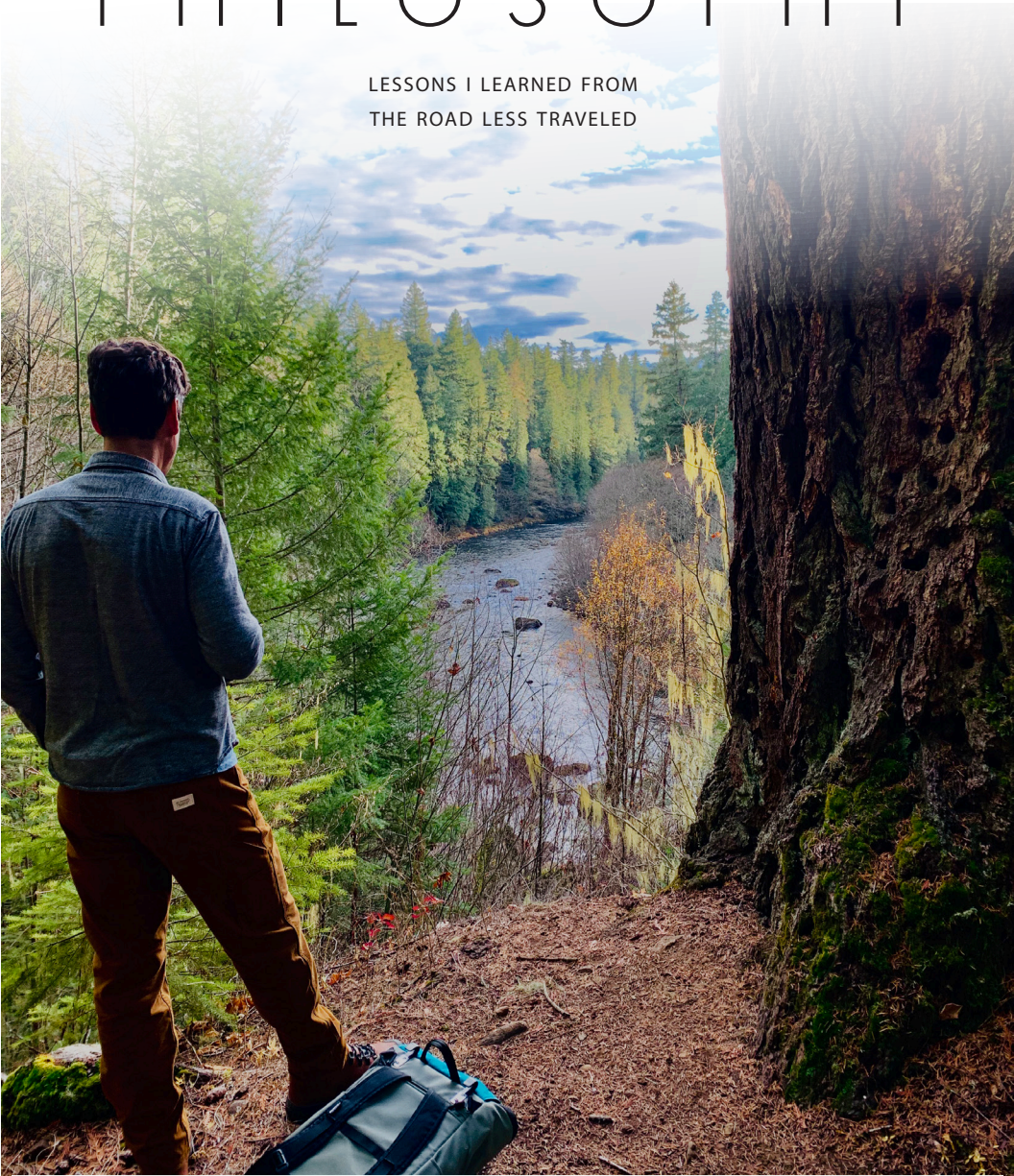


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# INVESTING PHILOSOPHY

LESSONS I LEARNED FROM  
THE ROAD LESS TRAVELED



by Edward Mitchell Marion | Securities and financial planning,  
a Registered Investment Advisor, Member FINRA/SIPC

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## A brief history of the author

About me. My first real job was as an account manager for a large company, at the time a Fortune 100. Ten years later an offer to work in Europe came my way, which took me to Poland as an independent business consultant. While in Europe, I worked for wealthy people who purchased companies in the emerging market of Eastern Europe. At age forty I retired to Central America and purchased beach-front property in Nicaragua. At forty-four I moved back to South Carolina and went back to work. At forty-six I began a career as a Financial Advisor.

I entered the financial services industry in 2006. Studying to pass the exams taught me things about investing that would be impossible to learn elsewhere. In my life prior to being a Financial Advisor, I, like many, wanted to make money by investing in the stock market, or, as we referred to it, playing the market. My inspiration to write about my experiences came from realizing that building wealth by way of the stock market is all we seem to hear, and other investment strategies have been kicked to the curb. My intent is to tell my story and reintroduce the idea of diversified and lower-risk investing. Or, being prudent.

Whether you are in your twenties and considering how to start, are in your fifties beginning to think about retirement, or have already retired, being prudent applies to everyone when discussing investment concepts.

# What I learned

From my experiences—before and after becoming a financial advisor—I've identified common mistakes that hinder the individual investor from building wealth, which I explain going forward.

Becoming a Financial Advisor, it became clear why most people should reconsider how they invest. Risking money in the market is not likely to make you rich. Wealth is typically built slowly and methodically. That old-fashioned way has been lost in the noise, as advertising constantly tells us we must invest in the market. Advertisers feed our fast-food culture by telling us how we can get rich quickly, and there is always someone shouting about how “they” have the key to success. Of course, there are some who succeed, but most spin their wheels while wasting money and, more importantly, losing time. Investing in the dream of big returns is not the most suitable strategy.

In today's economy market representatives are competing for your money to fuel their investment strategies. Way too often recommendations are made based on the best interest of something, or someone, other than the client. Perhaps you are told what you want to hear and shown very impressive charts and brochures, which are all designed to win your investment account. When you read or hear an opinion, consider the source. Is it someone earning commission when you make trades? Is it the brokerage firm telling the advisor what to propose to clients? Is it the television personality with seemingly unbiased views, but in reality, is paid to promote certain concepts?

Ask yourself, is the recommendation what you should do, or what they want you to do? Not everyone wants to be placed in a preconceived investor box.

Example:

The channel – CNBC.

The program – Mad Money.

The sponsor – Can't say, but they advertise a lot during the program.

The talking heads make for interesting chats at the water cooler, but keep in mind their information is coming from a motivation unbeknownst to you. It's well known that when the individual investor learns about it, it's too late.

You work hard to have an investment account; don't put it at risk in hopes of getting an unrealistic return. The IRA and 401(k) have created a new generation of investors, and with it come financial professionals who may not have the investor's best interest at heart.

Companies even resort to having financial advisors use a door-to-door approach to gain customers. When a person works solely on commission and

is forced to go door-to-door to gain clients, what type of activity do you think this promotes: what earns the most commission, what corporate told them, or what's best for the client?

In 2008, brokerage firms ran advertisements telling people to stay in the market. Think about that for a minute: If you get out of the market, they lose revenue. Obviously, they want you in, not out; therefore, they'd say or do what's required to keep you believing in the dream. Maybe you should stay in, maybe not, but do consider the source.

Now, with that said, are there times to stay in the market during a downturn or correction? Yes. My point is to keep in mind that it's your money on the table. If you feel it should stay in the market, leave it, if not, hold firm to what you believe and demand the money goes where you want it to go.

Remember, the stock market doesn't care about you. It is a machine and money is the fuel.

Consider saying the following:

"I won't be pushed around. I'm doing what makes sense for me."

Remember the phrase, "Fool me once, shame on you. Fool me twice, shame on me."

## My first eye opener

It came when being told the food chart taught to several generations was actually created by the Meat and Dairy Association. Amazing when you think about it. They create a chart to their benefit, push it through as an accepted standard, and use the public-school system to teach their message. Take this example and apply it elsewhere. Consider who is telling you how to invest, and to whose benefit it mostly serves. If you have a financial advisor, challenge them to explain the why of your investment strategy to the point where you understand it.

As a point of clarity let me explain I am not suggesting you don't invest and don't use a financial advisor. What I am proposing is to avoid being solely invested in the swings of the market. It is not the market I have issues with; my issue is how companies convince, through advertising, the individual investor to get involved in something they may not fully understand.

# FIVE LESSONS LEARNED

## Lesson one

After landing my first adult job, I increased the percent of my income going into a savings account increased from 10 to 15%. Then one day my banker called. I'd heard of The Banker from my elders and believed one should take note of what The Banker says. When he proposed a meeting I eagerly agreed. On the phone he explained he had something more suitable for a client like me. We met, and although not actually understanding what he was talking about, nor knowing what to ask, and with him making it clear it's what people like me do, I did as told.

My investment account went up, went down, went up, went down, and after about five years, the net gain was a whopping 3%. Which, I must admit, was better than the savings account.

However, what was most important during this period was receiving statements, having the banker speak to me, learning how to track my portfolio via the Wall Street Journal (the internet didn't exist), and chatting about investments with coworkers. No harm done. I was young, it was fun, and I kept running. The most notable part of the experience was my introduction to the market, and becoming convinced it was the only place a person like me should put their money.

"Low-risk investments are for amateurs. The market is how to beat inflation," I often stated with pride.

Lesson learned: Don't be influenced by implied status.

## Lesson two

Being single, debt free, and living in Atlanta, money came in faster than it could be spent. With my disposable income increasing, so did my savings: I increased it to 25%. Earning a six figure income with virtually no expenses, my account grew quickly.

This is when a coworker of my age and position said, "Get serious, man. Move your money away from the bank and put it with a real financial advisor!"

His advisor took over my account. The value went up, went down, went up ... and then crashed! My account was cut in half. But guess what? It didn't matter.

Some twisted side of me enjoyed drowning my sorrows with my colleagues while comparing losses. I was in the click. Even with this tragedy, for two reasons my faith in the market wasn't rattled.

First, I was convinced this was how you get rich.  
"You can't get there by playing it safe," I would say.

Second, I was earning enough money that what happened to my account didn't matter, as it would recoup when the market rebounded. We've all heard that before, correct? I picked it up from the investment journals. (It can be true, though, and I have since learned how it works.)

I was a believer in the market and didn't look back. Didn't even question it. Besides, what could be done outside of the market? The choices were: savings account, CDs, or play the market. With advertisements and periodicals fueling my opinion, and it being what people like me did, the market was the clear winner.

Lesson two: Don't succumb to peer pressure, and don't believe everything you read.

## Lesson three

An opportunity to take a consulting position in Europe came my way and I moved to Poland. Without access to a financial advisor, self-managing my investments was my only option. For seven years my account was self-managed, and it did quite well, exception being the dot-com crash. When it came, once again, half my portfolio was wiped out. Fortunately, I was still working and fueling the machine, therefore it rebounded.

The irony of this period was my wealthy employers had explained to me how they only had holdings in minimal risk investments. My aggressive viewpoint was justified by believing they had made their millions and gotten out, walked away with their winnings. Not me; I still needed to be in the market. Besides, how else can one get back losses?

Time passed, my account value climbed to the established walk-away point, so I retired. With my long-term financial goal achieved I went to Central America. The plan was to search out a small lot on the beach and live off the earnings from my account. I was 40 years old.

Lesson learned: Don't believe your own fantasies.

## Lesson four

While traveling through Central America and purchasing a lot on a surf beach in Nicaragua, things were looking pretty darn good.

The lot remains undeveloped.

Why?

Yet another unknown aspect of investing was uncovered that being the distribution phase of life. Not only was money no longer going into the account, money was going out. And then came another unforeseen market correction.

Oh. My. Gosh.

The companies were the same as the day before, as were their products. The reality is that the market is about something else. Many of us have been taught a company's stock value is based on the ability to generate profits and remain relevant. Now we must add to the formula that it can be negatively impacted by an unforeseen event not related to the company, its product, the business sector, or even the country of origin.

While lying on the beach, I had visions of how this type of market crash could affect people in retirement. A person could wake up stuck somewhere without funds to live or, in the case of one man I met, no home to go to.

The encounter was brief. He had moved to Nicaragua at age 65 and was now 70. Going back to work was not a possibility for him. What ultimately happened to him is unknown, but his last known situation was living at a campsite at \$10 a day, relying on his daughter to send money from the United States. As for me, having realized there was a new known-unknown to learn about, I gathered my things and moved to South Carolina.

Lesson learned: There are forces beyond anyone's control influencing the market.

## Lesson five

While evaluating my options and managing the remains of my portfolio, it hit me: Become a Financial Advisor. Why not? I had been managing my investments for years.

Initially there was hesitation because they (those becoming financial advisors) surely knew things about investing I did not. In reality, I knew much more than

I realized, they just seemed to know the buzz words.

If you lose your income, you may have to adjust your dreams and tell your family a lifestyle change is on the horizon. If the advisor has not had to deal with such issues, can they comprehend that end result?

While studying to become a financial advisor, something else caught my attention. Most in the class didn't have a wide range of work experiences. For some this was their first job. Many were straight from a university. What an irony, people advising others without having a personal understanding of what it takes to create a portfolio while balancing the realities of life.

My plan was to apply the knowledge gained from financial advisors of my past, combined with the strategies from my self-managed knowledge, and learn more about distribution. Distribution was super important, not just for my clients but for me, because at some point the money starts flowing out.

Lesson learned: Don't assume people know more than you do about investing.

## An extra lesson, for free

In becoming a Financial Advisor, my prior ignorance became clear; during the accumulation period when I did not yet have the understanding of how the market worked, my best course of action would have been to place my investments into lower-risk strategies, focusing my efforts on earning money to add to the accounts.

Throughout life we get squeezed from all sides, make sacrifices, and try to accumulate money for rainy days and retirement. We should build wealth slowly and methodically. To remind myself of this, a copy of *The Tortoise and the Hare* sits on a table, and visible, at the office.

With this new-found wisdom, I've decided to help the group most familiar to me: the person who works hard, saves when possible, and knows many people rely on their good judgment. Particularly those in or moving toward retirement, as the need to make prudent investment decisions becomes increasingly important.

Lesson learned: The risk of loss for overreaching is too high when measured against the hopeful return.

# Keep it simple

After all my experiences, my great enlightenment is this:

Create wealth potential by being smart and putting money into prudent investments. Don't become convinced playing the market will make up for what you did not get from patience and perseverance.

Avoid the noise.

The market is not the only way to get there.

Take time to learn about preservation and distribution.

A friend challenged my investment ideas saying, "I understand, but the market is the only way to beat inflation."

"Really?" I said. "You lost 40 percent of your portfolio in 2008. How is that beating inflation? If an account loses 40 percent, it must gain back 67 percent just to break even. How long will it take your account to post a 67-percent gain? And what's the point of the gain if you then lose it?"

After years of ups and downs, other than the excitement of possible big gains and losses, the end result was years of distraction and false hope. Having lived it, I devote my time to helping investors who are ready to get off the roller-coaster and onto the merry-go-round. Investors who like personal attention, want to understand their investments, and want to understand why they have the investments they have. As much as an advisor, the advisor should be an educator and trusted authority.

For those who like playing the market, consider this: if you take a trip to a casino, would you take all of your money? I doubt it. Then where to put the other money?

To determine how much should be where, apply this simple formula: It's the rule of 100.

100 - your age = \_\_\_\_

Your age represents the percentage of your portfolio in a lower-risk strategy. The remainder represents what could be in a more volatile strategy. Do this equation, then look at how your portfolio is split. If you are out of balance or you cannot determine what percent of your portfolio is in what category, then ask your advisor for an explanation. If you are not satisfied with the explanation, then consider finding another advisor and a more suitable strategy. At the end of the day somehow, in some way, you are paying for advice. So use the person most suited to your situation. Why pay for services that do not align with your goals and personality?

## A suggestion

An advisor should gladly provide you a free, no obligation, second opinion. So, why not ask for one? Why not get a second opinion on something as important as your financial future? If a person will get a second opinion on renovating a bathroom, then why not also on something as significant as their investment account(s)? Your financial well-being is at stake. Consider this: You may be retired for the same number of years spent working!

Another question for the advisor is: What registrations do you hold? Different registrations allow the advisor to make different investment suggestions. Make sure they can do what you want, as opposed to convincing you to do what their registration(s) allows. In my opinion, a series seven and sixty-six is a minimum. Other questions to consider: Does your broker/dealer have investment products? Are your investments placed in their products?

## Another point to consider – Knowledge is power

If you cannot interpret your financial statement, and your advisor cannot explain it so you understand it, consider making a change. It's unfortunate how many people who show me their statement do not know how their money is invested, or why. Here is a typical conversation:

Investor, "I want to start taking income."

Me, "How does this investment strategy provide income?"

Investor, "No idea..."

Remember, you are the client: Demand answers.

## Why I do what I do

After receiving my licenses, it took about a year for me to solidify my new philosophy toward investing and financial planning. Now my mission is to share my knowledge and experiences with anyone wanting to listen. Particularly to those not wanting to play in the market but feel pressured to do so. If you fit either category, don't get pushed around by marketing and sales tactics. It is your money, so take a stand.

Don't assume the talking heads know more than you. Use common sense and understand there is always a hot stock you just missed, another one coming, and a coworker or Joe-the-plumber willing to give you advice.

# Conclusion

Invest according to your risk tolerance and keep a portion invested in lower-risk investments. Realize there are elements influencing the market beyond your control.

## The Seven Deadly Sins Committed by the Individual Investor

Fear of change. Holding on to what you have. Don't become attached to your investments. Investments are a means to an end.

Greed. When the market goes up, greed can take over. Take your profits and move on.

Short-term perspective. Investing is a marathon, not a sprint.

Familiarity fallacy. Slipping into a comfort zone and refusing to believe there may be a better way.

Hot-stock chasing. By the time you hear about it, you missed it.

Overconfidence. Being convinced you know everything and therefore there isn't a need to consider new ideas.

Phase-of-life denial. There are three phases people fall into: accumulation, preservation, and distribution.

Find an advisor who understands the needs of your phase of life.

## Extra points – for free!

1. If you are not putting money in, it is difficult to rebound.
2. If you are taking money out, it is even more difficult to rebound.
3. What period of life are you in, and what is your tolerance to risk?
4. Retirement should be about doing things you enjoy, not worrying about your investment account.
5. No one wants to run out of money. Remember the 70-year-old man in Nicaragua.
6. Simplify. You may no longer be ten feet tall and bulletproof. Can your beneficiary take over the investment account in your absence?
7. If you haven't accumulated enough funds by the time you retire, don't try to make up the shortage by aggressively playing the market.

## Getting out of the box

After reading this booklet a person commented to me, it's too bad you can't speak where I work. I then learned the broker/advisor servicing the 401(k) plan wrote into it that no other financial advisors can speak to employees while at work.

Imagine that. The employees cannot learn anything other than what the representatives want them to know. Seeking out third-party advice could bring an invaluable professional perspective to your situation. Knowledge is power.

## Final words

Many people keep their dreams on hold because they are afraid of losing their nest egg. This is not necessary. It is possible to get the most out of life now, while both using and protecting the nest egg; slow and methodical strategies that don't let the media get in the way may grow accounts.

Be prepared.

Live every day as though it's your last, while keeping in mind you may live to 100!



# Addendum – 2020, a very strange year

While in lockdown, and due to the many interactions since the first version of the book, it occurred to me to use the time to write a bit more. It's mostly about defining terms.

Dollar Cost Averaging (DCA):

Dollar Cost Averaging involves continuous investment in securities regardless of fluctuations of price levels. If each investment is the same dollar amount, when the price declines more shares are purchased, and when the price is up fewer shares are purchased. While such a plan does not assure a profit and does not protect against loss in declining markets, many believe this is the best way to invest.

Hypothetical example: You have \$100,000 to invest, and are a little nervous about putting it all in on a given day. The alternative is to invest \$25,000 every quarter for one year.

Let's say you bought a stock at \$30 per share. The price increases to 40, drops to 20, and returns to 30. If you had invested all \$100,000 at \$30, you would have weathered the ups and downs and have 3333 shares.

With DCA you may have purchased 833 shares at 30, 625 at 40, 1250 at 20, and another 833 shares at 30. Now you have 3541 shares.

Dollar cost averaging is not a guarantee against loss. It is a very good way to take advantage of market fluctuation and not worry about the \$100,000 going in at the wrong time.

Cyclical:

A predictable, long-term pattern of alternating periods of economic growth and decline. Sounds impressive, but what does it mean? Company earnings and share value are influenced by a variety of factors. Those especially sensitive to a business cycle are categorized as cyclical. Simply put, when the economy is doing well the company is doing well. If the economy is not doing well, the company is not doing well.

The stocks of automobile manufacturers are cyclical because buying a car is often discretionary. Shares of companies in the food industry are not: Everyone needs to eat.

Predicting a business cycle is not simple and the rise in value of cyclical stocks usually leads the business cycle for 6 to 10 months. In essence, many of the

prices of cyclical stocks may start dropping while the economy still seems healthy, or they might start rising before the country comes out of a recession.

Buying shares of cyclical companies requires being comfortable with risk, a willingness to do research, and the ability to make an educated guess about the future of the economy.

Diversification:

While there is no guarantee a diversified portfolio will enhance overall returns or out perform a non-diversified portfolio, and diversified does not protect against market risk, owning multiple stocks across multiple sectors to offset the risk of one stock causing a significant drop in a portfolio is a known strategy.

If you hold two stocks and one drops 50%, the portfolio fell 25%. If you own 10 stocks and one drops 50%, then your portfolio has fallen 5%.

It's also important to note that diversification gives you the opportunity to pick up the gains if a stock's value increases. One stock may drop 10% while others in the portfolio go up 10%.

More diversity is better. Diversification can also mean having investments in different sectors, not just one. It's best not to hold many investments of one sector. More diversity across several sectors, and several investments within each sector, the more diversified the investor becomes.

To take diversification further, look at asset allocation across multiple platforms. The above references were in dealing with stocks, but you could go further and have investments in corporate bonds, government bonds, ETFs, etc., which provides even more diversity.

Investing in the stock market versus investing in companies via the stock market:

Often, we hear, I play in the stock market, or, I dabble in the stock market, or, I'm uncomfortable putting money into the stock market. Consider this: the stock market is how you make the investment. It's important to distinguish between the two: Ask yourself, am I investing in the market, or a company that trades on the market?

Before investing in a company via the stock market, learn more about the company, how external forces affect the value, dividends or not, and the long-term relevance. Decide what factors are important to you: societal impacts, environment, health, the company history and longevity.

If you choose to play in the market, acknowledge there is always some stock about to take off, one about to drop, and someone at the water cooler telling you how to invest your money. If that is how you make decisions, may the force be with you.

To me, playing the market sounds self-defeating. It's like jumping lines in the grocery store hoping to get out quicker. Sometimes you get out quicker, sometimes not, and often all you did was jump around.

Value buying:

Stock values move up and down based on many factors, too many to list. If a person watches a stock's value over a period of time, two items appear. The value goes up to a high-point, and then it starts to decline. It may also drop due to an unforeseen problem, such as an automobile recall, an oil spill, or a negative news story. The list of catastrophic events is long and typically comes without warning.

Value buying is investing in what is believed to be a discounted price because the stock value is down. As mentioned earlier, this could be a common trend, or an unforeseen event. Whatever the reason for the drop, if the investor is willing to take the risk it can be an opportunity. When buying low, do not try to catch a falling knife. It's best to wait until the value begins rising, commonly known as showing support, before buying in.

Share accumulation versus account value:

Many people evaluate the performance of an investment account based on the dollar value of assets held in the account, which is a sensible thing to do. Share accumulation is evaluating it based upon the number of shares acquired, and the assumption the share value will increase.

If you believe the asset will gain in value, today's dollar value, although important, may take a backseat to how many shares you own and continue to acquire. From this viewpoint the objective could be about acquiring more shares, and not making decisions based on the dollar value of the shares on a given day.

Example: If you purchase shares in company XYZ at \$25, you most likely bought those shares because you believe in the company, and you believe in the future it will be worth more than the date of purchase. That being the case, the objective could become to acquire as many shares as possible. Instead of worrying about the daily price, if you believe the stock will go from \$25 to \$50 per share, then why can't the goal be to collect as many shares as possible before it gets to the \$50 mark? Consider how much value can come by accumulating more during this window of time.

Ways to acquire shares:

To acquire more shares one typically has to buy more with cash. Alternatively, consider dividend reinvestment. Dividend reinvestment is a clever alternative to using cash. Invest in dividend-paying instruments and establish the dividend distribution buys more shares. This allows the investor to acquire more shares without putting in cash from an outside source.

With the dividend payment being based on the total number of shares owned, and each dividend distribution will purchase more shares, as more shares are obtained the dividend is higher, thus more shares are purchased.

Let's tie this dividend reinvestment strategy back to accumulation. If an investor has acquired dividend-paying shares, and now the dividend is an income source, as long as the dividend is paid, how important is the daily value of the investment? Naturally it is upsetting to see it go down, and exciting to see it go up, but as long as the dividend is paid does the fluctuation actually affect you?

Yield versus return:

When it comes to investments providing dividends, yield and return are forms of measurement.

Yield measures income, which is how much the investment paid out.

Return calculates the total of dividend and growth (if any). It is the inclusive measure of an investment's performance and is generally seen as the better way to evaluate total performance.

Example: A stock worth \$100 per share pays an annual dividend of \$5, constituting a 5% yield. Dividend divided by price. If the stock price rises \$5 (5%) during the course of the year, that increase, combined with the yield, gives a total return of \$10 or 10%. In this scenario you have the dividend payout plus a gain in the stock's value.

Some investors find yield to be more important as they may count on the income provided by the dividend, or they see it as a way to accumulate more shares without putting in more money. Other investors consider return to be more important, as they want to see the investment continually increase in value.

Conclusions:

There is a lot more going on in the market than meets the eye, or the news. Establish the goals and objectives of your account(s) and focus on enjoying life while letting your investments do what they were designed for: providing you, or someone of your choosing, additional income.



