

Colin Nicholson: Newsletter 89

21 June 2009

Hear Me Speak in Gold Coast

Wednesday 29 July 2009

AIA Conference

10.30 to 11.30

Share selection 1 - What to look for and why

Before starting out on our investment journey, we must know where we are intending to go. I will explain my models for finding stocks with high potential, but with an all-important margin of safety.

11.30 to 12.30

Share selection 2 - How to find and assess good stocks

I will then demonstrate how to search for good candidates using charts and fundamentals. Having found a list of candidates, I will show how to sort the gems from the rubbish.

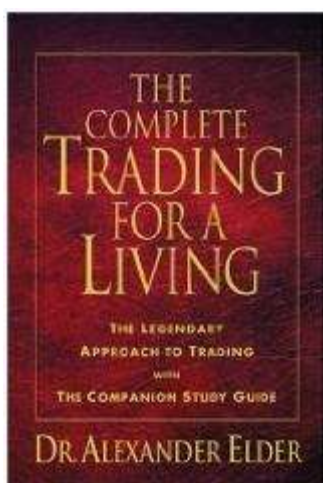
Further information on the conference: <http://www.investors.asn.au/G700GoldConf.asp>

Further Speaking Engagements

I have now posted the dates and the available details for my 2009 speaking engagements on the *Hear Colin Speak* page on www.bwts.com.au.

Special Offer

Dr Alexander Elder has kindly allowed the extension of the offer below for my readers. This extension will allow readers to make the purchase in this or next financial year as suits their tax situation. Please note that this offer has an expiry date.



The Complete Trading for a Living: The Legendary Approach to Trading with the Companion Study Guide by Dr Alexander Elder

The bestselling trading book of all time is now bound with the companion Study Guide in a handsome leatherette edition no trader should be without.

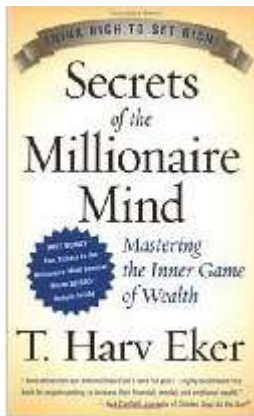
Dr. Elder's revolutionary Trading for a Living has won international acclaim and helped hundreds of thousands of traders bring their skills to new levels. The accompanying Study Guide for Trading for a Living adds more than 200 questions, charts, and assessments that pinpoint the reader's strengths and weaknesses as a trader, and helps measure improvement and growth.

For a limited time Dr Elder offers you this special edition for **only US\$33**. **This offer will expire July 10, 2009**. The book can be autographed to you or a friend. Please click here to order - <http://shop.elder.com/shopexd.asp?id=245> **IMPORTANT: After June 21, the price shown on Dr Elder's website will revert to US\$47. This is because Dr Elder has extended the deadline only for my readers. You will need to type into the comments box that you are one of my readers. While the form will show US\$47, all charges will be done manually and properly discounted. Postage is an additional US\$15.**

This offer is advertised as a service to readers – I receive no payment from Dr Elder.

During April and May, my wife and I travelled overseas. I find that travel provides a wonderful opportunity to be away from day-to-day detail and to have time to read some of the many books which I hope will improve my investing skills. In this newsletter, I will review some of the books I have been reading.

Book Review: *Secrets of the Millionaire Mind* by T Harv Eker



This is not a book that I would normally buy and read. However, it was recommended by two personal friends who I visited while in New York. It had also been highly recommended in the New York Times, Wall Street Journal and USA Today. I decided to look into it. I was glad that I had done so. I am normally happy to gain one new idea out of a book to justify its cost. I was more than rewarded for the cost and time devoted to this book.

Harv Eker is known to be an inspiring speaker and his book is very easy to read. *Secrets of the Millionaire Mind* is sub-titled *Mastering the Inner Game of Wealth*. This accurately summarises the whole thrust of the book, which is that it is not what we know, or who we know, that determines how much wealth we will accumulate. Rather, it is how we think that drives everything to do with building and keeping our wealth. In this respect, Eker's prime thesis is very close to my ideas that investing results are not only driven by what we know but also by the quality of our decision-making skills. In other words, the best investors think differently to the way beginners think.

The book is divided into two parts.

Part One: Your Money Blueprint

This part begins with the assertion that "... your character, your thinking and your beliefs are a critical part of what determines the level of your success." Eker defines what he means by your money and success blueprint to the point where he boasts that being with someone for five minutes is enough for him to predict that person's financial situation from now until they die. In other words, if we do not have the right blueprint, we will not become wealthy and, if we were to come into some wealth through luck, we will not have the blueprint necessary to hang on to it. This is a variation on the commonly-known fact that most lottery winners end up just as poor as they were when they won the first prize within only a few years.

A critical concept here is that wealth is a result. So, if we say that our problem is that we do not have enough money, we are stating the issue wrongly. Lack of money is not the problem it is the result of another deeper problem. That deeper problem is inside us. It is the way we think that is causing the lack of money.

The obvious question that flows from this is: how do we change the way we think? As always, being aware of the problem is the first step. The second step is to make conscious declarations to change aspects of our thinking that is limiting us in our ability to create and keep wealth. A declaration is a decision to take some action with respect to an aspect of the way we think.

Everybody has a money blueprint. We have this blueprint from the way we have been conditioned through all life experiences from birth to the present. These influences fall under some key headings: verbal programming, modelling and specific incidents. This programming process is largely unconscious. As I read his material lots of lights came on in my mind that

told me he was describing the ways that I had been programmed by my life experiences to date.

Eker has written this book and designed his teaching programs around helping us to become aware of our blueprint. Then, if we are unhappy with our results, he provides strategies for changing or reprogramming our blueprint. The central idea here is that “Nothing has meaning except for the meaning you give it.” Once this is understood, it is possible to design and undertake a program to change the meaning we give to the influences which have shaped our money blueprint.

Of course, everything is not in the book. In some senses the book is an introduction for his courses. Nevertheless, I found some very valuable insights in it. Having read the book, each of us can then decide whether to take one of Eker’s courses. The important thing is that the book has provided real value and pointed the way to change.

Part Two: The Wealth Files

If Eker had only written part one of his book, it may have been of far less value. However, the second part of the book is the larger part. In it, Eker discusses in separate chapters seventeen ways that rich people think and act differently from poor people and middle class people. I found this part of the book very valuable and it has already changed one or two of the ways I think. I am still working on some of the other wealth files.

Please help me to keep newsletters coming to you. If you change your email address, please update the website yourself at the newsletters page or at <http://www.bwts.com.au/subscription.cfm>, or email me to make the change for you. My policy is to delete email addresses after three consecutive bounce messages. If you no longer wish to receive newsletters, please use the above link to unsubscribe from the list.

For me one of the most revealing and important of the wealth files was the first one: Rich people believe “I create my life”. Poor people believe “Life happens to me.” In the discussion, Eker introduces us to the three obvious clues left behind by these poor people who are playing the role of victim: They blame everything and everybody but themselves; they constantly justify or rationalise their situation; they complain endlessly about what is wrong in their lives.

Eker makes the interesting observation that when someone says that money is not that important to them (rationalising), you can bet they are broke. Further, Eker claims that he tries to distance himself physically from the “life happens to me” crowd as quickly as possible, lest they infect him. Those who stay around this crowd tend to be just waiting for their turn to blame, rationalise and complain. Instead Eker advocates taking responsibility for our situation and going about changing our ways of thinking and acting so that we attract wealth rather than repelling it.

Some other wealth files which appealed to me include:

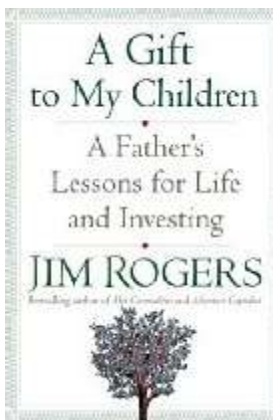
- Rich people play the money game to win. Poor people play the money game to NOT lose.
- Rich people focus on opportunities. Poor people focus on obstacles.

- Rich people associate with positive, successful people. Poor people associate with negative or unsuccessful people.
- And this one is special: Rich people choose to get paid based on results. Poor people choose to get paid based on time.
- Rich people focus on their net worth. Poor people focus on their working income.
- Rich people act in spite of fear. Poor people let fear stop them.
- Finally, one of my favourites: Rich people constantly learn and grow. Poor people think they already know.

This book so impressed me, and taking a cue from the last point above, that I plan to keep it by me and to try to read one of the wealth files every day when I have a little time to reflect on how I might change how I think and act. In time all seventeen wealth files will become an integral and instinctive aspect of how I think about everything in life.

Slides from my Presentations

For some time I have had a Presentations page on the free section of my website www.bwts.com.au. However, I had not been using it for some time for legal reasons. I have now done some work on the members' only (paid) section of the website where all my copyright work is available behind a disclaimer entry page. I have now moved the Presentations page to the members' only section and already uploaded the slides files for the presentations that I have done so far in 2009. Over time I am intending that this page will become a valuable resource for members of my website who are unable to attend the presentations. To find the Presentations page, log in to www.bwts.com.au as a member and click on Presentations on the menu down the left of the page. It may be necessary to scroll down to the members' only section of the menu, depending on the screen resolution and browser being used.



Book Review: *A Gift to My Children* by Jim Rogers

I picked this book up on a new releases table in Borders in New York. Jim Rogers should be well known to readers. He co-founded the Quantum Fund before he turned thirty and retired at age thirty-seven. Since then, he has travelled the world twice, one trip being totally by motorcycle. He has also served as a sometime professor of finance at Columbia University's business school and as a media commentator worldwide. His previous books are *A Bull in China*, *Hot Commodities*, *Adventure Capitalist* and *Investment Biker*.

This little book is only 85 pages. However, there is a great deal of wisdom within those pages. Rogers wrote the book for his two daughters and sub-titled it "A Father's Lessons for Life and Investing". In the Preface, Rogers makes a big claim when he says that the book is "about the larger lessons that I have distilled from my life experiences – lessons that I think investors young and old will in some ways find more useful than anything I have written before". After reading his little book, I feel that his claim is not without substance.

Chapter one begins the book by challenging us to “Swim Your Own Races: Do Not Let Others Do Your Thinking for You”. He advocates strongly that we should question everything and we should rely on our own intelligence. Rogers is a research freak in that he uncovered every piece of information about a situation before making decisions and learned to rely on his own judgement rather than the views of others. Indeed, he goes further and suggests that “if anybody laughs at your idea, view it as a sign of potential success.” Of course, to rely on an uninformed view is foolhardy and arrogant. However, if we have done the research and thinking in coming up with our view, we may well have a better founded idea than those who spout traditional dogma without considering that circumstances may be different. So, Rogers exhorts us to “be who we are” and “To be original and bold.” Nevertheless, he also exhorts us to be ethical and to save rather than spending money foolishly.

In chapter three, Rogers focuses on something very important that many of us have perhaps forgotten. This that attention to details is what can separate success from failure. This is of great importance in investing where I frequently encounter people who seem amazed that their investments do poorly. Yet the most superficial research would suggest that something was not as it should have been. In this regard, I had in interesting confrontation during the rampant speculation phase of the last bull market. The investor in question believed fervently that there was no need to know anything about what a company was or even what industry it was in. For that investor, the chart and the ASX stock code were all that was needed. Of course, as Buffett says, when the tide goes out, we learn who was swimming naked. If we want to succeed as investors, we need to do the research work before committing money to an idea.

Stock Case Studies

I have added a new page to the members’ only (paid) section of the website. As I deem necessary from time to time I will update existing case studies and add new case studies to this page. The intent of this page is to teach investment skills by example. They are not recommendations for you to buy or sell the stocks concerned. To find the Stock Case Studies page, log in as a member and click on Stock Case Studies on the menu down the left of the page. It may be necessary to scroll down to the members’ only section of the menu, depending on the screen resolution and browser being used.

In chapter four, Rogers examines common sense. He advocates that we should use our own native intelligence and think for ourselves rather than blindly following the crowd. We should never forget that the crowd is often right, but never at the turning points. Again, Rogers implores us never to accept anything on face value, no matter how many people believe it. In fact, my experience has been that when everyone seems to believe something is the only true faith, it is usually an unfounded belief. The best investment decisions often mean that we have to do the research thoroughly and think for ourselves. Most often we will then find that we have to go against the overwhelming view. Never is this more important than at tops and bottoms of the stock market cycles.

The worst thing we can do is to believe that what is in the media must be correct. The media is like a mirror. It reflects what the crowd is thinking. If something happens in the market, the media looks to report the reason it is happening. Anything will do to explain the unexplainable. Have you ever read in the media that the market was up or down yesterday, but it was only a normal random fluctuation? No, that does not sell advertising. Instead the

journalist must find some story that grabs attention. The veracity of the story is not always as important as having some story to tell.

A substantial chapter of the book focuses on the need to be aware of the world outside our own country. It is easy for us to accuse Americans of being insular in their views, as some kind of way of implying that we are not also insular. Rogers advises us to travel widely and to embrace differences. If you think you do not need this advice then be certain that you do.

In chapter six Rogers returns to the theme that we need to learn to think. He suggests that we study philosophy as a means to improve our thinking skills. Above all he wants his children to learn to think for themselves, just as he did. He gives a simple example of the two ways of thinking – drawing conclusions from observations and drawing inferences from logical analysis. He completes the chapter by reiterating the great opportunities in investment that can come from thinking for ourselves in wild bull and panic bear markets.

A brief discussion on the need to learn history is followed by his primary theme that this is the century of China. Indeed, he has moved his family to Asia to give them a head start in being familiar with what he sees as the future. These chapters are well worth pondering when reading the book and repeatedly over the next few decades as the development of Asia continues before our eyes.

Chapter 10 focuses on the need to know ourselves. No matter how good our analysis of the world around us, if we do not know who and what we are, we cannot become good investors. This is where he moves into what I regard as the last frontier in the development of good investors – psychology. First, we learn analysis, then money management. Yet still we can be unhappy with our results. This is often because we have not learned to understand and deal with the psychology of crowds and, even more importantly, our own psychology. Every one of us is a mass of unconscious biases, which mean that we make poor decisions. For me, this was the last frontier and I am still working on it myself. I am trying to master the skills of decision-making. Looking around me, I find most investors are in denial about this. However, I know it is just a matter of time. The ones who become the best investors will one day arrive at the realisation that the final piece in the jigsaw is to know ourselves and to develop superior decision-making skills.

Chapter 11 deals with change – the need to recognise that everything is constantly changing and the best investors see that and embrace it by looking for the opportunities it will throw up for the thinking investor. This discussion extends into chapter 12 where some of his thoughts include the transitory nature of the nation state. Beyond that he advises us to be careful not to cling to dying industries, countries or languages. Further, he cautions us that the women's era is dawning and that we should pay attention to things that everyone else seems to be neglecting. One brief section is headed "the more certain something is, the less likely it is to be profitable. This is fundamental to investing.

If you doubt how change can creep up on us, consider the list of the top 20 companies by size listed on the ASX in 1979 shown below. How many are still listed?

BHP	Western Mining	AGC
CRA	CSR (no longer in top 20)	Woodside
MIM	ANZ	Dalgety
Hamersley	CJ Coles	North Broken Hill
Bank of NSW (Westpac)	Myer Emporium	Howard Smith
Bougainville	ICI	Utah Mining
Comalco	National Bank	

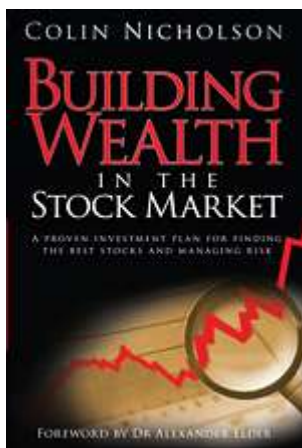
The ones in bold type have gone in the last 30 years. So, only six remain and one of them is no longer a top 20 company. Change is the only constant.

Then Rogers turns his attention to wishful thinking. Never be carried away with what you hope will happen, rather than check the facts and draw conclusions separate from the mob view. This is advice from the true contrarian thinker, who made his own fortune doing exactly that. Above all he cautions us that we need to know when it is best not to do anything. This is when we have been successful and think we know it all. This is our most vulnerable moment, when following the crowd or trying to repeat tactics that worked in the past in possibly changing situations can bring us undone.

Rogers has written a short book, which page for page is quite costly to buy. I am glad I bought it and will read it more than once when I need to step back and think about what I am doing.

Building Wealth in the Stock Market

My new book *Building Wealth in the Stock Market*, presented handsomely in a hardback format, is available for purchase directly from me postage free to Australian addresses.



I sign all copies of the book which are purchased directly from me.

Building Wealth in the Stock Market replaces *The Aggressive Investor*. Most of my basic method has not changed over many years. However, since I wrote *The Aggressive Investor*, I have refined a few things, notably how I view charts in the right time frame, my maximum risk per stock and my focus on an additional financial ratio. While these things are minor in some respects, they have improved what I do. In addition, I revised the way ideas were presented throughout the book. Of most significance, there are completely new and later case studies, plus examples that were not printed in the original book.

For a complete description of the book see <http://www.bwts.com.au/text.cfm?55>

Price: A\$65.00 including GST (Australia only). Postage free to Australian addresses. This price applies only to online orders and mail orders on a credit or debit card. Telephone orders and mail orders paid by cheque or money order attract a surcharge of \$5.00 for handling. On-line ordering on my secure website is perfectly safe and the cheapest way to buy the book from me.

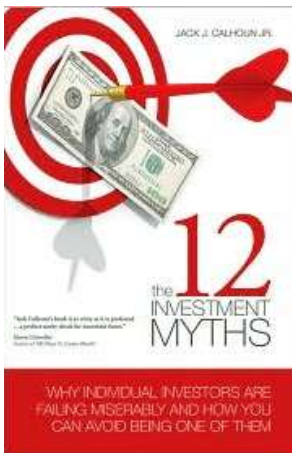
Book Review: *The 12 Investment Myths* by Jack J Calhoun JR

Jack Calhoun is the managing principal of Capital Directions LLC, one of Atlanta's (USA) oldest and largest fee-only investment advisers. His book is self-serving in the sense that he articulates an investment strategy which his firm provides.

However, there is a real benefit for investors in reading this book: The myths are important for us to understand. Even if we do not totally accept them, we should be aware of his views and have thought deeply about them in relation to our own investment plans.

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Calhoun opens his book by showing that the average investor in managed funds in the US earned only 4.5% per year between 1987 and 2007. Yet the S&P 500 index returned 11.8% in that same period.

Calhoun puts this down to a “lack of awareness and appreciation for the role of emotion in investing”. Underlying this are the twelve investment myths that the book discusses in detail.

His solution is adherence to the principles which underlie successful investing. In short, Calhoun advocates his firm’s strategy which is to investing in widely diversified portfolios and staying the course through the stock market cycles. In other words, a passive investment approach based on a widely spread international portfolio of stocks.

So, what are the fallacies that he sees as causing this general investor failure?

Myth 1: A savvy investor should be able to beat the market. In other words, there are gurus or fund managers out there who can beat the market. The problem is that the market return beats over 80% of active fund managers. So, Calhoun sees the issue as trying to achieve the wrong result. Instead of seeking fruitlessly to **beat** the market, smart investors should be **using** the market to beat most fund managers.

Myth 2: Brokerage firms are built on a client service model. In other words, the broker is on the side of the client. If you believe this then you are living in fairyland. Brokers are salesman. Their model is what Calhoun calls “product-distribution”. Brokers are rewarded for distributing stocks to customers. They therefore have a basic conflict of interest. The solution to this, which Calhoun propounds, is to find an independent fee-only adviser, who cannot accept commissions and acts as a fiduciary for clients.

Myth 3: It’s all about performance. This is one of the more powerful myths in the book. Almost everyone believes it. They chase the funds with the recent hot performance record. However, history shows that all outperformance is followed by reversion to the mean. “Investors who chase returns usually miss the run-up and arrive just in time for the downturn.” I hear about this all the time in our market. Instead of pursuing Calhoun’s strategy of selecting funds with low levels of sales commissions, expense ratios and trading, the typical investor chases the fund which performed best last year. The trap is simple, past performance is usually inversely related to future performance. Since we invest for future returns, why focus on the past. It is better to focus on the funds with the greatest efficiency in terms of cost.

Myth 4: Activity is good. The argument here is that actually “activity in a portfolio is usually detrimental” and leads to investors missing the market return by a wide margin. This relies on the idea that the best days in the market come unexpectedly and if investors miss them, their return is damaged severely. Calhoun sums up this discussion with the proposition that the only justifiable changes to a portfolio are rebalancing, reallocating and tax-loss harvesting. My comment: This sits oddly with the breakout box on page 7 above. It is difficult to sit for long in a constant portfolio because there are constant changes in stocks due to the process often termed creative destruction.

Myth 5: Investors do all right for themselves. Here Calhoun relies on cognitive dissonance, the well known tendency for all of us to recall vividly the successes and to unconsciously block recall of the failures.

My comment: I could not agree more. In my experience almost all private investors do not measure and therefore know their true rate of return. You don't believe me? Just ask them. I suspect that part of this is ignorance about how to do it. It is combined with laziness and even a desire not to bring themselves face to face with their poor performance. Show me investors who rigorously track their performance against the market and against their target return and I will show you a skilled investor. If readers take nothing else away from this newsletter, it should be a resolution to keep good records and to constantly track their return. I track my return daily against the market. Can you say the same thing?

What I have suggested is just what Calhoun outlines for dealing with this myth: a discipline to follow a sound plan relentlessly and a conscious tracking of our real net return. If readers find this all too difficult, they should either pay someone to do it for them at least monthly, or find an advisor to manage their investments and report regularly on returns.

Myth 6: The media is a good source of investment advice. Calhoun used to be a journalist as a young graduate. He knows the inside story. His editor once put it to him this way: "Journalists ... are a mile wide and an inch deep". So, it is important to understand that the media is not there to give us investment advice. It is there to sell their publications. They make the headlines and stories as interesting and dramatic as possible to get us to buy and read. Calhoun suggests that we should ignore all of this and focus on only reading the in-depth articles written by people who have really deep knowledge and experience. There are very few of these and their subject matter is not always the most exciting to read.

I have been giving the same advice for years in another way: Avoid stories about market movements and what look like recommendations. If you come across a story about a stock, look at the five-year chart first. If it is not trending up, don't waste effort reading the article. In general, read only for facts and think about the facts on the way to forming your own conclusion. Read in depth only the long and unexciting pieces that most people never read. Seek your excitement and entertainment quite separately from the management of your investments.

Market Case Studies

I have added a new page to the members' only (paid) section of my website. As I deem necessary from time to time I will add case studies to this page. The intent of this page is to teach investment skills by example. They are not recommendations for you to buy or sell the stocks concerned. To find the Market Case Studies page, log in as a member and click on Market Case Studies on the menu down the left of the page. It may be necessary to scroll down to the members' only section of the menu, depending on the screen resolution and browser being used.

Myth 7: Invest [passively] in good companies. This one will shock most readers. It certainly caused me to do a lot of thinking. Calhoun's proposition is that in the twentieth century this method worked fairly well. However, he thinks that the situation has changed. Markets are now far more volatile and even the best companies can experience sudden and severe price falls due to unforeseen short term problems. The last couple of years have seen passive investors experience large paper losses, even though they held only sound companies. When we look more closely at their portfolios, they are too focussed in less than

thirty significant holdings. Often, too there is a lack of sector diversification. Almost universally there is a lack of international diversification. Calhoun's view here is that investing in good companies is about the wrong objective. It is seeking outperformance. His approach is the opposite – seeking to minimise downside risk. This can only come, in his opinion, from wide diversification. So, if we lack the capital to diversify widely, we should use fund managers to achieve it.

Some readers are going to be tempted to email me now and say: “but, Colin, your own plan is highly concentrated in a few stocks.” This is true. My defence is that I know that and it is one of the really aggressive parts of my investment plan. It is why other parts of my plan are highly defensive. In addition, I have established a track record that I can beat the market. Maybe I have been just lucky, of that I am intensely aware. It is one of the reasons why I track my performance so closely. It is also why, for many years I followed my own advice. I managed some of my capital myself, but left a significant amount with fund managers as a control. It was only when I continued to beat the professionals that I took all my capital under my own management. Should I cease to beat the market as I get older, I will change my strategy and seek the market return that I am not getting with my own methods.

I know this will surprise many readers. What I have tried to deal with here is one of the most powerful of the unconscious biases in the way we all think. We are all hugely overconfident of our ability. When we poll people about their ability in any area, including investing skill, most people think that they are above average. However, that cannot be. It is simply silly to say that I am above average but the rest of you, who think the same, must be wrong. We should recognise that it is probably us who are wrong.

My prescription for all beginners is this: manage no more than 10% of your capital yourself. Leave the rest with professionals or index funds. As you demonstrate SEVERAL YEARS of above market returns INCLUDING THROUGH A BEAR MARKET, cautiously increase the proportion you manage yourself. Remember it will take at least ten years to reach this point and probably longer. Implied is that you accurately measure your net returns.

If this all seems to be too difficult, adopt Calhoun's solution and use an advisor to construct a widely diversified portfolio, including some part of it internationally.

Myth 8: Investing is exciting. Here I am perfectly in tune with Calhoun: “... *successful* investing is boring.” This is because so many investors do not understand “the difference between *speculating* and *investing*.” Investing is generally about making a sound plan and carrying it out in all market conditions. There is a complete absence of “action”. If investors are managing their capital for the excitement of action in the markets, they are a danger to their own financial health. Seek all the excitement you need somewhere else where it will not harm your wealth. Calhoun suggests that investors should quietly sit on a passive diversified portfolio and let compound interest work for them.

“If you want ... to get rich quickly, then you will never get rich; but if you want to get rich without respect to time, then you will get rich quickly. ... You have to have a real love of work. Without that, nothing can be accomplished.” Nikolay Gogol *Dead Souls*

Myth 9: All risk is the same. Here Calhoun explains the difference between “good risk” and “bad risk”. Good risk he defines as market risk. He sees it thus because stocks yield a higher return long term than bonds and it is this return which we should seek. He sees everything

else as bad risk – which comes from insufficient diversification and active management of portfolios. His solution is obvious: spread “your portfolio across a wide variety of asset classes and investment styles”, such that we take the level of market risk that we can tolerate, or need to take in pursuit of our required living standard in retirement.

Myth 10: The end is near – so why invest? This one centres on fear and availability bias. Disasters are so much more real than good events. We recall disasters vividly and way out of proportion. Good outcomes over the long haul simply do not register much in our consciousness. Much of this sensitivity to bad news is due to the widespread availability of news. We are brought face to face with disasters in real time and then the images are replayed over and over until they seem to be burned into our brain. The opposite happens with good news. It simply does not sell. This is why when September 11 happened, I suggested we turn off the TV in order to focus on a balanced view and avoid having fear branded into our minds. It is in a newsletter I wrote at the time and it is still on my website.

Calhoun’s answer here is simple enough. Focus on the long term progress of mankind. See how we always overcome setbacks in the long term. Therefore, investing in a diversified long term portfolio across numerous economies should give us a reliable market return. We have to see this over a lifetime of investing, not a few years or even a single decade.

New High – New Low Charts

Dr Alexander Elder recently made me aware of how Australian New High – New Low charts can be accessed on one of his websites:

As you may know, I consider New High – New Low Index the best leading indicator of the stock market. The daily NH-NL update is one of the key features of SpikeTrade.com that I run together with my friend and partner Kerry Lovvorn. We have a brilliant Brazilian fellow in our group who has built a system for creating NH-NL for any country. He began with Brazil, then UK and Germany, and a few weeks ago added Australia to the list.

The updates for Australia are published weekly, usually on Saturdays. All one needs to see them (and comment on them if one likes) is to come to www.spiketrade.com, register as a Guest (free), and proceed to the blog.

I hope you like those charts and perhaps your readers will like them too.

This information is published as a service to readers. Dr Elder does not pay me to include this notice.

Myth 11: I’m not a market timer. What Calhoun is talking about here is the way most investors switch their portfolios around in response to short term events. His view is that for the vast majority of investors (my aside: remember that we all think we are above average) this detracts from their investment performance so that their return is significantly lower than the long term return for the market as a whole. His suggested answer is to fall back on Modern Portfolio Theory. In other words, “a prudently diversified portfolio suitable to your risk and return needs.”

This is an interesting discussion because it will be rather confronting to all the active investors in my readership. Like some of the earlier myths, this one caused me to ponder carefully how I could reconcile being a self-confessed market timer.

My efforts at market timing have taken many of the 40 years I have been in the market to develop and hone. As I said earlier, I may be fooling myself by being lucky, but not realising

it. Then again, that is not a complete answer. As a market timer, I have a very disciplined approach to carrying out a sound investment plan which I have tested with real money over time and succeeded. Because I have succeeded does not automatically mean my readers will succeed with my plan, because they are not me and do not have my knowledge and experience. I do not say this in order to boast, because hubris is one of the biggest dangers in investing. I say it for two reasons: Firstly, because I have proved I can make my plan work. Secondly, as a way of reminding readers that they should not put themselves in my shoes without a similar multi-year documented record of beating the market. Some of my readers may well have this, but it is far rarer than most people are prepared to admit.

My feeling is that there are numerous ways to make money in the market and Calhoun's way is not the only one. However, he has the facts and record to prove that his method works. Most of those who profess to be good at alternative approaches lack the record and fool themselves to their long term disadvantage.

Myth 12: An investment advisor's job is to find you "opportunities". Here, Calhoun takes aim at the advisors who constantly present clients with the latest and greatest investment opportunities. He sees them as simply salesmen in disguise, as was discussed in an earlier myth. Instead, Calhoun suggests finding a fee-only advisor, who formulates a sound plan for us to meet our objectives with a risk level that we can tolerate. Then the advisor's role is to protect that plan from our human proclivity to change horses in mid-stream because of vivid short term problems.

Finally, the question arises: why should we read this book? I am glad I read it. I had some initial difficulty in making myself read a book by someone who seemed to be espousing an approach that was the antithesis of my plan. However, I gradually came to realise the benefits:

1. It made me think outside my comfort zone.
2. One of the ways the law looks for truth is to have opposing counsel present their cases. It was powerful medicine to force myself to read what may seem to be opposing views.
3. The result was that I was forced to think afresh about many of my beliefs about investing. I began to understand my own methods in more depth.
4. I found that I was close to Calhoun on many ideas, but on the areas where we differ, I was not as far from him as I initially thought.
5. I now feel more secure in my methods because I have let them be tested by considering new or different ideas.

Some people ask me why I write and teach investing. Their guess is that it is to make money. They are dead wrong. My income is primarily from my investing. I write and teach because I love doing it. This is mostly because I have learned that the only way to truly understand something is to teach it. That is one reason why I constantly implore readers to write down their investment plan and then explain it to someone else. The benefits of doing this are truly amazing. Thank you all for being my audience.

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