

An insider's experience on the 10 best ways to
make and keep investment profits.

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#1 best way to make money in the stock market

Sell your company to the stock market and then keep that cash out of the stock market.

“Confidence”

Understand brokers are paid to sell risk not manage it.

#2

Use insider information about other companies to buy and then sell positions to your benefit.

(illegal for the general population)

Widely followed practice unchecked among politicians and corporate leaders.

Recent 60 Minute feature on insider trading rampant in political insiders and lobbyists.

#3

Become a high frequency trader and use lightening fast equipment and close physical location to take unfair advantage of other people participating in capital markets.

(so far legal, but also a huge probability of blowing up eventually)

#4

Create an investment fund or product and sell it to others in exchange for their cash.

(widely done and extremely lucrative)

#5 (recommended)

Never buy what others are trying to sell you.

Make your own buy list and criteria and then wait until others are selling in panic desperate for your cash.

#6

Beware of people telling you they have already bought and suggesting you should join them.

Smile and nod, *run away!*

“Experts” some of the worst.

#7

Only buy what you understand and only if you define your sell rule from the outset. Don't fall in love!

Avoid holding while values are falling. Take profits.

Understand that a full market cycle is up and then down.

#8

Less is more. Pages of shiny marketing wrappers are hype more than help.

See cash for what it is, a liquid place to park while you are waiting for needs or worthwhile opportunities.

Understand that the investment world hates it when you hold on to cash as it undermines their business model.

#9

Live and invest debt free. Avoid margin or borrowing to invest.

If you don't have enough money saved-work longer.

Stop trying to whip your savings like a dog team to go faster.

#10

Ignore the noise of talking heads.

Develop your own rule set, or hire an independent, risk manager, who does not sell you anything, works only for you and is paid only by you.

Remember genius is before the fall.

We have three choices re our excess savings:

- 1: Hold **80 to 100% of your portfolio in cash and GIC type deposits** . If you decide to speculate ring fence the amount at a max exposure (i.e.. <20%) and keep it separate from the bulk of your money.
- 2: **Modern portfolio theory** with passive allocations, buy & hold of equities as an asset class. (**good luck**)
- 3: 50-70% of your capital in guaranteed deposits. The remaining 50 to 30% invested with **active risk measurements and rules aimed to limit losses and capture a part of cyclical expansions.**

Aim of 3 is to outperform choice 1 and 2 above, with less volatility. You will need sell rules:
NO BUY AND HOLD.

Sample allocation rules

50% in GIC's and high quality bonds
bought under par.

50% max to risk markets (prefs,
equities, commodities)

<30% in any foreign currency,

<15% in any one index/sector or
basket

<5% in any one company.

Diversity foiled: High frequency trading and ETF's increase correlation of sectors and markets to more than 80%

Togetherness

Correlation* in weekly price change of 23 developed stockmarkets against the MSCI World index, averaged



Sources: Société Générale;
Thomson Reuters; *The Economist*

*Two-year rolling

Weekly price change in 23 world markets from 1980 to 2011

Global risk markets move down together

ASIA-PACIFIC

DJ Asia-Pacific Titans



	LAST	CHANGE	% CHANGE
TITANS	122.19	▼ -3.95	-3.13%
* HSI	19616.40	▼ -596.51	-2.95%
* NIKKEI	8784.46	▼ -166.28	-1.86%
STI	2773.17	▼ -69.92	-2.46%
* CHINA	2478.74	▼ -49.54	-1.96%
* KOSPI	1785.83	▼ -81.92	-4.39%
* SET	1049.23	▼ -15.95	-1.5%
* ASX-200	4141.90	▼ -100.90	-2.38%

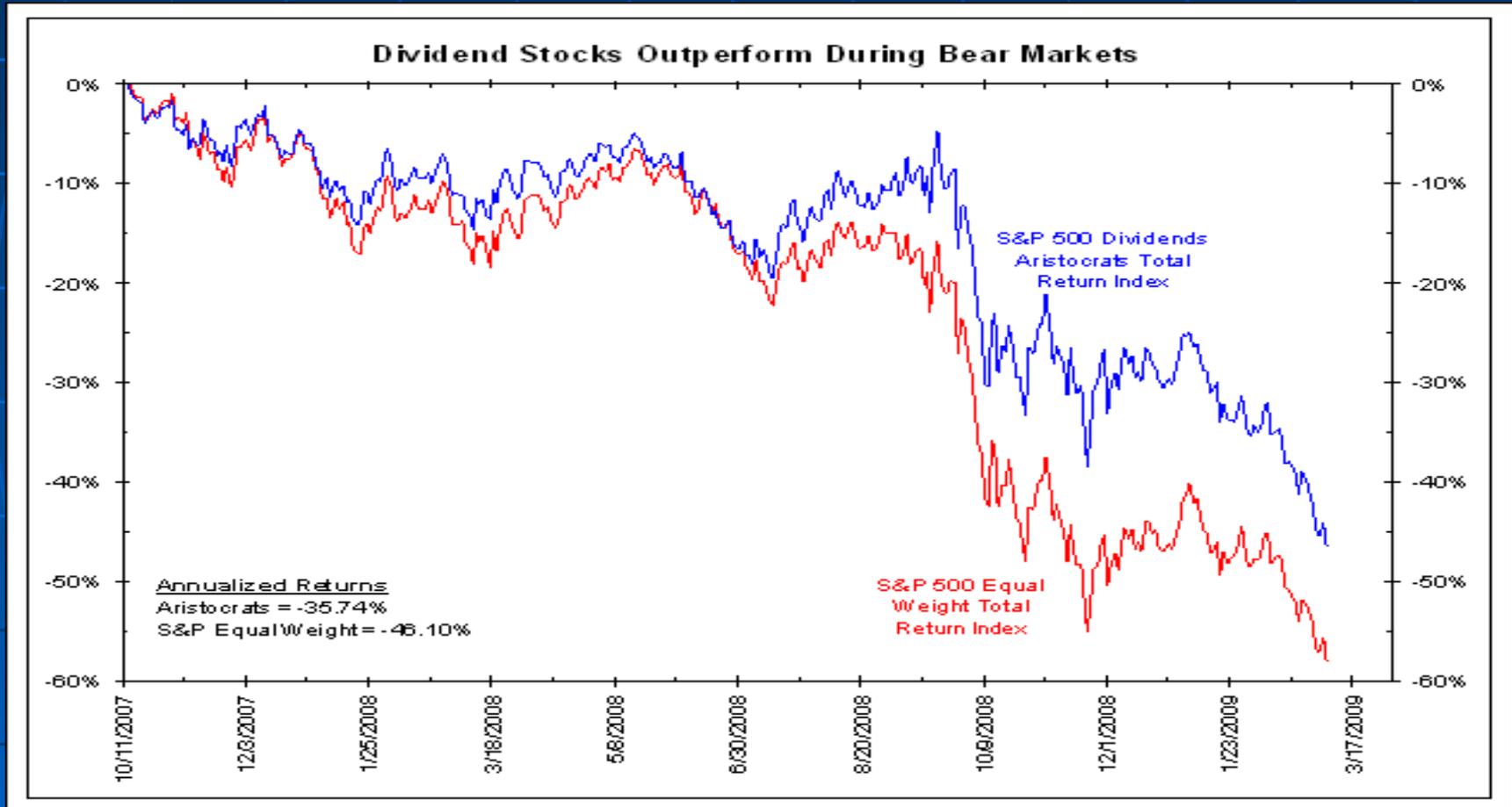
EUROPE

DJ Stoxx 50



	LAST	CHANGE	% CHANGE
STOXX	2115.12	▼ -87.35	-3.97%
FTSE	5112.24	▼ -179.79	-3.4%
DAX	5242.38	▼ -295.95	-5.34%
* CAC 40	3001.12	▼ -147.41	-4.68%
* AEX	273.77	▼ -12.66	-4.42%
* SPAIN	8120.20	▼ -343.30	-4.06%
* ITALY	14318.12	▼ -742.67	-4.93%
* SWEDEN	890.40	▼ -41.70	-4.47%

Dividend paying stocks do not protect your capital in bear markets

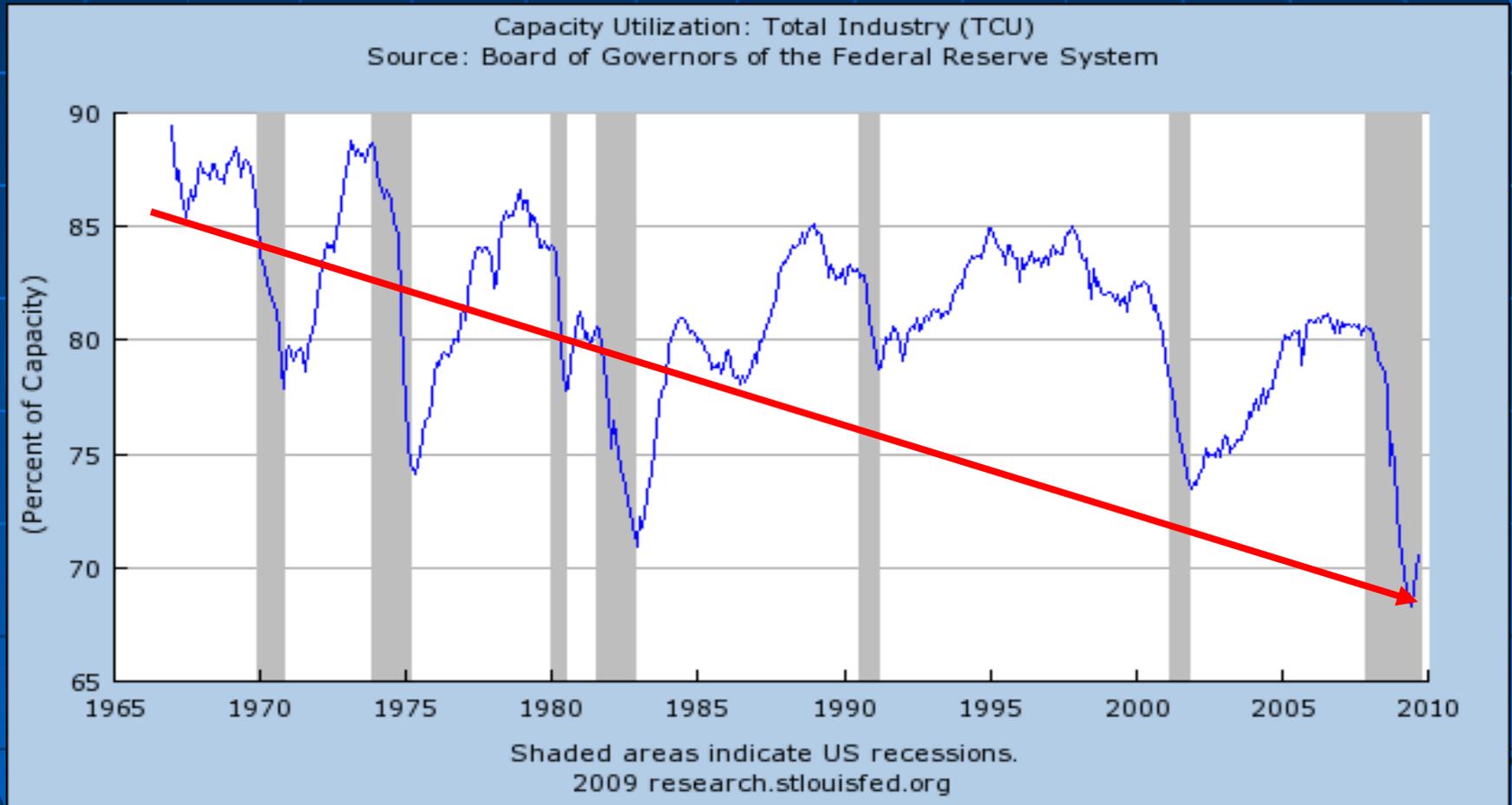


Oct 2007 to Mar 2009
Dividend stocks (blue), S&P 500 (red)

Boomers and their debt bubble caused a period of global hyper demand that is now deflating.

- Now expect: increased focus on liquidity, more selling of risk assets.
- lower discretionary spending and consumption.
- higher spending on 'grey' issues like old age security, topping up pensions and health care.
- Trade Protectionism as slower growth prompts countries to 'feed their own'.
- Currency wars: everyone wants to be a net exporter.

World capacity today is now 30% above demand



Capacity utilization 1965-2010

Epidemic Debt

Total Debt (public and private as a percentage of GDP)

- Japan 470%
- Euro zone and UK 450%
- Canada 410%
- US 350%
- China ??

Source: Capital Economics and Hoisington Investment Management

The financial sector is killing the host



Global stocks following Japanese secular downtrend?

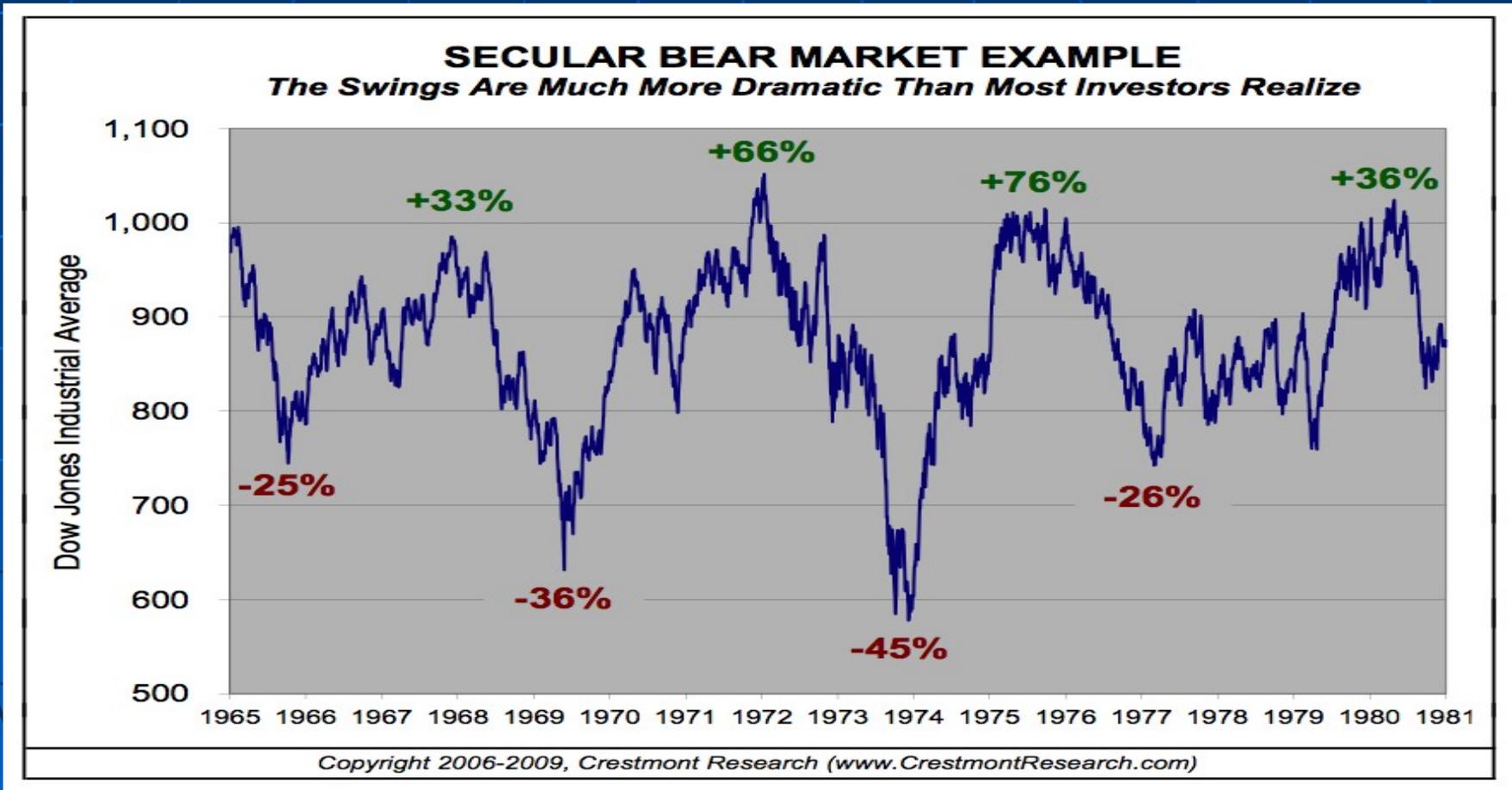
Comparing the S&P today to the Nikkei in Japan's lost decade



Source: SG Cross Asset Research, Datastream

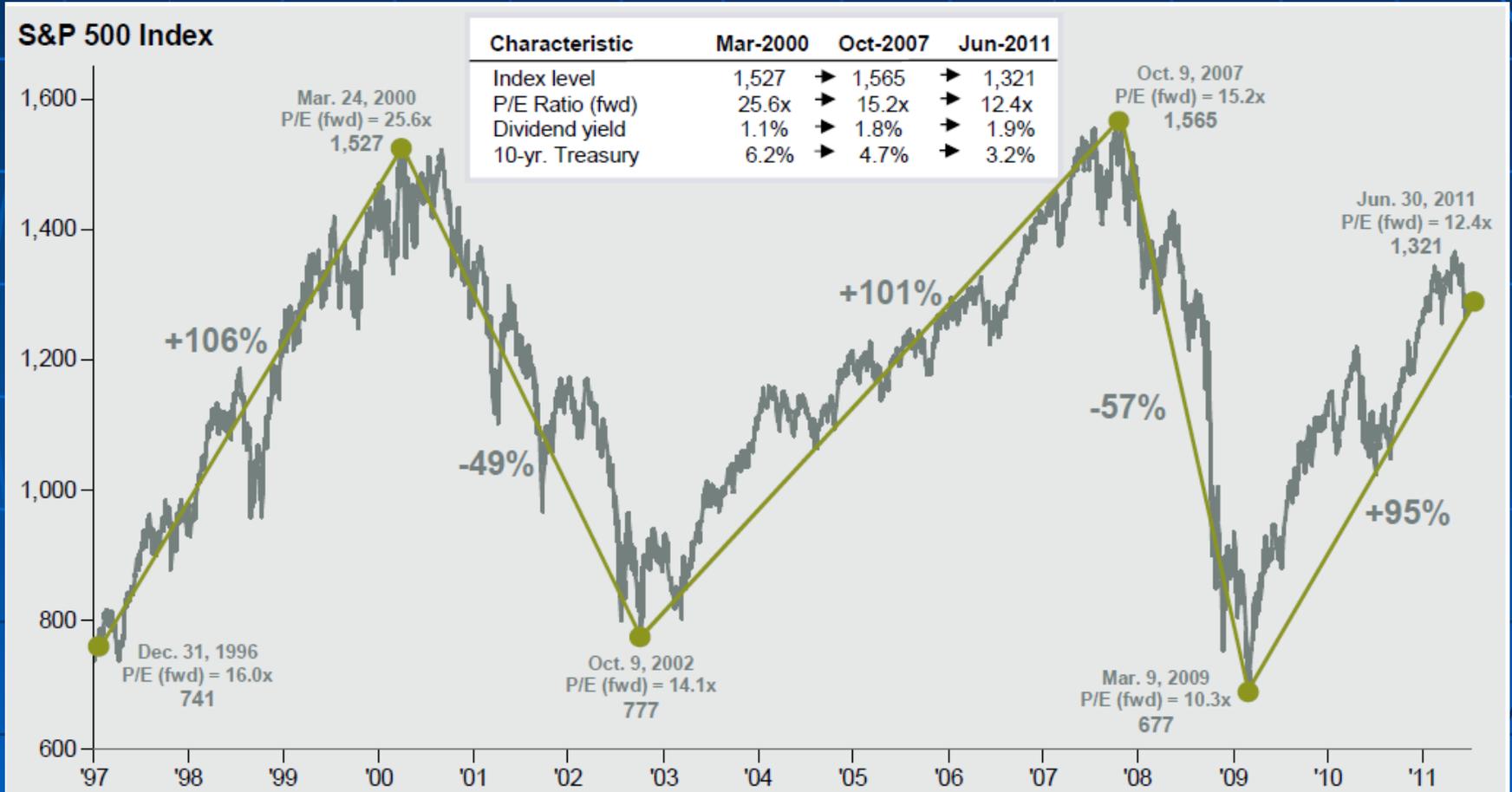
Nikkei since 1979 (grey) vs. S&P 500 (red)
Euro Stoxx (black) since 1990

Last secular bear: S&P 500 from 1965 to 1982, 4 cyclical bear markets within the secular period



Prior secular bears have ended after 3 or 4 down cycles

Will third recession and cyclical downturn be the charm this time?



S&P 500 1997 to 2011:
-50% twice, shall it be thrice?

Cyclical declines do not move in a straight line- big interim rallies normal



S&P 500 from August 2008 to April 2009

Large gains can be made on the downside

Using ETFs that increase during market drops without taking the naked risk of shorting, things like HXD (TSX), or VXX (volatility), HGD (gold bear).

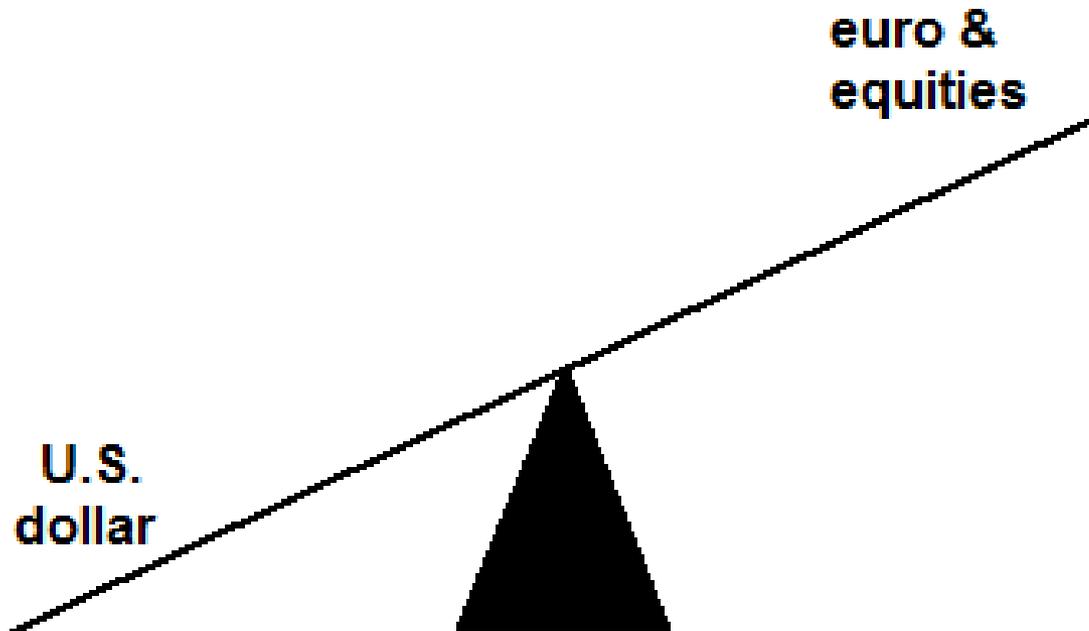
But most people are not cut out for the volatility. Day to day swings are extreme can move 20% in a day.

You must set a tight limit on your exposure and a rule set on when to cover.

You aren't clairvoyant! Stick to your rule set.

Grasp the teeter totter

Global Stock Markets in One Chart



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US dollar wins contest of uglies

\$USD (US Dollar Index - Cash Settle (EOD)) ICE

9-Nov-2011

-\$USD (Weekly) 77.93

© StockCharts.com
Open 76.96 High 78.00 Low 76.51 Close 77.93 Chg +0.96 (+1.25%)▲



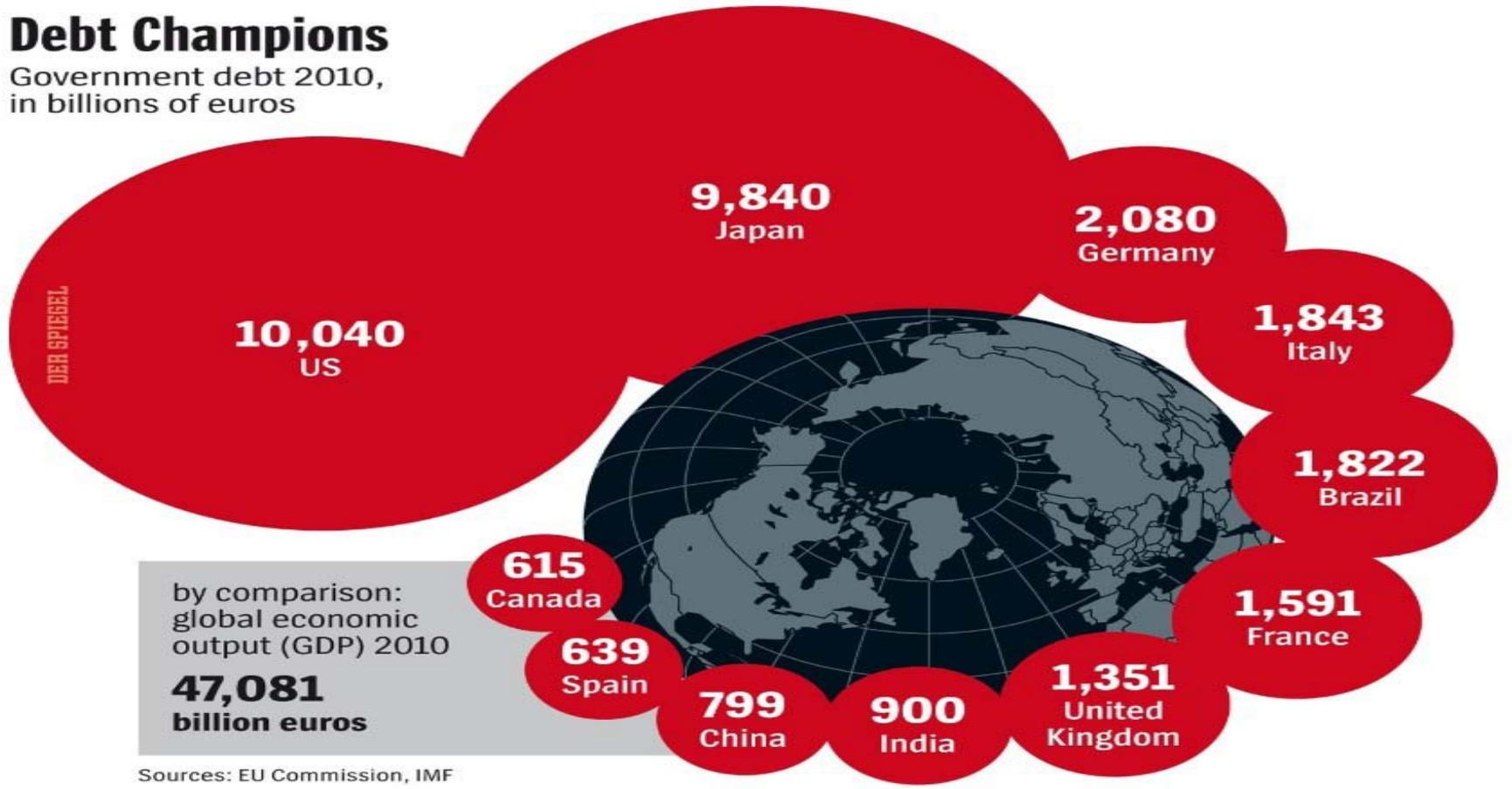
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1990 to 2011

The irony of big borrowers: they then have the largest most liquid bond and currency markets

Debt Champions

Government debt 2010, in billions of euros



More frugal countries have less depth in their markets

Best advice

Develop your own business or professional skill set to create your wealth.

1 million dollars in savings can safely provide \$30,000 gross a year today.

If you can't live on 3% withdrawal rate from savings, Keep working/cut expenses.

Do not try to make up for your lack of savings by driving your savings harder.

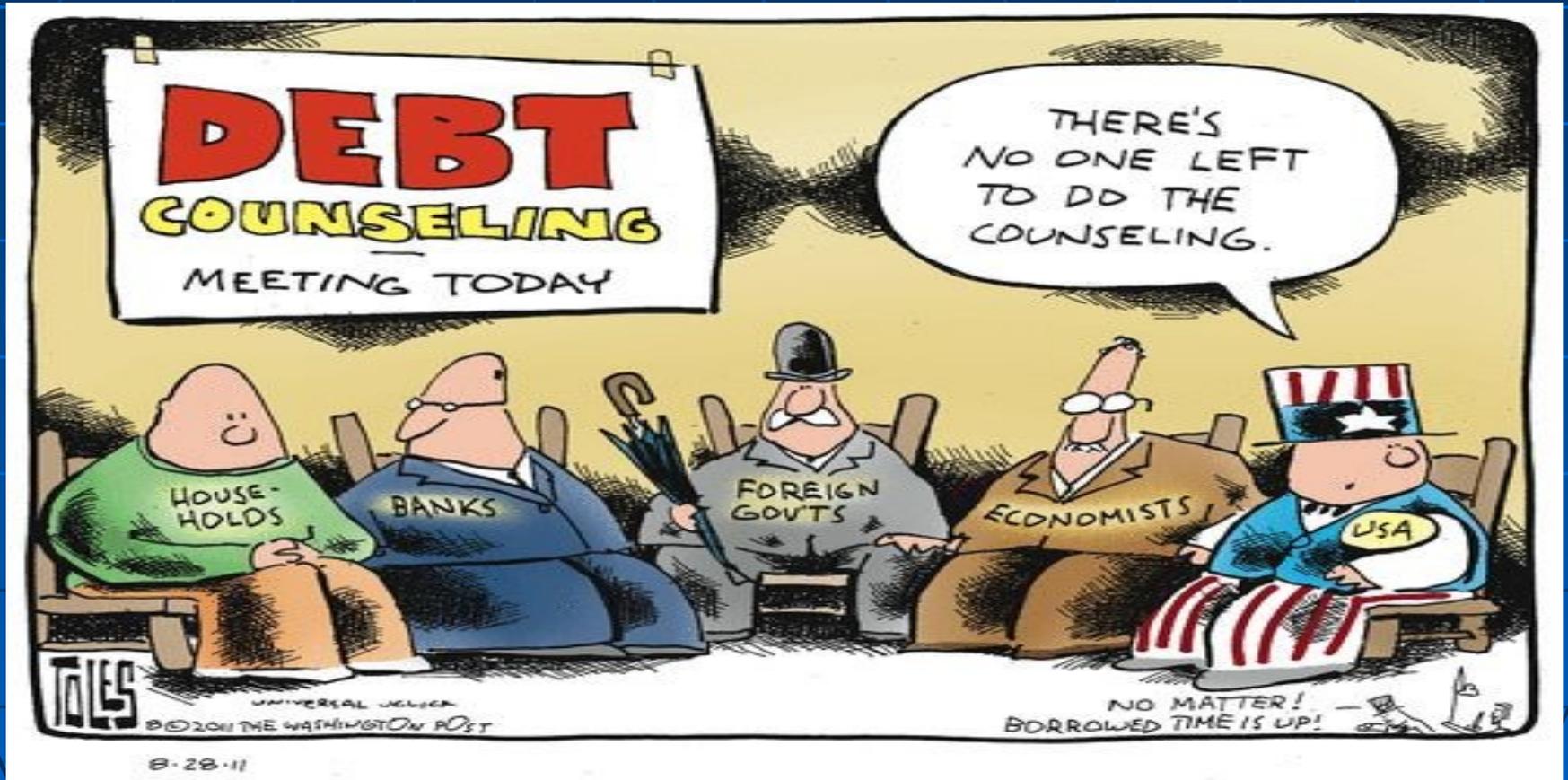
Beware of forecasters!

“There are two kinds: those who don’t know and those who don’t know that they don’t know.”

“...overconfident professionals sincerely believe they have expertise, act as experts and look like experts. You will have to struggle to remind yourself that they may be in the grip of an illusion.”

–Daniel Kahneman, Princeton University, winner of 2002 Nobel Prize in Economics.

Most financial advisors do not understand the reality of the deleveraging world



The blind have been leading the blind

Understand the math of loss

Losses suck away all benefit

Benchmark Balanced Portfolio 11 years

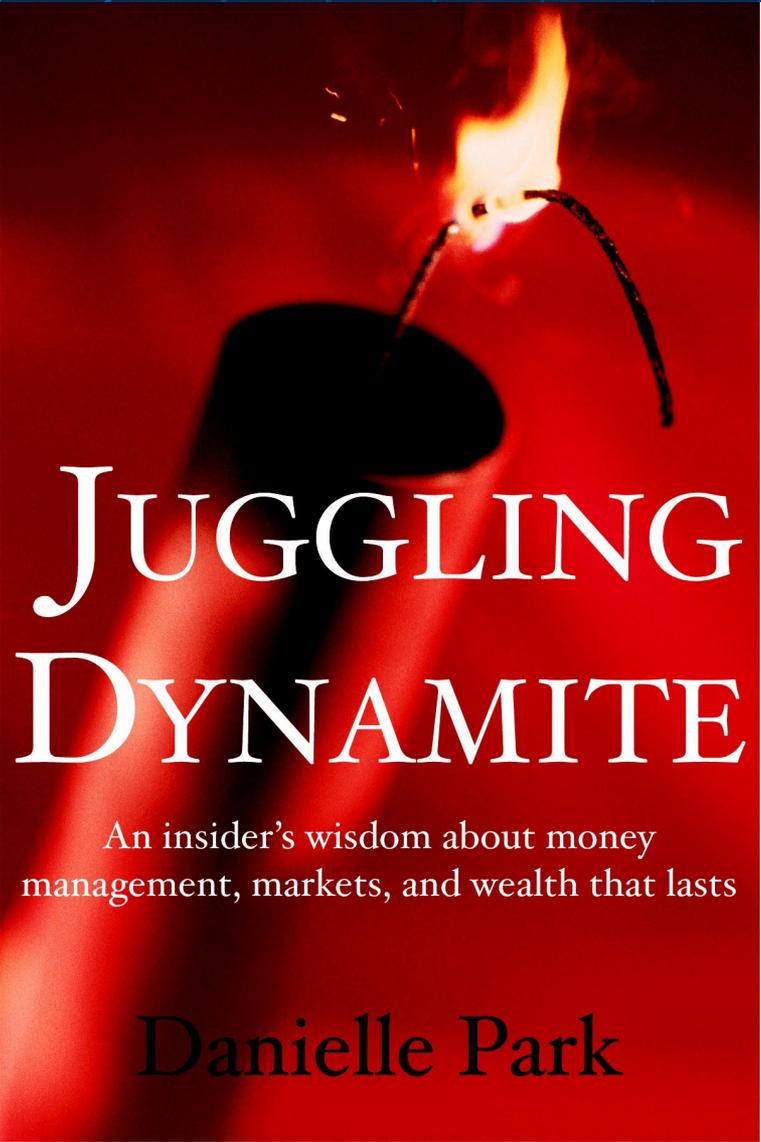
Year	Return %
2001	-7.27
2002	-13.80
2003	6.95
2004	7.7
2005	5.9
2006	14.0
2007	-4.1
2008	-16.00
2009	9.3
2010	5.7
YTD 2011	-4.6

Compound annual return: **-.12% Before fees!**

Buy and hold = lots of risk, no gain

Denial is painful





*Check in with my daily
market blog for ongoing
updates:*

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An insider's wisdom about money
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Danielle Park

*“Successful Investing is more a
trait of the character than of the
intellect.”*

- Benjamin Graham