Rule #1: The Simple Strategy for Successful Investing in Only 15 Minutes a Week!

In this book, self-made millionaire Phil Towns will show you how he turned $1,000 into $1 million in only five years, and then proceeded to make many millions more.

Before I became "Phil Town, teacher of investing principles to more than 500,000 people a year," I was a lot like you: someone who viewed individual stock investing as way too hard to do successfully. As a guy who barely made a living as a river guide, I considered the whole process pretty impenetrable, and I was convinced that to do it right you had to make it a full-time job. Me, I was more interested in having full-time fun.

So I was tempted to do what you're probably doing right now: letting some mutual fund manager worry about growing your nest egg. Let me tell you why that decision could one day make you absolutely miserable.

The fact is, because of natural market cycles, the mutual fund industry is likely to soon be facing twenty years of flat returns. That means that if you've got your nest egg tucked away in funds-especially the type found in most 401ks-your egg won't get much bigger than it is now. Translation: Get ready for a retirement filled with lots of cold cuts, plenty of quality TV-watching time, and a place to live that's too small to accommodate your visiting kids.

I came to investing as a person who wasn't great at math, possessed zero extra cash, and wanted a life-not an extra three hours of work to do every day. Fortunately, I was introduced to The Rule.

Rule #1, as famed investor Warren Buffett will tell you, is don't lose money. Through an intriguing process that I'll clarify in this book, not losing money results in making more money than you ever imagined. What it comes down to is buying shares of companies only when the numbers-and the intangibles-are on your side. If that sounds too good to be true, it's because the mind-set I'll be introducing you to leads not to bets but to certainties. Believe me, if there were anything genius-level about this, I'd still be a river guide collecting unemployment much of the year.

Part of the secret is thinking of yourself as a business owner rather than a stock investor. Part is taking advantage of today's new Internet tools, which drastically reduce the "homework factor." (We're talking a few minutes, tops.) Part is knowing the only five numbers that really count in valuing a potential investment. And part-maybe the most important part-is using the risk-free Rule #1 approach to consistently pay a mere 50 cents to buy a dollar's worth of a business.

What I won't waste your time with is fluff: a lot of vague parables reminding you of what you already know and leaving you exactly where you started. This is the real deal, folks: a start-to-finish, one-baby-step-at-a-time approach that will allow you to retire ten years sooner than you planned, with more creature comforts than you ever imagined.
An ex-Green Beret and former river guide, Phil Town is a self-made millionaire several times over and America's most widely sought-after speaker on investing. Phil Town appears regularly on the same dais as Rudy Giuliani, Jimmy Carter, and Colin Powell as part of the

"Get Motivated" touring success seminar. He speaks to more than 500,000 people annually about Rule #1. Town lives in Jackson Hole, Wyoming.Table of Contents

Chapter 1: The Myths of Investing

An expert is a person who avoids small error as he sweeps on to the grand fallacy. - Benjamin Stolberg (1891-1951)

The gold standard of low-risk investing is a ten-year United States Treasury bond, which, at the time of this writing, has a return of about 4 percent. Invest in nothing but these bonds and you're guaranteed a 4-percent haul. The only problem with such a strategy, especially for the millions of soon-to-be-retired baby boomers, is that, at 4 percent, it takes 18 years to double your money. In addition, after 18 years, even with a low inflation rate of 2 to 3 percent, most of the gain is absorbed by higher prices, leaving you with only slightly more buying power than you had 18 years earlier. Despite this reality, investors buy billions of dollars of these 4-percent bonds.

Why in the world would anyone want to own a bond that barely keeps pace with inflation and realizes almost no real gain in wealth? Because almost everyone is convinced that a higher rate of return necessarily means a lot more risk. And they're more afraid of losing money in an attempt to get a higher return than of their inability to retire comfortably.

The fact is, a higher rate of return is not necessarily contingent on incurring significantly more risk. Let me explain.

HIGH RETURNS DON'T NECESSARILY MEAN MORE RISK

During a talk at the America West Arena in Phoenix, Arizona, I asked the audience, "How many of you drove your cars here today?" Most people raised their hands. "Okay, almost everybody. And how many of you took a huge risk driving here?" A few hands went back up. "You guys took a huge risk driving here?" I asked incredulously. "Either you drivers didn't really take a risk and are just clowning around, or at last we've found the problem with Phoenix traffic-you people with your hands up don't know how to drive. Is that it?" Everybody laughed. "Okay, so it wasn't so terrifying to drive down here. But now imagine that you're coming here but instead of you doing the driving, it's your eleven-year-old nephew behind the wheel. Are you taking a lot of risk now?" People laughed and nodded yes. "The trip was the same-going from Ato B. But when you put someone in the driver's seat who doesn't know how to drive, a relatively safe trip becomes an incredibly risky trip."

Exactly the same thing holds true for your journey to financial freedom. If you don't know what you're doing, your journey is going to be either very slow or very dangerous. That's why most people think that going fast (going after a high rate of return) is dangerous-because they don't know how to drive the financial car, and not because going fast is necessarily dangerous. It's only dangerous if you don't know what you're doing. And the essence of Rule #1 is knowing what you're doing-investing with certainty so you don't lose money!

Now, you're probably wondering, "What about mutual funds? What about all those techniques we learn to minimize risk and maximize returns?" Well, folks, I hate to be the bearer of bad news, but here's the truth: Being a mutual fund investor is a whole lot riskier than being a Rule #1 investor. Investing in a mutual fund is, in many ways, like handing your car keys to that 11-year-old nephew.

THE MUTUAL FUND SCAM

If you own mutual funds that are attempting to beat the market, and you're hoping your fund manager can give you a nice retirement, you're highly likely to be the victim of a huge scam. You're not alone-100 million investors are right there with you. Fortune magazine reports that since 1985 only 4 percent of all the fund managers beat the S&P 500 index, and the few who did it did so by only a small margin. In other words, almost no fund managers have done what they're paid by you to do-beat the market. That significant fact went unnoticed through the roaring 1980s and 1990s as the stock market surged with double-digit growth, bringing your fund manager along for the joyride. But now the ride is over, and investors are starting to notice that their fund managers are pretty much useless. This is not a new observation.

Several years ago, Warren Buffett said this about your fund manager: "Professionals in other fields, like dentists, bring a lot to the layman, but people get nothing for their money from professional money managers." The key word here is nothing. And yet, what do you do? You give your hard-earned money to one of these guys and hope he can deliver those 15-percent-or-better returns, like the ones you got in the 1990s. Why? Because you don't want to invest your own money, and because you've been convinced by the entire financial services industry that you can't do it yourself.

Come on, get real. From 2000 to 2003, mutual funds lost half their value. You could have lost 50 percent of your money without the help of a professional. In fact, in 1996 a monkey was hired to compete with the best fund managers in New York. He beat them two years in a row. When I told this story one day to an audience in Los Angeles, someone from the upper deck in the Arrowhead Pond Arena yelled out, "What's the name of the chimp?" This is proof that some people will do anything to avoid investing their own money.

Peter Lynch, one of the few fund managers who made above-market returns and then got out before the market leveled him, wrote in his book One Up on Wall Street that the amateur investor has "numerous built-in advantages, which, if exploited, should result in outperforming the market and the experts." In other words, you should be doing this yourself. But you don't. The reason you don't is that the entire financial services industry perpetuates three myths of investing to keep people investing with them in spite of the industry's dismal performance over any long period.

THE THREE MYTHS OF INVESTING

Myth 1. You Have to Be an Expert to Manage Money.

The first myth I want to bust is that it takes a lot of time and expertise to manage your money. It would if investing were hard to learn or if getting the information to make a decision took a lot of time. I'll prove to you that it doesn't, even though the financial services industry wants us to believe it does. The industry stands to make billions from commissions and fees if it can keep you thinking you can't do it on your own.

The Internet has changed everything. Now the tools that used to cost $50,000 a year are available for less than two bucks a day and take only minutes a day to use instead of 50 hours a week. And the Internet tools are more accurate, more timely, and easier to apply than anything your fund manager had just a couple of years ago. All you need is a little instruction and a brief learning period. But don't bother to ask your broker, financial planner/adviser, certified public accountant (CPA), or fund manager if you should do this on your own. You know what they're going to say. Something like, "But that's what I do for you, so you don't have to worry about it." Well, you should worry about it. Alot. It's your money and you're the only one who really cares about what happens to it.

Even the pros like Jim Cramer, a guy who's in your corner and who wants to see you invest on your own, doesn't really know what it's like to be one of us. Like the rest of the top of the financial industry, Jim's Ivy League, incredibly smart, loves playing with stocks all day and night, lives it and breathes it and has no sense of what it's like to be you and me out there digging ditches someplace and hoping we can retire. For these guys it's a game. Aserious game, but still a game. Jim's a trader and loves to speculate. Following his approach, you've got to put in five to ten hours a week minimum and you're playing a very dangerous game with money you can't afford to lose against really rich, really smart, and really motivated guys-guys just like Jim.

If you think you can win at that game, be my guest. And if you do win, my hat goes off to you. You're a lot smarter than the rest of us. For everybody else, me included, there has to be another way. Most of us don't have five hours a week for investing. Let's face it. We've got kids to raise, lives to live, and jobs that already take more time than we have. We also don't want to be chained to watching the stock market or to become frantic day traders. What fun would that be? We're just looking for something to invest in that gets really great returns without the risk of losing money and without spending a lot of time at it.

Rule #1 is investing for the rest of us.

Myth 2. You Can't Beat the Market.
Okay, it's true that 96 percent of all mutual fund managers have not been able to beat the market in the last 20 years. But you're not a fund manager and you're not judged by whether you beat the market. Your
financial skill is judged by whether you're living comfortably when you're 75. You shouldn't care whether you beat the market. If the market goes down 50 percent but your fund manager loses only 40 percent of your money, he may have beaten the market, but does that seem good to you? Rule #1 investors expect a minimum annual compounded rate of return of 15 percent a year or more. If we can get that, we don't care what the market did. We're going to retire rich anyway. Judged by that standard, Rule #1 investors . . . well, rule.

The myth that you can't beat the market was started in the 1970s by, among others, Professor Burton Malkiel of Princeton University, who did lots of research purporting to prove that nobody beats the market. (We'll be going into greater detail regarding Malkiel's theories later on in this book, but we must mention him here to debunk this myth.) His book, A Random Walk Down Wall Street, still sells. He influenced a generation of professors in business schools who, as a body, subscribed to what has become known as Efficient Market Theory (EMT). EMT says markets in general (and the stock market in particular) are efficient- that is, they price things according to their value. In the stock market, the ups and downs of the market are caused by rational investors responding minute by minute to the events that may affect their investments. According to EMT, the market is so efficient that everything that can be known about a company is already, minute by minute, figured into the price of its stock. In other words, the price of the stock at all times equals the value of the company.

If that's true, say the professors who believe in EMT, then it's simply not possible to find a stock that's undervalued, and it's equally impossible to pay too much for a stock. Why? Because price is always equal to value. So there are no deals in the market, and there are no rip-offs. This situation, EMT theorists say, accounts for the fact that almost no fund managers ever beat the market. These fund managers are smart guys, and if none of them beats the market for long periods, then the market must be perfectly pricing everything.

But some people do beat the market for long periods, and the point of this book is to show you how. You'll soon realize how false EMT really is.

[In 1984, Warren Buffett gave a lecture at Columbia Business School in which he showed that at least 20 investors, who he'd predicted would have high rates of return, all beat the target of 15 percent handsomely for periods longer than 20 years. All of these investors hailed from the same school of investing, which he called "Graham-and-Doddsville" because all had either learned from professors Graham and Dodd, from Buffett, or from someone who was copying Buffett-the same way I learned from my teacher and the way you're learning from me. (Benjamin Graham was Buffett's teacher at Columbia; David Dodd was another professor at the school.) The compounded annual rate of return for these investors over eight decades ranged from 18 percent to 33 percent per year. The point Buffett was making to the Columbia students was that the people he knows who make over 15 percent a year for long periods all do it similarly. They all start with Rule #1.]

After the 2000 to 2003 stock market debacle, when some very good businesses saw their stock values drop by 90 percent, Professor Malkiel was interviewed, and as we'll see in Chapter 8, he came as close to a retraction of his theory as an academician ever could when he admitted that "the market is generally efficient . . . but do[es] go crazy from time to time." Oh. It's efficient but sometimes it's not. Funny, but I thought that was what Buffett and Graham had been saying for 80 years. Buffett quips that he hopes the business schools will continue to turn out fund managers who believe in EMT so that he'll continue to have lots of misinformed fund managers to buy businesses from when they price them too cheap, and to sell businesses to when they're willing to pay too much.

The chart on page 18 shows how Rule #1 investors have fared over the last several decades, as compared with the performance of the S&P 500 and the Dow Jones Industrial Average.

(Chart shows How Rule #1 investors have fared in comparison with the market's most popular indexes. This chart may appear erroneous or exaggerated, but it's not. Rule #1 investors outperform the S&P 500 and the Dow Jones Industrial Average by a long shot-routinely. The magic of compound growth is what explains the massive difference between compounding at 8 or 9 percent per year versus compounding a little over 23 percent per year. Such a huge difference isn't so obvious at first glance. Because 23 percent is just three times bigger than 8 percent, one would automatically think the dollars should just be three times bigger. But compounding growth is not linear, it's what is called geometric. Compounding grows a rate of return not only on the original dollar invested, but also on the accumulating dollar returns ("interest on interest"). Because 23 percent produces a higher dollar return every year, which, in turn, has a 23 percent return on it, the accelerating dollar amount explodes after several years and rockets far from the lower 8-percent compounded return.

Cool, huh?)
Myth 3. The Best Way to Minimize Risk Is to Diversify and Hold (for the Long Term).

Diversify and hold. Everybody knows that's the safest way to invest in the stock market, right? But then again, at one time everybody knew the...
Other Books
How To Think and Realize Objectives Under Any Proper Rule Environment, This book was developed to help you to understand and overcome financial, social and economic problems. This new math will lead you to take the control back of your life in very important areas. This book`s focus is, a new philosophy developed by the author known as Democratic Game and System Objective Theory and a new Math called Lirian Mathematics. This book will resume in simple words and in an entirely new math, how to understand our reality environment. It was written with a lot of dedication and faith that it will help many people around the world to deal with their social and economic challenges. □ □ □ □ □ . This book was developed to help you to understand and overcome financial, social and economic problems."