

Chapter 1

Welcome to the New Global Economy

When scholars look back at the current global situation they will pinpoint the year 2007 as the year the new global economy was created. Not only because the U.S. and most global stock markets ended a bull market and began a downturn that was rivaled only by the Great Depression of the 1930s, but also because it brought to light a major global shift in the way the economy, stock market, and basic everyday living has been altered. After the global recession that many felt was almost a depression, we now look at the world in a different manner. Even more important for you as a reader of this book is how investing in the global stock market changed and what you need to know to take advantage of one of the greatest buying opportunities in recent history.

I introduce a number of major investment themes in the pages to come that will take advantage of the new global economy. The paradigm

shift in the way investors must now approach investing has reached the mainstream media, however few have realized what exactly it entails. I explain how the recession and subsequent changes to the global landscape have affected investment strategies that have worked in the past. The key word in that sentence is past; just because you were able to buy a stock and hold it for decades in the past, does not mean it will work in the future.

As a matter of fact, there is a section later in this chapter that breaks down the old buy-and-hold strategy and introduces a new variation. The days of buying the stock of the biggest names on Wall Street and riding the ups and downs is over. It is clear the ups and down will occur, but the end result that involves the stock always moving higher over time is no longer a sure thing. Watching companies such as Lehman Brothers, Bear Stearns, and General Motors disappear within a couple years of each other was the much needed wake-up call for what I call lazy investors.

Recession = Opportunity

During the 2008–2009 recession, it was not uncommon for individual stocks to lose 80 percent of their market capitalization in a matter of months. Profit that took investors years, if not a decade or more, to realize was gone in a blink of an eye. Investors saw their retirement accounts cut in half in 12 months and naturally began to panic as talk of another Great Depression was making its way through the media. When the market is hitting highs, all the talking heads blab about is how stocks will never pull back. The exact opposite occurs during a bear market, and just as people overreact during a bull market, they overreact even more dramatically during a sell-off.

In simple terms, the selling begets selling and there was a point in time during the fourth quarter of 2008 when it was difficult to find anyone interested in buying stocks. The mass panic sent the U.S. stock market to its lowest level in a decade and the buy-and-hold strategy was beginning to be questioned by investors. Even active investors who attempt to time the market using technical and fundamental analysis were throwing in the towel as they watched their accounts plummet at a pace more rapid than the 2000 technology bubble.

The early 2000s sell-off had sent the S&P 500 lower by approximately 50 percent over a three-year period. From the top in late 2007, the S&P 500 fell 50 percent in a matter of one year. The swift magnitude of the sell-off that occurred during the most recent bear market is a reason investors were so shell-shocked. And the selling did not end there; by the time the index bottomed in March 2009 the damage was at 57 percent.

Vulture Investing

A vulture is a scavenger bird that feeds mainly on the carcasses of dead animals. Vulture investors are similar in that they prey on stocks that are thought by many to be dead. The goal of a vulture investor is to swoop down and pick up beaten-down stocks from the carnage. Bear markets and recessions have triggered feasting frenzies for vulture investors, and the most recent scenario was no different. Even Warren Buffett, the largest shareholder of Berkshire Hathaway (NYSE: BRK-A) and one of the greatest investors of all time, turned into a vulture in 2008. The Oracle of Omaha traded in his value investing playbook and transformed into a vulture investor as opportunities arose in the financial sector he could not pass up.

From the high in early 2000 to the low in 2002, the NASDAQ Composite fell a remarkable 78 percent. Along the way, many of the once mega-cap technology stocks that made up the index either disappeared or were priced for certain bankruptcy. This is when vulture investors are at their best. They realize Wall Street has priced a number of stocks for future bankruptcy and the goal of the vulture investor is to find the precious gems among the carnage.

Internet company Akamai Technologies (NASDAQ: AKAM) fell from a high of more than \$340 per share in early 2000 to a low of 56 cents in October 2002. A loss of 99.87 percent of its value is another way of saying goodbye to Akamai stock forever. But, vulture investors who were able to sift through the carnage and find the stock for less than one dollar and look at the future of the company were rewarded. Over the next four years, the price of Akamai's stock gained over 7,000 percent and a mere \$5,000 investment at \$1 per share would have netted you over a quarter of a million dollars (see Figure 1.1).

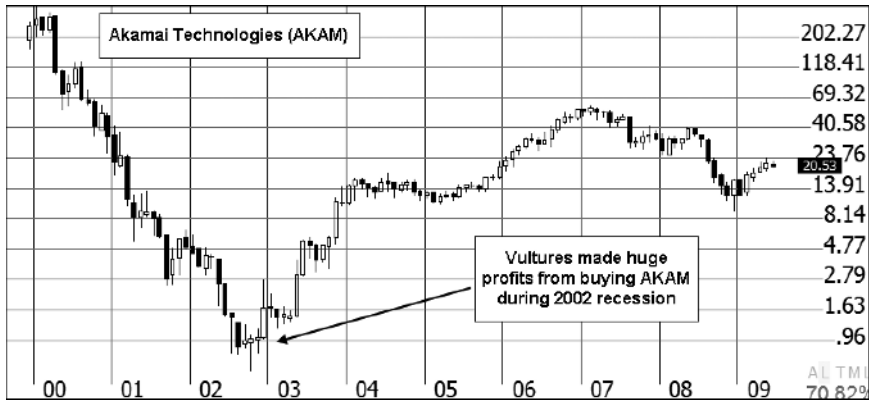


Figure 1.1 Vultures Feasted on Akamai Technologies in 2002 under \$1

SOURCE: TeleChart2007® or StockFinder® chart, courtesy of Worden Brothers, Inc.

Maybe you never heard of Akamai or the company Research in Motion, which was not likely a household name in 2002. A few years have passed and Research in Motion (NASDAQ: RIMM) is one of the hot stocks once again as the maker of the BlackBerry (also known as the CrackBerry). It traded as low as \$1.39 per share in 2002 before the vultures feasted on the beaten-down shares. The price for one share of Research in Motion skyrocketed within six years to nearly \$150. The vultures who did their homework, took some above-average extra risk, and practiced patience, are now reaping the benefits of owning a part of one of the leading makers of smartphones in the world (see Figure 1.2).

As mentioned earlier, even Warren Buffett took on the role of a vulture investor in 2008 and 2009 when he began picking up shares of beaten down financial stocks such as Goldman Sachs (NYSE: GS), US Bancorp (NYSE: USB), and Wells Fargo (NYSE: WFC). Goldman Sachs was not trading at the bankruptcy levels as the previous examples, though the stock had fallen from \$250 per share down to \$47 in just over 12 months. Wells Fargo and US Bancorp both fell into the single digits and at one point in early 2009 it felt as if all major banks and investment firms would disappear.

I myself was a vulture with my personal money for a very short period of time in November of 2008. Citigroup (NYSE: C) fell to a fresh 16-year low on November 21, 2008, and hit a low of \$3.05 intra-day. It happened to be a Friday, and of course there were all types of

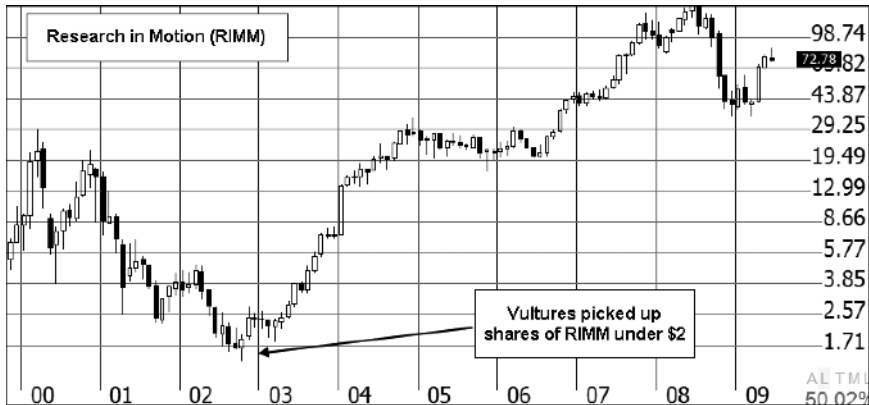


Figure 1.2 Research in Motion rises on the popularity of the BlackBerry
 SOURCE: TeleChart2007® or StockFinder® chart, courtesy of Worden Brothers, Inc.

rumors about a government bailout or even bankruptcy over the weekend. I did not think that was the case and bought shares of Citigroup at \$4.02 per share. The next Monday the stock opened at \$6.12 and I quickly sold at \$6.00 for a profit of nearly 50 percent. Over the next two weeks, the stock went as high as \$9 and in early March 2009 traded as low as 99 cents before finding a bottom.

Granted, I was a short-term vulture, but I saw a dead stock lying on Wall Street and felt it was good enough to nibble at. A little luck never hurt either and I was able to bank a large, short-term profit. Another situation I can remember like it was yesterday was sitting in the studio for the Fox Business Network on March 4, 2009, with anchor Tracy Byrnes. We were on a commercial break and I looked at her and said, “How can I not buy GE (General Electric) at \$6”? One month later, GE doubled in price and as of May 2009, the stock has no intentions of ever going back to \$6 again.

The GE situation was a case in which the vulture investor inside me saw the carnage, but did not have the fortitude to go with my investing instincts that have gotten me to where I am today. This *shoulda, woulda, coulda* attitude is one that most investors will harp on and will always talk about as the big fish they almost caught. I like to do this from time to time, but it really gets you nowhere and the more productive approach is to learn from it and move on. The next time a GE situation arises, I will not question my instinct and knowledge of the market

and will go with the vulture inside me. Because, at the end of the day, 99 percent of investors are not willing to be the vulture and that is why such a small number of investors make the big money on Wall Street.

Through this book, I introduce to you sectors and specific investments I believe can help you join that small percentage of investors who end up with the big money.

The Andrew Jackson Portfolio

On March 6, 2009, when it appeared the economic and investment landscape could not get any worse, I had a crazy idea to start a new stock index to track some of our fallen leaders. With that being said, I wanted to become a vulture and look for opportunities in companies Americans are familiar with. At the same time I wanted to make it fun, interesting, and relatable to all investors and noninvestors. The creation was the Andrew Jackson Portfolio.

The stock index was created with nine stocks that could be bought for less than \$20. If you have not yet found the correlation, Andrew Jackson, the seventh president of the U.S., is featured on the \$20 bill. For a total of \$20, an investor would be able to buy one share of all the nine stocks that make up the Andrew Jackson Portfolio.

The original constituents of the portfolio are listed in Table 1.1 with their starting price on March 6, 2009.

Table 1.1 Andrew Jackson Portfolio

Stock	Symbol	Purchase Price 3/6/09 Closing Price
American International Group	AIG	\$0.35
Advanced Micro Devices	AMD	\$2.14
Bank of America	BAC	\$3.14
Citigroup	C	\$1.03
Eastman Kodak	EK	\$2.24
Ford	F	\$1.70
General Electric	GE	\$7.06
General Motors	GM	\$1.45
Office Depot	ODP	\$0.68
Total Cost		\$19.79

What began as part fun and part investment strategy took off like I would have never imagined. Within one day I was receiving interview requests from around the U.S. and the phones in the office did not stop ringing with people wanting to send me a \$20 bill! Unfortunately I could not do that for them, but offered up my assistance to get them on the right path. Within two months the Andrew Jackson Portfolio was up over 170 percent!

When the portfolio was created there was the thought that one if not more of the stocks could file bankruptcy and leave the holder of that stock with nothing more than frown on their face. I was also right in that thinking because a few months later General Motors filed for bankruptcy. As of July 2009 it does not appear that the remaining eight stocks are in danger of filing for bankruptcy, although AIG does have some major issues remaining. As of August 6, 2009, exactly five months after the portfolio was created, the gain had ballooned to 184 percent even when with taking into consideration the General Motors bankruptcy.

Sometime you are not trying to be a vulture and you are. Keep in mind that when the situation in the investment world or in life in general appear to be at their worst, it is most likely the bottom and investors need to turn positive and begin thinking positive. What that means in the investment world is buy, buy, buy!

The Train Has Not Left the Station

On March 9, 2009, the S&P 500 hit an intraday low of 666, the lowest levels since 1996. The market found its bottom on that day and began a rally that caught nearly everyone on Wall Street by surprise. The doom and gloom was in full force during the first week of March and no one was crazy enough to jump in front of the large short sellers pushing stocks lower. But just when you think there is no end in sight to the selling, the market surprises everyone and does the exact opposite. The short sellers were forced to cover their short positions and a massive short squeeze occurred in the following weeks.

The S&P 500 gained more than 37 percent over the next two months and it appeared that the lows of March would be the bottom of the bear market. Most individual investors were selling stock in February and March and for the most part gave up on investing. But after the parabolic

rise of the market over the following two months, investors were once again lured back into stocks. The feeling among the majority of individual investors I deal with on a regular basis was one of great fear that they may miss the next bull market train.

It is a natural human emotion to want to buy when the market is going higher and sell when stocks are falling. That strategy is called trend investing, which is covered later in this chapter, and can be used in certain market situations. To be successful using a trend investing strategy, however, an investor must limit her emotions when making decisions. Keeping your emotions in check is something that is much easier said than done.

When this book was getting ready to go to print, the market was well off the lows of March 2009 and investors' confidence had turned dramatically bullish. The consumer confidence reading, as reported by The Conference Board, moved up to 54.9 in May from a low of 25.3 in February. Keep in mind this reading is based on a survey of only 5,000 households, so we have to take it for what it is worth. That being said, the big jump from February is a move that cannot be ignored and is likely tied to the strong performance of the stock market in March and April.

The great improvement of the consumer confidence number and my own unscientific study of my clients and subscribers indicate investors have made a reversal from extremely negative to somewhere between hopeful and positive. What is amazing about the drastic change is that it took less than three months for investors to quickly forget about multi-year lows and, more important, the fear they felt. For months, I felt more like a cross between a shrink and a counselor on a suicide hotline than an investment adviser. I can honestly say that I have never experienced anything like it and hopefully will not have to deal with such fear again—it was mentally draining. At one point, I was on the verge of panicking along with the masses; thankfully, I was able to separate the emotion from my investment decisions for my clients.

Now is time to tie in the great reversal in consumer sentiment with the train analogy. The reason the consumer confidence spiked is that as quickly as investors are willing to jump off the train, they want to climb back on with the first sign of positive news. The problem occurs because investors make knee-jerk decisions when jumping off the train

and do the same when trying to get back into the market. Putting cash back into the stock market is not a decision that should be taken lightly and needs to have concrete evidence behind the decision. The feeling I had in mid-May was that of euphoria; investors were beginning to worry that the train had left the station and the next train may never arrive. They were, and are, wrong!

Trend Investing

In the world of investments, the word *trend* can be defined in various ways, depending on whom you ask. To the day trader, a trend is how a stock is moving over the last few hours. A swing trader may view a trend as the direction in which the market or a stock is moving over a longer period such as a week or two. The average investor, when asked to define a trend, looks at the market as a whole and will often go along with past performance over the last year, if not longer.

Within the world of investing, a trend can be defined as the general direction of a stock or the overall market. The time frame, as mentioned before, will vary according to whom you ask and what their investment goals are. I focus throughout this book on trends that will have a massive impact on society as a whole, over a significant period of time. Because of the effect long-term trends will have on the world, there will be specific investment themes that will benefit. Ultimately, once you have finished reading this book, you will have a sufficient knowledge of the trends I believe will alter the way we all live in the future and, more importantly, how to profit from the changes.

The majority of investors, whether they will admit it or know it, invest in trends every day. Buying shares of Apple (NYSE: AAPL) a few years ago because you loved the iPod when it was introduced and felt that everyone would eventually be rocking out with the tiny music machine is an example of trend investing. The purchase of Apple covered several investment themes, such as mobile electronics and the growth of the consumer (see Figure 1.3).

At the time of the iPod introduction, the trend was for the U.S. consumer to spend above and beyond his means, and all disposable income was earmarked for discretionary spending. It is clear that an

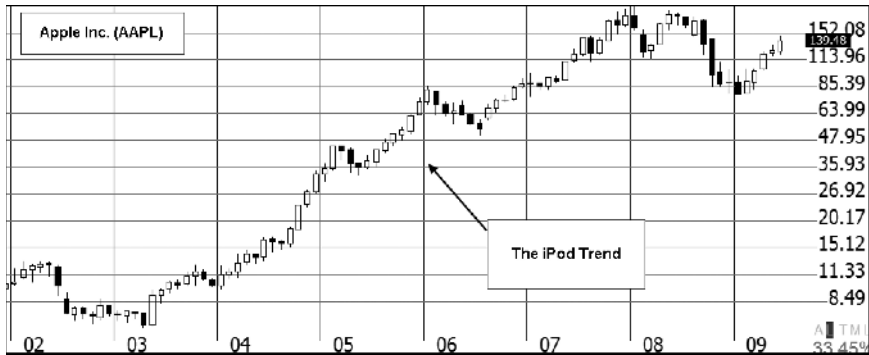


Figure 1.3 Apple Inc.

SOURCE: TeleChart2007® or StockFinder® chart, courtesy of Worden Brothers, Inc.

iPod is not a necessity (even though to some it may be) and therefore with an attractive price point would become a major success. Then there is the product itself, which was compact and very mobile for the user who is always on the move. By making the iPod small in size, it became the new face of mobile electronics.

The growth of the consumer and the mobile electronics trends remain in play, but they are getting closer to maturity as far as investment opportunities are concerned.

Buy and Hold versus Buy and Ignore

The buy-and-hold theory has been the core investment strategy for most readers of this book; that is, until now. After finishing the book you will realize the buy-and-hold strategy was, in reality, a buy-and-ignore strategy. When a new stock is purchased for the long term, it does not mean you should hold the stock for all eternity. For buy-and-ignore investors, a stock is never sold under any circumstance. The company may change management, alter its business model, have to defend itself against a lawsuit, or even see its stock price fall 80 percent. All of these situations are okay for the buy-and-ignore investor because the stock was purchased as a long-term investment.

I would wager that everyone has at one point in time fallen victim to the buy-and-ignore trap. Even the best of companies that no one

in the investment community or beyond would ever imagine disappearing have done just that. Bethlehem Steel, once a powerful force in our nation and abroad, was a Dow Jones Industrial Average component until the early 1990s. Many elderly investors owned shares of Bethlehem Steel, including my grandfather who worked at the company, and never imagined the once-thriving steel company's stock price would fall to zero.

For a more recent example, we can turn to a company that has been at the forefront of automobile production in the United States for decades, General Motors (GM). An investor could have bought GM in 1984 for \$25 per share and 25 years later that same share of GM could fetch you just over one dollar as it trades on the Pink Sheets and the company is in bankruptcy. The common shares of GM will be eventually deemed worthless and shareholders will be left with a stock certificate that is merely a memento of the past. That is a loss of over 95 percent of your investment over a 25-year time as of June 2009, and if shareholders refuse to sell, it will be a 100 percent loss. To keep things in perspective, the S&P 500 Index gained 500 percent during the same period. In Figure 1.4, the performance of GM is compared with that of the S&P 500 Index over a 5-year period through May 2009; the difference in performance is clearly evident. Ignoring GM's many missteps and failures in hopes the company would turn it around over the long term was simply a lazy investor ignoring the facts and falling asleep at the proverbial wheel.

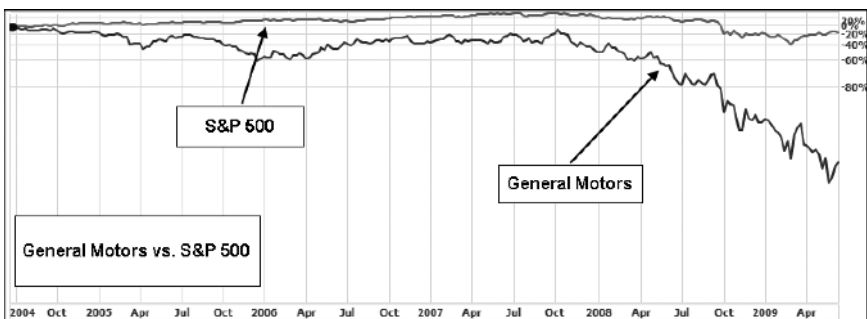


Figure 1.4 General Motors versus S&P 500 Index from 2004 to 2009

SOURCE: TeleChart2007® or StockFinder® chart, courtesy of Worden Brothers, Inc.

Bethlehem Steel and General Motors are not the only two former corporate leaders to fall from grace and wipe out fortunes for the individual investors who bought for the long term. And they will not be the last! You are presented with investment ideas throughout this book that I believe have the potential to outperform its peers over the coming decade. That would be considered a buy-and-hold strategy by many, including myself. However, I by no means am condoning a buy-and-ignore strategy for any investment discussed here. After what occurred in 2008 during the financial crisis, all investors should now realize that buy-and-ignore is a flawed strategy right along with the business model of GM—and we know where that has taken GM.

What better way to analyze the buy-and-ignore approach than to look at a chart of the Dow going back to the early twentieth century. Figure 1.5 is a yearly chart of the Dow Jones Industrial Average over the last 90 years. Buying into the index in 1916 at 80 would have returned an investor over 10,000 percent on her money even after the pullback from the 2007 high. If you were investing in 1916, there is a good chance you are no longer reading books, so even though the number had to be mentioned, investing for 90 years is not realistic.

The buy-and-ignore strategy that results in your investment disappearing is not limited to old industrial companies that have outlived their stay. I can name a long list of technology companies that were

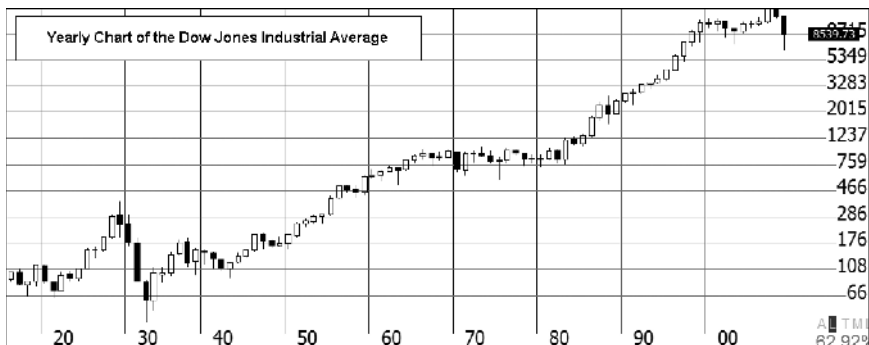


Figure 1.5 Dow Jones Industrial Average: If You Have 90 Years, Simply Buy and Hold

SOURCE: TeleChart2007® or StockFinder® chart, courtesy of Worden Brothers, Inc.

once high flyers only to have their stock certificates worth nothing more than scrap paper. Do you remember Pets.Com and their commercials with the talking dog puppet? Or how about behemoths such as WorldCom, which were destroyed by greed and corruption? Unfortunately, the list is too long for this book, but I think the point is made and you realize that companies in all sectors can result in a final investment value of zero.

Even the financial companies based on Wall Street that are in the middle of the whole game are susceptible to the same tragic ending. If you do not believe me, just ask investors of Bear Stearns or Lehman Brothers. The two behemoths of Wall Street that were household names around the globe succumbed to the recession of 2008 and the end result was shareholders holding nothing more than fancy, but worthless, stock certificates.

To give you a visual of how quickly a stock can go from a darling on Wall Street to a forgotten stock, the charts of both stocks are featured in Figures 1.6 and 1.7.

Simply put, the buy-and-hold (ignore) theme exists because it makes the job of your investment adviser much easier and allows them more

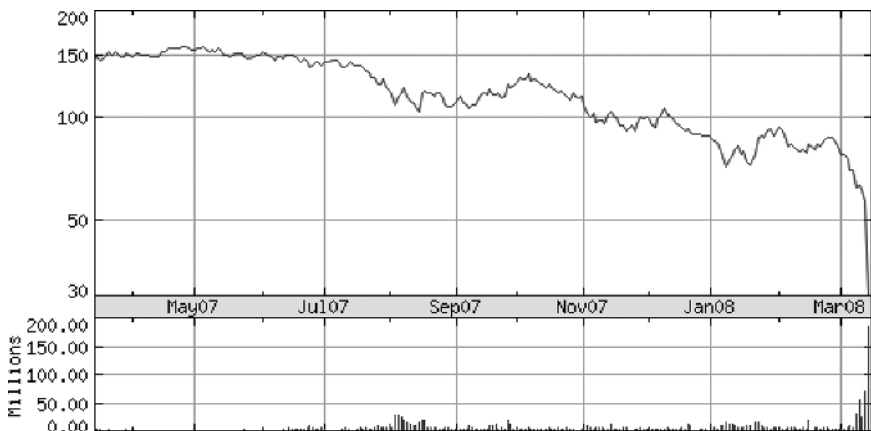


Figure 1.6 Bear Stearns: From Triple Digits to \$2 Stock in Months

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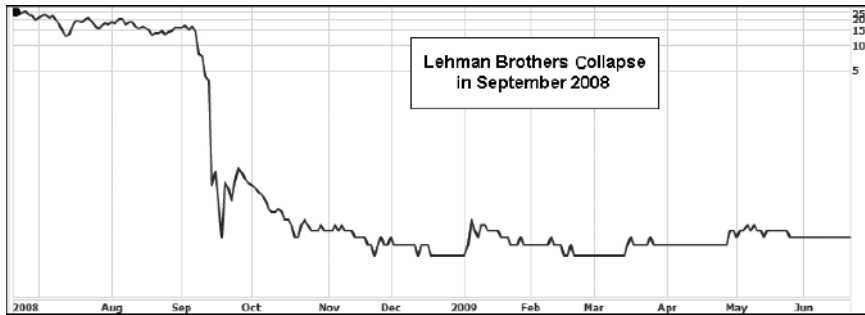


Figure 1.7 Lehman Brothers Collapses to Bankruptcy in September 2008

SOURCE: TeleChart2007® or StockFinder® chart, courtesy of Worden Brothers, Inc.

time on the golf course. Just joking—sorta. In all honesty, the strategy is often used to mask the inability of the majority of advisers to beat the market and the lack of knowledge of the stock market. On an ongoing basis, I am amazed at the lack of general stock market knowledge among advisers who work at major investment firms. You must remember that when you deal with a so-called investment adviser at a company like Edward Jones, or even Ameriprise (sorry for picking on them, but I know from experience), their number one job is to produce for the company.

Unfortunately, producing for the company involves bringing in more assets and generating more income. The key element left out of the producing equation is the client, who should be the number one focus of the adviser. In reality, the number one job of an investment adviser should be assisting you in achieving your long-term investment goals. But as you know, reality is not always what you get in the real world.

Unless an investor falls into the ultra-wealthy category, the protocol is to go through the motions of asking personal questions to determine risk tolerance and investment goals. Once completed, the adviser will lump the new client into one of the prepackaged investment plans with several other clients. If you agree that all investors can be split up into a few categories, all I have to say is good luck and stop reading.

I happen to strongly disagree, and I have built my firm on the premise that each investor is like a snowflake, similar, yet very different.

By taking this route, it would be much easier for me to implement the buy-and-ignore strategy because it would result in a smaller workload. But I also like to sleep at night knowing I am helping my clients reach their ultimate investment goal. I do not offer sure things or strategies that always make money; by offering a hands-on approach that adapts to the changing market environment, however, my clients are one step ahead of their peers.

We take a look in Chapter 2 at the recent recession and how the world ended up in one of the biggest economic slowdowns in decades. Along with a timeline of the 2008–2009 recession, the chapter also delves into several past recessions for a comparison to the most recent recession. I also feel it is imperative to have some knowledge of history when attempting to predict the future in the world of investing. The next chapter is very informative and interesting and it puts the recent slowdown in perspective.

