

I wanted to respond to Tom Hawks comments. Someone I respect a lot, but who I disagree vehemently on this topic.

Tom I stand by what I said. You can have as long a term horizon as you want, but like most other long term plans we have, most people's lives don't match up to their "horizons". It's amazing how life intervenes. Kids, whatever. It's a fortunate few that can just shell it away and never touch it. Your "horizon" hits a dead end when you have to put money into a checking account. I have never seen any investing research that deals with random withdrawals that represents real world. And boy oh boy, if life hits you hard when the market is down, you make a withdrawal and you won't ever catch up.

But that's just the start of the problem. Let's say you buy into what the brokerages and funds are selling. Buy and hold, or whatever. How do you pick from the 17k funds? By reading some websites? By talking to some friends? By watching the commercials? By selecting among the options your company gives you in their plan? Which of course was the result of a sales pitch that the fund company put together to the person offering the plan to your company. Everyone is getting paid on the gravy train, except for the guy putting in the money at the end.

Wall Street has done an AMAZING job of creating conventional wisdom. "Buy and Hold" is the 2nd most misleading marketing slogan ever, after the brilliant "rinse and repeat" message on every shampoo bottle. We as a country have fallen for it. Every message from every marketer of stocks tells us. Young or old, if you can hold for the long term, things will work out for you.

That is total bullshit. It's for suckers.

I've traded stocks for almost twenty years now. I'm good at it. When I work at it. And it takes a lot of work. Not just reading all the 10K/Qs and corporate websites and product managers, or talking to people at the outskirts of the company where management doesn't reach. It takes often knowing the market for a company's product better than the company does. After all just because a company is public doesn't mean a thing other than someone has, and continues to make money buying and selling the stock as their own product.

If you are going to trade stocks, you just have to follow one rule and remember one thing. That rule is always have a definite knowledge advantage about the company you are trading, and always remember that every stock transaction has a sucker, and you have to know whether it's you or the person on the other side of the trade. No one buys a stock from you, or sells one to you knowing they are leaving money on the table.

The bottom line is that unless you plan on making it a full time job to do your research and put yourself in a position to have an advantage, you are going to get your ass kicked at some point by someone who does. You just have to hope that it doesn't put a big financial hurt on you when it happens. The same logic applies to funds. Funds are in the business of making money for themselves first. You 2nd.

First check what the heads of some public mutual funds are making. Someone help me out, I can't find the link right now. Was it Mario Gabelli who not only paid himself more than his fund earned for its shareholders in a year (forget the people with money in his funds), but he was paying himself from like 3 companies at the same time? Get me the links and I will update them here.

Then you should check the turnover of fund managers some day. You know where the good ones go? To start or manage their own funds.

Then there is the portfolio turnover. How often they completely turn over the stocks in their fund. Last numbers I saw was that on average funds turnover their portfolios 85pct every year. That's not investing. It's fund managers doing whatever they can to beat their peers, knowing that if they don't, they are out of a job. Their bosses know that if they don't beat their peers, the money flows out, and that is a HUGE problem for any fund. So many funds take chances they shouldn't, with your money. We never see any headlines for funds that close.

Why is that? We never see any headlines for fund managers who get fired. Why?

But even if performance sucks, rather than saying how bad it is, they pick the short stint when it wasn't so bad. Orbes

[did a nice job reviewing this little marketing habit of funds](#) and referencing some manager turnover issues at Fidelity.

As far as ETFs. Which one? Remember, the Dow and S&P are marketing tools. They change the indexes. Look at the stocks in there today, vs what was in there in years past. You are not buying a passive investment that tracks the economy. You are buying the stock pickers at those respective indexes. Last time I looked, both Dow Jones and McGraw Hill are for-profit companies. They want people to think their DJ 30 & S&P 500 indexes are powerful indexes that can be reported daily as a reflection of market action. So they change the stocks when they think they need to. To help them with their product.

[I've said a lot of this before.](#) The stock market is by definition a [ponzi scheme](#). As long as money keeps on coming in, then there is someone to take the stocks from the sellers. If the amount of money coming in is reduced, the stocks, indexes, et al go down. What if, for who knows whatever reason, the amount of money going into stocks declined significantly? Who would buy stock from the sellers. I mean goodness gracious, you could see something disastrous happen. Like the Nasdaq dropping from 5000, to under 2000 in just a few years. It's happened before, it can happen again.

Which is exactly why we get all these nonsensical commercials from brokerages. To keep the money coming in. I wish someone would index the amount of money spent on marketing by mutual funds and brokerages to the Nasdaq and Dow and see if it correlates.

Money inflows drive the business. We can get all the economic data we ever dreamed of getting, but if money inflows declined significantly for an extended period of time, then every rule of thumb would go out the window until money started flowing in. Yes it would flow in eventually as prices dropped. From big investors like me who wouldn't have gotten hurt by a huge market decline and could come in and buy huge chunks, or companies

outright.

You ? You probably would be like Charles Ponzi's customers. You wouldn't be able to get your money out of the fund when it went down, and by the time you did, it would be too late. You would have been crushed.

[I've said it before](#), a stock that doesn't pay dividends is valued like a baseball card.

Just whatever you can sell it for. The concept that you own "your share" of the company is a joke. You are completely at the whim of the CEO and board who will dilute you on a daily basis with stock options, then try to buy back stock to cover it up and push up the price, rewarding the shareholders who get out, rather than those that continue to hold the shares. Meaning you.

Have you ever seen Warren Buffet talk about buying 100 shares of anything k shares ? or does he take control of , or purchase a material percentage of a company ?

If you have enough money to have influence , take control or buy it outright, then the stock market can work for you. That's why I buy stock in public companies that relate to my other business entities. When I pick up the phone and call the CEO of a company I own shares in, they call me back very quickly. When I ask if there are business opportunities that make sense for the company and another company of mine to work together, I won't always get the business, but I will always get a meeting. If I'm smart about the investments I make, the more important returns come from the relationships with the companies than the action of the stock.

If the best you can do is buy shares that are going to be continuously diluted, then you are merely a sucker. There is a good chance that the shares you bought came from shares an insider who got stock options. You just helped dilute yourself with your first share purchase.

The wealthy can make the stock market work for them. Individuals buying shares of stock in non dividend paying stocks... they work for the stock market.

I know I've painted a pretty bleak picture.

The stock market isn't going away. Would it shock me if the whole thing collapsed ? yes. it would. It's just too engrained in our way of life in the USA. What would change my mind is if a better investment vehicle came along.

The stock market used to be about investing capital in companies that came public or did secondary offerings. That money was used to create amazing businesses and return dividends back to people who truly were investors. There once was a day where most companies paid dividends higher than the interest rates on their bonds. Why ? Because stocks are inherently more risky. If a company goes belly up, bondholders collect first, shareholders usually last. People could buy and hold stocks, and get paid real cash money for being a shareholder in the company at rates far higher than the dividend yields we see today. If the company did well, the dividends went up. Investors who held, actually got all their money back in dividends at some point and the rest was gravy. The good ole days.

But that changed when mutual funds came along and started marketing the concept of growth as a way to attract investors.

It's not inconceivable that the old mindset could come back. That a new market of stocks could be created where companies didn't continuously dilute shareholders by issuing stock and options to themselves. Where earnings were earned for the same reason they are in private companies, to not only fund growth, but also provide cash back to investors. Now if that market existed today. Where I could buy 100 shares of stock, and even if it represented just 1/100,000 of ownership in the company, I could have confidence that year after year, I would still own 1/100,000th of that company, and if that company generated earnings , I would have at least some of that money returned to me. Well then, that wouldn't be a ponzi scheme. That would be a true market of stocks, and I would be happy to recommend to anyone to be careful, but buying stocks in that market could be something worth considering if your appetite for risk can handle it.

Sorry for the long winded response Tom, but thanks for getting me going ■

If you put your money in safe bets like I mentioned in the last post, then you can spend that time you would otherwise have to spend researching funds and or stocks, either with people you love, things you love to do, or in yourself. Using those hours to be the best at whatever you love to do. That's an investment you never have to pay a commission on. You never get a margin call. And the returns can be astronomical.