INVESTING WITHOUT BORDERS

How 6 Billion Investors Can Find Profits *in the* Global Economy

DANIEL FRISHBERG
FOUNDER OF BIZRADIO NETWORK

FOREWORD BY ARTHUR B. LAFFER

INVESTING
WITHOUT BORDERS

INVESTING WITHOUT BORDERS

How 6 Billion Investors Can Find Profits *in the* Global Economy

DANIEL FRISHBERG

WILEY

John Wiley & Sons, Inc.

Published by John Wiley & Sons, Inc., Hoboken, New Jersey.
Published simultaneously in Canada.

Library of Congress Cataloging-in-Publication Data:

Frishberg, Daniel, 1945–
Investing without borders : how six billion investors can find profits in the global economy / Daniel Frishberg.
p. cm.
Includes index.
ISBN 978-0-470-49649-7 (cloth)
1. Investments, Foreign. 2. Investments. I. Title.
HG4538.F74 2010
332.6–dc22
2009043707

Printed in the United States of America

10 9 8 7 6 5 4 3 2 1

To Elisea, the love of my life–
When I became your husband, at age 40, I became a better man. It's just that simple. At every challenge and in every test, my strength, endurance, and courage comes from the fact that I am always playing for you.

Right from the beginning, you saw something in me that I couldn't see. You saw the power in me that I never saw in myself— always believing in me, steadily inspiring me to soar to heights I never dared imagine.

Your unlimited kindness and compassion, that unbelievable stability, your ability to generate life from inside you instead of reacting to events like the rest of us tend to do. You inspire me and that inspiration has given my life a meaning it never had before.

I won the lottery that day many years ago, when I held that door open for you and you looked up at me with that first smile that lit a fire that has never gone out.

The year we married you told me you saw gifts you had never seen before. You said you had never seen anyone before who really understood the stock market and who understood "where the money is."

You asked, "Why not spend this second half of your life sharing those gifts with the world."

I told you I didn't know how to do that, and you have spent the rest of your life showing me how.

To you, I dedicate this book and my life. Elisea, it's been quite a ride.

To Stephanie–
As I became your dad, I became a man. You have grown into a confident, gifted, beautiful, and vibrant human being. Growing up with you has been the greatest gift God could have bestowed on me. No one could ever take your place in my heart.

To Niki–
You have managed to forge a singular blend of discipline, confidence, humor, beauty, and talent. Your great journey is ahead of you, but already you blow me away with your inner strength and your tender heart. Whenever I watch you live your life, I cannot help but smile. I wish I was more like you.

To Larry–
I am proud to call you my son. You are but a child and already you amaze me with your ability to commit, your gentleness, your unbelievable talent and tenacity, and your natural ability to practice and master everything you try. I watch you and I think I must be a pretty good man to have helped to create a son like you.

Contents

Foreword

Who would have ever guessed, even as recently as early 2007, how quickly our economic and financial world could implode. The phrase "one in a million" seems apropos, but in truth financial crises and economic collapses occur frequently. And when they do occur, the world changes—and rarely for the better. Everyone in politics uses a crisis to push their favorite agenda. Think here of President Obama's Chief of Staff Rahm Emmanuel, who is reputed to have said that a good crisis should never be allowed to go to waste.

In the United States, the government has used this latest crisis to become an even larger participant than it already was in home mortgages, autos, banking, insurance, health care, and energy. To say that these industries have been nationalized would be an overreach, but not by much. The primary focus of private businesses today is definitely government relations. And who knows how far this nationalization trend will go? My suspicion is that it will go a lot further than it already has, and the economy will take a lot longer to become healthy, if it ever does.

We have lived in a predominantly competitive private enterprise capitalist economic environment since President Reagan took office. During this period from the late 1970s/early 1980s to the early 2000s, prosperity was the norm. The stock market in the U.S., for example, as represented by the Dow Jones Industrial Average rose from a low of below 800 in August of 1982 to a high above 14,000 in October of 2007. Even after allowing for inflation, this is an impressive record of appreciation.

To argue that this prosperity represented the ascendance of Republicans over Democrats or conservatives over liberals would be just plain wrong. Good economics knows no party label, nor for that matter does bad economics. It is true that President Reagan was a

Republican, but Democratic President Clinton was arguably on a par with President Reagan. From my perspective, it would be hard to make a positive case for either Republican President Bush the elder or his son. It's not the party that matters; it's the economics.

The successes of Lady Thatcher, Ronald Reagan, and their successors were not confined to the territorial boundaries of the U.K. and the U.S. This world has changed as has rarely been seen in history. The communist behemoth formerly known as the evil empire of the U.S.S.R. collapsed before our very eyes, giving birth to wildly expansive entrepreneurial capitalist nations in Eastern Europe. Even Communist China morphed into one of the fastest growing supply-side nations this planet has ever known. In China alone, more people have been removed from poverty rolls than has occurred from the first human on earth until 1980 all combined. That really is something to brag about.

And then there were the successes of India, Viet Nam, South Korea, Ireland, Singapore, Chile and Israel, to name a few. Admittedly, there were still way too many nations that never shared in our glorious quarter-century as they were stuck in the old ways of state-run economies. The images of Iran, North Korea, Zimbabwe and Cuba come to mind.

But with all these successes and seemingly unlimited prosperity came complacency, greed and jealousy. People seem to have forgotten what the world was like in the 1970s. They don't remember the inflation, high interest rates, high taxes, high unemployment, diminished wealth, and low self-esteem. And with their memory lapse, they have chosen to resort to the instrument of government to even the score with those who had been more successful than they. The politics of class warfare and the economics of redistribution once again have captured center stage and are being employed as weapons to transfer power to the state.

The response to the crisis has been a complete repudiation of the supply-side Thatcher/Reagan brand of economics that brought with it such incredible prosperity. In its place, our country is left with stimulus packages based purely upon Keynesian economics and multi-billion pound bailouts of financial firms such as Bear Stearns and AIG. Congress has effectively nationalized the mortgage industry, much of the banking and auto industries, and is poised to do the same for the health care industry. It truly is unlike anything we have seen since the 1970s. George Orwell's nightmare is coming true.

Government spending as a share of total output has risen to wartime levels and the national debt is what Bill Safire of the New York Times used to refer to as a MEGO number, where MEGO stands for "my eyes glaze over." And our official national debt numbers don't include huge increases in the unfunded liabilities of federal government programs such as Medicare, Medicaid, Social Security, Civil Service Retirement and Health Care, Military Retirement and Health Care, Pension Benefit Guarantee Corporation, and soon to be U.S. National Health Care. And this doesn't even include the unfunded liabilities of all the state and local governments. Maybe these modern day Merlins have discovered the tooth fairy or Father Christmas, but I wouldn't bet on it. Who ever heard of a poor man spending himself into prosperity? Not I.

Already tax rates are scheduled to increase on January 1st, 2011, but that will only be the beginning. With this year's deficit of $1.4 trillion and the existing national debt, it's hard not to imagine enormous additional tax increases just around the corner. And, if taxes on people who work are increased and government payments to people who don't work are raised, don't be surprised if the number of people not working increases. And if these fiscal monstrosities weren't enough, President Obama is aggressively pushing his health care reform and energy bills through Congress.

On the trade front, protectionism is becoming increasingly "de 'rigeur" in the United States. Undeterred by logic or experience, the United States is venturing further and further into the swamps of a trade war with anyone and everyone who supplies our country with high quality products at low cost. Tariffs, quotas and countervailing duties are popping up everywhere. The Obama administration believes that imports cost Americans jobs as opposed to the correct answer which is that imports provide foreigners with the income to buy U.S. exports.

President Obama had made his distaste for NAFTA and the Columbian Free Trade Agreement clear in the 2008 presidential race and has now imposed duties on a number of products coming from China and has stopped Mexican trucks from entering the United States. In his stimulus package are old time protectionist "Buy American" provisions. For my part, I've always thought that producers were there to serve consumers, not the reverse. In cliché form, "the buyer is always right" and other such phrases touched the core of truth. And in an international context, my question to protectionists is if you found a store that sold high quality products at low cost, is your first thought “how can I boycott that store?” I don’t think so.

When it comes to monetary policy, phrases such as “as good as gold” or “as sound as a dollar” appear to have disappeared from our lexicon. Over the past twelve months, the Federal Reserve has been printing money as if there were no tomorrow. Government always has a reason why it has to resort to the printing press, but the consequences are invariably higher inflation, a weaker currency, and higher interest rates. And so it will be this time as well.

Incomes policies are also going the wrong way on a one-way street. As conceived by us economists, incomes policies include all government economic policies that aren’t part of fiscal, monetary, or trade policies. Basically, incomes policies comprise all the indirect ways government can affect business and the economy. These include regulations, restrictions, requirements, minimum wage, wage and price controls, health care, trade union activities, restraints on trade, and the like.

The prospects for prosperity appear bleak indeed as a result of new government incomes policies. The Obama administration is unabashedly pro-union and anti-business and has been pushing legislation on something called “Card Check”, whereby unions can organize labor in non-unionized companies by requiring individual union members’ votes be made public for all to see. This makes union retribution extremely difficult to avoid. Union members and prospective members won’t be allowed the basic right of a secret ballot—pretty shocking.

In the United States the minimum legal wage companies are allowed to pay was raised by $2.10 an hour over the past two and one half years. As one might expect, the most vulnerable of our citizens are the ones truly hurt by such a policy, as they are in effect priced out of a job. While the increase in the minimum wage was passed and signed into law by the Bush administration, it has the full backing of the current administration. President Obama and the Democratic Congress are also pushing health care reform and cap and trade legislation, all of which would create a massive regulatory burden and increase taxes on U.S. firms and citizens dramatically. Additionally, government has stepped in with increasing calls for regulation of financial firms and caps on executives’ salaries. None of these is a positive for prosperity.

So given the policy outlook in the United States, you should now understand why I am worried about our economy—all of the policy dials are tilted away from pro-growth economics. As a sign for hope, let me just add two points. First, while it is true that the United States has taken a big move to the left, what has happened is typical of the political pendulum. We have seen swings like this before, and the pendulum has always swung back again to pro-growth, good economics. And secondly, even though these policy changes are extreme, they can be undone as quickly as they were done. Nationalized companies can be privatized, increased tax rates can be lowered, and excessive spending can be cut. Our country is extremely resilient and has withstood lots of hardship and deprivation and bounced back better than ever.

In times like these the key is staying alive. Don't tell me about the return on my capital, I'm most interested in the return *of* my capital. It is imperative to stay informed so that you can successfully navigate today's treacherous investment climate.

And Daniel Frishberg can help you do just that. He has an uncanny ability to sense inflection points in the market, and in the pages that follow he lays out much of his view on what makes markets move. I've come to know Daniel and his wife Elisea very well over these past few years. So before you jump in, let me tell you a little bit of what I know about Dan Frishberg. I'll start by going all the way back to Daniel's routes in America.

Dan's grandfathers (maternal and paternal) came over from Russia at the beginning of the 20^{th} century, generally to avoid the draft, which would have placed them both in the midst of the Czar's Army to fight the Russian Revolution. By the time Dan's maternal grandparents landed in America, there were restrictions already being placed on the immigrants who were coming to the United States to find jobs.

Dan's paternal grandfather became an author and educator. He refers to his grandfather as a pretty smart guy. Perhaps this was because Dan was somewhat the apple of his grandfather's eye. He took a particular interest in young Daniel, and allowed Dan to share in his own interest in 'the grand American lifestyle' which he believed was centered (and in fact had its roots) at the corner of Broad and Wall Street in New York. Before he was ten years old, Dan was tagging along with Grandpa down to the Stock Exchange. Much of what he does in his business and in his life today comes from the teachings of his grandfather in those early and very impressionable years of his life.

Continuing to frequent the exchange throughout his youth, Dan became familiar with the advantage held by the "specialists" in the exchangewhat we now call the "market makers" on the NASDAQ. At that level on the floor, you get to see the order flow. An ordinary investor or layman gets to see the transaction price. But the specialist not only sees the transactions, he sees the potential transactions . . . he sees the order flow. He knows if there are five buyers for every seller or vise-versa. He can see where the power is, and he's at great advantage to make money. Dan recognized this advantage, and still uses that knowledge today in his daily business of money management and investing.

After graduating from high school at the age of 16, Dan looked to the Marine Corps for his next bit of "real life education". His mom felt he could use some strong direction too, and signed the necessary documents for him to join up. He went to Okinawa and later he spent time on a carrier patrolling the South Pacific, and eventually he and a goodly number of his fellow Marines headed for Viet Nam. He was due to get out in 1965, and thanks to an acceptance for entry into Rockland Community College in New York, his military extension and near-return to Viet Nam was thwarted.

The commute from his home to college was about two hours each way every day in his mom's old Chevrolet, and that, plus classes, left little time for a social life. The payoff was that he became one of the top students in the New York Community College system, and New York University found him and offered him a full and free scholarship to attend.

After college, Dan held jobs in advertising, homebuilding, and health care, but all the while he actively followed and participated in the markets. At the age of 40, Daniel met his future wife, Elisea, who challenged him to put his skills to full use and share them with others. She saw that he was bright, articulate, and energetic. As for Elisea, she'd grown up in the Philippines and had not seen electricity until the age of 17. To say the least, they'd come from two different worlds.

And so, this 25 year old girl from the Philippines was the catalyst for the thought process that was then instilled in Dan Frishberg. He decided he'd begin sharing what he knew how to do with other people. At some point they were riding along in the car and Dan was complaining about something he'd just heard on the radio and how it didn't sound very smart to him. Elisea suggested he go on the radio himself, and do a better job. His first reaction was, "I don't know anything about being on the radio . . . but who knows? Maybe someday."

It wasn't long before Dan ended up back in the financial business. He went to work at Prudential Securities. Having learned the most interesting part of the money business on Wall Street, Dan was now learning what he felt was the most mundane part. But that little bit of conversation in the car that day about radio apparently sparked Dan somehow, because he ultimately ended up on the radio, doing a talk show (about money) in San Antonio. It was pretty much a first for the industry . . . there weren't a lot of financial shows on the air yet.

Since then the radio program has grown, as has the money management business Dan started on the side. This is where Dan began to see real opportunity. First, to grow his radio concept into something the likes of which had not been seen before. People who knew nothing about Wall Street didn't realize that they were learning about it, all the while being entertained by the people presenting the information to them. Ask Dan Frishberg what he's doing these days and he'll answer without hesitation, "I'm having the time of my life."

—Dr. Arthur Laffer

Acknowledgments

Dr. Arthur Laffer my mentor, teacher, and friend. You inspire me, and from you I learned what true greatness looks like. From you I gained the confidence to play in the big leagues. What you do is so unique, but you make it look so easy.

For your courage, your insight, your wisdom, and your singular contribution to the world, I am proud to call you my friend.

Sal Monistere.

For 20 years, you have dedicated a big part of your life to interpreting my thoughts and insights into Earth language. With your singular talent for communication in just about every medium, your ability to find an entertaining way to communicate any thought or idea, to bring order to chaos. I would hate to try to tell my story without you.

Prelude

My name is Sal Monistere. I came from radio. That's how I met Dan Frishberg, by the way; we bumped into each other in the hallway at a radio station about 15 years ago, and I've worked with him ever since. One day not long ago, he asked if I'd like to help him with a book project. Well, as his creative director, chief writer, editor, show announcer, and general producer for the past 15 years or so, I said, "Sure."

To be truthful, I don't think I've ever seen a book with a producer credit, but here I am. I've always told Dan that I thought the producer was the guy who would look at a performance, rub his chin knowingly, and say, "Well, what do you think?" At which point the associate producer would turn to him, rub his own chin (also knowingly), and say, "Gee, I don't know. What do *you* think?" In other words friends, this is Dan's book, and this is Dan's world—I'm just glad to be a part of it. And so as the producer, I only asked him if I could have a page or so here at the beginning because I want to make sure you're prepared for this.

I know. You're serious about this investing thing. And as a serious investor, you certainly don't have time to invest in a long barrage of verbiage from the guy who works behind the scenes. You're anxious to get to the part about the money. Fine. Just allow me if you will the minute or so it takes you to read the remainder of this little interjection before you get to the *real* beginning of the book. Because it's really, really important. And after that, I promise, no more delays.

Here's what we're going to do. The following is a rough transcription of Dan Frishberg's radio program; it was randomly selected and aired on April 8, 2009. It's combined with some of his personal notes for the show on that date. I just thought it would be good to include it here as an example of his work to prepare you for what you're about to discover in this book. You're about to discover the dynamics of Daniel Frishberg.

If you listen regularly (and adhere to his creed), you're probably reading this as you sit on a tranquil beach in some tropical haven, or are otherwise similarly enjoying the fruits of your investments. If on the other hand you've never heard his program, if you've never read his publications, you better hold on to your hat.

And one final note: Sometimes just looking over these scripts from Dan's shows can teach you an awful lot. We archive them all of course, so I've sort of sprinkled in a few more of them throughout the course of the book. Watch for them as they illustrate Dan's thinking and conversations with some real financial gurus.

OK, then, everybody ready? Fine, then cue Dan. Cue the intro music, and hit it—in three, two, one. . . .

Studio Light On: On the Air (*Quiet Please*)

Sal: (*Show Opening.*) "There's a billionaire locked inside you. The key to freedom is information, the kind of information you get right here on *The MoneyMan Report*. Here's Dan Frishberg!"

Dan: Good afternoon, *The MoneyMan Report* is on the air. Last time we talked I told you not to give up profits. Put tight stops on everything. (*We know the audience is dying to hold on to assets they bought a year ago, until they get even.*) Folks, this is suicide. The only thing that matters is the rally since March 9th. The rest of the equity is lost. It can only be retrieved through expert management, not patience, because there is nothing going on to suggest that the U.S. stock market will appreciate over the next several years. (*Don't forget notes from Closing Bell.*)

You don't hesitate about whether you should stop at a stop sign—a mistake can mean a huge collision. You have to always assume a Mack truck is barreling through. (*You just stopped at 100 of them and nobody was coming, but you still have to stop at the next one.*)

The people who are trying to tell you whether the current correction is real are the ones who didn't see the recession coming. Last year they told you the market was the buying opportunity of a lifetime, and the Fed and the U.S. Treasury didn't see it coming, either.

The only accurate strategic stock market decisions I see come from us. (C*redit here—our chief trader Karl Eggerss.*) How do we know so much? We do a MARKET X-RAY to measure underlying willingness to assume risk, or eagerness to reduce risk. And right now there's not enough information to tell us how deep the current pullback will be.

In other words, nobody knows how severe the current pullback will be, and the only choice is to treat it as though it'll be severe. You don't have to take losses because you're afraid to miss the upside later. When prices reach a point where they are too compelling to pass up, buyers will enter, and you can enter with them. Right now you don't have to know where that will be. Our research indicates that in the first few days of a rally the leading sectors are most likely to lead throughout that run. This time around it was China, base metals, consumer technology, platinum, and agribusiness. (*Add individual stocks below.*)

We understand enough to know that the stock market—on a risk-adjusted basis—is not the best use for your savings and does not deserve your loyalty. (*Analogy: You spend 20 years going in a straight line.*) They convince you that you don't need a steering wheel or brakes. Remember, you only have to get killed once to be a permanent loser! This is what happened to millions of people in our audience.

You've been taught to confuse saving with investing, and that's not right. (*Analogy: Saving is riding a train. Investing is flying a plane.*)

Investing takes skill and timing and economics; saving only takes repetition. Repetition is easy, it's done with memory cells. Investing requires brain cells and takes much more energy. (*Fewer people are good at it.*)

The fact is, you can excel at both flying and investing, but not if you don't stay awake, not if you don't learn how to steer *and land.* Landing is like selling your stocks. And not knowing how to land is what kills you.

(*Current short-term stock tip—just like last week*: *tight stops and sell decliners quickly.*) Don't be a hero and don't be a fortune teller. Remember this: You'll never find a 90-year-old who says, "I wish I had been more impatient." They generally say, "I wish I had been more patient, spent more time with my kids, and used dental floss."