



10 SUREFIRE WAYS TO MAKE AN INVESTMENT FORTUNE IN BULL OR BEAR MARKETS

(1) BUY WHEN FEAR IS RAMPANT, SELL WHEN MANIA IS THE GREATEST

Every investing course should be accompanied by a psychology course as well. The most difficult thing to do in investing is to buy more when fear and panic is rampant and to sell when mania is the highest. Stock markets and asset classes cycle in peaks and troughs. Most people will not buy stocks until after stocks are plastered all over the news and after they have just risen by 30%, 40%, 50% or more, believing that they will rise higher forever. Buying at the troughs when nobody is talking about a stock or during steep corrections provides a low-risk/high-reward setup for your portfolio.

(2) LEARN WHAT YOUR NEIGHBOR IS DOING, WATCH INVESTMENT SHOWS ON MSNBC AND BLOOMBERG ON TV, LISTEN TO THE RECOMMENDATIONS OF YOUR FINANCIAL CONSULTANT – THEN MAKE SURE THAT YOU DON'T HAVE A SINGLE THING IN COMMON WITH THEIR STRATEGIES

If you are one of the thundering sheep herd and perpetually follow the mindless actions of others, you are virtually guaranteed to lose money or forever relegate your portfolio to average to below-average returns. The surest way to build an investment fortune is to buy asset classes and stocks when nobody is discussing them and to sell them when everyone is talking about them. This requires a nose for market timing. Is market timing impossible as all the global investment firms always tell you? Hardly. Learning what asset classes and individual stocks are poised to skyrocket every year just takes a little bit of time, but is really not that difficult. Since time is a commodity that Private Wealth Managers and Financial Consultants employed by large commercial investment houses lack, they tell you that market timing is impossible merely because they don't have the time to perform the necessary research.

However, purchasing stocks that are likely close to cyclical bottoms instead of believing that market timing is impossible and indiscriminately buying stocks will easily add another 10% in returns to your portfolio per year. Do you really believe that you can make a fortune by buying any stock that is advertised on a TV program

watched by millions of investors worldwide? Ultimately, if you own the same stocks as your neighbor to the right, your neighbor to the left, the talking head on TV, and the talking head at your commercial investment firm, then you are not engaging in the proper activities to build an investment fortune.

If you don't seek out stocks and asset classes at times when nobody is considering them, you will never make serious money in investing. You may make 10% a year or maybe even 15% a year but if you want to enter the world of the big boys and earn 25% or more in annual returns, you have to dig a lot deeper than your investment peers. Just a couple of months ago (June 25, 2007) this email landed in my inbox from a big investment newsletter publisher. "Over the past week, I've crisscrossed northwestern Canada looking for the next great investment. I'm up here to find out what everyone's invested in. And after attending an investment conference in Vancouver last week, I can tell you absolutely that no one is interested in gold...Base and minor metals will continue to be the best place to have your money over the next few years. Gold, as a virtually useless metal that has few industrial uses, appears to have hit its peak and could be running sideways for years like it has many times in the past."

Then, in August, when the HUI (the major AMEX gold index) took a sharp hit in response to global market corrections, everyone proclaimed that gold was no longer a safe haven and that gold was "done". Then, one-month later, on September 26, 2007, a lot of people were discussing gold's strong rapid surge. So was the newsletter that ended up in my mailbox that proclaimed gold as dead right in June but terribly wrong in September? The answer is neither. The only person that is wrong is you if you blindly listen to emails that end up in your inbox or talking heads that you watch on TV. The fact is that little-discussed asset classes and stocks are ignored because perhaps 1 out of 1000 investors truly understand them, and even the ones that parade as experts on TV have been terribly wrong about their calls much more often than they have been right. Just think about the people you have seen that have called the bottoms in housing and financial stocks only to see them plunge yet again a month or two later, or think about those that told you that worrying about the collapse of Bear Stearns was the most foolish talk they had ever heard. So it's up to you to get off your proverbial bum and learn how to invest for yourself. Chasing stocks higher and buying when everyone else is speaking about them is a sure way to lose money. And so is listening to talking heads. Learn a system that teaches you to buy assets when everyone is ignoring them and you'll outperform everyone else.

(3) CONCENTRATE, DON'T DIVERSIFY

If you've read the paragraph above, you already realize that Private Wealth Managers and Financial Consultants are in short supply of time as they partake in the race to gather as many assets as possible for their respective firms. Thus, this is the reason they employ the rule of diversification for your portfolio. Having undergone stressful martial arts training under the instruction of a U.S. Navy SEAL, I know that SEALs will often preach that during an operation exfil exercise, the easiest way out is rarely the safest way out. The same holds true in investing, yet diversification is by far and away, the easiest investment strategy that anyone could possibly teach to tens of thousands of financial consultants. Certainly, diversification cannot be a complex strategy if tens of thousand consultants from varied backgrounds and industries can all efficiently apply this concept to their clients' portfolios with very little training. Diversification is the biggest cop-out investment strategy of all

time. It screams of incompetence and lack of skill – “I have no idea what asset classes are going to perform well this year so I’m going to invest you in everything under the sun.”

Assume everyday, a NBA coach looked at his active roster of 12 players and said, “I have no idea who are the best players. Because I don’t know, and don’t care to take the time to figure it out, I’m going to ensure that all 12 players share equal time every game.” This coach is unlikely to win many games versus the coach that takes the time in training camp to assess who his best 5 players are and then consequently plays these 5 players the majority of minutes during every game. This is the difference between diversification and concentration. The coach that diversifies may win some games based upon pure luck because maybe he has a couple great players that can make up for the deficiencies of the poor players he puts on the court every night. Still, most nights, the deficiencies of the poor players will drag down the performance of the excellent players.

However, the coach that concentrates and puts his best players on the court every night will be able to field a team every night that has an excellent chance of winning. This is why we concentrate in investing. To give us the best possible chance of winning. Diversification will never achieve this. Study the best investors in the world. The best investors in the world always manage their own money and they concentrate their portfolios in the best asset classes every year. Don’t believe the hype about diversification – diversification stinks, it doesn’t protect your portfolio, it certainly will never make you wealthy, and in this current environment, is likely to underperform inflation rates, creating a loss of real wealth. Of course you must know what you are doing to have success with a concentration strategy. This is precisely why your friendly neighborhood financial consultant will diversify 999 out of 1000.

(4) LEARN EVERYTHING YOU CAN ABOUT THE RELATIONSHIP BETWEEN POLITICS AND STOCKS

On September 18, 2007, the U.S. Federal Reserve cut the Federal Funds Rate (the rates banks borrow from each other) by 50 basis points. The U.S. stock markets soared that day, followed by strong surges in Asian markets the following morning. The interest rate cut undoubtedly was not just motivated by a desire to manufacture stability and confidence in the U.S. economy, but also motivated by politics. If you don’t understand what I mean by this, then you have homework to do.

Governments and corporations in every major global economy in the world have formed relationships that have since been coined as “corporatocracies”. Politics has a major hand in all of the following: interest rate cuts, interest rate increases, the price of oil, the price of gold, the valuation of the Euro, the valuation of the dollar, the valuation of the Pound Sterling, permits to mine uranium in Australia, defense spending for national security, decisions to go to war, and contracts awarded to corporations. If you don’t understand politics, you cannot possibly understand global macro-economic trends and what asset classes and stocks offer the best low-risk, high-reward opportunities year after year. The lack of understanding of politics is what causes Chief Investment Officers of major commercial investment houses to make poor calls in the direction of commodity prices and the direction of global economies. Understand politics and your investment returns should increase tremendously.

(5) LEARN EVERYTHING YOU CAN ABOUT GOLD AS AN INVESTMENT

Gold, as an investment, is perhaps the most misunderstood and poorest understood asset class in the world. Some people believe that the physical commodity is the only way to invest in this asset, and as such, only put money into the paper gold ETFs. Other people that invest in gold stocks don't understand the differences in price behaviour between the juniors and majors; explorers, developers, and producers; hedged and unhedged companies; and the political risk of operating in different countries. Therefore, they never understand the risk-reward quotient of their gold portfolio, sell out during steep corrections, always lose money, and think that gold investments are speculative and stink. Furthermore, they don't understand that short-term manipulation of prices of the underlying commodity and stocks can't change the long-term outlook and performance. However, learn how to buy and sell this asset class properly and you will be rewarded as no other asset class can reward you.

(6) UNDERSTAND WHY YOU OWN EVERYTHING YOU OWN, THEN STAND FIRM IN YOUR CONVICTIONS

Since most people never take the time to learn how to invest properly, or are fed a bunch of misinformation by the so-called industry professionals, they waffle as much as a shady politician when making investment decisions. They don't know if they should hold, sell or buy during corrections, or hold or sell during steep runs higher. Primarily they don't know because they don't understand what they own because they have allowed someone else to make those decisions. I've always found it odd how people will refuse to allow other people to do the most trivial of things for their companies, preferring to take care of them him or herself, or will consult 20 people before buying a car, but will gladly hand over \$2 million in cash to a stranger to manage.

Yet, just having conviction is not enough. Being wrong in your convictions can be just as devastating to your portfolio performance than having no conviction at all. For example, in June, July, and August of 2007, many housing analysts repeatedly called bottoms in housing stocks, and many investors, just like sheep, jumped in and bought up shares in housing related stocks. Some even kept increasing position in shares of sub-prime mortgage companies that had plummeted 70% believing they were acquiring the stock for pennies on the dollar. Most of these investors, instead of profiting, lost a great deal of money from stocks that did not stop hemorrhaging and some lost 100% of their money from investing in companies that eventually went bankrupt. This is the lazy man or woman's way out and almost never ends up well.

When I say "Stand Firm in Your Conviction", do so only after gaining expertise in a subject matter. Do not blindly follow someone else's advice just because they appear on Bloomberg, the Wall Street Journal or Reuters. Just because someone has the appearance of an "authority" does not make him or her one. In fact, often there are shameless self-promotion reasons behind media appearances and the only person that is bound to get hurt by blindly listening to these people is you. Only after you take the time to truly learn everything you need

to know to become an expert in a particular industry or asset class, then don't be afraid of going against the grain of the majority opinion. You've taken the time to become an expert, so utilize your knowledge in how you manage your portfolio. More times than not, you will be correct when everyone else is wrong.

(7) MAKE VOLATILITY YOUR FRIEND

Most people have been taught that volatility equals risk. Baloney. If you remember that market timing in asset class cycles is possible, then you can basically negate much of the risk of volatility by buying close to the troughs instead of close to the peaks. Furthermore, you can never make any money by buying a bunch of stocks that plod along at 6% to 10% growth a year. Thus, you need volatility in your portfolio in order to make money. In fact, I advocate even owning some speculative stocks to boost the performance of your portfolio. Again, with due diligence, a fair batting average with speculative stocks is not only feasible but very likely. I've only been able to obtain 25% to 35% annual gains in stock portfolios by devoting a percentage of my portfolio to speculative stocks that have returned 280%, 260% and 190% a year. At the end of the day I don't care if I have some speculative stocks that go belly up (meaning they got stopped out at 40% losses) if I have enough stocks that earn several hundred percent that significantly add to the absolute return of my portfolio. Like I said, make volatility your friend.

(8) NEVER LISTEN TO THE GOVERNMENT

The release of government statistics moves the market. But that doesn't make the statistics right or truthful. The Consumer Price Index, Housing Starts, Job Growth, the Consumer Confidence Index, and so on all influence the markets. Markets always await with bated breath for the release of these numbers, then are accordingly swayed higher or lower depending upon whether the reported numbers miss or exceed analysts' targets. Knowing that these government statistics affect market movements, why would I say disregard them? Here's the answer.

Rarely are these statistics every forthcoming and aboveboard. Instead they are manufactured to sway markets to react in certain ways. For example, the formula to determine the CPI in the U.S. was tinkered with greatly under President Clinton. Current U.S. Federal Reserve Chairman Ben Bernanke has been reported to be tinkering with the formula even more. If the CPI formula used 15 years ago would report a drastically different number than the CPI formula used today simple due to significant differences in how the CPI is now calculated, how much confidence doest that grant you in the validity of this statistic? Other major benchmark government statistics aren't even based upon real surveys of actual transactions, but rely heavily on government estimates. Thus, the government just estimates the statistic to be whatever they want it to be so that it will serve their purposes and will steer the economy and the stock markets in the desired direction.

This is why when stock markets turn abruptly and experience sharp corrections, everyone states, “we never saw it coming”. Disregard government statistics, do your own digging to understand the true economic conditions of whatever market you are planning to invest in, and you’ll never suffer destruction of wealth due to unforeseen surprises. Instead, you’ll see the surprises coming from miles away. Especially today, with an imminent global economic crisis on the way, it is especially important to disregard the government and prepare accordingly. If you do, you’ll make a fortune while your neighbors will be rocked by “shocking” and “surprise” downturns in stock markets.

(9) FOLLOW THE MONEY TRAIL

As a means of validation, but certainly not as a primary strategy, occasionally dig down deep and see where the elite money in your country is heading. For example, in early 2006, you would have discovered that Bill Gates and George Soros were shorting the dollar tremendously, a good sign to get rid of any dollars you had and to diversify into Euros, Sterling and gold. With gold mining companies, if you discover that the best, most successful companies in the industry are buying 3 million shares of a speculative stock, well, basically you know that the best minds in the business would never just dump millions into a stock without performing their due diligence. So if your own personal due diligence tells you the stock is a buy, then certainly the discovery of this additional information is reassuring.

However, the number one rule, Rule (6), is always to understand what you own. Thus, you can’t just look at the equity portfolio of Warren Buffet and think that you can duplicate his returns without understanding why you would buy the same stocks he holds. If you don’t understand, you won’t know whether to buy more, sell everything, or hold on to your current position during market downturns and what to do during strong runs higher. Furthermore, there have been times that I’ve suspected that some of Warren Buffet’s comments have been more self-serving than reflective of his true opinions. As I said, blindly following anyone’s opinions is a sure way to lose money. If you don’t understand this, you just can’t make money.

(10) EXPAND YOUR INVESTMENT HORIZONS ACROSS GLOBAL BORDERS

Too many investors suffer from myopia. They think that if the markets in their country are bad, they must suffer losses as well too. Often, one market may be down in one region of the world but soaring in another. Broaden your investment borders and you greatly increase your chances of being highly profitable every year. Sometimes, you won’t even have to look outside your country, but just look where no one else is looking. When one of the major indexes in the U.S., the S&P 500 shed 49% of its value from 2000-2003, there was another little followed index in the same country that gained 58% during this time. But it was ignored, unresearched, and I doubt if more than 1% of all investors in America benefited from the tremendous run of this asset class.

One last word. All the rules above demand a certain level of creativity. Before I employed the 10 rules above five years ago, I never made much more than 10% a year when investing in stocks. After I started em-

ploying the rules above years ago, 20% annual returns a year started seeming like poor returns. Realize that investing is not a science, but an art. All the number crunching, fundamental analysis, and technical analysis in the world will not provide you with better returns than simply being creative with the 10 rules above. So change not only your investment life today with the application of the above rules, but forever change your beliefs about the types of investment returns that are possible and achievable.

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