



Stock Market Suicide
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Chapter **1**

STOCK MARKET SUICIDE

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Author's Note:

This is a first draft copy and it contains many editing errors. There are also many charts and graphs included in the full version that could not be included in this version due to technology issues. If you desire the full version please go to www.marketsuicide.com and download your free copy.

Thanks and Enjoy...

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Chapter 1 - What you need to know

"Nothing that is worth knowing can be taught."

Oscar Wilde

On March 6, 2009 the S&P 500 reached 665. It was the lowest point it had been in years. In September of 2008, a full six months earlier, President Bush went on national television and gave an explanation of what had happened to our banking system, and the banking crisis became front page news. Over the next six months the stock market lost over 40% of its value, wiping out 12 years of gains. Over six trillion dollars of value was lost in that short span of time, and the economy stood on the precipice near collapse.

Or so we were told.

A recession of epic proportion was forecasted by everyone who knew anything about the economy and companies began cutting staff. The media covered the event in such a negative way, that fear gripped the American consumer and the forecasts became a self fulfilling prophecy.

The worse the news appeared, the farther the market fell, with no floor in sight.

Then for no real reason, it bottomed. For weeks the prognosticators predicted it would retest the bottom put in on March 6, 2009.

It is now August and the market has continued to rise. The same prognosticators are predicting another bull market.

Others are saying the market will be stuck in a similar pattern as the economy.

Then you have the experts who want to apply Dow Theory to what has happened, and they believe that the historical charts hold some sort of clue as to the direction of the stock market.

The truth is that everyone is wrong. The rest of this book is going to deal exclusively with where this market is going and how you can profit from it.

When you're done reading, you will be ready to make your own decisions about the market and where we're headed. You'll be equipped to look those so-called experts in the eye and say;

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h1 style="MARGIN: 0in 0in 0pt">"Bull!"

The title of this chapter is called,

"What you need to know."

This is where it starts. What you need to know, is that, everything you've been told about the markets is wrong.

That the real truth about the stock market is so far from the general beliefs of the public, that you will find yourself torn and alone.

What you'll find is that no one will see it your way, but time will be your friend, and you'll be spared the agony of what others will experience.

What you need to know are the plain facts of the supply of money and the value of assets. You to need to know how the stock market values itself verses how we value assets.

Once you understand these basic fundamentals and the historical aspects of valuation, this will all be clear as day.

This book will provide you with what you need to know.

Chapter 2 – Supply and Demand

"Teach a parrot the terms supply and demand and you have an economist."

Thomas Carlyle

How many times have you heard the saying? "There is a lot of cash on the sideline." I would venture to guess more than once.

It is said and repeated over and over by experts on television and then by those who listen. There has never been a more inaccurate statement.

To those who say it on television, the so-called experts, it is actually disingenuous, because they know otherwise.

I am not a Harvard educated MBA nor was I schooled at Wharton. I actually obtained my formal education at a small state school in Missouri.

But my economics class taught me the same thing about price as did those high tuition ones at Wharton and Harvard.

Large demand and limited supply will cause prices to rise. And so they did. Stocks prices that is. Between 1982 and 2000, stocks rose an unprecedented 1000%.

At no time in the stock markets history, has it returned anything close to those numbers.

As I discussed earlier, short supply and strong demand means higher prices. And that's exactly what happened in that time period.

The federal government turned the working man loose on the stock market by allowing retirement funds to be invested in stock mutual funds.

I'm certain that everyone thought it was a great idea at the time, as interest rates were in decline, and returns were going to fall well short of the needs of the baby boomers that were saving their money.

At that time there was steady talk about the pitfalls of social security and the distinct possibility of its insolvency toward the turn of the century.

While investing in the market seemed like a good idea at the time, there was one problem. There was a very limited supply of stocks to buy. As money flooded in, prices rose to reflect the demand.

For eighteen years, with exception of a few hiccups, the market marched higher and higher. And people continued to invest.

In fact people got so giddy, that they not only invested their retirement monies, but they also started investing their emergency assets.

Of course Wall Street had a dilemma. They were all too happy to sell stocks to the general public, but even they knew that the valuations were becoming stretched.

Between 1987 and 2000, Wall Street went on an IPO boom. They brought more and more supply of stock on board to meet the ever increasing demand for investment.

The problem is that Wall Street, in their lust for money, brought a lot of low quality companies to the market, and our investment dollars found their way into many of those companies.

Now prices have gotten so high, that it takes a lot more money to buy ownership. There has occurred a valuation bubble that in of itself, threatens the entire retirement security of an entire generation.

In 1982 a good investment yielded a dividend of 7%. Stocks sold for a reasonable price to earnings ratio.

Now the average dividend on the S&P 500 is around 2% and the price to earnings ratio has doubled.

To put this in perspective, especially since we have thrown around a few numbers here, to the untrained eye it would only appear that stocks are twice as expensive as they were in 1982.

But that is incorrect. You see the truth is different. Because of the low yields today, stocks are really three and four times as expensive as 1982.

The sad thing is that we are referring to the high quality companies. The rest of the market is far worse.

In 1982 it would've been easy for anyone at any time to sell their stake in a company because there was a fair valuation and enough money in

the system to replace those who wanted out. For a better term, there was adequate liquidity.

In fact in 1982, the American people were saving like never before, and most of that cash was stockpiled in CD's and Money Markets. There were no asset bubbles to speak of.

Today things are drastically different. Now there are four very large bubbles and not near enough money to go around. So now money is in short supply and as such, demand for stocks has slackened.

Don't get me wrong, money is still flowing into the market, but it buys a whole lot less than it used to. Now when money needs to find its way out of the market, it causes a much larger ripple in the value of stocks.

One such event happened between September of 2008 and March of 2009. A trillion and a half dollars came out of the market, and the overall valuation dropped by seven trillion dollars.

That is so important it's worth repeating. In that six month period, a trillion and a half dollars came out of the market, and the value dropped by seven trillion. That's what we call an illiquid market. Frankly it almost got worse, and there may be other hiccups ahead.

Since March when the market bottomed, 250 billion dollars has come back in. The value of the market has risen back by 4 trillion.

Another point worth repeating. Since March of this year, 250 billion dollars has found its way back in the market, and the overall value has risen by 4 trillion dollars.

What does all this mean? We'll start to break that down in Chapter 3.

Chapter 3 – Facts and Figures

“There's a world of difference between truth and facts. Facts can obscure the truth.”

Maya Angelou

The national debt stands at 12 trillion and the stock market has a total value of 14 trillion dollars. One of those numbers is an obligation and the other is a bubble. Total cash reserves at this time are around 15 trillion dollars.

There was time when the Federal Reserve provided this information, but they have become surprisingly secretive and no longer provides these numbers. So to find this information, it must be researched through multiple sources and some of it is best guess.

Does something stand out as being a little weird to you? How can the stock market be worth more than all of the M3 dollars in our economy?

What does that mean? To put things in perspective, let's look at the ratios back in 1982. The stock market was valued at about a trillion dollars and the total money supply was around 3 trillion.

So does that mean that the market has to tank even more? Not necessarily, but it does mean that those that are in it, need to have a plan to weather the storm. For many reasons the bubble will either have to deflate to some degree, or the Federal Reserve will need to inflate the money supply.

The latter is occurring right now, and it is likely to continue for some time, but not to the degree necessary to correct the problem. In fact it appears as if they will do it with increased federal deficits. This just means that the debt obligation will continue to grow.

In a sense, this entire exercise is meant to show that the relationship of value to market capitalization of stocks, is now disjointed and that the new money coming in to the market is buying at a historically inflated price.

It is a situation being missed by most Americans who invest a portion of every paycheck into their 401K or other retirement plan.

I call it blind investing and the chickens will come home to roost, only in a very bad way.

What people don't realize is that since 1982, the stock market has gone from being the tool of the rich, to the death valley of the middle class.

For 27 years the middle class has been dutifully sticking money into their 401k plans and for the last 10 years the market has gone nowhere.

The bigger question to be asked is this. While the middle class was buying, who was selling?

Because for every share that is bought, a share is sold.

Here's another sobering number. Corporate debt has now soared to 11 trillion dollars, just a hair less than the stock market. Household debt has soared to 13 trillion dollars with 10 trillion being attributed to mortgages.

So if a debt bubble exists, then certainly the housing bubble is still out there.

So what you have are debt classes that are obligations, and asset classes that are bubbles.

Something has to give.

In a nutshell it means that the assets are over valued. What we are seeing now, with the horrible situation in housing, is only the start of a re-adjustment period.

All asset classes will be affected. Houses are somewhat protected as they are tied to a debt class. So what does that mean for stocks, which are tied to corporate cash flows?

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h1 style="MARGIN: 0in 0in 0pt">Ask yourself this question?

The S&P 500 pays an average dividend yield of 2%. To equal the dividend yield back in 1982 which was 6.8%, the S&P 500 would need to fall by 71%.

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h1 style="MARGIN: 0in 0in 0pt">Is that sobering?

Our current CD rates are between 2 and 3 %. You can loan money to corporations for between 5 – 10 %. Those are obligations.

No one is going pay cash for these corporations at their current values.

Oops, well maybe someone. We have people still investing in 401K plans.

Chapter 4 – The Ponzi

“If stupidity got us into this mess, then why can’t it get us out?”

Will Rogers

So what is the description of a Ponzi scheme? *Wikipedia* describes it as the following;

“A Ponzi scheme is a fraudulent investment operation that pays returns to investors from their own money or money paid by subsequent investors rather than from any actual profit earned.”

As discussed earlier, in 1982 the stock market paid out dividends to investors and those payments were the basis on how value was determined. Today very few stocks pay dividends, and as such there is no real basis to draw value.

So the value to recover from an investment is purely derived from the amount a subsequent investor is willing to pay.

It didn’t start out that way, but for sure it has evolved into a very elaborate scheme. The entire myth of ownership is clouded by the fact that most people own shares of Mutual Funds, that supposedly own shares in a trust for the benefit of the fund. As such the mutual fund industry takes on the fiduciary responsibility of voting shares and other ownership duties. The problem is they don’t do it. At least not like they should.

You see Mutual Funds never sell. Unless the people inside who invested in the fund divest, then money merely goes one direction, and that’s

into the market. What a fine mess we have here. I guess no one realized that at some point they might actually need that money for something.

Wall Street has an answer for that also. It's called asset divestiture strategies. According to reports written by Fidelity Fund Advisors, one of the largest Mutual Fund companies in the world, a typical retiree should only pull out 4% a year from their stock portfolios.

Wow 4%, and according to Fidelity, retirees were happy they would be allowed to pull that much out. Let me repeat, retirees were happy they'd be allowed to pull that much out. For crying out loud it's their money, they can pull it all out.

Did anyone ever wonder why it is that Mutual Fund companies might discourage early withdrawals by retirees? Did it ever occur to anyone that some of the advice offered by Wall Street might be a little self serving?

The Mutual Fund industry is a cash machine for Wall Street and Fund executives. The costs of payroll and expenses are directly charged against the funds assets.

Your assets.

It doesn't matter if they make you money or not. They still get paid to manage the fund. The more money in the fund, the more they get paid. It's as simple as that. Over the last ten years, the funds have made more money on your money than you have.

Now here is the plain truth. If every retiree decided to withdraw their money from the stock market, they would get paid 30 cents on the dollar. Let me repeat that. If every retiree in the United States suddenly decided to leave the stock market and convert to cash, they would get 30 cents on the dollar for their precious investments.

If that's not enough to make you get out now, then there will never be enough. There just isn't enough money to take everyone out at the value of the market today. You see it's really not a market at all. The stock market has turned into a Ponzi scheme that was hatched back in the early 1980's and is about at its peak. Every Ponzi scheme ends when people decide to sell. That's when the crap hits the fan.

There just isn't enough new money to take out the old money.

I calculated that around a 100,000 people would be directly influenced by this book. That's a drop in the bucket compared to the millions of people who have invested the entire amount of their retirement savings in the stock market. So I can say with great pleasure that people who read this book have a chance to save themselves, before it's too late.

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h1 style="MARGIN: 0in 0in 0pt">When will this happen?

It is difficult to say. Potentially Wall Street will try and force the market higher to put people at ease. But the baby boomers are rapidly approaching retirement and they will need their money. Simply put, most of them will begin to move their money away from the stock market and into more stable fixed income type of investments.

That will be the beginning of the big drop. And potentially the reckoning in the market.

I see the market reaching 14,000 on the DOW and 1,300 on the S&P 500 before the complete scenario takes hold. But make no mistake, when it happens, and it will happen, it will drop like an elevator that has lost its cable.

Chapter 5 – Advice

"A word to the wise ain't necessary; it's the stupid ones that need advice."

Bill Cosby

Most people will be surprised with what I say next. By all accounts, one should simply walk away from the stock market and never look back.

There would be nothing wrong with that approach. How can someone argue selling at the top and moving on?

Then what will you do? Where will you put your money?

The purpose of this book is not to necessarily scare you out of the market. Quite the contrary. It is a book to teach you to use the market for what it is.

It is a game of chance.

Unlike the Vegas games of chance, this is a game that can be beat. And it doesn't take the skills of an MIT mathematician to do it.

What it takes is someone who can see the market for what it is and take advantage of those who don't. That's what they do on Wall Street every day. Sure you don't want to be caught in the great landslide that is coming, but then again, you don't have to be.

Don't use the stock market as a tool for all of your retirement. There are much better places to stash your money for safety and return.

The stock market can become your speculative playground. That is where you can make some real money, without the same risk.

You see the shame about investing today is that the average investor is taking all of the risk and getting the short end of the reward stick. All of the money made today is in trading. Basically buying and selling securities.

Once the market finds an equilibrium between outflows and inflows, then the only money to be made will be trading the ebbs and flows of price.

Take a look at the chart below. It is the chart of State Street Bank for the last year.

It is a perfect example of how money is made and lost on Wall Street. Last September the stock was trading merrily along at \$70 a share and then boom, the banking crisis hits and the stock drops all way to \$14.43 a

share. As you can see from the chart, millions of investors sold at the bottom out of fear, that was between January and March of 2009.

Now here is a question I have for everyone reading this book. What changed between September 2008 when the stock was selling at \$73 a share, and March 2009 when the stock dropped all the way to \$14.43? I will tell you what changed, nothing. Oh we had a so-called banking crisis. But how is it that five months later the stock is trading back at \$50 a share.

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h1 style="MARGIN: 0in 0in 0pt">Who lost and who won?

That's always an interesting question. As the market was dropping, many retirees became afraid and sold at the bottom.

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h1 style="MARGIN: 0in 0in 0pt">Guess who bought?

Not the average investor, I guarantee you that. Now how much did the retiree make that didn't sell during that time frame.

The answer is they lost money. In total close to \$23 a share. Will they ever make the money back from \$73 a share?

The answer is not anytime soon.

This chart illustrates Wall Street in a nutshell. It is an example of every dirty trick played in the market place. In the next chapter we will refer to this stock often as we continue down the path of Stock Market Suicide.

Chapter 6 – Dirty Tricks

“Tricks and treachery are the practice of fools, that don't have brains enough to be honest.”

Benjamin Franklin

The Wall Street game. Benjamin Franklin had it right when he said it. And to this day, those who play the game on a daily basis, play with a stacked deck. Stock trading is not a game of skill, but more a game of nerves.

You see if a stock goes down, there can only be a few reasons for it;

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- There is bad news and there are no buyers to offset the many sellers.
- There is just a natural imbalance of sellers to buyers and nothing has changed at all with the company.
- Two is correct, accept that the sellers are aware of bad news and trying to get out ahead of time.

The winning trader learns to spot the difference between the three and profit from it.

I always like it when someone screams about insider trading. You must be kidding right? I mean everything about Wall Street is about inside information. It's always about someone knowing something first.

The Internet has perpetuated this to a whole new level. Yahoo is the perfect vehicle . They have message boards that cover every security, and they are full of rampant speculation and innuendo. In fact they have become a tool of Wall Street. We'll get back to that later.

For the trader it is about understanding what is happening at any place in time and knowing when to place a bet. You must treat the stock market as your personal Las Vegas. Because that's what it is. With the one exception being, the house is not the casino.

On Wall Street the casino is the exchange. The house is the brokerage firms. Yes that's right the brokerage firms. The Goldman Sachs and JP Morgan's of the world control the action. Everything is in their favor and they always win.

They win for one reason and one reason only, they know the future. Let me say that again. They know the future. It's a rigged game. The

difference between Las Vegas and Wall Street is one thing and one thing only. If the casinos rigged the game, they'd go to jail. Everyone knows the odds are bad in Vegas, but if you win, you beat the odds. On Wall Street, it's not the odds that get you, it's complacency. It's thinking that all of this is on the up and up.

I redirect you back to State Street Bank. In the course of five months the stock value of State Street Bank went from \$14.43 to \$54.00 a share. In that same time period, what changed for the bank?

The answer is nothing. So if the price of the stock can be that disconnected with the fundamentals of the company, then obviously the game is rigged. So what do you say to the poor suckers who sold at the bottom because they were worried their hard earned retirement was going down the drain?

It is the question that proves Wall Street has no conscience. Because they have no answer. Goldman Sachs downgraded State Street Bank in late February at the tail end of its slide in price. That downgrade triggered even more selling. Who sold? That's the question dogging everyone. I think to some degree it was the mutual fund redemptions.

What I do know is that the stock bottomed shortly after Goldman downgraded the stock and it started its immediate recovery. The next question is, who was buying on the final leg down when the mutual funds were selling?

Again we'll never know the answers to those questions, but what we do know is this. Jim Cramer the flamboyant television analyst who works for CNBC and has a company called TheStreet.com, also jumped on the State Street band wagon. Only not when the stock was at \$14, or \$16, no Mr. Cramer waited until the stock was \$30 a share before he started whispering to people that it might be a buy.

Of course Goldman Sachs came out and recommended the stock at \$35 a share. Get this, they hated it at \$14 but loved it at \$35 a share. Does something seem fishy to you?

Cramer hated Citibank and Bank of America, when they were at \$1 and \$5 respectively. But somehow he really likes them now that they are at \$4 for Citibank and \$15 for Bank of America.

So what's my point in bringing this to light? The average American and their retirement accounts sitting in Mutual Funds, got to watch but not participate. You see their mutual fund already owned State Street Bank and watched it drop to \$15 from \$70. So the average American lost 30% in this timeframe. So how much did hedge funds make in the same time period. I would be willing to bet that they did better.

They didn't own the stock prior to its collapse and more than likely bought it near the bottom and rode it up. Most of them have probably sold it to Mutual Funds and are seeking another opportunity.

The morale of the story is sell high and buy low. You can't make money if you don't take a profit. The game is figuring out which way these stocks are going to move on any given day. There are those that know and there are those who are victims.

Do yourself a favor and never listen to CNBC as they are the perpetrator of the con. They keep the imaginary scoreboard called the stock ticker in front of your eyes all day long to add an air of legitimacy to the whole thing. But the truth is that there is nothing legitimate about it.

Is a horse race legitimate if three of the jockeys hold there horses back so another can win?

When you play in the stock market, you need to understand that you're playing by there rules and that the outcome is predetermined. So the trick is to know what the outcome is before it happens, so that you can make a profit. The nice thing about this game, is that if you are right, they pay you.

Even the IRS is in on this game. They make you pay for your gains in the form of taxes. But your losses are limited to \$3,000 a year. The entire setup is in place to discourage you from trading the day to day swings. After all, if you can't write off your losses, then why sell. And if you have to pay taxes on your gains, then why sell. Everything is setup for the buy and hold mentality.

You see the average American has built the race track by leaving their money in the system and as such, like professional sports, they merely invite you to be an onlooker.

I hate the idea of conspiracies, it sounds almost schizophrenic. That's why I try and lay out the analysis with facts.

In 1982 according to facts compiled by congress, total 401K plans had invested capital of \$91 billion dollars. By 2003 that number had swelled to a total of \$1.9 trillion dollars. And now in 2009, the number is closer to \$2.5 trillion dollars in invested assets. That's 401K plans by themselves. We haven't even discussed pension and IRA assets.

I know that this is a book about the stock market, but I would be remiss not to discuss the retirement rip-off being perpetrated on the American people. Small companies, which make up the majority of 401K plans, pay an average of 2.4% per year on total plan assets in fees to the administering company. On top of that you pay fees of another 1% a year to mutual fund managers once the money is placed in a fund. So in some cases we are talking a 3% overhead each year against your savings.

That's right 3%.

I realize that many people lack the discipline to save on their own, but 3% a year is a heck of a price to pay for not being disciplined. You would be dollars ahead to simply pay your taxes and put the money into a CD. That's right, into a CD.

The morale of this story is easy. Get your money out of the 401K plan and roll it into a self-directed IRA. It costs you virtually nothing to do this and you can completely control how your money is invested and continue to gain the benefits of favorable tax treatment. By self directing your investment decisions, you can avoid costly fund management fees. For anyone who has serious assets in a plan, I would do it immediately.

Chapter 7 – The Nasty Perception

“There are things known and there are things unknown, and in between are the doors of perception.”

Aldous Huxley

People are not smart enough to manage this on their own. That is the purpose behind mutual funds, CNBC, and people like Suzy Ormond. But here is my question about this. Could you do any worse than they have?

Suzy Ormond told people 10 years ago to buy and hold and forget it and they would be happy. So are you happy that after 10 years you have lost money?

I don't want to pick on Suzy. She's actually no different than the rest of the industry. Jim Cramer did far worse. He told people to bail on the market just in time for most people to sell at the bottom.

How about Barney Frank, the esteemed Congressman from Massachusetts. He told people that Fannie Mae was a good investment. He said that in late 2008 at the same time he was having a reported relationship with a high placed manager within the company. Look at the chart of Fannie Mae below.

I agree it was a great investment at \$0.30 a share as now it is trading over a \$1.00 per share.

Here is the point of this chapter. You are perfectly capable of managing your own money, in fact you will have a distinct advantage over everyone else. You see those that are stuck in mutual funds will be forced to pay fees and will lack the ability to profit from swings in the market. We'll get to strategies in a moment.

The reason CNBC trots out thirty people a day to talk about the market is simple, to make you believe that it is smarter to leave your money in the hands of the experts who have done so well for you in the past. They want to create a perception that the average person isn't smart enough to do this on their own.

The rest of this book is going to deal with how you should invest this market. When you're done, some of you may draw the conclusion that this isn't for you. That's OK, as it isn't for everyone. It takes a little time, and a strong stomach, but the end result, is profit. That is the name of the game for investors.

There exists an old adage,

"A man who represents himself in a court of law, has a fool for a client."

Does that hold true for investing? It doesn't have to. The world is setup to convince us all that others are just better equipped to take care of us. It is a perception that permeates through our entire society. No where is it more true than in investments. It's almost laughable that Dave Ramsey has made millions telling people one basic caveat.

"Stop spending more than you make."

Now he is a genius, has a talk show, a television show, and does national seminars. People actually pay money to him so they can hear that line. Yet did any of us really need to be told that?

Granted Dave Ramsey says it in a much nicer way. And he surrounds the message with a little rhetoric, a nice listening ear, and some pleasant remarks to his callers, but in the end it's the same message.

So I've decided to have my own message. It's even simpler than Dave's message.

"You don't need them."

So often I hear from people that they are just not smart enough to do it. What I have come to realize is that the weakness has to do with fear and blame. If the broker loses the money, then we are not to blame. It's easier to let yourself off the hook and vilify them. That is a poor excuse for being taken advantage of. People need to stand up and say enough. Take control. Learn what they need to know. Move away from the television. Now let's get started with your education.

Chapter 8 – Taking Control

"Experience is not what happens to you. It is what you do with what happens to you."

Aldous Huxley

As you may have already figured out, I like quotes. One of my favorite authors is Aldous Huxley. Not that I believe everything he proposed, but because he does have insight. It is something we all have and it is useful in investing.

The first step in the process is moving your money from your 401K plan to an IRA. It is a simple process and one that needs to be done. Setting up an IRA account is also simple. For our purposes I will recommend TD Ameritrade as an excellent online broker to use. There are many others that will be equally as good.

Your plan administrator will have all the necessary forms for you to accomplish this move and it will take you less than one hour for the entire task. It may take your plan administrator a little longer to actually sell you out of your existing investments and transfer the money.

Now if you already have an IRA plan and you are in mutual funds, then your first step is simple. Sell all of your mutual funds. When everyone is done with their first step, their account should be entirely in cash.

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h1 style="MARGIN: 0in 0in 0pt">Now you have taken control

Your money is not making you anything now, but you are ahead anywhere from 1 to 3 % a year just by making this move.

Now for those who have money outside of a retirement plan, the same goes for you. By selling your mutual funds and transferring that money to your own online brokerage account, you have effectively taken control. You have also created a taxable event. More than likely a capital loss.

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h1 style="MARGIN: 0in 0in 0pt">Guess what?

If it was a loss, you just made money.

The IRS allows you to write-off up to \$3,000 per year against your other income. So that means if you have \$3,000 in losses, you just wrote yourself a check for about a \$1,000. That will be your tax savings from this move. Enough on that though. If you have a tax preparer, they will explain that to you at years end.

Now let's talk strategy.

Chapter 9 – Strategies and Tactics

“Strategy without tactics is the slowest route to victory. Tactics without strategy is the noise before the defeat.”

Sun Tzu

The above quote is by far the most insightful in this book. As it establishes the basis for success moving forward. Most teachers can explain strategies and tactics very well, but few can put them together to make a winning formula. That is often the difference between success and failure.

The rest of this book will deal with a game plan which encompasses both a strategy and tactics. Let's understand the difference between strategy and tactics.

The word *strategy* derives from the Greek word *strategos* which translates to the art of the general. This is often confused with tactics, from the Greek *taktike*. *Taktike* translates as organizing the army. In modern usage, strategy and tactics might refer not only to warfare, but to a variety of business practices.

In simple terms the strategy is to take over the world and the tactics are the methods employed. So what is a good strategy for investing? Obviously we need to be profit motivated. There are lots of ways to make profits in the market, but for purposes of this discussion, let's talk about ways that work for all circumstances. The traditional way, of buy low and sell high.

Let's review a couple of facts that have already been established in previous chapters.

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- The market is not an indicator of actual value but merely a proxy for value. In other words, if there was a rush to the gate, most people would see their investments dwindle.
- If a stock is going up, it is an indication of a couple of possible reasons. Either there are more buyers than sellers, or there is a perception of higher value. That perception is created by events.
- Someone always knows which way a particular stock is going to move and it is up to us to figure that out.

In this process I am going to map out several strategies that can be useful to people. I don't think any one investor should use one single tactic. It should be a combination of tactics that make up an investment strategy.

So let's get started.

Chapter 10 – The Income Strategy

“A large income is the best recipe for happiness I ever heard of.”

Jane Austin

What is income. In simple terms it's the financial gain earned or unearned over a period of time. That seems to be a predominate definition. So deal with the term earned. Because income unearned or accrued, is sitting in another person's bank account.

Every investment strategy should deal with earned income. That is why I am a proponent of buy and sell and not buy and hold.

Everyone who has invested in the stock market at one time or another has shown a profit from buy and hold, but few have held on to those profits. To sell a stock is to place a burden on yourself. You see money sitting becomes a burden to many.

A good investor must defeat that way of thinking. Holding a stock has an equally good chance of also losing money. So just because it's invested doesn't take an investor off the hook.

As you will learn I love to look at historical charts. Mainly because they tell the story and give us a glimpse of the future. So let's look at Microsoft and Intel.

Microsoft

Intel

The charts look eerily similar. Why is that? It's simple really, this shows the interconnectivity of the exchanges. Funds to a great degree own the vast majority of large CAP companies. Just about everyone who is in the market and invested in a mutual fund, owns these two stocks indirectly. The peaks and valleys suffered over the last five years were the same for holders of both companies. Yet why would that be. Is the market saying that Microsoft and Intel are suffering equally and prospering equally?

NO!!!

The market showing you that as long as nothing major happens to either company, that they will continue to move in tandem. It is a direct result of money flow. When stocks are going out, it is a reflection of money coming out of the market. This works perfectly for very large companies. There is actually less to worry about from a systemic nature when the entire market drops, than when a single stock drops. It is more

worrisome to see a stock drop when the market is rising. That indicates a problem or at a minimum a perceived problem.

It's also easy to see when the good times were to buy and when the good times were to sell. Today is September 2, 2009, and it really looks like a good time to sell. At least these two stocks.

Let's look at State Street again.

How about Bank of America

Again these look eerily similar. From 2008 to about March of 2009, these stocks experienced a terrible downturn.

Yet the banks are not at all alike. State Street Bank made no mortgage loans and their business model was still in tact, yet it went down like Bank of America, which had all kinds of problems.

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h1 style="MARGIN: 0in 0in 0pt">Why?

Because they are widely held securities and as such they move in tandem.

What I'm trying to illustrate here is that whether these are good companies or not, they go up and down at the whim of the market.

As an investor it is predominately important to understand that when a company goes down, there is a reason, either it's going out of business or just on sale as a method to punish investors

. In better words. Are the core fundamentals in tact for the company to prosper, or has something changed dramatically.

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h1 style="MARGIN: 0in 0in 0pt">Now let's look at AIG

This is an example of a broken company. Their business changed for the worse and more than likely it is broken forever. Or is it? Was their money to be made with AIG?

Apparently so, as it bottomed at a split adjusted \$6.60 a share and now is trading near \$40. Everyone on Wall Street told investors to dump it.

and dump it they did at huge losses.

Then Goldman Sachs and other institutions bought the shares and look what happened. The average investor took a huge loss and the institutions booked a huge gain at their expense. The same thing happened with Fannie Mae and Citibank.

The key to making long-term sustainable profits in the market is acquiring the skill of buying low and selling high. Then having the discipline to sit out when the market is too high.

The beauty of this strategy of buying low and selling high for income, is it can be done at anytime. Jim Cramer is right about one thing, and that is, there is a bull market somewhere. The trick is finding it.

You see since so much investment in the market is stagnant. Then the real genius is finding the money that isn't. You see it moves around from stock to stock, sector to sector. It's stealth like. You have the early money in and then the late money chasing it.

OK now let's look at a fun chart. This is a company called Hemispherx symbol HEB.

This is a fascinating company and idea. They make a drug called Ampligen. The company has been around a long time and they have been sputtering around trying to find a way to get FDA approval for this drug for 20 years. Around April of this year, speculation ran rampant that the company was on the verge of obtaining FDA approval for the treatment of Chronic Fatigue Syndrome. The chart explains the rest.

Moving on from this, it is easy to see that there are a variety of ways to make money in the market. But as with the chart of Hemispherx many ways to lose also. The art is to know when to buy.

Clear as day, the secret to making money is buying at the right time. The second but less important factor is selling at a profit. Because when it occurs, and it does occur, you have to do it. Then you merely turn and go to the next deal. Because the golden rule is this;

"You never question the wisdom of taking a profit."

Chapter 11 – How to Buy

"Anger is one letter short of danger."

I don't know who came up with this one, but it hits the mark squarely. Human nature and emotion play into our decision making. That is why so few of us make good investors. Most often we do the opposite of what is required.

We sell when we should buy and buy when we should sit on our hands. This is called panic selling and over enthusiastic buying. Sometimes it works but most of the time it doesn't. Here is the problem. By the time you here of a good investment, it no longer is. And by the time you here of a disaster, most of the time the disaster has passed.

To be a good buyer of stocks, you must learn what to look for. As you might have guessed, I am a bottom fisher. My strategy is simple. I think my odds are much better if I buy a stock near an all time low rather than an all time high. There are always exceptions, but in general it scares me to follow the crowd. Most of the time they will lead you over a cliff.

The safe bet is to look for companies that will be around. Buy them when they are out of favor, and then sell them when you have a profit. So today is September 2, 2009 and I want to pick a stock. What would I pick? What is out of favor. Let's do some searching.

I use a stock screener to help me with my work. I look for companies trading near their 52 week lows that have come down from higher levels. Particularly companies that might have fallen victim to a cyclical downturn or some other event.. Here is the question you have to ask;

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`h1 style="MARGIN: 0in 0in 0pt">Are they going out of business?`

So take a look at this idea. The name of the company is Ocean Freight, Inc. and their symbol is OCNF. It's now a penny stock selling at or around \$1.30 per share.

Take a look at the chart.

Now take a look at Hemispherx again

What's the difference? For a long time Hemispherx was dead and going nowhere, and then out of the blue with no real notice, bang it went up. Money came in and drove it higher. Then the speculative money came in and it went higher and then dropped.

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`h1 style="MARGIN: 0in 0in 0pt">Now why do I like OCNF?`

For a couple of reasons. The first being that it's not going out of business. The second is that the whole sector is out of favor for cyclical reasons. The third reason is that it appears to have formed a base line at this level. I call it the L Formation.

Some people hate this, but I think it's exactly what you should look for. It is the exact stock you can buy on the ground floor.

I like the idea of buying this company when most have taken their eye off of it. My prediction is that the OCNF chart will look similar to the HEB chart within three months. The problem is that it could take longer, or it could happen in a couple of days. You never know when the money will rotate. All we know is that it most likely will.

As a result, I see very little downside, and a great deal of upside. At a \$1.30 a share, an investor can wait and take whatever return on investment they desire. If the stock goes to \$1.43 a share, that is a 10 % return.

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h1 style="MARGIN: 0in 0in 0pt">Here is another idea. Alcoa Symbol = AA

The company is stuck in a range but used to be trading much higher. Fundamentally they are victim of cheap steel and other commodities. I like it because it is trading near its 52 week low and in a cyclical

downturn. More than likely the chance for upside is 50% greater than its downside.

So if the strategy is income, then certainly buying stocks that are out of favor, would be a tactic. And by all accounts a very low risk and a decent upside opportunity.

When you are looking for income, then you need to set your parameters low. Income is consistent profits taken in the form of sales. So as a primary strategy, I like to benchmark my return between 10-20 %.

Now for many stocks you will get multiple opportunities to do this. For instance with OCNF I bought back in middle August at \$1.32 a share. Then in late August I was able to sell at \$1.45 a share locking in a profit of 10% in 15 days. Today I went in and bought back the shares at \$1.30. I will look to turn them again for a 10-20% profit. It might take a week or a month. It is hard to say.

The market will give me an opportunity. If OCNF drifts lower, then I will look for an opportunity to add to my portfolio.

Finding good candidates is always the trick to making profitable trades. Make no mistake, this is a traders market. To profit you must be in and out.

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h1 style="MARGIN: 0in 0in 0pt">Beware of Message Boards – No the agenda

Yahoo and Google provide excellent resources to find vast amounts of data on potential trades. Be very wary of the message boards. Many of the posters have a vested interest that may not coincide with yours.

If it sounds to good to be true, then it is more than likely the musings of a PUMPER.

If someone is overwhelmingly negative about a company, then more than likely they are a BASHER.

Some of these people are paid to post on message boards to either scare investors into selling or encourage people to buy. In both cases usually for the wrong reasons.

If a message board is overwhelmingly one way or the other, then you should take a contrary point of view. Remember you are in charge and competing against others like you. There is a lot of good general information about companies, so sift through it and gain an understanding.

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`h2 style="MARGIN: 0in 0in 0pt">Homerun Tactic`

The ultimate goal is to make money by selling at a profit. I am big proponent of hitting a lot of singles. But let's face it, there are times when you can hit a homerun. I consider a homerun anytime you double your money.

Picking a stock that doubles or triples over night, is a wonderful feeling. I've done it several times this year and will continue to always look for ideas where that is possible.

The key to a balanced set of tactics, is you should be involved with stocks that have a potential for both. But it is important that you don't weight your investment decisions too much in one direction.

Homerun stocks should make up only 20% of your portfolio and it's a good idea that 30-40% of your dollars be in cash. Once you are fully invested, you are in full wait mode. You need the market to go your way.

Unfortunately you are not in a position to take advantage of opportunities that come along.

I have picks that have performed within one day and others that have taken a year. The problem is that you will not know when the market will go in your favor. The big firms know, because they control the market, but you are merely churning income off of their scraps.

A better way to look at it is you are a boat waiting for the wave to pull you out. That wave is the money rotating your direction.

Picking homerun stocks is the toughest thing to do and requires the greatest amount of patience. More often than not, you will be tempted to sell at a small profit far ahead of the eventual high the stock may achieve. In other cases you might just give up and look for other opportunities.

I do know this. These stocks happen for a few reasons.

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- A new discovery. This happens often to pharmaceutical and high tech companies. More often than not, these companies start with a lot of promise and then the time to reap the promise gets longer and longer. Many of these companies run out of money or just fail to reach their objectives. The market is littered with them. I will show you a few in a moment. But when you find one that delivers on their initial promise, you can have a huge winner.

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ol style="MARGIN-TOP: 0in" type="1">

- Turn around companies can be homeruns. Generally people lose interest over time and the stocks will sink. Then either a new CEO or a better operating model will change the fortunes of these companies. A successful stock picker will identify these companies through research and then show the patience to wait out the market. Sometimes it's nothing more than a cyclical downturn that reverses itself. Other times it is something more specific to the company, such as settling major litigation. There are a variety of reasons why companies get in the doghouse and stay there.

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h2 style="MARGIN: 0in 0in 0pt">Stocks you should avoid

If you receive solicitations over the phone or in the mail, these are obvious warning signs to

STAY AWAY. If you hear it on a television show, definitely stay away!

It is shocking to watch the **CNBC** ticker and then listen to some guest tout a stock and then watch it trade up as listeners try and speculate. There is no substitute for hard work in the form of research. You can't watch **FAST MONEY** or **CRAMER** and make money in the stock market. It can happen randomly, but it won't happen consistently.

Wall Street can also be very cruel to companies that have reporting issues. The hint of false or misleading numbers can be a death blow for a long time. Stay away from these companies at all cost. This is not to say that some of them won't make money for investors, but more often than not, they will lose you money.

Chapter 12 – Winning

“If winning isn't everything than why keep score?”

Vince Lombardi

If it feels like this is a battle, well it is. If I've tried to explain anything about the market it's this.

Wall Street takes no prisoners.

It's there game and for us small time players, they'd like nothing more than stomp on us like grapes.

As long as you are willing to go along with their program and stay in your 401K and mutual funds, then you are a client.

Do it yourself and you are the enemy. Make no mistake, they have more resources, and the will to win. Their existence depends upon them beating you into the ground.

If that sounds ominous, then put your money into a CD or money market fund.

But for those who have the will to play this game and fight this fight, then with the victories comes the satisfaction.

There will be days where you will doubt. There will be days when winning comes too easy. And there will be the dead wrong day. The one where you picked a stock that was dead wrong.

When you show conviction and stay with a pick and it works, you are a genius. When you stay with a pick and it fails, you are an idiot. The one thing each situation had in common, was you stayed with it.

But there is another word called pride. Don't confuse conviction with pride, as they are vastly different.

Pride means not admitting when you are wrong. Conviction means staying with an idea because it's not been proven wrong.

Let me tell you a story about a time where my pride got in the way. The company was called Sagent Technology.

They were a developer of data mining software. The CEO was a brilliant man with years of experience and a recognized expert in the field.

I invested in the company at \$7 a share and it was a massive holding in my account. In March of 2000 the stock ballooned to \$44 a share in a four day period.

I was rich beyond my dreams. Within a couple of days I sold every share I had.

A couple of weeks later the company reported earnings. They missed their estimates by a narrow margin and the stock was punished.

In one day it dropped from \$28 to \$17 and then drifted all the way back to \$7 a share. I couldn't wait to jump back in.

This time buying a much larger position. I had a meeting with the CEO where we contemplated joint ventures and huge sales. I was in love with the company and their technology.

Unfortunately I was alone in my love. The facts were far different. The company was having a terrible time executing on a sales strategy.

The Board of Directors brought in a new CEO to run things. Still I wouldn't listen to the experts. The writing on the wall was there, but I ignored it.

Sagent went down in flames and all of my stock ended up worthless.

The point of this is twofold. Trading should never be about one idea. The proper portfolio needs to be one that is diversified, then your pride can never totally take you down.

When you have an idea, it is important to write down somewhere the one fact that drove you to like the company. As long as that basic fact remains true, then it is OK to have conviction, even if you lose.

But when that fact becomes fiction, it is time to throw in the towel.

With Sagent the fact I relied upon was that the company made a superior product that others would need.

When they missed their earnings for the second time, it was apparent that they had a product that wasn't accepted in the way I had held as a fact.

The results clearly showed otherwise. When the facts change you need to sell and move on. Sometimes you just have to take a loss.

Some of the best trades I ever made didn't look so good at first. Being a veteran of the energy trading business, I, like many others hated Enron, but I surely loved the profits I made on their stock quarter after quarter. It was a major holding in my account.

You see most of us just felt they were bigger and smarter than the other companies and as such had an advantage. I won't go into what tipped me off about them, but needless to say, it changed the way I felt about them.

Despite the fact that their stock went up another 20% after I sold, and CNBC was still touting the company as great, I never doubted my intuition.

Not long after that, the news came down about irregularities with their accounting, among other issues. Their stock plummeted and many people lost big time.

But there was still a chance even then, for people to get out with most of their money. Many employees held on to their shares not wanting to believe the information.

Where I lost my head with Sagent, I didn't with Enron. It is OK to be wrong, it's just not OK to be prideful. Prideful will cost you every time.

I'll tell you another story where I was wrong. The company's name was Entropin. They made a drug called Esterom and it had blockbuster possibilities.

It was an analgesic compound made from clinical cocaine and in tests it had shown great promise for helping people with everything from bursitis to arthritis.

It lacked one thing though. FDA approval. What had been proven in the laboratories and in early tests, never bore itself out in human trials. The company was so certain of its success that it went for the big homerun.

Pain therapy.

It seemed like a great strategy to me as the market was huge and the dollars would flood in after approval.

When Phase III studies were designed, the FDA approved a double blind test utilizing Esterom and a placebo. They tested around 300 people.

It wasn't that it didn't work, unfortunately it worked on everyone including those who took the placebo. Thus the test was a failure.

Had they stuck with the original intent, which was to treat severe bursitis and similar illnesses, the drug most certainly would have succeeded.

When the news hit on that September day, it was like a ton of bricks. The stock was cut into a third of its value. Reluctantly I sold most of my shares that day. Admittedly I held on to a few.

It was one of those ideas where I had done everything right. My wife and I even attended the shareholders meeting in Palm Springs where management made glorious predictions.

We were both very excited. But when that day hit and it did, it left a very empty feeling in both of our stomachs. The morale to this story, is never fall in love with an idea.

Be proud when you are right and take your profit. When you are wrong, and it will happen, take your loss. With Entropin it was conviction not pride.

When the news hit, I sold. The company finally ended up worthless within a few years after a desperate attempt to revive its fortunes. Esterom never saw the market.

I did have a chance to meet Dr. Somers, the inventor of the drug. He was living in San Felipe, Mexico and he was distressed over how the company handled the FDA.

He'd long since left the company and was doing charity work in Mexico. It was heart warming to hear that he'd used most of the money that he was paid for his rights to the product, on a hospital in San Felipe.

About the time I was buying the largest portion of my shares, he was selling his. I couldn't understand who would sell in the face of such assured success.

He used the money to complete the hospital and purchase a fleet of ambulances. In tears he remarked about how the ambulances had saved several lives. There was a silver lining to all of this.

My wife and I looked him up a couple of years ago while we were on a family vacation to San Felipe. We visited the hospital where he had poured out the last years of his life.

We were told the good doctor had passed away and left the hospital in the care of a new doctor. It was a small six room facility, but they performed low cost surgeries and procedures and saved lives.

Sometimes good comes from a loss. His was definitely a story of conviction.

Chapter 13 – Conclusion

“A conclusion is a place where you got tired of thinking.”

Arthur Bloch

Actually this is just a good place to stop. It is time for you to think. That is what this book is meant to do.

The world is a confusing place. So much information is thrown our way on a daily basis, that it's hard to sift through the rubble.

I myself have become so cynical about the news and information, that I always consider the source so as to conclude what political slant might be in the article.

You see facts are facts and versions of facts are just that. Fox News and MSNBC will carry to totally different versions of the same set of facts. So it's up to the viewer to determine the truth. I think most people are able to do that.

So when I read things, I tend to take most of it with a grain of salt. That may be how you are reading this. After all, I have attacked some pretty hallowed institutions.

However I believe the book to be factual.

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h1 style="MARGIN: 0in 0in 0pt">So what should you do?

Maybe you should investigate a little bit. Take a mock run at picking a couple of investments. See how you do. Maybe you should learn a little more.

Every book should lead to another. And this one is no different. My next book is already here and ready to be read. Its called;

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`h1 style="MARGIN: 0in 0in 0pt">"How Not To Commit Stock Market Suicide"`

I am proud to say that it is full of useful information on how to buy stocks. It is a step by step approach with all sorts of useful links to free information. When you are done reading it, which will take only a few hours, you'll be more than ready to move forward.

For those who are not quite convinced that this is for them. Then at a minimum, I hope I've convinced you to convert your money to cash. You've worked hard for what you have been able to save. There is no reason why someone on Wall Street should bear the fruit of your labors.

In time you may come back to this book and read it again. Sometimes the reality of things has to smack us a little harder in the face. Until then, I wish you well.

To everyone else. Pick up the next read and lets beat these fools into submission. And remember this;

The stock market is not the value of the companies, but merely a perceived value. Diamonds no matter how beautiful, become worthless when there is not enough money for foot to eat.

Thus value is a moving target.

The End

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Dirty Tricks By Dirty People

The Naked Populist

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Michael Eichenberg is a resident of Olathe, KS. He graduated from Northwest Missouri State University in 1978 with a Bachelor of Science Degree in Accounting. He has worked in information technology for the

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