How to Become a

Wealthy Investor

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

Sydney Tremayne

Second Edition

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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 chuck 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 well-advertised 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