THE GONE FISHIN' PORTFOLIO

Get Wise, Get Wealthy—and Get On with Your Life

ALEXANDER GREEN

WILEY

John Wiley & Sons, Inc.

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

Published simultaneously in Canada.

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Library of Congress Cataloging-in-Publication Data:

Green, Alexander, 1958-

The gone fishin' portfolio : get wise, get wealthy-- and get on with your life / Alexander Green.

p. cm.

Includes index.

ISBN 978-0-470-11267-0 (cloth)

1. Investments. 2. Portfolio management. 3. Finance, Personal. I. Title.

HG4521.G693 2008

332.6—dc22 2008017690

10 9 8 7 6 5 4 3 2 1

This book is dedicated to Judith and Braxton Green. If there is one thing I know how to do, it's pick the right parents.

If a man writes a book, let him set down only what he knows. I have guesses enough of my own.

Johann Wolfgang von Goethe

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FOREWORD

You have no idea what good hands you're in. I do . . .

You see, at this point I'm now one of the world's most widely read investment analysts. I'm not quite sure how I got here. I don't have a gimmick. I don't promise zillion-percent returns overnight. I think I'm here because I've given consistently good advice over my career.

One of the best pieces of advice I can give you today is this: Listen to Alex Green.

I know that Alex Green is better than I am at what I do. Darn it, the guy always has been.

I started out in the business as an investment advisor. Alex worked at the same firm. It was obvious why people trusted him with their life's savings, and why, too, he was in a league of his own.

You see, Alex has an extraordinary ability to see an investment idea before anyone else. And he combines that with another extraordinary ability—he can communicate complicated investment ideas in plain language.

Sometimes I'd sit in his office and just listen to him talk to his clients. I'd go back to my desk inspired and try to emulate him. But I couldn't come close.

I concluded that Alex's brain somehow works a hair quicker than even the smartest of us.

I've accomplished everything you can in the investment world. I've got a Ph.D. in this stuff, I've worked for a billion-dollar New York hedge fund, and I've literally traveled the world sizing up investments—going to places as extreme as Iceland and Ecuador, and discovering big opportunities. Today, hundreds of thousands of people rely on my investment advice. And I'm confident I'm good at what I do.

I know I'm smart. I know I make consistently good decisions. But my experience is, Alex Green is one step ahead of me.

How does he do it? I don't know. And it all looks so easy too . . . because it is for him. He just loves to soak everything up. But the nice thing about Alex is, none of this goes to his head.

This book, *The Gone Fishin' Portfolio*, is classic Alex. Since it's his first book, the temptation had to be great for him to dazzle you with all he knows. Instead, he took the opposite approach.

He clearly asked himself, "What is the simplest, most useful piece of investment advice I can share with a wide audience of investors?"

The answer is what you have in your hands right now.

In my view, most of the books in the investment section of your local bookstore are garbage. They're either too simplistic or too pie-in-the-sky. More often than not, you finish them and ask yourself, "Now what do I do?"

This book is different—and rare. It provides a simple but sophisticated strategy that actually works, written in plain language, by a brilliant investor.

And you won't wonder what to do. He tells you what to do, very specifically. He shows you exactly where to put your money and in what percentages. He also tells you what you need to do to keep your portfolio on track. It takes only a few minutes a year. What's not to like?

When I say you are in good hands with Alex Green, I'm saying it from deep down in my toes. I don't offer up praise lightly. But I have known him for over 15 years, and I can confidently say that Alex is as smart an investor as you'll ever find.

If you want to make more money safely from your investments, you really can't do better than Alex Green. Believe me; I've tried.

Dr. Steve Sjuggerud
Editor, *True Wealth*
April 24, 2008
St. Helier, New Jersey

PREFACE

In July 2001, I retired from the securities industry at the ripe old age of 43. After 16 years as an investment advisor, research analyst, and portfolio manager, I had gone from a net worth of approximately zero to financial independence.

I was now free to do whatever I wanted, wherever I wanted, with whomever I wanted. It's called total financial freedom. And I can tell you from experience, it's a great feeling.

Unfortunately, many of my clients had not become financially independent. This was not because I advised them poorly. As an investment advisor, I dealt with my clients honestly and gave them the best advice and service I could.

Yet, in many ways, they operated at a disadvantage. Some clients had a poor understanding of investment fundamentals. Others found it impossible to commit to a long-term investment plan. Many were simply too emotional about the markets, running to cash at the first hint of danger.

Contrarian instincts are rare, too, I learned. Few people are emotionally stirred by low stock prices. But I am one of them. Every time there was a correction, a crash, or financial panic, my

Scottish blood would surge, my pulse would rise, I'd rub my hands together, and start buying.

My clients often did just the opposite. They were more inclined to curse loudly, sleep little, and hurl epithets, some unrepeatable. Unfortunately, strong emotions like these are often a prelude to bad investment decisions.

Then there was the other small matter of my firm's fee schedule. Investment professionals don't get into the industry because the work is meaningful but low paying. You become a broker, a financial planner, an insurance agent, or a money manager to get rich. And most of us do, eventually. In truth, what you're paying your financial advisor is probably too much. Many investors aren't doing that well because their advisor is doing *too well.*

This story is as old as Wall Street itself. In his book *Where Are the Customers' Yachts?*, originally published in 1940, Fred Schwed Jr. tells the story of a visitor to New York who is taken to the harbor and shown the impressive yachts that belong to the bankers and brokers. A tad naive, the visitor asks, "but where are the customers' yachts?"

Where indeed.

I'm not suggesting this is all Wall Street's fault. Clients are rarely abducted and forced at gunpoint to sign account-opening forms. Nor can advisors make important investment decisions without their clients' consent (not without landing in the hoosegow, anyway). We all need to take responsibility for the decisions we've made, including the decision to delegate important responsibilities.

Since retiring from life as a registered investment advisor seven years ago, I've been busy living what I call "the second half of my life." I've been writing about the financial markets for Agora Publishing, the world's largest publisher of investment letters.

Currently, I am the investment director of The Oxford Club, the world's largest financial fellowship with over 70,000 members. I am also chairman of Investment U, an Internet-based investment research service with over 300,000 subscribers. (As a sideline, I also write *Spiritual Wealth,* a twice-weekly e-letter dedicated to ideas about how to live a richer, more meaningful life Feel free to check it out at SpiritualWealth.com. It's free.)

Frankly, being a writer instead of an investment advisor suits me better. I can give advice freely and no one who heeds it has to wonder whether my real motive is to earn fees or commissions or "capture their assets." I can write what I want about the market without a compliance officer scrutinizing my words. And my readers don't have to worry about the objectivity of my analysis. I have no business relationships with the companies I cover, no investment banking colleagues seeking customers for new bond issues or secondary offerings, no reason to tell anything but the plain truth as I see it.

I don't mind telling you that many of these truths I learned the hard way. You can save yourself a lot of trouble—not to mention a boatload of money—by learning from my experience. As I've told my regular readers, "I've made the dumb mistakes so you don't have to."

In the pages that follow, I'm going to share with you the best long-term investment strategy I know. I call it the Gone Fishin' Portfolio.

This portfolio will allow you to successfully manage your money yourself using a simple yet highly sophisticated strategy to increase your returns, reduce your investment risk, eliminate Wall Street's high fees, and keep the taxman at bay, too. The idea is simple: to "Get Wise, Get Wealthy—and Get On with Your Life."

In Part I, **Get Wise**, we'll examine the challenges you face as an investor. I'll review the fundamental relationship between risk and reward in the financial markets. You'll also get an insider's view of how the investment industry *really* works.

Get Wealthy, discussed in Part II, means understanding and, I hope, adopting the Gone Fishin' strategy. You'll learn why this is arguably the safest and simplest way to reach your long-term financial goals. I will also address the financial and psychological challenges you're likely to face in the years ahead.

Get On with Your Life, which we will discuss in Part III, means taking your financial destiny into your hands and, at the same time, reclaiming your most precious resource—your time.

Setting up the Gone Fishin' Portfolio is a snap. Maintaining it takes less than 20 minutes a year.

You may not believe you're qualified to manage your money yourself. If so, I beg to differ. Investing can be made endlessly complicated, or breathtakingly simple. If you're willing to keep things simple, you're perfectly qualified to manage your money yourself—and in a highly sophisticated way.

As an investor, your overriding goal is to achieve and maintain financial independence. Your savings are the fuel. The Gone Fishin' Portfolio is the vehicle to get you there.

Let's get started.

ACKNOWLEDGMENTS

Many of the lessons in this book came with a knock to the head. Still, I did learn. So I'm grateful for those who gave me that opportunity.

Diego Veitia hired me to become a registered representative back before I knew a stock from a bond. (Pity my early clients.) Without this initial opportunity, I may never have had a career in the financial markets. Thank you, Diego, for taking a chance on me.

I'd also like to thank Mark Skousen, a first-rate economist, author, lecturer, libertarian, and friend. He has taught me a lot about free minds and free markets.

It has also been my exceptional good fortune to work with Bill Bonner, Mark Ford, Julia Guth, and my other colleagues, mentors, and good friends at Agora Publishing. Agora is not only the world's largest publisher of investment letters, it is also one of the world's most entrepreneurial companies. What an amazing group of bright, creative, hard-working, (and loony), people.

Writing a book is a bigger project than I would have imagined when I undertook this one. I'd like to thank Mike Ward for nudging me (nagging, really) to take this road. I'd also like to thank

Matt Weinschenk and Bob Williams for their many hours of help, research, and support in the shaping and editing of this book.

Thanks, too, to my publishers and editors at John Wiley & Sons, including Debra Englander and Kelly O'Connor, who reviewed the manuscript and recommended many important changes and clarifications.

I want to express my love and appreciation to my wife Karen, daughter Hannah, and son David, who often asked, "Where's Dad?" during the writing process. Without their patience and support, this book would never have been written.

Lastly, I would like to thank all my regular readers at The Oxford Club, Investment U, and *Spiritual Wealth,* as well as anyone taking the time to read this book.

Carpe Diem.

ALEX GREEN

PART I

Get Wise

Introduction

As an investment analyst, I speak frequently at investment conferences across the United States and around the world.

The attendees come for a number of different reasons. Some want to gain some insights on interest rates, the dollar, or the stock market. Others are seeking a new investment strategy. Still others are looking for good investment ideas or, as one gentleman insisted, "just one great stock."

But before you can put your money to work effectively, you need something even more fundamental to your success: a philosophy of investing.

In her book *Philosophy: Who Needs It,* Ayn Rand argues that all of us have a philosophy of life, whether we know it or not. "Your only choice," she writes, "is whether you define your philosophy by a conscious, rational, disciplined process of thought . . . or let your subconscious accumulate a junk heap of unwarranted conclusions . . . "

What's true of life is also true of investing.

Over the past two decades, I've dealt with thousands of individual investors, some highly astute, some rank novices. Many had only the foggiest notion of what they were trying to achieve—or how. In some ways this is understandable. World financial markets are complex and the investment process can be daunting.

Beginners often don't understand the fundamentals of saving and investing. And even more experienced investors are often stymied by the complexities and technical jargon surrounding the investment process. Many try (and inevitably fail) to outguess the markets—or simply wave the white flag and turn their portfolio over to "that nice young man down at Merrill Lynch."

Big mistake.

No one cares more about your money than you do. With a basic understanding of the investment process and a bit of discipline, you're perfectly capable of managing your own money, even your "serious money." *Especially* your serious money. By managing your own money, you'll be able to earn higher returns and save many thousands of dollars in investment costs over your lifetime.

The Gone Fishin' Portfolio rests on a powerful philosophy of investing. It's battle-tested. It's built on the most advanced—and realistic—theories of money management. And it works.

Moreover, this book does something that virtually no other investment guide does. I'm going to show you—very specifically—where you should put your money. And then I'm going to show you how to manage it year after year.

Once you've set up your portfolio, the whole process will take less than 20 minutes a year to implement. This may sound like an audacious claim. But, as you'll soon see, the strategy itself is steeped in humility.

It is based on the only realistic premise for an investment philosophy—that, to a great extent, the future is unknowable. So don't expect me to draw on my gift of prophecy and tell you what's going to happen to the economy, interest rates, the dollar, or world stock markets. (No one is more surprised than me how the market action unfolds each year.) Nor will we ignore uncertainty or pretend we have a system that has eliminated it. Instead, we're going to use uncertainty and make it our friend. In short, we're going to capitalize on it.

Investing is serious business. Getting it right is the difference between a retirement spent in comfort (or luxury) and spending your golden years counting nickels, worrying whether you'll have enough. The difference could hardly be starker.

Up until now, you may have been tempted to turn your investment portfolio over to someone else to manage. After all, your financial security is paramount. You may not think you can take the risk—or handle the responsibility—of running your money yourself. I fully intend to disabuse you of that notion. I also want to point out that there are serious risks to turning your money over to someone else. That person may manage it poorly. Or be terribly expensive. Or both.

If you're skeptical on this point, it may be that you've bought the story that Wall Street is selling: Investing is so complicated—or your personal circumstances so exceptional—that you should not be trusted to run your own money.

I'll concede that if you don't know what the heck you're doing, this is absolutely true. But one solution is learning what to do, rather than turning your financial welfare over to someone else.

When it comes to managing your money, there are plenty of potential pitfalls out there. However, those investors who wind up in retirement with less money than they need have generally fallen prey to one of four basic mistakes:

1. *They were too conservative,* so their portfolio didn't grow enough to begin generating the income required to meet their spending requirements.
2. *They were too aggressive,* so a significant percentage of their portfolio went up in flames along the way.
3. *They tried—and failed—to time the market.* Confident that they would be in for market rallies and out for market corrections, they ended up doing just the opposite much of the time.
4. *They delegated unwisely*. They turned their financial affairs over to a broker, insurance agent, or financial planner who—over time—converted a substantial amount of their assets into his assets. In addition, the advisor may have been too conservative, too aggressive, or tried and failed to time the market.

If your nest egg is lying in pieces late in life, you generally don't have the opportunity—or the time—to build another one. The consequences, both personal and financial, can be devastating.

Planning your financial future is a momentous responsibility. Although *The Gone Fishin' Portfolio* has a light-hearted name, it enables you to handle your serious money—the money you need to live on in retirement—in a serious way.

There are few guarantees in the world of investing. In fact, once you get beyond the risk-free world of Treasuries and certificates of deposit, there are virtually none. However, the Gone Fishin' Portfolio eliminates six major investment risks:

1. It keeps you from being so conservative that your long-term purchasing power fails to keep up with inflation.
2. It prevents you from handling your money recklessly.
3. It does not require you to own any individual stocks or bonds. So a single security—think Worldcom or Enron—cannot cause your portfolio to crater.
4. It does not require a broker, financial consultant, or anyone else to attach himself to your portfolio like a barnacle, siphoning off fees every year.
5. It doesn't require you—or any investment "expert"—to forecast the economy, predict the market, or analyze competing economic theories about the future.
6. Perhaps most importantly, it guarantees that your time will be your own. Rather than spending countless hours evaluating stocks, market trends, or fund managers, you'll spend your time as you please. While others struggle to manage their money effectively, you'll have "gone fishin'."

This last point means that instead of spending countless hours fretting over your investment portfolio, you'll be able to relax, . . . play golf . . . travel the world . . . spend more time with your kids or grandkids . . . or just swing on a hammock in the shade with a glass of ice-cold lemonade. Because your investments will be on autopilot.

This is not just a strategy for today's markets, incidentally. The Gone Fishin' Portfolio is designed to prosper—and generate peace of mind—through all market environments. And I invite you to be skeptical. In fact, let me begin by asking you a question:

> If I could show you a way to manage your money yourself, using a strategy that is as powerful and effective as any used by the nation's top institutions, that will allow you to outperform the vast majority of investment professionals, pay nothing in sales charges, brokerage fees, or commissions, that will take less than 20 minutes a year to implement, and is based on an investment strategy so sophisticated it won the Nobel Prize in economics, would you be interested?

I hope so. That, in a nutshell, is the Gone Fishin' Portfolio. It's about handling the money you intend to retire on simply, effectively, and cost-efficiently, with the absolute minimum of time and attention.

If you're like most people I know, you have better things to do than watch your stocks bounce up and down all day.

Don't get me wrong. I'm not averse to trading stocks, myself. (Long-term investing and short-term trading are not mutually exclusive.) But short-term trading strategies are beyond the scope of this book. Instead of focusing on trading or speculating, we're going to focus here on the money you intend to retire on—and perhaps ultimately leave to your kids, your grandkids, or your favorite charity. This is money that shouldn't be treated like chips in a poker game.

Reaching financial independence is a serious goal, one that should be pursued in a disciplined, rigorous way.

That's why I recommend that you make the Gone Fishin' Portfolio the core of your long-term investment program. The philosophy behind it is based on the best investment thinking available. It has been tested in various economic conditions. It increases your returns while reducing your risk. And it minimizes your investment costs and annual capital gains taxes.

Best of all, it works. Investors who have put their money to work this way have enjoyed years of market-beating returns while taking less risk than being fully invested in stocks.

Now it's your turn.