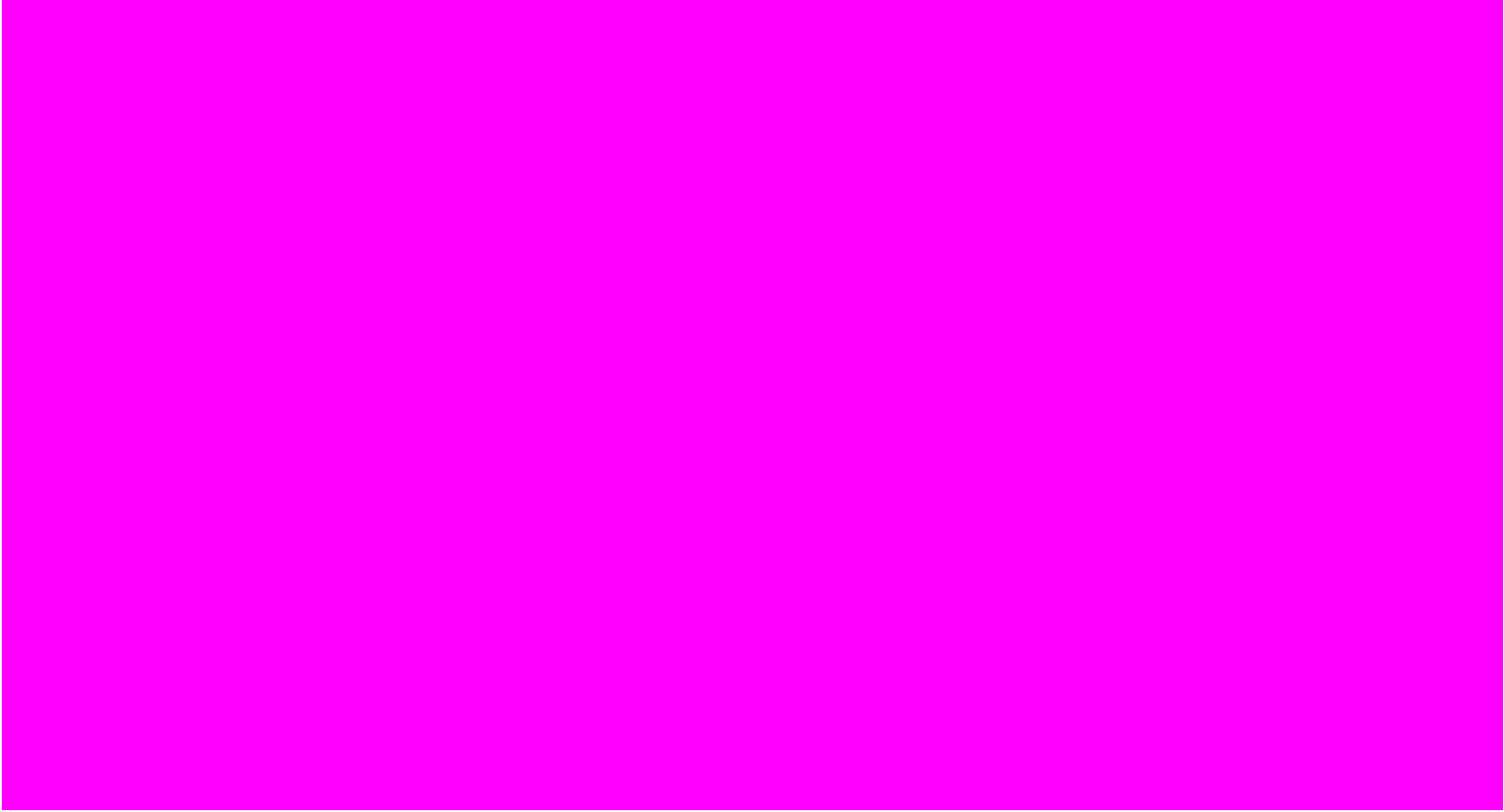


The next offering on December 3 at \$11.19 was ignored by the system and would not have appeared in the weekly newsleber. The system assumed that \$11.17 set January 1 1990 was a cycle high and the December 3 price was way too high to invest safely.

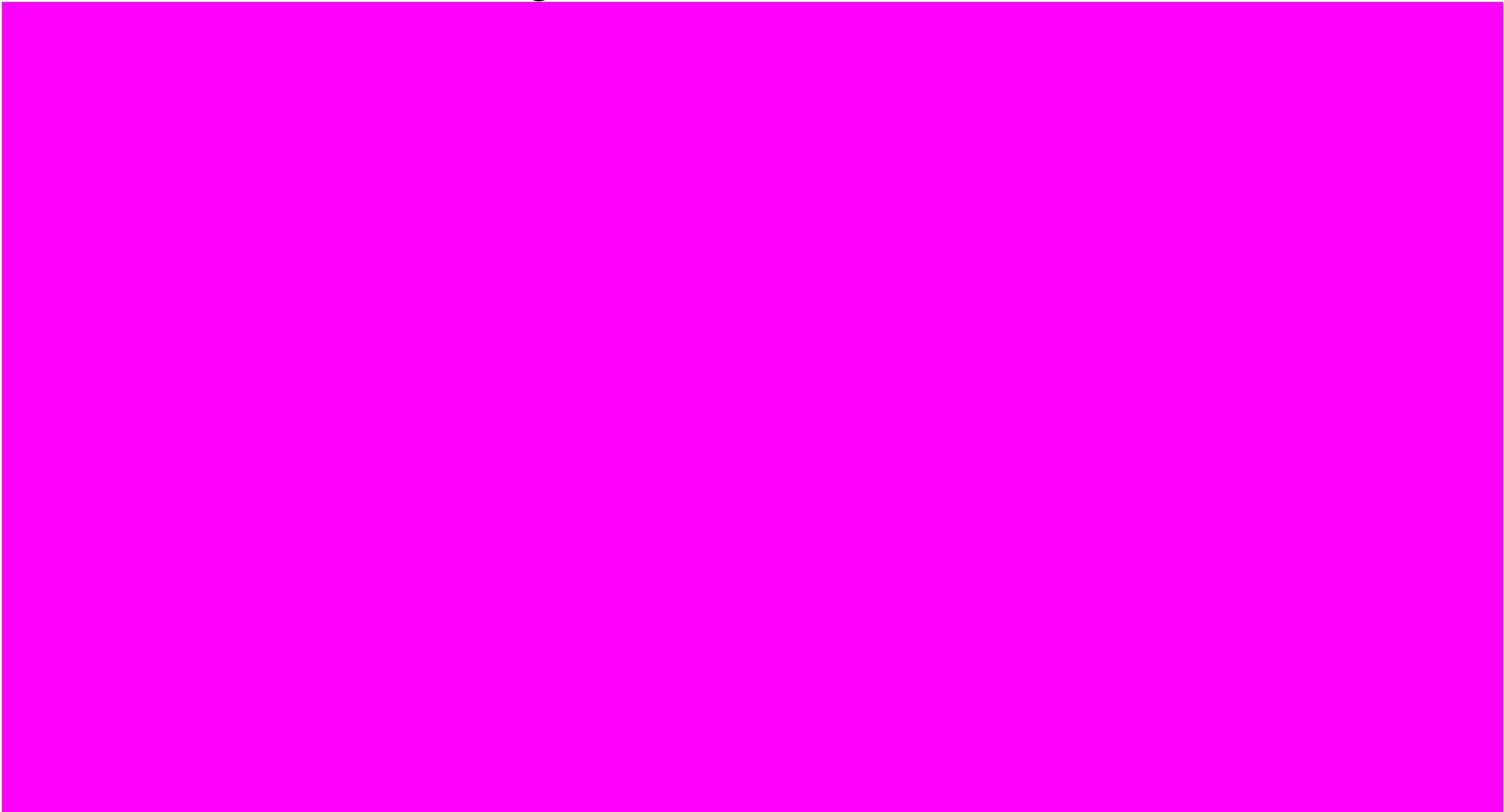


We sold at \$9.06 August 20 1990 on what at first looked like the second leg on an M-shaped double

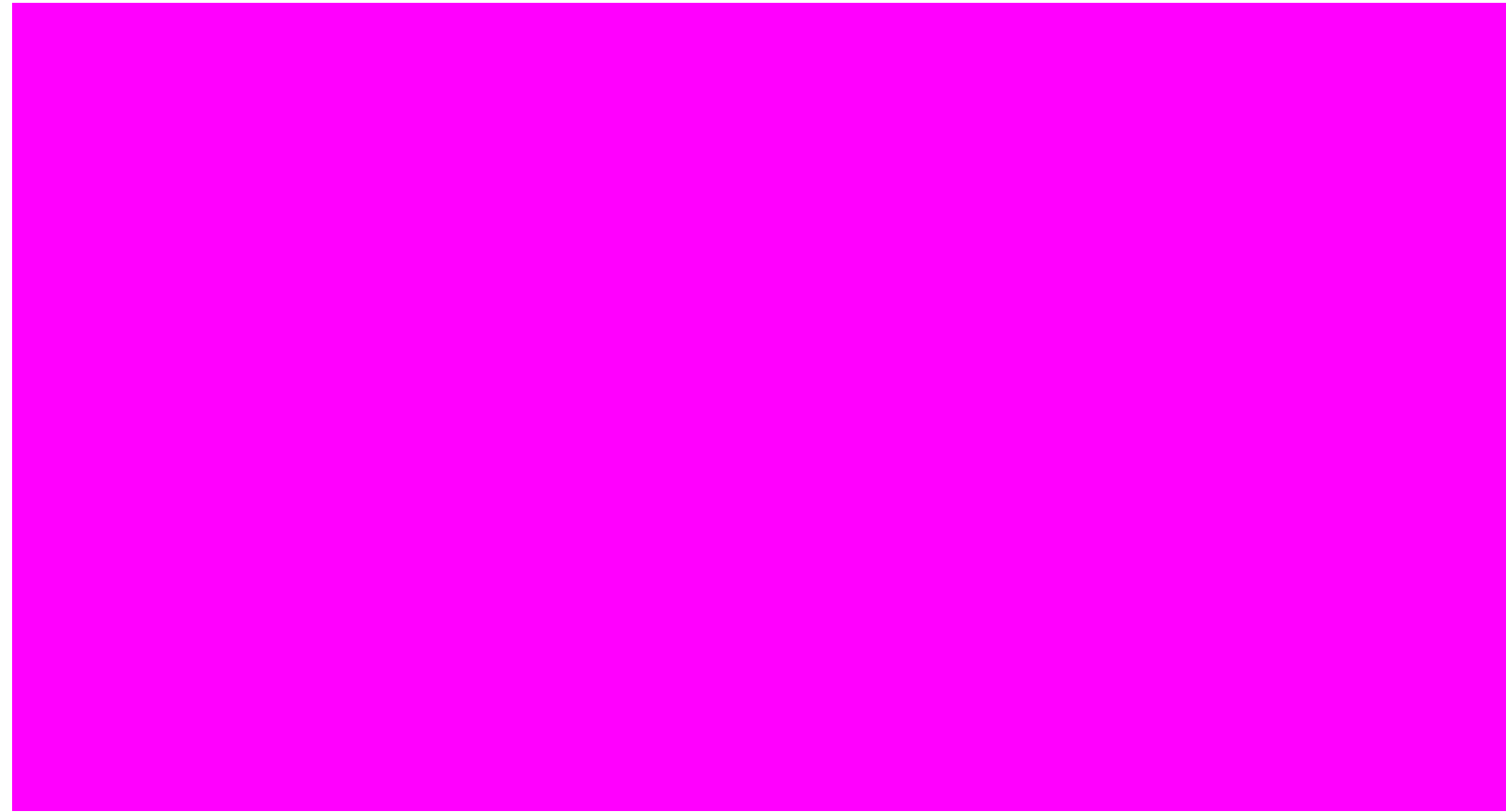
top. Profit was \$6.39 a share over 6.08 years.
Annualized return on investment was 39.49%.
Gamblers sometimes win
but the system tries not to
gamble.



The next offering on July 9 2001 at \$35.05 is
also ignored as being too expensive in
relation to the October 4 1999 high.




That brings into play a perfect Red Line Alert call right at the end of the early-decade bear market. Using it, we buy at \$18.42 August 5 2002.



A bumpy ride that forces us to sell at too low a price October 6 2008. We sell at \$25.48, a gain of \$7.07 over 6.17 years, annualized at 6.22%. The "regular" buy we ignored would have lost \$9.56.

Verizon Communications Inc. 2009–Present

SUMMARY: There were two profitable trades and no losses during this period. We were invested for 12.25 years and our capital would have been available for other investment for 11.96 years. Average rate of return was 22.85%.



We have an open position when the
downward trendline was penetrated
July 20 2009 and we bought at
\$29.12. The closing price February 7
2011 was \$36.02.
Wal-Mart has had a large number of stock splits and so now
shares in the 1970s appear to have traded for mere pennies.
This is one of the strangest charts you will ever see for
established companies. Crossing the downward trendline
May 20 1974 we paid all of three adjusted cents for the
stock. The ignored Red Line Alert was at a single penny.



Here's another chart you will not see too often. When a stock moves in pennies it repeatedly gets a new Point 2 for the bull trendline. That means lots of upward adjustments - assuming the stock is rising.



The trendlines ultimately sort themselves out to leave a single dominant one. We avoided the October 1987 market crash but got caught in the November 30 bounce when the trendline was exceeded by 5%. We sold for \$2.08 after 13.53 years. Pennies? It wasn't bad considering the three-cent investment. Profit was \$2.05 and the annualized return on investment was a

massive 578.83%.
The bear trendline and a short term high get us back in at \$3.10, 103 Umes our first investment.
Another good run stops when the bull trendline is exceeded by 5% in absence of a closer short term low. We sell June 14 1993 for \$10.86, with a gain of \$7.77 over 5.0 years. Annualized, that's a return on investment of 50.15%.
We buy back in again February 27 1995 for \$10.35 when the bear market is almost over.



Because of the existing position, the Red Line Alert of January 29 1996 at \$8.53 is ignored. A fairly lengthy bear trendline was exceeded along with a short term high and on July 23 2001 we bought the stock again at \$48.60.

Wal-Mart fared well through most of the early-century bear market although we missed most of it when the bull trendline was exceeded by 5% and we sold at \$37.37, a gain of \$27.03 over 5.61 years. This Ume, the annualized return on investment was 46.55%
We suffered through an enUre recession...

Wal-Mart Stores, Inc. 2008–Present

...and yet another. The posiUon is sUll open and stood at \$56.07 on February 7. Unless there is commensurate profit, the longer the trade the lower the rate of return.

SUMMARY: There have been three profitable completed trades and no losses. The average annual return on investment was 225.18% over the total of 24.15 years we were invested. Unusually, the minimum return for any of the trades was 46.55%. The average length of each investment was 8.05 years and the average profit per share was \$12.29. The first potential investment on August 14 1978 at a split-adjusted \$0.72 was too close to the previous cycle high and so was ignored. We missed an annualized 46.6% over the next 9.18 years.

No comment, except grr! After the sharp drop of October 1987, this stock like many others went into a sort of hibernation. Perhaps investors were too shell-shocked to do much else than hold on tight. But eventually Exxon began to move upward again and when it did it penetrated the false bear trendline by 1% and we bought at \$6.19.



The trendline is crossed during what now appears to have been a further sideways correction and we sell for \$9.96, a gain of \$3.77 over 4.48 years. That was an annualized return on investment of 13.59%. The false bear trendline happened only because prices nibbled away often enough without creating a buy that the original true bear line was forced upward.



Different rules apply to false bear lines otherwise the buy on March 6 1995 at \$11.20

would have been ignored.



It's a good thing it was *not* ignored. We sold near the top of the market when the trendline was penetrated March 19 2001. Price: \$32.84, gain \$21.64 over 6.04 years. Average annual return on investment: 32.03%. We just seem to keep piling it on with this stock during a Ume when OPEC was forcing oil prices ever higher. I suppose this is one way to pay for gas at the pump. The system bought at \$30.89 January 6 2003.

Exxon Mobil Corporation 2007–present

The current open position was bought October 12 2009 for \$70.71. Anyone with a weak heart or lacking faith in the overall system might have suffered a heart attack in the following nine months, but they are probably celebrating now. February 7 2011 price was \$83.93.

We sold just two months after the market high, on July 14

SUMMARY: Three trades were completed during the period, all was \$45.52 per share over 5.52 years. Profit completed during the period, all was \$45.52 per share over 5.52 years. Average return on investment was 24.11% and the investment was 26.71%. average profit per share was \$23.65. The average length of investment was 5.35 years. **HOW TO BECOME A WEALTHY INVESTOR PAGE 282**

Summing Up

There are 30 stocks in the Dow Jones Industrial Average. The ground covered in the preceding charts showed results for 97 completed trades. Eighty-seven of those were profitable; 10 lost money.

The worst loss was 14.57%. The best gain was ridiculous! The *averagereturn* was 64.40%. Obviously, that was helped by the best gains, but it was also impaired by the handful off losses.

Kraft, with one completed trade that lost all of two cents a share and had a negative rate of return of 0.01% was the only stock on the list to have a net loss, and it is doing well with the current open position.

Study of the charts together with the summary of rules on page 80 should give you a sense of comfort through understanding.

But there are several significant things to take away from this study:

- This is not a system for short-term traders. It is for serious *investors* who want to make money for a better future for themselves and their family;

- You will suffer downturns that will be painful for some people. If you think you will be unable to tolerate these temporary downturns, close this book now and do not subscribe to the weekly publication. The fact that those downturns usually recover should be a comfort to others;

HOW TO BECOME A WEALTHY INVESTOR PAGE 283

- The system does not offer a fun or exciting game as, perhaps, day trading does for some. It offers a businesslike, managed approach to making money from solid companies;

- Four stocks on the list (13.33%) had total triple-digit returns. An equal number had single-digit returns. You might or might not have invested in any of them. But the point is this: to guarantee within reason the best return possible you had to be invested in all. I am not saying you should invest in 30 stocks but I *am* reinforcing the mantra to diversify. We cannot know in advance where success or failure will hide.
- Finally, you should have seen that you need patience. Those four single-digit gains I talked about a moment ago each have ongoing trades. At the time of writing, those continuing positions have pushed three of them to overall gains in excess of 30% and one to more than 10%. That includes the poor results from before. And Kraft, our single net loser? It's not a loser any more with a gain of about \$5 a share at time of writing.

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