

## Investment choice now may determine your future

Over the past two years, I have written this column hoping educate investors. In July, 2007 my first column was entitled "The Rosy Scenario Turns to Darkness" as I warned of the coming crash in the economy and the markets. Apparently, not many people listened to the brand new columnist because today, the vast majority of people have substantial losses in the market. These losses are causing many people to rethink many things in their lives.

The main question we are asked time and time again is how can I make this money back?

Most people are afraid of the market now and their plan is to move a substantial portion of their holdings out of stocks and into bonds, CDs or other fixed income "safe" investments. Most of these are paying on average 3 percent. By making this change, you might be sleeping better at night, but your 401k is not. By making this move, it will take 24 years for your account to double and get back to where it was a couple of years ago. If you are 60 years old, that is not welcome news.

So what do you do? What is the way forward?

The first thing you need to do is take responsibility for your money. We have talked about "economic adulthood" many times and gaining it is the first step in the way forward. This means taking responsibility for the gains and losses in your portfolio. You must become educated about the workings of markets. You must understand your risk and how that relates to return. And you must be open to new ideas and investment techniques.

I have outlined 6 things that I believe will set you on this forward path toward recouping the losses in your portfolio. Most of them are unconventional and bold and fly in the face of the "buy and hold" crowd. But I ask you, how has buy and hold worked for you over the past 10 years? Adapt to these strategies and you have a fighting chance. Stay anchored in 50 year old

investment myths and you will have a good chance of doubling your money in 24 years. This is my economic adulthood strategy.

**Trade the markets.** You must learn to trade the markets. After the dotcom bubble burst in 2000 the NASDAQ lost 78 percent over 31 months. If you bought that low in 2002, a buy and hold strategy would have returned 8 percent over 6 ½ years. Yet there were 4 major trading rallies within that same time period that would have netted 78, 35, 28 and 25 percent returns. The market in 2009 and beyond will act the same way. You must learn to trade or bear the consequences.

**Concentrate Positions.** Diversification was always thought of as a tool to protect a portfolio against downside risk. As we have found out, that was a myth. Diversification is proper when your portfolio has prospered and preservation of capital is your main goal. When growth is a priority, as it is today, then concentration of assets in a few solid investments is the wise course.

**Keep it Simple.** Instead of buying expensive investment products, or dozens of individual stocks you would have done much better buy just buying index funds or ETFs. One of the biggest and most successful Singapore based money managers I know trades just 6 markets. He manages over \$1.3 billion. He claims the human brain can not handle the clutter of huge diversified portfolios. He keeps his very small and simple and his results are stellar.

**Have a clean, simple "decision tree".** Investing in stocks can be very clean and simple. You have a decision tree and the more options you have, the more complicated and uncertain you become. The first question is if the market is going higher or lower. If you decide higher, than do this. If the answer is lower than do this. Have 3 investments set

for up market strategies and 3 investments set for down market strategies and you are done.

**Get out of Bonds.** The result of government bail-outs will be hyper inflation in coming years. Investors moving out of stocks and into bonds in record numbers have created a bond bubble. When the bond bubble bursts major losses will follow. With interest rates at 50 year lows, now is the time to sell your bonds and let the bubble pop without you in it. Short term cash is king.

**Move into Commodities.** As inflation starts, commodity prices will rise. There are ETFs available today that can give you commodity exposure without investing directly into the futures markets. You will need inflation hedges in your portfolio.

These six steps should be thoroughly discussed with your financial advisor. Your financial advisor must be comfortable with trading the markets. And you

must be comfortable with their knowledge and experience in trading. You will form a team and work together to get you moving forward.

It is time to be bold. And this will not be easy. But anything worth while is always hard to accomplish. William Bradford, speaking in 1630 of the founding of the Plymouth Bay Colony said that all great actions are accompanied with great difficulties. John F Kennedy said when outlining the impossible task of going to the moon, “we choose to go to the moon, not because it is easy, but because it is hard.”

This is a turning point in many people’s lives. You can get up and fight back and take action like the six steps above, or sit back and give up, do nothing and stay with the same old things that got you into this mess.

I think it is time for economic adulthood. I think you can do it. The path forward lies before you.

*Big Wave coaches traders, online investors and individuals. Through our coaching and trading seminars we develop trading systems to help you become a better trader. Workshops are held on a regular basis to teach you’re the ins and outs of trading. If you would like to learn more about trading workshops and private coaching, check out website at [www.bigwaveadvisors.com](http://www.bigwaveadvisors.com) or email me at [dave@bigwaveadvisors.com](mailto:dave@bigwaveadvisors.com) or call at 630-682-5520.*

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