MANWARD letter
Volume 4, November 2020

Beating Buffett: Put Our Market-Crushing New Strategy to Work With a "Ride or Die" Stock Set to Double in the Next 18 Months

Plus... Updates to Our Portfolio and Wise Thoughts on What It Means to Invest

Dear Reader,

Will Warren Buffett die bankrupt?

It's not a question I ask out of spite or vitriol. I respect the man. We need more folks with his common-sense thinking and humble musings.

But as I study more of what is really moving stocks these days and how much things have changed in just the past 12 years, I can't help but ask whether the Oracle's best days are behind him.

After all, as I sit to write you, Buffett's famed **Berkshire Hathaway** (BRK) stock is down about 4% for the year.

The S&P 500 is up more than 7%.

It's not a one-off miss.

Over the last two years, Berkshire has gone up just 4%... and the S&P has surged 25%.

Over five years, it's 62% for Buffett... 71% for the market.

And since stocks hit that painful low in March 2008, Berkshire has risen 273%, while the S&P 500 has surged 332% higher.

Has the Oracle lost his way? Has the world's great value investor lost his ability to spot a good discount? Hardly.

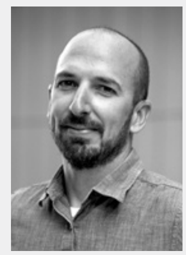
If you've been paying attention to these pages, you know something else is going on. And if you've paid attention to Buffett's investing model and the odd way he funds it, you may have already connected the two ideas.

Buffett's Float... Sinks

It's a vital lesson. It's more proof that the direction we are headed with this letter is the right one.

You see, Warren Buffett is smart.

When he decided to get into the ho-hum realm of insurance, it wasn't because he had a passion for actuary tables. And it wasn't because he loved the idea of protecting folks from financial disaster.



Andy Snyder is the founder of Manward Press, the nation's premier source of unfiltered, unorthodox views on money. An American author, investor and serial entrepreneur, Andy cut his teeth at an esteemed financial firm with nearly $100 billion in assets under management.

Known for his outspoken market commentary, Andy's been a keynote speaker and panelist at events all over the world, from four-star ballrooms to Senate hearing rooms.

Today, Andy's dissident thoughts on wealth and investing can be found exclusively in *Manward Digest*, as well as in the pages of *Manward Letter*. He also helms the award-winning investment advisory services *Alpha Money Flow* and *Codebreaker Profits*.

Inside...

No. Far from it. Buffett became the mogul of the insurance world because of something simply known as a "float." He defines it in Berkshire's famed "owner's manual": "The funds of others that our insurance business holds because it receives premiums before needing to pay out losses."

In other words, when a person cuts a check to Geico to cover their car insurance, Buffett invests that money in safe bonds – using the income from those bonds to buy stuff... typically good, cheap companies.

But there's a problem with this idea.

It's a problem that started in 2008 – just as Buffett started on this long losing streak.

The death of interest rates.

Income Slashed

When rates were "normal," Berkshire had quite a cash cow in the barn.

It could take those premiums, safely invest them and get a return of 6% or so. Given the huge scale of the firm's insurance operations, the scheme kicked off a massive amount of cash – billions of dollars. But not now.

As I'm sure you know, safe bonds pay next to nothing.

That sad fact is showing up in Buffett's performance... and in the fine print within the company's annual report:

> *Changes in interest rates therefore matter enormously to these companies, and during the last decade the bond market has offered pathetically low rates.*
>
> *Where once these insurers could safely earn $0.05 or $0.06 on each dollar of float, they now take in only $0.02 or $0.03 (or even less if their operations are concentrated in countries mired in the never-never land of negative rates).*

This is where things get interesting. It highlights the biggest investing quarrel of our time...

> *Some insurers may try to mitigate their loss of revenue by buying lower-quality bonds or non-liquid "alternative" investments promising higher yields. But those are dangerous games and activities that most institutions are ill-equipped to play.*

At the expense of shareholders, Buffett has chosen to remain in "safe" bonds.

It hurts.

During the first six months of last year, Berkshire saw $1.1 billion in investment income from its insurance businesses. This year... it was a mere $577 million.

And this is just the beginning of the pain. As old bonds mature and are replaced with lower-paying yields, the problem will only get worse.

Shareholders should wince each time a AAA-rated bond that has paid 6% for the last 20 years gets replaced with a long-term bond yielding a mere 2%... or less.

What's Next?

It's clear the Oracle has put his furry little paw into the Fed's trap. He can borrow massive amounts of money and get back to the business of business (what the Fed wants)... or he can sit on the sidelines.

A look at the company's top stock holdings shows just how deep this problem runs. Berkshire's biggest position by far is **Apple** (AAPL). That's good. Because after that, the list of holdings shows bank after bank.

Berkshire Hathaway's Top Stock Holdings

Company	Symbol
Apple Inc.	AAPL
Bank of America Corp.	BAC
Coca-Cola Co.	KO
American Express Co.	AXP
Kraft Heinz Co.	KHC
Moody's Corp.	MCO
U.S. Bancorp	USB
Wells Fargo & Co.	WFC
Charter Communications Inc.	CHTR
DaVita Inc.	DVA
Bank of New York Mellon Corp.	BK
Verisign Inc.	VRSN
General Motors Co.	GM
JPMorgan Chase & Co.	JPM
Visa Inc.	V

Source: Company reports

Out of the firm's 15 top holdings, eight are banks or tied to banks. Roughly a third of Berkshire's stock holdings are in the financial sector – not a great place to be as negative real interest rates ravage the world of money.

Of course, much of what Berkshire owns isn't publicly traded. The news from those positions – largely insurance companies and interest-rate-sensitive utilities – is far from grand.

A move that was once considered brilliant is now showing its weakness.

Again, I don't write this to pick on Mr. Buffett. His company is well-diversified and can afford a generation-long slump. I write it as a lesson for you.

Can you afford to keep doing what you've been doing and endure a generation-long slump?

I don't want you to... especially if there's a simple way to avoid it.

The Way Ahead

The danger of doing things the old way is clear. Interest rates are dead. The businesses that rely on them are in trouble. The models that depend on them are no longer reliable.

Berkshire's decadelong underperformance proves it.

It's why I debuted my modern asset portfolio (MAP) theory last month... and it is why I'm detailing much more about the portfolio and how it's structured this month.

It represents the wise way to invest now that the old ways have gone bust.

To go along with the idea, I detail a hot new stock this month. It's a direct play on the ideas above. It has partnerships with some of the fastest-growing companies on the planet. Some of them couldn't do business without its products... yet I bet you've never heard of it.

That's good. Those are the stocks that make for the best investments.

Speaking of which, Mark Ford rounds out the issue with a highly experienced look at the unique differences between investing, speculating and, well, gambling.

Given the explosive nature of stocks over the last nine months, his essay is well-timed.

This is a great issue. It covers important topics and does it with a unique, useful spin.

We hope Mr. Buffett gets a chance to read it. It could pull him back ahead of the market... where smart men like him belong.

Be well,

Andy

THIS MONTH'S STOCK PICK

Business Is Booming

Use This Company's Product... or Go to Jail?

The key to getting rich is to sell a product that everybody uses. Just ask Bill Gates... and the 1.2 billion people who use a Microsoft Office product each year. Or Jeff Bezos... and the 150 million Amazon Prime users. Or Tim Cook... and the 1.4 billion folks who use Apple products.

Of course, starting a revolutionary company isn't easy. But investing in one is... especially these days.

Warren Buffett, after all, never invented a thing. But he sure made a comfortable living investing in the brands that we all enjoy – like Coca-Cola, whose products are enjoyed by nearly 6 out of 10 Americans at least once each month.

The thought is worth repeating.

Investing in products used by the masses is the key to financial success.

That's why I want you to take a stake in a small company that has the opportunity to work with every company – and all of their customers – in the country. Even better... for many business owners, the choice is to use this company's products... or go to jail.

Pay Up... or Talk to the Judge

When looking for "the next big thing," it's easy to focus on unique and innovative products. Who is about to launch the next big consumer must-have? Who's got the next gadget that will be in all of our cars or on all of our desks?

But look at those numbers at the beginning of the piece again. Amazon Prime is huge. It's available in one form or another in more than 200 countries. Even so, it has just 150 million users. Microsoft has 1.2 billion users. But there are 7.6 billion of us on the planet.

Not everybody needs a desktop. Not everybody wants a Prime membership (yours truly included).

But everybody, everywhere... pays sales tax.

In fact, you'll get locked up if you don't.

And thanks to the convergence of several major trends, I've got my thumb on a virtually unknown company that has the potential to work with all these companies.

Tax-Free No More

I found this company by studying one of the great deflation leaders... **Walmart** (WMT).

> MAP Theory Defined
>
> **Deflation leader**
>
> *A company that is making prices fall across its industry.*

After the company's headline-making moves with TikTok in September, I dug deep into its digital offerings. I wanted to see exactly why the retail giant would want to get its hands on an app that's popular among a group so far from its core demographic. The answer is clear. All that data would be a boon for the business.

Walmart and its latest leadership team are going after Amazon in a big way. They want to slash Bezos' lead in the home delivery market.

With an armada of stores that could serve as delivery and warehouse hubs, the company has a big advantage over Amazon.

But, digging deeper, I found Walmart has had a problem as it has grown its online offerings.

The issue has to do with something most folks never stop to think all that much about... sales tax.

For years, Amazon built a competitive edge by not charging sales tax. It asked its customers to voluntarily report and pay any taxes due. Less than 2% did.

It meant all sales through the site (and others like it) had a distinct edge. Their products were roughly 5% to 7% cheaper than their brick-and-mortar competition's.

The law caught up with Bezos though. In 2018, a Supreme Court ruling (South Dakota v. Wayfair) forced internet sellers to charge sales tax.

The industry scrambled to find a solution to tracking and reporting sales tax across almost all states and hundreds of local jurisdictions.

For the average online seller, it was too much to tackle alone. That's where the company I spent the last month researching comes in.

The Digital Taxman

I found the company by uncovering who Walmart is using to help solve its big online tax problem. The company has had plenty of time to get quite good at charging sales tax... at least through its physical stores.

It's simple. As with all brick-and-mortar stores, customers are charged sales tax based on where the store is... not where the product will end up.

But as Walmart's online sales grew and the company got bigger with its digital plans, it reached out for help. It wasn't easy to find out who the behemoth is using. But I uncovered that for its online marketplace, it's turned to a small company called **Avalara** (AVLR). It's a leader in the realm of collecting and managing online sales tax.

And it turns out Walmart isn't the company's only big customer. Amazon works with Avalara... Zillow uses Avalara too... So does Box... Roku... Adidas... The Vitamin Shoppe... The list goes on and on.

But it's not current customers who have me the most excited about the company's potential.

It's the vast number of online sellers the company could soon be helping that makes this a great growth play.

As I said, there are several big forces coming together in favor of Avalara. The first is perhaps the most obvious. I've already hit on it... the massive growth of e-commerce platforms.

Walmart's sudden interest in TikTok was a signal flag to pay attention to the sector. It's a clue that we're entering a fresh and fast growth stage. Big companies are going after Amazon's dominance in a big way. And they're spending big money.

But don't buy shares of Walmart or Amazon thinking you'll get rich overnight. Instead, buy shares of the companies that are helping them reach their goals... like Avalara.

And don't think it's just the big guys we're watching.

Most folks have no idea just how drastically the pandemic has reshaped the business world.

A New E-Commerce Boom!

We see it in the chart below...

New business applications have surged. From January to mid-September 2019, we saw 67,000 applications. In 2020, that figure has swelled to 97,000 – a jump of more than 45% in a horrific year for the economy.

The growth comes thanks to the huge trend toward online selling. Recently unemployed workers are starting firms that sell online, and many of the businesses that failed in the brick-and-mortar game are now going virtual as well.

This may be a good time to remind you that some of today's fastest-growing businesses were launched during the depths of the 2008 crisis. Companies like **Uber** (UBER), **Square** (SQ) and Airbnb all launched the last time the economy was in a crunch.

That's the idea that takes me to the second big tailwind that's about to push shares of Avalara higher. You've certainly heard of the work-from-home trend. In some cities, reports show that a mere 1 in 10 workers have returned to their offices.

The rest are staying home... and, in many cases, home is moving. That's creating tax issues, especially for small-to-midsized companies.

Nexus What?

Most small businesses never stop to think what it means if they have an employee working in a different state. That is... until they get the tax bill.

Just having folks working in another state can trigger huge tax obligations.

Once a company establishes "nexus" in a state, it now owes taxes to that state.

Most small-business owners don't have the time or skill set to manage such complicated things. That's why they team up with Avalara.

It offers simple platforms that integrate directly with a firm's accounting software. All an owner or manager needs to do is click a button and Avalara's products produce a report with all the necessary documentation and filings.

It offers products for retailers, manufacturers, hotels, Airbnb-type rentals, restaurants, telecoms... and, most recently, alcohol sellers.

Drink Up... and Tax Up

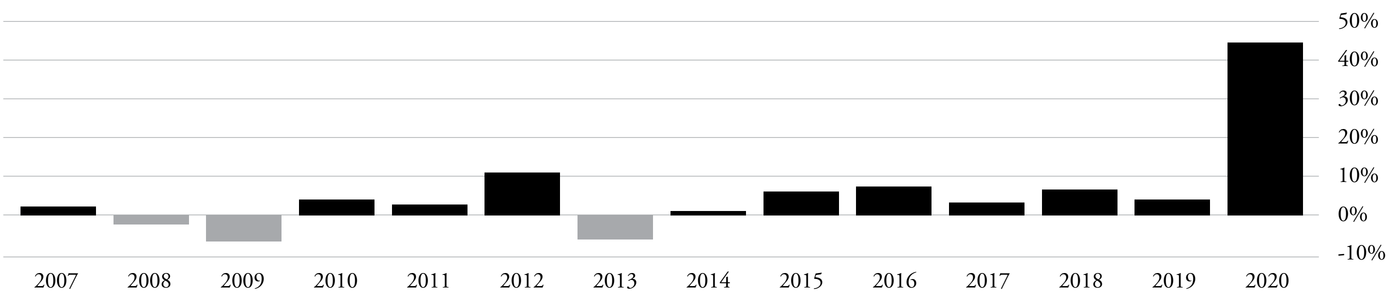
In yet another large COVID-19-fueled trend, online alcohol sales are booming. And you'd better believe states are deadly serious about getting the taxes they are owed on the booze that travels through them.

It's big business.

That's why Avalara recently debuted AvaTax for Beverage Alcohol. It tracks sales and use tax liability and keeps breweries, wineries and retailers compliant with the many, many tax laws they must follow.

Business Applications Surge

Year-over-year percentage change



Source: U.S. Census Bureau

Tracking it all was a big deal for small firms prior to trends stirred by the pandemic. But now that so many sales are online and crossing state lines... it's a huge deal.

It's a big growth opportunity for Avalara.

But here's the thing. Avalara's customers are not fickle. They can't afford to be. That's important, especially in a volatile, Washington-driven economy.

Once a company signs on with Avalara and its products, the cost to transfer is high. It would take retraining, new protocols, new paperwork, etc. That's why I'd much rather invest in Avalara than a popular, big-name company during this historic economic period.

Folks may change their minds on Amazon or Walmart... but those companies won't be changing who processes their sales taxes. That's tremendous news.

Playing the Trends

Remember, e-commerce sales are booming. Even booze sales are surging online. Millions of folks are relocating out of cities and into new states. It makes tracking sales tax extremely difficult.

Companies can either do it manually... or team up with a firm like Avalara. For most businesses, the answer is clear. There's one choice – the company that Walmart, Amazon and so many others are using.

It's buy or die.

Looking at this company through the lens of our new Modern Asset Portfolio (keep reading), we see the need to get a stake in Avalara is clear.

It is the sort of company that forms the backbone of our modern economy. It's the sort of firm deflation leaders lean on to do their business. Without it, they would not be able to do what they do... especially with prices that are continually trending lower.

For that reason, let's get some shares and put them into our Modern Asset Portfolio, allocating them to the deflation leaders portion.

Action to Take: Buy shares of **Avalara** (NYSE: AVLR) at the market's price. We will use our standard 25% trailing stop.

Portfolio Shuffle

What MAP Theory Means for You and Your Money

We've gone and done it.

Last month, I unveiled a breakthrough new approach to investing.

It's an idea that flies in the face of how 99% of people approach wealth building.

And I'm convinced that it's the ideal way to get rich in today's odd market.

That's because, unlike the Nobel Prize-winning theory that so many revere – and base their investment models on – our approach takes into account the NEW rules of investing.

As happened with smoking cigarettes in the '60s... spraying DDT on our crops in the '70s... and investing in tech stocks in the '90s... we learned that times change, science evolves and what was once right... is now oh so wrong.

With interest rates stuck at zero... Washington controlling Main Street's throttle... and the advent of so many new, modern assets... the orthodox is dead.

It's time for the unorthodox.

We debuted our MAP theory last month. But make no mistake... we're far from done. This is a big idea. We have plenty to say and much more to explain.

Our mission won't be complete until you are profiting handsomely from it. I will get you well on your way there today.

When Convention Must Change

I received a slew of questions after last month's issue. It's clear your fellow readers are excited by the topic and the opportunities it holds.

I will answer many of those questions today. But first, let me remind you why this idea is so important. It won't take more than a minute. As soon as I point out the latest evidence, you'll be nodding along in agreement – especially if you too have been burned by the orthodoxy.

A major financial rag recently published a piece with a headline we've all seen before... "The Fed Plans to Keep Interest Rates Low for Years – Here's How You Should Approach Your Savings Strategy Now."

It sounds like something that'd sing our same tune, right? Far from it. That's not the case... at all. The piece pitched more of the same old tripe.

"We've been hearing this for years – that Americans were going to have to get used to embracing risk if there was an expectation of any return on assets," said a financial advisor interviewed for the piece. "Now it's here."

He's right. Things must change. The risk-reward theories he has preached for so long are as outdated as buggy whips. But does the mainstream logic have a solution?

Of course not. Here's what came next:

> *The average interest rate for savings accounts across all institutions was just 0.09% as of Sept. 23, according to Bankrate. But online banks like Viobank and CIBC Bank offer rates as high as 0.83%. If you become a member of a credit union, they often pay out dividend rates in line with the annual percentage yields of online banks.*

Hoooo boy... get an online bank account and put your yacht broker on standby.

It Gets Worse...

The piece then goes on to pitch the merits of a laddered bond portfolio – an old-school technique that was included in the securities licensing exams I took ages ago.

Admitting defeat, the piece concludes the section by admitting, "Savers will need to branch out into riskier approaches to earn a larger return."

For that, it recommends bond-based mutual funds. Really?!

When I read that line, I had to double-check to make sure the piece was written in 2020... not 1980.

I managed to find one such fund from Pimco that offers a nice 2.6% yield... and a whopping 1.92% expense ratio.

Worse yet, true to the flaw we pointed out last month, bond funds like this are not the safety net the textbooks would lead us to think they are. The fund's value plummeted with stocks in March.

It scrubs the notion of the "protection" these assets are supposed to offer.

The poor folks looking for protection who bought at the fund's high this year still haven't been made whole. They would have been better off in cash. At least it doesn't charge an annual fee... not yet, anyway.

It proves that the risky side of the traditional income model is now a breakeven proposition... at best.

And it proves why another headline is making news these days... "Half of Americans Over 55 May Retire Poor."

It's a travesty... especially with the size, strength and magnitude of today's financial markets.

Clearly, the "right" way to build wealth has failed.

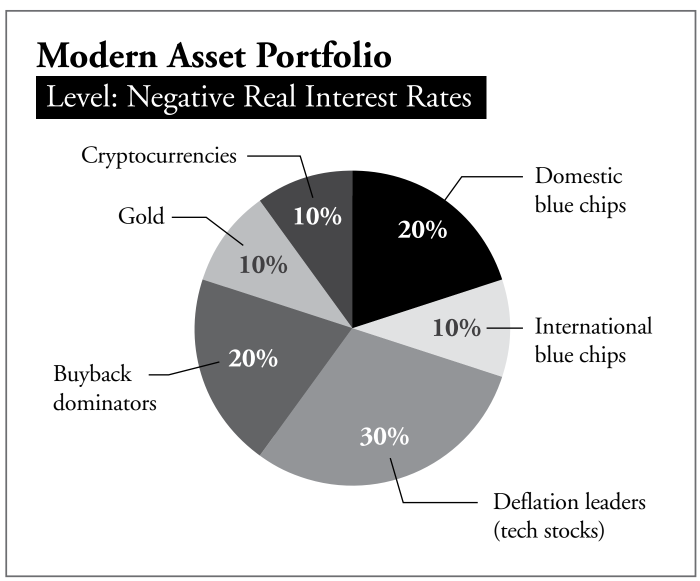
There's a better way. It's our MAP theory.

The Right Portfolio at the Right Time

As the name implies, at the center of the theory is a core portfolio with an allocation strategy that remains static. The only time it changes is when interest rates – the true driver of today's economy – rise or fall across key marks.

Right now, rates are at record lows. The real rate (that's the nominal rate minus inflation) of the 10-year Treasury is negative.

That means our core portfolio must reflect the idea and all the variables that go with it.



But readers want to know how that ties into Manward's other portfolios.

It's a question that deserves our time.

Manward's Modern Asset Portfolio is a standalone, mid- to long-term portfolio. It's dictated by the theory that it's not correlations that should steer our asset mix... It's interest rates.

After all, interest rates dictate where our money will be treated best.

It's why gold and companies participating in share buybacks – both assets that are spurred by low rates – have a large allocation today but will likely be out of the mix when rates rise again in the future.

Because it focuses on the largest of macro ideas, this Modern Asset Portfolio must be the centerpiece of our investment philosophy.

Think of it as your traditional core portfolio, but with one important difference. You replace the antiquated notion of old-school, correlation-based diversification with modern, smart diversification.

That idea helps us build a safe, dependable portfolio while opening the door for faster-paced trading and speculation if our tolerance allows.

Think of our Modern Asset Portfolio as the engine that creates the locomotion. It's where the power comes from. The quicker-paced trading strategies are like turbochargers that add horsepower and speed on demand.

You can't have the latter without the former.

That's why I focus so much attention on my fast-paced *Alpha Money Flow* and *Codebreaker Profits* advisories. They're fundamentally agnostic... catching the wind of the day and riding it for as much profit as possible.

And while our Modern Asset Portfolio stands alone, the ideas within the theory behind it practically beg us to create trading systems that focus on buyback stocks, tech leaders and the other sectors that our Modern Asset Portfolio highlights. We will.

But what about our Everyman, Own What You Know and Long Short portfolios? Two of the three will no longer see print. The ideas are valid. It's just that we can simplify things and place those assets within our larger Modern Asset Portfolio (see below).

The Long Short Portfolio, though... oh boy, this one has me excited. It is not going anywhere.

It's the long-odds play that I believe will really pay off. Our patience and foresight will be rewarded.

This portfolio is built around the belief that the American experiment will fail... not because the idea wasn't sound (we cherish our foundation), but because its execution was, for a lack of a clearer phrase, piss-poor.

We've printed trillions of dollars of funny money in the past 12 years. We've blown our nation's debt to sky-high levels. The Fed is buying corporate debt and ETFs. We've created an economy that will fail if stocks fall by any significant measure.

We're crazy not to short the American economy.

Our forefathers would agree.

But we're also crazy to think the maestros in charge can't keep this orchestra playing even as the fiddles fall out of tune and the audience dozes off.

This short could take a long time to pay off.

While our Long Short and Modern Asset portfolios are distinctly different, the themes surrounding them are the same.

Mapping Out Our New Portfolio

Long Short Portfolio (No Changes)

CME Group (Nasdaq: CME)
Fiserv (Nasdaq: FISV)
Logitech (Nasdaq: LOGI)

Modern Asset Portfolio

Deflation leaders: Alarm.com (Nasdaq: ALRM)
Domestic blue chips: KBR (NYSE: KBR)
Buyback dominators: Scotts Miracle-Gro (NYSE: SMG)
International blue chips: Coming soon!
Cryptocurrencies: Monero (XMR)
Gold: Physical gold

They both relish the idea that the Dow is much more likely to hit 100K than 20K. And they both rely on current trends... not the broken promises of the past.

That's what's so exciting about what we're up to. It's modern... but doesn't rely on guessing what the future holds. Our strategy is flexible, yet tough.

It will bend when it needs to... and provide strength when you need it most.

The Modern Asset Portfolio and the theory that envelops it are at the core of what we do and how we build wealth. I won't sway from it, and neither should you. Your money deserves the very best.

Mark Ford is an icon in the realm of wealth and business. And now he's sharing with Manward Letter *readers all the wealth-building secrets and investing strategies needed to build lasting wealth. His common-sense advice has the power to change the lives of everyone who takes it.*

Lessons From Losing a Million Dollars


Mark Ford

As a child of theater people and a liberal arts student in college, I came into my adulthood knowing next to nothing about money. But that didn't stop me from making a good deal of it.

On my own, without taking a course or reading a book on the subject, I figured out how to make a lot of money. But guess what I couldn't figure out? How to convert that growing income into wealth.

As my income went up, so did my spending. Some of it was on depreciating assets – luxury cars, expensive furniture, watches and jewelry. Some of it was on luxurious experiences – first-class travel and expensive restaurants.

But most of it was on what I thought were sensible purchases, i.e., "investments."

I put quotes around that word to highlight a point: My ignorance of investing at that time was *profound*. If I had to describe what I was doing, it would be something like this: "putting money into something that might make me richer somehow, someway and someday," or "putting my money into something I knew nothing about that had an exciting financial story attached to it."

During the years I invested this way, I had my share of triumphs and disappointments. Overall, my net worth probably grew by about 0%. (I can't be sure because I made it a habit to forget my losses.)

When you think of investing as something as nebulous as putting money into assets and opportunities that might make you richer one day, you lose the opportunity to understand the differences between different modalities of "investing" – such as trading, speculating, betting and gambling.

Furthermore, when you don't make such distinctions, it's easy to make and/or justify foolish decisions by giving a respectable name to them.

So let's start with this: There is a difference between building wealth and investing.

Building wealth is a sensible objective. Investing, on the other hand, is not an objective at all. It's an activity, something you do with your money, just like exercising is something you do with your body.

If your goal is to increase your wealth, you should recognize that there are many activities that will move you toward that objective.

Losing a Million Dollars

In *What I Learned Losing a Million Dollars*, Jim Paul provides a useful glossary of five different money-related activities.

This particular sentence caught my eye: "Most people who think they are investing are speculating. And most people who think they are speculating are gambling."

That sounded like wisdom to me. I took notes. Here are his definitions...

1. **Investing:** Parting with capital with the expectation of a return on it over a longish time horizon, with those returns coming from interest/income and capital appreciation.

2. **Trading:** Making a market on (buying and selling) a particular asset over a specified amount of time.

The time frame is usually short. The trader tries to make money from the spread between the price he pays to buy it and the price he gets for selling it (a long position) or vice versa (a short position).

3. **Speculating:** Buying an asset with the expectation that its price will go up sometime in the future. Speculating is about foresight, about believing you know that something will happen in the future that will affect the price of a certain asset.

4. **Gambling:** A derivative of speculating, gambling usually involves a game, but it can also involve an asset class or currency – almost anything. The gambler's primary motivation is entertainment. He gambles because he likes to gamble. He also likes to make money with his gambling, but that is not his core desire because the gambler will continue to gamble even if he consistently loses money.

5. **Betting:** Betting is also about risking money on the outcome of a certain event. It also involves chance. But the bettor's primary motivation is being right, not entertainment.

Paul's definitions explain how one strategy differs from another and focus not only on the strategy itself but also on the psychological motivation.

Our mental approach to making money – which includes our risk tolerance, capacity for deferred gratification, mathematical IQ, willingness to learn, attention to detail, and such things as attention span, compulsiveness and even ego attachment decisions – is almost certainly the most important factor in building wealth.

This was certainly true for Jim Paul. As he explains in his book, his early approach to making money on Wall Street wavered between gambling and betting. He thought of himself as an investor, but after losing a million dollars and almost ruining his life, he figured out that what he was doing was foolish and irresponsible. The book is a blueprint for how he reinvented his financial life.

As Paul is a person whose psychology attracted him to betting and gambling, his five definitions are more nuanced on the side of the risk spectrum than mine. My risk tolerance is low, and, when it comes to investing, at least, I am happy to delay gratification and take a long-term perspective.

Here's my take...

My Four Definitions

1. **Gambling and betting.** Paul distinguishes the gambler from the bettor by their motivations. The gambler, he says, is looking for entertainment, whereas the bettor is interested in proving himself right.

   I think these are valid and interesting distinctions. If you are addicted to either of these activities, it helps to know what is motivating you to play them. Is it the fun of playing? Or is it the ego gratification of being right?

   The bottom line?

   If you want to build your wealth, you must avoid activities designed to reduce it.

2. **Trading.** I see trading as an occupation like serial entrepreneurship, where you must work hours every day, keeping up to date on your business, making the best decisions with your money, which is almost always at risk. Being successful as a trader is definitely something I could not do. I don't have the time, focus, attention to detail or mental discipline to succeed as a trader. It would be a wealth-depleting activity for me.

   My advice to anyone who wants to try his hand at trading: You may be the 1 in 100 who can make a living from it, but there's a 99% chance you aren't. So be humble. Limit your initial investment to what you are happy to lose. Move slowly. Never make a trade that you don't fully understand. Ask yourself every morning: Is this really how I want to be spending my time?

3. **Speculating.** The speculator wants to build wealth by buying assets that he believes are either currently undervalued or will become more valuable in the future. He makes his buy-and-sell decisions based on expectations of the future.

   By that definition, most individual investors are speculators and most of what they do, which they think of as investing, is speculating. When you buy or sell stocks based on stories about the economy or individual industries or companies, you are speculating.

There is nothing inherently wrong with speculating. Like trading, it is, in my view at least, a legitimate way to build wealth. But there are smart ways and dumb ways to speculate. Wealth builders speculate smartly by learning as much as they can about what they are doing and limiting the risks through a combination of diversification, position sizing and stop loss mechanisms.

4. **Investing.** Paul defines investing as parting with capital with the expectation of a return on it over a longish time horizon with those returns coming from interest/income and capital appreciation.

   The long-term time frame is important because it indicates a motivation that is low risk and open to delayed gratification. These, to me, are core components of a wealth-building mindset.

   Paul also says that the investor expects his returns to come from income and appreciation. This is worth parsing. I like to think of investing as a catchall term for three different wealth-building activities.

   - **Growth investing:** Putting your money into an asset or business whose value you expect to increase over the long term.
   - **Income investing:** Putting your money into an asset or business for the purposes of generating income (or interest) from that activity. Lending money to someone or some business is a form of income investing. So is buying a municipal or corporate bond.
   - **Growth and income investing:** This is my favorite type of wealth-building activity – putting my money in a business or financial asset that will give me both current income and future appreciation.

     Rental real estate is a perfect example. If I invest $100,000 or $1 million in a small apartment complex, I am usually looking for an annual return, cash on cash, of about 6% ($6,000 or $60,000, respectively). Before buying the property, my partners and I do a lot of work to make sure that our net total return on investment (ROI) will be 6%.

     I'm also counting on property appreciation. The historical ROI for real estate property is about 4%, which would bring my total ROI on that $1 million to about $100,000, or 10%.

If you are interested in building wealth, rather than acting like you are "investing," you should understand that many of the financial activities that promote themselves as investing are actually forms of gambling and betting. You should also understand what it takes to build wealth by trading. And finally, you should understand the differences between speculating and investing, and the three types of investing.

You can tell yourself, for example, that when you buy cryptocurrencies you are investing. But if you analyze the strategy by the definitions above, you will see that buying cryptocurrencies is a form of speculation. Bitcoins are not businesses nor do they produce income. But because it is based on future possibilities rather than current facts, it is nevertheless a speculation.

Putting your money in a tech stock that has huge revenues but no earnings may be a brilliant move, but it is not, according to our definitions above, investing.

Again, I'm not saying that speculating is essentially wrong. On the contrary, it's a perfectly good way to build your wealth – if you do it right.

Alas, What Most People Do...

Most "individual investors" buy and sell stocks and bonds based on information they have been told or read about, hoping that information will make them richer.

Today almost everyone I know – young or old, and rich or poor – is trading stocks. The new digital platforms have been designed to make trading incredibly simple and easy. What these people know about trading – or even the stocks they are trading – is next to nothing. What they are doing is not any form of wealth building. It's not investing. It's not speculating. And although they call it trading, they are trading with limited experience and even less knowledge.

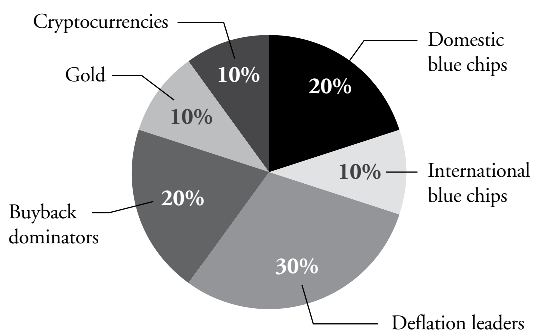
It might be argued that these are arbitrary definitions. I cede that point. But I do think they are helpful in forcing us to pay attention to what we are actually doing when we put our money at risk. ■

Modern Asset Portfolio

Negative Real Interest Rates

Company/Symbol	Rec. Date	Rec. Price	Curr. Price	Rating	Trailing Stop	Total Gains	Category
Alarm.com (Nasdaq: ALRM)	Aug-20	$67.09	$61.56	Buy	$52.53	-8.24%	Deflation Leaders
Avalara (NYSE: AVLR)	**Nov-20**	**New**	**New**	**Buy**	**25% TS**	**New**	**Deflation Leaders**
Scotts Miracle-Gro Co. (NYSE: SMG)	May-20	$122.53	$165.32	Buy	$131.17	36.41%	Buyback Dominators
KBR (NYSE: KBR)	Apr-20	$21.45	$24.66	Buy	$20.21	15.90%	Domestic Blue Chips
Monero (XMR)	Oct-20	$95.52	$127.80	Buy	$96.88	33.79%	Cryptocurrencies
Physical Gold							Gold

MAP Allocation



Interest Rate Monitor

This Month	Last Month
-0.96%	**-0.97%**

10-Year Real Interest Rate

The Long Short Portfolio

Company/Symbol	Rec. Date	Rec. Price	Curr. Price	Rating	Trailing Stop	Total Gains
CME Group (Nasdaq: CME)	Jun-20	$178.90	$167.50	Buy	None	-5.42%
Fiserv (Nasdaq: FISV)	Sep-20	$99.85	$104.76	Buy	None	4.92%
Logitech (Nasdaq: LOGI)	Jul-20	$65.22	$80.65	Buy	None	25%

Note: Because this is a long-term portfolio based on the eventual unfolding of volatile, unpredictable events, we will not use trailing stops. Do not put more than 5% of your total portfolio into these positions.

Last Update: 10/13/20. Gains include dividends.

Further Reading

"The Fed Plans to Keep Interest Rates Low for Years – Here's How You Should Approach Your Savings Strategy Now," MarketWatch: https://www.marketwatch.com/story/the-fed-plans-to-keep-interest-rates-low-for-years-heres-how-you-should-approach-your-savings-strategy-now-2020-10-01.

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"Avalara Debuts Compliance Product Suite for Alcoholic Beverage Industry," *Accounting Today*: https://www.accountingtoday.com/news/avalara-debuts-compliance-product-suite-for-alcoholic-beverage-industry.

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