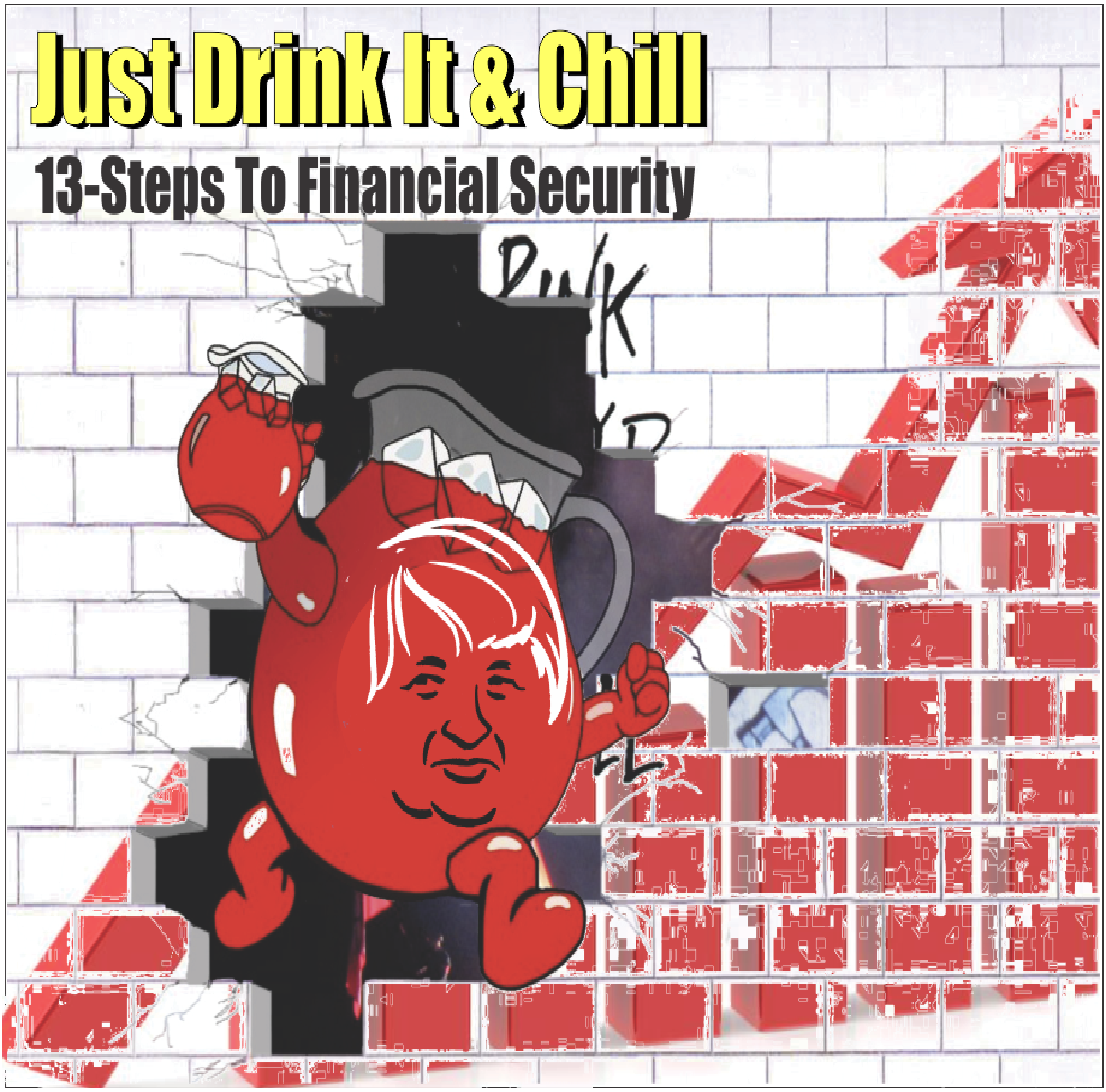
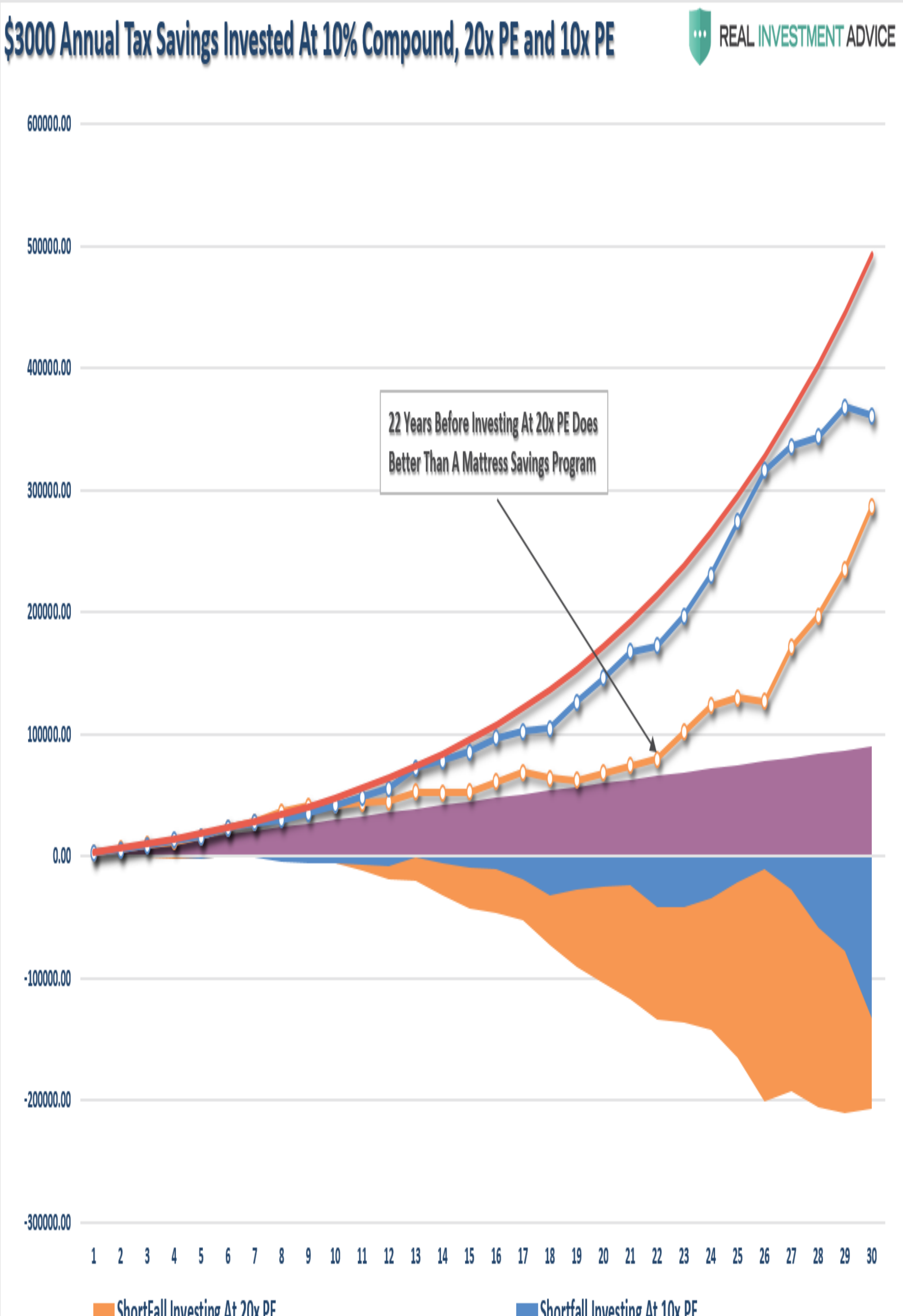


We know the term *?drinking the Kool-Aid?* is dangerous. But it?s much more than cult leaders convincing followers to drink it. The financial services industry pours out more Kool-Aid than my mother did in the 70?s. At 11 years old, I was so hooked on Grape Kool-Aid that I used it instead of milk on my fruit loops. **Today, the *"Kool-Aid"* has been poured generously into the financial markets.** From the errant belief that [Central Banks will always be there] to bail out the markets, to the myth of the security of [*"passive indexing."*] Of course, such is always the case near the peak of a cyclical *"bull market"* as the psychological drive to *"not miss out"* erases the pain of the previous losses.

> ***"Kool-aid" tastes great....it's just not good for you.***

The most recent evidence of the *"Kool-Aid"* addiction was delivered recently by a reporter requesting some analysis on what would happen if a *"Millennial"* saved their $3000 tax refund every year. *(See the [full analysis here.](#))* Here was the crux of the analysis:

> *"So, with this understanding let me return once again to the young, Millennial saver, who is going to endeavor at saving their annual tax refund of $3000. The chart below shows $3000 invested annually into the S&P 500 inflation-adjusted, total return index at 10% compounded annually and both 10x and 20x valuation starting levels.* ***I have also shown $3000 saved annually in a mattress."***



> *"I want you to take note of the point made that when investing your money when markets are above 20x earnings, **it was 22-years before it grew more than money stuffed in a mattress."***

When I sent back the initial analysis I received the following response:

> ***"**I think you can be more hopeful. **Just factor in a 10% correction because the market always bounces back, right? This is the message we want to promote."***

And there's the *"Kool-Aid."* **The mathematical analysis suggests that Millennials, at current valuation levels, may be just as well off storing money in cash rather than invested in the markets.** That is just the math. However, since it does not encourage Millennials to invest their money in the financial markets, it is *"negative."* Secondly, the assumption of just a singular 10% correction over the next 30-years, the duration of the study, **also illustrates the lack of understanding about the importance, and regularity, of *"mean reverting events."*** The financial markets will do one of two things to your future financial security:

1. If you treat the financial markets as a tool to adjust your current savings for inflation over time, **the markets will KEEP you wealthy.**
2. However, if you try and use the markets to **MAKE you wealthy, your capital will be shifted to those in the first category.**

As I discussed this [past weekend](), there are ample warning signs suggesting the risks of having excessive equity exposure to the market outweighs the potential for reward. So, how can you ensure that you are doing what's right for your financial future?

Financial Security: More Than Just The Financial Markets

This is your window of opportunity to put the *"Kool-Aid"* aside, gain a clear head, and rethink the things that lead to long-term and lasting financial security. Financial security is not only about investing correctly, but also the things that are important to long-term capital preservation. **The following are some thoughts in this regard and cover both rules of investing as well as rules of capital preservation.**

1. Buy low, sell high.

> *As obvious as this seems it is the one thing that most investors do exactly the opposite of. Your ability to consistently buy low and sell high, will determine the success, or failure, of your investments. The simple reality is that 100% of your rate of return is determined by when you enter, or leave, the stock market.*

2. The price of the stock market is always right.

> *The only thing that truly matters in investing is the price. If prices are rising - then you are long the market. If they are falling; you are in cash or short. **What you 'think' the market should be doing at any given time is irrelevant.** With all things being equal, the longer you stay on the right side of the stock market, the more money you will make. The longer you stay on the wrong side, the more money you will lose.*

3. Every market or stock that goes up will go down and vice versa.

*The more extreme the move up or down, the more extreme the movement in the opposite direction once the trend changes. This is also known as **the "trend always changes" rule.***

4. Your career provides your wealth.

You most likely will make far more money from your business or profession than from your investments. Only very rarely does someone make a large fortune from investments, and it is generally those that have a business investing wealth for others for a fee or participation. (This even includes Warren Buffett.)

5. Don't assume you can replace your wealth.

***The fact that you earned what you have doesn't mean that you could earn it again if you lost it.** Treat what you have as though you could never earn it again. **Never**, take chances with your wealth on the assumption that you could get it back.*

6. The trend is your friend.

*Since the trend is the basis of all profit; understanding both the long and short-term market trends are useful in understanding the risks versus the reward in putting capital at risk. **Contrary to the short-term perspective of most investors today, all the big money is made by catching large market moves - not by day trading or short term stock investing.***

7. You must let your profits run and cut your losses quickly.

*This is the key to investing success. Trading discipline is a necessary condition of investment success. If you do **NOT** have a highly disciplined approach to trading - you will not make money over the long term.*

8. Traditional technical and fundamental analysis alone may NOT enable you to consistently make money in the markets.

Successful market timing is possible but not with the tools and analysis most people employ**. The problem with most analysis is it is biased to sell product and, therefore, is optimized, employs data mining, subjectivism, or other such statistical tricks to promote a specific perspective, opinion or objective. **Focus on what the data is telling you rather that what you want it to be.

9. The worst thing an investor can do is take a large loss on their position or portfolio.

*You can avoid making that huge mistake by avoiding buying things when they are high. **It should be obvious that your starting point is critical in determining your total return**, if you buy low, your long-term investment results are irrefutably better than someone who bought high.*

10. The most successful investing methods require changes at the margin.

A strong investment discipline requires patience, discipline, and work. However, once a portfolio is built and operational maintenance is a function of changes at the margin. ***Investing is a long-term process with a view towards changes of trend. Such a portfolio requires very few changes between major trend changes****. If you are trading regularly - you are speculating and will eventually wind up losing more money than you made.*

11. Don't use leverage.

When someone goes completely broke, it's almost always because they used borrowed money. *Using margin accounts, or mortgages (for other than your home), puts you at risk of being wiped out during a forced liquidation. If you handle all your investments on a cash basis, it's virtually impossible to lose everything?no matter what might happen in the world?especially if you follow the other rules given here.*

12. Whenever you're in doubt, it is always better to err on the side of safety.

If you pass up an opportunity to increase your fortune, another one will be along soon enough. But if you lose your life savings just once, you might never get a chance to replace it. ***Always err on the side of caution. Always ask the question of what CAN go "wrong" rather than focusing on what you "HOPE" will go right.***

13. Create a bulletproof portfolio for protection.

A portfolio of low-risk investments, fixed income and a healthy level of cash will ensure that no matter what happens in the markets, or in your life, you will be in a financially sound position to handle it. *A portfolio should be able to survive any uncertainty that arises and in today's world, there are plenty of uncertainties to choose from. It isn't difficult, or complicated,* ***to build a portfolio that can deliver lower volatility, income, and capital preservation.***

It is easy to get sucked in to drinking the Kool-aid. **We all want to be able to under-save today for tomorrow's needs by hoping the markets will make up the difference.** This is the same bit of logic every major pension fund in America has utilized for the last 25-years and are now facing the underfunded consequences of believing the markets will generate 7-8% every single year.

I get it. The *"Kool-aid"* tastes great. It's refreshing. It gives you a sugar rush.

But drink it long enough and the negative consequences will make you wish you had made better choices earlier in life.

It's not to late too start making better choices.