WEALTH

MASTERY

THE MOMENTUM MODEL OF INVESTING

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NOTES

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THE MOMENTUM MODEL

FOCUS

IMMEDIATE CASH FLOW

Through a system of getting in, taking advantage of the accelerated pace of price increases, and quickly selling for a profit.

To use this model, you must *believe* that current rumors or news about the company and/or the sector will powerfully create a rapid increase or decrease in the price, and that you can take advantage of this momentum by buying at the rumor stage and selling when the news comes out, or shortly thereafter. Therefore, you are not necessarily buying real value. You are taking a quick ride on the tide. Be careful! If you are intelligent, you will develop a systematic approach that allows you to get in early and get out quickly. If you do not believe that you need to get the maximum profit, you will be happy taking your four-foot Ring Toss/"Quick and Easy" profit.

This model requires the following:

1. The ability to quickly identify market momentum and news-related price increases/decreases.
2. The ability to make quick, powerful, and congruent decisions.
3. A strong stomach. Remember, it can take months to build something that can be destroyed in minutes.

Strategies for Success:

1. You must have quality sources of immediate and accurate information—timing is everything.
2. You must gain a thorough understanding of the various vehicles that will allow you to take advantage of price-acceleration momentum and price-deceleration momentum.
3. You must maintain consistent daily, hourly, weekly, or monthly monitoring (depending on the strategy employed).
4. You must have an effective system for identifying, monitoring, measuring, exiting, and defense.
5. You must have management of greed.

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THE SECRET TO EFFECTIVE MOMENTUM INVESTING IS TO GO WHERE THE MONEY IS

As people become excited about a stock at a particular company or industry, they tend not to look at the fundamental value of the company or its stock. As a result, they begin to pay prices that a serious investor would avoid at all costs.

Yippee for Yahoo!

IPO SPURS TRADING FRENZY AS SHARES MORE THAN DOUBLE

By Julie Pitta, *The Los Angeles Times* *April 15, 1996*

SAN FRANCISCO—Demonstrating that Wall Street's love affair with the Internet remains hot as ever, Yahoo! Inc., a Silicon Valley start-up that makes software for searching the global computer network, sold stock to the public for the first time on Friday and saw its price more than double in a day of frenzied trading.

Yahoo! shares were priced at $13 on Thursday, opened at $24.50, and soared as high as $43 before closing at $33 on Nasdaq—giving the company a market value of $848 million. Trading volume was a massive 17 million shares, meaning that the 2.6 million shares offered turned over more than six times during the day.

According to Nasdaq, it was the second-biggest first-day gain ever for a Nasdaq stock, behind Secure Computing Corp., another Internet start-up, which tripled in November. Yahoo!'s two young founders, former Stanford University graduate students David Filo, 29, and Jerry Yang, 27, are now worth about $165 million each—at least on paper.

The Yahoo! frenzy is startling in light of the fact that the company posted a loss of $634,000 on a mere $1.4 million in revenues for the last nine months of 1995—and faces a host of competitors who have nearly identical products.

Many who purchased Yahoo! shares Friday were individual investors eager to get in on the Internet craze, rather than the institutions that normally dominate initial public offerings. Yahoo! got a boost from its quirky name too, analysts said: Because it's so easy to remember, many Internet users, especially novices, instinctively go to the Yahoo! page (http://www.yahoo.com) when they're looking for something on the Internet's World Wide Web.

Yahoo! also benefited from the charm and good public relations of Filo and Yang, who built their search tool as a distraction from their engineering studies. And the company also has a powerful institutional backer—Softbank Corp., the largest software company in Japan and owner of the Ziff-Davis trade publishing empire—which used the offering as an opportunity to raise its stake in Yahoo! to 37.02% from 20%.

"Their business plan is better because it really talks about building a diversified media company with different kinds of properties," Tony Perkins, publisher of *The Red Herring*, a technology finance magazine, told the Associated Press.

At least six companies have so-called search engines for sorting through the reams of information stored on the Internet. They're free to Internet users, and Yahoo! and its competitors hope to make money by charging advertisers for display space on the screen users go to when they begin a search.

But no one knows just how much advertisers are willing to pay to reach Internet users—still a small audience when compared to that of traditional media, and one that tends to be fickle. Internet users also have little loyalty to any one search engine.

The many uncertainties of doing business on the Internet, however, have not dimmed the enthusiasm of investors, who seem more willing than ever to gamble on unproven companies—or at least make a quick buck during the stock's initial run-up.

Two other search engine companies recently completed initial public offerings, but the fate of their shares since then could be an ominous sign for Yahoo! investors. On Friday, Excite fell 87.5 cents to $14.25, a new low, and Lycos dropped $1.50 to $17. Excite shares had been as high as $21 recently, and Lycos had reached $29. A third, Infoseek, is expected to go public later this month.

"The search engine companies all have a handful of content and a name," said one industry watcher who declined to be named. "Eventually it becomes a commodity."

About 800,000 to 1 million people use Yahoo's Web search engine each day, making it one of the biggest. Analysts disagree on whether Yahoo!, Digital Equipment Corp.'s Alta Vista or the Lycos Inc. search engine is the most heavily used.

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REVIEW

So let's take a look at what happened here? People got excited about Yahoo!'s story. They fell in love with the stock's potential and began "buying rings" for $10.00 that were worth only $1.00 with no certainty they would ever make that money back. This buying pattern occurs consistently in markets. We can take advantage of a story like Yahoo!'s and play the game for short-term, four-foot tosses—quick and easy profits. This type of investing—getting in the market while a stock is on the rise and getting out within the same day, week, or two-week period while the investor frenzy continues at a fevered pitch—can produce immediate cash flow and stunning returns. **It can also produce staggering losses if ineffectively implemented.**

With momentum investing, you are no longer an investor, you are a trader! This type of investing is extremely seductive, especially when you win. However, ***there will be times—plenty of them—when you will lose.***

Remember the two rules of investing.

Rule #1: ***Never invest what you can't afford to lose.***

Rule #2: ***It is incredibly unwise to put all of your growth investments into one type of investment.***

Remember, the four buckets for reinvesting your momentum profits, and the percentages you decided upon, in advance, to invest based upon your age and risk tolerance.

WHAT PRINCIPLE CAN GUIDE YOU IN UNDERSTANDING WHAT DRIVES THE PRICE OF STOCKS MOST ON A DAY-TO-DAY BASIS?

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SECTOR INVESTING

Just as individual stocks can have dramatic price movements, sectors can also become popular or "hot." Without a doubt, the Technology sectors, specifically the Internet industry within the Technology sector became extremely hot. Any stock with .com after its name could expect to see 100%, 200%, even 300% price moves on the day they go public.

This period of excitement continued for so long that many stocks continued to advance forward for years without even a whisper of revenues let alone becoming profitable. It is said "A rising tide raises all boats...."

To finish that phrase, "...Likewise, a falling tide can sink boats." Just as the sectors become 'hot,' they can become 'cold.' There doesn't seem to be an in-between. The above example gives us the perfect example again. At the beginning of 2000, things began to turn ugly for Technology, and again specifically the Internet industry. Many of the companies that were simply catching the wave, or were rising with the tide, found nothing to support them and have since sunk - gone out of business.

Even the quality companies such as Yahoo, AOL, Cisco, Intel, and Microsoft have all been pulled down along with their sectors.

Even though excitement over a sector can have a profound affect on the prices of its stock, that enthusiasm cannot act alone forever. Here is a key principle to understand about sector investing:

Most of a stock's price is influenced by:

1. The state of the __________ .
2. The attitude about the _______ the company is in.

SECTOR VS. INDUSTRY

A SECTOR IS A GROUP OF INDUSTRIES HAVING SIMILAR FUNDAMENTAL CHARACTERISTICS.
AN INDUSTRY IS A COLLECTION OF COMPANIES WITH SIMILAR PRIMARY LINES OF BUSINESS.

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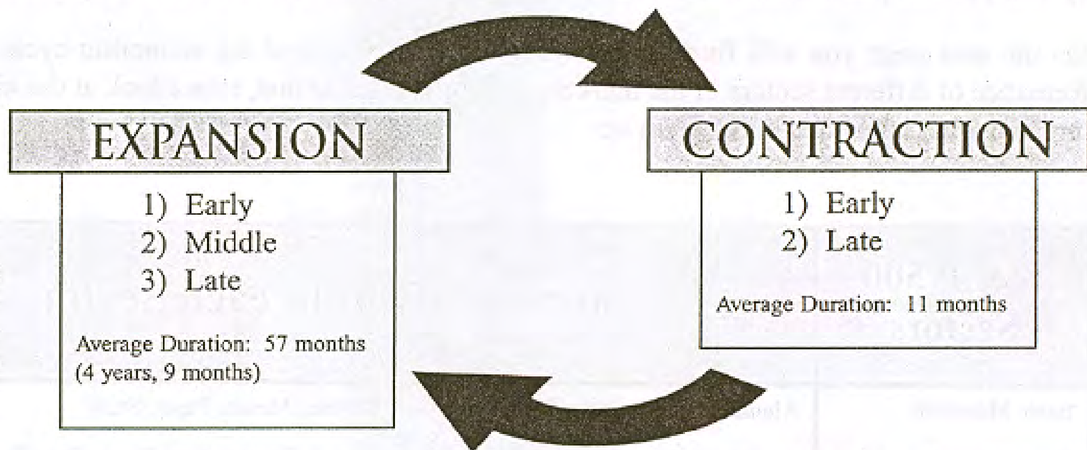
CYCLES OF THE ECONOMY

In the middle to late 1990's, many economists began reporting an idea of a 'New Economy'—one that doesn't fit the generally accepted cycles of boom and bust. The most noted data to support this has been the tremendous economic growth, unemployment at historic lows, yet inflation has remained in check. This may prove to be true, and the U.S. may also find itself in an anomaly of what will prove to be a typical business cycle. Whichever way the current expansion plays out, it is important to understand how certain sectors perform under different economic environments.

THE TYPICAL ECONOMY GOES THROUGH CYCLES OF EXPANSION AND CONTRACTION.



Since 1945, there have been nine periods of expansion and nine periods of contraction.

Period	Phase	Months
November 1945-October 1948	Expansion	36
November 1948-September 1949	Contraction	11
October 1949-June 1953	Expansion	45
July 1953-April 1954	Contraction	10
May 1954-July 1957	Expansion	39
August 1957-March 1958	Contraction	8
April 1958-March 1960	Expansion	24
April 1960-January 1961	Contraction	10
February 1961-November 1969	Expansion	106
December 1969-October 1970	Contraction	11
November 1970-October 1973	Expansion	36
November 1973-February 1975	Contraction	16
March 1975-December 1979	Expansion	58
January 1980-June 1980	Contraction	6
July 1980-June 1981	Expansion	12
July 1981-October 1982	Contraction	16
November 1982-June 1990	Expansion	92
July 1991-February 1991	Contraction	8
March 1991-?????	Expansion	122

TOTALS

Nine contractions—average duration 11 months

Ten expansions—average duration 57 months

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So How Do I Use Investing to MY ADVANTAGE?

You have seen how sectors can rise and fall and you now know that the economy expands and contracts. So how do you use this information to your advantage? While the economy is cyclical, continuously meandering through periods of expansion and contraction, sectors of the stock market will follow along. By understanding and anticipating these economic cycles, you can purchase stocks or invest in entire sectors or conditions.

On the next page you will find a table tying the five phases of the economic cycle to the performance of different sectors of the market. Before you get to that, take a look at the different sectors and what industries make them up:

S & P 500 Sectors	Industries within each Sector
Basic Materials	Aluminum, Chemicals, Containers, Gold Mining, Metals, Paper, Steel
Capital Goods	Aerospace, Electrical Equipment, Engineering & Construction, Heavy Duty Trucks & Parts, Machine Tools, Machinery, Manufacturing, Pollution Control
Consumer Cyclical	Auto Parts, Automobiles, Broadcast Media, Building Materials, Entertainment, Hardware & Tools, Homebuilding, Hotel/Motel, Household Furniture/Appliances, Leisure Time, Manufactured Housing, Publishing, Restaurants, Retail, Shoes, Textiles, Toys
Consumer Staples	Beverages, Cosmetics, Distributors, Foods, Health Care, Hospital Management, Household Products, Housewares, Medical Products & Supplies, Retail, Tobacco
Energy	Oil & Gas Drilling, Oil, Oil Well Equipment & Services
Financials	Insurance Brokers, Investment Banking/Brokerage, Insurance, Banks, Personal Loans, Savings & Loans, Financial Services
Services	Specialized Services, Specialty Printing
Technology	Communications Equipment, Computer Software & Services, Computer Systems, Electronics, Office Equipment & Supplies, Photography/Imaging, Telecommunications, Internet Services, Semiconductor
Transportation	Airlines, Railroads, Trucking Companies, Transportation
Utilities	Electric, Natural Gas, and Telephone Companies
Other	Conglomerates, Miscellaneous

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THE ECONOMIC CYCLE: FIVE PHASES

This is a table showing typical economic cycles. As you have already discovered, many economists insist there is now a ëNew Economyí. This may prove to be true since the current environment is showing a slowdown even though there was never a period of inflation, rapidly raising interest rates, and the subsequent decline of Industrial Production. The economy has definitely slowed as can be seen through declining Consumer Confidence. This may mark a Late Expansion phase since we see Energy, Consumer Staples and Utilities sectors all outperforming the overall market, while no one on Wall Street is buying Technology.

	Early Expansion	Middle Expansion	Late Expansion	Early Contraction	Late Contraction
Consumer Confidence	Rising Sharply	Leveling Off	Declining	Falling Sharply	Reviving
Industrial Production	Flat to Rising Moderately	Rising Sharply	Flattening Out	Declining	Decline Diminishing
Inflation	Continuing to Fall	Bottoming Out	Rising Modestly (beginning to concern investors & the Fed)	Rising Less Strongly	Flat to Declining
Interest Rates	Bottoming Out	Rising Moderately	Rising Rapidly	Peaking	Falling
Yield Curve	Steep	Moderate	Flattening Out (short-term rates rise as Federal Reserve Board combats inflation; long-term rates fall reflecting future inflation expectations)	Flat (and sometimes inverted: short-term rates are higher than long-term rates)	Rising Again
Sectors that Outperform the Market	Technology, Transportation, Capital Goods	Capital Goods, Basic Materials	Basic Materials, Energy, Consumer Staples	Consumer Staples, Utilities	Financials, Consumer Cycles

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THREE FACTORS THAT AFFECT THE STATE OF THE ECONOMY

1 ________________ **Rates.**

2 ________________ .

3 ________________ .

MANIPULATION OF INTEREST RATES IS THE QUICKEST AND EASIEST WAY FOR THE FEDERAL GOVERNMENT TO MOVE THE ECONOMY.

1. If the economy is **slowing or stagnant** (low inflation, higher unemployment), the Federal Reserve Board (Fed) may lower interest rates, making money cheaper. The idea is that this will stimulate borrowing for business expansions and consumer purchasing, which in turn will create jobs and "grow" the economy.

2. If the economy is moving **too quickly** (higher inflation, lower unemployment), the Fed will raise interest rates, making money more expensive, thereby, slowing the economy and curbing inflation.

HOW DOES THIS AFFECT THE FINANCIAL MARKETS?

If the economy is slow (low inflation, high unemployment), the Fed will lower rates and fixed income investments will go up. For example, if you have a 7% bond and interest rates drop to 6%, your bond will look more attractive. **The equity (stock) market will go up because people who are unwilling to accept the lower (6%) rate will begin buying stocks in hopes of getting a better return.**

If the economy is moving too fast (high inflation, low unemployment), the Fed will raise rates, and the opposite of the above example will be true. Your 7% bond will be less attractive if interest rates are at 8%. **Investors will leave the stock market**, to buy bonds at the higher (8%) rate.

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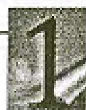 INTEREST RATES

As the economy heats up or cools down, interest rates are manipulated by the Federal Reserve Board.

Every commodity has a price; the **interest rate** is the price of money. As with any commodity, that price fluctuates according to the laws of supply and demand. Put simply, an increase in the demand for funds drives up interest rates. Monetary policy is determined by two operational bodies: the Federal Reserve Board (Fed) and the Federal Open Market Committee (FOMC). The Fed is the "monetary authority," although in practice, the duties of each operational body overlap when it comes to monetary policy.

In setting monetary targets, the Fed has **two goals** in mind. *One goal is to allow for the economy to grow at an acceptable rate; the other is to ensure that this growth is accompanied by an acceptable inflation rate.* The guiding principle of monetary policy as conducted by the Fed is to rely on interest rate changes to affect economic growth, inflation, and the money supply. Since fluctuations in market interest rates are crucial in determining the value of your investment, make a habit of tracking Key Interest Rates in Tuesday's Wall Street Journal.

NOTEWORTHY CHARACTERISTICS:

As the economy heats up or cools down, interest rates are manipulated by the Fed.

A change, or even the fear of a change, in interest rates can have an immediate effect on a company's cost of doing business and, therefore, its profitability.

Importance: **** (The star rating: four stars = greatest importance to one star = least importance)

Frequency: The Fed meets eight times per year to determine monetary policy, including interest rates.

HOW THE MARKETS REACTS:

Fixed Income: *(Bonds)*
If interest rates are up, the bond market is down.
If interest rates are down, the bond market is up.
WHY: The Fed will look to stimulate the economy with lower rates—if your bond is paying 7% and rates are now at 6%, your bond will be more attractive.

Equity: *(Stocks)*
If interest rates are up, the stock market is down.
If interest rates are down, the stock market is up.
WHY: Investors will not be attracted by 6% and will look at the stock market for higher returns.

Dollar:
If the interest rates are up, the dollar is uncertain;
If the interest rates are down, the dollar is uncertain (depending upon the strength of the currency it is being compared with).

[Sources: W. Stansbury Carnes and Stephen D. Slifer, *The Atlas of Economic Indicators* (New York: HarperCollins, 1992); Michael P. Niemira and Gerald F. Zukoski, *Trading the Fundamentals* (New York: HarperBusiness, 1993)]

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2 INFLATION

The Federal Reserve Board manipulates interest rates, affecting the stock market, out of their concern about inflation.

The Consumer Price Index & the Producer Price Index

The Consumer Price Index (CPI) is a measure of prices at the consumer level for a fixed "basket" of goods and services. Since it is an index number, it compares the level of prices to some base period. Currently, the base period is the average level of prices that existed between 1982–1984, which is set to equal 100. The Producer Price Index (PPI) is a fixed-weight price index that measures the average domestic change in prices received by producers of commodities at the wholesale level. *Both of these reports* ***indicate pricing trends*** *and are* ***relevant measures of inflation***. Because the last two recessions followed double-digit inflation rates, investors must monitor and, if possible, attempt to predict broad price trends.

NOTEWORTHY CHARACTERISTICS:

The CPI and PPI are widely regarded as the most important measures of inflation.

Importance: ***

Published By: Bureau of Labor Statistics of the U.S. Department of Labor

Availability: CPI 15th–21st of the month; PPI 9th–16th of the month

Frequency: Monthly

HOW THE MARKETS REACTS:

Fixed Income: *(Bonds)*
If the CPI and PPI are up, the bond market is down.
If the CPI and PPI are down, the bond market is up.
WHY: If inflation is high, an indication that the economy is moving fast, the Fed may raise rates. A raise in interest rates will move the bond market down (see Interest Rates section).

Equity: *(Stocks)*
If the CPI and PPI are up, the stock market is down.
If the CPI and PPI are down, the stock market is up.
WHY: If interest rates are up, the equity markets will be down (see Interest Rates section).

Dollar:
If the CPI and PPI are up, the dollar is uncertain.
If the CPI and PPI are down, the dollar is uncertain.
WHY: Depending on the strength of foreign markets, this may have a negative effect on the dollar.

[Sources: W. Stansbury Carnes and Stephen D. Slifer, *The Atlas of Economic Indicators* (New York: HarperCollins, 1992); Michael P. Niemira and Gerald F. Zukoski, *Trading the Fundamentals* (New York: HarperBusiness, 1993)]

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3 EMPLOYMENT

The first complete look at the economy for any given month is employment. It helps to forecast many other economic indicators.

Employment is the single most important economic series for the financial markets because it is timely and comprehensive. As such, this report is often a focus of politicians and monetary public officials. If people are being laid off and the unemployment rate rises, congressional pressure on the Federal Reserve Board to ease monetary policy (lower interest rates) intensifies dramatically. The monthly employment report provides a wealth of information about virtually every sector of the economy and is viewed as one of the best concurrent measures of business activity. It is important to note, however, that studies have shown employment and unemployment rates to be typically lagging economic indicators of output changes. (Unemployment is the result of workers being laid off because sales have dropped off, so there is some lag time between cause and result.)

NOTEWORTHY CHARACTERISTICS:

Employment is the first complete look at the economy for any given month.
It helps to forecast many other economic indicators such as inflation, interest rates, and economic growth.

Importance: ****
Published by: Bureau of Labor Statistics of the U.S. Department of Labor
Availability: 1st–7th of the month
Frequency: Monthly

HOW THE MARKETS REACTS:

Fixed Income: *(Bonds)*
If the unemployment rate is up, the bond market is up.
If the unemployment rate is down, the bond market is down.
WHY: The Fed will look to slow the economy if it is moving too quickly (high inflation, low unemployment) by raising rates. If your bond pays 7% and rates are now at 8%, your bond will be less attractive.

Equity: *(Stocks)*
If the unemployment rate is up, the stock market is down.
If the unemployment rate is down, the stock market is up.
WHY: Investors will be attracted by higher rates and move away from equity (stocks) to Bonds, CDs (Certificates of Deposit), etc.

Dollar:
If the unemployment rate is up, the dollar is down.
If the unemployment rate is down, the dollar is up.
WHY: A strong economy causes the dollar to be more attractive on the foreign market depending on the economy of these foreign markets.

[Sources: W. Stansbury Carnes and Stephen D. Slifer, *The Atlas of Economic Indicators* (New York: HarperCollins, 1992); Michael P. Niemira and Gerald F. Zukoski, *Trading the Fundamentals* (New York: HarperBusiness, 1993)]

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WHAT IF I DON'T FOLLOW ALL THIS, BUT I STILL WANT TO INVEST IN A

HOT SECTOR?

1 Note whether the consensus in the financial papers and the news is that the economy is in a **growth phase or a contraction phase.**

2 Read *Investor's Business Daily* or *Barron's* to see what the "hottest" sectors have been over the last few days, weeks, and months.

DOW JONES U.S. INDUSTRY GROUPS

Monday, June 12,2000, 4:00 p.m. Eastern Time

GROUPS LEADING (and strongest stocks in group)

GROUP	CLOSE	CHG	%CHG
Oil Drilling	467.88	+ 24.06	+ 5.42
ParkerDri	6	+ 7/16	+ 7.87
RowanCos	31 3/16	+ 2 1/16	+ 7.08
DmndOffshr	39 11/16	+ 2 7/16	+ 6.54
Oilfield Equip	272.75	+ 9.54	+ 3.62
CooperCamrn	71 1/2	+ 5 1/16	+ 7.62
VarcoIntl	22 15/16	+ 1 7/16	+ 6.69
Weatherford	42 15/16	+ 2 11/16	+ 6.68
Coal	40.79	+ 1.07	+ 2.69
ConsolEngy	14 5/16	+ 3/8	+ 2.69
Advcd Indus Equip	405.93	+ 10.46	+ 2.64
Corning	230 1/8	+ 18 5/16	+ 8.65
SDL Inc	261 41/64	+ 11 45/64	+ 4.79
JDS Uniphs	115 5/16	+ 5	+ 4.52
Hlth Care Prov	172.12	+ 4.17	+ 2.48
Aetna	73 9/16	+ 6	+ 8.88
WelptHlth	73 1/16	+ 4	+ 5.79
UnvlHlthSvc B	59	+ 2 3/4	+ 4.89

GROUPS LAGGING (and weakest stocks in group)

GROUP	CLOSE	CHG	%CHG
Software	1046.57	– 51.02	– 4.65
CitrixSys	22 1/4	– 18 15/16	– 45.98
MicroStrat	38 15/16	– 23 7/16	– 37.58
Be Inc	5 9/32	– 1 15/32	– 21.76
Consumer Svc	717.53	– 33.47	– 4.46
AskJeeves	21 7/16	– 3 7/8	– 15.31
Stmps.com	10 7/16	– 1 9/16	– 13.02
YouthStream	6 15/16	– 15/16	– 11.90
Retailers, Specialty	291.83	– 11.85	– 3.90
US Office	–5/32	– 5/32	– 16.67
Fastenal	47 3/8	– 8 1/8	– 14.57
CybrnOutpst	4 5/8	– 15/32	– 9.20
Biotechnology	539.75	– 21.63	– 3.85
Alkermes	38 1/2	– 15 3/4	– 29.03
Ligand B	11 1/2	– 1 11/16	– 12.80
RegenPharm	23 7/8	– 3 1/4	– 11.98
Semiconductor	3289.50	– 122.12	– 3.58
AppldMicro	90	– 15 3/4	– 14.89
AsystTech	41 5/16	– 4 15/16	– 10.70
RF MicroDvc	112 3/4	– 12 15/64	– 9.79

3 **Do your homework**: Study whether or not the industry is currently overvalued or undervalued on a historical basis.

4 You must also **be familiar with the fundamental characteristics of a particular industry** in order to judge whether stocks within that industry might act similarly to past performances or if dynamics within the industry will alter future price movements. Become familiar with the economic indicators that will have an influence on an industry's earnings and share-price movements. These indicators are listed in macro to micro (i.e., sector specific to industry specific) order, and can be retrieved from most financial publications.

REMEMBER

NO INVESTMENT IS WITHOUT RISK!
WE DO NOT GUARANTEE ANY SPECIFIC RESULTS OR RETURNS.

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BULLSEYE

THE BULLSEYE INVESTMENT PHILOSOPHY* SIMPLIFIES STOCK SELECTION.

1. Start with the outer ring: The Big Picture study of the Economy

2. Moving inward, study the **Market** and individual indexes (NYSE, NASDAQ, Russell 2000, DJIA, etc.). Market direction is responsible for approximately 50% of a stock's movement.

3. Next, examine the various **Sectors**. Where is the momentum? Which sector should perform best in the foreseeable economic environment (Technology, Retail, Biotech, Medical, etc.)? Sector direction is responsible for approximately 30% of a stock's movement.

4. Now look at specific **Industries** within the sectors. Which are thriving? Where is the smart money flowing?

5. Then we analyze individual **Stocks** within the strongest industries. We will be looking for the same "genetic makeup" the most successful stocks of the past had in place before their major price advances.

6. This hierarchy of investment criteria are then carefully considered and weighed. Once this is done we select what we believe is the **best stock**.

This system helps you eliminate mistakes, minimize risk, and put you in situations where you can have maximum returns in your portfolio.

***By Tom McCarthy,**
Bullseye Investment Research, Inc.

We would also like to acknowledge Eric Lempe, of Presidential Brokerage, for his contribution.

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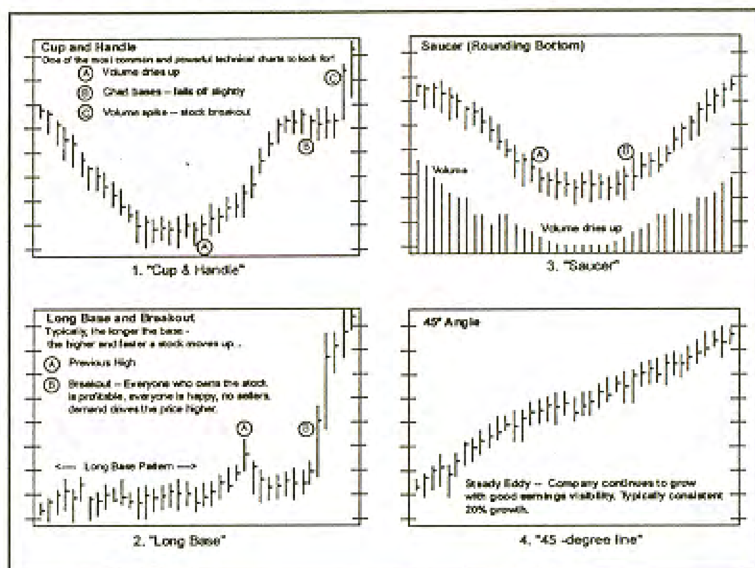
TECHNICAL ANALYSIS

- *Powerful tool to aid you in investment decisions.*
- *Provides a method of measuring the tendency of the market of stocks to react in a particular way under similar conditions throughout history.*

FOUR STRONG CHART PATTERNS USED TO EVALUATE WHEN TO BUY

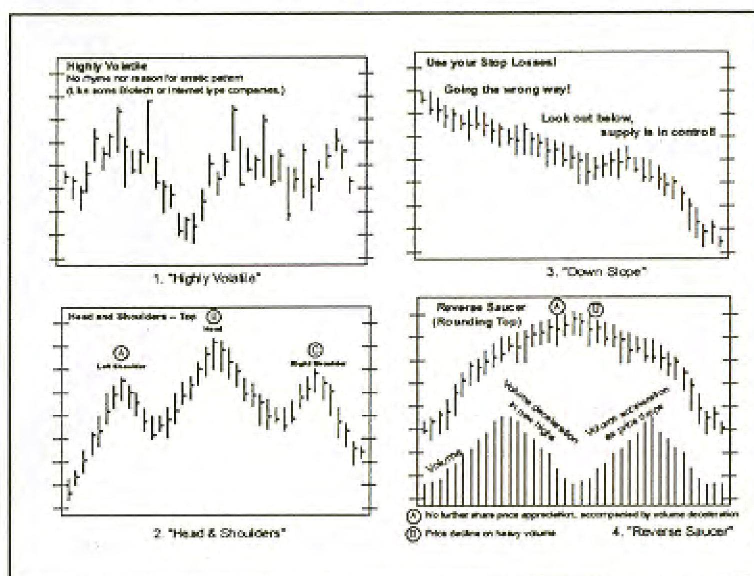
1. **"Cup & Handle"**
2. **"Long Base"**
3. **"Saucer"**
4. **"45-degree line"**



The number one reason that investors and traders lose money—and many times lose a lot of it—is because they don't use tight stop losses.

FOUR STRONG CHART PATTERNS USED TO EVALUATE WHEN TO SELL

1. **"Highly volatile chart pattern."**
2. **"Head & shoulders."**
3. **"Pattern continues to move down"**
4. **"Reverse saucer"**



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ACTION PLAN

WHAT TO LOOK FOR IN FINDING GROWTH STOCKS USING THE BULLSEYE INVESTMENT SYSTEM

Step 1

SELECTING THE ECONOMY:

We first must determine if the Economy we are interested in investing in is has positive characteristics for its stock market.

Which Country's Economy am I going to review? ____________________

1. GNP. Is it growing at a rate of 1% to 6%? Yes or No?
2. Inflation. Is it under control at a rate of 1% to 4%? Yes or No?
3. Interest Rates. Are they less than 7 %? Yes or No?
   Look for the rate and look at the trend. Up or Down?
4. Is unemployment between 3% and 9%? Is it steady or going lower? Yes or No?

Based on the above information, is this a strong economy for the stocks or shares market? Yes or No?

If Yes, go to Step 2. If No, select another country's Economy.

Step 2

SELECTING THE MARKETS:

Now that you've found a favorable Economy, we must pinpoint which Market segment presents us with the best investment opportunities.

1. What Market segments are analysts projecting high future growth rates?
   (Example: Large Cap versus small Caps, NASDAQ versus NYSE.)
2. What segments of the market are experiencing the greatest share price appreciation?

Which Market segments present the best investment opportunities?

Now go to Step 3 using those Market segments.

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ACTION PLAN (CONT.)

Step 3

SELECTING THE SECTORS:

Using your selected Market segments, we must identify which Sectors of these Markets present the best investment opportunities.

1. Which Sectors have high projected growth rate earnings of at least 20%?

List your Top 5 choice Sectors:

a)

b)

c)

d)

e)

2. Which Sectors are experiencing the fastest share price appreciation?

Select which Sectors present the best investment opportunities and go to Step 4.

Step 4

SELECTING THE INDUSTRIES:

Using the above Sectors you must identify the Industry segments that present the best investment opportunities.

1. Which Industries within the selected Sectors have the highest projected growth rates?

List your Top 5 Industry choices:

a)

b)

c)

d)

e)

2. Which Industries within the selected Sectors are experiencing the greatest share price appreciation?

Select the Industries that present the best investment opportunities and go to Step 5.

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ACTION PLAN (CONT.)

Step 5

SELECTING THE STOCKS:

Using the above Industries you must identify the specific Companies that present the best investment opportunities. You should do this evaluation separately for each Company that you are evaluating. Ideally the best investment opportunities should meet all fifteen criteria.

1. Is this company a market leader? Yes ____ Neutral ____ No ____
2. Has this company experienced earnings per share growth rate of at least 20 % for the past two fiscal years? Yes ____ Neutral ____ No ____
3. Does this company have a projected earnings growth rate in excess of 25%? Yes ____ Neutral ____ No ____
4. Has this company experienced revenue growth of at least 20% for the past two fiscal years? Yes ____ Neutral ____ No ____
5. Does this company have a profit margin of at least 10%? Yes ____ Neutral ____ No ____
6. Does this company have an outstanding management team? Yes ____ Neutral ____ No ____
7. Does this company have a combined insider ownership of at least 10%? Yes ____ Neutral ____ No ____
8. Does this company have an exclusive patented technology or a significant competitive advantage in the marketplace? Yes ____ Neutral ____ No ____
9. Will this company continue to experience high demand for their products & services? Yes ____ Neutral ____ No ____
10. Does this company have a ROE of 15% or better? Yes ____ Neutral ____ No ____
11. Does this company have a relative strength of 80 or better? Yes ____ Neutral ____ No ____
12. Does this company have a current ratio of 2 to 1 or better? (current assets to current liabilities) Yes ____ Neutral ____ No ____
13. Does this company have a PEG Ratio < 1? (compares PE to Earnings growth) Yes ____ Neutral ____ No ____
14. Is this company currently under-followed by analysts and institutions? Yes ____ Neutral ____ No ____
15. Is this company exhibiting a strong technical chart pattern? Yes ____ Neutral ____ No ____

Add the Totals of each YES, Neutral and NO: Yes ____ Neutral ____ No ____

Based on the above criteria, does this Company represent an attractive investment opportunity?

What other factors should I investigate and consider before investing in this Company?

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"Free" investment information web sites.

BULLSEYE CATEGORIES

ECONOMY
www.smartmoney.com/smtmarkets/economy/ (Gives you up to date information on the economy.)

MARKETS
www.smartmoney.com/marketmap (Shows the hottest segments of the market.)
www.marketguide.com/mgi/MARKETS/markets.html (Shows market news & information (advance/decline, etc..))

SECTORS & INDUSTRIES
www.smartmoney.com/si/sectors/index.cfm?story=sectortracker (Great tool for analyzing sectors.)
www.stockselector.com/industryrank.asp (Shows projected industry earnings growth rates.)
http://biz.yahoo.com/research/indgrp (Has analysis of industry rankings.)
www.marketguide.com/mgi/HOT/hotsect.html (Shows hot sectors in terms of short term price change.)
www.marketguide.com/mgi/HOT/hotindu.html (Shows hot industries in terms of shot term price change.)

STOCKS
http://moneycentral.msn.com/investor/home.asp
To use:
1. Use the above link to go to the home page.
2. Click on "stock finder"
3. Click on "custom search"
4. Download program (approximately 5 minutes)
5. Plug in the criteria you want to search for.

OTHER CATEGORIES

ASSET ALLOCATION
www.smartmoney.com/si/tools/oneasset/

DIRECT STOCK PURCHASE AND DIVIDEND RE-INVESTMENT PLANS
www.stockselector.com/drips.asp (Show companies offering direct stock purchases with little or no commissions.)

CHARTING
www.stockcharts.com

"I believe this to be the most successful stock selection system in the world. It is a combination of top-down, bottom-up, fundamental, technical, momentum, value, statistical, psychological, political, and philosophical investment strategies all rolled into one multi-faceted selection of criteria called the Bullseye Investment Philosophy!"

— ERIC LEMPE —
CO-FOUNDER, PRESIDENTIAL BROKERAGE, INC.

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THE CULTURAL HYPNOSIS OF ANNUAL RETURNS... THE POWER OF CASH FLOW

THE RING TOSS

The most money is made on the ________________ ____________ .

Don't wait for the "big hit." Instead, create many small hits each day and you'll far surpass those who wait.

Treat your investments like they're a business. What would you say to someone who said, "I just bought a bunch of inventory and I'm going to hold it for 60 days?"

"That some should be rich, shows that others my become rich, and hence is just encouragement to industry & enterprise."

— ABRAHAM LINCOLN —

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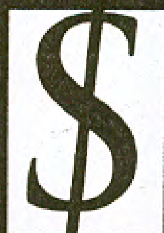
WEALTH



MASTERY

THE POWER OF CHANNELING

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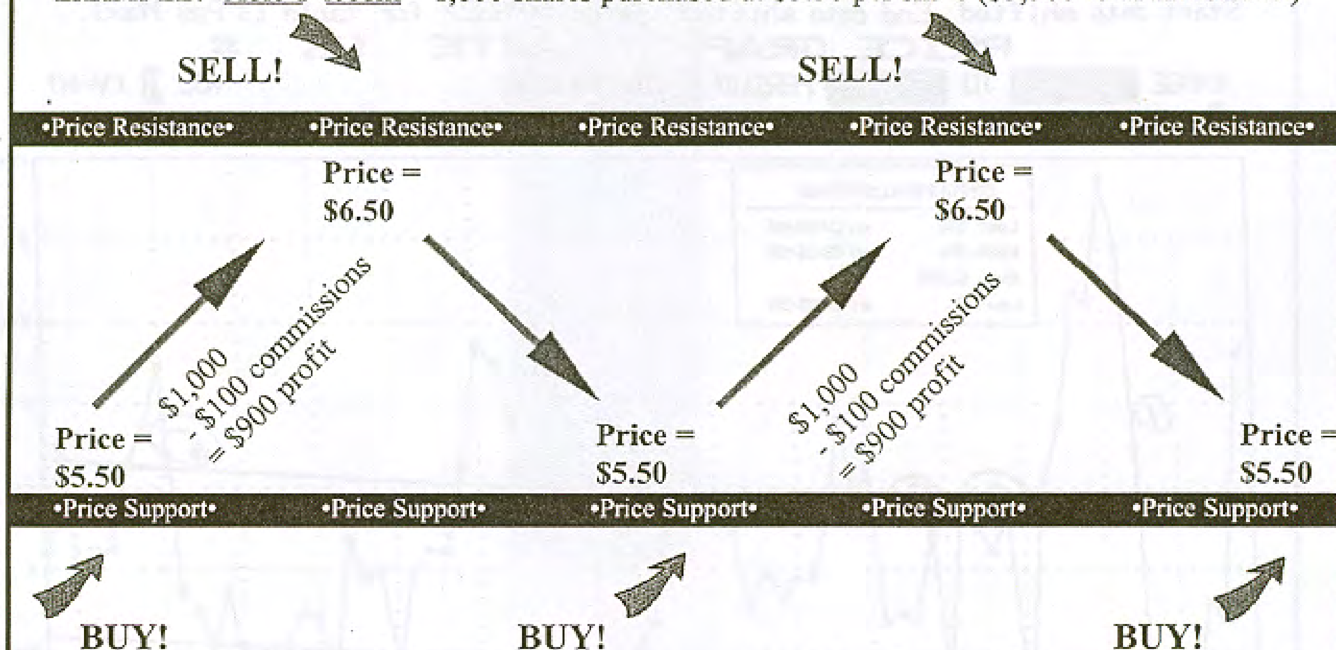
THE POWER OF CHANNELING

Channeling refers to a stock that tends to consistently rise to a specific price point. Whenever the stock reaches this price point, investors begin to sell off, thus creating resistance for the price of the stock to go any higher. Then, the stock tends to drop back down until it reaches a level of support where investors begin to purchase the stock again. This pattern happens continuously, creating a clear channel in which the stock price moves.

EXAMPLE: Able Telecom—1,000 shares purchased at $5.50 per share ($5,500 total investment)



This stock has channeled about five times in 15 months for an average return of 20% per roll. Thus, your original investment of $5,500 would have become approximately $13,478 (assuming you reinvested all profits)—a return of nearly 145% in 15 months!

TWO KEYS

1. *Plan your way out before you invest!*
2. *Learn when to stop—don't get carried away!*

Become an expert!

REMEMBER

NO INVESTMENT IS WITHOUT RISK! WE NEVER MAKE ANY INVESTMENT RECOMMENDATION NOR DO WE BELIEVE IT IS POSSIBLE FOR ANYONE TO MAKE SUCH A RECOMMENDATION.

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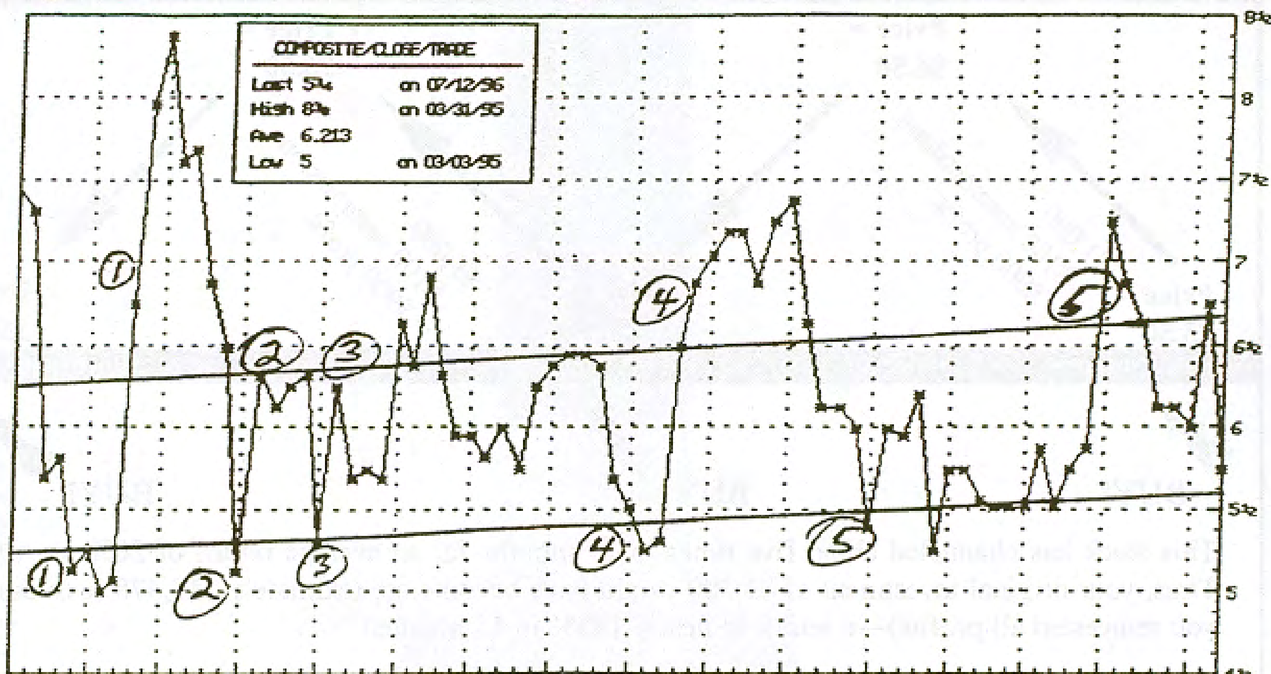
1 ABLE TELECOM



About 5 channels in 15 months for an average of 20% per channel.

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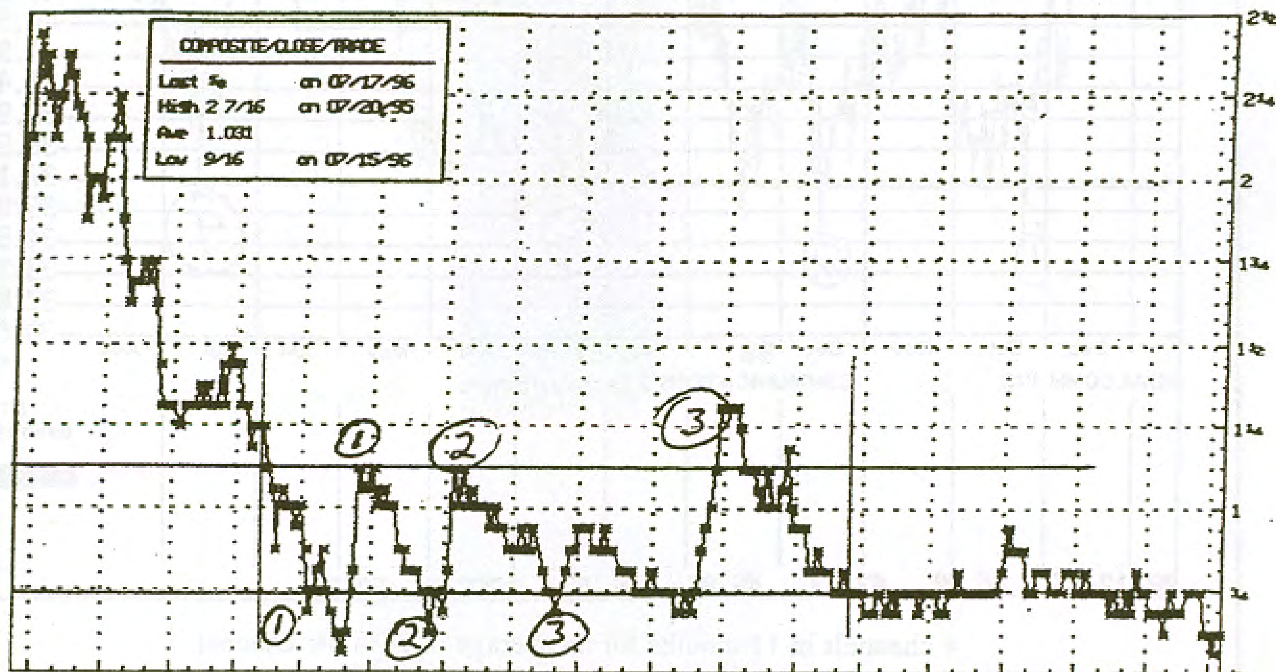
2 PORTA SYSTEMS CORP.



3 channels in 6 months for an average of 40% per channel.

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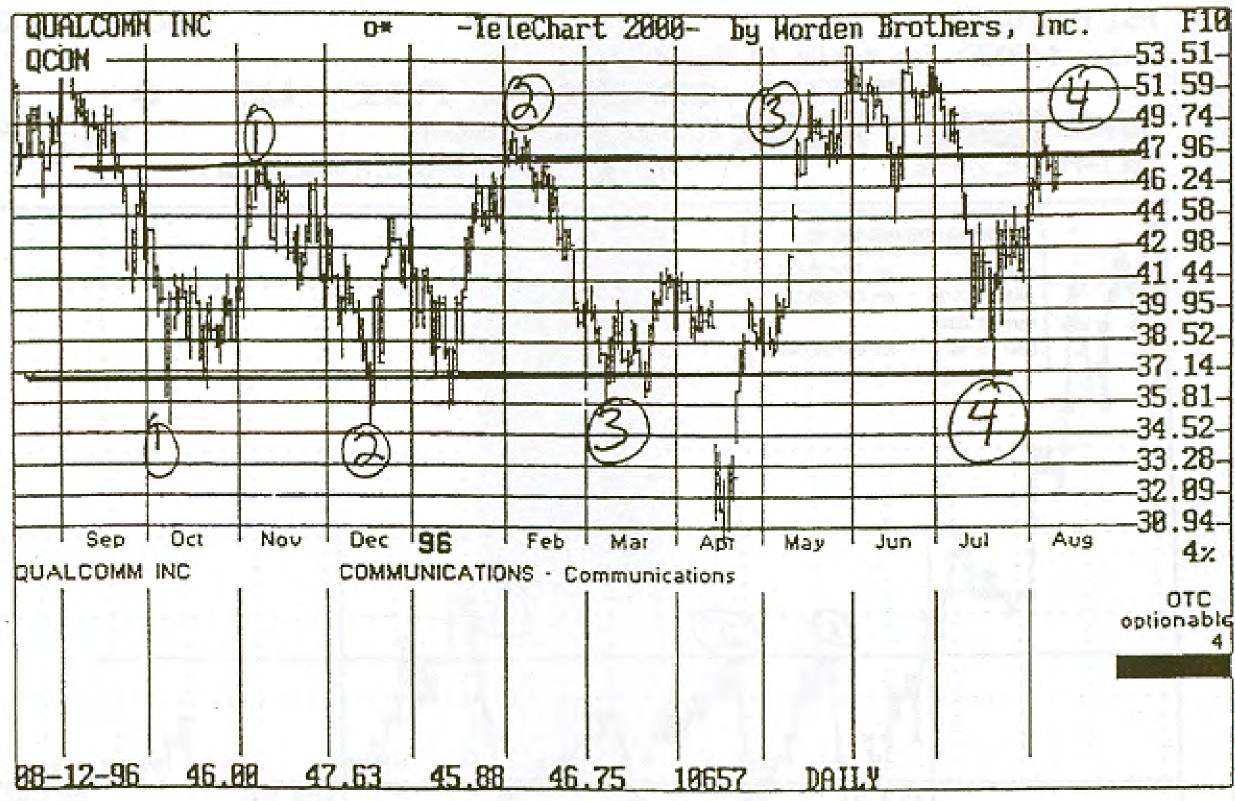
3 QUALCOMM, INC.

A SAN DIEGO-BASED TELECOMMUNICATIONS COMPANY



4 channels in 11 months for an average of 24% per channel.

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WEALTH

MASTERY

COVERED CALLS

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COVERED CALLS

Do you own a stock that you would consider selling? At a price you think is decent?

If so, consider writing a covered call first.

- A **"covered call"** means you own a stock that you promise to deliver at a certain price (strike price) on or before a certain date (expiration date). Less than a quarter of all such "options" are actually exercised. For example, if you own a stock at $12 and it has gone up to $20, you can either sell it outright for $20, or you can sell someone the right to buy your stock at $20 (write a covered call) anytime before the option expires. They will pay a premium for that right, say $2 per share.

- If the stock is at the strike price (at-the-money) or above the strike price (in-the-money), you will get "called away" or exercised, that is your stock will be sold. Staying with the above example, if the stock is at or above $20, someone will buy your stock at $20 (you actually get $22 per share since you also keep the $2 premium).

- When you are "called away," you will find out on the Monday following the third Friday of the month. The confirmation slip you receive will say something similar to "account assigned."

- You are automatically sold out of your stock position when you are "called away." This transaction is also referred to as an assignment.

- All of the sales are made via computer by a random computer lottery. You might sell all, none, or only a portion of the shares you own.

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COVERED CALL EXAMPLES:
IMPX & IOMEGA

IMPX

STOCK:
2,000 shares of IMPX bought at $15 per share
Amount Invested: 1,000 x $15 = $15,000 (cash)
1,000 x $15 = $15,000 (on margin)

COVERED CALL:
Strike price: $15
Current premium: $2.25 x 2,000 shares = $4,500

30%
15,000 | 4,500

Thus, Tony made 30% on the spot!
(He invested $15,000 cash and made $4,500.)

IOMEGA

STOCK:
1,000 shares of IOMEGA bought at $18 1/4 per share.
Amount Invested: 500 x $18.25 = $9,125 (cash)
500 x $18.25 = $9,125 (on margin)

COVERED CALL:
Strike price: $20
Current premium: $2.00 x 1,000 shares = $2,000

22%
9,125 | 2,000

Thus, you could have made 22% on the spot!
(You invested $9,125 cash and made $2,000.)

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WEALTH

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OPTIONS TRADING

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YOU MUST READ THIS FIRST!

BEFORE YOU BEGIN TRADING OPTIONS

Although we have used our best efforts to provide the most accurate and innovative trading methods, we cannot promise you future profitability. **There is risk of loss in all trading. Past performance is not necessarily indicative of future results.** You should read the Chicago Board of Options Exchange materials before trading options and understand the risks in options trading including the fact that any time an option is sold, **there is unlimited risk of loss**; and, when an option is purchased or sold, transaction costs, including brokerage and exchange fees, are at risk. No representation is made regarding the success of our recommendations or the likelihood that any account will achieve profits or losses similar to those shown, or in any amount. Any account may experience different results depending on factors such as timing of trades and size of account. Trading is risky, and **most traders lose money**. Before trading, be aware that with the potential for large profit, there is also a large potential for loss. All opinions expressed are subject to change without notice.

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OPTIONS

BEFORE YOU BEGIN...

1 What is an option?

2 What are the different types of options?

THERE ARE SIX BASIC TYPES OF OPTIONS:

1. Interest Rate Options
2. Foreign Currency Options
3. Index Options
4. Commodity Futures
5. US Treasury Securities
6. Stock Options: Calls & Puts

However, in this course we will focus on stock options.

What is a Call?

What is a Put?

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WHAT ELSE DO YOU NEED TO KNOW?

1 Options Are Sold In Contracts

1 contract = 100 shares
10 contracts = 1,000 shares

Thus, two months from now, if you bought a 10-contract option that cost 75¢ for a $30 stock, it would cost you (1,000 x 75¢ =) $750.

2 Option Increments

Option strike prices start at $5 and then go into $2.50 increments. Once they hit $25, they go into $5 increments. At $200, they go into $10 increments.

3 The Strike Price

Sometimes called "the exercise price," this is the price per share guaranteed by an option at which one can buy or sell a specific stock. For example, a call option for ABC stock at 25 guarantees that you can purchase 100 shares of ABC stock for $2,500.

4 Options Expire

Options expire at 11:59 a.m. EST on the Saturday following the third Friday of the month.

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OPTIONS (CONT.)

3 Why use an option?

A. Leverage

B. Disproportionate Movement

Options typically move inordinately from stocks. When there is a small movement in the stock, there is an exaggerated movement in the option.

International Paper (IP)	Strike Price $45		
In the month of February, 1999, IP stock was at $43. The October option for a $45 strike price was $1.75 when purchased.	STOCK	OPTION	
	$43	Oct. 45c =	$1.75
	$45	Oct. 45c =	$3.00
	$47	Oct. 45c =	$4.25
	$49	Oct. 45c =	$6.00
	$51	Oct. 45c =	$7.50
	$53	Oct. 45c =	$9.00

When the stock grows from $43 to $45, the option has gone from $1.75 to $3.00. The stock has gone up about 5%, but the option has increased over 70%.

If you purchase the **stock**	If you purchase the **stock**
You buy: 1,000 shares of IP stock at $43 per share **You pay:** $43,000.	**You buy:** 10 contracts at $1.75 per share (Remember, each contract constitutes 100 shares; so 10 contracts = 1,000 shares.) **You pay:** $1,750

If you purchase the option, you would still control the same amount of stock (1,000 shares) for $750. You would have to pay $36,000 to control 1,000 shares if you purchase the stock. ***How's that for leverage?***

Now, suppose this **stock** goes from $43 to $45—you experience ***5% growth***. You have 1,000 shares that are now worth $2 more each. ***Thus, you made $2,000 on a $36,000 investment.***	When the stock increased from $43 to $45, the stock **option** went from $1.75 to $3.00. Your 1,000 shares are now worth $3,000. However, you invested only $1,750—***a 71% Return on Investment!***

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Additional Definitions and Jargon

Bid Price vs. Asked Price

Bid Price: The price you can sell for
Asked Price: The price you can buy for

The difference between these two prices is known as the spread and constitutes the current profit for the market maker in transactions of this stock.

In-the-money/At-the-money/Out-of-the-money

Let's suppose that Iomega stock is currently selling at $30, and you have three choices of options for June:

June 25 call = In-the-Money $5
June 30 call = At-the-Money
June 35 call = Out-of-the-Money $5

"***In-the-Money***" means that an option has intrinsic value with respect to the current price of the stock. In other words, the option would yield a profit if it were immediately exercised.

"***At-the-Money***" means that the price of the stock is exactly the same as the strike price.

"***Out-of-the-Money***" means that an option does not have intrinsic value with respect to the current price of the stock. In other words, the option would yield a loss if it were immediately exercised.

Covered vs. "Going Naked"

In the case of a call, a ***covered option*** is a call you write (sell) on a stock you own. Should the option be exercised, you can deliver your own stock; you are "covered."

In the case of a call, a ***naked option*** is a call you write (sell) on stock you don't own. Should the option be exercised, you have no protection from the theoretically limitless loss; you are "naked."

Margin Accounts

A ***margin account*** is a highly regulated credit account with a brokerage for the purpose of trading securities; it enables the investor to make the types of transactions that require the borrowing of money or stock from the brokerage. Minimum amounts of money or securities (margins) that must be on deposit in the account are regulated by the Federal Reserve Board.

How to Read the Stock and Option Prices

Fraction	$ Equivalent	Fraction	$ Equivalent
1/8	12.5¢	1/16	6.25¢
1/4	25¢	3/16	18.75¢
3/8	38¢	5/16	31.25¢
1/2	50¢	7/16	43.75¢
5/8	62.5¢	9/16	56.25¢
3/4	75¢	11/16	68.75¢
7/8	87.5¢	13/16	81.25¢
		15/16	93.75¢

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If you think the stock price is going up...

BUY A CALL

If you have purchased this document, you now have the right, but not the obligation to purchase this stock at $__________ on or before Friday, ________, at 4:00 pm EST.

Stock Price *Date*

YOU BELIEVE: The stock price will go up.

WHAT YOU GET: You get leverage and the ability to control a large block of stock with a small amount of money. If the stock price goes up, you get an increased Return on Investments (ROI) because if the stock goes up a little, the value of your option tends to go up disproportionately.

THE PLAY: Buy the option and RESELL IT QUICKLY as the stock rises for a high ROI. Remember, don't be greedy. Holding out for more profit can cost you more in time. Time loses value with each passing day.

UPSIDE: You make money if the stock goes up and you have leverage. The maximum you could lose is what you paid for the premium.

DOWNSIDE: The stock could drop in value. The option value is likely to decline in value disproportionately to the stock. As an option has an expiration date, if the stock price does not rise by this time period, you will lose money (unless you use defense).

DEFENSE:

a. Buy WHOLESALE only and do your homework. If the stock price does go down, you may want to buy more options because the equivalent of "Dollar Cost Averaging" can increase the chances of selling at a profit. (Use this strategy only if it is a Quality Company that's splitting and you believe in the stock.)

b. Remember, you can always get out of a position by doing the opposite. Since you bought this call, you could SELL THE CALL before it drops considerably to cut losses.

c. You could BUY A PUT and ride the stock back down. By purchasing a put, you are purchasing the right, but not the obligation to make someone else buy this stock from you at a set price. By locking in this price, as the stock declines, you earn the difference between the actual price of the stock on the day you would execute this option and the price at which you locked in the Put Option.

SELL A PUT

If you have sold this document, you are now obligated to purchase this stock at $__________ on or before Friday, __________, at 4:00 pm EST if the holder of this Put Contract exercises his/her option (i.e. chooses to require you to do so based upon the contract you have sold).

Strike Price *Date*

YOU BELIEVE:

a. The stock price will go up or stay the same. Thus, you will get to keep the cash you sold these Put Options for (i.e. the premium) because you believe during the option period, the option will not be executed.

b. Or, you may believe that you would like to own this stock. By selling this Put, you've received immediate cash (i.e. the premium) and you are happy to buy this stock and own it at the price you sold this Put Option for. (Example: A stock is selling for $50 and you sold the Put for $40 and you are happy to own this stock at $40.)

WHAT YOU GET: You get immediate cash (the premium) within 24 hours of your selling the put. If you want to own the stock, you get the potential opportunity to purchase the stock you want at a price you are willing to pay for it.

THE PLAY:

a. Anytime you see a stock you want to own, sell the put if you believe the price will stay the same or even drop a little during the option period. This reduces your cost per share as you receive the premium. If the stock price goes up, you still receive the premium.

b. Or, anytime you see a company that you feel will stay the same or rise in value, sell the Put Contract for immediate income.

UPSIDE: You make money if the stock price goes up, or if it stays the same as you get to keep the premium. (You win 2 out of 3 possibilities.)

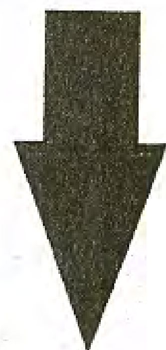
DOWNSIDE: If the stock price goes down, someone could cause you to pay a higher price than the stock is currently selling for and you would lose money.

DEFENSE: The fundamental way to defend your position is to do the opposite of what you did initially.

a. If you sold this put, you can BUY THE PUT BACK. Timing is everything. If possible, buy the put back at the lowest possible price which will often be near the end of the option period where there is little time value reflected in the price.

b. BE WILLING TO OWN the stock at that price.

If you think the stock price is going down...



BUY A PUT

If you have purchased this document, you now have the power, the right, but not the obligation, to make ______________ (Seller of this Put) buy this stock at $__________ (Strike Price) on or before Friday, ____________ (Date), at 4:00 pm EST.

YOU BELIEVE: You believe the stock price is going to decline.

WHAT YOU GET: You get the ability to make money on a stock if its price declines. In addition, you have utilized leverage. For a small percentage of the price of the stock (i.e. the premium you paid for this contract), you have gained the power to make someone else purchase it at this price no matter how far the stock declines.

THE PLAY: The ideal play is to buy this put not to execute at expiration, but to RESELL as the stock begins its decline toward the strike price.

UPSIDE: You win if the stock price declines. Also, you can only lose the price of your premium regardless of what happens to the price of the stock.

DOWNSIDE: If the stock goes up or stays the same, you lose what you spent on the option.

DEFENSE:

a. The fundamental way to defend your position is to do the opposite of what got you into the position initially. What this means is if you bought this put and you become concerned that the stock will actually rise instead of drop, you could sell this put to get out of your obligation and regain some or all of your premium.

b. SELL your purchased Put at a loss and if the stock price is truly rising, you could buy a CALL OPTION and make money as the stock rises.

c. If you believe the stock is now rising, you could sell someone else the right to PUT this stock to you at a price you are certain the stock will not fall back to. Thus, you'll receive immediate cash (i.e. the premium) to offset some of the money you may have lost when you bought this initial put.

SELL A CALL

If you have sold this document, you are now obligated to sell this stock at $__________ (Stock Price) on or before Friday, ____________ (Date), at 4:00 pm EST, to the holder of the Call Option if he/she chooses to execute his/her option.

YOU BELIEVE: The stock price will stay the same or go down.

WHAT YOU GET: You get immediate cash flowing into your account (the premium). And, you still own your stock. Or, if you're selling "naked," you received immediate income (i.e. the premium) for something you don't even own. And, you know your Return on Investment (ROI) immediately.

THE PLAY: If you are correct and the stock stays the same or goes down, you will not only receive an income (i.e. the premium), but you also still own your stock and have the opportunity to sell a COVERED CALL (Call Option) again next month for additional income.

UPSIDE: You receive the premium on the option. And, as long as the option is not executed, you can repeat this procedure (i.e. write a Covered Call) each month creating a virtual cash flow machine.

DOWNSIDE: If the stock goes up beyond your option price, you lose the additional profits you would have made if you continued to own your stock. When you sell a Call Option on stocks you own (i.e. when you write a COVERED CALL), you also lose liquidity. You now cannot sell this stock. You are obligated to sell it to the person if he/she requests it at the agreed upon price on or before the agreed upon dates. On the other hand, if you are "naked" you have a huge potential loss because you must buy and deliver the stock at whatever the market price is.

DEFENSE:

a. For a Covered Call—BUY IT BACK. If the stock price goes up, the option price goes up, too. However, as the time runs out of the option, you might be able to buy an identical call for less, thus canceling out the transaction. You still keep your profit and the stock.

b. If you are naked—SELL A PUT at a price below what you believe the stock will go to within the option period. You will gain some cash to help make up for loss.

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ORGANIZING PRINCIPLES
OPTIONS

The most important lesson you have to learn is money management. It's just as important to limit your losses as it is to manage your profits.

1. **Sell your options as soon as they drop more than 50%** of what you paid for them. It would take a 100% gain just for you to break even at that point.

2. **Do not put in GTCs** (sell stops) unless it's a period of one to two days when you are away and unable to communicate with your broker. Instead, **utilize "mental sell stops."** Otherwise, if you put in a GTC, the market makers may attempt to price control the option.

3. **Go with "news" stocks on quality companies** on which you've have done your homework. Purchase on the rumor of news and sell just after the news comes out and the stock moves. (Always review the charts in advance to see if the news is already reflected in the price.)

4. **Short-term plays tend to work best**—less than a week is optimum. In addition, it may not be a good idea to hold your options over the weekends as there is ample opportunity for things to happen in the news that can affect your investment.

5. Generally, **with news-driven options plays, go with options that are one month out**—they'll move faster.

6. **Trading tends to slow before holidays**. Again, it may be best not to hold your investments over the holiday—too much can happen in the news. Volume can very often drop, and with a lack of buyers, stocks can drop too. Remember, don't hang on merely to save a commission of $35.

7. You don't need to find 15 stocks to play options. **You just need one or two that will return 50-100%**. It only takes seven to ten hits per year!

8. **Mutual fund managers may have a slow response time.** They tend to take one to two weeks to catch up. Thus, if you experience a loss and there is no apparent news driving it, it may be that prices moved based on past news and mutual fund managers are only now able to sell or take profits. It may be that prices moved because mutual fund managers sold off some of their profits.

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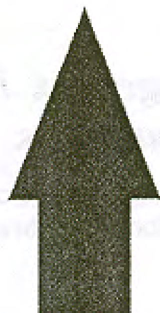
IF YOU THINK THE PRICE OF A STOCK WILL GO UP, YOU CAN . . .



BUY A CALL

You're betting the price of the stock will go up and the person you buy the option from is betting the price will stay the same or go down.

YOU WIN — If the price goes up... you can sell the call for a profit.

YOU LOSE — If the price stays the same... you lose the price of the option.

YOU LOSE — If the price goes down... you lose the price of the option.

______ out of 3 ways you WIN!

When you sell a call, you win 2 out of 3 ways.
When you buy, your opportunity for profit is only 1 out of 3.

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BUYING A CALL
THE FACTS

YOU BELIEVE The stock price will go up.

WHAT YOU GET You get leverage and the ability to control a large block of stock with a small amount of money. If the stock price goes up, you get an increased Return on Investments (ROI) because if the stock goes up a little, the value of your option tends to go up disproportionately.

THE PLAY Buy the option and ***resell it quickly*** (as the stock rises) for a high ROI. Remember, don't be greedy. Holding out for more profit can cost you more over time. Time value decreases with each passing day.

UPSIDE You make money if the stock goes up and you have leverage. The maximum you could lose is the premium that you paid for the option.

DOWNSIDE The stock could drop in value. The option value is likely to decline in value disproportionately to the stock. As an option has an expiration date, if the stock price does not rise within this time period, you will lose money (unless you use defense).

DEFENSE

a. Buy ***wholesale*** only. (This can only be achieved if you do your home work on a quality company and do a price analysis.) If the stock price does go down, you may want to buy more options because the equivalent of "Dollar Cost Averaging" can increase the chances of selling at a profit. (Use this strategy only if it is a quality company and, after doing your homework, you believe in their stock.)
b. Remember, you can always get out of a position by doing the opposite. Since you bought this call, you can ***sell the call*** before it drops considerably to cut losses.
c. If you are certain the stock price will go down, you could ***buy a put*** and ride the stock back down. By purchasing a Put, you are purchasing the right, but not the obligation, to make someone else buy this stock from you at a set price. By locking in this price, as the stock declines, you earn the difference between the actual price of the stock on the day you execute this option and the strike price at which you locked in the put option.

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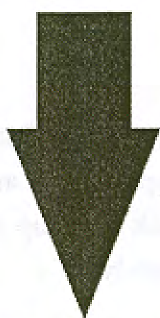
If You Think the Price of a Stock Will Go Down, You Can . . .



BUY A PUT

You're betting the price of the stock will go down, and the person you buy the option from is betting the price will stay the same or go up.

YOU WIN

If the price goes down...
you can sell a put at a profit or sell the stock if you own it.

YOU LOSE

If the price stays the same...
you lose the price of the option.

YOU LOSE

If the price goes up...
you lose the price of the option.

_____ out of 3 ways you WIN!

When you sell a put, you win 2 out of 3 ways.
When you buy, your opportunity for profit is only 1 out of 3.

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BUYING A PUT
THE FACTS

YOU BELIEVE You believe the stock price is going to decline.

WHAT YOU GET You get the ability to make money on a stock if its price declines. In addition, you have utilized leverage. For a small percentage of the price of the stock (i.e., the premium you paid for this contract), you have gained the right to make someone else purchase it at this price no matter how far the stock declines.

THE PLAY The ideal play is to buy this put **not** to execute at expiration, but to ***resell*** as the stock begins its decline toward the strike price.

UPSIDE You win if the stock price declines. Also, you can only lose the price of your premium (what you paid for the option) regardless of what happens to the price of the stock.

DOWNSIDE If the stock goes up or stays the same, you ***lose*** what you spent on the option.

DEFENSE

a. The fundamental way to defend your position is to do the opposite of what got you into the position initially. What this means, is if you buy this put and you become concerned that the stock will actually rise instead of drop, you can sell this put to get out of your obligation and regain some or all of your premium.

b. ***Sell*** your purchased put at a loss, and if the stock price is truly rising, you could buy a call option and make money as the stock rises.

c. If you believe the stock is now rising, you can sell someone else the right to ***put*** this stock to you at a price you are certain the stock will not fall back to. Thus, you'll receive immediate cash (i.e., the premium) to offset some of the money you may have lost when you bought this initial put.

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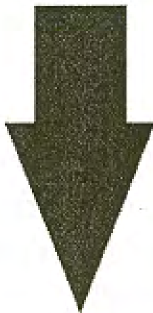
If You Think the Price of a Stock Will Go Down, You Can . . .



SELL A CALL

You're betting the price of the stock will stay the same or go down, and the person you sell the option to is betting the price will go up.

YOU WIN — If the price stays the same...
you gain the price you receive for the call.

YOU WIN — If the price goes down...
you gain the price you receive for the call.

YOU LOSE — If the price goes up...
and, if the option is exercised, you must deliver the stock—buying it if you don't already own it and selling it at the strike price.

_____ out of 3 ways you WIN!

When you sell, you win 2 out of 3 ways.
When you buy, your opportunity for profit is only 1 out of 3.

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SELLING A CALL
THE FACTS

YOU BELIEVE The stock price will stay the same or go down.

WHAT YOU GET You get immediate cash flowing into your account (the premium). And you still own your stock. Or, if you're selling "naked," you receive immediate income (i.e., the premium) for something you don't even own. And, you know your (ROI) immediately.

THE PLAY If you are correct and the stock stays the same or goes down, you will not only receive an income (i.e., the premium), but you also still own your stock. And, you have the opportunity to sell a ***covered call*** (call option) again next month for additional income.

UPSIDE You receive the premium on the option. And, as long as the option is not exercised, you can repeat this procedure (write a covered call) each month creating a virtual cash-flow machine.

DOWNSIDE If the stock price goes up beyond the option price, you lose the additional profits you would have made if you had continued to own your stock. When you sell a call option on stocks you own (write a ***covered call***), you also lose liquidity. You now cannot sell this stock. You are obligated to sell the stock if exercised, at the agreed-upon price on or before the agreed-upon dates. On the other hand, if you are "naked," you have a huge potential loss because you must buy and deliver the stock at whatever the market price is.

DEFENSE

a. For a covered call—***buy it back!*** If the stock price goes up, the option price goes up, too. However, as time runs out of the option, you might be able to buy an identical call for less, thus canceling out the transaction. You still keep your profit and the stock.

b. If you are naked—***sell a put*** at a price below what you believe the stock will go to within the option period. You will gain some cash to help make up for loss.

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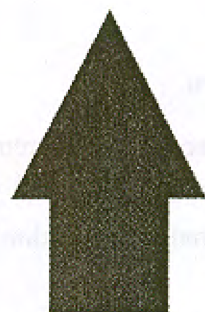
IF YOU THINK THE PRICE OF A STOCK WILL GO UP, YOU CAN . . .



SELL A PUT

You're betting the price of the stock will go up or stay the same, and the person you sell the option to is betting the price will go down.

YOU WIN — If the price goes up...
you gain the price you received from the put.

YOU WIN — If the price stays the same...
you gain the price you received from the put.

YOU LOSE — If the price goes down...
and, if the option is exercised, you must purchase the stock at the higher strike price.

_____ out of 3 ways you WIN!

When you sell a call, you win 2 out of 3 ways.
When you buy, your opportunity for profit is only 1 out of 3.

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SELLING A PUT
THE FACTS

YOU BELIEVE

a. The stock price will go up or stay the same. Thus, you will get to keep the cash you sold these put options for (the premium) because you believe during the option period, the option will not be executed.

b. Or, you may believe that you would like to own this stock. By selling this put, you've received immediate cash (the premium) and you are happy to buy this stock and own it at the price you sold this put option for. (For example, a stock is selling for $50 and you sold a put for $40 and you are happy to own this stock at $40.)

WHAT YOU GET

You get immediate cash (the premium) within 24 hours of selling the put. If you want to own the stock, you get the potential opportunity to purchase the stock you want at a price you are willing to pay.

THE PLAY

a. Anytime you see a stock you want to own, sell the put if you believe the price will stay the same or even drop a little during the option period. This reduces your cost per share as you receive the premium. If the price rises, you still receive the premium.

b. Or, anytime you see a company that you feel will stay the same or rise in value, sell the put contract for immediate income.

UPSIDE

Keeping the premium, you make money if the stock price goes up or if it stays the same. (You win with 2 out of 3 possibilities.)

DOWNSIDE

If the stock price goes down, you could be forced to pay a higher price than the stock is currently selling for and you would lose money.

DEFENSE

The fundamental way to defend your position is to do the opposite of what you did initially.

a. you sold this put, you can ***buy back the put.*** Timing is everything. If possible, buy the put back at the lowest possible price which will often appear near the end of the option period when there is little time value reflected in the price.

b. ***Be willing to own*** the stock at that price. Remember, your effective price for the stock is less than the actual price since you sold the put, and you have that premium to lower your effective price per share.

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WEALTH

MASTERY

THE PYRAMID OF POWER: THE KEY TO YOUR LONG-TERM FINANCIAL SUCCESS

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THE PYRAMID OF POWER

TOOLS

1. FUNDAMENTAL ANALYSIS (Long Term Profitability)
2. TECHNICAL ANALYSIS (Price movement based on history, charting & mathematical probability.

BOTTOM-UP

INDUSTRY
ECONOMY

COMPANY
AFC, B, L, T, CANSLIM

BOTTOM-UP ANALYSIS
The Robbins Investment System: Profitability & Price Assessment

TOP-DOWN

ECONOMY
5 Cycles
3 Reports
(Inflation, Employment & Interest Rates)

SECTOR

COMPANY

SECTOR INVESTING
Five cycles of the economy. Three factors that influence the economy.

STRATEGIES

Every effective system has a strategy for:

1. Selection
2. Monitoring/Managing
3. Leverage
4. Exit
5. Defense
6. Repair

SYSTEMS

Whether we know it or not, we all have a system of evaluating.

1. GUESS AND GAMBLE
2. BOTTOM-UP
3. TOP-DOWN

MODELS

There are two primary approaches to investing:

1. **Buy & Hold**
   Long-term critical mass
2. **Momentum**
   Immediate cash flow

VEHICLES

What specific types of investments should I make?

Get in the game that provides the greatest returns and "rewards" (emotional and financial).

1. **Fixed Income**
   Money markets, bonds (corporate, municipal, government), tax lien certificates, T-Bills, etc.
2. **Growth**
   Stocks, options, mutual funds,real estate, collectibles

ASSET ALLOCATION

Your investment philosophy is more important than any investment decision you will make.

1. What is your risk tolerance? Conservative, Moderate, or Aggressive?
2. You will make mistakes and lose money. **Never invest anything you can't afford to lose!** You must diversify (not "di-worsify").
3. You must consistently invest a predetermined percentage of your income into each bucket.
4. What is your reinvestment strategy? 1/3, 1/3, 1/3? 1/4, 1/4, 1/4, 1/4?

GOALS

You must determine what you want and be willing to pay the price.
What will it take for you to be financially secure, independent, and free?
Ninety-percent of all investors fail because they don't have a precise goal.

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LET'S REVIEW:

BUY & HOLD MODEL

FOCUS

BUILDING CRITICAL MASS FOR LONG-TERM FINANCIAL INDEPENDENCE

Through a system of buying quality companies, and holding onto them as their value appreciates over the long-term, eventually providing long-term income (from Critical Mass).

To use this model, you buy stock in a company only if you *believe* that you are buying something of value that will be worth much more over the long-term. If you are intelligent, you will develop a systematic approach. Some systems are more precise than others.

This model requires:
1. Intelligent evaluation of a company;
2. Willingness to have patience;
3. A strong stomach. Remember, the average stock price fluctuates 50% over the course of a year; however, the rewards over the long-term are immense, *if* you've done your homework.

Strategies for Success:
1. You must have the ability to accurately establish the real value of a company today and its long-term value.
2. You must buy quality companies at wholesale prices.
3. You must hold onto your investments over the long-term.
4. You must review the following methods:
   A. America's Finest Companies
   B. Warren Buffett
   C.. Peter Lynch
   E.. Sir John Templeton

Upsides

1. This is a proven model that makes you money over the long-term when applied with precision, because profit is a measurable commodity and long-term profitability supersedes any market fluctuations (i.e., Mr. Market is beaten by real value).
2. When applied properly, this model frees you from the emotional roller coaster of worrying about the market or economy. (It offers the potential for peace of mind.)
3. This model also provides tax-deferral opportunities because you are only taxed when you sell. As your investment grows in value, you get increased growth without negative tax consequences.

Downsides

1. There is little or no immediate reward. You must give yourself the pride of ownership. This is the most significant downside and the reason so few people truly apply it.
2. This model is capital intensive—in order to produce a sizable cash flow, you must invest a great amount of capital.
3. This model requires a strong stomach. (Remember, the average stock price fluctuates 50% over the course of a year.)
4. This model causes you to miss the ongoing potential for profit (e.g., Medtronic fluctuated from 68 to 72 seven times in one year alone, thus providing many opportunities to profit.)

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LET'S REVIEW:

THE MOMENTUM MODEL

FOCUS

IMMEDIATE CASH FLOW

Through a system of getting in, taking advantage of the accelerated pace of price increases, and quickly selling for a profit.

To use this model, you must *believe* that current rumors or news about the company and/or the sector will powerfully create a rapid increase or decrease in the price and that you can take advantage of this momentum by buying at the rumor stage and selling when the news comes out, or shortly thereafter. Therefore, you are not necessarily buying real value. You are taking a quick ride on the tide. Be careful! If you are intelligent, you will develop a systematic approach that allows you to get in early and get out quickly. If you do not believe that you need to get the maximum profit, you will be happy taking your four-foot Ring Toss/"Quick and Easy" profit.

This model requires the following:

1. The ability to quickly identify market momentum and news-related price increases/decreases;
2. The ability to make quick, powerful, and congruent decisions;
3. A strong stomach. Remember, it can take months to build something that can be destroyed in minutes.

Strategies for Success:

1. You must have quality sources of immediate and accurate information—timing is everything.
2. You must gain a thorough understanding of the various vehicles that can allow you to take advantage of price-acceleration momentum and price-deceleration momentum.
3. You must maintain consistent daily, hourly, weekly, or monthly monitoring (depending on the strategy employed).
4. You must have an effective system for identifying, monitoring, measuring, exiting, and defense.
5. You must have management of greed—remember the Ring Toss.

Upsides

1. This model offers immediate gratification or pain.
2. This model allows you to maximize your profit in the shortest amount of time.
3. This model allows you to maximize your profit through time (i.e., channeling).
4. If you use a top-down system, it gives you a greater understanding of the economy and the world.
5. This model strengthens your decision-making capabilities.
6. It requires that you think defensively—a good strategy for all business.
7. Momentum vehicles, such as options, provide tremendous leverage. For example, 1000 shares of Hewlett-Packard at $100 per share = $100,000 invested for the stock vs. 10 contracts (1000 shares) at $8 per share = $8,000 invested for the option.
8. If you use option vehicles, you limit your downside. You can only lose the money you invested in the option. Continuing with the example in #7, if the stock price of Hewlett-Packard goes down to $89 per share, you've lost $11,000 in the stock. If the option price goes down to $6, you've only lost $2,000.
9. It's fun!!!
10. You have the opportunity for a tremendous return on your investment—100% or more per year!—vs. 5-30% per year.
11. With sector investing, you are focusing on what affects 60% of the price at any moment in time.

Downsides

1. This model requires more time and focus.
2. This model has increased volatility—even more than stocks. What goes up, can come down even faster.
3. You have the potential for greater loss because you are buying market psychology, not real value.
4. What you are buying may have no long-term value. Since you purchased the stock based on momentum, you may have overpaid.

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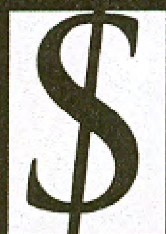
WEALTH



MASTERY

THE POWER OF BELIEFS

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BELIEFS

THE LIMITING & DESTRUCTIVE BELIEF I'VE HAD IN THE PAST IS...	THE TRUTH THAT SETS ME FREE; THE REALITY THAT EMPOWERS ME IS...
What would I have to believe in order to feel disempowered, to be immobilized, or that would cause me to put off my better future?	*What would I have to believe in order to be empowered and succeed in this area?*

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Beliefs

The limiting & destructive belief I've had in the past is...	The truth that sets me free; The reality that empowers me is...
What would I have to believe in order to feel disempowered, to be immobilized, or that would cause me to put off my better future?	*What would I have to believe in order to be empowered and succeed in this area?*

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WEALTH

MASTERY

THE POWER OF LANGUAGE

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LANGUAGE

As you hear new words during this program and beyond, use this resource to capture the new term and its definition. In addition, you may want to write down a usage example to help you better understand the term and the context in which it is used. Remember, language can be a barrier to your financial freedom. More importantly, if utilized effectively, it can be one of your Pillars of Power! Don't be shy—if you are unsure of a word, ask!

NEW WORD	EXAMPLE

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LANGUAGE

NEW WORD	EXAMPLE

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LANGUAGE

TRANSFORMATIONAL VOCABULARY/INCANTATIONS

DISEMPOWERING LANGUAGE I USE THAT NEEDS TO CHANGE	THE NEW EMPOWERING LANGUAGE THAT I AM COMMITTED TO USING

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LANGUAGE

TRANSFORMATIONAL VOCABULARY/INCANTATIONS	
DISEMPOWERING LANGUAGE I USE THAT NEEDS TO CHANGE	THE NEW EMPOWERING LANGUAGE THAT I AM COMMITTED TO USING

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GLOSSARY OF FINANCIAL TERMS

Annual report .... Yearly summary of a public corporation's business, including financial statements.

Arbitrage .... The buying and selling of financial instruments on different markets in order to take advantage of price differences between the markets.

At-the-close .... The last price a security trades for at the end of the trading day.

At-the-money .... Describes an option when its strike price is the same as the purchase price of the stock.
Example: Let's say you buy shares of Iomega stock at $20. If you manage to sell an option on it at $20 (that is, if you set its strike price at $20), it's at-the-money because that's the same price you paid for it.

At-the-open .... The price a security trades for at the beginning of the trading day.

Balance sheet .... A financial statement showing a company's assets, liabilities, and capital on a specific date.

Bear market .... A stock market characterized by falling prices usually preceding or accompanied by a recession. The opposite of a bull market.
Example: An Investment Club has great faith in the stock market because they figure that what goes down must eventually come back up. Thus, they look forward to bear markets as a great time to go shopping for excellent, temporarily underpriced stocks.

Beta .... A number comparing the volatility of a stock's price relative to that of the total market. A beta of 1 means a stock price moves up and down at the same rate as *Standard & Poor's* 500 Index. A beta of 2 means the stock price is more volatile, dropping or rising at a rate double that of the market. A beta less than 1 means the stock price is less volatile.
Example: The Financial Sense & Dollars Investment Club looks for stocks with a beta below or near 1, so they consider Quality Corp.'s beta of 0.98 to be ideal.

Bid price vs. Ask price .... The quote for a stock, bond, option, or other security is made up of two figures: the bid price and the ask price. The first number, the bid price, is always lower than the second number, the ask (or offer) price. You deal with a market (on non-listed exchanges such as Nasdaq) maker who's to buy from you on the bid side and sell to you on the offer side.
Example: Let's say you have a stock with a bid price of 20 and an ask price of 20-1/4. The market maker buys at 20 and sells at 20-1/4. The difference between the bid and ask prices is the market maker's profit.

Blue chip .... The common stock of a major corporation with a long, relatively stable record of earnings.

Bond .... A security representing debt; a loan from the bondholder to the corporation. The bondholder usually receives semi-annual interest payments, with principal being refunded at maturity.
Example: The current nominal return on long-term bonds is between 5.0% and 5.5%. In contrast, growth stocks and growth funds have historically earned average yearly returns closer to 12%.

Broker .... An individual who arranges securities transactions for others and charges a commission for this service. There are three types of brokers: **Full service** brokers give advice, offer lots of services, and have access to the most information, which they share with their clients. Well-known full service brokers include Merrill Lynch, Paine Webber, and Prudential. **Discount** brokers have access to less information, do not give advice, and primarily execute the trades you want them to. Well-known discount brokers include Charles Schwab, Jack White, and Fidelity Investments. **Deep discount** brokers execute trades only. Deep discount brokers include E*Trade and AccuTrade.

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GLOSSARY OF FINANCIAL TERMS

Bull market . . . . .A stock market characterized by rising prices over a sustained period of time, representing investor optimism, lower 3interest rates, and economic growth. The opposite of a bear market.
Example: The current high-growth, low inflation economic environment has lead to the longest **bull market** in history.

Buying a hedge . . . . .The purchase of future options or other investments for the purpose of protecting against a future increase or decrease in the price of a security.

Call . . . . .An option contract giving the owner the right (but not the obligation) to buy shares of stock at a certain price (the strike price) on or before the expiration date.
Example: "IBM September 115 calls" means you have the right (but not the obligation) to buy 100 shares for each contract of IBM at $115 a share. If IBM then went to $125 a share, your option would have an intrinsic value of $10 and you'd still have the right to buy shares at $115. As the stock goes up on the call option, your call becomes more valuable.

Capital gain . . . . .The profit from the sale of a capital asset, such as securities. A long-term capital gain results from the sale of a capital asset held more than six months. A short-term capital gain results from the sale of a capital asset held less than six months.
Example: The capital gain from Rhonda's sale of Abacus Co. shares was considerable, even after she deducted broker's fees. She had bought 100 shares of Abacus for $25 a share and sold them several months later for $50 a share, for a capital gain of $2,500, or a return of 100% on her original investment.

Cash account . . . . .An account in which an investor is required to pay in full for securities purchased by a specific date from the trade date.

Channeling . . . . .A stock that fluctuates between a high and low price range for long periods of time and seems to be predictable based on its historical performance.

Chicago Board Exchange . . .The primary exchange that monitors options activity, also the largest exchange on which of Options options are traded.

Closed-end vs. Open-end (investment company) . . . . ."**Closed-end**" is an investment company that issues a fixed number of shares that are normally traded in the securities market through brokers. "**Open-end**" is an investment company that continuously sells and redeems shares, such as mutual funds.

Compound interest . . . . . . .Interest computed on the interest as well as on the principal.

Consumer Price Index (CPI) . . . . .Index that analyzes the change in prices for consumer goods and services over time.

Contract . . . . .A block of 100 shares, used as a unit of measure for buying and selling options.
Example: Jack has 500 shares he wants to sell an option on. In other words, he's selling five contracts.

Correction . . . . .A sustained period of stock price decline in the midst of long-term rising stock prices (a bull market). A correction is usually followed by another period of rising stock prices. A major correction refers to a decline of 10% or more.

Covered vs. Naked . . . . . . .Being "covered" means you actually own the particular stock you are selling an option on; being "naked" means you are selling the option but don't own the stock.

Dead Cat Bounce . . . . .A dead cat bounce is a short, often sharp, counter-trend rally in a stock or commodity that had a severe price deadline. It is a rally which should be sold into if you got caught in the decline.

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GLOSSARY OF FINANCIAL TERMS

Dealer . . . . An individual (or firm) who regularly buys and sells securities for others from his or her own account of securities. In contrast, a broker acts as an agent for others. Frequently, broker and dealer functions are synonymous.

Debt instrument . . . . Any instrument that represents a loan between a borrower and a lender.

Debt ratio . . . . The relationship between a company's amount of long-term debt and its capitalization.
Example: An Investment Club studies a company's debt ratio as one of their criteria; too much debt will affect profitability. If the company's debt carried as a percentage of capitalization exceeds 33%, it's a potential red flag.

Depreciation . . . . The decline in value of a security, CD, or mutual fund due to market risk.

Discretionary . . . . An account in which an investment advisor or broker has the full right to buy and sell securities account without consultation with or authorization of the investor.

Discount . . . . The amount by which a security may sell below its face value.

Diversification . . . . The practice of spreading investments among a number of different securities, companies, industries, and/or geographical locations to reduce the risk inherent in investing.

Dividend . . . . A payment declared by a corporation's board of directors and made to shareholders, usually on a quarterly basis.

Dollar cost averaging . . . . . The practice of investing a fixed amount in a security at regular intervals regardless of market fluctuations. The theory is that your average cost will be lower than if you invested larger amounts sporadically over the same amount of time.
Example: You arrange with your broker to use $100 every month to buy shares of Excello stock. The first month, Excello sells for $20 a share, so you buy five shares. The second month they sell for $25 a share, so you purchase four shares. The third month they sell for $10 a share, so you buy ten shares. So, over the three months, you've purchased 19 shares for $300, at an average cost per share of $15.79. Thanks to dollar cost averaging you've invested steadily and avoided paying premium prices!

Dow Jones Industrial Average . . . The average price of 30 leading industrial stocks traded on the New York Stock Exchange.
Example: Yesterday the Dow Jones Industrial Average plunged 83.11 to 5,520.54, which many analysts are interpreting as the first major correction of the bull market since 1994.

Earnings growth . . . . An important criterion in assessing a company's growth trends and potential.
Example: An Investment Club looks for companies that have at least five years of solid earnings growth.

Earnings per share . . . . The total net earnings of a company divided by the number of outstanding shares.

Equity . . . . Stock ownership of a company.

Expiration date . . . . The day on which options expire.
Example: The expiration date for options is at the close of trading on the third Friday of every month.

Face value . . . . The value that appears on the face of a bond, usually $1,000. This value indicates the amount the issuing company will pay at maturity, not necessarily the market price. Also known as "par value."

Fixed-income fund . . . . A mutual fund whose portfolio consists primarily of fixed-income securities or bonds (can also be referred to as a bond fund), usually with the objective of income rather than capital appreciation.

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GLOSSARY OF FINANCIAL TERMS

Front-end load .... A sales charge for buying into a mutual fund.

Growth fund .... A mutual fund that has growth of capital as its primary objective, to be obtained mainly through investments in common stocks with growth potential.

Growth stocks .... Stock of a company whose sales are increasing faster than other companies in the same industry and whose prospects for continued growth are good.
Example: An Investment Club has based its portfolio on growth stocks that continue to pass stringent evaluation criteria with flying colors.

GTC .... A limit order in which you instruct your broker to buy or sell a security at a particular price until you tell him or her otherwise.
Example: I've issued a GTC, telling my broker I want to buy 500 shares of McDougal's at 61-1/4. Thus, for an indefinite period beginning now, my broker will keep buying McDougal's shares whenever they're at that price until I've purchased 500 total shares.

Index .... A mathematically derived number used as an indicator of market trends.

Institutions .... Any large investor such as a bank, insurance company, or pension fund.

Interest rates .... Periodic payments made to a lender of money by the borrower for the use of the money borrowed; the cost of borrowing someone else's money.

In-the-money .... Describes a call option if the current market value of the underlying stock is above the exercise (strike) price of the option. Describes a put option if the current market value of the underlying stock is below the exercise price of the option.

Leverage .... The use of borrowed money with invested funds to increase returns (increases the amount of risk).
Example: Options have tremendous leverage because for as small an amount of money as you'd pay for an option premium, let's say $500, you could control 100 shares of IBM that might be selling for $115 a share ($11,500). So for a small investment you can control a much larger investment, and you haven't borrowed any money!

Limit order .... An order placed with a broker to buy or sell at a price as good as or better than the specified limit price. The opposite of a market order.
Example: A limit order can take the form of a GTC or exist just for a particular day.

Long .... Owning the stock, option, or other security on which an option is written (sold). The opposite of "short."
Example: When you write a call and own the underlying stock, you are long that stock.

Margin account .... An account in which a brokerage firm allows an investor to buy or sell securities on credit.

Margin call .... A demand for an investor to deposit additional money or securities in the margin account due to the declining value of the margined securities.

Market maker .... A dealer charged with the responsibility of making an orderly market in a security and who accepts the responsibility of that security's liquidity. The difference between an option's bid price and ask price is what the market maker earns.
Example: With Shazam Co. stock bid at 20 and offered at 20-1/2, the market maker will buy from you at 20 and sell to you at 20-1/2, with the 1/2 being his markup.

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GLOSSARY OF FINANCIAL TERMS

Market order . . . . .An order to buy or sell immediately a given amount of a security at the current price.
Example: By issuing a market order you authorize your broker to buy a certain number of shares (let's say 500) without being limited to a particular price. At the end of the day your broker tells you what you were able to buy, such as 200 shares of McDougal's at 61-1/2 and 300 shares at 61-5/8.

Market price . . . . .The last reported price at which a security has been traded.

Market value . . . . .The price at which an investor buys or sells a security at a given time.

Money market . . . . .A mutual fund that invests in short-term, relatively low-risk, money-market instruments such funds as bank CDs and short-term government securities.

Mutual fund . . . . .An open-end or closed-end investment company that pools the money of its shareholders into one professionally managed account.

NAIC . . . . .National Association of Investors Corporation, a nonprofit organization that gives educational materials to investment clubs and individual investors.

Net asset . . . . .The total market value of an investment company's shares of securities, cash, and any value per shared accrued earnings, minus its liabilities, divided by the number of outstanding shares.

New York Stock . . . . .The country's largest and most prestigious market where stocks and other securities are Exchange (NYSE) traded.

No-load mutual fund . . . . . . .A fund that does not charge a sales fee for investment, reinvestment of dividends, or redemptions.

OCC (Options . . . . .Responsible for matching purchases and sales of options; charged with the responsibility of **Clearing** assigning exercise notices to investors who have sold or written options; determines what **Corporation** option writers are exercised on a random lottery basis.

Option . . . . .The right to buy or sell a specific security at a specified price for a certain period of time. The right to buy is known as a *call option;* the right to sell is known as a *put option.*

Option income fund . . . . .A mutual fund that sells options on the shares in its portfolio to increase its income.

Out-of-the-money . . . . .Describes a *call option* if its exercise (strike) price is above the current market value of the underlying stock. Describes a *put option* if its exercise price is below the current market value of the underlying stock.

Over-the-counter (OTC) . . . .Any security that is not listed or traded on a major exchange; the nationwide network of OTC brokers/dealers who buy and sell such securities.

Penny stock . . . . .Any stock that is very low-priced and often speculative.

Portfolio . . . . .The total investment holdings of an investor, investment company, investment club, etc.

Price-earnings (P/E) ratio . . .The price of a share of stock divided by the company's earnings per share for the last 12 months.
Example: In determining when to buy, an Investment Club selects stocks whose current P/E ratio is at or below the average for the last 5 years.

Premium . . . . .The amount by which a security sells above its face value. Also, the amount paid or received for option trading.

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GLOSSARY OF FINANCIAL TERMS

Profit ....The amount earned when a security's selling price exceeds its purchase cost.

Put ....An option contract that gives the owner the right (but not the obligation) to sell a stock at a certain price on or before a specific date.

Real rate of return ....The difference between the nominal (stated) interest rate of an investment and the current rate of inflation. If your money is in a bank account paying 5.5%, and the inflation rate is 5.5%, then your nominal interest rate is 5.5% but your real rate of return is zero.

Revenues ....A company's sales; the income returned on an investment.

Rolling option ....An option that fluctuates between high and low price points for a period of time and that seems to be predictable based on historical performance.
Example: If an option were to trade at a low of $3 and a high of $6 and moved back and forth between these price points three or four times over a period of six months, it would be indicative of a **rolling option.**

Round lot vs. Odd lot ......The accepted standard number of shares (100) used to trade stocks is a "round lot." The purchase of fewer than 100 shares of stock at one time is an "odd lot."

S&P rating ....Refers to the ranking of a company by *Standard & Poor's*.

Safety ....A *Value Line* ranking that measures the volatility of a stock's price. On this scale, 1 indicates least volatile, and 5 indicates most volatile.
Example: An Investment Club prefers stocks rated 1 or 2.

Security ....Any investment instrument, e.g., a bond or a share of stock.

Securities and Exchange Commission (SEC) ........U.S. agency that regulates the sale of securities for the protection of the shareholder.

Short ....Selling an option or stock and not owning it. The opposite of "long."
Example: If I write a call without owning the underlying stock, I'm **short** that option.

Spread ....The difference between the bid price and ask price for a stock or option. The difference between the bid and ask price is the market maker's profit.

Stock ....A security that represents ownership of a public corporation. Stock is divided into units known as shares. **Preferred stock** is a class of stock that has prior claim on dividends and asset distribution before common stock shares. Thus, in the event of corporate liquidation, preferred stockholders have precedence over common stockholders.

Stock dividend ....A dividend paid in securities rather than cash.

Stock split ....A bookkeeping entry that increases outstanding shares and correspondingly reduces the stock's par value and market value. A **reverse stock split** reduces the number of outstanding shares and increases a stock's par value.
Example: In a 2-for-1 **stock split** of the Kalamazoo Cloning Company, Sean Shareholder received 1 new share for every share he already held. Because he previously owned 10 shares trading at $4 a share, after the split he owned 20 shares trading at $2 a share. As someone who had benefited from stock splits before, Sean anticipated that Kalamazoo would eventually climb back to its original value.

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GLOSSARY OF FINANCIAL TERMS

Straddle, Long .... A combination of buying a put and a call on the same stock, anticipating a major move in either direction.
Example: You believe McDougal's (currently at $10) will move either up or down significantly after earnings are announced, so you buy a put at 105 for 1/2 and buy a call at 115 for 3/4. If the stock moves below 103-3/4 (105 less option premiums) or above 111-1/4 (110 plus options premiums) you will have a profit.

Straddle, Short .... A combination of selling a put and a call on the same stock, anticipating the stock will trade within a narrow range.
Example: If you believe McFrugal's (already at 47) will trade between 45:50, sell the 45 put for 3/4 and sell the 50 call for 1/2. If the stock closes between 45:50 on expiration, you keep both premiums.

Strike price .... The price at which the underlying security can be purchased or sold by the option holder, if exercised.

Tax-deferred .... Income on which a tax is assessed only when it is distributed.

Tax-exempt fund .... A mutual fund consisting of securities (such as municipal bonds) exempt from federal income tax.

Time value .... The premium of the option added to its intrinsic value.

Timeliness .... A *Value Line* ranking that measures a stock's predicted price performance over the next year. On this scale, 1 indicates most timely, and 5 indicates least timely.
Example: An Investment Club prefers stocks with a timeliness rating of 1 or 2.

Upside-downside ratio ...... A measurement of potential appreciation and risk, used by NAIC, and calculated by dividing the projected high price of a stock by its projected low.
Example: Isabel Investor prefers to buy stocks with an **upside-downside ratio** of 3:1 or higher. That is, she looks for stocks which are 3 times as likely to go up in value as down, based on past performance.

Value Line's Survey .... A weekly investment publication providing financial analysis of the economy, 98 industries, ***Investment*** and 1,700 individual companies.

Volatility .... The degree of movement of the stock market and securities. A stock price (or the market as a whole) is volatile when it swings up and down frequently and to a greater extent than mere fluctuation.

Zoning .... The practice of using a stock's projected high and low prices to determine the best time to buy, hold, and sell it. **Example:** With **zoning** you can figure out the best price points at which to buy, hold, or sell a particular stock. Take the difference between its projected highs and lows, divide it by 3, and add 1/3 to the low price of the stock—this is your buy range, when the stock is a good buy (if you don't already own it). Add another 1/3 to determine your hold range. Add the last third to determine the sell range, when you might consider selling the stock if you already own it.

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WEALTH

MASTERY

CONCEPTS/ ORGANIZING PRINCIPLES

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ADDITIONAL ORGANIZING PRINCIPLES

Use this area to capture additional organizing principles for the investment strategies you have learned thus far.

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ADDITIONAL ORGANIZING PRINCIPLES

Use this area to capture additional organizing principles for the investment strategies you have learned thus far.

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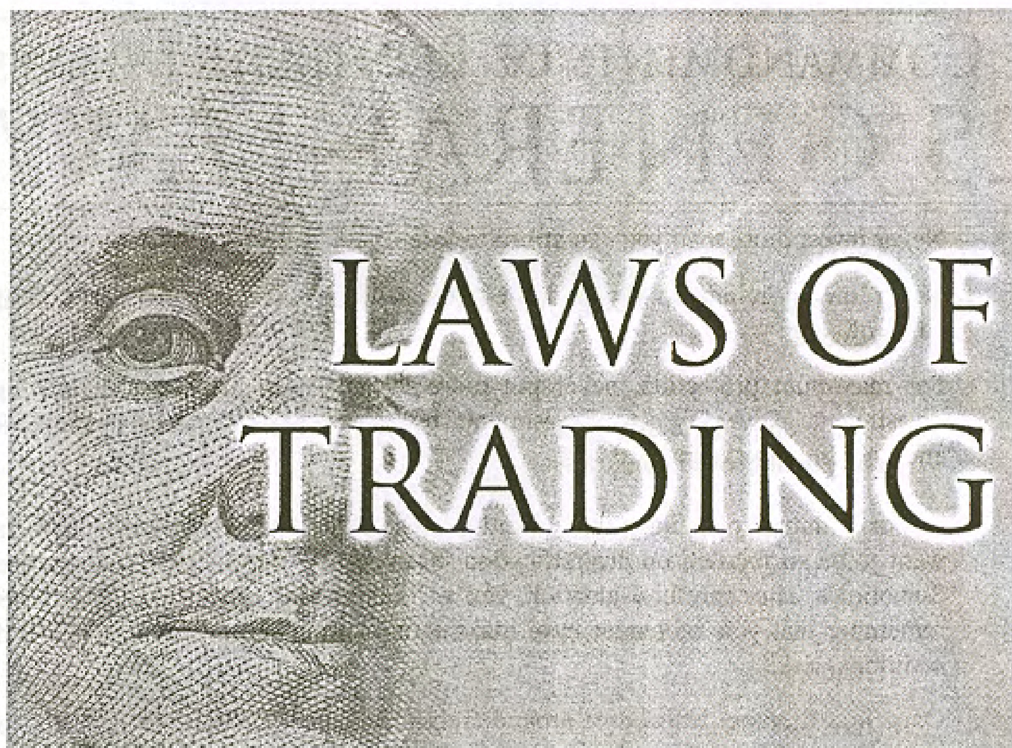

What to do, what to look for, what to watch out for, and what to avoid!

"HOW DO I MAXIMIZE MY PROFITS?"

"HOW DO I MINIMIZE MY LOSSES?"

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THE COMMANDMENTS OF PROFITABLE INVESTING
25 GENERAL LAWS

RULE 1: Never invest more than you can afford to lose.

RULE 2: Never invest in anything you don't understand or that you can't establish the real value of.

RULE 3: For maximum protection, never put more than 10% of your money into any single investment. Diversify your investments by choosing different companies, industries, and possibly even countries.

For maximum profitability, understand that the 10% rule is not an absolute. You don't want to be so focused on diversification that you "di-worsify" just to meet this criteria. Sometimes, after careful evaluation, you will invest more than 10%. When you do this, remember that you no longer have maximum protection and that this action will bring additional risk.

RULE 4: Once in a lifetime deals come around frequently! Don't allow scarcity to cause you to jump in out of fear of loss.

RULE 5: It is better to be safe than sorry. Play the Ring Toss! Use stop orders to help you maximize your returns and prevent loss.

RULE 6: Anticipate and do your homework. **Never buy anything without an established exit strategy.** Focus on your downsides and how you'll deal with them, and the upsides will take care of themselves.

1. Evaluate rumored companies' quality and price in advance.
2. Review TeleChart 2000®: Was the company growing before the announcement of the why?

RULE 7: *Always* buy wholesale and sell retail. Buy on weakness; sell on strength.

RULE 8: Don't act greedy. Work the formula. Double your money* and get out. Or, better yet, place your stop orders to protect your profit while you watch the stock run!

*Or, achieve your predetermined ROI.

RULE 9: Protect your profits with stop orders in order to maximize your profits. This will ensure that you make a profit and maximize your returns by letting your investments run. **Be sure to raise your sell stops as the price increases in order to protect your profits.**

RULE 10: Only buy companies that you're willing to own because you know their true value.

RULE 11: Take advantage of "Mr. Market". Don't fall under his spell.

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THE COMMANDMENTS OF PROFITABLE INVESTING
25 GENERAL LAWS

RULE 12: Asset allocation is the most important and powerful decision you'll make to shape your financial destiny. Know your bucket ratio (e.g., 40%, 30%, 30%—refer to the section on asset allocation).

RULE 13: Answer these questions before you invest:
1. Is it a 5:1 in terms of reward/risk?
2. What's my exit strategy? Are my stops in place?
3. What's my defense if the stock price falls? How do I cover?
4. What are my reserves?

RULE 14: No matter what happens (or grows), keep a significant percentage of your funds in your security bucket. No matter how well your growth bucket(s) is doing, things can change rapidly.

RULE 15: What goes up, must (and will) eventually come down. The stock market tends to react to news and then forgets it quickly. Likewise, what comes down, must go up in the long-term (if it's a quality company with ever-increasing profitability).

RULE 16: Cash is king. Keep an established amount of capital in liquid form. Establish enough to cover your basic overhead for _____ months.

RULE 17: Hate to lose money so much that you have a cover strategy in place before you begin. Fight any losses.

RULE 18: Educate and empower your broker once s/he's proven, but keep measuring him/her and his/her use of principles.

RULE 19: Make it a 5:1. Don't play unless you think there is a five times better chance of a significant return than there is of loss.

RULE 20: The average stock will fluctuate 50% of its price point over the course of a year. Use this to your advantage to help you know the following:
1. When to buy;
2. When to sell; and
3. When to buy and sell puts and calls.

RULE 21: Wealth is created through leverage and a formula of duplication (modeling) and repetition.

RULE 22: All investing is pattern recognition. Study the patterns of companies like you study the patterns of people. (Charts are a picture of a company's "personality.")

RULE 23: Have clear-cut goals and objectives, but don't force deals.

RULE 24: Before investing, ask yourself, *"Is this the best use of my time and my money?"*

RULE 25: Decide on a ratio of plays. (For example, what is the ratio of risk for naked calls?)

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THE COMMANDMENTS OF PROFITABLE INVESTING
BUY AND HOLD

RULE 1: Investment evaluation requires two elements of analysis:
1. Is it a quality (profitable) company? Will it continue to increase in profitability/earnings?
2. Is it at the right price?

These next 2 laws combine Buy & Hold with Momentum Investing:

RULE 2: You double your chances of success if you sell calls or puts with a cover strategy. Before you purchase stock in a company, consider selling puts on it to make money before you buy it. Buy it for a price you want or make money on getting your best price.

RULE 3: Buy the stocks on weakness. Sell the calls on strength. (Covered calls)

THE COMMANDMENTS OF PROFITABLE INVESTING
MOMENTUM

RULE 1: Buy to sell, not to hold. Like a business, you don't want to keep a large inventory. **Selling is the only time you make money.**

RULE 2: With options, drill where there is oil. Invest in options where there is significant news to drive the stock up (e.g., stock splits) or down (e.g., poor earnings).

RULE 3: Be excited to sell. You only make money when you sell. Also, remember, you win 2 out of 3 ways when you sell. Sell calls; sell puts.

RULE 4: To really cash in, earn money on the Ring Toss both ways—up and down.

RULE 5: Remember, as you approach, don't expect to hold until the last day. Make your investment decisions before you run out of time. Sell your options before the last two weeks or your ice cubes become water.

RULE 6: Selling options for something is better than having nothing.

RULE 7: Use the "6-10% to double" rule. Don't allow the time premium to exceed 50% on an in-the-money option.

RULE 8: There is a way to guarantee that you don't lose in options: Suppose you have $100,000 to invest. Invest $50,000 in a Zero Coupon Bond, which is worth $100,000 at its expiration in 10 years. Then, the other $50,000 is free for you to invest in options. Even if you lose the entire $50,000 in options, you still have the $100,000 you started with at the bond's expiration date.

RULE 9: Sometimes you have to lose in order to win. Sometimes you have to let go of a losing stock or option in order to take advantage of one that's winning and make up for any losses you may have with a new profit from a new opportunity.

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How to Profit in a BEAR MARKET

1 *What is a bear market?*

2 *Why do people tend to look for a bull market rather than a bear market?*

KEY ORGANIZING PRINCIPLE

A bear market represents one of the *best* opportunities you'll ever have to upgrade your portfolio!

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1 REPAIR

If you find yourself in a position where the bear market caught you by surprise—you are fully invested in the stock market and your investments are now significantly down—you must first repair your position.

Remember, Ben Graham and Sir John Templeton didn't get where they are by hanging on to losses if the company was not a quality company!

1. **If your losses are primarily in quality, 1st-tier, blue-chip, AFC-type stocks, hold onto them**! Long-term, a quality company will generally out-produce "Mr. Market".
2. **If your losses are primarily in 2nd-tier or 3rd-tier companies lacking in quality** (i.e., not one of America's Finest Companies, or they don't pass your quality analysis), then **you must upgrade your positions**. Ask yourself, "Where else could I better allocate my funds? Do I see further inherent weakness in the company?"
3. Finally, if your research still holds up and the investment is still solid (i.e., quality companies), **consider investing more money into the quality companies** you already own.

Upgrade your portfolio by substituting your 2nd-tier stocks with quality companies. In other words, sell your 2nd-tier stocks for a loss, do your homework, and invest that money in 1st-tier, quality companies.

Remember, when the bear market turns around and becomes bullish again, the first stocks to run up will generally be the highest quality stocks.

REMEMBER

NO INVESTMENT IS WITHOUT RISK! WE NEVER MAKE ANY INVESTMENT RECOMMENDATION NOR DO WE BELIEVE IT IS POSSIBLE FOR ANYONE TO MAKE SUCH A RECOMMENDATION.

When following the Buy and Hold Model, always stick with quality!

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2 PROFIT

If you find yourself in a position where you are not investing in the stock market and you want to maximize your profits during a bear market, you must employ the following strategies. This is easier than most people imagine!

1 ***Sell high and buy low!*** (Reverse the adage, "Buy low and sell high.")

The only way to sell high before you buy low is to sell a stock short.

- Look only at optionable stocks.
- Ask your broker for a list of the weakest stocks in the weakest industry.

Buy puts or sell calls on 3rd-tier stocks. (Remember, these stocks will likely be the last to recover when the market turns bullish again!)

Example:
Capital equipment, such as Caterpillar, John Deere, and housing builders are in a weak sector.

2 ***Sell a call and a put (a "short straddle") and take in a lot of money!***
The worst that can happen is that the stock will be put to you, giving you the opportunity to purchase the stock at a lower price!

Example:
You purchased the stock at $34. The stock price is currently at $35. You write both a put and a call. A $30 put gives you a $1 premium per share; and a $30 call gives you a $6 premium per share.

- If the stock price goes up to $50, you will sell the stock at $30. You will lose $4 per share on the stock, but you still took in $7 per share in premiums.
- If the stock price goes down to $29, you will purchase the stock at $30. Remember, you have taken in $7 per share in premiums, so the actual "price" you are paying for this stock is $23.

Successful speculation implies taking risks when the odds are in your favor. Just like poker, when you have to know which hands to bet on, in trading you have to know when the odds are in your favor.

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3 ASSET ALLOCATION

Your overall asset allocation for all three buckets (security, growth, dream) will not change. The strategies below refer only to you growth bucket:

1 If you have a **loss**, your ideal asset allocation is:

50 % BONDS

- Bonds are a debt instrument — you will receive interest on them for every day that you own them.
- Your portfolio should consist of **convertible bonds*** because if anything good happens in the market you will be in a position to take advantage by converting them to stocks.

** Your rate of return will be slightly lower, but you have greater potential on the upside.*

50 % STOCKS

- You should upgrade your portfolio to quality companies.
- Your portfolio should consist of **optionable stocks** so that you can generate additional income and lower your average price through the sale of puts.

2 If you have **minimal or no loss**, your ideal asset allocation is:

25% CASH	25%	50% BONDS
Remember, you will have a great opportunity to buy before the market becomes bullish again.	Quality Stocks	(Convertible Bonds)

KEY ORGANIZING PRINCIPLE

In a bear market, you want to own quality. Quality companies will usually drop less in price and will generally be the first to recover when the market turns bullish again.

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WEALTH

MASTERY

SUCCESS STRATEGIES

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STOCK SPLITS

1. *What is a stock split?*

Let's suppose that you own 100 shares of McDougal's stock that are currently worth $50. If the company declares a 2-for-1 split, on the date of the split, you will now have 200 shares of stock. Since it is a 2-for-1 split, however, your shares of stock will now be worth $25 each.

A stock split works the same way as a stock dividend in that you don't have to do anything to get more shares. In the example above, since you just doubled your shares of stock, it is equivalent to getting a 100% stock dividend.

2. *Why does a company split?*

1. To reward shareholders.
2. To make their stock more affordable to the average investor by lowering the price.
3. To increase distribution and liquidity. If the stock is more affordable, it will probably increase the number of shareholders. This creates more stability for the price long-term and helps generate interest in the company, which will help increase the price of the stock over the long-term.

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STOCK SPLITS

3. When do companies tend to split?

Companies tend to split when they believe that the current price of the stock is not affordable for the average investor. This price is different for every company. For example, Nike historically tends to split when the stock price reaches between $80 and $90. On the other hand, McDonald's generally splits at about $40 or $45.

4. What information about stock splits is valuable for me to know?

1. **Companies that split tend to return to their previous value within about nine months to three years (tending towards the latter).**
2. Remember, you want to buy good stocks on good news. A stock split is very good news, because it indicates that the stock is popular and that the price is high. In addition, about half the time, the announcement of the split is accompanied by an increase in dividends or news that sales have gone up 40% or 50%.

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STOCK SPLITS

5. *How can I use stock splits to make money as a Buy & Hold investor?*

As a Buy & Hold investor, your best strategy is to **buy stocks right on the announcement of the split and hold onto them.** Remember, companies that split tend to return to their pre-split price within a couple of years, thus effectively doubling your money. Therefore, as a Buy & Hold investor, you want your portfolio to consist of stocks that have historically split and are optionable.

Most good Buy & Hold stocks tend to split consistently when they reach a certain price point. Thus, if you look at the charts and watch the stock, you can anticipate when these splits might occur. For example, Microsoft split in September 1991, August 1992, and July 1994. In addition, they issued a 100% stock dividend in 1987 and 1990 (equivalent to a 2-for-1 stock split). On every one of these splits, the stock was trading between \$100 and \$110 per share or higher.

TIMING
Timing is a critical component in making this strategy work. To be most effective, you want to purchase the option immediately upon the announcement, before the stock price has a chance to react to the news. Waiting even a few minutes can cause you to miss the opportunity to get in before the price increases.

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STOCK SPLITS

6. *How can I use stock splits to make money as a Momentum investor?*

As a Momentum investor, your strategy is to **purchase the option on the stock right on the announcement of the split**. In a bull market, you will typically see a jump in the stock price both on the announcement of the split and on the date of the split. You can capitalize on this price jump by purchasing options, because options move disproportionately to stocks.

A WORD OF CAUTION

1. Remember, however, not to be greedy. **Play the Ring Toss and get out!** You don't want your option to expire (become worthless) by holding out for a bigger increase in the option price.
2. Stock splits tend to go through four phases depending on the state of the economy. Thus, there are certain times when this strategy is not effective, and may actually cause the price of the stock to drop on the split.

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THERE ARE FOUR PHASES OF STOCK SPLITS

PHASE ONE

Date of Announcement: . . . . .Stock price shoots **up**.

Date of Split: . . . . .Stock price shoots **up**.

PHASE TWO

Date of Announcement: . . . . .Stock goes up slightly and tends to **trend high** over the next couple of days.

Date of Split: . . . . .The stock is fairly **stable** again with a small upward bias.

PHASE THREE

Date of Announcement: . . . . .Not much happens.

Date of Split: . . . . .A slight **upward bias** occurs just before the split. On the actual split, the stock goes down.

PHASE FOUR

(Typically applies only to bear markets.)

Date of Announcement: . . . . .The stock price goes **down**.

Date of Split: . . . . .The stock price goes **down**.

"SO, HOW DO I KNOW WHICH PHASE WE ARE CURRENTLY IN?"

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CASH FLOW INTO MUTUAL FUNDS

JUST AS STOCK SPLITS HAVE FOUR PHASES, THERE TEND TO BE THREE PHASES OF CASH FLOW INTO MUTUAL FUNDS.

MUTUAL FUND CASH FLOW (WEEKLY INFLOW)

Weak:	Less than $1 Billion
Moderate:	$1-2 Billion
Strong:	$3 Billion or more

HOW DOES THIS RELATE TO STOCK SPLITS?

While there is no exact correlation, there is a tendency for strong cash flow into mutual funds that relate to Phase One of stock splits. In other words, when there is a strong flow of cash into mutual funds, you tend to see the biggest jumps in option and stock prices surrounding a split.

For example:

January-June 1996 (Six months)

- Aggregate Mutual Fund Cash Flow = $136.4 billion
- The number of stock splits over that period of time was 716 (172 were optionable).

January-December 1995 (One year)

- The total Mutual Fund Cash Flow = $128 billion.
- The total number of stock splits over the entire year was 886 (194 were optionable).

Thus, we have more than exceeded the 1995 mutual fund cash flow and we have almost equaled the number of stock splits in 1995 in just the first *six months* of 1996. If you were trading in the first part of 1996, you probably did quite well following these phases. If you are trading as of this printing (October 1998), you have probably noticed that we are no longer in Phase One, and in fact, are most likely in Phase Three or Four, where this strategy is not very effective. Remember, however, we will return to Phase One.

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