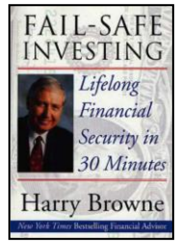
Fail-Safe Investing

Lifelong Financial Safety in 30 Minutes
by Harry Browne



Some people may tell you that you can't afford to play it safe when it comes to saving for your retirement — that unproven investment strategies are your only hope for a comfortable future. But if you ask Harry Browne, one of America's foremost business writers and sought after public speakers, that's all just a bunch of hot air.

Harry Browne knows firsthand that you don't have to be a genius to protect your savings and build future prosperity for you and your family. All you need is a little common sense — and some guidance from proven experts. Fail-Safe Investing gives you the wisdom of Harry Browne's 30 years' experience as an investment consultant, teaching you what you need to know to ensure your savings are safe and profitable, no matter what the markets do.

Unlike other investment books on the market today, Fail-Safe Investing isn't built on a revolutionary new technique or secret theory of investing. Instead, it's all about 17 simple rules that will remind you what you already know deep down, and provide you with the confidence you need to act on that knowledge.

Harry's rules are designed to protect you from the nonsense that's prevalent in so much writing and conversation about investing, and to ensure that you're never put in a situation where you're separated from your hard-earned money.

Your reaction to many of Harry's rules may be, "Of course, that's obvious." But the obvious, according to Harry, is precisely what average investors with modest portfolios must cling to. To be fair, a handful of Harry's rules may not be quite as straightforward, but they're always pretty easy to grasp when you take a few minutes to think them through.

Harry Browne explains the difference between investing (making a long-term plan and sticking to it) and speculating (betting that you can beat the market during a specific period of time). He recommends a safe and simple investment portfolio that's guaranteed to provide steady returns over and above the cost of inflation. And he shows how life savings can be too easily lost when you borrow money to invest, rather than using the money you already have.

It's not tough to argue that playing it safe can make it a whole lot easier to sleep at night. And for a lot of people, a good night's sleep is worth its weight in gold.

Here are many of the gems from Harry's 17 rules:

Rule #1: **Build your Wealth Upon Your Career**

Everyone's seen advertisements claiming that investing just a few thousand dollars will put you on the road to riches. But investing alone rarely ever promotes anyone from the middle class to the very rich. In fact, most people who hoped it would do so have wound up worse off in the end.

"You're violating Rule #1 if you think your investments can be the sole source of your retirement wealth," explains Harry. "The only thing you can count on for your retirement is what you put away yourself. And you must make sure that what you put away is growing at a healthy rate." In other words, keep it safe and simple.

Rule #2: **Don't Assume You can Replace Your Wealth**

"If risky investments turn out badly and you lose everything you have," writes Harry, "you might be able to make it back again. But chances are, you won't."

For Harry, the essence of Rule #2 is about treating your money with the utmost respect. What you have is what you have. And without prudence and a smart investment plan, it can slip away right before your eyes.

Rule #3: **Understand the Difference Between Investing and Speculating**

In his 30 years in the business, Harry's seen many an investor get into trouble by speculating when he or she only thinks they're investing. Understanding the difference between the two is the only way to stay clear of some very dangerous situations.

Simply put, when you invest, you accept whatever returns the markets are paying in general. But when you speculate, you're trying to beat that return — to do better than the average investor using clever timing, forecasting or selection. Guess which one's riskier.

"There's nothing wrong with a little speculating," writes Harry, "provided you do it only with money you can afford to lose."

Rule #4: **Beware of Fortune Tellers**

Here's the truth in black and white: Anything can happen. Nothing has to happen.

"The beginning of investment wisdom," writes Harry, "is the realization that we live in an uncertain world, and no one can eliminate that uncertainty for you."

Rule #5: **Look for Helpers, Not Market Beaters**

Investment advisors acting as Helpers are very useful — helping you to set up a balanced portfolio and translating some of the mysterious jargon of investing for you. But beware those who try to guide you toward "opportunities" that no one else knows about. These guys inevitably end up doing more harm than good.

Rule #6: **Don't Expect a Trading System to Make You Rich**

The investment world is chock full of "sure fire" ways to beat the markets. Yet, strangely enough, most people still haven't found a way to beat the market over the long run, and chances are, they never will. That's because trading schemes simply don't work.

Just about every get-rich-quick trading system comes with the assurance that it's been tested scientifically. But don't be fooled. "Human activity, human values and human intentions can't be measured scientifically as though you were weighing a bushel of apples," says Harry. What this means is, no matter how hard you try, there's absolutely no way to translate human behavior into a perfect mathematical formula. So why even bother?

Rule #7: **Invest Only on a Cash Basis**

In your personal life, you know that debt can be dangerous. The investment world is no different. With a margin account for stocks, bonds or commodities, you can wind up losing much more than you invested. Investing on a cash-only basis doesn't insure you against losing money, but it will prevent you from losing everything you own in one bad move.

Rule #8: **Make Your Own Decisions**

According to Harry Browne, the average investor cannot abdicate responsibility for making his or her own decisions. " There's no need to turn your decisions, or your signing authority, over to anyone else."

Once you accept that all the decisions are yours to make, writes Harry, then you can entertain all the independent advice you want. But no one else will ever treat your money with the same care you do.

Rule #9: **Do Only What You Understand**

"No complicated investment," writes Harry Browne, "is essential for your financial security. It doesn't matter whether your favorite radio personality, brother-in-law or best friend understands it. It isn't their money, and if something goes wrong, someone else's understanding or judgment won't protect you."

Someday you might understand a particular investment well enough to know whether it's right for you. But until you do, chances are, you're probably not missing much.

Rule #10: **Spread the Risk**

Every investment has its time in the sun — and its moment of shame. For example, precious metals ruled the roost in the 70's, but stocks and bonds grew exponentially in the 80's and late 90's. Even U.S. Treasury Bills can lose real value during times of heavy inflation.

The easy solution is diversification. By spreading your money across different investment vehicles, and with different financial institutions, you can relax, knowing than no one downturn will suddenly do you in.

Rule #11: **Build a Bulletproof Portfolio**

Rule #11 is the meat and potatoes of Harry's 17 Rules for Fail-Safe Investing. It's where he shows you how to set up a simple, balanced portfolio that will survive any event, protecting your savings no matter what the future brings.

Harry's three absolute requirements for a Bulletproof Portfolio are safety, stability and simplicity. That means it should protect you against any possible economic condition (inflation, recession, etc.), provide a steady performance so you'll never feel like you should abandon it, and be so simple to maintain, you'll forget you even own it.

Harry's 30 years in the investment business have taught him firsthand that there are only four types of investments that will provide effective coverage for all possible economic circumstances:

1. Stocks take advantage of prosperity, but tend to do poorly during times of deflation or tight money.

2. Bonds also take advantage of prosperity, but also do well when interest rates collapse during deflationary periods. Bonds will tend to under-perform, however, during times of inflation.

3. Gold not only does well during times of inflation, it does very well. But gold generally does poorly during times of prosperity or deflation.

4. Lastly, cash is most profitable during times of tight money. No only is it a liquid asset that gives you purchasing power when your other investments might be ailing, but any rise in interest rates increases the return on your dollars.

In terms of striking the right balance among the four elements of your Bulletproof Portfolio, Harry admits there's no magic formula that applies evenly to every investor. But, for simplicity's sake, he does say that it's hard to go wrong by allocating an even split of 25% of your savings to each of the four investments above: stocks, bonds, gold and cash.

To profit from your stocks, Harry recommends that your holdings represent a broad cross-section of the market as a whole. Many mutual funds will accomplish this goal quite effectively. For the bond portion of your portfolio, Harry advises against anything but long-term U.S. Treasury Bonds, which offer the greatest security over time.

When it comes to buying gold, Harry recommends buying bullion coins from stockbrokers or reputable national companies. Lastly, the cash portion of your portfolio should be housed in money market funds or high-interest savings accounts.

Whatever you do, though, remember that the Bulletproof Portfolio is meant to be a permanent package of investments. Tear the package apart and you tear the safety apart.

Rule #12: **Speculate Only With Money You Can Afford to Lose**

While he may come across at times as something of a stick-in-the-mud when it comes to taking investment risks, Harry Browne's not against speculating altogether. His only admonition is that you do it only with money you can afford to lose. This involves setting up a separate investment account, and exercising sufficient self-discipline not to touch your permanent portfolio, whatever the circumstances.

Rule #13: **Keep Some Assets Outside of the Country**

For complete safety, Harry suggests keeping just a little bit of your money tucked away where the government can't reach it. Once you open a bank account by mail, it will require almost no maintenance to keep it going. "And who knows," says Harry, "someday you may be glad you have it."

Rule #14: **Take Advantage of Tax Reduction Plans**

The best tax-reduction tools include various kinds of Individual Retirement Accounts (IRAs), employer pension plans and 401(k) plans. This is where Harry recommends seeking the guidance of a financial advisor, but doing so with the other 16 Rules in the back of your mind when you walk in the door.

Rule #15: **Ask the Right Questions**

"Very often," writes Harry, "investors buy the wrong types of investments for their needs because they ask the wrong questions." There are really only a few questions to ask that will guarantee you get the information you need to make a sound investment decision. These questions have to do with risk, technical analysis and capital appreciation.

Rule #16: **Budget for Pleasure**

You work all your life to reach a certain goal. But while you're slowly but surely getting there, don't be afraid to take a few moments to stop and smell the roses. Your wealth is of no value if you don't enjoy it.

Rule #17: **When You're in Doubt, Err on the Side of Safety**

It should come as no surprise that Harry's last bit of advice is to always err on the side of safety. If that makes him boring, so be it. Perhaps that's the price one has to pay in order to live comfortably.

People rarely go broke playing it safe. If you pass up an opportunity to double your money, there will always be another chance. But if you lose your life savings, it's probably game over. Do you really want to take that kind of a risk?

Conclusion

Now you have the 17 Rules. Harry Browne would be the first to admit that all they are is common sense. But in an investment world gone mad, common sense is something we could all probably use a little more of these days. True, taking the safest route all the time may mean that you'll miss out on an opportunity that someone else exploits. But then again, you might also miss out on a chance to lose everything you have.

By now, we all know what choice Harry would make. Now it's your turn.

