Chapter 12

What Four Decades In and Around Wall Street Have Taught Me About Investing

You've heard the old saying, if I only knew then what I know now? How true that really is. When I think of how I was promoted to head of investment strategy in 1987 with less than three years' experience, I wonder how I managed. I spent most of my energies buying and selling stocks and foolishly believing I could continuously predict what the stock market would do, and I spent little time on learning and appreciating how money really works. It was not until I met Frank Congilose in 1998 that I was shown the real truth about money and that traditional financial planning, a process 98 percent of all investors employ (and one which is steered by "professional advisors"), is a horribly flawed process.

Back in the eighties, most professionals used a simple legal pad to show clients how to set up their "financial plans." Nowadays, firms use fancy computer applications with all sorts of interactive charts and graphs. But in the end, whether on a legal pad or high-tech computer model, all of these "plans" do the same thing: They guess.

First, they seek a dollar number the client believes (or is shown) he or she will need to live happily ever after. This is the first absolute *guess*. Once that is agreed upon, the professional advisor picks a product or products—most involve stocks, mutual funds, etc.—and, based on past performance, projects similar returns for the future in order to reach that magical happily-ever-after figure. This is the second raw *guess*—a total shot in the dark as to how high or low future returns will be.

What's wrong with this very unscientific method? Four economic factors have a major impact on any financial plan, and unless you have a crystal ball you're simply guessing where they'll be at any given time. They are:

1. Interest rates
2. Tax rates
3. Inflation rates
4. Rates of return

I'm going to let you in on a little secret: I can't accurately predict the course of all four of these *and neither can anyone else* except Almighty God. Therefore, despite the average plan having hypothetical assumptions of these four factors, one or more of them will not be accurately assumed. One could get lucky as some did in the 1990s when everything was doing well, but do you want to depend on good fortune to keep your fortune? This is simply a well-established guessing game with all the bells and whistles. Make no mistake about it: traditional financial planning is a guessing game—a high-stakes round of hangman, charades, or twenty questions.

I don't know about you, but I don't want to leave my family's security to chance. That's why I was so awestruck by the process Frank Congilose introduced to me; one that employs the two most important money facts:

1. Lost opportunity cost
2. Velocity of money

Let me explain: If you had $20 and lost it, how much did you lose? Twenty dollars, right? Wrong. You lost the $20 *plus* whatever that twenty bucks could have earned if you had it. That is a lost opportunity cost (LOC). Just about everyone and every business has LOCs. The key to financial success is identifying the LOCs and putting them back on the right side of the ledger—your side!

If you were to identify about $20 a week (a few cups of latte, perhaps?) you could save, that would add up to $1,000 a year in savings. But it's so much more when you take into consideration the LOCs. By saving that $1,000 per year, over twenty-five years you would save $25,000 plus the lost earnings on that money of over $18,000 (that's at the modest interest rate of only 4 percent) for a total LOC of over $43,000. At 5 percent interest, the number increases to over $50,000. That $50K becomes part of your cash flow.

Cash flow, in case you didn't know, is nothing more than the money that comes in and the money that goes out. If you spend more than you make you have a *negative* cash flow. If you make more than you spend (leaving some extra) you have a *positive* cash flow. Obviously, increasing the positive cash flow allows you to save more and accumulate more wealth.

No one knows more about money and cash flow than banks. They don't produce anything yet they are able to turn one dollar into two or three or more. Here's how it works: you deposit a dollar in the bank. The bank pays you interest on that dollar. The bank then lends your dollar out to someone else at a higher rate. How much higher depends on what type of loan the borrower takes. Not only is the rate they charge higher than they paid you, but they get to lend your dollar out two or three times on average. During the time your dollar is deposited in the bank, it may be loaned out for a car loan, personal loan, home equity loan, mortgage, or credit card. Each time the bank loans out your dollar they make money by way of charging the borrower more interest than they are paying you.

This is called the velocity of money, the average rate at which money is exchanged from one transaction to another. Velocity is the frequency with which a unit of money is spent over a specific time period. The bank has taken full advantage of the velocity of money and effectively made a dollar do the work of two or three or more. What I learned to do through the services of Frank and his associates is help people understand and take advantage of the velocity of money in their own finances just like banks do.

Another way to appreciate velocity of money is to take a penny and double it once a day. On day one you double a penny and end up with two cents. On day two you double your two cents and have four. On day three you double your four cents and have eight … and so on. How long before you have over a million dollars? It may shock you, but it's only twenty-seven days. That's right: a penny doubled each day for twenty-seven days is worth $1,342,177.20.

Without any out-of-pocket expenses or substantial risk, you can add hundreds of thousands of dollars to your worth over a lifetime by simply capturing LOCs and employing velocity of money strategies, which in turn increase cash flow. The sooner you learn that the key to successful finances is cash flow (saving your money instead of trying to gamble on an asset's appreciation in price to increase net worth), the better off you will be.

Four Approaches to Money Matters:

I have found that there are four basic ways most people approach money matters. In which group do you fall?

1. **The "No Planning" Approach**
   This is the person with absolutely no plan. Nothing. Nada. Wing and a prayer. Their entire plan is to worry about it tomorrow. Obviously, this is the worst-case scenario.

2. **The "Occasional Planning" Approach**
   This is the person who intermittently thinks about money matters and might put forth a halfhearted attempt at a plan, especially right after New Year's, but soon the day-to-day grind of life takes over and they end up doing what the no planning group does; worry about it starting tomorrow. But tomorrow never comes.

3. **The "Needs Planning" Approach**
   This is the person who plans for specific events like college or a child's wedding but does not have an overall, integrated financial plan. They at times actually progress on a specific goal only to find out they have let other important goals fall by the wayside and then try to catch up with some "Hail Mary" schemes.

4. **The True "Financial Planning" Approach**
   The infrequent person who seriously plans for the things life throws at us. Not just retirement, mind you, but life. Buying a home, taking vacations, saving for college and retirement, and a nest egg for those things that just crop up.

Even among those who do plan, there are speed bumps along the way. In my three decades on Wall Street, I have seen many of the same mistakes time and time again. Here, I have assembled my list of Top Ten Biggest Investment Mistakes.

Peter Grandich's
Top Ten Biggest Investment Mistakes:

10. "Hot Potato" buying—Buying the popular stocks of the day or the latest get-rich-quick scheme. Unless you have a crooked rabbit, the turtle always wins this race in investing.

9. Believing publications—You see it all the time. Some magazine headline that reads "Ten sure-fire ways to riches," or "Ten stocks to beat the market," etc., all for the low, low price of a few bucks for that issue. While there are some really useful publications, magazines like *Money* who depend mostly on financial institutions for advertisement are, in my opinion, always tilted to the cup being half full and are not truly objective.

8. Failing to consider spouse's views—Guilty as charged. Through my first making of millions, then losing a good portion of it, my wife's only regret was I didn't take into account her desires and wishes. Family financial planning must be a team effort.

7. Believing money is evil—Yes, the love of money is evil, but money itself is not. It's a necessity but not to the point where we literally lose our eternal life with the true owner of it. Some people are afraid of it and what owning a hefty sum of it may do to them. As stated earlier, if you truly come to understand you're only a steward with it, you are likely to do much good with it.

6. Not fully understanding what you're doing—The less you know, the more people who live off the less knowledgeable can thrive. God knew how important matters of money would be and dedicated a good portion of His life's manual (the Bible) to it. Shouldn't you make a similar effort?

5. Inability to judge worthiness of risk—Here's a news flash: if it's too good to be true, it's too good to be true. If the banks are paying you 1 percent and someone says you can make 10 percent, you better know that there's a certain degree of risk that comes with the potential. Many times the anguish of a loss far outweighs the dollar amount, and it lasts longer and impacts other areas of your life.

4. Trusting financial institutions—Despite decades of deceit and fraud throughout the financial industry, most people still place a large degree of blind trust in the financial institutions and the personnel with whom they deal. Any financial adviser worth his or her weight should have a well-documented and long track record of success or at least have numerous references. Wouldn't you be glad to give a reference if your adviser did well for you? Run, don't walk, from those who can't provide them.

3. "Hope" is not an investment strategy—When it comes to faith, hope is very good, but in investing it can be a killer. If I only had a dollar for every time I heard an investor say they're "hoping" their stock goes back up so they can get their money back. Look, if you're hoping the price will rise yet not willing to buy more at the reduced price, who do you expect to do so and pay up to the price you originally paid? Just hoping for these changes without sound fundamental reasons to back up that hope is a license for disaster.

2. No written financial strategy at all—Similar to the "No Planning" approach. Like anything else at which you want to succeed, you must write it down. In the landmark book *The Magic of Thinking Big*, author David J. Schwartz tells us to write down our goals—all of them. Financial goals are no different. Writing your plan down not only keeps you on track but acts as a benchmark as you achieve your financial goals. One of the first things to do is to take a thirty-day account of every dime you spend—and I mean everything. Almost always, people are surprised how much they spend and on what. They soon realize they can either do without some things or spend less on them.

And the number one biggest investment mistake is…

1. Procrastination—Without a doubt, putting off dealing with matters of finance is the single biggest investment mistake. Whether it's by accident or on purpose, delaying dealing with finances can only hurt.

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Learn as if you were going to live forever. Live as if you were going to die tomorrow.

—Mahatma Gandhi

Perhaps we can all take some advice from one of the richest men ever to walk this earth. No, not Donald Trump or Warren Buffet, but King Solomon. He was one of the Bible's best investors. King Solomon has a fantastic track record based on three basic biblical principles:

Principle #1—Diversification

> Divide your portion to seven, or even to eight, for you do not know what misfortune may occur on the earth.—Ecclesiastes 11:2

King Solomon knew that you don't put all your eggs in one basket. This is especially true for those people who put all of their 401(k) savings into their company's stock.

Principle #2 - Good Counsel

> Without consultation, plans are frustrated, but with many counselors they succeed.—Proverbs 15:22

There's no one person who can give universal counsel. Not only do you need to develop a support team, but you need to find a diverse group of a few individuals because one team member is not always aware of what another is doing and having someone quarterback all the different team players is important.

Principle #3—Ethical Investing

> The conclusion, when all has been heard, is fear God and keep His commandments.—Ecclesiastes 12:13

Not only should we be honest in our investments but make sure where we place our monies to be Godly. That's different for every individual, but might include avoiding investing in businesses involved in alcohol, weapons, tobacco, or companies with questionable human rights practices.

Remember this: on Wall Street there are bulls, bears, and pigs. The bulls and bears each have their day, but the pigs always end up at the slaughterhouse.