Your mother likely imparted valuable investing lessons you may not have known. With Mother's Day approaching and bullish market exuberance present, such is an excellent time to revisit the investing lessons she taught me.

Personally, when I was growing up, my Mother had a saying, or an answer, for almost everything? as most mothers do. Every answer to the question *"Why?"* was immediately met with the most intellectual of answers:

> **??*because I said so*?.**

Seriously, my Mother was a resource of knowledge that has served me well over the years, and it wasn't until late in life that I realized that she had taught me, unknowingly, valuable investing lessons to keep me safe.

So, by imparting her secrets to you, I may be violating some sacred ritual of motherhood knowledge, but I felt it was worth the risk of sharing the knowledge that has served me well.

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## *1) Don't Run With Sharp Objects!*

It wasn't hard to understand why she didn't want me to run with scissors through the house ? I think I did it early on to watch her panic. However, later in life, when I got my first apartment, I ran through the entire place with a pair of scissors, left the front door open with the air conditioning on, and turned every light on in the house.

That rebellion immediately stopped when I received my first electric bill.

Sometime in the mid-90s, the financial markets became a casino as the internet age ignited a whole generation of stock market gamblers who thought they were investors. **There is a vast difference between *investing and speculating*; knowing the difference is critical to overall success.**

A solid investment strategy combines defined goals, an accumulation schedule, allocation analysis, and, most importantly, **a defined sell strategy and risk management plan.**

**Speculation is nothing more than gambling.** If you are buying the latest hot stock, chasing stocks that have already moved 100% or more, or just putting money in the market because you think you *"have to,"* you are gambling.

The most important thing to understand about gambling is that success is a function of the probabilities and possibilities of winning or losing on each bet.

In the stock market, investors continue to play the possibilities instead of the probabilities. The trap comes with early success in speculative trading. **Success breeds confidence, and confidence breeds ignorance.** Most speculative traders tend to *"blow themselves up"* because of early success in their speculative investing habits.

**When investing, remember that the odds of making a losing trade increase with the frequency of transactions**. Just as running with a pair of scissors, do it often enough, and eventually, you could end up hurting yourself.

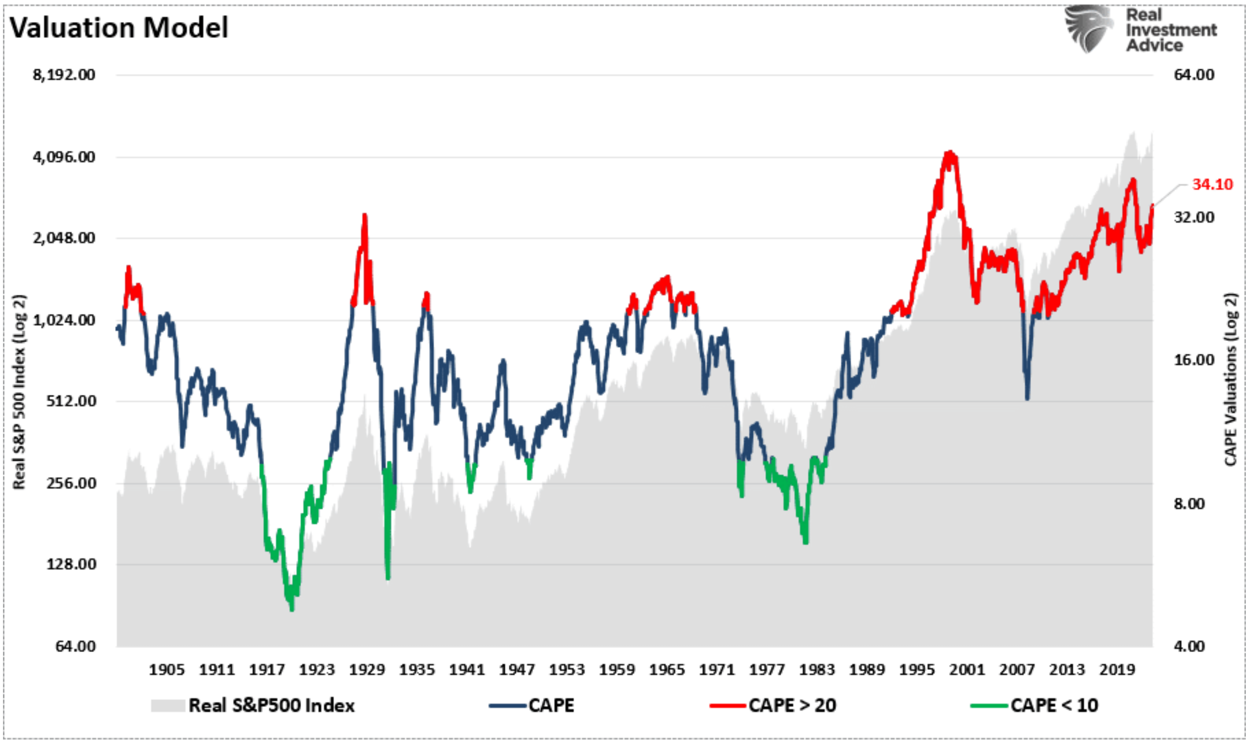


## *2) Look Both Ways Before You Cross The Street.*

I grew up in a small town, so crossing the street wasn't as dangerous as in the city. Nonetheless, she yanked me by the collar more than once as I started to bolt across the street, seemingly anxious to "find out what's on the other side." It is essential to understand that traffic does flow in two directions. If you only look in one direction, you will get hit sooner or later.

Many people want to classify themselves as a *"Bull"* or a "*Bear."* **The savvy investor doesn't pick a side; he analyzes both sides to determine what the best course of action in the current market environment is most likely to be.**

The problem with the proclamation of being a•*"bull"*•or a•*"bear"*•means that you are not analyzing the other side of the argument and that you become so confident in your position that you tend to forget that•*"the light at the end of the tunnel?just might be an oncoming train."*




It is an essential part of your analysis, before you invest in the financial markets, to determine not only ***"where"*** but also ***"when"*** to invest your assets.

## *3) Always Wear Clean Underwear*

This was one of my favorite sayings from my Mother because I always wondered about the rationality of it. I always figured that even if you wore clean underwear before an accident, you're still likely left without clean underwear following it.

The investing lesson is: "***You are only wrong ? if you stay wrong.***"

However, being an intelligent investor means always being prepared in case of an accident. That means simply having a mechanism **to protect you *when* you are wrong with an investment decision.**

You will notice that I said "***when*** *you are wrong*" in the previous paragraph. Many of your investment decisions will likely turn out wrong. **However, cutting those wrong decisions short and letting your right decisions continue to work will make you profitable over time.**

Any person who tells you about all the winning trades he has made in the market ? is either lying or hasn't blown up yet.

One of the two will be true ? 100% of the time.

Understanding the *"risk versus reward"* trade-off of any investment is the beginning step to risk management in your portfolio. Knowing how to mitigate the risk of loss in your holdings is crucial to your long-term survivability in the financial markets.

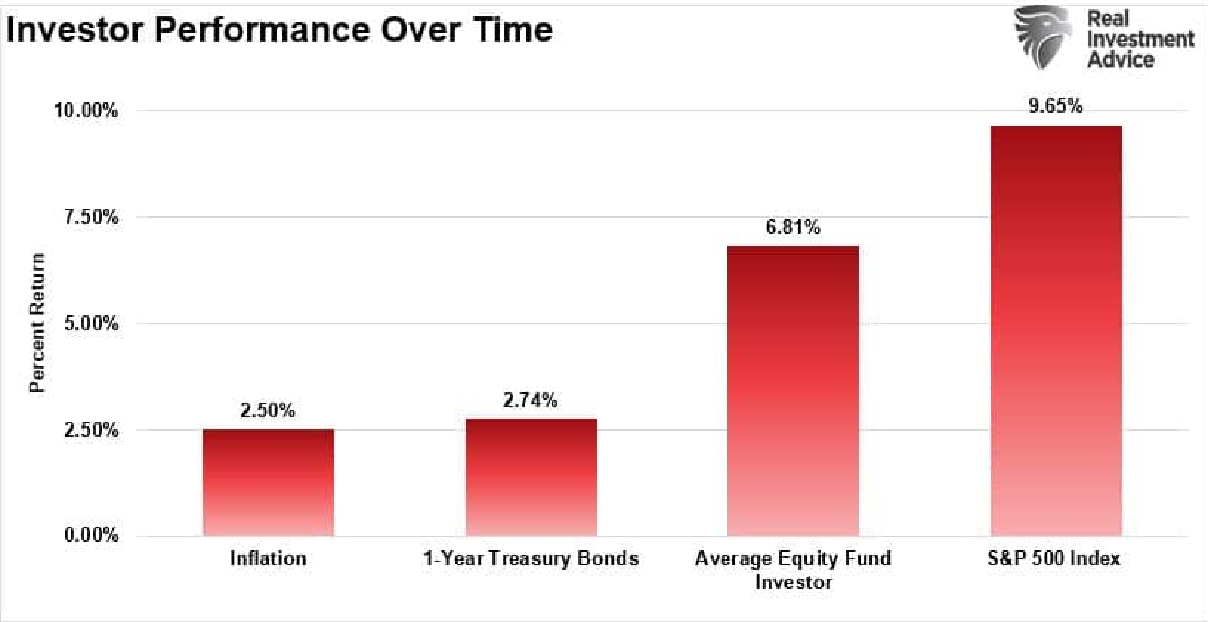
## *4) If Everyone Jumped Off The Cliff ? Would You Do It Too?*

Every kid, at one point or another, has tried to convince their Mother to allow them to do something through *"peer pressure."* I figured if she wouldn't let me do what I wanted, she would bend to the will of the imaginary masses. She never did.

*"Peer pressure"* is one of the biggest mistakes investors repeatedly make. Chasing the latest *"hot stocks"* or *"investment fads"* that are already overvalued and are running up on speculative fervor always ends in disappointment.

Investors buy stocks that have moved significantly off their lows in the financial markets because they fear *"missing out."* **This is speculating, gambling, guessing, hoping, praying ? anything but investing.** Generally, when the media begins featuring a particular investment, individuals have already missed the major part of the move. By that point, the probability of a decline began to outweigh the possibility of further rewards.

The investing lesson is to be aware of the *"herd mentality."* Historically, investors tend to run in the same direction until that direction falters. The *"herd"* then turns and runs in the opposite direction. This continues to the detriment of investors' returns over long periods.




This is also generally why investors wind up **buying high and selling low**. To be a long-term successful investor, you must understand the "*herd mentality*" and use it to your benefit ? **getting out from in front of the herd before you are trampled.**

So, before you chase a stock that has already moved 100% or more, figure out where the herd may move to next and "*place your bets there."* This takes discipline, patience, and a lot of homework, but you will often be rewarded for your efforts.



## *5) Don't Talk To Strangers*

This is just good, solid advice all the way around. Turn on the television, any time of the day or night, and it is the "Stranger's Parade of Malicious Intent." I don't know if it is just me or if the media only broadcasts news revealing human depravity's depths. Still, sometimes, I wonder if we are not due for a planetary cleansing through divine intervention.

However, back to investing lessons, getting your stock tips from strangers is a sure way to lose money in the stock market. Your investing homework should **NOT** consist of a daily regimen of CNBC, followed by a dose of Grocer tips, capped off with a financial advisor's sales pitch.

**To succeed in the long run, you must understand investing principles and the catalysts to make that investment profitable**. Remember, when you invest in a company, you buy a piece of it and its business plan. You are placing your hard-earned dollars into the belief that the individuals managing the company have your best interests at heart. **The hope is they will operate in such a manner as to make your investment more valuable so that it may eventually be sold to someone else for a profit.**

This also embodies the *"Greater Fool Theory,"* which states that someone will always be willing to buy an investment at an ever higher price.**The investing lesson is that, in the end, someone is always left *"holding the bag."* The trick is to ensure that it isn't you.**

Also, you must be aware of this when getting advice from the *"One Minute Money Manager"* crew on television. When an *"expert"* tells you about a company you should be buying, remember he already owns it and most likely will be the one selling his shares to you.

## *6) You Either Need To "Do It" (polite version) Or Get Off The Pot!*

When I was growing up, I hated to do my homework, which is ironic since I now do more homework than I ever dreamed of in my younger days. Since I wouldn't say I liked doing homework, school projects were rarely started until the night before they were due. I was the king of procrastination.

My Mom was always there to help, giving me a hand and an ear full of motherly advice, usually consisting of many *"because I told you so?"*

**Interestingly, many investors tend to watch stocks for a very long period**, **never acting on their analysis** but idly watching as their instinct proves **correct and the stock rises in price.**

The investor then feels that they missed his entry point and decides to wait, hoping the stock will go back down one more time so that he can get in. The stock continues to rise. The investor continues to watch, becoming more frustrated until he finally capitulates on his emotion and buys the investment near the top.

The investing lesson is to be aware of the dangers of procrastination. **On the way up and down, procrastination is the precursor of emotional duress derived from the loss of opportunity or the destruction of capital.**

**However, if you do your homework and can build a case for the purchase, don't procrastinate.** If you miss your opportunity for the correct entry into the position ? don't chase it. Leave it alone, and come back another day when ole' Bob Barker is telling you ? *"The Price Is Right."*

## *7) Don't Play With It ? You'll Go Blind*

Well?do I need to go into this one? All I know for sure is that I am not blind today. What I will never know for sure is whether she believed it or if it was just meant to scare the hell out of me.

However, kidding aside, the investing lesson is that when you invest in the financial markets, it is very easy to lose sight of your intentions in the first place. Getting caught up in the hype, getting sucked in by the emotions of fear and greed, and generally being confused by the multitude of options available can **cause you to lose your focus.**

**Always return to the basic principle you started with. That goal was to grow your small pile of money into a much larger one.**



## Putting It All Together

My Dad once taught me a fundamental investing lesson as well: KISS: *Keep It Simple Stupid.*

This is one of the best investment lessons you will ever receive. Too many people try to outsmart the market to gain a small, fractional increase in return. Unfortunately, they take disproportionate risks, often leading to negative results. **The simpler the strategy is, the better the returns tend to be. Why? There is better control over the portfolio.**

**Designing a *KISS* portfolio strategy will help ensure that you don't get blinded by continually playing with your portfolio and losing sight of what your original goals were in the first place.**

1. ***Decide what your objective is****: Retirement, College, House, etc.*
2. ***Define a time frame*** *to achieve your goal.*
3. ***Determine how much money*** *you can "realistically" put toward your monthly goal.*
4. ***Calculate the*** return needed to reach your goal based on your starting principal, the number of years to your goal, *and your monthly contributions.*
5. ***Break down your goal into achievable milestones.*** *These milestones could be quarterly, semi-annual, or annual and will help ensure you are on track to meet your objective.*
6. ***Select the appropriate asset mix*** *that achieves your required results without taking on excess risk that could lead to more significant losses than planned.*
7. ***Develop and implement a specific strategy to sell positions*** *during random market events or unexpected market downturns.*
8. ***If this is more than you know how to do*** *? hire a professional who understands essential portfolio and risk management*.

There is much more to managing your portfolio than just the principles we learned from our Mothers. However, this is a start in the right direction, **and if you don't believe me *? just ask your Mother*.**