



The proven and consistent way to make profit from the stock Market

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What the rich do or have?

Rich people have a system that works to make money for them without their present. As an example, Marry has an amount of money that enough to start a small business. She buys some products, rent a space in the shopping mall and employs a salesperson to sell her products. It is unnecessary for her to be presented in the business location for all the time. Once the business starts to earn money, she can expand or upgrade her business by opening a few more shops or investing in other field.

Earning money from property

Rich people own a lot of properties. All these properties generate cash flow income to them. Usually, they rent their property to other people to earn a rental. After subtracting all other maintenance fees, they still earn an income. This is their cash flow income. However, for the people who do not have any property or only have a small amount of money, how should they do to start to grow their money? Earning money from renting or trading property is a little bit tedious because the property needs to be taking care properly. So, maintenance fee and insurance are something cannot be avoided. Besides, trading property has a lot of procedures to go through unless you employ an agent to trade for you.

Buying stock with insurance

Buying stock with insurance is the easiest method to earn money. Buying stock without insurance is not the right investment method because your money is not protected. With insurance, your money is protected with a minimum risk. So, all of the above three investment vehicles, buying stock with insurance is the only vehicle to make money consistently and become rich permanently.

What is important is what you do with your money and not how much you have or earn. If you have a lot of money and do not want to do anything about it and just keep it secretly in your house. This amount of

money would devalue after it has been kept for ten years. This is because the economy is changing especially inflation make your money become less valuable. So, in order that the money won't devalue, usually we keep it in the bank to earn some interest. That is the smarter way to save your money than to just keep in a secret place in your house. Once your house catches fire or has been robbed, all your money will vanish. However, bank offers very low interest rate. You can earn money from the interest rate unless you have a large amount of money because bank offers higher interest rate for people who save larger amount of money compared to the others who save lesser.

The other better way to invest your money is buying unit trust fund or bond. However, investing in unit trust fund has risk whereas bond is safer. Actually, unit trust fund manager is the person who helps you to invest your money in different sectors. Investing in unit trust fund and bond are a long-term investment. Your return of investment depends to the expertise of the unit trust fund manager. If the unit trust fund manager invests the money properly and safely, your money will be safe. You will earn a dividend from your investment in the unit trust fund or bond.

Besides the investment that I have mentioned above, you also can invest your money in a business, which is established by yourself or your friends, relatives, partnership with your friends or so on. However, you need to judge the feasibility of the business before you invest your money in it.

Money from salary is the essential source for most of the people to survive in the society. We invest time and energy when we are young to acquire a professional knowledge in order that we could use it to earn an income. So, our professional knowledge is our main property that we have when we are starting to join in the work force. However, this professional knowledge is not that valuable because many people have it. Every year, there are thousand fresh graduates coming out from college and university. So, our professional knowledge is not a valuable property but it

is a useful tool to find a job. What actually the fresh graduates contribute is their time and energy to exchange money from the employer. However, the experience that you gain from your job is a more valuable property because it is more exclusive.

Earning money from paycheck is not a good way to become rich because it depends to what is your job and how much the salary that you get every month. For the one who work as clerk or technician without any extra commission, it is quite hard for them to become rich. So, the only way to become rich is investing their money in the proper business. However, most of them do not want to try this rather than just keep their money in the bank. This is because the money, which is accumulated from their monthly salary, is their hard earn money. They rather keep in the bank than invest in something that they do not assure the return. For the one who work as salesperson or servicing sector. They could earn a little bit more compared to the technician or clerk because they receive commission.

No matter how diligent we work, the income is limited because we have a limited time and energy. Therefore, many people like to work as an insurance policy salesperson or direct salesperson because all these companies use pyramidal hierarchy system to distribute the sale commission. Once the salesperson ranks on the top level of the pyramid hierarchy system, he/she will receive part of his down level sales commission. This can increase their income dramatically. However, it is not easy to rank high in the pyramidal hierarchy system.

So, we have to find a method or system that could double our money safely. Investing in the stock market is one of the methods that we could use it to double our money. To be a successful investor, you need a formula or recipe, which will give you the same result or outcome consistently and permanently at all the times. If you invest your money in the stock market and sometimes earn and sometimes loss, throughout the month or year, you may lose a lot or earn very little. It just likes a gambling,

sometimes win and sometimes loss. Therefore, you need to learn some strategies that it works all the times. The investing success formulas are:

- 1) Leverage (low investment but high returns)
- 2) Participating in the both upside and downside of the market
- 3) Protecting your money in the market using insurance
- 4) Profit taking

Leverage

Buy stock on margin

As an example, there are two investors. Both of them would like to take advantage of the price rise of the Citigroup Company stock. One investor used \$13227 to buy 3 contracts share at \$44.09 per unit share and the other one used only \$6613.5 to buy 3 contracts share at the same price on 1st July 04. On 20th July 04, the stock went up to \$45.80. Investor who bought stock without margin only gained 3.9% return whereas investors who bought stock with margin gained 6.8% return. The detail calculation is shown in the table 1.1 and 1.2.

Date	Action	Price per share
1st July 04	Buy citigroup	\$44.09
	3 contract value	$\$44.09 \times 100 \times 3 = \13227
20th July 04	Sell citigroup	\$45.80
	3 contract value	$\$45.80 \times 100 \times 3 = \13740
	Total profit	$\$13740 - \$13227 = \$513$
	Percentage return	$\$513 / \$13227 \times 100 = 3.9\%$

Table 1.1: Investor bought stock without margin (first investor)

Investor bought stock without margin (first investor) bought 3 contracts of Citigroup stock, which was equivalent to 300 unit shares. The total investment is \$13227. On 20th July 04, citigroup stock went up to \$45.80.

After sold the 3 contracts shares, the investor received \$13740. Total profit was \$513 and the percentage return was 3.9%.

Date	Action	Price per share
1st July 04	Buy citigroup on margin	\$44.09
	3 contract value	$\$44.09 \times 100 \times 3 = \13227
	buying on margin	$\$13227 \times 50\% = \6613.5
20th July 04	Sell citigroup	\$45.80
	3 contract value	$\$45.80 \times 100 \times 3 = \13740
	Buying on margin	$\$13740 - \$6613.5 = \$7126.5$
	Total profit	$\$7126.5 - \$6613.5 = \$513$
	Interest rate	$1\% \times 6613.5 = \$66.14$
	Percentage return	$(\$513 - \$66.14) / \$6613.5 \times 100 = 6.8\%$

Table 1.2: Investor bought stock with margin (second investor)

Buying stock with margin means borrowing money from the broker firm. Usually, broker firm will lend 50% of the total investment money. Therefore, the second investor only needs to pay half of the amount of money that the first investor pays to buy the stock. After the share price has gone up, the second investor closed his/her position and returned the money, which he/she has borrowed from the broker firm. The remaining is \$7126.5. After subtracted the total money that he/she used to buy the stock, the profit was \$513. However, he/she still needs to pay the interest rate of the borrowing money that is 1%. 1% interest rate based on the money that the broker firm has lent to her/him was equivalent to \$66.14. After subtracted this interest rate, the net profit return was 6.8%. It is higher than the first investor net profit return. This means buying stock using margin could leverage the percentage of return.

Participating in the upside and downside of the market

Bullish strategy

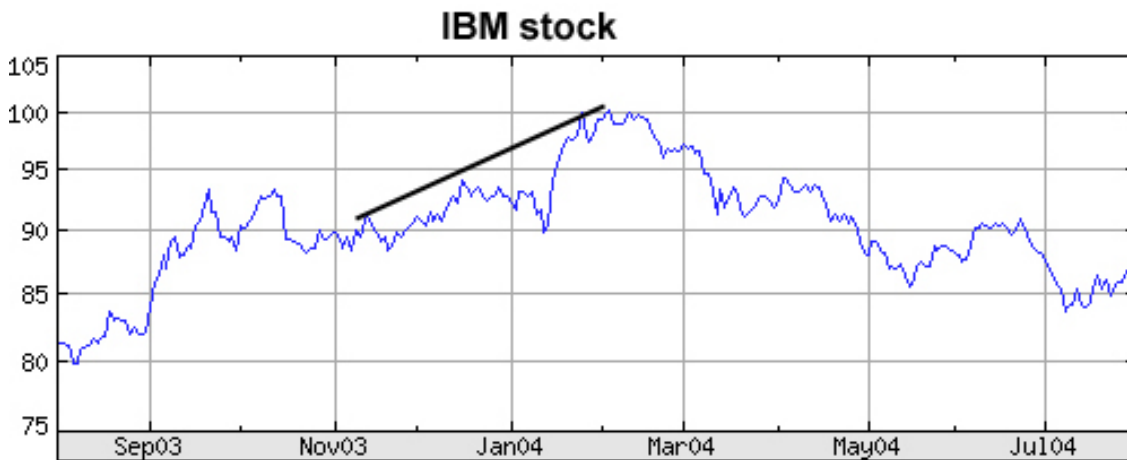


Figure 1.1: IBM share price

An investor is bullish on the IBM stock and expects this stock to go up by the end of Jan 04. On 6 Nov 03, IBM stock price was \$89.34. This investor bought 3 contracts and the total pay out should be \$26802. However, he/she only paid \$13401 because he/she bought with margin. On 3 Feb 04, IBM stock price went up to \$100. He/she sold 3 contracts and received \$16599. The percentage return was 22.9% after subtracted the interest rate 1 %. The detail calculation is as follow:

Date	Action	Price per share
6-Nov-03	Buy IBM	\$89.34
	3 contracts value	$\$89.34 \times 100 \times 3 = \26802
	buying on margin	$\$26802 \times 50\% = \13401
3-Feb-04	Sell IBM	\$100.00
	3 contract value	$\$100 \times 100 \times 3 = \30000
	Buying on margin	$\$30000 - \$13401 = \$16599$
	Total profit	$\$16599 - \$13401 = \$3198$
	Interest rate	$1\% \times \$13401 = \134.01
	Percentage return	$(\$3198 - \$134.01) / \$13401 \times 100 = 22.9\%$

Table 1.3: Buying IBM stock

Bearish strategy



Figure 1.2: CSCO share price

An investor is bearish the CSCO stock (Figure 1.2) and expects this stock to go down in Mar 04. On 16 Jan 04, CSCO stock price was \$29.13. This investor sold 3 contracts and the total money that he/she should deposit in his/her account was \$8739. However, he/she only deposited \$4369.5 because he/she sold with margin. On 8 Mar 04, CSCO stock price went down to \$22.36. He/she bought back 3 contracts and received \$2031. The percentage return was 45.5% after subtracted the interest rate 1 %. The detail calculation is as follow:

Date	Action	Price per share
16-Jan-04	Sell CSCO	\$29.13
	3 contracts value	$\$29.13 \times 100 \times 3 = \8739
	selling on margin	$\$8739 \times 50\% = \4369.5
8-Mar-04	Buy CSCO	\$22.36
	3 contract value	$\$22.36 \times 100 \times 3 = \6708
	Selling on margin	$\$6708 - \$4369.5 = \$2338.5$
	Total profit	$\$4369.5 - \$2338.5 = \$2031$
	Interest rate	$1\% \times \$4369.5 = \43.70
	Percentage return	$(\$2031 - \$43.70) / \$4369.5 \times 100 = 45.5\%$

Table 1.4: Selling CSCO stock

Amount of money that has to be deposited in the account to sell a stock that you do not own depends to the broker firm. Some broker firm needs more money in your account before they let you sell a stock that you do not own.

Comparison between buying stocks and buying call option

We buy stock because we expect the stock price will go up. Following example shows the result for an investor who has bought AA stock every month from Sep 03 to Jul 04.

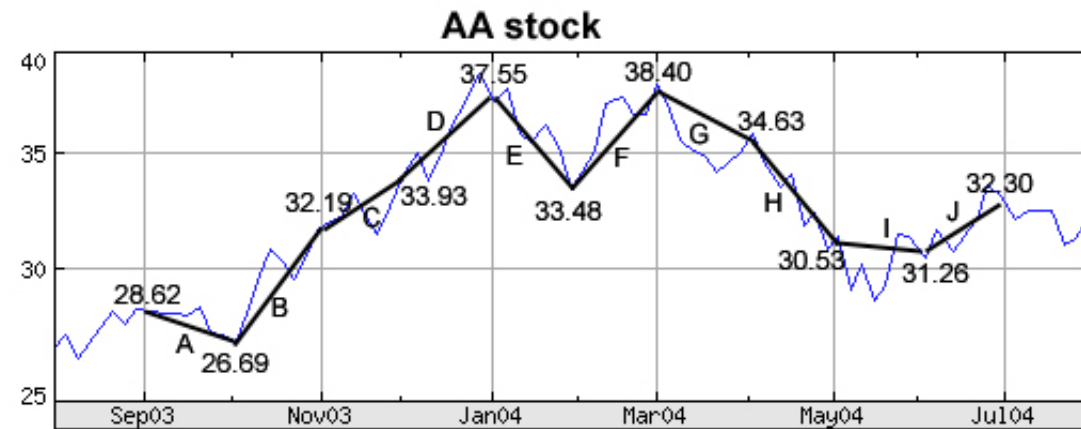


Figure 1.3: Buy AA stock every month

Transaction	Loss	Gain
A	-1.93	-
B	-	5.5
C	-	1.74
D	-	3.62
E	-4.07	-
F	-	4.92
G	-3.77	-
H	-4.1	-
I	-	0.73
J	-	1.04
Total loss/gain	-13.87	17.55
Total profit		3.68

Table 1.5: Total profits if buying stock every month

This investor is quite lucky because his/her prediction is 60% right. He/she is only losing money in four transactions that are A, E, G and H. In these ten transactions, he/she only loses \$13.87 and gains \$17.55. His total profit is \$3.68 per unit share. This is what he/she gets if he/she buys AA stock every month. Now, let see if he/she buys call option of AA stock every month.

Transaction	Loss	Gain
A	-1	-
B	-1	5.5
C	-1	1.74
D	-1	3.62
E	-1	-
F	-1	4.92
G	-1	-
H	-1	-
I	-1	0.73
J	-1	1.04
Total loss/gain	-10	17.55
Total profit		7.55

Table 1.6: Buying AA call option every month

In this example (Table 1.6), we assume that the call option average price is \$1.00. For most of the option, which still has about one month time to expiration date, usually costs around \$1.00? This investor exercises the call option every time when there is a gain and leave the option expires worthless every time when there is a loss. So, in these ten transactions, his/her total loss is \$10.00 and total gain is \$17.55. The total profit is \$7.55. It is \$3.87 more than the total profit if he/she buys stock every month.

From this example, we show you that buying call option is more profitable than buying stock. Besides, buying stock needs big amount of

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