



Dumb money puts money into the market; smart money takes money out.

CHAPTER 1

How to Think Like the Top 1%

One of the big goals of this book is to help you bring out the best version of yourself (your smart money superhero) and join the smart money circle. I will call that the alpha version of yourself. On Wall Street, alpha means above-average returns, so the alpha version of you is the best version of yourself. Everyone starts out in the dumb money circle—even the children of wealthy families that are in the smart money circle. That’s why most family businesses do not last past the first or second generation. The good news is that anyone can learn the skills necessary to bring out the best version of themselves, learn from their mistakes, live their “dream life,” and join the smart money circle. Once you do that you will accomplish more than you ever dreamed of and enjoy life at a completely different level!

I started out in the dumb money circle. I began my professional life saddled with student loan debt and not having a clue about how to make money or how the market actually worked. For years, I toiled at thankless jobs for lousy wages. Some of my first forays in the market resulted in spectacular, soul-crushing losses.

I was in the dumb money circle, but I had an overriding need to break out; eventually, I did, and you can, too. It started when I had my first

realization that there is an endless battle raging inside all of us between (what I call) the smart money superhero (your good side) and your dumb money beast—a.k.a. Shmelf (your bad side).

ENTREPRENEURIAL SPIRIT

In order for you to properly understand the timeless concepts I discuss in this book, I give you some context by sharing some important stories with you.

I was born in New York City. My mother taught elementary school, then later ran her own logistics business, and my father, an immigrant, ran a small business selling men's suits a few blocks from Wall Street. I remember seeing "Wall Street" guys come in and buy dozens of suits, shirts, and ties, and from a young age, deep in my subconscious, I felt the allure. My parents taught me the value of education, they taught me the value of a dollar, and they instilled in me a work ethic that propelled me through college, graduate school, and into my working life.

I inherited my parent's entrepreneurial spirit, and even as a kid, I envisioned myself as a "businessman." I loved the idea of buying and selling things, and I was intellectually fascinated with the idea of solving a problem, adding value, and making a profit. I loved using my mind to make money. While in middle school, before Costco and Sam's Club were "a thing," I found a local source where I could buy candy at wholesale prices, and I sold the treats at school between classes. Blow Pops were my number-one seller.

Eventually, I was forced to shut down because the "business" grew and attracted the attention of the principal, who told me that I had to stop. He called my parents, and I was terrified that I would be in big trouble. In the meeting, my parents asked him, "What did Adam do wrong?" He stumbled and couldn't find something to say (because, technically, I did not break any rules), and he finally proclaimed, "He's competing with the cafeteria!" To my surprise, after we left, instead of being in trouble, my parents said the incident offered a very important lesson about monopoly and power. "Next time," my parents said, "don't get caught."

For my next "business," I sold fireworks but stopped when I realized that, in the wrong hands, they were really dangerous. I knew that if someone got hurt I would really be in big trouble. Unbeknownst to me at the time, the big timeless lesson there was *always respect risk*.

AN INVESTOR IS BORN

I had saved some of the profits from my early businesses, and by high school, I had taken an interest in the stock market. I looked around and asked a lot of people: “What is the biggest business in the world?” What did the top 1% of people do with their money? Some invested in real estate, I discovered, but the most common answer always led me straight to Wall Street.

Back in the 1990s, the crash of 1987 was still fresh in people’s minds. But the market and the economy were on fire, the flames fanned by dot-com stocks and the rise of the internet. The U.S. economy seemed unstoppable. Cell phones were becoming widely used and telecommunications companies were hot. I consolidated my little horde of candy and fireworks money and bought my first stock: SprintPCS.

For a period of time, the stock did great, but then it collapsed, and I didn’t sell it until it was too late. Years later, as fate would have it, my first “real” job during college was working for SprintPCS, selling cell phones at the now-defunct Circuit City.

After my freshman year at Pace University in Manhattan, I transferred to Florida to escape the high cost of living in New York City. As luck would have it, and thanks to grace from above, that turned out to be a very good move because, back in New York, I would literally walk through the World Trade Center every morning to get to school. I transferred in the summer of 1999 and, had I stayed, I would have been there on 9/11.

To get by, I worked five days a week and I went to school five days a week. I tell people I work with (and my kids) that makes 10 days in a seven-day week! At first, most people do not believe it, but for most of my 20s, I never had a weekend off, and that’s what I did to get ahead.

One day, about a week after I moved to Florida, I was standing at the bank at 4:00 p.m. waiting for a friend to pick me up. The lobby had just closed, so I was forced to wait outside in the hot Florida sun (and I mean hot). A red Corvette pulled up and a beautiful lady hopped out.

“The lobby is closed,” I said.

“I know,” she said, but walked up anyway and knocked on the door. The door opened, she went inside for five minutes, and when she came out she asked me what I did for a living.

I told her I had just moved to Florida and I was studying political science. I asked her what she did and she said she was an executive at SprintPCS. I said, “Wow! What a small world. I own your stock.” She was not expecting that from some random kid waiting for a ride outside a bank.

We talked for a little while, and then she asked if I wanted a job at the corporate office. I said sure, we met the following week, and she offered me a position: I was to help increase sales at Circuit City in South Florida. I worked there for the next few years, helped open the first Circuit City in Boca Raton (which later became Barnes & Noble), and my stores became the most profitable in South Florida.

MARKET TUITION

The late 1990s was the era of the dot-com craze. I pumped money into the market speculating on the euphoria that drove stock prices for internet start-ups ever higher. They had no earnings, no sales, but all you needed at the time was a “.com” in your name, and people would buy the stock! At one point, on a golden afternoon around the turn of the century, I felt invincible while staring at my brokerage account, proud to have doubled my tiny fortune at such a young age. I’ve learned that money is all relative. To me, a kid who started with less than nothing, \$500 was a lot of money, \$5,000 was crazy, and \$5,000,000 was a dream. It is amazing how your perspective changes over time.

Then, in March 2000, the dot-com bubble burst; the market crashed, and I was in a state of shock and disbelief as it imploded over the next two years. I made every mistake under the sun. I did not have a plan to sell if the stock went down, I did not have a clue about risk management or position-sizing—and thanks to my naivete, I couldn’t imagine that stocks could go down so far for so long. I also had no idea that it was possible to actually make money in a bear market. Looking back, I realize I was clueless.

My investment portfolio was bankrupt. But to me, it wasn’t just money that I had lost. It was deeper. I lost my Blow Pop profits, my fireworks sales, my cell phone commissions—all the fruits of my early entrepreneurship had evaporated. Essentially, my life’s work had disappeared. Gone. All my sacrificed college weekends spent selling cell phones while my friends partied—vanished. It was a gut punch like no other. It was personal. It was emotionally devastating.

On The Street (Wall Street, that is), they call that kind of experience “market tuition”—provided you walk away with some lessons. I knew I wanted to win. I also knew I had no idea what I was doing so I had one job: to learn. Knowing what I don’t know became (and still is) one of my biggest strengths.

THE ALLURE OF SPECULATION

Around the same time, my childhood friend Stephen Klein (my business partner in my candy and fireworks ventures) scored a great six-figure job working at a huge commodities desk in midtown Manhattan as a futures broker. Within a few weeks, he turned \$5,000 of his own personal money into over \$100,000. As you would imagine, I told him I wanted in. The timing seemed perfect because Stephen's bosses had realized he was conducting personal trades, and they wanted him to stop and focus his attention on his "day job."

To get around his bosses, we concocted a plan: I would open an account in my name, he would trade it (the same way he had been trading his account), and we would split everything right down the middle, 50/50. My only problem was that I was wiped out from the dot-com crash, so to ante up, I had to scrape together some dough. I managed to borrow \$5,000 from my father, and then I held my breath and jumped in with both feet. I wish I could tell you that I took that \$5,000 and turned it into \$5 billion, but this story has a completely different ending.

In an ominous sign of things to come, the day before I opened the account, Klein lost \$25,000 of his own money in one day—not fun. Our trading account number ended with the digits "69," so with all the maturity of a couple of recent college graduates, we dubbed it "the infamous 69 account," and as a testament to our friendship (considering what was about to occur) we still, every now and then, look back on this adventure and laugh.

We filled out the paperwork (at the time we still had to open accounts with paper), and we funded the account on a cold Monday in January. The plan was that Klein would do everything—buy, sell, handle the position sizing, and so on; he'd make all the decisions. Back then, I didn't have access to real-time quotes, and I could not log in like today and see my statement in real time. Everything was delayed. Essentially, I was flying blind.

At the end of that first day, I called him to ask how we did. Without skipping a beat, he said it was a good day. I asked him how much we made. A little over \$8,000 on a \$10,000 account, which he added, constituted an 80% return in just one day. "How much do you think we'll make by the end of the year?" I asked. To this day, I can still hear Stephen's voice in my ear, crackling on the other end of my SprintPCS cell phone. It was one of those pivotal moments in my life—one that you just simply never forget. He responded, very casually: "One million dollars."

I was overcome with joy. Remember, I started with nothing but an insatiable hunger to learn, and for me, at the time, a million dollars was more

money than I could fathom making, and it was all happening without me having to lift a finger.

Blinded by emotion, my naive and flawed logic went something like this: Stephen just turned \$5,000 into \$100,000. Why wouldn't he be able to do it again and then grow \$100,000 into \$1,000,000? If he could multiply his portfolio 20-fold in just a few weeks, why wouldn't he be able to multiply it by a measly 10-fold in a year?

This, by the way, is dumb money thinking. Anyone who knows anything about trading, risk management, or returns knows that while periods of rapid, exponential growth are not unheard of, in the long term such gains are simply not sustainable. The best traders in the world average 20–30% annual returns; realizing 80% gains in one day is not sustainable. I suspect you've guessed where this story is headed.

On Tuesday, the very next day, the market corrected, we lost all our profit, and we were left with our initial investment: the original \$10,000, which included the \$5,000 I had borrowed from my father. We both wrote it off as “just a bad day,” and didn't think anything of it. On Wednesday, day three of our misadventure, the market gobbled up our principal. The account was bankrupt. Not only had we lost everything—we had a margin call, which meant we owed the firm money!

Fueled by Klein's early success—the promise of one million dollars resounding in our ears—we decided that our failure was just bad luck, and we kept on trucking. I “borrowed” \$5,000 from my credit cards and wired money over on Wednesday afternoon to restore the account before the end of the day. *Boom!* Just like that, we were back in business!

By Thursday morning, the infamous “69” account had doubled (if we ignored the money we had already lost—which we did), and we now had around \$20,000 in liquid cash. I was immediately reminded of the line, “Mortimer, we are back!” from the classic movie *Coming to America*, which was a reference to the legendary trading movie *Trading Places*.

By Friday, the account was bankrupt . . . again! Emotional roller coaster? Sure. Fun? Not really. Devastating? Painful? Borderline soul-crushing? You bet. Broke and 10 grand in debt, I was forced to shut down the account. Back in the “real world,” I wasn't making any significant money at my “day job,” so it took me what felt like forever to pay back the money I owed. Plus I had to tell my father that I failed, which stung more than losing his money.

As traders, we count our wins and our losses—our “W”s and “L”s. At face value, the infamous 69 account looked and felt like an L, but thankfully, we both turned that experience into a major W. I chalk it up to more “market tuition” because that week's experience was the proverbial seed that was planted that sparked my entire career.

TAKING CONTROL

Now that I'm a husband and a father, I am thankful to have survived that kind of devastating setback early in my life—at a time when I had time to recover from the loss, and the consequences were mine alone to bear. That Friday night, I felt stunned and beyond shell shocked, but the very next day, I woke up with a drive that I had never felt before. I made a decision that changed my life forever; I decided to **take control**, to figure out how to trade successfully, and most importantly how to go from the dumb money circle into the smart money circle (and stay there). Everything I did from that point forward was to accomplish that one goal: learn how to win. In order to do that, I had to rewire my mind, conquer my (former) self, bring out the smart money superhero inside me, and learn the laws of the smart money circle!

I was at my lowest point financially, and I decided I only had one place to go: *up!* Thankfully, I knew at the time that I didn't know how to join the smart money circle. I had tried a couple of times and failed, so instead of repeating my mistakes (which is what the dumb money circle does), I went on a quest for information and knowledge—and the wisdom to use them properly. I read just about every investing and trading book I could get my hands on. I attended seminars all over the country and did my best to meet some of the greatest financial minds I know of.

Years later, I learned the phrase “I know that I know nothing.” It comes from ancient Greek philosophy, and the saying is derived from Plato's account of the oral legal defense Socrates made for himself during his trial in 399 BC for impiety and corruption. Socrates himself appeared wiser than he actually was, he argued, because he “does not imagine he knows what he does not know.”

It is the foundation for intellectual curiosity because, if you think you know everything, then why would you spend any time learning something new?

Intellectual curiosity is the spirit of just about everyone who is self-made in the smart money circle (the top 1%), and it is the spirit I want you to adopt as you move through the pages of this book. If what you've been doing hasn't been working for you, challenge yourself to approach the subject anew—with the spirit of a beginner. Live your life to the fullest, become intellectually curious, learn more, do more, and achieve more!