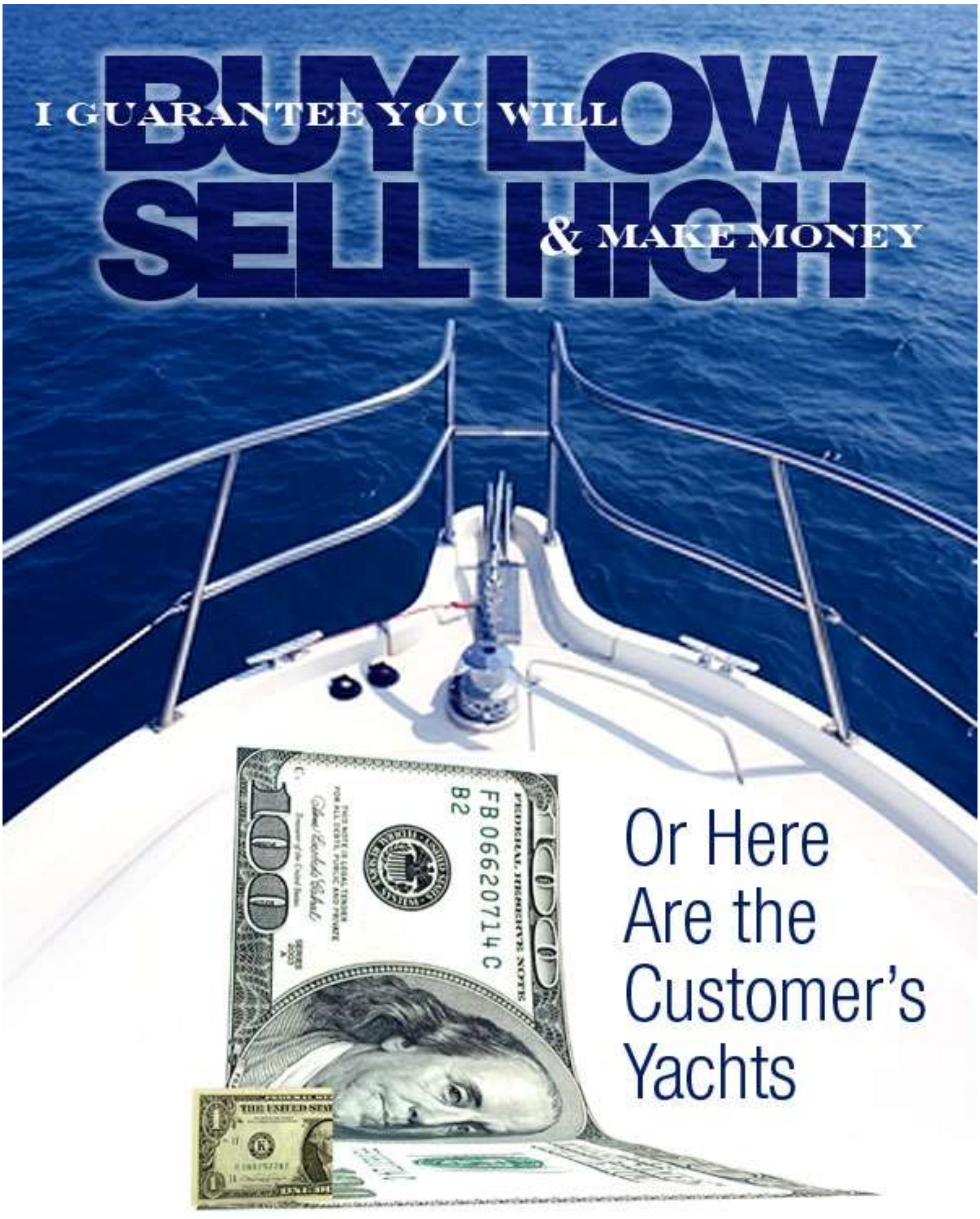

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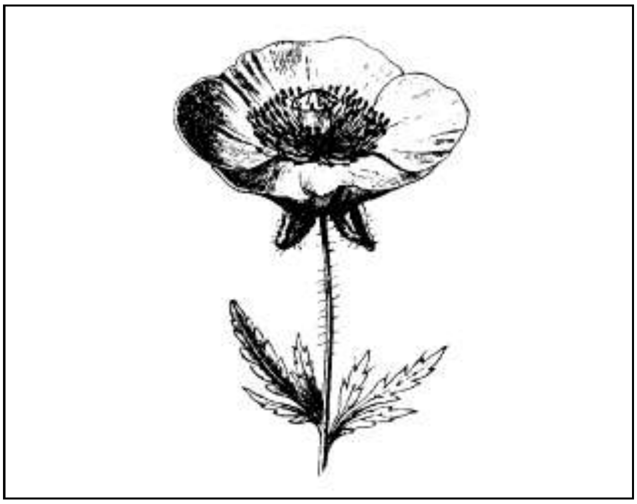
$$

DEDICATION

To my wonderful Honey-Bunny (alias lovely
wife Judy) and my wonderful Pooski (alias
daughter Jinty) and my granddaughter who gave me the reasons to succeed.



Disclaimer

My book is so with the understanding that I am not engaging in giving you legal or accounting services, just ideas. Specific investment question should be addressed to a stockbroker, legal questions to a lawyer, and accounting questions to a qualified accountant.

I specifically disclaim any liability, loss, or risk, personal or otherwise, which is incurred as a consequence of any of the contents of this book. Likewise you get to keep all profit you make from the use of this book; I don't get any of them.

Forward

I would like to thank and complement Mr. Robert Lichello, author of *How to Make $1,000,000 in the Stock Market Automatically* who devised the investment system used in my book. I feel it is mandatory to read his book. I'm sure any good bookstore will have a copy or you could order a copy by looking on Amazon or one of the other websites. Mr. L's book planted a seed of inspiration to me like no other investment book I had ever read. I knew it was the way to invest. It so inspired me that I started this book and started investing under the system.

At the time I read the book, the stock market was going great guns in the middle of a big bull market. I had some spare time and started charting stocks I liked under the system to see how well the system worked on real stocks. From those humble beginnings, this book began. It was written under strange conditions about as far away as you can get from the major stock markets – in Seoul, Korea; Maffle, Belgium; and Weilerbach, Germany. The beauty of the system is that it doesn't even require you to be near the market to play. It's so simple and yet so profitable. My hats off to Mr. Lichello and I hope this book helps spread his fine system to an even wider audience.

I wish to make clear that while the system is Mr. Lichello's, the ideas about using it in this book are my own. If you can think of some way to improve on my ideas, I'd be glad to give you credit in a future edition. And now I've come full circle I've gone from having a printed book for the last 20 years that I've been revising constantly to an e-book version. Here is your future edition, I've added information on how to adapt AIM for bear markets, added the latest list of online brokers and many other subtle changes. But the heart of the book remains the same because it is it is a strong heart, capable of handling the job AIM gives it in bull and now bear times.

My original book was printed at Kinko's, now called Kinko's/FedEx using a spiral binding on 8.5 x 11" paper or the traditional letter-size paper. This was done because I have many spreadsheets and other information that needed to be printed in large size so you would be able to read it. Obviously I can't include the spreadsheets in this e-book version because it will appear so small as to be unreadable. So I am not including the spreadsheets in the actual e-book edition.

However anybody who buys my e-book can e-mail me and will receive for free the full size 8.5 x 11 Adobe Acrobat version of my book that will have all of the spreadsheets so that you can go to the particular Chapter and see the spreadsheets that I'm talking about in the e-book. Once you buy this e-book, just e-mail me at jeffee13@hotmail.com and tell me you have bought my e-book; please send me the free Adobe Acrobat version with the spreadsheets and

I will be very happy to send it to you at no charge.

Introduction

I wrote this book to help all investors – big and small – make money. The simple, easy to learn system will show you an investment method you can use for life. It only takes 15 – 30 minutes a month and should average 20% – 30% a year over the long haul. It's all explained in Chapter 2.

In addition to showing you the AIM system, I will show you how to choose a stockbroker for buying and selling under the AIM system. To help you pick the best stocks, I offer a monthly HTML newsletter. See my flyer in this book for further details. Anybody who buys a copy of my e-book will receive for free a one-year subscription to my monthly investing newsletter that shows the best stocks, ETF's, closed-end funds, and LEAPs for the AIM system. Again when you buy a copy of this e-book, just e-mail me at jeffee13@hotmail.com and I will add your name to my monthly subscriber list for my newsletter.

You will find different strategies ranging from very conservative to highly risky that you can use with the system. You'll find a strategy you'll feel comfortable with. Please read the entire book and I think you'll agree that I offer a simple, easy to learn, quick method to make the most from your hard-earned investment dollars. And it doesn't take very much money to get started as you'll see. If you have any questions, I'll be glad to try and answer them. Please e-mail me. Good luck with your investing.

Authors Acknowledgments

First of all I'd like to thank Mr. Robert Lichello for the excellent investing system he invented. He has helped lots of people and I hope I am worthy to carry on in his footsteps.

Of course I can't ignore my wonderful wife Judy; again she rates more than just being listed in the dedication. My wonderful wife Judy has been there every step of the way for me and helped me through many dark and difficult times I truly appreciate all the fine things she's done for me, the love she has for me, the love she has for our daughter and granddaughter, and the hard work she does, I want to give her the best possible life.

Other Books I've Written

- *My Only Crime Was Being Born – Volume 1*

- *My Only Crime Was being Born – Volume 2*

- *My Only Crime Was being Born – Volume 3*

You can find all three volumes of my autobiography on Smashword.com

http://www.smashword.com/books/view/99557

Table of Contents

Chapter 1
How to Buy and Sell – Picking a Stockbroker

(Note: I originally wrote this book many years ago when Merrill Lynch Blueprint was the only way the small investor could get a break on commissions. I decided to keep the information on Blueprint even though as you'll see later on, there are a lot of online brokers out there with very low commissions. I guess I'm nostalgic.)

There is an easy way for the small investor to play this investing system. The easy way is with the Merrill Lynch Blueprint Program. The Blueprint Program, formerly called the Sharebuilder program, is ideally suited for us, the small investor. Briefly the Blueprint program allows the investor to buy stocks and other investments at low commissions through our branch of Merrill Lynch, their "discount broker."

Merrill Lynch has over 1 million Blueprint customers. The great advantage of Blueprint is that it allows you to buy and sell as little as $100 worth of stock (I now recommend selling at higher amounts than $100 worth and would be happy to recommend the proper amount you should use with AIM to buy and sell based on how much you are investing in each individual investment as my system recommends, at very low commissions.)

Here's how Merrill Lynch describes Blueprint:

It's a convenient and inexpensive way to build your investment portfolio of stocks, mutual funds, and precious metals. More than 1 million people are building shares in their future and preserving the purchasing power of their dollars by participating in the Blueprint Program. Besides helping increase assets, Blueprint offers these benefits:

Small incremental investments in the securities you select allows you to build your portfolio over time as you invest in stocks, mutual funds, and precious metals. You have an opportunity to buy full and fractional shares because you invest by the dollar, not the share amount. And that is exactly what you are going to do when you learn AIM you're going to buy and sell based on the dollar amount of the buy in the sell and not on a specific number of shares. The Blueprint program will buy you shares out to four decimal places. For example your account could show 78.9856 shares. This is a tremendous benefit to the small investor. Investment alternatives allow you to diversify your portfolio among thousands of stocks and closed-end funds (later on you'll see I love closed-end funds for AIM investors who want to play AIM and yet get high monthly or quarterly dividends) listed on the New York, American and over-the-counter markets or NASDAQ.

Reduced brokerage fees on securities provide substantial savings off the regular Merrill Lynch commission charges for stocks. When you purchase stocks through the Blueprint program, you can take advantage of transaction fees up to 55% less than regular Merrill Lynch rates. Below are the Blueprint rates as of April 1988: (compare the "discount commission rates" in 1988 when we didn't have computers and online trading, to what the commissions are today; there is no comparison, commissions have gotten substantially cheaper to the point where AIM is even better system than when Mr. Lichello invented it because back then any commissions were much higher. Now you can safely trade even small amounts at extremely low commission rates.

Transaction amount – Blueprint Commissions:

See how much cheaper current commissions are!! And no limits on dollar amounts of your trades.

$0 to $125 - $12.50

$125 to $200 – 10%

$200.01 to $500 – 5% plus $10

$500.01 to $1,000 – 1.5% plus $27.50

$1,001.01 to $5,000 – 1.2% plus $30.50

$5,000.01 to $7,500 – 1.15% plus $39.50

$7,500.01 and up – Regular rates

(All these rates are very high compared to today’s commission rates of less than $10 a trade)

Blueprint also charges $3.85 as a transaction fee for all trades and now charges $30 a year for account maintenance. There are no charges for Ready Asset, (money market) transactions.

The basic reason that Blueprint is better for us small investors is that all brokers including discount brokers have a minimum commission. The regular Merrill Lynch minimum commission (not Blueprint) in August 1984 when I bought 100 shares of our $4.50 stock was $40. A comparison of several discount brokers from 1984 showed that the minimum commission was around $30 or higher. Also some discount brokers only dealt in round lots (100 shares.)

For a small investor, Blueprint is perfect. If you look at the various charts throughout this book, you'll see that our buys and sells our small most of the time. Blueprint is an easy and inexpensive way to make them.

You always have immediate access to your investments under Blueprint. You may change from one investment to another any time. If you wish to buy or sell, Blueprint is only a toll-free (sorry only in the United States), and Blueprint has another advantage... (Merrill Lynch continues on but I stopped.)

Other discount brokers

Blueprint is a fine inexpensive way to play the system but it's not the only game in town (actually Blueprint doesn't exist anymore!) There are other discount brokers out there. For investors to start with larger sums (for example $10,000 per stock) the savings can be substantial. All the charts in this book use Blueprint commissions; if we had paid less than commissions by using another discount broker, our commissions would have been less and our profits more.

Below are the current low commissions for several brokers – one broker – Options Xpress – specializes in options trading.

Brokers on the Web

Note: the rates you see below were written at some point in the past and I'm not sure if they're still the current rates. I'm sure the rates are pretty similar or even lower than what I put down here. You can always go to their website and check out for yourself what the current rates are. I don't want to be the one to tell you should only go to this broker but I have dealt with TD Ameritrade for years and found them to be an excellent stockbroker that offers many features including free Standard and Poor Reports and other reports that let you do research on various stocks that you're considering buying. They might not be the cheapest one out there but their commission rates are still very low, below $10 a trade.

The computer age comes to investing. Now you can do your buying and selling by computer over the Internet. And now you're not even limited to a computer anymore; you can do your buying and selling from your smart phone, iPad or who knows; soon maybe you're just be able to talk to your wrist and make a buy or sell sometime in the future. Technology is amazing and it is helped us investors be able to find a wealth of information very quickly and very easily that I will talk about throughout this book about just how easy it is to find investing information that when I originally wrote this book didn't even exist.

Many stockbrokers and subsidiaries of major brokers offer trading via computer. Most brokers are on the web which means everybody can access them.

I don't have any rating for these brokers. *Barron's*, a fine financial weekly newspaper, regularly rates stockbrokers and keeps you up-to-date on commission rates. I don't get any commissions from *Barron's* but I highly recommend that you get a print subscription which also includes a free online subscription. They will talk about many fine stocks and other investments that you could use with AIM or in other investing strategies. You should remember we are looking for low – cost brokers. If you see a low – priced broker, you can bet they offer even more services than full commission brokers used to offer many years ago. You get all the bells and whistles with low-cost brokers that you used to get with full commission brokers. Competition is fierce and companies know that prices are determined in and whether an investor will open an account with a particular broker so they all fight to keep their commissions as low as possible and that benefits you the investor.

Below are online brokers you can check out. I tried to put the necessary information you need to check them out.

Online brokers

Ameritrade - $9.95 a trade – http://www.ameritrade.com

Cyber Trader - $9.95 a trade – http://www.cybertrader.com

E-Trade - $6.99 a trade – http://etrade.com

Fidelity – Gold $8.00, $19.95 Bronze – http://www.fidelity.com

InterActive Brokers – up to 100 shares $1.00, up to 1,000 shares $5.00

http://www.interactivebrokers.com/index.html

Charles Schwab - $9.95 – $12.95 a trade – http://www.schwab.com

SieberNet – $14.95 a trade – http://www.siebernet.com

TD Waterhouse - $9.99 a trade – http://www.ameritrade.com

Terra Nova - $5.00 a trade – http://www.terranova.com

Wall St. Electronics - $9.99 a trade – http://wallstreete.com

Scott Trade - $7.00 a trade – http://www.scotttrade.com

Options Xpress - $15.00 for 10 option contracts; $14.95 stock trades
http://wwwoptionsxpress.com

Chapter 2

The Mechanics of Buying and Selling

Now for how to buy, sell or do nothing under the (Automatic Investment Management) AIM system. This is an important, probably the most important chapter of the book. You must thoroughly understand and follow this to get the benefits from the AIM system. I'm going to go through it slowly and I want you not only to read and understand practice it with some stocks of your own until it becomes second nature. And it will! At first it might seem complicated, but it's really incredibly simple. And once you learn it you will be doing exactly the same thing every month but the results will be different. Some months the system will tell you to buy and it will tell you how much to buy or how many dollars' worth of the investment to buy or how many dollars' worth of the investment to sell or AIM may want you to do nothing because the price of the investment hasn't gone down or up enough for AIM to decide to make a buy or sell. Here's how to do it.

You will see below that I wrote this chapter a while ago. There still may be some old-fashioned investors don't like computers so this will appeal to them. For the rest of you I have created a Word version of the spreadsheet and you can easily do all of these calculations on an Excel or Word spreadsheet. And you can make it easier by putting in a few very simple formulas in some of the columns and will make your work even easier. Again when you buy my e-book, you will receive all of this information in the Adobe Acrobat version of my book for free and I will provide you with a free version of the spreadsheet for both stocks and LEAPs because the LEAP spreadsheet is a little bit different and you will get up many other fine free bonuses so it's a heck of a deal.

First you'll need to buy or get some 13 – column paper (this is the type of accounting spreadsheets on paper I first used when I went to work as an auditor with the U.S. Army in 1983 which was BC or before computers. Paper is very common accountant/auditor paper designed to write numbers on. Any business supply store will have or at least would have it many years ago; it's probably harder now to find. Again like I said you can easily do all of this on an Excel spreadsheet and I'm sure most of you will prefer to do it on an Excel spreadsheet then to do it with a pencil and piece of paper but for those old-fashioned people I will keep the explanation the same as I wrote it many years ago before computers came around.

Ask your business friends. National makes the paper I use, #45-813. It comes in pads. If you have a computer than any spreadsheet software could be used to set up the system you can find two excellent software programs that do AIM on my website – http://www.jjjinvesting.com

Now a quick explanation of what every column means before we go through two years of one stock and you see the system in action.

Remember like I will say frequently throughout this book, you will obtain all the spreadsheets from the Adobe Acrobat printed version of my book for free after you buy this e-book.

Column 1 DATE - the date becomes the month and year (for example 6/11.) You check your stock at least once a month or more often as you will see when I talk in my book, maybe even daily for some of the more volatile investments like LEAPs or leveraged ETF's. You will see in this example in Chapter 2, I am just going to be checking the stock monthly. And you will see just checking it monthly can still make you quite a nice profit. So 6/11 would be followed by 7/11, followed by 8/11 - I think you get the picture.

Column 2 REMARKS - here you will list things such as readjust stock/cash ratio, stock splits using different SAFE percent's (10% is the normal SAFE amount as you'll see later on) but we will use different SAFE percent's in bear markets.

Column 3 – SHARE PRICE - this is the closing price of one share as reported in the newspaper or the website for the day you're checking. You can easily find daily prices at http://yahoo.com in the financial section or if you have an iPhone, all you have to do is click on the stocks application on the front of your phone and there you find the latest prices on any investments that you're interested in.

Column 4 – SHARE VALUE - this is the SHARE PRICE from column 3 multiplied by the number of SHARES OWNED which is found in column 8.

Column 5 SAFE – SAFE is an arbitrary 10% of the share value found in column 2. Thus if your SHARE VALUE is $5,000, your SAFE amount would be $500. You'll see how SAFE helps you from buying and selling too soon when we go through the actual example stock.

Column 6 – CASH - originally Robert Lichello said to use a ratio of 50% CASH and 50% shares when you start an AIM investment. So for example, if you started with $10,000, you would have $5,000 in stock, and $5,000 in CASH. I have found that we can vary the amount of cash in an AIM investment depending on the volatility of the investment. A quick example is on a LEAP which is a very volatile investment; you would always want to use a ratio of 50% CASH and 50% LEAPs. And on a closed-end fund that you buy for income, you can safely use a ratio of one third CASH and two thirds closed-end fund shares that would mean on a $10,000 investment, you could own $6,677 worth of closed-end fund shares and $3,333 for CASH. One disadvantage nowadays of keeping a great amount of cash in your broker's money market account, is that money market accounts pay a very low interest rate usually less than 1% which means you're not earning very much on the money but having cash to buy shares at cheaper prices is an essential that will pay off for you later on when your stock or other investment goes down and you need to buy more shares. Your CASH total will go up or down every month depending on whether you're buying and selling and earning interest on your cash. Also I view it as optional if you want to deduct the cost of the commissions as you make buys and sells. Personally I wouldn't bother worrying about the commissions you make enough profits without really worrying about it.

You'll see that the AIM system is very conservative as most of your investment will go to CASH. If you have a buy, then Column 6 (CASH) –, Column 11 (MARKET ORDER BUY) X 1.005 (interest) equals next month's cash total. If you have a sell, then, Column 6 + Column 11 (MARKER ORDER (SELL) x 1.005 equals next month's cash total.

Column 7 – SHARES BOUGHT (SOLD) - After you make your monthly check of the stock or other investment price, you might be buying some shares, selling some shares or doing nothing. In this column you will record the number of shares you bought or sold for that particular day in time. If you did nothing, put – (dash) in the column. To arrive at the number of shares you bought or sold, you divide the dollar amount in column 11 (MARKET ORDER BOUGHT (SOLD) by the SHARE PRICE in column 3. For example, if the system tells you to sell $200 worth of stock and the stock is selling for $10 a share, then you sell 20 shares. Remember to put the ( ) around the sold stock to keep separate buy and sell transactions which are sharing the same column.

Column 8 – SHARES OWNED - This is the number of shares you currently own. This figure will constantly go up and down. If your stock splits, you would double the number of shares you own. Column 8 equals last month's column 8 plus any shares you bought in the previous month or column 8 equals last month's column 8 minus any shares sold in the previous month or day that you did AIM. If the previous month or day that you did AIM and AIM told you don't need to make any buys or sells then column 8 would be the same number of shares in the row just above the current row you're using.

Column 9 PORTFOLIO CONTROL - Another important column. When you start, put a dollar amount equal to the amount of stock you bought (this is only a control number, no money involved with this column.) If you start with $1,000 worth of stock, your PORTFOLIO CONTROL amount/number is also 1,000. After your initial injection of money, PORTFOLIO CONTROL will only change if you buy more stock. Every time you buy more stock, you add half the amount you bought to your PORTFOLIO CONTROL total. For example, the system tells you to buy $400 worth of stock; you add $200 to your prior PORTFOLIO CONTROL total. If no buy, then column 9 is the same as the prior month.

Column 10 – BUY (SELL) ADVICE - Every month you look at your SHARE VALUE (column 4) and PORTFOLIO CONTROL.) If your SHARE VALUE is higher, you put that figure on top; if you're PORTFOLIO CONTROL amount is higher, you put that on top. For example: if your SHARE VALUE is $5,000 and your PORTFOLIO CONTROL amount is higher, you put PORTFOLIO CONTROL on top. For example: if you're SHARE VALUE IS $5,000 and your PORTFOLIO CONTROL is $3,000 then you would put the higher value on top like this:

SHARE VALUE	$5,000
- PORTFOLIO CONTROL	3,000
= (SELL) ADVICE	$2,000

Or if PORTFOLIO CONTROL is higher:

PORTFOLIO CONTROL	5,000
- SHARE VALUE	$3,000
= BUY ADVICE	$2,000

Column 11 – MARKET ORDER BUY (SELL) - this is the column that tells you whether you make an order or not. You take the amount from column 10, BUY (SELL) ADVICE, and subtract out the SAFE (column 5) amount. If the amount is over $300 (this is my new rule of thumb for determining when you make actual buys or sells.) This means you go online and tell your broker that you want to buy or sell the dollar amount of your MARKET ORDER. If you have a sell order, you have to figure out how many shares you must sell (column 11 divided by column 3, SHARE PRICE) and tell your broker to sell that many shares. For example, if your market order was to sell $300 worth of $8.10 stock, then you would tell your broker to sell 37 shares. You would do the same exact thing if it's a buy order, you divide the dollar amount of the buy order by the current price of the stock and that determines how many shares you buy. Always remember investing is an art and not a science, so if the AIM system tells you to buy 37 shares, then you can easily round that off to buy 40 shares and everything will work fine.

COLUMN 12 – 6% INTEREST - this is the amount of interest earned by your cash total from column 6. The .005 is 1/12 of 6% or the amount of interest you earn in one month. I picked 6% because it's easy to work with an overlong period of time and is a fair average of the interest rate for money market funds over the long-term and it keeps things simple – monthly interest is always one half of 1%. I know right now that interest amount seems very high compared to what money market funds are paying but remember we are in this for the long haul and if you play AIM over the next 20-30 years it will average out to 6% interest as a fair number of use.

Column 13 – PORTFOLIO VALUE/TOTAL - Add the value of your CASH, column 6 + column 4, the value of your stock or other investment and you have the total current value of your investment. You will notice one nice thing about the AIM spreadsheet. Once you start with the stock you see exactly what you're starting amount is in the very first row when you look at PORTFOLIO TOTAL. In this example we are starting with a PORTFOLIO TOTAL of $10,000.

So when you compare PORTFOLIO TOTALs in the future rows, you can easily see exactly what your status is, if the PORTFOLIO TOTAL is higher than $10,000 then you are ahead or profitable. If the PORTFOLIO TOTAL is less than $10,000, you currently have a "paper loss". All that means is that the stock or other investment is cheaper than when you originally bought it, and possibly AIM is telling you to buy more shares of this cheap stock so when it turns around and goes higher later on you will own more shares that will go up in value and that will increase your profits.

Now I will go through an actual stock and show you just how easy it is. Get your pencil, calculator, and 13 – column paper or your Excel spreadsheet. Write all the headings in the proper columns. Remember you will get a copy of my book in the Adobe Acrobat version that will have the spreadsheet illustrated to make it easier for you to understand. Now write the name of the stock, for this example I picked Claire's Stores, see the chart at the end of this Chapter in the Adobe Acrobat version of the book. Then below the name list the stock exchange, NYSE equals the New York Stock Exchange. The first month in our example is June 1994 (6/94), write that in your date column. Then we are going to imagine that we have $10,000 to invest. Having a calculator will make your figuring easier. Now let's start with June 1994.

The first month is Jun. 94 (6/94), write that in your date column. Then we are going to imagine that we have $10,000 to invest. Having a calculator will make your figuring easier.

<u>JUNE 1994</u>

Date Col. 1	Remarks Col. 2	Share Price Col. 3	Share Value Col. 4	SAFE Col. 5	Cash Col. 6	Shares Bought (Sold) Col. 7	Shares Owned Col. 8	Port Control Col. 9	Buy (Sell) Advice Col. 10	Mrk Order (Sell) Buy Col. 11	6% Int Col 12	Comm	Port Value Col 13
6/94		10.25	6700	670	3300	-	654	6700	-	-	-	-	10,000

We start with $10,000 to invest. First we look at the price of the stock in the newspaper or on the website. A great website to look up stock prices is Yahoo Finance on you have to do is type in the symbol and you'll see exactly what the current price of any stock or other investment is. When you actually buy your stock or other investment, you'll have to wait to get your statement to see what the actual price was. Stock prices move quickly so you may have put in an online order to say buy Claire's Stores and Yahoo told you the price was $10.25. You might find when you actually buy it maybe you bought the stock at $10.20 or $10.30 so that is the price you would want to put down when you find that your actual buy price. Our stock was selling for $10.25. Write that in column 3. Our first share value will be 2/3 of our $10,000 or $6,700 rounded off. Write $6,700 in column 4. In this example you see I used the liberal idea of two thirds stock and one third cash. Based on the investment you are in; I may recommend that you go 50% cash and 50% stock. It all depends on the volatility of the investment.

Then in column 5, $670 because SAFE is always 10% of the SHARE VALUE in column 4. Then right $3,300 in column 6 because you always start with two thirds of your money in stock and one third in cash on a conservative investment. In column 8 you write the number of shares you own. This is figured by dividing SHARE VALUE in column 4 by the SHARE PRICE – in column 3 - $10.25 equals 654 shares. Always round off, if you get 653.9, then 654 shares, if 653.3, then 653 shares. Then in column 9 PORTFOLIO CONTROL, put in the same number as you had in column 4, SHARE VALUE, 6,700.

Column 10 doesn't come into play yet, and column 11 doesn't either. You haven't earned any interest yet, so column 12 is blank also. Now add up the value of the stock you bought in column 4 and the amount of cash in column 6 and you have your total for PORTFOLIO VALUE. Put $6,700 + $3,300 equals $10,000. Now let me show you how simple and profitable the system will be for you. Remember to reinvest all dividends into your money market account. Just tell your broker when you open your account that you always want any dividends placed into your money market account and you do not want to buy additional shares or fractions of shares with any dividends you receive.

JULY 1994

Date Col. 1	Remarks Col. 2	Share Price Col. 3	Share Value Col. 4	SAFE Col. 5	Cash Col. 6	Shares Bought (Sold) Col. 7	Shares Owned Col. 8	Port Control Col. 9	Buy (Sell) Advice Col. 10	Mrk Order (Sell) Buy Col. 11	6% Int Col 12	Comm	Port Value Col 13
6/94		10.25	6700	670	3300	-	654	6700	-	-	-	-	10,000
7/94		10.00	6540	654	3317	-	654	6700	160	-	17	-	9,857

Now how to use the system in the real world**.** On July 1 or thereabouts, you pick up your newspaper or look on your website. You look under the New York Stock Exchange and find Claire's Stores. From now on I'm just going to say you look on your website because when I wrote this, newspapers were a lot greater source of stock market information than they are today. Today everything you want is either on a website or your iPhone on your iPad etc. so now on we would just say we look it up on the web. My new iPhone has this great little feature; all I have to do is press the stock market app on the very opening screen and I can find out all the information on stock prices you ever dreamed of. Once you type the symbol in, you can always find any symbol by going to Yahoo Finance. At http://www.barrons.com and going down to the bottom and opening up either the New York or NASDAQ stock exchange going to the first letter of the stocks name scrolling down and you will see the symbol right next to the name of the stock.

We find Claire's Stores and see that the price on July 1 is $10 which we write in column 3. Did you remember to put July, 94, - 7/94, in the date column? Now go to column 8 for July 94. Look above in column 8 and you will see you owned 654 shares in June and you didn't buy or sell any in column 7. This is why you leave column 7 blank in the first month. You still own 654 shares. Write 654 in column 8 for July 94. Also your PORTFOLIO CONTROL amount is still the same (you didn't buy anything in addition to the opening buy in the first month, when you opened your account) so write 6,700 in column 9. Now multiply the number of shares owned (654) by the share price ($10) and you have your SHARE VALUE for column 4. Now CASH, you'll notice, has grown from $3,300 to $3,317. This is because you earned $17 interest which you write in column 12. If you had bought or sold stocks the preceding month, this would have also affected cash this month.

Now you take your two key amounts – SHARE VALUE and PORTFOLIO CONTROL and look at them. Which is higher? PORTFOLIO CONTROL is higher (6,700) than SHARE VALUE (6,540). Since PORTFOLIO CONTROL is higher, put PORTFOLIO CONTROL on top. You'll be seeing this chart every month. Once you start doing this, you won't need the chart, but it's a good way to learn.

PORTFOLIO CONTROL	6,700
- SHARE VALUE	$6,540
= BUY ADVICE	$160

You now have a potential buy for $160 but it's only potential. Now look at the SAFE amount in column 5 and you find that it is 654 which is higher than your buyer advice in column 10. So you put zero in column 11, MARKET ORDER BUY because your signal isn’t strong enough to give you a market order yet. Put a – in column 7 since you won’t be buying or selling any stock this month. Be patient the system doesn't want you to sell or buy too soon. You'll get plenty of chances. Now all you have to do is figure column 13, PORTFOLIO VALUE. You remember, add column 4, SHARE VALUE and column 6, CASH and you have the current value of your investment. This month it's $6,540 + $3,317 = $9,857. If the stock goes up in price, you'll have a potential sell and if it goes down, a potential buy.

AUGUST 1986

Date Col. 1	Remarks Col. 2	Share Price Col. 3	Share Value Col. 4	SAFE Col. 5	Cash Col. 6	Shares Bought (Sold) Col. 7	Shares Owned Col. 8	Port Control Col. 9	Buy (Sell) Advice Col. 10	Mrk Order (Sell) Buy Col. 11	6% Int Col 12	Comm	Port Value Col 13
7/94		10.00	6540	654	3317	-	654	6700	160	-	17	-	9,857
8/94		12.37	8093	809	3334	(47)	654	6700	(1393)	(584)	17	-	11,427

Now for August 94. I'll be shorter in my explanations and you'll see you will still understand because you did the same thing every month. While every month is done the same, the outcome can be quite different.

First look up the price of Claire's stock. Claire's price is $12.37. Write in column 3. Then multiply the number of shares owned (still 654 shares since you didn't buy or sell any last month) by the price of one share and that gives you a SHARE VALUE of $8,093. SAFE is always 10% so write 809 in column 5. Again the only thing that affected CASH is INTEREST; you earned another $17. So write $17 in column 12 and add $17 to your CASH. You now have $3,334 in CASH. Since you didn't buy any stock last month, PORTFOLIO CONTROL stays the same at 6,700. Again the magic two numbers, SHARE VALUE and PORTFOLIO CONTROL. Again since SHARE VALUE is higher put that on top. Since SHARE VALUE is higher, you have a potential (sell) signal; now write the higher amount SHARE VALUE on top:

SHARE VALUE	$8,093 (COL. 4)
- PORTFOLIO CONTROL	6,700 (COL. 9)
= (SELL) ADVICE	$1,393 (COL. 10)
Now subtract SAFE from (SELL) ADVICE	- 809 (COL.5)

= MARKET ORDER (SELL)	$ 504 (COL.11)

You should be writing all these figures on your sample spreadsheet the same as the illustration at the end of the Chapter shows. Again you will find all of these Excel spreadsheets with all of the information when you look at the printed version of my book in Adobe Acrobat that I will send you for free. At the end of this Chapter in the Adobe Acrobat book is a blank sheet you can photocopy and use.

As you can see, you're getting your first sell order. Now divide $584 by the SHARE PRICE ($12.37) and you have 47 shares to sell. Write (47) in SHARES BOUGHT (SOLD) column. Now finish your months' work by figuring out your PORTFOLIO VALUE. It's ($8,093) + column 6 ($3,334) = $11,427.

You're ahead $1,427 but better things are still ahead.

SEPTEMBER 1994

Date Col. 1	Remarks Col. 2	Share Price Col. 3	Share Value Col. 4	SAFE Col. 5	Cash Col. 6	Shares Bought (Sold) Col. 7	Shares Owned Col. 8	Port Control Col. 9	Buy (Sell) Advice Col. 10	Mrk Order (Sell) Buy Col. 11	6% Int Col 12	Comm	Port Value Col 13
8/94		12.37	8093	809	3334	(47)	654	6700	(1393)	(584)	17	-	11,427
9/94		12.50	7588	758	3938	(10)	607	6700	(888)	(130)	20	-	11,526

Now even quicker because I'm sure you understand how simple and repetitive the system is and soon you'll see its power. Try doing September 94 on your own. Remember to start by looking up the price of Claire's Stores. Since this is an example, of course you can't but soon you'll be doing your own stocks and this will be the first step.

Okay, the price has risen and is now $12.50. Write down $12.50 and then fill in column 9 that didn't change since no buying last month. But column 8, SHARES OWNED, did change. We sold 47 shares last month. So subtract 47 from the column 8 total from the prior month (654 - 47 = 607). Write 607 in column 8, SHARES OWNED. Now figure column 6 CASH. You started with $3,334 and must add the $584 you got from selling the stock. So $3,334+ $584 = $3,918 + $20 for INTEREST = $3,938, WRITE in column 6, CASH. Write $20 in column 12, INTEREST.

Then compare column 4 with column 9 and see which is higher. SHARE VALUE is still higher $7,588 To PORTFOLIO CONTROL's 6,700. You can figure you have a potential (SELL) of $888 that you write in column 10 in ( ). You glance at SAFE and see its lower than your potential (SELL) ADVICE (888-758 = 130), so you write (130) in column 11, MARKET ORDER (SELL) BUY. You have a sell. Now divide $130 by $12.50 and you find you sold 10 shares. In this example I am making any sells over $100. Many years later I have decided that is too low because it generates too many commissions and so I've basically raised the amount of any buy or sell to a minimum of $300 so you would pay fewer commissions and sell at higher prices and buy at lower prices. Write (10) in column 7, SHARES BOUGHT (SOLD). Add up the value of your portfolio in column 13 – remember it's CASH + SHARE VALUE. Your PORTFOLIO VALUE is $11,526.

OCTOBER 1994

Date Col. 1	Remarks Col. 2	Share Price Col. 3	Share Value Col. 4	SAFE Col. 5	Cash Col. 6	Shares Bought (Sold) Col. 7	Shares Owned Col. 8	Port Control Col. 9	Buy (Sell) Advice Col. 10	Mrk Order (Sell) Buy Col. 11	6% Int Col 12	Comm	Port Value Col 13
9/94		12.50	7588	758	3938	(10)	607	6700	(888)	(130)	20	-	11,526
10/94		11.00	6567	656	4088	-	597	6700	133	-	20	-	10,655

Now October 94. Stock price is $11.00 (stock prices to go down). Again write the SHARES OWNED and PORTFOLIO CONTROL numbers in columns 8 and 9. Column 9, PORTFOLIO CONTROL hasn't changed since no buying but SHARES OWNED did change since we sold 10 shares. So go to last month's column 8 total and subtract 10 (607-10 = 597) and write that number in column 8. Now figure SHARE VALUE and you see it's less than $6,700. It's $6,567 to be exact. SAFE is always 10% of SHARE VALUE so fill that in. CASH again was affected by selling. You started with $3,938 and added $130 + $20 INTEREST = $4,088.

Now look at PORTFOLIO CONTROL and it is higher than SHARE VALUE so put PORTFOLIO CONTROL on top, think P for purchase. You have BUY ADVICE of $133. Before you do anything, you still must compare BUY ADVICE to SAFE. SAFE is still going to cancel any market order. Did you remember not to put ( ) around zero in column 11? I don't bother putting ( ) around 0 in column 11, I just use a –. Again if you haven't given yourself $20 in INTEREST, add $20 to your CASH account and again add SHARE VALUE and CASH to obtain your PORTFOLIO VALUE. Your PORTFOLIO VALUE is $10,655.

Again all of this is going to see much easier when you're reading it while looking at the Adobe Acrobat version of my book which will show all of the Excel spreadsheet rows and columns that will make it much easier to follow what I am talking about.

NOVEMBER 1994

Date Col. 1	Remarks Col. 2	Share Price Col. 3	Share Value Col. 4	SAFE Col. 5	Cash Col. 6	Shares Bought (Sold) Col. 7	Shares Owned Col. 8	Port Control Col. 9	Buy (Sell) Advice Col. 10	Mrk Order (Sell) Buy Col. 11	6% Int Col 12	Comm	Port Value Col 13
10/94		11.00	6567	656	4088	-	597	6700	133	-	20	-	10,655
11/94		11.37	6791	679	4108	-	597	6700	(91)	-	20	-	10,899

Now November 94 and the stock has risen a little. Remember the beauty of the system: buy low and sell high. Watch it work. Okay, SHARE PRICE has risen to $11.37. Write it in SHARE PRICE and number of SHARES OWNED and PORTFOLIO CONTROL, which didn't change since no buying last month. Now multiply number of shares 597 X SHARE PRICE $11.37 and your SHARE VALUE is $6,791. Again SAFE is 10% of SHARE VALUE or 679. CASH has earned another $20 of INTEREST, write that in column 12 and add the $20 to CASH total in col. 6. Look at SHARE VALUE and PORTFOLIO CONTROL and as you thought, SHARE VALUE is higher which could possibly signal a sell. Write SHARE VALUE on top and PORTFOLIO CONTROL below:

SHARE VALUE	$6,791
- PORTFOLIO VALUE	6,700
= SELL ADVICE	$91

Now compare your (SELL) ADVICE to SAFE and you see that SAFE overrules any selling this month.

Again is $0 but we use a – instead of writing $0. Again finish off the month by figuring your PORTFOLIO VALUE: SHARE VALUE + CASH or $6,791 + $4,108 = $10,899 or your investment is up $899. Keep thinking long-haul.

DECEMBER 1994

Date Col. 1	Remarks Col. 2	Share Price Col. 3	Share Value Col. 4	SAFE Col. 5	Cash Col. 6	Shares Bought (Sold) Col. 7	Shares Owned Col. 8	Port Control Col. 9	Buy (Sell) Advice Col. 10	Mrk Order (Sell) Buy Col. 11	6% Int Col 12	Comm	Port Value Col 13
11/94		11.37	6791	679	4108	-	597	6700	(91)	-	20	-	10,899
12/94		11.75	7015	701	4128	-	597	6700	(315)	0	20	-	11,143

Now December 94. Again look up the SHARE PRICE (its $11.75). Write it in column 3. Now go to column 8, SHARES OWNED and column 9, PORTFOLIO CONTROL; since you did nothing last month both stayed the same. Now business as usual.

Multiply the number of shares (597 X SHARE PRICE $11.75) and your SHARE VALUE is $7,015 write it in column 4. CASH was only affected by INTEREST so add $20 to this month's total and write $20 in column 12, INTEREST. Now compare PORTFOLIO CONTROL to SHARE VALUE. SHARE VALUE is $7,015 and bigger than PORTFOLIO CONTROL so you place it on top. Again remember P for purchase if PORTFOLIO CONTROL is on top and S for sell if SHARE VALUE is on top. Very simple. So do your calculations:

SHARE VALUE	$7,015
- PORTFOLIO CONTROL	6,700
= (SELL) ADVICE	$315
- SAFE	701
= MARKET (SELL) ORDER	$ 0

You do nothing. Then you figure PORTFOLIO VALUE. Remember how? See this is easy. You added SHARE VALUE of $7,015 + CASH of $4,128 = $11,143. You're ahead $1,143.

JANUARY 1995

Date Col. 1	Remarks Col. 2	Share Price Col. 3	Share Value Col. 4	SAFE Col. 5	Cash Col. 6	Shares Bought (Sold) Col. 7	Shares Owned Col. 8	Port Control Col. 9	Buy (Sell) Advice Col. 10	Mrk Order (Sell) Buy Col. 11	6% Int Col 12	Comm	Port Value Col 13
12/94		11.75	7015	701	4128	-	597	6700	(315)	0	20	-	11,143
1/95		11.62	6940	694	4148	-	597	6700	(240)	0	20	-	11,088

Now January 95. Again start with SHARE PRICE. It's $11.62. Now go to column 8, SHARES OWNED. Again you did no buying or selling so they stay the same.

Now back to column 4, SHARE VALUE is always the number of shares X SHARE PRICE. Multiply column 8,597 shares X SHARE PRICE. Your SHARE VALUE is $6,940. Again SAFE is 10% so write 694 in column 5. Now CASH, again only INTEREST affected cash so add $20 to the CASH total and put $20 in column 12. Write it in. Again compare PORTFOLIO CONTROL and SHARE VALUE:

SHARE VALUE	$6,867
- PORTFOLIO CONTROL	6,700
= (SELL) ADVICE	$240
- SAFE	$694
= MARKET (SELL) ORDER	$ 0

You can safely ignore buy and sell orders under $300. Again figure out your PORTFOLIO VALUE – it's $11,088. Easy isn't it. Keep checking your spreadsheet against mine and make sure the numbers agree. Remember to round off your number; you don't need to worry about cents (except for column 3, SHARE PRICE).

FEBRUARY 1995

Date Col. 1	Remarks Col. 2	Share Price Col. 3	Share Value Col. 4	SAFE Col. 5	Cash Col. 6	Shares Bought (Sold) Col. 7	Shares Owned Col. 8	Port Control Col. 9	Buy (Sell) Advice Col. 10	Mrk Order (Sell) Buy Col. 11	6% Int Col 12	Comm	Port Value Col 13
1/95		11.62	6940	694	4148	-	597	6700	(240)	0	20	-	11,088
2/95		14.12	8433	843	4168	(63)	597	6700	(1733)	(890)	20	-	12,601

Now February 95. SHARE PRICE has risen and is now $14.12, write that in column 3. Now go back to columns 8 and 9. Since you didn't buy or sell any stock last month, these amounts don't change. So write in 597 for number of SHARES OWNED and 6,700 and for PORTFOLIO CONTROL. Then figure out your SHARE VALUE (it's 597 X $14.12 = $8, 433). Write it in column 4. Again SAFE is 10% of column 4, so write in 843 in column 5. CASH is simple since you did no buying or selling; just add the INTEREST earned $20 to last month's total and write in your new total of $4,168. Again compare PORTFOLIO CONTROL to SHARE VALUE. By now your brain should be telling you that since the SHARE PRICE rose, you probably have a sell. Again as you always do, put the largest amount on top:

SHARE VALUE	$8,433
- PORTFOLIO CONTROL	6,700
= (SELL) ADVICE	$1,733
- SAFE	843
= MARKET (SELL) ORDER	$890

Remember to write all the above amounts in their proper columns. Every column either has a number or a –; never will a column be blank. Meanwhile back at the spreadsheet.

Now you have a MARKET ORDER (SELL) for $890. All you have to do is divide $890 by the SHARE PRICE $14.12 and you find out you SOLD 63 shares. Put (63) shares in column 7 for February 95. Again finish off your month by figuring your PORTFOLIO VALUE. It's SHARE VALUE of $8,433 + CASH of $4,168 = $12,601.

Now try to imagine this for real. It's one thing to play quite another when it's for keeps, when it's your money. You got to work at being mentally tough when it comes to the hard, lean times of investing. For every peak you'll also find some valleys; always think for the long term. Study the history of the stock (Claire's Stores) and you see those peaks and valleys. Look where you stand at the end and you'll have a grand view of those valleys from your peak.

MARCH 1995

Date Col. 1	Remarks Col. 2	Share Price Col. 3	Share Value Col. 4	SAFE Col. 5	Cash Col. 6	Shares Bought (Sold) Col. 7	Shares Owned Col. 8	Port Control Col. 9	Buy (Sell) Advice Col. 10	Mrk Order (Sell) Buy Col. 11	6% Int Col 12	Comm	Port Value Col 13
2/95		14.12	8433	843	4168	(63)	597	6700	(1733)	(890)	20	-	12,601
3/95		12.62	6742	674	5083	-	534	6700	(47)	0	25	-	11,825

Now March 95. SHARE PRICE has dropped to $12.62 share. Okay, put that SHARE PRICE in column 3 where it belongs. Now go to column 8, SHARES OWNED. Look at column 7, SHARES BOUGHT (SOLD) for last month and you remember you sold 63 shares. Subtract those 63 shares from the 597 you already had and write in your new total of 534 shares.

Okay, back to column 4. Your SHARE VALUE is $12.62 X your new number of shares (534) = $6,742. You should be thinking possible sell. Again put the larger amount on top:

SHARE VALUE	$6,742
- PORTFOLIO CONTROL	6,700
= (SELL) ADVICE	$42
- SAFE	674
(SELL) MARKET ORDER	$ 0

Again remember to write all the amounts in their proper columns. Or type them all in your little old computer.

I forgot to figure cash so better late than never. Last month's CASH was $4,168. So take $4,168 and add $890 for the stock you sold last month that leaves $5,058 X 1.005 for INTEREST earned = $5,083, put in column 6. Now just figure PORTFOLIO VALUE which is SHARE VALUE $6,742 + CASH $5,083 = $11,825.

APRIL 1995

Date Col. 1	Remarks Col. 2	Share Price Col. 3	Share Value Col. 4	SAFE Col. 5	Cash Col. 6	Shares Bought (Sold) Col. 7	Shares Owned Col. 8	Port Control Col. 9	Buy (Sell) Advice Col. 10	Mrk Order (Sell) Buy Col. 11	6% Int Col 12	Comm	Port Value Col 13
3/95		12.62	6742	674	5083	-	534	6700	(47)	0	25	-	11,825
4/95		13.12	7009	700	5108	-	534	6700	(309)	0	25	-	12,117

Onto April 95. SHARE PRICE is $13.12. Put in column 3 now go to column 8, SHARES OWNED and figure how many shares you own. Always check column 7 from the month before. If you see a – meaning you neither bought nor sold any shares, then you know you still have the same number of shares. Last month you know you did nothing, so you know your total stayed the same for SHARES OWNED & PORTFOLIO CONTROL.

The easy way to figure any month's share total is to add columns 7 & 8 from the previous month if you bought and subtract column 7 from column 8 if you sold. So now you own 534 shares. So multiply 534 X the $13.12 SHARE PRICE and your SHARE VALUE is $7,009, write in column 4. SAFE is 700. Last month's cash was $5,083. This $5,083 earned $25 INTEREST (column 12) so your ending CASH balance is $5,108, write in column 6. Repeat every month, look at PORTFOLIO CONTROL & SHARE VALUE.

SHARE VALUE is again higher:

SHARE VALUE	$7,009
- PORTFOLIO CONTROL	6,700
= (SELL) ADVICE	$309
- SAFE	700
= (SELL) NOTHING	$ 0

Only thing left to do is figure your PORTFOLIO VALUE ($7,009 + $5,108 = $12,117).

MAY 1995

Date Col. 1	Remarks Col. 2	Share Price Col. 3	Share Value Col. 4	SAFE Col. 5	Cash Col. 6	Shares Bought (Sold) Col. 7	Shares Owned Col. 8	Port Control Col. 9	Buy (Sell) Advice Col. 10	Mrk Order (Sell) Buy Col. 11	6% Int Col 12	Comm	Port Value Col 13
4/95		13.12	7009	700	5108	-	534	6700	(309)	0	25	-	12,117
5/95		13.87	7409	740	5134	+72 sh	534	6700	(709)	995	26	-	12,543

Onto May 95. SHARE PRICE is $13.87. Since you didn't buy or sell anything last month, SHARES OWNED AND PORTFOLIO CONTROL remained the same. SHARE VALUE is $7, 409 (534 X $13.87), SAFE is 740. CASH was only affected by INTEREST, so add the $26 INTEREST earned ($5,108 X 1.005 = $5,134). Again check PORTFOLIO CONTROL and SHARE VALUE and again PORTFOLIO CONTROL is lower so PORTFOLIO CONTROL goes on the bottom:

SHARE VALUE	$7,409
- PORTFOLIO CONTROL	6,700
= (SELL) ADVICE	$709
- SAFE	740
= MARKET (SELL) ORDER	$ 0

All that's left to figure is PORTFOLIO VALUE ($7,409 + $5,134 = $12,543.)

Readjusting Cash/Stock Ratio

We are going to do in an important step to increase our profits – readjust the cash/stock ratio. When we started out, we used 2/3 stock and 1/3 cash. Checking after one year, we find that the percentage of cash has increased. We want to take this excess cash and buy more stock with that. Our PORTFOLIO VALUE was $12,543. 1/3 of that is $4,139. Our current cash amount is $5,134 so: $5,134 - $4,139 = $995 of extra cash. We use that extra cash to buy the + 72 shares you see in the June 1995 spreadsheet entry. That's why you see (709) in BUY (SELL) ADVICE (actual BUY (SELL) ADVICE & BUY 995 in MARKET ORDER BUY. I wanted to show you what will do. Will fix things up next month.

JUNE 1995

Date Col. 1	Remarks Col. 2	Share Price Col. 3	Share Value Col. 4	SAFE Col. 5	Cash Col. 6	Shares Bought (Sold) Col. 7	Shares Owned Col. 8	Port Control Col. 9	Buy (Sell) Advice Col. 10	Mrk Order (Sell) Buy Col. 11	6% Int Col 12	Comm	Port Value Col 13
5/95		13.87	7409	740	5134	+72 sh	534	6700	(709)	995	26	-	12,543
6/95	Adjust s/c	15.87	9620	962	4160	(61)	606	7695	(1925)	(963)	21	-	13,780

Onto June 95. The explanations are becoming shorter because you're getting smarter and seeing how easy this is. The SHARE PRICE rises to $15.87 a share. Write it down and then do columns 8 and 9. Column 8, SHARES OWNED, will increase by the 72 shares we bought last month with the excess cash (534 + 72 = 606). Column 9, PORTFOLIO CONTROL increases **BY 100% of the MARKET ORDER BUY amount of $995.** Whenever we first buy or add additional money to the system, we increase PORTFOLIO CONTROL by 100% – not the usual 50%. Thus column 9 is 6,700 + 995 = 7,695.

SHARE VALUE is 606 X $15.87 = $9,620. SAFE is always 10% of SHARE VALUE so SAFE is 962. CASH was affected by readjusting our stock/cache ratio. We started with $5,134 - $995 excess cash + INTEREST of $21 = $4,160. PORTFOLIO CONTROL is again smaller:

SHARE VALUE	$9,620
- PORTFOLIO CONTROL	7,695
= (SELL) ADVICE	$1,925
- SAFE	962
= MARKET (SELL) ORDER	$963

You have a (SELL) MARKET ORDER. Divide $963 by the SHARE PRICE of $15.87 and you find that you sold (61) shares. Write in column 7. Then end the month by figuring your PORTFOLIO VALUE. $9,620 + $4,160 equals $13,780.

JULY 1995

Date Col. 1	Remarks Col. 2	Share Price Col. 3	Share Value Col. 4	SAFE Col. 5	Cash Col. 6	Shares Bought (Sold) Col. 7	Shares Owned Col. 8	Port Control Col. 9	Buy (Sell) Advice Col. 10	Mrk Order (Sell) Buy Col. 11	6% Int Col 12	Comm	Port Value Col 13
6/95	Adjust s/c	15.87	9620	962	4160	(61)	606	7695	(1925)	(963)	21	-	13,780
7/95		18.12	9878	987	5149	(66)	545	7695	(2183)	(1196)	26	-	15,027

Onto July 95. SHARE PRICE continues up and is $18.12 a share, a good improvement. Now go to column 8, SHARES OWNED and subtract the 61 shares you sold last month from the 606 shares you already owned and you now own 545 shares. That since you sold stock last month, you know PORTFOLIO CONTROL does not change. Now multiply your new SHARES OWNED total of 545 X the SHARE PRICE of $18.12 and SHARE VALUE is $9,878. SAFE is 987. CASH went up last month. You had $4,160 and sold $963; so new CASH total is $5,123 which earned $26 INTEREST so your new CASH total is $5,149, write it down.

SHARE VALUE	$9,878
- PORTFOLIO CONTROL	7,695
= (SELL) ADVICE	$2,183
- SAFE	987
= MARKET ORDER (SELL)	$1,196

You're continuously reducing your risk. You started with 654 shares and now own 479 shares. Divide the $1,196 by $18.12 and you find you sold (66) shares, write in column 7. Again the last thing you do is figure PORTFOLIO VALUE which is $9,878 + $5, 49 equals $15,027, your ahead better than 50% in just over a year!

AUGUST 1995

Date Col. 1	Remarks Col. 2	Share Price Col. 3	Share Value Col. 4	SAFE Col. 5	Cash Col. 6	Shares Bought (Sold) Col. 7	Shares Owned Col. 8	Port Control Col. 9	Buy (Sell) Advice Col. 10	Mrk Order (Sell) Buy Col. 11	6% Int Col 12	Comm	Port Value Col 13
7/95		18.12	9878	987	5149	(66)	545	7695	(2183)	(1196)	26	-	15,027
8/95		19.50	9341	934	6377	(37)	479	7695	(1646)	(712)	32	-	15,718

Onto August 95. SHARE PRICE is up to $19.50 PORTFOLIO CONTROL stayed the same, and SHARES OWNED decreased (545 – 66 = 479), so write them in. 479 X $19.50 = a SHARE VALUE of $9,341. SAFE is 934. CASH is $5,149+ $1,196 + $32 INTEREST, so your new total is $6,377. Again compare PORTFOLIO CONTROL and SHARE VALUE. SHARE VALUE is higher than PORTFOLIO CONTROL. If SHARE VALUE is higher than PORTFOLIO CONTROL, you have a sell signal. If SHARE VALUE is on top, think S for sell; if PORTFOLIO CONTROL is on top, think P for purchase, it's so simple. Your calculations look like this:

SHARE VALUE	$9,341
- PORTFOLIO CONTROL	7,695
= (SELL) ADVICE	$1,646
- SAFE	934
= MARKET ORDER (SELL)	$712

Divide $712 by the selling price and you find you sold (37) shares, write in column 7. Again figure your PORTFOLIO VALUE to end the month. It's $9,341 + $6,377 = $15,718.

SEPTEMBER 1995

Date Col. 1	Remarks Col. 2	Share Price Col. 3	Share Value Col. 4	SAFE Col. 5	Cash Col. 6	Shares Bought (Sold) Col. 7	Shares Owned Col. 8	Port Control Col. 9	Buy (Sell) Advice Col. 10	Mrk Order (Sell) Buy Col. 11	6% Int Col 12	Comm	Port Value Col 13
8/95		19.50	9341	934	6377	(37)	479	7695	(1646)	(712)	32	-	15,718
9/95		20.75	9172	917	7124	(27)	442	7695	(1477)	(560)	35	-	16,296

Onto September 95. SHARE PRICE is $20.75. Okay, go to SHARES OWNED and PORTFOLIO CONTROL and you know since you sold last month, PORTFOLIO CONTROL stays the same and SHARES OWNED decreases by the number of shares sold. So copy in SHARES OWNED (479 – 37 = 442) and PORTFOLIO CONTROL is the same as it was last month. Now multiply 442 X $20.75 and your share value is $9,172. Looks good doesn't it? SAFE is 917 and CASH is $6,377 + $712 + $35 INTEREST and is now $7,124. Again compare PORTFOLIO CONTROL and SHARE VALUE, it's a pleasure. You know what to do:

SHARE VALUE	$9,162
- PORTFOLIO CONTROL	7,695
= (SELL) ADVICE	$1,477
- SAFE	917
= (SELL) ORDER	$560

Have you been remembering to put ( ) around SELL ADVICE and SELL MARKET ORDERS? It's important, go back to last month and check. Again, write the number of shares sold (560 divided by $20.75) = (27 in column 7). Now for a pleasant chore, figuring PORTFOLIO VALUE. Add $9,172 + $7,124 = $16,230.

OCTOBER 1995

Date Col. 1	Remarks Col. 2	Share Price Col. 3	Share Value Col. 4	SAFE Col. 5	Cash Col. 6	Shares Bought (Sold) Col. 7	Shares Owned Col. 8	Port Control Col. 9	Buy (Sell) Advice Col. 10	Mrk Order (Sell) Buy Col. 11	6% Int Col 12	Comm	Port Value Col 13
9/95		20.75	9172	917	7124	(27)	442	7695	(1477)	(560)	35	-	16,296
10/95		20.50	8508	850	7722	-	415	7695	(813)	0	39	-	16,231

Onto October 95. SHARE PRICE is $20.50. Go to column 8. Since you sold 27 shares last month, subtract 27 from the 442 shares you previously owned and now you own 415 shares. Write it in. Now SHARE VALUE is 415 X $20.50 = $8,508. SAFE is 850. CASH continues to go up. Add the $560 from the stock you sold last month to this month's CASH ($7,124 + $560 = $7,684 + $38 INTEREST = $7,722). Write it in. Again compare SHARE VALUE and PORTFOLIO CONTROL and again SHARE VALUE is bigger. So make the calculations:

SHARE VALUE	$8,508
- PORTFOLIO CONTROL	7,695
= (SELL) ADVICE	$813
- SAFE	850
= DO NOTHING	$ 0

All that's left is to figure PORTFOLIO VALUE which is $8,508 + $7,723 = $16,231.

NOVEMBER 1995

Date Col. 1	Remarks Col. 2	Share Price Col. 3	Share Value Col. 4	SAFE Col. 5	Cash Col. 6	Shares Bought (Sold) Col. 7	Shares Owned Col. 8	Port Control Col. 9	Buy (Sell) Advice Col. 10	Mrk Order (Sell) Buy Col. 11	6% Int Col 12	Comm	Port Value Col 13
10/95		20.50	8508	850	7722	-	415	7695	(813)	0	39	-	16,231
11/95		19.50	8093	809	7762	-	415	7695	(398)	0	39	-	15,855

Onto November 95. SHARE VALUE has dropped to $19.50 share. Go to columns 8 and 9. SHARES OWNED and PORTFOLIO CONTROL stayed the same since you didn't buy any stock last month. Write it in. Now multiply 415 X $19.50 equals $8,093. SAFE is 809. Last month's CASH was $7,723+ $39 INTEREST = this month's CASH total of $7,761. Now the usual, compare SHARE VALUE and PORTFOLIO CONTROL.

The higher the stock goes, the more profits you can make. Later I'll tell you how to pick the best type of stocks, Closed-end funds, ETF's, and LEAPs (long-term options). The types of investments I would recommend depends on the level of risk you're willing to handle.

Now for those calculations. You see SHARE VALUE is higher than PORTFOLIO CONTROL as you thought. So...

SHARE VALUE	$8,093
- PORTFOLIO CONTROL	7,695
= (SELL) ADVICE	$398
- SAFE	809
= DO NOTHING	$ 0

The AIM system wants you to sell your high-priced stock, put the money into CASH and sit back and wait for the price to drop. Then you use your cash to buy cheap stock, wait for it to go up and then sell it again; the extreme opposite of a vicious circle. Last thing you have to do for the month this figure PORTFOLIO

VALUE which is $8,093 + $7,762 = $15,855.

DECEMBER 1995

Date Col. 1	Remarks Col. 2	Share Price Col. 3	Share Value Col. 4	SAFE Col. 5	Cash Col. 6	Shares Bought (Sold) Col. 7	Shares Owned Col. 8	Port Control Col. 9	Buy (Sell) Advice Col. 10	Mrk Order (Sell) Buy Col. 11	6% Int Col 12	Comm	Port Value Col 13
11/95		19.50	8093	809	7762	-	415	7695	(398)	0	39	-	15,855
12/95		18.62	7729	772	7801	-	415	7695	(34)	0	39	-	15,530

Onto December 95. SHARE PRICE has dropped to $18.62. SHARE VALUE is $7,729. Go to columns 8 and 9. PORTFOLIO CONTROL hasn't changed. SAFE is 772. CASH has grown. Last month's CASH was $7,762 + $39 INTEREST = $7,801.

Again compare SHARE VALUE and PORTFOLIO CONTROL and SHARE VALUE is barely ahead. So do your calculations:

SHARE VALUE	$7,729
- PORTFOLIO CONTROL	7,695
= (SELL) ADVICE	$34
- SAFE	772
= DO NOTHING	$ 0

All that's left of figure is PORTFOLIO VALUE which is $7,729 + $7,801 = $15,530.

JANUARY 1996

Date Col. 1	Remarks Col. 2	Share Price Col. 3	Share Value Col. 4	SAFE Col. 5	Cash Col. 6	Shares Bought (Sold) Col. 7	Shares Owned Col. 8	Port Control Col. 9	Buy (Sell) Advice Col. 10	Mrk Order (Sell) Buy Col. 11	6% Int Col 12	Comm	Port Value Col 13
12/95		18.62	7729	772	7801	-	415	7695	(34)	0	39	-	15,530
1/96		17.62	7314	731	7840	-	415	7695	381	0	39	-	15,154

Onto January 96. Happy New Year! SHARE PRICE is $17.62, continuing down. SHARE VALUE is 415 X $17.62 = $7,314. PORTFOLIO CONTROL & SHARES OWNED stayed the same. CASH increases by $39 INTEREST to $7,840. PORTFOLIO CONTROL is higher than SHARE VALUE. You can quickly see that the difference between PORTFOLIO CONTROL and SHARE VALUE is less than the SAFE total (381 versus 731) so you will do nothing. PORTFOLIO VALUE is $7,314 + $7,840 = $15,154.

FEBRUARY 1996

Date Col. 1	Remarks Col. 2	Share Price Col. 3	Share Value Col. 4	SAFE Col. 5	Cash Col. 6	Shares Bought (Sold) Col. 7	Shares Owned Col. 8	Port Control Col. 9	Buy (Sell) Advice Col. 10	Mrk Order (Sell) Buy Col. 11	6% Int Col 12	Comm	Port Value Col 13
1/96		17.62	7314	731	7840	-	415	7695	381	0	39	-	15,154
2/96		19.00	7885	788	7879	-	415	7695	(190)	0	39	-	15,764

Onto February 96. SHARE PRICE is $19.00, a slight increase. Go to columns 8 and 9 and since you did nothing last month, they stay the same; write them in. Now figure SHARE VALUE, that is 415 shares X $19.00 equals $7,885. SAFE is $788. CASH earned $39 INTEREST and since no buying or selling last month, INTEREST was the only thing to affect CASH, thus CASH is $7,840+ $39 INTEREST = $7,879; write it in. Now compare SHARE VALUE and PORTFOLIO CONTROL and SHARE VALUE is still higher. So…

SHARE VALUE	$7,885
- PORTFOLIO CONTROL	7,695
= (SELL) ADVICE	$190
- SAFE	788
= DO NOTHING	$0

Figure PORTFOLIO VALUE which is $7,885 + $7,879 = $15,764.

MARCH 1996

Date Col. 1	Remarks Col. 2	Share Price Col. 3	Share Value Col. 4	SAFE Col. 5	Cash Col. 6	Shares Bought (Sold) Col. 7	Shares Owned Col. 8	Port Control Col. 9	Buy (Sell) Advice Col. 10	Mrk Order (Sell) Buy Col. 11	6% Int Col 12	Comm	Port Value Col 13
2/96		19.00	7885	788	7879	-	415	7695	(190)	0	39	-	15,764
3/96		16.12	6692	669	7918	21	415	7695	1003	334	39	-	14,610

Onto March 96. SHARE PRICE has hit its one year low. Once you start reading and using *Barron's*, an excellent financial newspaper, you'll notice the codes they used to show the years high and lows. Go to columns 8 and 9 and they stay the same since you didn't do anything last month. Write them in. Now SHARE PRICE equals 415 X $16.12 = $6,692. SAFE is 669. CASH was again only affected by INTEREST so add $39 to last month's amount and CASH is now $7,918. Compare SHARE VALUE and PORTFOLIO CONTROL and PORTFOLIO CONTROL is higher. So do your calculations:

PORTFOLIO CONTROL	7,695
- SHARE VALUE	6,692
= BUY ADVICE	$1,003
- SAFE	669
= BUY MARKET ORDER	$334

So you have BUY MARKET ORDER for $334 worth of stock. Divide $334 by the SHARE PRICE $16.12 and you find you BOUGHT 21 shares. Write this in column 7 - DO NOT put the 21 in ( ). Remember to put a – and column 7 only when you don't buy or sell. Now for the last month, you can probably do it on your own. If you have any doubts, go back and read this chapter again. You can do it!!!!

Last thing to figure is PORTFOLIO CONTROL which is $6,692 + $7,918 = $14,610.

APRIL 1996

Date Col. 1	Remarks Col. 2	Share Price Col. 3	Share Value Col. 4	SAFE Col. 5	Cash Col. 6	Shares Bought (Sold) Col. 7	Shares Owned Col. 8	Port Control Col. 9	Buy (Sell) Advice Col. 10	Mrk Order (Sell) Buy Col. 11	6% Int Col 12	Comm	Port Value Col 13
3/96		16.12	6692	669	7918	21	415	7695	1003	334	39	-	14,610
4/96		18.12	7903	790	7622	-	436	7862	(41)	0	38	-	15,525

Onto April 96. SHARE PRICE is $18.12, up $2 from last month up. Go to columns 8 and 9. You bought 21 shares last month so your SHARES OWNED has increased from 415 to 436. PORTFOLIO CONTROL will increase since we did buy stock. Divide 334 by 2 and add that amount to PORTFOLIO CONTROL (334 divided by two = 167 + 7,695 equals 7,862). Write these two numbers in. SHARE VALUE is 436 X $18.12 equals $7,903. SAFE is 790. CASH is $7,918 - $3 34 + $30 INTEREST = $7,622. Again compare PORTFOLIO CONTROL and SHARE VALUE and SHARE VALUE is slightly higher. Do your calculations:

SHARE VALUE	$7,903
- PORTFOLIO CONTROL	7,862
= (SELL) ADVICE	$41
- SAFE	790
= DO NOTHING	$0

All that's left is to figure is PORTFOLIO VALUE. It's $7,903 + $7,622 = $15,525. So on this example that is a real stock, you would be ahead 55% for two years. Study this example and you'll see how you make your profit. The stock went steadily up for almost 2 years. Buy low and sell high shouldn't only be a cliché. It should and is put into practice through the system and produces the results you want from an investment.

OTHER SYSTEM MECHANICS WORTH KNOWING

– ADDING ADDITIONAL MONEY

I didn't include an example of adding additional money to a stock. It is very easy. If you have for example an additional $1,000, you tell your broker to buy $667 worth of stock and put $333 in your money market account (on a 2/3 shares, 1/3 CASH type of investment).. Then you increase PORTFOLIO CONTROL by the same amount (667) you bought stock with. Make a separate line on your spreadsheet to show the increase. Change all the columns that need changing. See chart for Claire's Stores at the end of this Chapter for an example. It's very easy to add money to an existing stock. You should do it to increase the size of your investment and decrease the cost of commissions and increase profits. As you read later, you should try to build up to 10 stocks, ETFs, closed-end funds, LEAPs to reduce risk. Also I recommend only adding money to an existing stock when the stock price is at or near its 52-week low.

- SKIPPING A MONTH

In several charts in this book, you'll see dashes across one whole month except for INTEREST. For these months you skipped the system – it's not a rigid system you must do every month or whatever schedule you use to check on your investments with AIM. For these months the only thing that happened was earning INTEREST on your CASH. You only needed to write in the INTEREST earned that month and then you added and then next month you can add two months INTEREST the next month when you go back to the system.

- STOCK SPLITS

Another thing I wanted to tell you. For stock splits, I figured the split after any of the transactions. For example, if you own 500 shares, sold 100 shares and then the stock split 3-for-2 than your calculations were: 500 – 100 = 400 X 1.5 = 600 shares now owned. You only need to change the SHARES OWNED column. I have included a blank spreadsheet you can copy in use at the end of the Adobe Acrobat version of my book that you will receive for free after buying this e-book version.

- **READJUSTING THE CASH/STOCK RATIO**

One last item. At least once a year, readjust the stock/cache ratio to whatever ratio you are using for your particular type of investment. Different types of investments could have a different ratio between CASH and STOCK. I didn't do that in this chapter except once to keep the example simple. It's easy. Look at Chapters 15 and 16. Once the year I adjusted the stock/cache ratio back to 1/3 cache and 2/3 stock.

If the CASH balance was higher than 1/3 of the PORTFOLIO CONTROL, I took the excess CASH and bought more shares, and increased PORTFOLIO CONTROL by **100%** of the CASH amount I used to buy more shares. Look at how I did it and you'll understand. Do this anytime you readjust the cash/stock ratio.

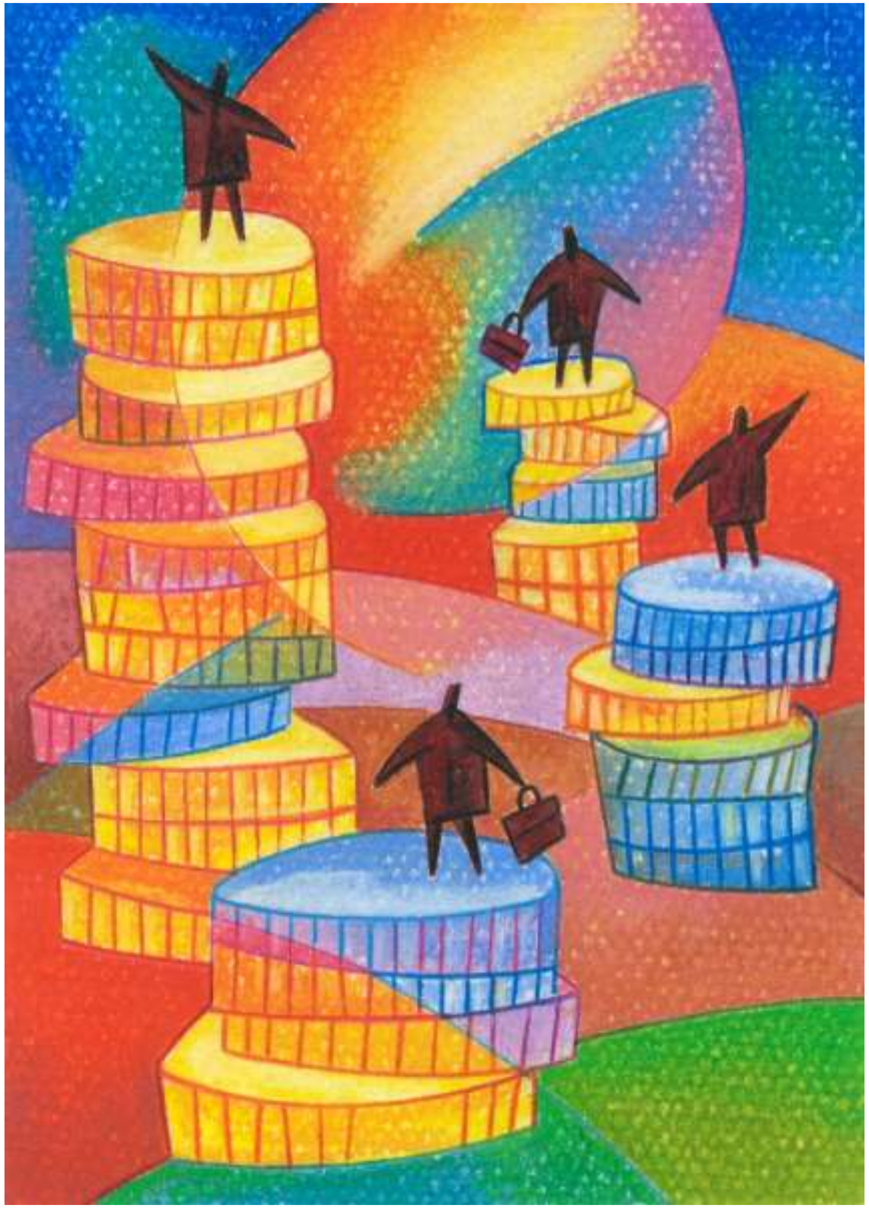
At the end of Chapter 2 in the Adobe Acrobat version of my investing book, you will find a spreadsheet showing Claire’s Stores for the entire two years and you will find a blank spreadsheet that you can you can use to set up an Excel spreadsheet to do your investing online.


INVESTING

DATE Col.1	REMARKS Claire's Col.2	SHARE PRICE Col. 3	SHARE VALUE Col. 4	SAFE Col.5	CASH Col.6	SHARES BOUGHT (SOLD) Col. 7	SHARES OWNED Col. 8	PORT CONTROL Col. 9	BUY (SELL) ADVICE Col. 10	MKT ORD (SELL) BUY Col. 11	6 % INT Col. 12	COMM AMT	PORTFOLIO VALUE Col. 13
6/94		10.25	6700	670	3300	-	654	6700	-	-	-		10,000
7/94		10.00	6540	654	3317	-	654	6700	160	0	17		9,857
8/94		12.37	8093	809	3334	(47)	654	6700	(1393)	(584)	17		11,427
9/94		12.50	7588	758	3938	(10)	607	6700	(888)	(130)	20		11,526
10/94		11.00	6567	656	4088	-	597	6700	133	0	20		10,655
11/94		11.37	6791	679	4108	-	597	6700	(91)	0	20		10,899
12/94		11.75	7015	701	4128	-	597	6700	(315)	0	20		11,143
1/95		11.62	6940	694	4148	-	597	6700	(240)	0	20		11,088
2/95		14.12	8433	843	4168	(63)	597	6700	(1733)	(890)	20		12,601
3/95		12.62	6742	674	5083	-	534	6700	(42)	0	25		11,825
4/95		13.12	7009	700	5108	-	534	6700	(309)	0	25		12,117
5/95		13.87	7409	740	5134	+ 72 sh	534	6700	(709)	buy 995	26		12,543
6/95	adjust s/c	15.87	9620	962	4160	(61)	606	7695	(1925)	(963)	21		13,780
7/95		18.12	9878	987	5149	(66)	545	7695	(2183)	(1196)	26		15,027
8/95		19.50	9341	934	6377	(37)	479	7695	(1646)	(712)	32		15,718
9/95		20.75	9172	917	7124	(27)	442	7695	(1477)	(560)	35		16,296
10/95		20.50	8508	850	7722	-	415	7695	(813)	0	39		16,231
11/95		19.50	8093	809	7762	-	415	7695	(398)	0	39		15,855
12/95		18.62	7729	772	7801	-	415	7695	(34)	0	39		15,530
1/96		17.62	7314	731	7840	-	415	7695	381	0	39		15,154
2/96		19.00	7885	788	7879	-	415	7695	(190)	0	39		15,764

3/96		16.12	6692	669	7918	21	415	7695	1003	334	39		14,610
4/96		18.12	7903	790	7622	-	436	7862	(41)	0	38		15,525
4/96	Add'l $1000				+ 330			add 670		670			
5/96	-	-	-	-	-	-	-	-	-	-	38	-	-
						Claire's							

DATE	REMARKS	SHARE PRICE	SHARE VALUE	SAFE	CASH	SHARES BOUGHT (SOLD)	SHARES OWNED	PORT CONTROL	BUY (SELL) ADVICE	MKT ORD (SELL) BUY	6 % INT	COMM AMT	PORTFOLIO VALUE



Chapter 2 A
Mechanics of Buying and Selling

Part II – Bear Market

In the last chapter you learned the basics of buying and selling. I kept it simple because it's important to learn the system before we go to some advanced technique to improve our profit-making ability. Now I'm going to teach you a simple adjustment to the basic buy and sell system you learned in the previous chapter. This adjustment is needed because of the nature of the stock market.

When I first wrote this book, the stock market hadn't had a sustained bear market in quite a while. It was just recently that I saw the need for this adjustment of the basic buy and sell technique shown in Chapter 2 (I added this chapter right after the last great bear market of 2000, 2001, 2002 - you remember the great dot.com bust. You'll see that this is a very simple refinement and it will protect your CASH during a steep bear downturn.

Okay, what is the change? Well, in the last chapter you learn that every month when you compared PORTFOLIO CONTROL and SHARE VALUE, you take the one with the highest value and subtract the other one:

PORTFOLIO CONTROL	5,000
- SHARE VALUE	$3,000
= BUY ADVICE	$2,000

In the last chapter, I taught you then that you look at the SAFE, which is always 10% of share value. Thus based on Chapter 2, you would finish off your calculation like this:

BUY ADVICE	$2,000
- 10% SAFE	300
= MARKET ORDER BUY	$1,700

So the system would have you buy $1,700 worth of stock. Well, the basic 10% rule for SAFE for both buys and sells works fine in regular markets. BUT it won't work in an extended bear market because the extended bear market will take all your CASH quickly and you find yourself out of CASH and your stock is still dropping in price. This recently happened to some mighty fine tech stocks and non-techs in early in 2001. **(Note: when I used 10% SAFE, 20% SAFE etc., in reality I am actually referring to 10% of SHARE VALUE, 20% of SHARE VALUE etc.)**

These stocks will come back in price but what can we do to save CASH, buy the most possible shares at the lowest prices, and gain the maximum advantage? Well I'll tell you! All we have to do is make a simple little adjustment to the SAFE % on buys. Instead of arbitrarily using 10% SAFE for buys, we use an adjustable SAFE percentage for buys in a bear market. Thus compare the example below to our regular 10% SAFE shown above:

BUY ADVICE	$2,000
- 40% SAFE	1,200
MARKET ORDER BUY	$800

Thus we have reduced the buy amount from $1,700 to $800 and conserved our cash. If we had used 50% SAFE then 2,000 – 1,500 = MARKET ORDER BUY of $500. I'm going to leave it up to you to decide what percent to use in any given situation. Of course if I'm helping you manage your portfolio I will be glad to give you my advice on what percent you should increase SAFE based on your particular investment. I think my examples in this chapter will help you with the decision.

Below you will see a stock – Caesar's Palace – using both the standard 10% SAFE and using the adjustable SAFE. In this example I'm arbitrarily picking an increased SAFE percentage based on the sharpness of the price drop – I'm trying to conserve CASH so I can use my last dollar at the lowest price.

In this example, I will also do a little borrowing from other stocks if my CASH does actually run out. I would recommend borrowing as little as possible as I have taught elsewhere in this book. I'm more conservative now and I want to keep borrowing to a minimum. Take a look at Campbell Resources in Chapter 12 and you'll see a borrowing pattern that I don't want to repeat.

Now I'm going to give you a quickie version of what I did with SAFE each month that was not the ordinary 10% SAFE for buys. Remember we did not change the SAFE percent for sells – we kept it at 10%.

After this explanation are two spreadsheets showing Caesar's using the 10% SAFE and Caesars using an adjustable SAFE amount. Notice the final totals using both amounts.

10% SAFE – PORTFOLIO VALUE = $50,426 - $19,000 added = $31,426

Adjustable SAFE – PORTFOLIO VALUE = $28,539

So for a lot less risk, you made about the same profits – also with 10% SAFE in reality your CASH amount is $12,791 - $19,000 borrowed or you have a negative cash balance of minus $6,209). With adjustable SAFE, we have recovered all the "negative cash" and are now in the black.

(- $1,174) + $3,113 from the last months sell = + $1,939

Here are the months with SAFE greater than 10%:

February 90 – used 20% SAFE; price drop from $32.75 to $25.00

March 90 – used 30% SAFE; price dropped from $25.00 to $22.25

April 90 – used 30% SAFE; price stayed the same $22.25; didn't want to buy a lot at the same price, wanted to see if price would continue to drop

May 90 – used 40% SAFE; price did drop sharply again, from $20.25 to $18.87

June 90 – used 20% SAFE; price rose from $18.87 to $22.00, just bought a few shares

August 90 – used 50% SAFE; share price had severe drop from $22.00 to $13.62; still bought $4,247 (312 shares) worth, cash went negative, hoping this is near bottom so wanted to "buy low".

September 90 – used 50% safe; price continued to drop to $11.37; still bought $3,423 (301 shares) worth, wanted to get cheap shares and hope slide is over.

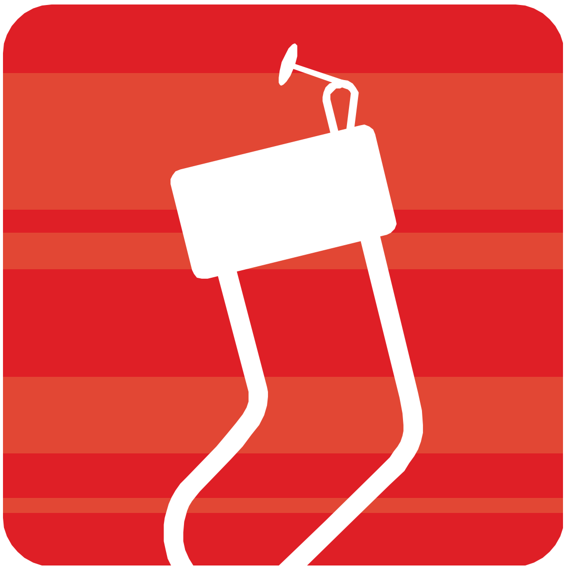
October 90 – used 30% SAFE; price rose slightly to $12.25, still bought a few shares – $1,485 or (121 shares) cause this is still a great price to be buying shares – we are negative in cash to (- $6,028).

Now looking at the spreadsheet you'll see the "bear market for Caesar's" ended here and we could go back to normal. You see by June 91, we have recovered all our cash and you'll see we have made a profit, going from $23,955 in October 89 (top of the spreadsheet) to $28,539 in June 91. This despite the fact that the price of Caesars stock was $35.12 in October 89 and in June 91 is only $24.37, a 31% drop in price.

Again you see the beauty of the system. But because of "bear markets" we need to add another tool to our AIM arsenal in our war with the stock market. Also note in old days paid much higher commissions – thus for adjustable AIM spreadsheet, I used newer lower commission rate of $12 – flat rate for up to 5,000 shares.

Please read my new material at the back of this Chapter. Notice Caesars stock prices were taken in the early 1990s – all we had then was a very brief bear drop. But in the last years – 2000 – 2003 we had a severe bear market, very severe and the AIM bear adjustment had to be modified so AIM could even handle a severe bear market! These adjustments are not necessary IF you have a lot of spare cash lying around and don't mind adding it until the bear stops growling... But you better have very deep pockets – see Allis Chalmers in Chapter 7!! And see Campbell Resources in Chapter 12.

Here in the Adobe Acrobat free book you will find a spreadsheet showing Caesar’s using 10% SAFE & a second spreadsheet using an adjustable SAFE.



STANDARD 10% SAFE CAESAR'S

DATE	REMARKS	SHARE PRICE	SHARE VALUE	SAFE	CASH	SHARES BOUGHT (SOLD)	SHARES OWNED	PORT CONTROL	BUY (SELL) ADVICE	MKT ORD (SELL) BUY	6 % INT	COMM AMT	PORTFOLIO VALUE
10/89		35.12	12118	1211	11837	-	345	12222	104	0	59	-	23,955
11/89	Adj S/C	28.50	13680	1368	8017	+136/36	480	16082	2402	1034	40	46	21,697
12/89		32.75	16899	1689	6972	-	516	16599	(300)	0	35	-	23,871
1/90		-	-	-	-	-	-	-	-	-	35	-	-
2/90		25.00	12900	1290	7042	96	516	16599	3699	2409	35	64	19,942
3/90	+ $2,000	22.25	13617	1361	6592	228	612	17804	6443	5082	23	94	20,209
4/90		22.25	18690	1869	1423	-	840	20345	1655	0	7	-	20,113
5/90	+ $2,000	18.87	15855	1585	3430	154	840	20345	4490	2905	7	69	19,285
6/90		22.00	21868	2186	458	-	994	21798	(70)	0	7	-	22,326
7/90		-	-	-	-	-	-	-	-	-	7	-	-
8/90	+ $10,000	13.62	13543	1354	10462	506	994	21798	8255	6901	7	122	24,005
9/90	+ $5,000	11.37	17063	1706	8456	629	1500	25926	8863	7157	17	124	25519
10/90		12.25	26080	2608	1181	67	2129	29505	3425	817	6	44	27261
11/90	Adj S/C - no	14.25	31293	3129	322	-	2196	29914	1379	0	2	-	31,615
12/90		15.12	33215	3321	324	-	2196	29914	(3301)	0	2	-	33,539
1/91		15.37	33761	3376	326	(31)	2196	29914	(3850)	(474)	2	35	34,090
2/91		14.25	30851	3085	769		2165	29914	(937)	0	4	-	31,620
3/91		18.00	38970	3897	773	(287)	2165	29914	(9056)	(5159)	4	95	39,743
4/91		19.00	35687	3568	5866	(116)	1878	29914	(5768)	(2200)	29	63	41,548
5/91		21.87	38544	3854	8043	(218)	1762	29914	(8630)	(4776)	40	92	46,587
6/91		24.37	37635	3763	12791	(151)	1544	29914	(7451)	(3688)	64	78	50,426

Adjustable SAFE CAESAR'S

DATE	REMARKS	SHARE PRICE	SHARE VALUE	SAFE	CASH	SHARES BOUGHT (SOLD)	SHARES OWNED	PORT CONTROL	BUY (SELL) ADVICE	MKT ORD (SELL) BUY	6 % INT	COMM AMT	PORTFOLIO VALUE
10/89		35.12	12118	1211	11837	-	345	12222	104	0	59	-	23,955
11/89	Adj S/C	28.50	13680	1368	8017	+135/36	480	16082	2402	1034	40	46	21,697
12/89		32.75	16899	1689	6972	-	516	16599	(300)	0	35	-	23,871
1/90		-	-	-	-	-	-	-	-	-	35	-	-
2/90	20% SAFE	25.00	12900	1290	7042	45	516	16599	3699	1119	35	12	19,942
3/90	30% SAFE	22.25	12482	1248	5941	42	561	17159	4677	933	30	12	18,423
4/90	30% SAFE	22.25	13417	1341	5021	8	603	17626	4209	186	25	12	18,438
5/90	40% SAFE	18.87	11530	1153	4847	84	611	17719	6189	1577	24	12	16,377
6/90	20% SAFE	22.00	15290	1529	3276	7	695	18508	3218	160	18	12	18,566
7/90		-	-	-	-	-	-	-	-	-	7	-	-
8/90	50% SAFE	13.62	9561	956	3127	312	702	18588	9027	4247	7	12	12,688
9/90	50% SAFE	11.37	11529	1152	(1120)	301	1014	20712	9183	3423	-	12	10,409
10/90	30% SAFE	12.25	16109	1610	(4543)	121	1315	22424	6315	1485	-	12	11,566
11/90	Adj S/C no	14.25	20463	2046	(6028)	46	1436	23167	2704	658	-	12	14,435
12/90		15.12	22415	2241	(6686)	-	1482	23496	1081	-	-	-	15,729
1/91		15.37	22786	2278	(6686)	-	1482	23496	710	-	-	-	16,100
2/91		14.25	21119	2111	(6686)	19	1482	23496	2377	266	-	12	14,433
3/91		18.00	27018	2701	(6964)	(38)	1501	23629	(3389)	(688)	-	12	20,054
4/91		19.00	27797	2779	(6276)	(73)	1463	23629	(4168)	(1389)	-	12	21,521
5/91		21.87	30406	3040	(4899)	(171)	1390	23629	(6777)	(3737)	-	12	25,507
6/91		24.37	29713	2971	(1174)	(128)	1219	23629	(6084)	(3113)	-	12	28,539

Note: this note from Ron inspired me to add my thoughts on how much to adjust AIM for the different kinds of stocks. See my thoughts below Ron's insightful note.

Hello Fellow AIMers: Readers of my notes know by now that I don't pretend to be an expert. The other ladies and gentlemen who contribute to this great newsletter really know their stuff. They have refined Mr. Lichello's original formula to peak performance. I'm just another small investor like many of you out there who read this and was impressed by the system and continue to marvel at how good it works. I am honored that they let me throw in a few thoughts. When I send in my notes every month I have no idea what will accompany me in this newsletter. Last month I posed the question, what do we do in a bear market when prices get so low we run out of cash. Well apparently this has been on many peoples minds, and it sure has been on Jeff's.

He added a great new chapter in his book where he has increased his SAFE from 10% to possibly 50%. I urge you all to read it here, it's great! Just when you think these guys can't refine AIM any more they do it again. I am 40 years old and like many of you most of my investing life has been in a bull market. So this extended bear market is both new and hard for me. Now when I first read about the split SAFE, another great refinement that swayed towards ELIMINATING the buy SAFE for bull markets, especially mutual funds which tend to always go higher eventually, this really makes sense to me. So what does this tell us? How do we know how much or which way to adjust this SAFE figure. To me it seems we have to adjust it to the market and each individual equities personality. Look at each stocks' 52-week high and low and get the feel of it. There is no set way of determining this. Perhaps we all should learn a little technical analysis and look at a few chart patterns. AIM is a great tool, but remember no tool is any good unless you make it work. So friends this bear market isn't all bad. It taught us AIMers a great refinement. Change the SAFE to fit your needs.

Jeff's thoughts on stock's personalities

Ron came up with a great way of viewing stocks I hadn't thought of. Yes, I feel stocks do have "personalities" just like people. And we need to view these personalities to figure out how these stocks are going to behave in a bear market. In reality it's the "personality" of investors holding the stocks that decides whether we have a wild one or a mild one.

Here are my quick thoughts on the different stock personalities and how to handle them in a Bear Market:

The Conservative Personality:

The conservative ones are the Blue Chips of the world – these are the Dow Jones Industrial Average Stocks. These stocks have been around forever, these stocks made it through the Great Depression of the 1930s. You've probably heard of some of these: IBM, DuPont, American Express, CitiGroup, Coca-Cola etc.

These stocks will not show such drastic plunges – a good example is my Dow Jones Model Portfolio – never had to increase SAFE % with those stocks – while had great increases with the Techs in the "Conservative" portfolio. These stocks normally do not even show highs and lows greater than 100% in a year. Thus tocks with the conservative personality will not require very radical changes in AIM during a Bear Market. You might wind up upping your SAFE amount to 20% instead of the normal 10% of share value. Again like Ron says, it helps to do a little work yourself. One reason I post the highs and lows for stocks for a stock for the prior few years is to give you an idea of the personality of the stock. I feel most of these stocks will not require radical AIM surgery during a Bear Market.

The Radical Personality:

I feel I should apologize to you for calling my Conservative Portfolio my Conservative Portfolio. It has been anything but conservative in this bear market. I originally felt it was conservative compared to other high techs – primarily the content high techs like iVillage, Dr. Koop, eToys etc. I felt content providers would come and go (I did recommend ones I thought had a chance to succeed). I felt the hardware providers – the Ciscos, Sun Microsystems, Lucent Technologies would always succeed. And they probably will – but they will give you a heck of a ride. Based on my experience with Cisco & Sun – I will give you new "fight the bear" info 0r "Son of Bear Market" – how to Turbo-Proof AIM when the unthinkable like the tragic World Trade Center Terrorist Attack occurs. At the end of the chapter, I will show you Cisco & Sun through this disaster and how I tried to "Bear-Proof" what was left of them. Again like Ron, I was a little late to catch on but like he said, learn from your mistakes and be ready for the next unspeakable horror – I'll show you what I did.

I knew these "Radicals" did have bigger swings in high/low prices but I underestimated investor's foolishness in dumping these stocks for huge losses – again I fell victim to underestimating the stupidity of investors. I won't do that again.

Now I have a better grasp on how these "high techs" will handle in a Bear Market. So here are my new thoughts on how AIM should handle these stocks.

The one way to easily distinguish conservative and radical personality stocks is the high/low differences they have. As I said above, conservative/Blue Chip/Dow Jones stocks rarely have high/low differences greater than 100%. But our radicals, even the radicals I thought were conservative – that's why I called the portfolio conservative – exhibit high/low differences significantly higher. Cisco's high was 82.00; low was 20.31 for a 304% difference; Sun's high was 64.66; it' low 17.00 for 280% difference; and Lucent's high was 66.62; it's low 9.81 for a 579% difference.

It's these differences that require adjusting AIM so as to not exhaust our cash too soon. remember by going 2/3 stock, 1/3 cash we don't have a lot of leeway and we want to make the most of buying as low as possible. So in addition to the advice earlier in this chapter, here are some additional ideas for radical stocks:

Rules # 1 – use a 20% SAFE (20% of Share Value) for all buys right from the start.

I am saying do this from day one when you own a "high tech"/radical-type stock. You don't change the SAFE 10% Sell amount. Also during sells let the cash build up.

Rule # 2 – when you adjust Stock/Cash amount on radical stocks, only use half the amount the calculations say:

For ex: If Stock Value is 3,000 and cash is 3,000:

Normally your calculations are 6,000 X 1/3 = 2000 cash and you have 1,000 extra cash and buy 1,000 worth of stock. For radical stocks, just buy 500 more and leave that extra 500 in the cash account as a cushion.

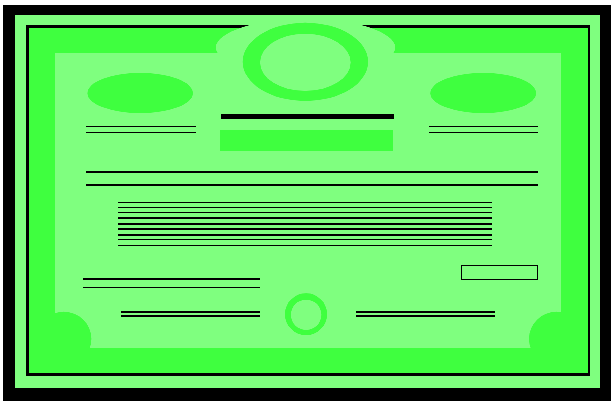
Rule # 3 – keep extra cash in your money market for outstanding buy opportunities

Let's say you are going to start with $15,000: $10,000 in stock and $5,000 in cash. If you have an extra $5,000 to put in your Money Market Account – do it!

Rule # 4 – you can always follow Robert Lichello's original investing strategy – 50% Stock, 50% Cash...for Radical Stocks

I want to emphasize I still think high techs and others on the NASDAQ are good stocks and are our future for America. What we are experiencing now is just a typical Bear Market affecting both good and bad stocks. Again remember the words of J. Paul Getty: "buy when the news is bad."

The real world is the best lab so below I'll show you what the Bear did to Cisco and Sun. It's not pretty, but both as well as many other "techs" have recovered significantly from the tragic events of September 11. Check the two spreadsheets for Turbo-SAFE – I had to stop the bleeding so I took radical action on radical stocks.



Cisco Systems from Model Portfolio

DATE	REMARKS	SHARE PRICE	SHARE VALUE	SAFE	CASH	SHARES BOUGHT (SOLD)	SHARES OWNED	PORT CONTROL	BUY (SELL) ADVICE	MKT ORD (SELL) BUY	6 % INT	COMM AMT	PORTFOLIO VALUE
5/00	2 for 1 split	57.00	69882	6988	46431	11	1226	77474	7592	604	232		116,313
6/00		67.75	83807	8380	46056	-	1237	77776	(6031)	0	229		129,863
7/00		64.37	79632	7963	46286	-	1237	77776	(1856)	0	230		125,918
8/00		68.25	84425	8442	46517	-	1237	77776	(6649)	0	231		130,942
9/00		64.31	79551	7955	46750	-	1237	77776	(1775)	0	233		126,301
10/00		62.75	77622	7762	46984	-	1237	77776	154	0	234		124,606
11/00		56.06	69346	6934	47219	27	1237	77776	8430	1496	235		116,565
12/00		52.75	66676	6667	45952	98	1264	78524	11848	5181	229		112,628
1/01		48.17	65608	6560	40975	186	1362	81115	15507	8947	204		106,583
2/01		38.06	58917	5891	32188	546	1548	85589	26672	20781	160		91,105
3/01		28.19	59030	5903	11464	1101	2094	95980	36950	31047	57		70,494
4/01	50% SAFE	20.63	65913	6591	(19583)	613	3195	111504	45591	12636	-		46,330
5/01	50% SAFE	17.98	68468	6846	(32219)	841	3808	117822	49354	15124	-		36,249
6/01	40% SAFE	19.05	88563	8856	(47343)	73	4649	125384	36821	1397	-		41,220
7/01	50% SAFE	16.65	78621	7862	(48740)	490	4722	126083	47462	8152	-		29,881
8/01	30% SAFE	18.74	97673	9767	(56892)	170	5212	130159	32486	3185	-		40,781
9/01		-	-	-	-	-	-	-	-	-	-		-
10/01	100% SAFE	12.09	65068	6506	(60077)	134	5382	131752	66684	1616	-		4,991
11/01	40% SAFE	16.95	93496	9349	(61693)	98	5516	132560	39064	1668	-		31,803
12/01	10% SAFE	20.02	112392	11239	(63361)	488	5614	133394	21002	9763	-		49,031

SUN MICROSYSTEMS FROM MODEL PORTFOLIO

DATE	REMARKS	SHARE PRICE	SHARE VALUE	SAFE	CASH	SHARES BOUGHT (SOLD)	SHARES OWNED	PORT CONTROL	BUY (SELL) ADVICE	MKT ORD (SELL) BUY	6 % INT	COMM AMT	PORTFOLIO VALUE
5/00		76.50	46359	4635	28235	29	606	53192	6833	2198	141		74,594
6/00		90.50	57468	5746	26167	-	635	54291	(3177)	0	130		83,635
7/00		89.94	57112	5711	26298	-	635	54291	(2821)	0	131		83,410
8/00		94.94	60287	6028	26429	-	635	54291	(5996)	0	131		86,716
9/00		112.19	71241	7124	26531	(88)	635	54291	(16950)	(9826)	132		97,772
10/00		113.06	61844	6184	36539	(12)	547	54291	(7553)	(1369)	182		98,383
11/00		111.00	59163	5916	38098	-	533	54291	(4872)	0	190		97,261
12/00		89.31	47602	4760	38289	22	533	54291	6689	1929	191		85,891
1/01	2 for 1 Split	30.44	33788	3378	36542	594	1110	55256	21468	18090	182		70,330
2/01		30.44	51870	5187	18544	238	1704	64301	12431	7244	92		70,414
3/01		24.56	47696	4769	11357	629	1942	67923	20227	15458	57		59,053
4/01	50% SAFE	17.44	44838	4483	(4101)	482	2571	75652	30814	8399	-		40,737
5/01	40% SAFE	17.09	52176	5217	(12500)	398	3053	79852	27676	6808	-		39,676
6/01	20% SAFE	18.85	65051	6505	(19308)	276	3451	83256	18205	5195	-		45,743
7/01	50% SAFE	15.19	56613	5661	(24503)	62	3727	85854	29241	936	-		32,110
8/01	40% SAFE	15.64	59260	5926	(25439)	215	3789	86322	27062	3358	-		33,821
9/01		-	-	-	-	-	-	-	-	-	-		-
10/01	170% SAFE	7.96	31872	3187	(28797)	245	4004	88001	56129	1947	-		3,075
11/01	100% SAFE	10.04	42660	4266	(30744)	364	4249	88975	46315	3655	-		11,916
12/01	40% SAFE	13.39	61768	6176	(34399)	323	4613	90803	29035	4331	-		27,369

Jeff's Latest Ideas on Adjusting for Bear Markets

I started managing stocks for one of my friends, I have learned a thing or two. First I learned that I didn't make this chapter as clear as possible. And I'm sorry for that. But the beauty is I can fix that right now and I will continue to make this book better and better with your help. Please send your questions or ideas for improving this or any chapter in my book. Let's make this the best book we can!

I want to explain to you how I arrived at the Variable SAFE amounts I used earlier and used for two of the stocks I now manage for my friend. I think the way I used different SAFE amounts earlier and was confusing the benefit show was hard to see when Caesar's using standard 10% SAFE finished at about $53,000 and the Variable SAFE Caesar's finished at about $28,000!

One investor wrote me with some very wise questions and he showed me I need to explain in more detail the Variable adjustments I made and show that anyone can make these same type adjustments easily when you see what the adjustments are doing. Please read below and look at the two current spreadsheets with real live stocks I am actively managing for a fellow investor: If you would like me to personally advise you monthly, please email me and I will explain what I can do for you. Email me at: jeffee@t-online.de

Hi, Jeff, thank you for your follow-up regarding Chapter 2A. I have spent some time reviewing the chapter and I must admit that there are several things that bother me about it:

Your safe value choice was optimal. The use of a "Split Safe" is not automatic. A lot of empiric guessing enters into the equation by using various split safes. Who is to say or its very use was correct? Perhaps it isn't.

Dave, you probably looked at the two stocks (see spreadsheets at end of Chapter) I sent you and have this question as well as reading Chap 2A. I probably need to revise Chap

2A so all readers know it is not as complicated as it appears. Of course we know it only applies to buys not sells - sells are always 10%.

On the two stocks I sent you - you see different SAFE amounts with quite a range of difference. So how did I arrive at the adjusted SAFE amounts? Pretty easy! After I subtract SHARE VALUE from PORTFOLIO CONTROL and see a large difference (much higher than 10% - what I do is divide the 10% share value (what we normally subtract) by the MARKET ORDER BUY AMOUNT and then make my SAFE AMOUNT equal to that % so the investor does not buy any that month or buys only about the $$$ amount he would be buying if it were a normal 10% regular SAFE month. I always want to have a + cash amount so if the stock really goes down, the investor still has some cash left to buy the cheapest possible stocks.

I will give two examples from the stocks I am managing and I will send you the spread sheets:

Look at SUN MICRO: Originally started with $872 cash (1/3 of PORTFOLIO VALUE)

Made 3 buys: Sep, Oct, Nov 02 - rock bottom of the Bear Era, but look at the starting PORTFOLIO CONTROL. My investor had managed his own stocks earlier so when I got them, they had really dropped - so I only wanted to buy about the 10% - so in Sep 02 PORTFOLIO CONTROL was 3,150 - SHARE VALUE $1,685 = BUY $1,465 -
10% SAFE (168) = MARKET ORDER BUY - $1,297!

So what did instead was divide the BUY AMOUNT ($1,465) by 168 = 87% SAFE not 10% SAFE. So what I did was reduce the 87% SAFE amount down to 80% and buy a little over $100 worth of stock that month.

Next month Oct 02 - SUN drops to $2.85 - so glad I saved cash the month before.
Again I divide BUY ADVICE 1948 by 10% SAFE amount 126 = 155% SAFE. I still want to make a buy so by lowering the SAFE amount to 140%, I still get to buy 65 shares

at $2.85 AND STILL KEEP CASH IN THE ACCOUNT. What I am trying to do is be very conservative with a highly risky stock until it stabilizes. The easy way to see if a stock is highly risky is to look at its BETA. A stock with a BETA of two swings high or low 2X more than BETA stock of one - so any stock with a BETA over 1 has higher highs and lower lows than a BETA 1.0 stock.

In SUMMARY - what I am trying to do is roughly only buy the 10% or make SAFE high enough so there are no buys. Look at Jul 03 - SUN rises to $4.72; rising stock now - so I certainly don't want to buy shares at $4.13 when it was $2.74 about six months. I make my SAFE high enough so there is NO buy that month. So PORTFOLIO CONTROL is 3,359 - SHARE VALUE 2,263 = 1096 BUY ADVICE. I want a SAFE AMOUNT HIGHER than BUY ADVICE of 1096 so by dividing the 1096 amount by the 10% SAFE AMOUNT of 226 I quickly find that if I use 50% (5X the normal amount) I do not have a buy. I have to be patient and wait for this stock to go higher because the SHARE VALUE is still very low but is climbing - so I don't want to buy when a stock is rising after a big fall. The investor patiently waits.

Now there are other variables that can be adjusted. But look in Chapter 7 at Allis Chalmers done many years ago in the '80s before my Bear adjustment. Look how much extra cash you had to pump in the make every buy required - that's OK - If you have deep pockets but I feel most investors don't. I wanted a way to conserve the cash and adjusting the SAFE amount does just that.

Dave's additional comment: The beauty of AIM is lost and AIM now becomes more a matter of subjective interpretation of the market. This may be counterproductive if your market interpretation actually goes against a developing trend--the human error factor.

Yes, a little of the beauty is lost but the cash saved and used later to buy even cheaper shares restores the lost original beauty and makes the stock more beautiful than ever. The true beauty of AIM used to MAX is to have a manipulation in the formula when you have a serious Bear Market. The beauty of driving a nice car is not lost because you have to stop at a red light. That red light lets you live to drive your car another day.

Also, almost all investors no matter how many times I tell them they must never let emotions overpower them in either a BULL or BEAR Market really start to panic when their stock runs out of gas. My friend who I managed for was to sell everything he had left last Aug 02 - in the year applying the Variable SAFE Amount, his portfolio is up 35% & most of that year was very Bearish.

One time while experimenting with the AIM formula I tried using 0% SAFE - making BUY ADVICE & MARKET BUY the same amount - boy, do you need to pump in a lotta extra cash to make all the AIM buys doing that - I concluded that system would only work for Bill Gates, Mayor Bloomberg & a few others. So that never found its way into my book - far too risky for the average investor.

And that's who I write for - all I am doing is making AIM safer during Bear Markets. And I think that is a beauty of AIM.

So look at the spreadsheets for two currently managed stocks that were wounded but not killed by the Bear and I will explain why I made the Variable SAFE amounts and were the variable SAFE amounts came from - no, not my crystal ball - that' just for advice!!

I will now talk about the two current real stocks at the end of this chapter and I will explain the using a Variable SAFE is fairly easy and explain how I made my decisions for a couple of the buys and "do nothings"

The absolute bottom for the Bear Market was Oct, Nov, Dec 2002. First lets look at Sun. I inherited Sun Micro in Aug 02 after my friend had been managing it, he was a little discouraged to say the least about Sun's performance before Aug 02. So at $4.21 in Aug 02, PORTFOLIO CONTROL was 3150 and SHARE VALUE was 1743 so Sun roughly has to double to $7.60 before SHARE VALUE will equal PORTFOLIO

CONTROL and you will be in the "do nothing" zone and will have to go up to roughly $10.00 a share before you will have a SELL MARKET ORDER.

So I wanted to be very conservative for my friend - this is his retirement money and we still had some cash to work (basically at this point since my friend had extra cash). We agreed to set up each stock as if just bought but keep the old PORTFOLIO CONTROL because that was 100% relevant to any buying, selling or doing nothing we needed to do. So for these 2 stocks and the others, I started with 2/3 stock and 1/3 CASH. So Sun Micro started with $1,743 SHARE VALUE and $872 CASH.

So when Sep 02 came along, I used a high enough SAFE amount 80% or 8X normal SAFE (10% SAFE 168 X 8 = 1,344) to make sure I only made a small buy because we were still in a down market. Save the extra cash for the next month.

Next month Oct 02, Sun is still going down (remember when it was in the 100s?) and drops sharply to $2.85. Again we want to conserve cash **(again if you have lots of spare money, and can stand high risk, I do recommend you only use 10% SAFE regardless and when the stock turns around your profits will be much higher (see Caesar's example earlier in this chapter. But if you are Conservative, don't want to any or very much additional money into your stocks, follow my guidance here.)**

So at $2.85, I want to buy some at this price but still want to be very conservative. I use 140% SAFE (14 X 10% SAFE of 126 = 1,764 AND buy $ 189 of Sun or 65 Shares. Same next month, want to buy some SUN but only about the 10% SAFE amount so I use 180% SAFE (18 X 10% SAFE of 139 = 1,807).
Now look at the remaining months: Sun has started back up like all of my friends stocks and many, many more on both the New York Stock Exchange and the NASDAC. But it hasn't go up enough to sell for a profit yet because of high PORTFOLIO CONTROL from the Bear days. So I want a high enough SAFE so we don't do anything until Sun truly recovers. And I don't want to use any of the remaining cash to buy more shares because it is going up, not down. I still want my cash in case Sun slips once or twice on

its forthcoming recovery. So while you see different variable SA FE amounts from Dec 02 to Jul 03, all I was doing was dividing BUY ADVICE amount by 10% SAFE and get a variable SAFE high enough so we did nothing. For ex. Dec 02 - BUY ADVICE is 1238 so 1238 divided by = 58% SAFE. So all I did was round up to 60% SAFE and we "do nothing”. Other months are the same.

Now I explain Nortel quickly. Same rational as Sun, I want to protect cash and buy at the lowest points. I make SAFE high enough in Sep 02 so I do not have a buy because Nortel went from $.85 to $1.25. But I wasn't convinced the overall Bear Market was over so I wanted to be cautious with a risky stock. As I say elsewhere in this book, when a stock drops below $3 it is risky but many better stocks that are not "Pennystocks" can drop below $3 and will rebound. So I was very cautious with this stock - remember I have been charting stocks during the previous Bull Markets for many years and for the past 3 years or so, been charting them in a bad Bear Market. You will gain experience and become better and better the longer you do your monthly charts. And as I said above, I will be happy to get you started by helping you for a while - just email me at jeffee13@hotmail.com

So I used a variable SAFE of 170% (17X 10% SAFE of 168 = 2856) so higher than BUY ADVICE of 2943 = MARKET ORDER BUY ignore 87. Now glad skipped buy in Sep 02 because Nortel goes down sharply next two months and again I use variable SAFE amount but do want to make small buys and get more shares. Look at remaining months - Dec 02 - Jul 03 - Nortel has more than tripled from its low of $.63 - we even had a SELL of 228 shares in July 03 (at the regular 10% SAFE). Again all the SAFE when you see a number were higher than 10%. When you see the REMARKS column blank, I was using the regular 10% SAFE and MARKET ORDER BUY told us do nothing. Again, if you have any questions please email me at jeffee13@hotmail.com and anytime I see a problem, I will again modify this chapter.

DATE	REMARKS SUNW #1	SHARE PRICE	SHARE VALUE	SAFE	CASH	SHARES BOUGHT (SOLD)	SHARES OWNED	PORT CONTROL	BUY (SELL) ADVICE	MKT ORD (SELL) BUY	6 % INT	COMM AMT	PORTFOLIO VALUE
Aug 02		4.21	1743	174	872	-	414	3150	-	-	-	-	2,615
Sep 02	80% S - 1344	4.06	1685	168	876	30	414	3150	1465	126	4	15	2.561
Oct 02	140% S - 1764	2.85	1265	126	754	65	444	3213	1948	185	3	15	2,019
Nov 02	180% S - 1807	2.74	1395	139	568	39	509	3308	1913	106	3	15	1,963
Dec 02	60% S - 1272	3.87	2121	212	469	-	548	3359	1238	-	2	-	2,590
Jan 03	100% S - 1640	3.01	1649	164	471	-	548	3359	1710	ign 70	2	-	2,120
Feb 03	75% S - 1433	3.50	1918	191	473	-	548	3359	1441	ign 8	2	-	2,391
Mar 03	80% S - 1488	3.41	1869	186	475	-	548	3359	1490	ign 2	2	-	2,344
Apr 03	80% S - 1504	3.43	1880	188	477	-	548	3359	1479	-	2	-	2,357
May 03	90% S - 1602	3.26	1786	178	479	-	548	3359	1573	-	2	-	2,265
Jun 03	50% S - 1130	4.13	2263	226	481	-	548	3359	1096	-	2	-	2,744
Jul 03	50% S - 774	4.72	2587	258	483	-	548	3359	772	-	2		3,070

DATE	REMARKS Nortel #2	SHARE PRICE	SHARE VALUE	SAFE	CASH	SHARES BOUGHT (SOLD)	SHARES OWNED	PORT CONTROL	BUY (SELL) ADVICE	MKT ORD (SELL) BUY	6 % INT	COMM AMT	PORTFOLIO VALUE
Aug 02		.85	1347	134	674	-	1585	4623	-	-	-	-	2,021
Sep 02	170% S - 2856	1.06	1680	168	677	-	1585	4623	2943	ign 87	3	-	2,357
Oct 02	260% S - 3198	.78	1236	123	680	242	1585	4623	3387	189	3	15	1,196
Nov 02	300% S - 3450	.63	1151	115	504	178	1827	4713	3562	112	3	15	1,655
Dec 02	50% S - 1620	1.62	3248	324	380	-	2005	4776	1528	-	2	-	3,628
Jan 03	35% S - 1225	1.75	3504	350	382	-	2005	4776	1267	ign 42	2	-	3,891
Feb 03		2.58	5173	517	384	-	2005	4776	(397)	-	2	-	5,557
Mar 03		2.18	4371	437	386	-	2005	4776	405	-	2	-	4,757
Apr 03	20% S - 814	2.03	4070	407	388	-	2005	4776	706	-	2	-	4,458
May 03		2.52	5053	505	390	-	2005	4776	(277)	-	2	-	5,443
Jun 03		3.03	6075	607	392	(228)	2005	4776	(1299)	(691)	2	15	6,467
Jul 03		2.73	4851	485	1088	-	1777	4776	(75)	-	5		5,939

Chapter 3
Philosophy of Success

This chapter has nothing to do with the system itself and yet it has everything to do with it. As important as having investing strategy, is having a success strategy. You might know it as a positive mental attitude, positive thinking, whatever. I see it as a burning desire to succeed, total faith in yourself. The Bible tells us that faith can move mountains and you need that kind of faith to succeed. You need an inner faith in yourself to get the most out of this system and life itself. No more preaching, just a list of books and tapes I recommend. Most of these are timeless classics that will not only benefit and delight you, but will transform you in all areas of your life.

Here are the books and tapes I recommend – most old, used bookstores or Amazon online have these books at very reasonable prices:

Think and Grow Rich by Napoleon Hill

University of Success by Og Mandino

Power of Positive Thinking by Dr. Norman Vincent Peale (any book or tape by Dr. Peale is outstanding)

How to Wake Up the Financial Genius Inside You by Mark O. Haroldsen

How to Win Friends and Influence People by Dale Carnegie

The Magic of Thinking Big by David J. Schwartz

Ultimate Secrets of Total Self-Confidence by Dr. Robert Anthony

The Sky's the Limit by Dr. Wayne Dyer

Psychocybernetics by Dr. Maxwell Maltz

I have also found many success oriented tapes including tapes of some books I listed. Tapes are an excellent, easy, and powerful method of transforming yourself into a successful person. An excellent organization offers most of these tapes. Write to:

Success Motivation Institute, Incorporated

P. O. Box 7614

Waco, TX 76710

Another excellent source of tapes is an organization called Sybervision. Write them for their catalog or look them up online. They offer both personal development and support improvement tapes. I have bought two programs from them write to:

Sybervision

Fountain Square

6066 Civic Terrace Ave.

Newark, California 94560

If you're motivated to earn money from the system, I think you're also motivated to improve yourself and vice versa. I really believe this is necessary and so worthwhile. This is probably the best thing you can ever do for yourself. As Mark Haroldsen said so wisely in his book: "Pay yourself first".

Chapter 4

Investment Books for Fun and Profit

I have read many investment books – some good, some bad, some useful. Like you I was always searching for the ideal investment method that would work on a limited budget. I finally found it in *How to Make $1,000,000 in the Stock Market Automatically* by Robert Lichello. I instantly realized this was the ideal system. I tried to think of ways to use the system.

This led me to write this book because I felt my ideas could and should benefit as wide an audience as possible. Below are other investment books I recommend for many reasons – knowledge, wisdom, and enjoyment. Starting out I'll recommend a couple of books that quickly explain all investments – alias reference books:

These are the books I recommended approximately 16 years ago and I think they're still good today because they're timeless and been updated. After I've listed all these books from a long time ago, I list some of the latest books I've read that are also excellent.

Successful Investing by the staff of United Business Services

New York Times Complete Guide to Personal Investing by Gary Klott

Here are some other books on investing I enjoyed:

How to Make the Stock Market Make Money for You by Ted Warren

How I Turned $1,000 into a Million in Real Estate in my Spare Time by William Nickerson

All America's Real Estate Book by Carol Janik and Ruth Rejinis

A Treasury of Wall Street Wisdom by Harry Schultz and Sampson Coslow

You only Have to Get Rich Once by Walter Gutman

How I Made $2,000 000 in the Stock Market by Nicholas Darvis

Confessions of a Stockbroker, a Wall Street Diary by Brutus

Reminiscences of a Stock Operator by Edwin Lefevre

The Hidden Stock Market (How to Pick $5 Stocks that Can Double in 6 – 12 Months by Ira V. Cobleigh

Contrary Investing for the 90s, How to Profit by Going Against the Crowd by Richard E. Band

101 Years on Wall Street, an Investor's Almanac by John Dennis Brown

Beating the Dow by Michael O'Higgins with John Downes

And here are the latest books that I highly recommend, I'm going to walk out to my sunroom and pick them down off the shelf as I save books like a hoarder and I will give you their names and authors:

The Black Swan, the Impact of the HIGHLY IMPROBABLE by Nassim Nicholas Taleb

Options for the Stock Investor by James B. Bittman

LEAPs, What They Are and How to Use Them for Profit and Protection by Harrison Roth

Small Stocks Big Profits by Gerald W. Perritt

Investing with Exchange-Traded Funds Made Easy by Marvin Appel

The Match King by Frank Partnoy

Investment Gurus by Peter J. Tanous

The Motley Fool Investment Guide by David and Tom Gardner

Investment Psychology Explained by Martin J. Pring

Contrarian Investing by Anthony M. Gallea & William Patalon III

Winning on Wall Street by Martin Zweig

Where Are the Customer's Yachts by Fred Schwed, Jr.

Secrets for Profiting in Bull and Bear Markets by Stan Weinstein

The ETF Book by Richard A. Ferri, CFA

The Panic of 1907 by Robert F. Bruner & Sean D. Carr

Options and Option Trading by Robert W. Ward

Options Trading for the Conservative Investor by Michael C. Thomsett

You Can Be a Stock Market Genius by Joel Greenblatt

Dow Jones-Irwin Guide to Put & Call Options by Henry K. Clasing, Jr.

Four books stand out in my memory as really profound - I list them below with a little commentary:

Wealth without Risk by Charles Givens – an excellent guide for complete financial management that will free up money for investing by giving excellent advice on how to save money and live just as well.

All You Can Do is All You Can Do by A .L. Williams – an excellent "rags to riches" story and blueprint for successful thinking.

Your Money or Your Life by Joe Dominguez and Vicki Robin – learn to live frugally without decreasing your lifestyle. Shows you how to live on much less and be much happier doing it. Will create a new wonderful lifestyle that will end the rat race of pay raises never keeping up with expenses.

Winning Big with Bargain Stocks by Bill Matthews – this book is mandatory, tells you exactly the type of stocks we want and gives excellent vice on how to pick them.

He also publishes or used to publish a monthly newsletter that was very helpful. Write to or look them up on the Internet:

Bill Matthews, Editor

Matthews and Associates, Incorporated

2549 W. Golf Rd., Suite 350

Hoffman Estates, Illinois 60194

The book cost $16 95 when I wrote this and he'll be glad to autograph it. His newsletter is called *The Cheap Newsletter*.

Also I found a very good investment book club you might like to join. It is called the Fortune Book Club – look them up on the web but I'm sure you'll find they have a nice online site where you can join and peruse the type of investing books they offer – heck after 16 years in 2011 I'm sure they offer e-book versions of books.. And again I'd like you to remember that with any good broker and I know for a fact TD Ameritrade offers free Standard & Poor's online reports that give you an up-to-the-minute eight-page analysis of most of the important New York, American and NASDAQ stocks.

Chapter 5
Seven Rules for Success in the Stock Market

I saw an ad in *Barron's* listing seven rules for success in the stock market. I'm going to show you how the system incorporates these rules for success.

1. Know What to Buy – When

The system incorporates the right type of stocks for us small investors (see Chapter 8 on how to pick stocks). Also the system has flexibility on when to buy. I personally like the idea of buying a stock initially when the stock is at or near its 52-week low because it should greatly increase profits. Also closed-end funds, ETFs and LEAPs work well in the AIM system.

2. Know What Not to Buy

The system shows you what not to buy. Normally don't want to buy stocks that don't fluctuate, (show a wide range between the year's high and low price), stocks with large dividends, (a big exception to that is when you buy closed-end funds that are income oriented and pay high dividends), and regular mutual funds.

3. Know When to Sell and Buy

The system shows you exactly when to buy and sell and how much to buy and sell. The system also shows you when you should do nothing.

4. Know How to Measure Risk

The system works well at all risk levels. You can choose the type of stocks, ETF's, LEAPs in your system to suit any risk level you feel comfortable with.

5. Know How to Diversify

I'll show you how to select the rounded 10 investment portfolio that will make allowances for individual fluctuations and will give you profits year after year.

6. Know which Industry Sectors to Select

I will show you a couple of industry sectors I like and will work well with the system. Three I liked many years ago and still like are gambling, high tech, and biotech. Also for conservative investors, blue-chip stocks have a lot to offer. You basically want industries that are viable for the long term and sometimes you can take a risk with a new technology that will pay off someday like solar power. Very recently most solar companies crashed and their stocks are at very low prices. If you're patient and waited out they could give you a handsome reward in 5 or 10 years playing AIM.

7. Reap the Rewards of Compounded Appreciation

This is the best part of the system. You'll get good returns in both dollars and percent in the early years. But after a few years, you get unbelievable benefits from compounded interest. You want to see the benefits of compounded appreciation, take the 30% average return and extended out 12 years and see how much money you have. Here is $10,000 compounded at 30% for 12 years: again you will need to look in your Adobe Acrobat version and you will find a very nice spreadsheet showing compound interest for 12 years. I'll break the suspense and let you know if you compound $10,000 for 12 years at 30% you have $232,981!

And it will keep growing. This is a realistic estimate of the gains you can make under the system if you faithfully follow the system and work at picking the best stocks, ETF's, closed-end funds and LEAPs for the AIM system.

Think of compounding this way: in the above example, we started with $10,000 and at the end of 12 years accrued to $232,981 or your money grew 23.3 times the starting amount of $10,000.

This means that every dollar you invested 12 years ago is now worth $23.30. So spend that dollar now and you throw away $23.30 of your future 12 years later. Now you see the value of compounding. Use it for your future too.

$10,000 Compounded at 30% for 12 years			
Year	**Starting Amount**	**30% Compounded**	**Total Worth End of Year**
1st Year	$10,000	X 1.3 =	$13,000
2nd Year	$13,000	X 1.3 =	$16,900
3rd Year	$16,900	X 1.3 =	$21,970
4th Year	$21,970	X 1.3 =	$28,561
5th Year	$28,561	X 1.3 =	$37,129
6th Year	$37,129	X 1.3 =	$48,268
7th Year	$48,268	X 1.3 =	$62,741
8th Year	$62,741	X 1.3 =	$81,731
9th Year	$81,731	X 1.3 =	$106,045
10th Year	$106,045	X 1.3 =	$137,858
11th Year	$137,858	X 1.3 =	$179,216

12th Year	$179,216	X 1.3 =	$232,981

And it will keep growing. This is a realistic estimate of the gains you can make under the system if you faithfully follow the system and work at picking the best stocks and close-end funds for the system. You have to hang in there in the early years and keep reinvesting profits back into the system (always pay yourself first and don't touch that money).

Think of compounding this way: in the above example you started with $10,000 and at the end of 12 years it grew to $232,981 or:

$$\frac{\$232{,}981}{\$10{,}000} = 23.3$$

Chapter 6
How I'm Doing for My Investors

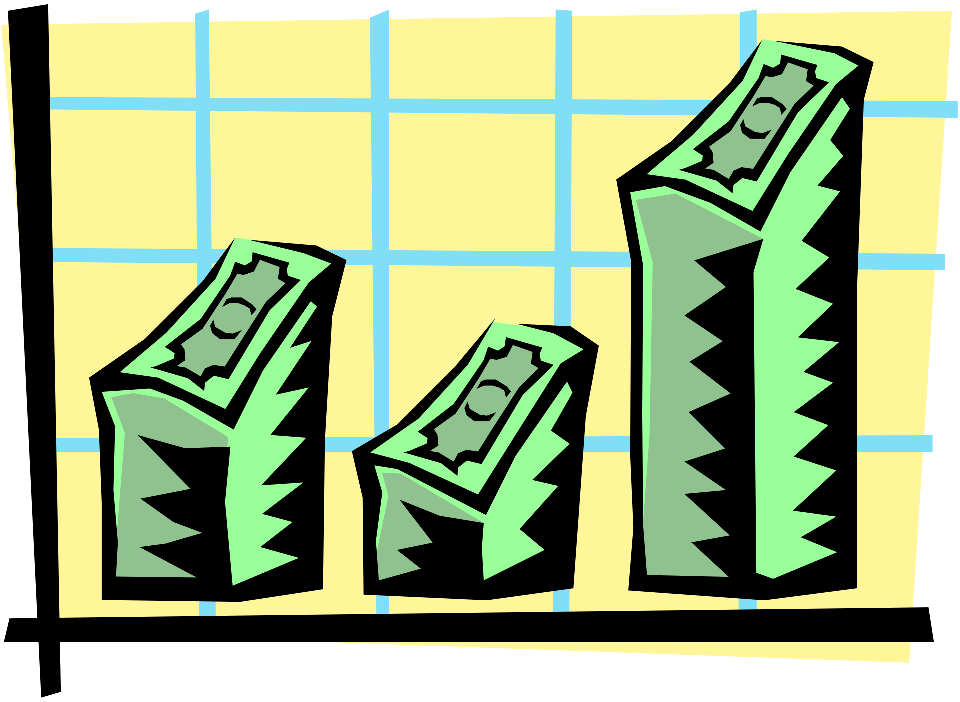
I have recently started helping investors manage their portfolios using my latest bear management tools covered in Chapter 2A. For one portfolio I have managed for the past 15 months, results are very impressive: Jim's portfolio has risen 108% in 15 months!!! This portfolio has risen from a starting value of $75,042 in August 02 to its current January 04 value of $156,124. It rose $31,783 in January 2004 alone!!

In the upcoming months in 04 will be just as good because I helped him from the depths of the bear market.

And the upcoming month in 04 will be just as good because I help them from the depths of the Bear market. Look at the attached spreadsheets (again you will have to look in your Adobe Acrobat version and you will find spreadsheets on 13 stocks (ironically I was born on Friday the 13th but I didn't deliberately plan to give you 13 stocks worth the spreadsheets here. The spreadsheets are worth 1,000 words each!!

You will notice that several stocks are listed twice. That occurs because we bought the same stock at different times and thus each one is managed differently. Just look at the PORTFOLIO VALUE columns and see if you would like your stocks to have similar PORTFOLIO VALUEs. I will help any investor manage their portfolio, just e-mail me for information at jeffee13@hotmail.com

Again all the spreadsheets for this chapter are in the free Adobe Acrobat book you get for buying my e-book.



DATE	REMARKS Compaq	SHARE PRICE	SHARE VALUE	SAFE	CASH	SHARES BOUGHT (SOLD)	SHARES OWNED	PORT CONTROL	BUY (SELL) ADVICE	MKT ORD (SELL) BUY	6 % INT	COMM AMT	PORTFOLIO VALUE
8/86		12.00	477	47	500	-	40	477	-	-	-		977
9/86		15.25	610	61	502	(6)	40	477	(133)	(72)	2		1,112
10/86		15.37	523	52	576	-	34	477	(46)	0	2		1,099
11/86		15.50	527	52	578	-	34	477	(50)	0	2		1,105
12/86		19.00	646	64	580	(6)	34	477	(169)	(105)	2		1,226
1/87		19.37	543	54	688	-	28	477	(66)	ign (12)	3		1,231
2/87		23.25	651	65	691	(5)	28	477	(174)	(109)	3		1,342
3/87		32.12	739	73	804	(6)	23	477	(262)	(189)	4		1,543
4/87		28.12	478	47	998	-	17	477	(1)	0	5		1,476
5/87		35.87	610	61	1003	(2)	17	477	(133)	(72)	5		1,613
6/87		47.37	711	71	1080	(3)	15	477	(234)	(163)	5		1,791
7/87		-	-	-	-	-	-	-	-	-	6		-
8/87		45.12	542	54	1255	-	12	477	(65)	ign (11)	6		1797
9/87		56.50	678	67	1261	(2)	12	477	(201)	(134)	6		1939
10/87		68.37	684	68	1402	(2)	10	477	(207)	(139)	7		2,086
11/87		49.50	396	39	1495	-	8	477	81	ign 42	7		1,891
12/87		46.00	368	36	1502	1	8	477	109	73	7		1,870
1/88		54.87	494	49	1436	-	9	543	49	0	7		1,930
2/88		47.37	426	42	1443	2	9	543	117	75	7		1,869
3/88		48.50	534	53	1382	-	11	611	77	ign 24	6		1,916
4/88		50.37	554	55	1388	-	11	611	57	ign 2	6		1,942

5/88		51.75	569	56	1394	-	11	611	42	0	6		1,963
6/88		48.75	536	53	1401	-	11	611	75	ign 22	7		1,937
7/88		63.25	616	61	69	-	11	611	(85)	ign (16)	7		2,104
8/88		58.12	639	63	1415	-	11	611	(28)	0	7		2,054
9/88	PCS - 10/88	51.75	569	56	1422	-	11	611	42	0	7		1,991
2/89		68.62	755	75	1457	-	11	611	(144)	ign (69)	7		2,219
5/89	Sold All	77.62	854	85	1485	-	11	611	-	-	-		2,339

DATE	REMARKS Alaska Air	SHARE PRICE	SHARE VALUE	SAFE	CASH	SHARES BOUGHT (SOLD)	SHARES ONED	PORT CONTROL	BUY (SELL) ADVICE	MKT ORD (SELL) BUY	6 % INT	COMM AMT	PORTFOLIO VALUE
8/86		16.00	526	52	500	-	33	526	-	-	-		1,026
9/86		17.00	561	56	502	-	33	526	(35)	0	2		1,063
10/86		18.62	615	61	504	-	33	526	(89)	ign (28)	2		1,119
11/86		20.37	672	67	506	(4)	33	526	(146)	(78)	2		1,178
12/86		18.75	544	54	587	-	29	526	(16)	0	2		1,128
1/87		20.62	598	59	592	-	29	526	(72)	ign (13)	2		1,188
2/87		22.75	660	66	594	(3)	29	526	(134)	(68)	2		1,254
3/87		26.50	689	68	677	(3)	26	526	(163)	(77)	2		1,366
4/87		25.25	581	58	757	-	23	526	(55)	0	3		1,388
5/87		21.00	483	48	760	-	23	526	43	0	3		1,243
6/87		20.00	460	46	764	-	23	526	66	ign 20	4		1,224
7/87		-	-	-	-	-	-	-	-	-	4		-
8/87		23.50	541	54	772	-	23	526	(15)	0	4		1,313
9/87		22.37	515	51	776	-	23	526	11	0	4		1,291
10/87		20.00	460	46	780	-	23	526	66	ign 20	4		1,240
11/87		13.00	299	29	784	13	23	526	227	180	4		1,083
12/87		14.87	536	53	587	8	36	706	170	117	3		1,123
1/88		13.50	595	59	484	11	44	811	230	172	2		1,078
2/88		15.25	839	83	314	-	55	966	127	ign 44	2		1,153
3/88		16.87	928	92	316	-	55	966	38	0	2		1,244
4/88		17.12	942	94	318	-	55	966	24	0	2		1,260

5/88		19.00	1045	104	320	-	55	966	(79)	0	2		1,365
6/88		17.12	942	94	322	-	55	966	24	0	2		1,264
7/88		19.00	1045	104	324	-	55	966	(79)	0	2		1,369
8/88		18.12	997	99	326	-	55	966	(31)	0	2		1,323
9/88	PCS 10/88	19.00	1045	104	328	-	55	966	(79)	0	2		1,373
2/89		21.37	1176	117	330	-	55	966	(210)	ign (93)	2		1,506
5/89		27.62	1519	151	332	(15)	55	966	(553)	(402)	2		1,851
6/89		27.62	1095	109	738	-	40	966	(129)	ign (20)	4		1,833
8/89	Sold All	29.00	1160	116	742	-	40	966	-	-	-		-

Chapter 7

The Good, the Better, the Best

This system will help you with all kinds of stocks. I picked three different types of stocks to show you how the system gives you the opportunity to make money while protecting your nest egg. (Note: the printed version of the book contains three colored graphs and several other spreadsheets that will be found in the Adobe Acrobat version but not in the e-book version.

The Good

Allis Chalmers is the classic example of a stock that goes down, down, down and never comes up above its original price for air. The price started at $10.37 a share in November 1984 and in March 1987 was wallowing at $3.12 a share for a 70% drop since it was charted. The stock has done so poorly that an additional $21,000 in cash had to be pumped in to buy when the system said to buy. You're definitely taking a chance with a stock like this. No method of investing, even the AIM system can save you if the stock dies – ask the Enron stockholders.

If Allis Chalmers or any stock, or ETF bounces back at all, then you really stand to profit. Let me show you why. Since under the system you're always buying shares at lower and lower prices; if the stock really goes in the tank, you'll pick up lots of shares very cheap. As a result with Allis Chalmers, you have grown from 643 shares to 8,313 shares, almost a 1293% increase in shares owned.

All the shares were purchased at cheaper and cheaper prices and this cheaper stock averaged with your original shares has constantly lowered your breakeven point. Now with 8,313 shares, the stock only has to go to $3.65 a share for you to be even. Figured this way – $31,000 now invested, original $10,000 + an additional $21,000 in cash. So $31,000 minus $590 in cash = $30,410 divided by 8,313 shares now owned, gives you a breakeven point of $3.65 a share remember your originally purchased the stock at $10.37 a share. Under this system the stock can still drop 65% in value and you still breakeven. If the stock should go back to its original purchase price, your investment would be worth $86,837. It could happen. Maybe not with this stock but when a company stock is very low, the stock could become appealing to somebody.

Maybe some Japanese industrialists wants a way into the American market. Look what Japanese are paying for artwork and Hawaiian real estate (this was in the mid-90s). It's a remote chance that still gives you hope that even if the stock looks like a real dog, it might bark yet. Besides a stock like this will only be a small part, one of 10 stocks, and the other nine will keep you way ahead as you'll see later.

Thanks to the system you're still only down 40%. Your investment is still worth 60% of your total money invested. Now check the graph for Allis Chalmers at the end of this text in the Adobe Acrobat version and you'll see from the yellow highlighted area how the system is constantly trying to get you ahead. Compare the percentages for each month. The line in black at the bottom represents that month’s price as a percent of the original price. The line at the top represents the percent of your investment from the AIM system. This represents column 11, PORTFOLIO VALUE divided by the total amount of money invested.

Thus for March 1987 the stock percent is $3.12/$10.37 = 30% and the system is $18, 338/$25,000 = 73%.

Look carefully at the spreadsheet and the graph until you understand. See how much stock you’ve been buying and at what price and it'll make sense. At times this method of investing seems too good to be true. It is true and you proved that.

And when you look at the colored graph on Allis Chalmers in the Adobe Acrobat version, look towards the middle of the graph and you'll see a three month period when Allis Chalmers almost got to break even thanks to the system whereas the lump-sum investor was way down or at one point AIM got you to 95% of the value of Allis Chalmers when the lump-sum investor was only at 50% of his original investment. Just like a drowning man, AIM could let you get out of a really bad stock just due to a slight rally. I would've advised my investors to dump Allis Chalmers when I saw it go back up to around 90% – 95%. We made a mistake with that stock but AIM gave us a chance to bail out with very little loss.

Again you will find three excellent spreadsheets, two with the actual AIM calculations month by month and then a really neat colored in graph that I drew that really shows the power of the AIM system.

DATE	REMARKS Allis Chalmers	SHARE PRICE	SHARE VALUE	SAFE	CASH	SHARES BOUGHT (SOLD)	SHARES OWNED	PORT CONTROL	BUY (SELL) ADVICE	MKT ORD (SELL) BUY	6 % INT	COMM AMT	PORTFOLIO VALUE
11/84		10.37	6666	666	3334	-	643	6666	-	-	-		10,000
12/84		7.37	4742	474	3351	197	643	6666	1924	1450	17		8,093
1/85		6.25	5250	525	1911	259	840	7391	2141	1616	10		7,161
2/85		8.12	8929	892	297	-	1099	8199	(730)	0	2		9,226
3/85		7.12	7830	783	299	-	1099	8199	369	0	2		8,129
4/85		7.37	8105	810	301	-	1099	8199	95	0	2		8,406
5/85		-	-	-	-	-	-	-	-	-	2		-
6/85	+ $1,000	6.00	6594	659	1305	158	1099	8199	1605	946	2		7,899
7/85	+ $2,000	5.25	6599	659	2361	269	1257	8672	2073	1414	2		8,960
8/85	+ $1,000	4.75	7249	724	1952	296	1526	9379	2130	1406	5		9,201
9/85	+ $2,000	4.00	7288	728	2549	517	1822	10082	2794	2066	3		9,837
10/85	+ $2,000	3.62	8479	847	2485	494	2339	11115	2636	1789	2		10,964
11/85		3.87	10978	1097	700	-	2833	12010	1032	0	4		11,678
12/85	+ $2,000	3.25	9207	920	2704	579	2833	12010	2803	1883	4		11,911
1/86		4.37	14928	1492	825	(111)	3412	12952	(1976)	(484)	4		15,753
2/86		4.37	14442	1444	1315	-	3301	12952	(1490)	Ign (46)	6		15,757
3/86		3.62	11996	1199	1321	-	3301	12952	986	0	6		13,287
4/86		5.25	17330	1733	1327	(304)	3301	12952	(4378)	(2645)	6		18,657
5/86		4.87	13635	1363	3992	-	2797	12952	(683)	0	20		17,627
6/86		5.37	15034	1503	4012	(108)	2797	12952	(2082)	(579)	20		19,046
7/86		4.50	12101	1210	4614	-	2689	12952	851	0	23		16,715

8/86		3.50	9412	941	4637	743	2689	12952	3540	2599	23		14,049
9/86		3.25	11154	1115	2048	610	3432	14252	3098	1983	10		13,202
10/86	+ $3,000	2.75	11116	1111	3066	1097	4042	15244	4128	3017	1		14,182
11/86		3.25	16702	1670	49	-	5139	16753	51	0	0		16,751
12/86	+ $1,000	2.87	14775	1477	1049	174	5139	16753	1978	501	0		15,824
1/87	+ $1,000	2.75	14611	1461	1551	339	5313	17004	2393	932	3		16,162
2/87		2.75	15543	1554	622	136	5652	17470	1927	373	3		16,165
3/87		3.12	18088	1808	250	-	5788	17657	(431)	0	1		18,338
4/87		2.75	15917	1591	251	54	5788	17657	1740	149	1		16,168
5/87	+ $1,000	2.62	15335	1533	1103	103	5842	17732	2397	864	1		16,438
6/87		3.00	17835	1783	239	-	5945	18164	329	0	1		18,074
7/87	+ $3,000	2.37	14119	1411	3240	1109	5945	18164	4045	2634	1		17,359
8/87	+ $2,000	2.25	15872	1587	2609	899	7054	19481	3609	2022	3		18,481
9/97		2.25	17894	1789	599	360	7953	20492	2598	809	3		18,484

The Better

The system will help you with all types of stocks. It will not always give you the highest profit on your investment. If a stock always goes up, up, up, then the AIM system will not give you as high a return as if you put all your money into the stock (The lump-sum approach). As many books, articles and magazine show, most lump-sum investors never know when or how to sell. They think the stock will go up forever.

Remember the saddest words and investing are: "paper profits". If you ever hear somebody say: "Why that Amalgamated widgets stock I bought went from $5 a share to $60 a share. Why I made over $50,000 in profits". Ask this lump-sum investor where he stands a year later when Amalgamated widget is selling at $3 a share. Usually the lump-sum investor still owns the same number of shares, is in a state of shock, and is bemoaning how could this wonderful stock go down so far but assuring you that it will return to its lofty heights. So what? He still won't make any profits. Try paying your bills, sending your kids to college on paper profits. You need real profits and that is what I'm going to give you.

Korea Fund – up, up, and away

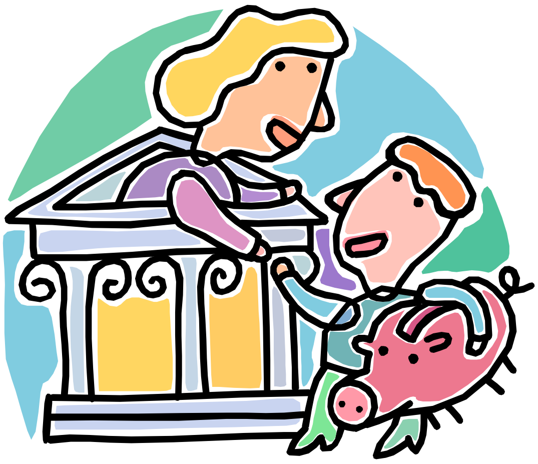
The Korea Fund is a closed–end and fund that trades like a stock. Since we all know every time we go into a store that half of all the stuff in the store says made in Korea, (well it was true in the mid-90s I guess now we would say it's all made in China) we have a vague idea that Korea is doing well economically and they still are. And we are right. As I write this, I'm living and working in Seoul, Korea for the US government. This was in the late 1980s around the time of the Korean Olympics. With their hard work ethic, Koreans have caused a remarkable turnaround in the country destroyed by a war less than 40 years earlier.

Investors have figured out to. The stock has gone from $14.37 a share in October 1984 to $70.37 a share in July 1987 for an increase of 489%. Now look at the graph of the Korea Fund a page or so ahead in the free Adobe Acrobat version. As you can see, the stock lay dormant from November 1984 to November 1985. Remember that nobody will tap you on the shoulder and give you guaranteed winners. Starting in December 1985, the Korea Fund took off and it has yet to stop as of July 1987.

Now looking at the graph, you can see that the system didn't make you as much profit as the price of the stock gained. The green highlight is the difference between the system’s profits and the percent increase in the stock price. That's because the system was selling shares and giving you real profits, take the vacation profits, do any darn thing you want profits.

Now look at the blue highlights and you see the system profits (amount over your initial $10,000 investment). The system hasn't done too badly. Your initial $10,000 is now worth $29,288 or a 192% increase. You have made good profits in less than three years and still have the potential for more profits. Unlike the lump-sum investor, you have steadily reduced the number of shares you own. Your shares owned have declined from 464 shares to 201 shares. You've taken your profits in cold cash. You've won this round. A downturn won't hurt you as much. I can tell you that by 1993, the Korea Fund did have a downturn into the $15 range. Again study the graph in the spreadsheet in your Adobe Acrobat free book. Understand how they work and why they work and then they can work for you. Learning this system will beat the financial odds provide the money to live your future the way you want to. Work for yourself and you'll always have a good boss.

Also I put in the added profit feature I told you about earlier. I readjusted cash to the 2/3 stock – 1/3 cache ratio I showed you in Chapter 2. I recommend you do it at least once a year. I took the extra cash and bought more shares – 140 more shares in September 1986. After the first year in September 1985 there was no excess cash to buy more shares with.



DATE	REMARKS Korea Fund	SHARE PRICE	SHARE VALUE	SAFE	CASH	SHARES BOUGHT (SOLD)	SHARES OWNED	PORT CONTROL	BUY (SELL) ADVICE	MKT ORD (SELL) BUY	6 % INT	COMM AMT	PORTFOLIO VALUE
10/84		14.37	6666	666	3334	-	464	6666	-	-	-		10,000
11/84		14.87	6902	690	3351	-	464	6666	(236)	0	17		10,253
1/85		14.50	6728	672	3385	-	464	6666	(62)	0	17		10,113
2/85		13.25	6148	614	3402	-	464	6666	518	0	17		9,550
3/85		12.50	5800	580	3419	23	464	6666	866	286	17		9,219
4/85		14.00	6818	681	3149	-	487	6809	(9)	0	16		9,967
5/85		-	-	-	-	-	-	-	-	-	16		-
6/85		14.25	6940	694	3181	-	487	6809	(131)	0	16		10,121
7/85		14.75	7183	718	3197	-	487	6809	(374)	0	16		10,380
8/85		14.87	7244	724	3213	-	487	6809	(435)	0	16		10,457
9/85		13.62	6635	663	3229	-	487	6809	174	0	16		9,864
10/85		13.75	6696	669	3245	-	487	6809	113	0	16		9,941
11/85		14.12	6879	687	3261	-	487	6809	(70)	0	16		10,140
12/85		16.75	8157	815	3277	(32)	487	6809	(1348)	(533)	16		11,434
1/86		17.62	8109	810	3829	(23)	455	6809	(1210)	(409)	19		11,848
2/86		17.12	7398	739	4259	-	432	6809	(589)	0	21		11,657
3/86		26.87	11610	1161	4280	(135)	432	6809	(4801)	(3640)	21		15,800
4/86		23.00	6831	683	7960	-	297	6809	(22)	0	40		14,791
5/86		31.87	9467	946	8000	(54)	297	6809	(2658)	(1712)	40		17,467
6/86		32.25	7837	783	9761	(8)	243	6809	(1028)	(245)	49		17,598
7/86		33.37	7843	784	10056	(7)	235	6809	(1034)	(250)	50		17,899
8/86		32.25	7353	735	10358	-	228	6809	(544)	0	52		17,711

9/86	Adj s/c	37.37	13754	1375	5874	140 - (28)	368	11322	(2432)	(1057)	39		19,628

DATE	REMARKS Korea Fund	SHARE PRICE	SHARE VALUE	SAFE	CASH	SHARES BOUGHT (SOLD)	SHARES OWNED	PORT CONTROL	BUY (SELL) ADVICE	MKT ORD (SELL) BUY	6 % INT	COMM AMT	PORTFOLIO VALUE
10/86		35.00	11900	1190	6966	-	340	11851	(49)	0	35		18,866
11/86		31.87	10838	1083	7001	-	340	11851	1013	0	35		17,839
12/86		32.50	11050	1105	7036	-	340	11851	801	0	35		18,086
1/87		34.00	11560	1156	7071	-	340	11851	291	0	35		18,631
2/87		44.00	14960	1496	7106	(37)	340	11851	(3109)	(1613)	35		22,066
3/87		53.50	16211	1621	8763	(52)	303	11851	(4360)	(2739)	44		24,974
4/87		66.87	16786	1678	11560	(49)	251	11851	(4935)	(3257)	58		28,346
5/87		63.25	12777	1277	14891	-	202	11851	(926)	0	74		27,668
6/87		65.75	13282	1328	14965	(1)	202	11851	(1431)	(103)	74		28,247
7/87		70.37	14145	1414	15143	(13)	201	11851	(2294)	(880)	75		29,288


20
106 1/16
42 1/2
26 7/8
-4 3/16
113 3/4
14 9/16
14 1/8
9 1/2
8 3/4
37 3/16

The Best

Why do I call this the best? As you can see from the graph and the spreadsheet again in the Adobe Acrobat version, Dome did not make you as much profit as the Korea Fund although it certainly did much better than Allis Chalmers. Why the best? Because Dome is much more like a typical stock; going up and down and the type of stock that thrives on the AIM system. These are the type of stocks I'm going to show you how to pick. As you can see from the graph, Dome spent much time at less than the original price. That's good under the system because while the stock is taking a nosedive, you're buying all sorts of cheap shares that the system will let you sell later at a much higher price.

Check the spreadsheet and you'll see that you were buying heavily in April, May, June, July, and August 1986 when the price took a dive from your original purchase price. You're loading up for the takeoff when all the shares head back up. And with most stocks they will. Most stocks will show highs and lows of at least 50% difference every year. Stocks that are volatile (have a high beta) work best in the system. All your buying pays off starting around November 1986 as Dome's share price heads up.

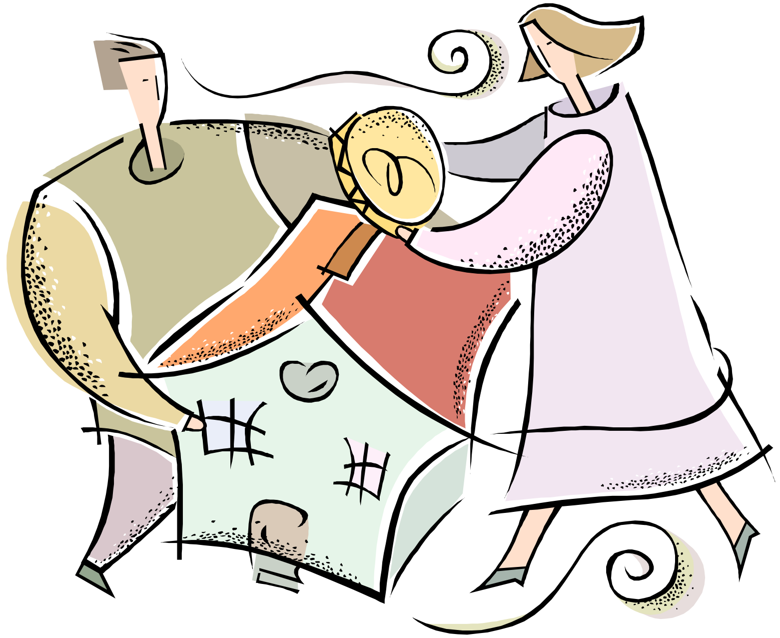
Again as the yellow highlighted areas shows, again in the Adobe Acrobat version, the system keeps you ahead of the share price. Your total investment value is higher. As with Allis Chalmers, the bottom line percent's represent the percent of your original share price, $10.12. The line on top represents the percent of your original investment under the system.

The bottom line is that in less than three years, your stock price has risen from $10.12 to $16 a share or about 58% higher. But under the system you're $13,000 (original $10,000 + additional $3000) is now worth $23,675 as of August 1987. Your investment is up 82% or 141% of what the stock went up. The system has increased your original investment over 27% a year for three years. Our AIM system worked to perfection. Your original $3,334 of CASH required an additional $3,000 from other stocks. Now in August 1987, your CASH account is up to $11,323. That's another nice feature about the system; you'll find that some of your investment is in CASH not stock, how much more conservative can you get? You can and reinvest that extra CASH over 1/3 in more stock and continue the profits. Again look at the spreadsheets and graphs you will find in the Adobe Acrobat book.

DATE	REMARKS Dome	SHARE PRICE	SHARE VALUE	SAFE	CASH	SHARES BOUGHT (SOLD)	SHARES OWNED	PORT CONTROL	BUY (SELL) ADVICE	MKT ORD (SELL) BUY	6 % INT	COMM AMT	PORTFOLIO VALUE
10/84		10.12	6666	666	3334	-	658	6666	-	-	-		10,000
11/84		9.50	6251	625	3351	-	658	6666	415	0	17		9,602
12/84		-	-	-	-	-	-	-	-	-	17		-
1/85		6.62	4359	435	3385	283	658	6666	2307	1872	17		7,744
2/85		8.50	7999	799	1521	-	941	7602	(397)	0	8		9,520
3/85		7.75	7293	729	1529	-	941	7602	309	0	8		8,822
4/85		9.50	8940	894	1537	(47)	941	7602	(1338)	(444)	8		10,477
6/85		7.50	6705	670	2001	30	894	7602	897	227	10		8,706
7/85		7.37	6815	681	1783	30	924	7716	901	220	9		8,598
8/85		8.62	8228	822	1571	-	954	7826	(402)	0	8		9,799
9/85		9.12	8705	870	1579	-	954	7826	879	ign 9	8		10,284
10/85		9.37	8944	894	1587	(24)	954	7826	(1118)	(224)	8		10,531
11/85		8.75	8138	813	1820	-	930	7826	(312)	0	9		9,958
12/85		9.50	8835	883	1829	(13)	930	7826	(1009)	(126)	9		10,664
1/86		9.12	8368	836	1965	-	917	7826	(592)	0	10		10,333
2/86		10.75	9858	985	1975	(97)	917	7826	(2032)	(1047)	10		11,833
3/86		9.75	7995	799	3037	-	820	7826	(169)	0	15		11,032
4/86		7.62	6252	625	3052	124	820	7826	1573	948	15		9,305
5/86		6.75	6372	637	2115	191	944	8300	1928	1291	11		8487
6/86	+ $1,000	6.25	7094	709	1828	183	1135	8946	1852	1143	4		8,922
7/86	+ $2,000	5.25	6920	692	2688	363	1318	9518	2598	1906	3		9,608
8/86		5.50	9246	924	786	55	1681	10471	1225	301	4		10,032

9/86		6.87	11935	1193	487	(17)	1736	10622	(1313)	(120)	2		12,422

DATE	REMARKS Dome	SHARE PRICE	SHARE VALUE	SAFE	CASH	SHARES BOUGHT (SOLD)	SHARES OWNED	PORT CONTROL	BUY (SELL) ADVICE	MKT ORD (SELL) BUY	6 % INT	COMM AMT	PORTFOLIO VALUE
10/86		6.87	11818	1181	610	-	1719	10622	(1196)	ign (15)	3		12,428
11/86		7.12	12248	1224	613	(56)	1719	10622	(1626)	(4020	3		12,861
12/86		8.12	13512	1351	1020	(189)	1663	10622	(2890)	(1538)	5		14,532
1/87		7.75	11424	1142	2571	-	1474	10622	(802)	0	13		13,995
2/87		9.12	13450	1345	2584	(163)	1474	10622	(2828)	(1483)	13		16,034
3/87		11.12	14585	1458	4087	(225)	1311	10622	(3963)	(2505)	20		18,672
4/87		13.00	14118	1411	6625	(160)	1086	10622	(3496)	(2085)	33		20,743
5/87		15.62	14469	1446	8754	(154)	926	10622	(3847)	(2401)	44		23,223
6/87		14.00	10808	1080	11211	-	772	10622	(186)	0	56		22,019
7/87		13.12	10133	1013	11267	-	772	10622	489	0	56		21,400
8/87		16.00	12352	1235	11373	(31)	772	10622	(1730)	(405)	56		23,675

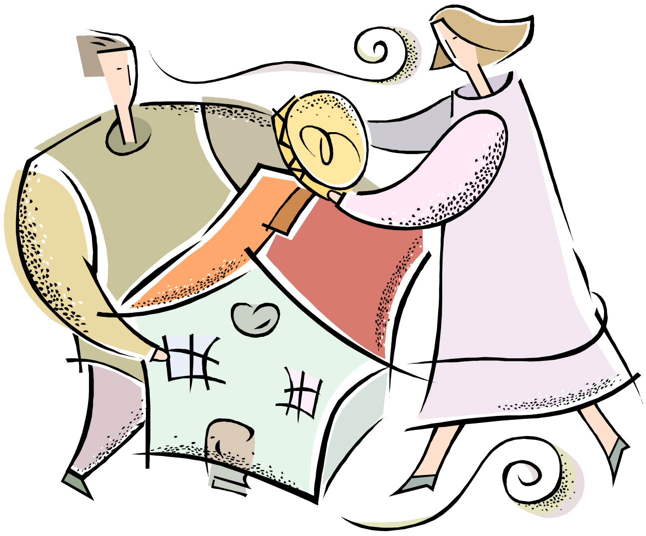


Chapter 8

How to Select the Right Investments

This is an important chapter. It will tell you two important ideas, what stocks, to buy and what stocks not to buy. Later on in additional chapters I added after I wrote this, I will explain how to choose ETF's and LEAPs. What not to buy is easier to tell you then what to buy is. What not to buy usually includes preferred stocks, stocks with large dividends, stock at high share prices, and stocks with small high – low yearly price differences. It is easier to give examples and show what I mean. I'm looking at the January 11, 1988 *Barron's* stock table for the New York Stock Exchange. Right in the beginning, I find a preferred stock (they're very easy to identify because next to the name of the stock, you'll see "PF". Also, you'll see the annual dividend amount the stock pays. Common stocks will be blank in Adobe Acrobat version. Preferred stocks have a fixed dividend and are primarily for investors who want income. I'll copy the whole line for a couple of preferred stocks and show you why they usually aren't good candidates for the system.

For subscription information to *Barron's* just go to their website http://www.barrons.com and you'll find you will get a free online subscription when you order a paper subscription.



52 Week		Name &	Sales	Yield	Weeks	Weeks	Weeks	Net Chg.
High	Low	Dividend	100s	%	Last	Low	Final	
27.50	24.87	AMR pf 2.67	3	10.6	25.12	25.12	25.12	-
11.87	4.62	Adobe	1709	-	6.87	5.37	6.37	+ 1.12
20.50	16.25	Adobe pf 1.84	210	10.7	17.25	16.87	17.25	+ .25
21.00	17.50	Adobe pf 2.40	20	11.9	20.75	20.12	20.25	-

Figure 8-1

I don't know what a subscription costs now but I have one so I should know that but whatever it is it's well worth the cost because you get lots of good ideas on potential stocks that might work well with the AIM system. Again the spreadsheet with the information will be found in the Adobe Acrobat version.

As you can see, preferred's list a guaranteed dividend (they get paid before any dividends are paid on the common stock). Also they list the yield amount which is merely what percent the dividend is of the share price. If the stock is $20 and the dividend is $2, then the stock yields 10%. When you look at the key component for the system, which is the percent difference for the 52-week high and low prices, you will see that usually, preferred stocks fail miserably. Let's look at the Adobe trio of stocks and you can see the difference between good and bad 52 – week high and low percents.

Adobe pf. 184	$20.50	(52-week high) =	26% diff
	$16.25	(52–week low)	

Adobe pf. 2.40	$21.00	(52–week high) =	20% diff
	$17.50	(52-week low)	

Now compare this with Adobe common stock with no dividend. This is the stock we used to originally explain the system in chapter 2 (changed stock to Claire’s Stores). One factor I recommend is to look for a stock that pays no dividend or a very small one. We want companies that reinvest their earnings (profits) back into the company and not pay them out to stockholders.

You'll see why when you read the chapter on semi-aggressive investing and see that you average a 29% return a year (first three years) on stocks that pay no or small dividends. Wouldn't you like to make 29% return than a steady 5-10% from a preferred stock? Look at Adobe's common stock high and low for the year:

Adobe $11.87	(52-week high) =	157% diff
Adobe $4.62	(52-week low) =	

That's a little better. The stock would get further consideration. For now though were only looking for reasons not to buy.

Learning what to buy and not buy is going to take time and a little effort on your part. It's really not very difficult and I believe you'll find it fun and interesting. Again I highly recommend that you get a subscription to *Barron's.* Buy a copy at your favorite newsstand and decide for yourself. You'll find many articles by stock pickers that talk about exactly the type of stocks we are interested in. Within a short time you'll see how your knowledge and skills of picking out the type of stocks, ETFs, LEAPs you like will grow.

Remember it's not a case of there being only one stock that you have to find to make the system work. There are many, many stocks, ETFs, LEAPs that will work. Nobody can always pick all the best ones; the more you study, learn, and do, the better you'll get. You'll only get better by actually doing. I offer a monthly printed e-mail newsletter with my picks of stocks, ETF's, LEAPs that work well with AIM. And remember you get a free one-year subscription to my newsletter when you buy my e-book. Let me show you how I picked the stocks in my portfolio. It will give you an idea of what to look for in stock.

The first stock I picked was Alaska Airlines. The way I picked it will give you a good idea on how to get started picking stocks. I got a copy of the Wall Street Journal and looked at the New York Stock Exchange listings that included the 52–week high and low prices. I highlighted all stocks that were low-priced (currently less than $15 a share) and had 52–week high/low differences of 100% or more.

To the local library I took my highlighted stocks and looked up all the highlighted stocks in Standard & Poor's Reports. How much easier you have it today when with most online brokers you can get free Standard & Poor's Reports that will always be current and accurate. Standard & Poor's Reports cover virtually any good stock on the New York, American and NASDAQ stock markets. The big three should be the only stock markets that you look at for buy candidates - don't go to any these flimsy weird little exchanges that might be trying to con you with some penny stock. I then read all the reports on the stocks I picked and tried to pick the best one.

Now like I said earlier, I didn't agonize over it. I like Alaska Airlines for several reasons. First of all the system wants to own the stock for a year or two and then sell out at or near the high for the year. Alaska Airlines immediate future looks good. Alaska Airlines was the leading airline between Alaska and the lower 48 states. We all know about the oil exploration and other commercialization of Alaska. It's only going to get bigger and bigger. Also the population of Alaska was growing faster than any other state.

The stock was paying a small dividend of 1.2%. I liked the increases in revenues I saw in Standard & Poor's that shows the last 10 years of revenues for stock. Another plus was the fact that 44% of the stock is owned by institutions (pension funds, mutual funds etc.). Institutions tend to move together (look at the stock market crash of October 1987.) They all sell or buy about the same time based on short-term reason; drop in the last quarter earnings, price of gas goes up, trade deficit, interest rates go higher. These big price swings caused by institutions will help give us the big 52–week high and low differences we want. I bought Alaska Airlines in August 1986. At the time the high for the prior year had been $26.12 and the low was $14.25. Alaska Airlines was then selling at $16 a share.

It's very different actually putting your money where your mouth is. I went with a fairly conservative first stock because I didn't want to get burned right out of the gate. Nothing wrong with that. Alaska Airlines was also more per-share than I would have liked. I felt it was a good stock, with a good future and have no regrets. I made money on the first year and feel that would continue to pay off - (update – it has!)

Also, in August 1986 I bought Compaq Computer. I was already familiar with Compaq. Right after I had finished my original research on stocks up but before I learned about the system, and was itching to buy, I came into some money (won $750 at a craps table in Atlantic City).

I came back to Frederick, Maryland and looked for a stock to buy. I chose Compaq for several reasons. First I thought computers were going to be a tremendous growth industry. But IBM, the leader didn't appeal to me. The stock was priced too high and didn't have the high/low yearly swings I like. I felt much better taking a chance on a new company in a growing field and felt I could make more money before everybody discovered Compaq. Wouldn't you like to buy McDonald's when there were only a few stores out there?

I went to the local broker. I picked a Merrill Lynch office I found in Frederick. They get excited when you walk in off the street to open an account. So I opened my account and bought 100 shares of Compaq at $6.75 a share. At this time I knew nothing about the AIM system but another book I had read, T*he Hidden Stock Market, How to Pick $5 Dollar Stocks that Can Double in 6 –12 Months*, made an impression on me.

I was buying a stock I felt would double in 6 – 12 months. Well I bought this stock in August 1984 and naturally started to follow it closely. By October or so, the stock had sunk to $3 dollars a share. I had no money, naturally, and I just knew the stock would zoom upward. Within a couple of months, the stock was up to $10 a share. I knew then I wanted a way to profit from stock fluctuations. When he finally found one, I remembered good old Compaq.

By the time I got around to the system in August 1986, Compaq, bigger and better than ever was now listed on the New York Stock Exchange (used to be a NASDAQ stock). I read some very positive things on Compaq in *Barron's* and found many things to like about the company. The young dynamic management, the quality of their computers, and the tremendous acceptance of their products impressed me. A quick glance at just one financial statistic will prove that just look at the revenue since complex birth:

1982	Not measureable (birth)
1983	$111 million
1984	$329 million
1985	$504 million

1986	$625 million

Also impressive was the fact that management held 10% of the stock. Also, Compaq had good high low differences:

	1986	1985	1984	1983	1982
High	$21.62	$14.25	$14.62	$12.37	NA
Low	$11.62	$6.12	$3.50	$10.87	

As you read from 1987 when I owned the stock, it did even better. Believe me once you start learning about investing, good stocks will appear to you also. The best thing to do is read investment publications such as M*oney Magazine* and *Barron's* and others that give out investment information (of course I wrote this before I ever started my monthly newsletter which again should be one of your favorite spots to find good stocks for the AIM system.) If you see a stock that looks appealing, get the Standard & Poor's Report and start checking it out.

That's what I did when I bought Claire's Stores. Here's just how simple my selection was. I was reading the August 3, 1987 issue of *Barron's* and came across a typical type of article that *Barron's* has frequently, an interview with a stock analyst to talk about several stocks he liked. This article was titled *Cherry Picking in Florida,* in which Richard Lilly trains his sights on companies in the Sunshine State.

Mr. Lilly mentioned several Florida companies he liked. His quotation on Claire's Stores was, "back on track is one of the highest profit margin and fastest-growing specialty retailers. 70% + gross margins". Well, that got my attention. Mr. Lilly also said he had been a long-term bull on Claire's which operates boutiques selling costume jewelry, handbags, and other items. He said he recommended it when it was selling around $2 a share in the early 80s and it climbed to $20 a share in 1985. Then it sank again as low as $6.25 and currently (August 1987) was selling at $9.50 – $10 a share.

Mr. Lilly felt most of Claire's problems were behind them, that the number of stores was growing, an upscale subsidiary was off to a good start, and that management was getting better. He felt Claire's best days were ahead. Well I filed this information away, literally. Anytime you see an article like this in *Barron's*, you should clip them out and save them for future reference. Well I finally had enough money to buy another stock in December 1987 and I thought of Claire's Stores. I already owned three stocks

– Alaska Airlines, Compaq Computer, and Golden Nugget (next).

All three of these I regarded as conservative as all three were over $10 share when I first bought them. This time I truly wanted an under $5 stock. I wanted to own at least 100 shares of something. Moreover, I felt that percentagewise, a low stock under $5 has the best chance for large profits.

So I did exactly what I told you to do – I checked out Claire's Stores in the Standard & Poor's Report. I was excited to check it out because I had already looked up Claire's Stores in the newspaper. Thanks largely to the great October 1987 crash, Claire's was selling near its 52-week low. A check of *Barron's* in early December 1987 showed Claire's Stores was selling at $3.50 a share, the 52-week low was $3 and the 52-week high was $13 – just the high/low ratio range I like. A review of the Standard & Poor's showed additional things to like.

	1986	1985	1984
High	$11.62	$19.75	$9.12
Low	$6.25	$8 50	$2 50

Claire's showed good high/low ranges for the last several years. This isn't mandatory but I regard it as a good sign. See the summary sheet of Claire's Stores in the Adobe Acrobat version of the free book you will be receiving

Also I liked what I read about the company; the number of stores had grown from 155 in 1981 to 439 stores in 1987. Revenues had grown from $36 million to $74.5 million in 1986. Also, Claire's had no long-term debt and expected to finance store growth from internally generated funds. Also one family controls 26% of the stock and institutions hold about 25%. Net income had doubled in the past couple of years. All this was enough to get me to take a chance. Claire's paid a very small dividend, not enough to matter. I like the price range I found. I felt much of the reason for the low price was outside factors like the stock market crash or general dislike for retail stocks. All this will let us buy low and sell high.

In September 1987 I bought Golden Nugget stock. I lived in Las Vegas for four years and visited it many other times. Millions of other people like to gamble and I feel the gaming industry will always do well. People love to gamble and there aren't that many convenient places (written years ago, that's changing) they can gamble. The management of the Golden Nugget and the hotel/casino itself impresses me. It is one of the finest places you'll ever see.

What got me excited to buy Golden Nugget was the fact that they were building a brand new casino with over 3,000 rooms next to Caesar's Palace. Their current revenues showed a drop because they sold their Atlantic City operations. The new hotel/casino will open sometime in 1991. So I "gambling" on the success of the new hotel/casino. I think it's a good bet. The stock shows good but not great high/low swings:

	1986	1985	1984
High	16.87	13.50	15.37
Low	9.12	9.25	8.12

I just felt comfortable with this stock and know that I can visit my investment and stay in my investment anytime I'm in Las Vegas. It's my faith in Steven Wynn and the rest of management that caused me to buy the stock. I have great faith that the new hotel/casino will be very successful. I'm willing to bet on the future of the Golden Nugget.

You should always buy stocks that you ultimately feel will be successful. They will always have ups and downs (very profitable ups and downs) but you want them to be rising to higher plateaus of highs and lows. Look at Alaska Airlines - how it shows this - in 1980 the high was 5 and the low was 3; in 1982 the high was 14.37 and the low was 4.62; in 1984 the high was 17.25 and the low was 9.25, and in 1986 the high was 22.75 and the low 14.25. No stock will ever be perfect but look for steady upward progress. It's easy to tell by checking the Standard & Poor's Stock Reports; which shows the high and low prices for the last ten years if the company has been traded that long.

I've given you a chance to crawl around in my brain for the stocks I have bought. I found many others that I like but don't have the money yet to buy. If you like and buy my book, then I will be buying a lot more. I'm now going to give you some other stocks I like (circa 1987 or so) and a brief explanation of why I like them. These stocks may no longer be good buys at the time you read this years later. However, the principles and reasons for liking the stock are timeless and there will always be current stocks to like for the same type of reasons.

Born to be Wild? I like Harley-Davidson. They make the unique American product, Harley-Davidson motorcycles, the only American motorcycle. They just recently bought Holiday Rambler, a manufacturer of recreational and commercial vehicles. Harley just shifted from the American to the New York Exchange. Since the stock started trading, price fluctuations have been good.

Another I like is Advanced Micro Devices (listed as AMD on the New York Stock Exchange). Again with all stocks, the basics apply, - good high/low fluctuations, low per share price, and continued good prospects. Also you're always much better off buying the stock at or near its 52-week low. This is extremely easy to tell by checking the stock in the stock tables of any good financial newspaper.

If you love investing get a good daily financial newspaper like the *Wall Street Journal* or *Daily Investor*. But you don't need to. If you are only going to buy one financial newspaper, I recommend *Barron's*. It has taught me a tremendous amount about stocks and investing. Besides, I find it highly entertaining, honest, funny, informative and very concerned about the small investor. If you get a subscription, you'll still need to buy a daily paper the beginning of the month to find out the current prices so you can do the system.

Meanwhile back at Advanced Micro Devices. I saw AMD recommended by one brokerage house in *Barron's*. I found AMD was selling was selling near the year’s low (high was 33.50, the low was 12.87). Standard & Poor's had some good comments and predicted a strong rebound and expected earnings increases in 1988. Also felt long term prospects were good based on aggressive research and increased emphasis of proprietary (moneymaker) items. Sounds good to me.

Remember Adobe, the common stock? They got a good review from an oil analyst. I feel oil stocks are a good play in any balanced portfolio. Adobe is low priced (high was 12.62 and the low was 5.25) in 1986. Adobe and the other oil stocks are still depressed and you can get them at a bargain at this time. I'm sure they'll be at bargain prices occasionally in the future too.

I like various other stocks on the three exchanges. And remember I said I like them, I didn't say I'd buy all of them. Look at a stock’s current high, low, and actual price when you want to buy. You can gather from most of the graphs and charts in this book that I included stocks I like. A couple of bad ones were included as examples and aren't recommended. I have many others that have piqued my interest but I haven't had the time to make any detailed study on. One area I find especially interesting but haven't had the time to explore is closed-end mutual funds. Check out *Barron's* and you'll find Morningstar offers a closed-end mutual fund guide.

Remember that buying stocks is a lot like fishing, I can tell you where the big ones are but it's up to you to pick the right time, rod, bait, and method. I'm your guide. Besides the satisfaction and self-esteem will come from patting yourself on the back for doing it yourself. The money made will be nice but you'll have a bigger smile of satisfaction from doing something to benefit yourself, your family and ultimately America itself.

In the last few years I've picked up more ideas on how to pick the best stocks. Again I recommend Bill Mathews' book, *Winning Big with Bargain Stocks. H*e offers many excellent tips on picking the best stocks.

Here is another factor worth looking at. It's the P/E ratio or price earnings ratio. Price earnings ratio is the previous closing price of the stock divided by the latest 12 months per share earnings. Companies only have P/E ratios if they are profitable. Check the stock tables in the paper and the P/E ratio is listed for profitable companies. A good basic rule is if the P/E is under 10, the stock is a good buy possibility.

If you look at the bottom of the Standard & Poor's 2-page reports, you'll see the P/E listed below the high/low yearly prices. However just because there isn't any P/E doesn't mean we aren't going to buy. One reason a good company might have low stock prices is that they lost money the previous quarter or year. If you see reasons why the company can reverse that and make a profit the following year, the stock is a good buy.

I also want to talk a little about stocks in bankruptcy and other low priced (under $2) stocks. These stocks are the riskiest and the most profitable of any in the system. All stocks in bankruptcy (Chapter 11, under court protection and given time to reorganize) are identified by "VJ" in front of the name "VJCirclek" for example. These stocks should be considered by investors willing to handle more risk. Same basic rules apply - at or near year's low, prospects for company turning things around in following year. Mr. Mathew's book explains these types of stocks very well. With stocks this cheap, you don't need to put up $1,500 per stock. $750, $500 stock, $250 cash would be fine.

Later I explain that you should diversify and have 10 stocks in the system. I strongly think 2 or 3 of these risky stocks belong with 7 or 8 more conservative stocks. I want you to study the monthly price changes and you'll see that in some months prices double or triple. Great volatility. Of course timing is everything. You don't want to buy one of these just before bankruptcy or it could get expensive. Wait till the stock hits a low in bankruptcy. For example look at **VJLOMASFNL.** (Chart at end of chapter). If you had timed it right and bought in Jan 91 at $.28, in four months the stock was $1.12, not bad. Or look at **VJCIRCLEK,** you could have bought at $.37 a share in Jan 91 and it was $1.25 a share two months later.

Here are a few good tips for buying Chapter 11 bankruptcy stocks:

1 - Look in *Barron's* for articles on the company - find a reason you think the company will continue,

2 - Monitor closely & get ready to sell all shares if total liquidation of the company seems imminent (for example Pan Am was in bankruptcy a long time & then liquidated. *Barron's* alerted investors that the company was doomed if financing wasn't found and you had a chance to get out.)

3 - Look for bankrupt companies with large sales and a well-known name. Look for increasing sales and reasons to like the company, like they're selling an unprofitable division, cutting costs. A reverse stock split is usually a bad sign - if you see a 1 - 4 reverse split about to happen, probably time to get out.

Look at the attached page at the end of this Chapter of low priced and bankrupt stocks and you'll see that great profit possibilities exist. Read Mr. Mathews book, he has good advice on bankrupt stocks.

NEW YORK STOCK EXCHANGE

JAN 1991 - DEC 1991

LOW MONTHLY PRICE

VOLUME 100,000 SHARES A WEEK

STOCK NAME	High Price	Low Price	Jan 1991 Price	Feb 1991 Price	Mar 1991 Price	Apr 1991 Price	May 1991 Price	Jun 1991 Price	Jul 1991 Price	Aug 1991 Price	Sep 1991 Price	Oct 1991 Price	Non 1991 Price	Dec 1991 Price
Am Int	5.75	1.62	1.25	1.37	1.62	1.62	1.50	1.50	1.50	1.75	1.75	1.25	.87	1.62
Ambase	16.25	.50	.31	.37	.75	1.00	.81	.94	.62	.50	.41	.47	.41	.41
VJJames Eptstr	19.30	1.25	.62	1.50	1.75	1.75	1.87	1.75	2.25	2.00	1.62	1.25	1.00	1.12
Benguet	2.62	1.00	.81	.81	1.12	1.25	1.12	1.12	.94	.94	.94	.87	.87	.87
CF Incoptrn	7.87	2.50	.87	1.25	1.12	1.50	2.12	1.87	1.62	1.25	1.00	1.00	.69	.62
Calfed	28.12	7.75	4.37	4.25	7.37	7.37	6.25	5.50	5.87	4.62	4.62	4.37	3.25	1.87
Calton	2.12	.31	.28	.44	.75	1.12	.81	.69	.50	.50	.50	.41	.37	.25
Campbl Res	1.12	.50	.34	.51	.34	.31	.28	.34	.44	.44	.41	.37	.37	.50
Career	10.75	1.75	1.62	2.00	1.75	1.00	.75	.56	.37	.25	.62	.44	.31	.28

Com														
Chembnk	4.25	1.37	1.00	1.12	1.50	1.62	1.62	1.62	1.50	1.75	1.75	1.62	.94	.87
VJCircleK	10.75	.62	.37	.62	1.25	1.12	1.12	1.00	.94	.69	.81	1.12	.94	.62

Chapter 9

Conservative Strategy

Different strokes for different folks. Some of you will only feel comfortable with conservative blue-chip type stocks. Nothing wrong with that. I'll show you that the system works fine with blue chips. I took a group of blue chippers and will show you an excellent return for your money. I took six Baby Bells – Ameritech, US West, Bell South, Southwest Bell, Pacific Telesis, plus National Semiconductor, Ford, General Motors, and Chrysler.

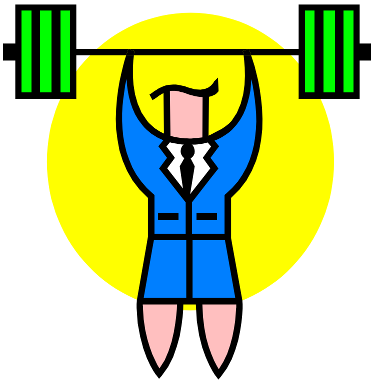
I originally charted these 10 stocks for three years ending in September 1987. Over Christmas 1993, I got curious how these trended since 1987. So I charted them through the end of 1993. I've left the spreadsheets for the first three years in the book but didn't want to waste the paper including the other six years. I will update the gain chart so you can see how you did for nine years owning the SAME 10 stocks. I ignored commissions and dividends (should about cancel each other out) and rounded off buys and sells to the nearest whole share.

Here are the results: you started with $100,000 ($10,000 per stock). Remember you can start with $1,500 per stock if that is what you can afford. At the end of the first year, your initial $100,000 had grown to $111,752 for an annual return of 11.7%. By the end of the second year, your original $100,000 had grown to $141,864 for a two-year return of 41.8%. You finished at the end of the third year with $158,998 for a 58.9% return for three years. That strikes me as a really good return on a conservative investment. Remember you still have better prospects ahead. I won’t keep you in suspense any longer – at the end of nine years your $100,000 has grown to $377,270 for a compounded annual gain average of 16%. The only negative found was that total cash went negative for a 3 month period as a couple of your stocks had very large buys. Cash still only needed alone of $5,500 in the seventh year when your portfolio was worth over $223,000. See chapter  11 for more information on cash.

You would still have good prospects ahead with the stocks (I would really dump General Motors and find another like Intel or Microsoft). These are the perfect type stocks for the investor who wants good profits and doesn't like picking stocks.

You can always make good money playing conservative stocks. In the following pages in your free Adobe Acrobat book I'll show you year by year profits for all nine years for the 10 stocks and the system spreadsheets for the first three years. You'll see I adjusted the cash/stock ratio once a year and used any extra cash about 1/3 of the portfolio total to buy extra shares.

At the end of the chapter I have only shown one spreadsheet to save space for the conservative stocks – the one shown is for Ameritech for the first three years. If you would like to see the remaining spreadsheets for the conservative strategy, please go to my website http://www.jjjinvesting.com and click on **Book by Chapters** and go to Chapter 9.



CONSERVATIVE STARTEGY

STOCK	% GAIN 1 YEAR	PORT. VALUE		% GAIN 2 YEARS	PORT. VALUE		% GAIN 3 YEARS	PORT. VALUE
Ameritech	12%	11,901		64%	16,429		58%	15,831
US West	12%	11,944		58%	15,834		52%	15,178
Bell South	12%	12,107		69%	16,944		53%	15,270
SW Bell	12%	11,970		53%	15,304		54%	15,382
Pac Telesis	11%	11,191		55%	15,498		58%	15,829
Chrysler	12%	11,835		31%	13,145		89%	18,916
Nat'l Semi	- 2%	9.843		- 9%	9,131		42%	14,189
NYMEX	12%	11,506		62%	16,195		72%	17,227
Ford	0%	10,000		32%	13,194		93%	19,254
GM	6%	9,459		- 1%	9,938		18%	11,671
Total	12%	111,752		42%	141,612		59%	158,747

CONSERVATIVE STRATEGY

STOCK	% GAIN 4TH YEAR	PORT. VALUE		% GAIN 5TH YEAR	PORT. VALUE		% GAIN 6TH YEAR	PORT. VALUE
Ameritech	62%	16,166		104%	20,367		83%	18,269
US West	57%	15,657		92%	19,160		87%	18,660
Bell South	59%	15,873		91%	19,143		90%	19,034
SW Bell	625	16,244		103%	20,274		90%	18,966
Pac Telesis	65%	16,479		129%	22,912		103%	20,299
Chrysler	52%	15,203		78%	17,752		127%	22,656
Nat'l Semi	54%	15,381		84%	18,418		113%	21,329
NYMEX	69%	16,681		100%	19,996		87%	18,696
Ford	103%	20,297		116%	21,591		65%	16,472
GM	14%	11,421		46%	14,643		25%	12,489
Totals	60%	159,602		94%	194,256		87%	186,870

CONSERVATIVE STRATEGY

STOCK	% GAIN 7TH YEAR	PORT. VALUE		% GAIN 8TH YEAR	PORT. VALUE		% GAIN 9TH YEAR	PORT. VALUE
Ameritech	105%	20,475		124%	22,405		166%	26,584
US West	102%	20,156		116%	21,575		148%	24,782
Bell South	91%	19,116		108%	20,764		129%	22,803
SW Bell	112%	21,210		148%	24,793		204%	30,402
Pac Telesis	128%	22,757		137%	23,697		181%	28,121
Chrysler	210%	30,957		394%	49,401		695%	79,503
Nat'l Semi	242%	34,155		543%	64,343		819%	91,934
NTNEX	103%	20,334		123%	22,303		142%	24,184
Ford	113%	21,301		175%	27,464		226%	37,573
GM	30%	12,951		24%	12,487		63%	16,324
Totals	123%	223,412		189%	289,232		277%	377,279

DATE	REMARKS Ameritech	SHARE PRICE	SHARE VALUE	SAFE	CASH	SHARES BOUGHT (SOLD)	SHARES OWNED	PORT CONTROL	BUY (SELL) ADVICE	MKT ORD (SELL) BUY	6 % INT	COMM AMT	PORTFOLIO VALUE
10/84		74.25	6666	666	3334	-	90	6666	-	-	-		10,000
11/84		74.25	6666	666	3351	-	90	6666	0	0	17		10,017
12/84		-	-	-	-	-	-	-	-	-	17		-
1/85		75.12	6761	676	3385	-	90	6666	(95)	0	17		10.146
2/85		78.82	7099	709	3402	-	90	6666	(433)	0	17		10,501
3/85		81.75	7358	735	3419	-	90	6666	(692)	0	17		10,777
5/85		-	-	-	-	-	-	-	-	-	34		-
6/85		90.62	8156	815	3470	(7)	90	6666	(1490)	(675)	17		11,626
7/85		94.87	7875	787	4165	(4)	83	6666	(1209)	(422)	20		12,040
8/85		89.75	7090	709	4610	-	79	6666	(424)	0	23		11,700
9/85		92.00	7268	726	4633	-	79	6666	(602)	0	23		11,901
10/85	Adj s/c	88.37	7689	768	3947	+ 8 sh	87	7372	(317)	0	20		11,636
11/85		94.62	8232	823	3967	-	87	7372	(860)	ign (37)	20		12,199
12/85		99.12	8624	862	3987	(4)	87	7372	(1252)	(390)	20		12,611
1/86		105.50	8757	875	4399	(5)	83	7372	(1385)	(510)	22		13,156
2/86		110.00	8580	858	4933	(3)	78	7372	(1208)	(350)	24		13,513
3/86		112.75	8456	845	5309	(2)	75	7372	(1084)	(239)	26		13,765
4/86		112.25	8194	819	5576	-	73	7372	(822)	ign (3)	28		13,770
5/86		118.37	8641	864	5604	(3)	73	7372	(1269)	(405)	28		14,245
6/86		126.12	8829	882	6039	(5)	70	7372	(1457)	(575)	30		14,868
7/86		137.37	8929	892	6647	(5)	65	7372	(1557)	(6650	33		15,576
8/86		136.62	8198	819	7348	-	60	7372	(826)	ign (7)	36		15,546

9/86		150.75	9045	904	7384	(5)	60	7372	(1673)	(769)	36		16,429

DATE	REMARKS Ameritech	SHARE PRICE	SHARE VALUE	SAFE	CASH	SHARES BOUGHT (SOLD)	SHARES OWNED	PORT CONTROL	BUY (SELL) ADVICE	MKT ORD (SELL) BUY	6 % INT	COMM AMT	PORTFOLIO VALUE
10/86	Adj s/c	133.37	9736	973	5449	+ 18 sh	73	10103	367	0	27		15,185
11/86		131.50	9600	960	5476	-	73	10103	503	0	27		15,076
12/86		131.37	9590	959	5503	-	73	10103	513	0	27		15,093
1/87		134.87	9846	984	5530	-	73	10103	257	0	27		15,376
2/87	3 for 2 spl	95.90	10505	1050	5557	-	110	10103	(402)	0	27		16,062
3/87		89.87	9886	988	5584	-	110	10103	217	0	27		15,470
4/87		89.87	9886	988	5612	-	110	10103	217	0	28		15,498
5/87		84.50	9295	929	5640	-	110	10103	808	0	28		14,935
6/87		83.75	9213	921	5668	-	110	10103	890	0	28		14,881
7/87		87.12	9584	958	5696	-	110	10103	519	0	28		15,280
8/87		87.50	9625	962	5724	-	110	10103	478	0	28		15,349
9/87		91.62	10079	1007	5752	-	110	10103	24	0	28		15,831

Chapter 10

Semi – Aggressive Investing

I'm especially happy with this chapter because these are the type of stocks I pick for myself. Alaska Airlines, Compaq, and Golden Nugget are three stocks I've owned. These types of stocks are little bit from the wrong side of the tracks to blue-chip bluebloods. As such the investing world deems them riskier and thus to my mind increases my profits. As such can see by comparing your yearly profits under semi – aggressive to conservative stocks, your profits were over twice as high – 139% versus 59%. By taking a slightly bigger risk, you will be greatly rewarded.

This illustrates the system at its best – big profits from dynamic young growing companies. Again study the charts. For the stocks that started later than October 1984, I just used the profits as of September or October 1985 when the other stocks had completed a full year.

Don't let the $10,000 per stock discourage you; you could have turned $15,000 ($1,500 per stock) into $38,850. Always do the best you can with what you got. Not only will the money come in handy someday, but the self-respect and pride in yourself coming from doing something for yourself will yield an inestimable, immeasurable boost to your self-confidence and your life. Remember every day in every way you're getting better and now richer. You made 132% in three years, more than doubling your money. This illustrates the system at its best. It will do the same for you.

Also you'll notice I do something very different with the 10 stocks here and the 10 in the conservative strategy. I re-adjusted the stock/cash balance back to the 2/3 stock, 1/3 ratio. I did not do this in chapter 2 as I was trying to keep learning the system easy.

I took the excess cash over 1/3 and bought more stock. Again I haven't used the system to the max. I took the money out once a year and bought the same stock regardless of price. I ignored with the stock was at or near its year's low. When you do this for real, here are the best ways to maximize profits:

1 - Look more often for excess cash.

2 - Either buy one of your existing stocks that is at or near its year's low or buy a new stock that is at or near its year's low. Here's an explanation to show you what I did. Look at Alaska Airlines. I readjusted cash and stock in November 1985 (11/85). Here's what I did:

I looked at 10/85 and found the following:

SHARE VALUE	CASH	PORTFOLIO VALUE
$6, 306	$8, 918	$15, 224

I multiplied $15, 224 X .33 = $5,024. Thus $5,024 is 1/3 of my PORTFOLIO VALUE. So I subtracted the cash balance:

$8,918
- $5,024
= $3,894 of excess cash

I took the $3,894 of excess cash and bought an additional 193 shares of stock - $3,894 divided by $20.12 = 193 shares. Then I put "+ 193 shares" in the shares bought column in November 1985 (295 + 193 = 488 shares owned). Also, I added 3,894 to PORTFOLIO CONTROL. Remember when you first buy stock or buy additional shares with excess CASH, you increase PORTFOLIO CONTROL by 100% of the amount bought. Again it's simple and will become second nature with a little practice. I omitted the rest of the spreadsheets from Chapter 10. If you would like to see all the spreadsheets, please go to: http://www.jjjinvesting.com, then click on **Book by Chapters, Chapter 10.**

The three spreadsheets used in Chapter 10 will be found in your free Adobe Acrobat version.

SHARE VALUE	CASH	PORTFOLIO VALUE
$6, 306	$8, 918	$15, 224

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The three spreadsheets used in Chapter 10 will be found in your free Adobe Acrobat version.

STOCK/FUND	% GAIN 1 YEAR	PORT. VALUE		% GAIN 2 YEARS	PORT. VALUE		% GAIN 3 YEARS	PORT. VALUE
ALASKA AIRLINES	55%	15524		37%	13654		77%	17,719
GRACO	11%	11372		72%	17247		116%	21,629
COMPAQ COMPUTERS	64%	16403		141%	24105		425%	52,529
HOVNANIAN ENTERPRISES	22%	12224		107%	20682		170%	27,008
SUPERIOR INDUSTRIES	19%	11901		51%	15129		70%	17,001
CONTINENTAL INFO SYS	14%	11367		68%	16838		91%	19,615
J P INDUSTRIES	12%	11244		55%	15467		97%	19,699
BUSH INDUSTRIES	-21%	7919		32%	13408		134%	23,093
GOLDEN NUGGET	15%	11483		34%	13350		57%	15,738
PROSPECTOR	-2%	9838		0%	10037		74%	17,382

TOTALS	19%	119275		58%	159917		129%	231,413

DATE	REMARKS Bush	SHARE PRICE	SHARE VALUE	SAFE	CASH	SHARES BOUGHT (SOLD)	SHARES OWNED	PORT CONTROL	BUY (SELL) ADVICE	MKT ORD (SELL) BUY	6 % INT	COMM AMT	PORTFOLIO VALUE
6/85		9.50	6666	666	3334	-	702	6666	-	-	-		10,000
7/85		9.62	6757	675	3351	-	702	6666	(91)	0	17		10,108
8/85		8.37	5879	587	3368	24	702	6666	787	200	17		9,247
9/85		8.37	6080	608	3184	-	726	6666	686	ign 78	16		9,264
10/85		6.50	4719	471	3200	242	726	6766	2047	1576	16		7,919
11/85		7.37	7139	713	1632	-	968	7554	415	0	8		8,771
12/85		8.12	7865	786	1640	-	968	7554	(311)	0	8		9,505
1/86		7.50	7260	726	1648	-	968	7554	294	0	8		8,908
2/86		7.62	7381	738	1656	-	968	7554	173	0	8		9,037
3/86		8.25	7986	798	1664	-	968	7554	(432)	0	8		9,650
4/86		10.25	10406	1040	1672	(169)	968	7554	(2852)	(1812)	8		12,078
5/86		16.62	13283	1328	3501	(265)	799	7554	(5729)	(4401)	17		16,784
6/86	Adj s/c	20.25	10814	1081	7942	+ 139/(119)	673	9832	(3766)	(2404)	28		19,250
7/86		20.87	11565	1156	5650	(26)	554	9862	(1703)	(547)	28		17,215
8/86		16.25	8580	858	5678	26	528	9862	1282	424	28		14,258
9/86		17.00	9418	941	5280	-	554	10074	656	0	26		14,698
10/86		14.62	8102	810	5306	79	554	10074	1972	1162	26		13,408
11/86		16.00	10128	1012	4123	-	633	10655	527	0	21		14,251
12/86		14.75	9337	933	4144	26	633	10655	1318	385	21		13,481
1/87		17.37	11450	1145	3778	-	659	10848	(602)	0	19		15,228
2/87		23.62	15569	1556	3797	(134)	659	10848	(4721)	(3165)	19		19,366
3/87		17.25	9056	905	6997	51	525	10848	1792	887	35		16,053

4/87		29.50	16992	1699	6141	(136)	576	11292	(5700)	(4001)	31		23,133
5/87		28.75	12650	1265	10193	-	440	11292	(1358)	ign (93)	51		22,843

DATE	REMARKS Bush Ind	SHARE PRICE	SHARE VALUE	SAFE	CASH	SHARES BOUGHT (SOLD)	SHARES OWNED	PORT CONTROL	BUY (SELL) ADVICE	MKT ORD (SELL) BUY	6 % INT	COMM AMT	PORTFOLIO VALUE
6/97	Adj s/c	29.12	15436	1543	7645	+ 90 sh	530	13878	(1558)	ign (15)	38		23,081
7/97		28.25	14973	1497	7683	-	530	13878	(1095)	0	38		22,656
8/97		30.12	15966	1596	8822	(16)	530	13878	(2088)	(492)	44		24,788
9/97		26.87	13814	1381	9361	-	514	13878	64	0	47		23,175
10/97		26.62	13685	1368	9408	-	514	13878	193	0	47		23,093

Chapter 11

Cash Combined in One Account

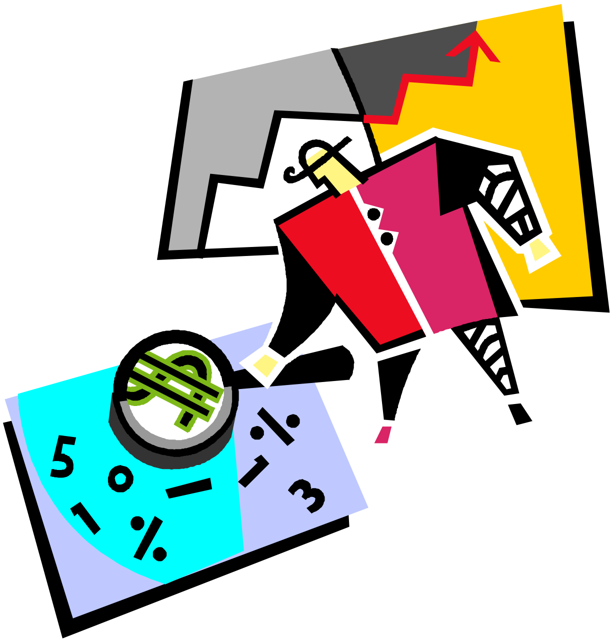
When you open your stockbroker account, you'll probably start with more than one stock and hopefully 10 stocks – the ideal number. When you start the AIM system, you'll have a separate spreadsheet for each stock and a separate cash account for each stock on the spreadsheet.

However, you really have **ONE Money Market Account** with one balance. You started with 10 stocks and $15,000; then you would have one money market account with your broker with a balance of $5,000 assuming all 10 investments use the ratio of 2/3 stocks and 1/3 cash ratio.

Now look at the spreadsheet showing the 10 cash balances in the cash total in Chapter 11 of your free Adobe Acrobat book. Now you see what I was talking about in Chapter 2, when you had to "borrow" money to buy more Adobe. You will really be borrowing from the other stocks in your money market account.

I recommend you set up a summary cash sheet like this for yourself. You could also put in a column showing PORTFOLIO VALUE. Then you could quickly decide when you're cash balance exceeds 33% and use the extra money to buy additional stock.

The cash balances will not be the same as the cash figures in the Chapter 15 spreadsheets. The balances shown here reflect the net cash amount remaining. For example, if the cash balance on the spreadsheet was $5,000 but the stock "borrowed" $4,000 than the cash summary which show $1,000. If the stock didn't borrow cash then the numbers of the same. Here I'm trying to show the actual cash remaining in your money market account with your broker.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CASH COMBINED IN ONE ACCOUNT

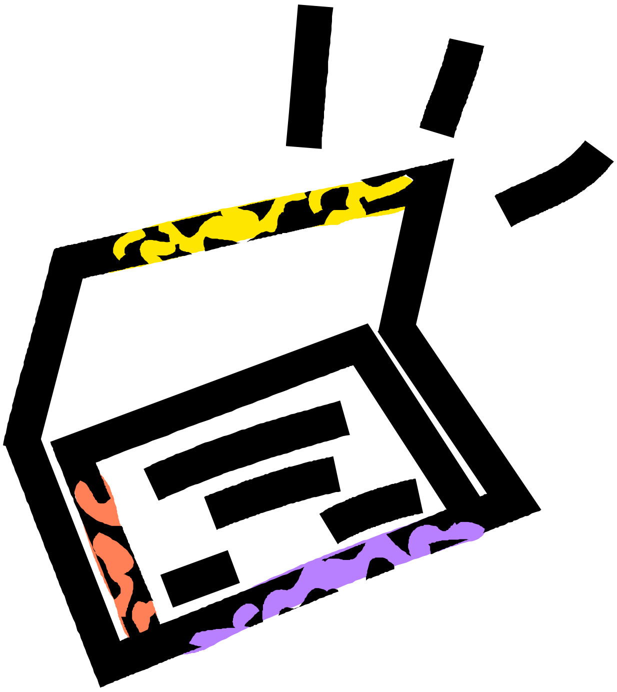
DATE	ALASKA AIR	GRACO	COMPAQ	HOVNAN ENT	SUPERIOR IND	CONT INFO	J P IND	BUSH IND	GOLDEN NUGGET	PROS PECT	TOTAL CASH
10/84											
11/84	3454	3351	3454	3351					3351	3351	23,661
12/84	3351		3351								6,702
1/85	3368	3385	3509	3560	3385				3385	3385	24,076
2/85	4101	2336	5199	3587	3400				3400	2307	21,427
3/85	5650	2348	6878	5521	3082	3454			4507	2409	31,812
4/85	6415	2360	8615	5780	1121	3351			4976	2421	38,030
5/85											
6/85	6582	2384	8701	5838	1163	3001	3454	3454	4844	2445	41,866
7/85	8238	2306	8745	5867	6300	4179	3351	3351	5013	2157	49,966
8/85	8270	2408	8789	5806	6199	4200	3368	3368	5038	2460	50,314
9/85	8669	2420	9735	5925	6531	4221	3385	3160	5063	2481	51,500
10/85	8712	2814	10004	4171	1020	4242	3994	3176	3778	2193	47,107
11/85	5031	2828	4705	4140	2884	4263	4014	1555	3797	2505	35,722
12/85	5056	4262	4729	1161	2808	4983	4703	1563	3816	2517	38,688
1/86	4570	4283	6191	4183	2912	6207	5105	1571	3835	2529	41,574
2/86	2658	5417	7716	4203	2926	6671	6472	1579	3854	2541	41,037
3/86	2671	5144	7754	5983	3164	4410	6946	1587	4938	2553	45,449
4/86	2684	8160	9249	9435	3878	5700	7504	1595	5636	2566	56,397
5/86	2697	8638	9295	9483	4437	5728	8174	3368	5664	2570	60,062

6/86	2710	8691	10559	9529	1725	6765	5119	5522	6278	2460	62,348
7/86	2723	9001	10881	10599	5586	6799	5203	7835	6537	2472	67,726
8/86	1845	9046	10925	10652	5614	4233	6011	8392	6570	2484	65,772
9/86	1490	8107	9244	10705	5643	1247	5394	7968	4536	2496	56,839

CASH COMBINED IN ONE ACCOUNT

DATE	ALASKA AIRLINE	GRACO	COMPAQ	HOVNAN ENT	SUPERIOR IND	CONT INFO	J P IND	BUSH IND	GOLDEN NUGGET	PROS PECT	TOTAL CASH
10/86	1497	5211	9200	5503	4925	177	5421	8008	4550	2508	45,632
11/86	1504	5199	7528	4219	1249	(1609)	5448	6838	4582	3258	41,126
12/86	1856	5225	7509	4240	1111	(1697)	5425	6872	3978	3314	39,027
1/87	1865	5251	10119	4261	3628	(2652)	5502	6494	3998	3331	42,097
2/87	3294	5277	11010	4282	3437	(3016)	5529	6526	3635	3531	43,505
3/87	4033	6138	13870	4497	3454	(3011)	5556	9643	3653	1489	52,422
4/87	2583	6641	19582	7313	3580	(795)	6160	8768	3671	5250	60,170
5/87	7621	7624	19670	11329	1458	296	7463	12722	3689	7984	75,135
6/87	5440	7662	21837	11570	6004	317	6225	8367	3707	8767	79,896
7/87	4333	7700	27214	11628	6031	339	6206	8409	3568	8811	79,909
8/87	4066	7739	27350	11686	6061	361	6237	8451	3586	8855	81,395
9/87	4086	7778	27487	12370	6094	383	6268	8847	1977	9334	86,621

DATE	REMARKS Ameritech	SHARE PRICE	SHARE VALUE	SAFE	CASH	SHARES BOUGHT (SOLD)	SHARES OWNED	PORT CONTROL	BUY (SELL) ADVICE	MKT ORD (SELL) BUY	6 % INT	COMM AMT	PORTFOLIO VALUE
10/86	Adj s/c	133.37	9736	973	5449	+ 18 sh	73	10103	367	0	27		15,185
11/86		131.50	9600	960	5476	-	73	10103	503	0	27		15,076
12/86		131.37	9590	959	5503	-	73	10103	513	0	27		15,093
1/87		134.87	9846	984	5530	-	73	10103	257	0	27		15,376
2/87	3 for 2 spl	95.90	10505	1050	5557	-	110	10103	(402)	0	27		16,062
3/87		89.87	9886	988	5584	-	110	10103	217	0	27		15,470
4/87		89.87	9886	988	5612	-	110	10103	217	0	28		15,498
5/87		84.50	9295	929	5640	-	110	10103	808	0	28		14,935
6/87		83.75	9213	921	5668	-	110	10103	890	0	28		14,881
7/87		87.12	9584	958	5696	-	110	10103	519	0	28		15,280
8/87		87.50	9625	962	5724	-	110	10103	478	0	28		15,349
9/87		91.62	10079	1007	5752	-	110	10103	24	0	28		15,831



DATE	ALASKA AIR	GRACO	COMPAQ	HOVNAN ENT	SUPERIOR IND	CONT INFO	J P IND	BUSH IND	GOLDEN NUGGET	PROS PECT	TOTAL CASH
10/84											
11/84	3454	3351	3454	3351					3351	3351	23,661
12/84	3351		3351								6,702
1/85	3368	3385	3509	3560	3385				3385	3385	24,076
2/85	4101	2336	5199	3587	3400				3400	2307	21,427
3/85	5650	2348	6878	5521	3082	3454			4507	2409	31,812
4/85	6415	2360	8615	5780	1121	3351			4976	2421	38,030
6/85	6582	2384	8701	5838	1163	3001	3454	3454	4844	2445	41,866
7/85	8238	2306	8745	5867	6300	4179	3351	3351	5013	2157	49,966
8/85	8270	2408	8789	5806	6199	4200	3368	3368	5038	2460	50,314
9/85	8669	2420	9735	5925	6531	4221	3385	3160	5063	2481	51,500
10/85	8712	2814	10004	4171	1020	4242	3994	3176	3778	2193	47,107
11/85	5031	2828	4705	4140	2884	4263	4014	1555	3797	2505	35,722
12/85	5056	4262	4729	1161	2808	4983	4703	1563	3816	2517	38,688
1/86	4570	4283	6191	4183	2912	6207	5105	1571	3835	2529	41,574
2/86	2658	5417	7716	4203	2926	6671	6472	1579	3854	2541	41,037
3/86	2671	5144	7754	5983	3164	4410	6946	1587	4938	2553	45,449
4/86	2684	8160	9249	9435	3878	5700	7504	1595	5636	2566	56,397
5/86	2697	8638	9295	9483	4437	5728	8174	3368	5664	2570	60,062
6/86	2710	8691	10559	9529	1725	6765	5119	5522	6278	2460	62,348
7/86	2723	9001	10881	10599	5586	6799	5203	7835	6537	2472	67,726
8/86	1845	9046	10925	10652	5614	4233	6011	8392	6570	2484	65,772
9/86	1490	8107	9244	10705	5643	1247	5394	7968	4536	2496	56,839

CASH COMBINED IN ONE ACCOUNT

DATE	ALASKA AIRLINE	GRACO	COMPAQ	HOVNAN ENT	SUPERIOR IND	CONT INFO	J P IND	BUSH IND	GOLDEN NUGGET	PROS PECT	TOTAL CASH
10/86	1497	5211	9200	5503	4925	177	5421	8008	4550	2508	45,632
11/86	1504	5199	7528	4219	1249	(1609)	5448	6838	4582	3258	41,126
12/86	1856	5225	7509	4240	1111	(1697)	5425	6872	3978	3314	39,027
1/87	1865	5251	10119	4261	3628	(2652)	5502	6494	3998	3331	42,097
2/87	3294	5277	11010	4282	3437	(3016)	5529	6526	3635	3531	43,505
3/87	4033	6138	13870	4497	3454	(3011)	5556	9643	3653	1489	52,422
4/87	2583	6641	19582	7313	3580	(795)	6160	8768	3671	5250	60,170
5/87	7621	7624	19670	11329	1458	296	7463	12722	3689	7984	75,135
6/87	5440	7662	21837	11570	6004	317	6225	8367	3707	8767	79,896
7/87	4333	7700	27214	11628	6031	339	6206	8409	3568	8811	79,909
8/87	4066	7739	27350	11686	6061	361	6237	8451	3586	8855	81,395
9/87	4086	7778	27487	12370	6094	383	6268	8847	1977	9334	86,621

Chapter 12

Why the AIM System Works

A check of the share price of Campbell Resources (spreadsheet next page in your Adobe Acrobat book) shows it has declined from the original price of $6.00 a share to $2.37 a share or a 61% drop. Thus a lump sum investor (all money is in the stock), if he or she had invested the same total amount of money you had (in total $35,000), would've lost 61% and the $35,000 investment would have lost $21,350 and be worth $13,650 in November 1987. Compare that to what your investment is now worth. Your portfolio is worth $48,610; quite good for stock that may be a total disaster. You're ahead $13,610 or 38.8%. How do we do it? What's the trick? Why does the system work?

I was curious myself and so I started investigating. A review of the buy/sell chart at the end of the chapter shows that your average buy price (excluding initial buy) was $1.35. Your average sale price was $1.95. Thus you made $.60 per share profit on every share you sold.

You sold 13,000 X $.60 = $7,856

Some profit comes from interest earned on the cash balance (add column 10) = $1,120. The rest of the profit comes from the increase in value of your remaining shares. I won't give all the details but will show you a couple of examples: you buy 5,771 shares at $.94 each and 5,291 shares at $.87 each. As of September 1987, the share price for Campbell Resources is $2.37. Each of the 5,771 shares is worth $1.43 more than what you paid for it or 5,771 X $1.43 = $8,252 more. Each of the 5,291 shares is worth $1.50 more than you paid for it or 5,291 X $1.50 = $7,937 more. If you check the buy sheet, you'll see other months where you bought stock for less than the current $2.37 share price.

When you see that you can make money on a stock that drops 61% below your original purchase price, you know you have a really amazing system. Of course you had to have a fairly tough attitude to hang in there and put that extra $25,000 into the stock. Think of the profits if Campbell Resources merely goes back to its original selling price. Or if you decide to get out, sellout; you can sell all your shares, take your profit and get into another stock. The choice is yours. See Campbell Resources spreadsheet in your Adobe Acrobat book.

WHY SYSTEM WORKS						
CAMPBELL RESOURCES						
BUY				SELL		
DATE	SHARE PRICE	# OF SHARES	TOTAL SPENT	SHARE PRICE	# OF SHARES	TOTAL REC'D
1/85	4.12	394	1,625			
6/85	3.12	738	2,306			
7/85	3.25	189	613			
9/85	2.87	434	1,238			
10/85	2.12	1348	2,864			
11/85	2.25	251	565			
2/86	2.12	619	1,316			
3/86	1.87	1026	1,924			
4/86	1.25	3977	4,971			
5/86	.94	5774	5,428			
6/86	.87	3779	3,307			
7/86	.87	1512	1,323			
8/86				1.25	2,326	2,908
9/86				1.50	3,019	4,528
12/86	1.12	1180	1,327			

1/87	1.12	472	531			
3/87				1.62	2,287	3,716
4/87				2.62	5,344	14,027
5/87				2.50	118	295
TOTAL		21,693	29,338		13,094	25,474

AVE. BUY PRICE = $1.35 AVE. SELL PRICE = $1.95

DATE	REMARKS Campbell Res	SHARE PRICE	SHARE VALUE	SAFE	CASH	SHARES BOUGHT (SOLD)	SHARES OWNED	PORT CONTROL	BUY (SELL) ADVICE	MKT ORD (SELL) BUY	6 % INT	COMM AMT	PORTFOLIO VALUE
10/84		6.00	6666	666	3334	-	1111	6666	-	-	-		10,000
11/84		5.62	6249	624	3351	-	1111	6666	417	0	17		9,600
12/84		-	-	-	-	-	-	-	-	-	17		-
1/85		4.12	4583	458	3385	394	1111	6666	2083	1625	17		7,968
2/85		5.25	7901	790	1769	-	1505	7479	(422)	0	9		9,670
3/85		4.50	6773	677	1778	-	1505	7479	706	ign 29	9		8,551
4/85		4.75	7149	714	1787	-	1505	7479	330	0	9		8,936
6/85	+ $2,000	3.12	4703	470	3805	738	1505	7479	2776	2306	7		8,796
7/85		3.25	7290	729	1506	189	2243	8632	1342	613	7		8,796
8/85		3.37	8208	820	897	-	2432	8939	731	0	4		9,105
9/85	+ $2,000	2.87	6992	699	2901	434	2432	8939	1947	1248	4		9,893
10/85	+ $2,000	2.12	6090	609	3661	1348	1866	9563	3473	2864	8		9,751
11/85		2.25	9482	948	801	251	4214	10995	1513	565	4		10,283
12/85		2.50	11163	1116	237	-	4465	11752	589	0	1		11,400
1/86		2.37	10604	1060	238	-	4465	11752	1148	ign 88	1		10,842
2/86	+ $2,000	2.12	9488	948	2239	619	4465	11752	2264	1316	1		11,727
3/86	+ $2,000	1.87	9533	953	1026	1026	5084	12410	2877	1924	5		12,461
4/86	+ $5,000	1.25	7638	763	6009	3977	6110	13372	5734	4971	5		13,647
5/86	+ $5,000	.94	13878	1387	6038	5774	10087	15858	6376	5428	5		15,520
6/86	+ $4,000	.87	13878	1387	4613	4613	15861	18572	4694	3307	3		18,491
7/86	+ $1,000	.87	17185	1718	2313	1512	19640	20226	3041	1323	7		19,498
8/86		1.25	26440	2644	995	(2326)	21152	20888	(5552)	(2908)	5		27,435

9/86		1.50	28239	2823	3923	(3019)	18826	20888	(7351)	(4528)	20		32,167

DATE	REMARKS	SHARE PRICE	SHARE VALUE	SAFE	CASH	SHARES BOUGHT (SOLD)	SHARES OWNED	PORT CONTROL	BUY (SELL) ADVICE	MKT ORD (SELL) BUY	6 % INT	COMM AMT	PORTFOLIO VALUE
10/86	Adj s/c	1.25	19759	1975	8493	-	15807	20888	1129	0	42		28,252
11/86		1.37	21735	2173	8535	-	15807	20888	(847)	0	42		30,270
12/86		1.12	17783	1778	8578	1180	15807	20888	3105	1327	43		26,361
1/87		1.12	19110	1911	7287	472	16987	21552	2442	531	36		26,397
2/87		1.37	24006	2400	6790	-	17459	21818	(2188)	0	34		30,796
3/87		1.62	28371	2837	2837	(2287)	17459	21818	(6553)	(3716)	34		35,205
4/87		2.62	39827	3982	10603	(5344)	15172	21818	(18009)	(14027)	53		50,430
5/87		2.25	22113	2211	24753	-	9828	21818	(295)	0	123		46,866
6/87		2.25	22113	2211	24877	-	9828	21818	(295)	0	124		46,990
7/87		2.25	22113	2211	25002	-	9828	21818	(295)	0	125		47,115
8/87		2.50	24570	2457	25127	(118)	9828	21818	(2752)	(295)	125		49,697
9/87		2.37	23061	2306	25549	-	9710	21818	(1243)	0	127		48,610

Chapter 13

Miscellaneous Ways to Check on Stocks

Here's the first in checking on any stock should like. Start saving the first issue each month of *Barron's.* Wow, have times changed since I wrote this in the late 80s. You don't need to do hardly anything with paper anymore. You can easily look up the historical prices for any investment at Yahoo Finance. All you do is type in the symbol for the stock or ETF that you wanna look up. Then you will get the summary page showing the basic information on that stock or ETF. Just look in the left-hand column and you'll see a hot link that says historical prices. Click on that and then you can review any time you want by day, week, or month or just look up dividend payments; it's a really useful tool that I highly recommend.

When you find a stock you like, look it up in Yahoo and look at the closing price for the stock or ETF. I think you can even print it out if you want to. I also offer a monthly newsletter. And all buyers of my e-book will get a free one-year subscription to my monthly newsletter that has price and other important information on stocks I recommend to help you. Then if you want, make a spreadsheet on the stock and charted to see how it would have done under the system for the last 12 months or so. Of course you should pick as your starting month, a month with a price was at or near the 52 week low, this is the cardinal rule for picking stocks in the system. As you get more experience, you'll be able to just glance at monthly prices and see if the stock is the kind of fluctuations that work best. In the example shown, Barron's had an article on oil stocks, so I jotted down all the oil stocks they mentioned and checked back on the prices to find the best ones for the system.

As a personal note, on the other page in this chapter, I jotted down my ideas for this book one night at Camp Humphreys, Korea at a local Korean hotel while on TDY that was near the DMZ; those ideas led to this book. Never ignore an idea. They can lead you to a whole new life.

DATE	NYSE Adobe Res	NYSE Amerda	NYSE Atl Rich	NYSE Dome	NYSE Dia Sham	NYSE Occidental	NYSE Texaco	NYSE Trit Eng	NYSE Imperial	ASE Total Pet
10/84		29.00	52.00	10.12	19.00	30.50	37.62	17.75	33.12	10.12
11/84		25.62	48.25	9.59	18.75	29.50	34.50	16.62	32.12	9.12
12/84		-	-	-	-	-	-	-	-	-
1/85		23.00	42.62	6.62	21.00	25.00	33.62	15.12	32.00	9.00
2/85		25.75	45.25	8.50	18.87	28.25	34.87	14.75	34.12	10.12
3/85		28.75	42.50	7.75	18.87	30.25	35.50	17.62	34.37	10.62
4/85		31.25	48.87	9.50	19.37	29.87	36.12	21.25	38.12	12.00
6/85		29.00	59.00	7.50	16.00	34.00	37.25	22.37	35.75	11.75
7/85		28.37	59.87	7.37	16.75	34.00	37.87	21.75	35.37	12.00
8/85		28.37	58.25	8.62	17.37	33.25	35.50	20.75	36.37	13.50
9/85		22.87	60.37	9.12	16.75	31.37	36.75	24.00	38.25	14.25
10/85		27.87	62.75	9.37	15.87	32.87	36.75	26.37	37.37	14.87
11/85	11.12	29.50	65.12	8.75	15.32	34.50	38.50	31.25	37.25	15.75
12/85	11.87	27.50	62.00	9.50	15.62	36.00	32.50	30.50	39.75	16.25
1/86	12.25	27.50	64.00	9.12	14.25	31.12	31.00	25.62	36.87	15.75
2/86	11.37	24.50	52.62	10.75	13.37	27.62	28.12	21.62	32.25	14.75
3/86	10.12	23.50	52.25	9.75	11.37	26.62	30.12	19.00	31.50	16.62
4/86	8.97	20.00	53.12	7.62	11.62	25.87	29.50	18.12	33.00	14.00
5/86	8.50	21.87	54.62	6.75	12.50	25.87	31.87	19.12	30.37	19.37
6/86	9.00	21.62	55.00	6.25	13.62	28.62	32.87	19.50	30.25	20.37
7/86	8.12	19.50	50.87	5.25	10.75	30.12	31.00	17.62	26.87	20.00
8/86	6.00	17.25	45.75	5.50	10.75	23.00	29.00	14.00	26.75	14.75

9/96	7.00	20.62	57.50	6.87	11.37	29.25	33.62	17.00	31.37	19.00

Chapters for book

Chapter – showing groups of tens

Chapter – warrants

Chapter – my actual purchases

Chapter – why system works – (highlight buy prices and sell prices)

(graph showing percent decline from stock price vs. past value)

Chapter – what types of stocks to buy and not buy for system

Chapter – 10 stock type portfolios – samples, warrants, stock, goal funds etc.

Chapter – on Merrill Lynch Blueprint – get more info, use examples they sent me

Chapter – groups – oils, gambling etc.

Chapter – how to use system (list cash combined in one account, stocks listed separately)

Chapter – aggressive strategy, moderate and conservative

Chapter – philosophy of success (use old book board at Bookman's)

(list of good books – stock and non-stock)

Chapter – how to handle spreadsheets for taxes – FIFO etc.

Chapter – stocks to avoid (warrants) and stocks to pursue

Chapter – how to do it yourself – pick stocks, good ones, bad ones

Chapter – seven rules for investing success (newspaper)

Chapter – experimenting with system

Chapter 14
How to Handle Taxes from Your Profits

The new tax law makes the short-term buying and selling happening under the system, the same tax-wise as long-term trading. No longer is there a tax break on long-term capital gains – this was true when I wrote this in the 80s; you'd have to check on the current status of how short-term capital gains on long-term capital gains are taxed as probably a change again this year as Congress wrestles with the debt problem.

The spreadsheets that you are keeping on all your stocks will also help you to figure your basis (cost of the stock) that you will need to figure out the amount of taxes on your profits. There are several ways to figure basis, all high falooting accounting terms like LIFO and FIFO. LIFO stands for **Last In First Out.** FIFO stands for **First In First Out,** I recommend FIFO. It will work out to be simpler. In the system you are going to be buying $5 shares of stock that will be sold as $10 shares of stock to greatly simplify the examples in this Chapter.

I'll give a simple example of how this works:

You Buy	100 shares at $10 a share	January 1
You Buy	100 shares at $5 a share	February 1
You Buy	100 shares at $4 a share	March 1
You Sell	125 shares at $15 a share	April 1
You Sell	100 shares at $20 a share	May 1

This is hypothetical but greatly hoped for.

How would you figure taxes? I'll include commissions, phone calls and other deductible costs. Under FIFO, you use the cost of the stock you first bought (the oldest shares of the same stock you're selling). So the cost (basis) of the first 125 shares in the example above would be:

100 shares X $10 =	$1,000 (acquired Jan. 1)
25 shares X $5 =	$125 (acquired Feb. 1)
125 shares	$1,125 (your basis 125 shares)

The $1,125 is only part of your cost. Let's say you paid $100 in commissions to buy the stock, had $20 in phone calls, and bought $10 in research reports. Here's your total basis:

Stock	$1,125
Commissions +	$100
Phone Calls +	$20
Research Reports +	$10
= Total Cost	$1,275

Now how much profit did you get? You sold 125 shares at $15 each for a total of $1,875. But did you actually get $1,875? Let's say you paid $100 in commissions to sell the stock, had a $10 phone call, and bought one research report for $10. Here's your total profit:

Stock	$1,875
Commissions -	$100
Phone Call– -	$10
Research Report -	$10
= Actual Proceeds	$1,755

Thus actual profit was $1,755 - $1,275 = $480.

Next month you sell 100 shares. Your cost for these 100 shares would be:

75 shares	X $5 =	$375 (remaining 75 shares bought Feb 1)
25 shares	X $4 =	$100 (25 of the shares bought Mar. 1)

Thus basis is $475 plus any commissions, phone calls, research reports directly related to this stock. Your actual proceeds are 100 shares X $20 = $2,000 minus commissions, phone call, and any other directly related costs. The government subsidizes some of your costs.

This is one reason you need to save all the statements that your broker sends you every time you buy or sell. Again in the high-tech world of today this is very easy because you can easily look up all of your buy and sell prices right on the broker's website.

On your scheduled D Capital Gains and Losses Form (see at end of chapter in the printed version), again you will find the Schedule D in your free Adobe Acrobat investing book. All you have to put on the form are the dates you bought and sold and the actual proceeds from the sale and the total cost. Then subtract the cost from the proceeds and the difference write in the proper place. Basis goes in column E and sales proceeds go in column D. Then add all your profits and subtract any losses (if you lost money from another investment).

You can take up to $3,000 and losses in one year. If you had more than $3,000 in losses, you have to carry it forward and use it in the following year. All your short–term capital gains are taxed at your rates for adjusted gross income. Long-term capital rates change often so consult the current year’s tax form. In reality for small investors, any differences between short and long-term would be so slight it is more worth worrying about. After you summarize your profits, the total amount goes on your 1040 on line 14 of the return – summary of Schedule D.

I don't claim to be a tax expert so if you have any questions in your mind see an expert. This will be your year-end look at how you did with the system. The bottom line is profits and you will see them and they will grow year-to-year. Good luck and may you be free from the chains of having to work at something you don't want to as soon as possible.

I've enclosed a copy of my 1987 schedule D that shows how I figured my taxes on my stocks. My basis was my cost per share from the original purchase on 7/25/86. It's easy to figure: all I had to do to figure the sale price was to subtract the commissions’ Blueprint charged. The forms Merrill Lynch

Blueprint sends the gross (before charges) and net sales price (money you get). You report the net sales price. You only pay taxes on your actual profits.

Chapter 15
The System for Large Investors

It's time to take the system and see it in the real world. I'm going to show you how commissions affect the system and show you real world judgments used to improve profits. We're always trying to maximize profits and you'll find that a few simple decisions will greatly increase profits. This chapter is for larger investors ($10,000 per stock) and will show large investors a gain of 568% after commissions for seven years. Your portfolio rose from $101,200 to $676,023, an average gain of 80% a year.

At the end of four years I evaluated the portfolio – remember I told you you're not married to your stocks. I had held all 10 stocks for four years. I only evaluated the stocks I owned once in four years for three reasons:

1) by doing it once I could keep the example as simple as possible

2) when I first wrote the book I didn't think to do it

3) by doing it once you see the dramatic effect – an increase of 76% in the fifth year versus only 16% the year before

In real life I recommend you evaluate your portfolio at least once a year. The best time to sell all remaining shares is when they are at or near the 52-week high for the year. This is the opposite criteria of what we want when we want to make our initial buy. Of course when we sell all our remaining shares, we immediately put all the proceeds into a new stock that meets our requirements.

Look in the next chapter for the reasons I sold the five stocks and the reasons I bought new stocks. Also look in the next chapter for how to buy and sell so you buy and sell 100% of what the system tells you. The two chapters are almost identical except for the amount of money invested. Another thing we did to boost profits was to buy additional shares. After one year the CASH amount had grown larger than 1/3 of the PORTFOLIO TOTAL. We took this extra cash and bought additional shares of the same stock. Remember we make our profits buying and selling stocks, not collecting interest on large cash balances. Below is an example of what we did in the first year (same thing done every year):

STOCK	1ST YEAR PORT. VALUE	1ST YEAR CASH TOTAL	1/3 PORT. VALUE	EXTRA CASH
Alaska Air	$15,018	$8,712	$5,006	$3,706
Compaq	$16,126	$10,004	$5,321	$4,623
Superior Ind.	$11,999	$5,842	$4,000	$1,842
Golden Nugget	$11,391	$5,082	$3,778	$1,304
Bush Ind.	$7,895	$1,547	$2,629	0

Checking for extra cash is also something you should do at least every year. When you find some, buy more stock and remember to increase PORTFOLIO CONTROL by 100% of the amount of additional stock bought.

For the 5 stocks that I took the cash over 1/3 of PORTFOLIO TOTAL to buy additional shares, I made the discovery why PORTFOLIO CONTROL should be increased 100% of the amount used to buy additional shares. This is because if you only increase PORTFOLIO CONTROL by 50%, you get an immediate sell at the same price you paid for the new shares. This defeats additional gains from the purchases of new shares.

Remember the only times you increase PORTFOLIO CONTROL 100% of the buy amount are:

1) - when you initially buy stock;

2) – when you take cash over 1/3 of PORTFOLIO VALUE and buy additional shares;

3) – when you add extra money to an existing stock.

All other buys increase PORTFOLIO CONTROL by 50%. Read this chapter and the next chapter carefully and really understand the reasons for doing what they say. All reasons are based on the incredibly simple premise of doing things to make the highest profits with the least risk. You can read why we sold the five stocks in the next chapter.

Selling the five stocks gained us $86,433 (I subtracted $9,144 from the fourth-year total of $95,577 because our cash was minus $9,144 at the end of the fourth year) which we used to buy five new stocks in the fifth year. Thus each of the five stocks started life with $17,287. We kept the stocks for the next three years (years 5-6-7). After the fifth year we sold our remaining original five stocks because they had matured, were a little high-priced, and we had been doing our homework and found five new stocks we wanted to own. Our last five stocks started with $38,744 each.

Our portfolio grew from $101,200 to $676,023, a 576% increase or a compound growth rate of 30% the year for seven years. A reviewer of our CASH account will show ups and downs. I omitted the first three years of the CASH account because the total wasn't negative. For the next three years, your CASH portfolio only showed a negative balance in four months. In the seventh year your CASH account went negative for three months, hitting a low of - $24,424, however, look at your PORTFOLIO VALUE – at the end of the sixth year, your portfolio was worth $328,350 and at the end of the seventh year $676,023, a gain of over $347,000. I figure after doing the system for six years and being ahead over $200,000, you could come up with an extra $25,000 – it was worth it. At the end of the seventh year, your cash balances over $235,000.

Finally I'm sure a few errors crept into this chapter. I'm writing this book related night after working all day and my family breaks my concentration. Remember this is an art not a science and any discrepancies are very minor – anyway you look at this you made a pile of money – the system works! In December 1992 I fixed most of the errors.

Also I kept these examples as simple as possible and didn't use the system to the max. I only adjusted CASH once a year and always bought more shares of the same stock whatever the price. You can take the extra money and buy shares of another stock or one you already own that is at or near its 52-week low. Also I held onto stocks that if I owned for real I would've sold. For example, I would've sold all my Wang B in April 1991 when it hit $4.37 and the PORTFOLIO TOTAL was $66,128. Also you can adjust your CASH balance more than once a year.

I think you see how you can use the system for your maximum profit. You may think of some good ideas on your own. If you do, please share them with me and I'll put them in the next edition.

Again for simplicity sake, I omitted all the remaining spreadsheets for stocks used in this chapter. Again they can be found on my website: http://www.jjjinvesting.com – click on **Books by Chapters** hotlink and click Chapter 15. Again you will find some useful spreadsheets at the end of Chapter 15 in your free Adobe Acrobat version of my book.

Empty

STOCK/FUND	% GAIN 1ST YR	PORT. VALUE		%GAIN 2ND YR	PORT. VALUE		% GAIN 3RD YR	PORT. VALUE
Alaska Airlines	43%	14,450		52%	15,400		66%	16,783
Graco	8%	10,905		56%	15,804		93%	19,526
Compaq Computers	59%	16,126		124%	22,697		414%	52,008
Hovnanian Enterprises	24%	12,585		64%	16,593		146%	24,864
Superior Industries	19%	11,999		45%	14,713		60%	16,235
Continental Info Sys	16%	11,786		19%	12,018		62%	16,362
J P Industries	11%	11,203		48%	15,000		86%	18,857
Bush Industries	-22%	7,895		58%	16,008		139%	24,200
Golden Nugget	13%	11,391		29%	13,028		46%	14,802
Prospector	-2%	9,842		2%	10,229		76%	17,584

Total	17%	118,182		50%	151,490		119%	221,221

STOCK/FUND	% GAIN 4TH YR	PORT. VALUE		% GAIN 5TH YR	PORT. VALUE		% GAIN 6TH YR	PORT. VALUE
Alaska Airlines	145%	24,801		193%	29,620			
Graco	92%	19,430						
Compaq Computers	374%	48,009		596%	70,445			
Hovnanian Enterprises	119%	23,193						
Superior Industries	143%	24,617		198%	30,204			
Continental Info Sys	170%	27,319						
J P Industries	48%	14,954						
Bush Industries	166%	26,880		265%	36,957			
Golden Nugget	50%	` 15,220		162%	26,493			
Prospector	33%	13,327						
AMD				87%	18,921		76%	17,847

On-Line				140%	24,252		105%	20,710
QMS				154%	25,723		179%	28,237
Claire's Stores				225%	32,867		197%	30,070
Caesar's World				137%	23,955		169%	27,261
Wang B							215%	31,904
Dell Computer							466%	57,277
Sun Microsystems							401%	50,660
Best Buy							272%	37,692
Ashton-Tate							230%	33,412
Total	135%	237685		216%	319,437		231%	335,070

STOCK	% GAIN 7TH YR	PORT. VALUE		% GAIN 8TH YR	PORT. VALUE		% GAIN 9TH YR	PORT. VALUE
AMD	329%	43,385						
On-Line	422%	52,790						
QMS	372%	47,797						
Claire's Stores	201%	30,448						
Caesar's World	487%	59,441						
Wang B	399%	50,520						
Dell Computer	1152%	126,723						
Sun Microsystems	600%	70879						
Best Buy	1008%	112,148						
Ashton-Tate	741%	85,137						

Total	579%	679,268						

DATE	CASH IN ONE ACC	ALASKA AIR WANG	COMPAQ COMPUTEDELL	HOV ENTER AMD	SUP INDUST SUN MI	CONT INFO ONLINE	JP IND QMS	BUSH IND BEST	GOLDEN NUGGETASH TATE	GRACO CLAIRES STORES	PROSPECTCA ESARS	TOTAL CASH
10/87		4106	30741	8246	5433	(479)	6299	8891	4208	6429	5833	79,707
11/87		4126	17249	7182	5460	(1567)	6330	8935	4410	6381	5862	64,368
12/87		(536)	10778	3031	2684	(6577)	3812	3408	3608	4555	2949	27,712
1/88		(2961)	797	(3714)	518	(12181)	983	(1610)	3416	2860	2964	(8,928)
2/88		(3305)	942	(5419)	(835)	(12172)	988	(1492)	3433	2621	1984	(13,255)
3/88		-	-	-	-	-	-	-	-	-	-	-
4/88		(3299)	952	(2493)	(823)	(12154)	998	(1190)	3467	2647	(977)	(12,872)
5/88		(3017)	957	(2471)	(108)	(11380)	2366	7439	3484	5244	(1154)	1,360
6/88		(950)	962	(2448)	5864	(11367)	2378	6512	5991	5270	(1150)	11,049
7/88		(935)	967	(3146)	4953	(11354)	2390	6150	6021	5296	(1146)	9,170
8/88		(279)	7952	(3127)	4988	(11341)	2402	3545	6051	5322	(1142)	14,332
9/88		(260)	7992	(3108)	5023	(19771)	2414	(1051)	6081	5596	(1138)	1,726
10/88		(231)	8032	(6471)	5842	(22425)	2426	(3206)	5048	5624	(1134)	(6,560)
11/88		1163	8072	(360)	7134	(16314)	6111	(7698)	5073	6111	4977	14,269

12/88		1522	8112	(510)	7559	(16283)	5961	(8708)	5098	5961	4827	13,539
1/89		-	-	-	-	-	-	-	-	-	-	-
2/89		1578	8192	(589)	7655	(16221)	6400	(10757)	5148	6021	4887	12,314
3/89		2746	14875	(560)	9180	(16190)	8010	(10736)	6810	9869	6733	30,737
4/89		4699	14949	(530)	9943	(16159)	8364	(10715)	8041	10895	6772	36,259
5/89		5089	15024	(500)	10294	(15568)	8406	(9608)	8081	11220	6812	39,250
6/89		6872	17476	(470)	10355	(14753)	8448	(9581)	8874	12217	7894	47,332
7/89		6926	29287	427	11431	(14422)	8490	(5274)	10922	15363	9909	73,053
8/89		6981	29433	455	11498	(14144)	8532	(4521)	10977	15440	9964	74,615
9/89		7036	29580	490	11565	(14103)	9942	(3577)	12169	15517	10313	78,902
10/89		8018	29728	525	11979	(14061)	10412	(3520)	14115	18917	10703	86,816
11/89		12902	12902	(132)	12902	(14309)	8609	9382	12902	11000	6883	73,041
12/89		12624	12624	(1607)	12624	(13710)	8652	9104	12624	11055	5838	69,828

DATE	ALASKA AIRLINES WANG	COMPAQ COMPUTER DELL	HOVNANAIN ENTERPRISEAM D	SUPERIOR INDUSTRS SUN MICR	CONT INFO ONLINE	J P IND QMS	BUSH IND BEST BUY	GOLDEN NUGGET ASH/TATE	GRACO CLAIRE'S	PROSPT CAESAR	TOTAL CASH	
1/90	-	-	-	-	-	-	-	-	-	-	-	
2/90	12750	12977	(1942)	12750	(12922)	8738	9230	12750	11165	5908	71,404	
3/90	6861	13042	(3541)	14650	(10281)	11264	9294	12814	11221	3458	68,782	
4/90	7401	15329	(3139)	20878	(10220)	12900	11215	15977	11277	(1711)	79,907	
5/90	10182	21282	(2904)	20982	(10159)	12965	17140	17110	11333	(1704)	96,227	
6/90	8412	27100	(2886)	23605	(10419)	14683	17243	17195	11390	(4676)	112,066	
7/90	-	-	-	-	-	-	-	-	-	-	-	
8/90	6055	32964	(660)	29784	(10435)	18142	17451	17367	17400	(4672)	12,3396	
9/90	2335	34860	(2773)	30085	(12357)	18233	17556	15021	17487	(11698)	120,447	
10/90	2347	35034	(7995)	30235	(15328)	15850	13984	7895	16609	(18973)	79,658	
11/90	(3373)	19168	(10470)	16956	(17557)	9450	8511	(3531)	10366	(19832)	22,331	
12/90	(10850)	19264	(15119)	6559	(22467)	9497	3461	(3509)	10418	(19830)	(22,576)	
1/91	(12188)	29687	(16356)	6592	(23895)	9544	3496	717	8699	(19828)	(13,532)	

2/91	(17925)	43581	(16356)	6784	(21954)	10204	170	(4078)	8742	(19385)	(10,217)	
3/91	(17915)	64827	(7347)	20074	(16880)	16387	5899	(4058)	9498	(19381)	30,078	
4/91	(17620)	69148	(4894)	27512	(13416)	16469	8119	(1316)	15997	(14288)	85,711	
5/91	(2963)	73383	2368	27650	(10476)	20980	9395	3314	16686	(12111)	128,226	
6/91	(3964)	69464	6698	34215	(10406)	22252	24988	4358	16769	(7363)	157,011	
7/91	(3884)	69811	9769	34731	(10336)	22363	36313	9412	16853	(3671)	181,361	
8/91	(3803)	70159	9900	31621	(8003)	22475	51742	12425	16937	(3430)	200,023	
9/91	(5787)	76535	10032	31779	(7921)	22910	51968	31154	16891	(568)	226,993	
10/91	(9953)	81090	10165	31938	-	23392	56963	35777	11184	2484	243,040	

DATE	ALASKA AIR REMARKS	SHARE PRICE	SHARE VALUE	SAFE	CASH	SHARES BOUGHT (SOLD)	SHARES OWNED	PORT CONTROL	BUY (SELL) ADVICE	MKT ORD (SELL) BUY	6% INT	COMM AMT	PORT VALUE
11/84		11.87	6666	666	3454	-	564	6666	-	-	-	120	10,120
12/84		13.00	7332	733	3351	-	564	6666	(666)	0	17	-	10,683
1/85		14.62	8249	824	3368	(52)	564	6666	(1583)	(759)	17	43	11,617
2/85		17.87	9152	915	4104	(88)	512	6666	(2486)	(1571)	20	53	13,256
3/85		19.50	8268	826	5650	(40)	424	6666	(1602)	(776)	28	43	13,918
4/85		19.62	7536	753	6415	(6)	384	6666	(870)	(117)	32	16	13,951
5/85		-	-	-	-	-	-	-	-	-	33	-	-
6/85		24.50	9261	926	6582	(68)	378	6666	(2595)	(1669)	33	54	15,843
7/85		23.25	7208	720	8238	-	310	6666	(542)	0	41	-	15,446
8/85		25.25	7828	782	8279	(15)	310	6666	(1162)	(380)	41	33	16,107
9/85		21.25	6269	626	8669	-	295	6666	397	0	43	-	14,938

10/85		21.37	6306	630	8712	-	295	6666	360	0	43	-	15,018
11/85	adj s/c	20.12	9419	941	5031	+ 173 sh	468	10372	953	ign 12	25	79	14,450
12/85		19.25	9009	900	5056	24	468	10372	1363	463	25	37	14,065
1/86		16.12	7934	793	4579	116	492	10604	2670	1877	23	57	12,513
2/86		17.37	10564	1056	2658	-	608	11543	979	0	13	-	13,222
3/86		19.87	12084	1208	2671	-	608	11543	(541)	0	-13	-	14,755
4/86		20.00	12160	1216	2684	-	608	11543	(671)	0	13	-	14,844
5/86		18.62	11324	1132	2697	-	608	11543	219	0	13	-	14,021
6/86		19.25	11704	1170	2710	-	608	11543	(161)	0	13	-	14,414
7/86		16.00	9728	972	2723	53	608	11543	1815	843	13	44	12,451
8/86		16.00	10576	1057	1845	21	661	11965	1389	332	9	30	12,421
9/86		17.00	11594	1159	1490	-	682	12131	537	0	7	-	13,084
10/86		18.62	12702	1270	1497	-	682	12132	(571)	0	7	-	14,199
11/86	adj s/c	20.37	13896	1389	1504	(18)	682	12132	(1765)	(376)	7	33	15,400

12/86		18.75	12450	1245	1856	-	664	12131	(319)	0	9	-	14,306
1/87		22.75	15106	1510	1865	(64)	664	12131	(2975)	(1465)	9	52	16,971
2/87		23.87	14325	1432	3294	(32)	600	12131	(2194)	(762)	16	43	17,619
3/87		30.75	17466	1746	4033	(117)	568	12131	(5335)	(3589)	20	77	21,499
4/87		25.25	11388	1138	7583	-	451	12131	743	0	38	-	18,971
5/87		20.12	9076	907	7621	107	451	12131	3055	2148	38	60	16,697
6/87		19.75	11021	1102	5440	55	558	13205	2184	1082	27	47	16,461
7/87		20.00	12260	1226	4333	13	613	13746	1486	260	22	27	16,593
8/87		23.50	14711	1471	4066	-	626	13876	(835)	0	20	-	18,777
9/87		21.50	13459	1345	4086	-	626	13876	417	0	20	-	17,545
10/87		20.25	12677	1267	4106	-	626	13876	1199	0	20	-	16,783

DATE	ALASKA AIR REMARKS	SHARE PRICE	SHARE VALUE	SAFE	CASH	SHARES BOUGHT (SOLD)	SHARES OWNED	PORT CONTROL	BUY (SELL) ADVICE	MKT ORD (SELL) BUY	6% INT	COMM AMT	PORT VALUE
11/87	+ $2,000	13.50	8451	845	6126	339	626	13876	5425	4580	20	89	14,577
12/87		13.00	12545	1254	3464	182	965	16166	3621	2367	7	63	16,009
1/88		13.50	15485	1548	1039	26	1147	17350	1865	317	5	30	16,524
2/88		15.25	17888	1788	695	-	1173	17509	(379)	0	3	-	18,583
3/88		-	-	-	-	-	-	-	-	-	3	-	-
4/88		16.87	19794	1979	701	(18)	1173	17509	(2285)	(306)	3	29	20,495
5/88		18.87	21801	2180	983	(112)	1155	17509	(4292)	(2112)	5	60	22,784
6/88		17.75	18513	1851	3050	-	1043	17509	(1004)	0	15	-	21,563
7/88		19.37	20208	2020	3065	(35)	1043	17509	(2699)	(679)	15	42	23,273
8/88		17.87	18018	1801	3721	-	1008	17509	(509)	0	19	-	21,739
9/88		17.25	17388	1738	3740	-	1008	17509	121	0	19	-	21,128

10/88		20.87	21042	2104	3759	(68)	1008	17509	(3533)	(1429)	19	51	24,801
11/88	adj s/c	21.12	19858	1985	5163	(17)	940	17509	(2349)	(364)	26	32	25,021
12/88		19.62	18114	1811	5522	-	923	17509	(605)	0	27	-	23,636
1/89		-	-	-	-	-	-	-	-	-	28	-	-
2/89		22.50	20768	2076	5578	(53)	923	17509	(3259)	(1183)	28	49	26,346
3/89		24.87	21641	2164	6746	(79)	870	17509	(4132)	(1968)	34	58	28,387
4/89		25.12	19874	1987	8699	(15)	791	17509	(2365)	(378)	43	33	28,573
5/89		27.62	21437	2143	9089	(65)	776	17509	(3928)	(1785)	45	56	30,526
6/89		27.12	19286	1928	10872	-	711	17509	(1777)	0	54	-	30,158
7/89		27.25	19375	1937	10926	-	711	17509	(1866)	0	54	-	30,301
8/89		27.00	19197	1919	10981	-	711	17509	(1688)	0	55	-	30,178
9/89		28.87	20530	2053	11036	(34)	711	17509	(3021)	(968)	55	46	31,566
10/89	sold all sh	26.00	17602	1760	12018	-	677	17509	-	-	60	-	29,620

Chapter 16
Small Investors Take Heart

I hope all you beginning investors are still with me. I'm one of you and I want to show you that this system works for you and to prove it to you using real-world data.

In this chapter I charted our 10 semi–aggressive stocks starting with $1,000 in stock and $500 in cash. Also I included commission costs. Look at the spreadsheets and see how it is set up. I strongly recommend you include commissions on your spreadsheet.

Let me explain how you figure the commissions into your spreadsheet. It's simple. You merely subtract all commissions from your cash balance. For example: beginning CASH $500 + MARKET (SELL) $200 - commission $24 = $676 + $3 interest = next month's CASH total of $679.

For additional buys and sells under the system, you do the same thing. You add the amount of the commission to your buy and sell. This is what I did in the spreadsheets in this book. I always bought the full amount the system said and paid the commissions from the cash balance.

For example: look at the January 1986 buy for Alaska Airlines. The system tells you to buy $248 worth of stock. You check out the commission schedule and find that your broker charges $12 on trades up to 5,000 shares. So you add your buy amount of $248 + commission of $12 and tell Merrill Lynch Blueprint to buy you $260 worth of stock. This will ensure you receive $248 worth of stock. Your broker will automatically subtract out their commissions and buy you 100% of the stock the system told you to buy. My examples do this because the commission is deducted from CASH.

For sells it will be difficult to sell exactly 100% of the stock the system tells you. As you remember from chapter 2, you tell Blueprint to sell a certain number of shares when you have a sell under the system. Here's what I propose you do: figure out what the commission is going to be and add enough shares to sell to roughly cover the commission.

For example: (I did not do this in the examples in this chapter for simplicity sake) look at Alaska Airlines. On January 1985 the system told you to sell 8 shares but wait – the commission to sell $119 worth of stock is $12. So you look and see Alaska Airlines is currently selling at $14.62 a share. So to cover the commission, tell Blueprint to sell 9 shares. Again Blueprint will automatically deduct the commission but you have to sell an extra share to cover the commission. Again I strongly urge you to have your CASH in a money market account with your broker.

After you sell any shares of stock, tell your broker to invest your sale proceeds into your money market account. If you tell your broker always investor sale proceeds into your money market account, he or she will do it. You need to stick those proceeds into your money market account to wait for future purchases. You're much better off having your CASH with your broker.

Now look at the summary sheets a few pages ahead and you'll see that as a small investor you are doing very well. Your 10 stock portfolio was up 15% after one year, up 48% after two years, up 110% after three years, and up 527% after seven years. You're averaging about 75% simple interest after paying commissions and had no years with losses. After the fourth year we sold five stocks and bought five new ones. After the fifth year we sold the remaining five original stocks and bought new ones. On the next page I give you a summary of why I sold the five stocks. After use the system a while, you'll know when to sell your stocks.

After a while you will understand the stock market and know when you should dump one of your stocks and that will lead to even bigger profits.

At the end of four years I evaluated my portfolio – remember I told you you're not married to your stocks. I would recommend you evaluate your stocks regularly. I have changed my thinking over the years and feel that this is the best advice on when to sell all remaining shares of a stock. Say you bought a stock and the low was $5 and the high was $15 and you pay $6 a share.

Play the system until the price of the stock is near the previous high and then sell all remaining shares rather than the number the system says to sell. Take the proceeds from the sale of the remaining shares and buy another stock you like that is currently at or near its 52-week low. If you love the stock you just sold, don't despair, it will soon go back to its 52-week low again and then you can buy it again when another one of your other stocks hits its high and it's time again to sell all remaining shares. Remember you're always trying to improve your portfolio and some stocks need to be retired. It's easy – sell those stocks and buy new ones.

I hope from reading this chapter you see I'm not rigidly telling you to hold all 10 stocks for four years and then sell five of them. I'm giving you a philosophy to follow and illustrating it with examples and showing you the happy results.

So I've looked through my portfolio and decided to sell 5 of the 10 stocks I now own. I'll try to give you brief reasons why I decided to sell. Check the summary to see percent gains for the first four years – again that is in your Adobe Acrobat version of my investing book.

Graco – Graco did well for us the first three years, up 10% after one year, 63% after two, and 97% after three years. But in the fourth year it's down 4%. The stock is plateauing. A check of the fourth year price range shows a low of $20.12 and a high of $33.37, only a 50% difference. We started with a PORTFOLIO TOTAL of $3,040 after three years and wound up at $2, 978 – not very good and the price shows a steady decline. Maybe it will bounce up but I can find better stocks at their lows now also. Also the stock is little too high priced – I'd rather have a stock under $10 and go for more profits.

Hovnanian Enterprises – stock took a big nosedive in fourth year – total profit declined from 137% to 110%. Also the company has a heavy debt load that could be weighing it down. I think I can do better with another stock my fifth year.

Continental Info Sys - had to add $2000 to buy more stock in fourth year. I've been reading rumors about the company – something seriously wrong could happen – maybe bankruptcy. Let me sell now and buy later if they go into bankruptcy, then the stock will be cheap. Good time to exit.

J P Industries - another loser and fourth year – profits down from 77% to 38%. Stock doesn't seem promising, time to sell.

Prospector- a bad choice from the start – had only one good year (third year went from 0% to 60%). Gold closed-end funds just don't seem to fluctuate enough to make money under the system – probably take a nuclear war to make gold really go up in value and who wants that – time to sell. Obviously it didn't take a nuclear war to make gold really go up in value as I wrote in the late 1980s. It seemed like crushing European debt, crushing American debt, high unemployment, numerous bank failures, seem to be enough to get gold up over $1,500 an ounce.

So I sell my five stocks. I sell my five stocks and divide the total and five new stocks. My total after commissions comes to $13,950 that let me start five new stocks at $2,790 each. After the fifth year I sell the remaining five original stocks for $27,985 which gives me $5,597 to start five new ones in the sixth year.

After the fourth year I picked five new stocks quite quickly. I picked the November 1988 issue of *Barron's* and look for stocks selling near their 52-week low. It's not hard to pick stocks that work well with the system. You're always trying to maximize your profits and the best way is to keep up with the latest stock info so you can have replacements lined up when you need them.

As you can see from the summary sheets, you're ahead 527% after seven years or 75% a year simple interest a year after commissions. Your profits will only go higher because commissions will be smaller percentages as your portfolio grows higher. You will get better and better at picking stocks. Enjoy the future – you earned it!

Remember like in the last chapter – increase PORTFOLIO CONTROL 100% of the buy amount when you buy additional shares with the cash over 1/3 of PORTFOLIO VALUE for the same reasons listed in the prior chapter.

Now a brief exclamation of the stock summary and cash in one account sheets. Again the sheets will be found in your Adobe Acrobat free version of my investing book. The percentage for each year is based on the percent of gain each year regardless of stock. Thus each year's PORTFOLIO TOTAL is divided by $1,543, the starting amount for each stock.

On the cash-in-one-account sheets, I kept a running total for each cash balance – for example: if one stock had "borrowed" $2,000 and then had a cash balance of $500, I showed the cash total as - $1500. Also if I sold the stock and it had a negative cash balance, I carried that balance forward with the new stock. For example: Claire's Stores had a starting CASH balance in November 1988 of $930 but on the cash summary sheet shows as $917 in November 1988 because Prospector finished with the - $13 cash balance when I sold it. All Claire's cash balances have $13 subtracted from them. You cannot compare the CASH summary sheets to the actual CASH balance sheets in most cases.

The cash summary is merely to show the actual cash balances as poor stocks "borrow" from rich ones. You can see from review of the cash in one account spreadsheet that your CASH balance only went negative for one month, February 1988 and only one negative $52. Your balance fluctuated widely for several reasons: one reason is that you are adjusting your cash/stock ratio every year. Also the stock market had downturns and upturns that tended to make most stocks go up or down in large amounts. But isn't this just what you want? YES it is! This caused large sell or by orders that affected both your cash and stock value.

The large fluctuations are perfectly normal to the system. Don't view your CASH total like a savings account or Certificate of Deposit. The only reason for your CASH account is to provide money when it's time to buy cheap stock. A review of the seven-year summary will show you that cash did the job very well. Look what your $15,430 has grown to after 7 years – $96,814, a 527% increase. The system is doing exactly what you want it to do. Again look at the numerous spreadsheets at the back of Chapter 16.

STOCK/FUND	% GAIN 1ST YR	PORT. VALUE		% GAIN 2ND YR	PORT. VALUE		% GAIN 3RD YR	PORT. VALUE
Alaska Airlines	45%	2,230		36%	2,097		55%	2,395
Graco	10%	1,691		63%	2,520		97%	3,040
Compaq Computer	53%	2,362		131%	3,567		421%	8,042
Hovnanian Enterprises	22%	1,877		59%	2,448		137%	3,651
Superior Industries	17%	1,812		41%	2,180		55%	2,388
Continental Info Sys	8%	1,667		42%	2,184		56%	2,403
J P Industries	9%	1,687		43%	2,214		77%	2,727
Bush Industries	-23%	1,195		48%	2,287		112%	3,276
Golden Nugget	9%	1,683		15%	1,770		30%	1,999

Totals	15%	17,682		48%	22,769		110%	32,388

STOCK/FUND	% GAIN 4TH YR	PORT. VALUE		% GAIN 5TH YR	PORT. VALUE		% GAIN 6TH YR	PORT. VALUE
Alaska Airlines	136%	3,648		176%	4,255			
Graco	10%	1,691						
Compaq Computer	374%	7,308		596%	10,732			
Hovnanian Enterprises	110%	3,244						
Superior Industries	173%	4,220		219%	4,921			
Continental Info Sys	124%	3,464						
J P Industries	38%	2,134						
Bush Industries	165%	4,095		202%	4,660			
Golden Nugget	34%	2,069		122%	3,419			
Prospector	38%	2,126						

Caesar's World				130%	3,550		157%	3,964
On-Line				132%	3,574		118%	3,369

Ashton-Tate							194%	4,539
QMS				151%	3,868		162%	4,036
Claire's Stores				214%	4,851		196%	4,572
Dell Computer							426%	8,122
Sun Microsystems							388%	7,530
AMD				84%	2,834		87%	2,885
Best Buy							257%	5,510
Wang B							193%	4,522
Totals	129%	35,286		202%	46,664		218%	49,049

STOCK	% GAIN 7TH YR	PORT. VALUE		% GAIN 8TH YR	PORT. VALUE		% GAIN 9TH YR	PORT. VALUE
Caesar's World	436%	8,270						
On-Line	418%	7,998						
Ashton-Tate	661%	11,745						
QMS	335%	6706						
Claire's Stores	220%	4,939						
Dell Computer	1043%	17,635						
Sun Microsystems	568%	10,304						
AMD	316%	6,426						
Best Buy	933%	15,945						
Wang B	344%	6,846						

Totals	527%	96,814						

DATE	CASH IN ONE ACCOUNT	ALASKA AIRLINES DELL COMPUT	GRACO CAESARS WORLD	COMPAQ COMPUTERS SUN MICROSYS	HOVNAN ENTERPR ON-LINE	SUPERIOR INDUSTR ASHTON TATE	CONT INFO SYS QMS	J P IND AMD	BUSH IND BEST BUY	GOLDEN NUGGET WANG B	PROSPECTO R CLAIR'S STORES	TOTAL CASH	
11/87		575	974	2667	1025	960	1001	935	1152	602	822	10,713	
12/87		(159)	674	1625	456	511	451	560	388	605	705	5,816	
1/88		(551)	424	39	(513)	151	(146)	152	(324)	608	709	549	
2/88		(550)	426	39	(763)	(72)	(142)	153	(321)	611	567	(52)	
3/88		-	-	-	-	-	-	-	-	-	-	-	
4/88		(548)	430	39	(375)	(68)	(134)	155	(315)	617	219	20	
5/88		(547)	784	39	(372)	40	(130)	340	908	620	(23)	1,659	
6/88		(262)	788	39	(369)	949	(126)	342	660	834	(21)	2,834	
7/88		(260)	792	39	9366)	792	(122)	344	668	838	(19)	2,706	
8/88		(258)	796	1124	(363)	798	(118)	346	253	842	(17)	3,403	
9/88		(256)	800	1130	(360)	804	(956)	348	(430)	846	(15)	1,911	

10/88		(254)	804	1136	(906)	920	(1267)	350	(753)	666	(13)	683	
11/88		19	930	1142	24	927	(337)	930	(1413)	669	917	3,808	
12/88		23	869	1148	29	934	(398)	869	(1571)	672	856	3,431	
1/89		-	-	-	-	-	-	-	-	-	-	-	
2/89		31	877	1160	(26)	948	(390)	877	(1891)	678	864	3,128	
3/89		247	1154	2189	(170)	1213	(100)	881	(1891)	882	1421	5,826	
4/89		511	1160	2200	(166)	1327	(94)	885	(1891)	886	1564	6,382	

5/89		517	1166	2211	(162)	1336	(88)	889	(1754)	890	1572	6,577	
6/89		822	1313	2583	33	1345	(82)	893	(1753)	1136	1748	8,038	
7/89		830	1594	4375	38	1566	(76)	1010	(1177)	1394	2203	10,927	
8/89		838	1602	4397	43	1576	(70)	1015	(1085)	1401	2214	11,931	
9/89		846	1610	4419	48	1586	182	1020	(954)	1545	2225	12,527	
10/89		981	1618	4441	53	1596	189	1025	(949)	1788	2711	13,453	
11/89		1864	1188	1864	263	1864	27	1030	915	1864	1602	12,481	
12/89		1787	939	1787	355	1787	33	808	838	1787	1554	11,675	
1/90		-	-	-	-	-	-	-	-	-	-	-	
2/90		1805	949	1805	458	1805	47	816	856	1805	1570	11,916	
3/90		1814	561	2065	810	1814	348	589	865	927	1578	11,371	
4/90		2155	105	3241	819	2249	564	592	1123	932	1586	13,366	
5/90		2994	(189)	3257	828	2394	573	595	1954	1385	1594	15,385	

6/90		3806	(674)	3637	848	2406	813	598	1969	1392	1905	16,700	
7/90		-	-	-	-	-	-	-	-	-	-	-	
8/90		4630	(670)	4516	866	2430	1290	942	2115	1406	2726	20,251	
9/90		4887	(1720)	4539	545	2064	1303	335	2130	1026	2740	17,849	
10/90		4911	(2699)	4562	91	1007	931	(139)	1582	1031	2606	13,883	

DATE	CASH IN ONE ACCOUNT	DELL COMPUTERS	CAESAR'S WORLD	SUN MICROSYS	ON-LINE	ASHTON - TATE	QMS	AMD	BEST BUY	WANG B	CLAIR'S STORES	TOTAL CASH
11/90		2719	(2697)	2523	750	(683)	84	(511)	764	257	1518	4,724
12/90		2674	(2695)	953	35	(681)	60	(887)	4	(797)	1506	172
1/91		4103	(2693)	958	(185)	(101)	67	(1198)	9	(993)	1262	1,229
2/91		6043	(2691)	963	80	(823)	171	(1194)	(516)	(1823)	762	972
3/91		9014	(2689)	2917	767	(822)	1026	(168)	294	(1822)	870	9,387
4/91		9586	(2000)	3984	1229	(454)	1037	132	595	(1821)	1823	14,111
5/91		10148	(1712)	4004	1623	190	1643	1101	761	246	1832	19,836
6/91		9590	(1074)	4955	1636	331	1810	1668	2978	97	1841	23,832
7/91		9638	(545)	4980	1649	1039	1825	2070	4583	107	1850	27,196
8/91		9686	(533)	4544	1978	1454	1840	2090	6792	117	1859	29,827
9/91		10564	(179)	4567	1992	4119	1856	2110	6831	(177)	1868	33,551

10/91		11177	219	4590	-	5760	1872	2131	7514	(782)	1038	33,519	

DATE	ALASKA AIRLINE REMARKS	SHARE PRICE	SHARE VALUE	SAFE	CASH	SHARES BOUGHT (SOLD)	SHARES OWNED	PORT CONTROL	BUY (SELL) ADVICE	MKT ORD (SELL) BUY	6% INT	COMM AMT	PORT VALUE
11/84		11.82	1000	100	543	-	85	1000	-	-	-	43	1,543
12/84		13.00	1105	110	503	-	85	1000	(105)	0	3	-	1,608
1/85		14.62	1243	124	506	(8)	85	1000	(243)	(119)	3	17	1,749
2/85		17.87	1376	137	611	(13)	77	1000	(376)	(239)	3	26	1,987
3/85		19.50	1248	124	828	(6)	64	1000	(248)	(124)	4	17	2,076
4/85		19.62	1138	113	940	-	58	1000	(138)	ign (25)	5	-	2,078
5/85		-	-	-	-	-	-	-	-	-	5	-	-
6/85		24.50	1421	142	950	(11)	58	1000	(421)	(279)	3	28	2,371
7/85		23.25	1093	109	1207	-	47	1000	(93)	0	6	-	2,300
8/85		25.25	1187	118	1213	-	47	1000	(187)	ign (69)	6	-	2,400
9/85		21.25	999	99	1219	-	47	1000	1	0	6	-	2,218

10/85		21.37	1005	100	1225	-	47	1000	(5)	0	6	-	2,230
11/85	adj s/c	20.12	1409	140	740	+ 23 sh	70	1489	80	0	4	38	2,149
12/85		19.25	1348	134	744	-	70	1489	141	ign 7	4	-	2,092
1/86		16.12	1129	112	748	15	70	1489	360	248	4	26	1,877
2/86		17.37	1477	147	476	-	85	1613	136	0	2	-	1,953
3/86		19.87	1689	168	478	-	85	1613	(76)	0	2	-	2,167
4/86		20.00	1700	170	480	-	85	1613	(87)	0	2	-	2,180

5/86		18.62	1583	158	482	-	85	1613	30	0	2	-	2,065
6/86		19.25	1636	163	484	-	85	1613	(25)	0	2	-	2,120
7/86		16.00	1360	136	486	8	85	1613	253	117	2	17	1,846
8/86		16.00	1488	148	354	7	93	1740	252	104	2	17	1,842
9/86		17.00	1700	170	234	-	100	1792	92	0	1	-	1,934
10/86		18.62	1862	186	235	-	100	1792	(70)	0	1	-	2,097
11/86	adj s/c	20.37	2037	203	236	-	100	1792	(245)	ign (42)	1	-	2,273
12/86		18.75	187	237	237	-	100	1792	(83)	0	1	-	2,112
1/87		22.75	2275	227	238	(11)	100	1792	(483)	(256)	1	27	2,513
2/87		23.87	2125	212	469	(5)	89	1792	(333)	(121)	2	17	2,594
3/87		30.75	2583	258	576	(17)	84	1792	(791)	(533)	3	39	3,159
4/87		25.25	1692	169	1075	-	67	1792	100	0	5	-	2,767
5/87		20.12	1348	134	1080	15	67	1792	444	310	5	29	2,428

6/87		19.75	1620	162	745	8	82	1947	327	165	4	20	2,365
7/87		20.00	1800	180	563	-	90	2030	230	ign 50	3	-	2,363
8/87		23.50	2115	211	566	-	90	2030	(85)	0	3	-	2,681
9/87		21.00	1935	193	569	-	90	2030	95	0	3	-	2,504
10/87		20.25	1823	182	572	-	90	2030	207	ign 25	3	-	2,395

DATE	ALASKA AIRLINES REMARKS	SHARE PRICE	SHARE VALUE	SAFE	CASH	SHARES BOUGHT (SOLD)	SHARES OWNED	PORT CONTROL	BUY (SELL) ADVICE	MKT ORD (SELL) BUY	6% INT	COMM AMT	PORT VALUE
11/87	adj s/c	13.50	1215	121	1075	51	90	2030	815	694	3	42	2,290
12/87	+ $ 200	13.00	1833	183	541	28	141	2377	544	361	2	32	2,374
1/88		13.50	2282	228	149	-	169	2558	276	ign 48	1	-	2,431
2/88		15.25	2577	257	150	-	169	2558	(19)	0	1	-	2,727
3/88		-	-	-	-	-	-	-	-	-	1	-	-
4/88		16.87	2852	285	152	-	169	2558	(294)	ign (9)	1	-	3,004
5/88		18.87	3190	319	153	(17)	169	2558	(632)	(313)	1	30	3,343
6/88		17.75	2698	269	438	-	152	2558	(140)	0	2	-	3,136
7/88		19.37	2945	294	440	-	152	2558	(387)	ign (93)	2	-	3,385
8/88		17.87	2717	271	442	-	152	2558	(159)	0	2	-	3,159
9/88		17.25	2622	262	444	-	152	2558	(64)	0	2	-	3,066

10/88		20.87	3173	317	446	(14)	152	2558	(615)	(298)	2	29	3,648
11/88	adj s/c	21.12	2915	291	719	-	138	2558	(357)	ign (66)	4	-	3,634
12/88		19.62	2708	270	723	-	138	2558	(150)	0	4	-	3,431
1/89		-	-	-	-	-	-	-	-	-	4	-	-
2/89		22.50	3105	310	731	(11)	138	2558	9547)	(237)	4	26	3,836
3/89		24.87	3159	315	947	(11)	127	2558	(601)	(286)	5	28	4,106
4/89		25.12	2915	291	1211	-	116	2558	(357)	ign (66)	6	-	4,126
5/89		27.62	3205	320	1217	(12)	116	2558	(647)	(327)	6	30	4,422
6/89		27.12	2821	282	1522	-	104	2558	(263)	0	8	-	4,343
7/89		27.25	2834	283	1530	-	104	2558	(276)	0	8	-	4,364
8/89		27.00	2808	280	1538	-	104	2558	(250)	0	8	-	4,346
9/89		28.87	3003	300	1546	(5)	104	2558	(445)	(145)	8	18	4,549
10/89	sold all sh	26.00	2574	257	1681	-	99	2558	(16)	0	8	-	4,255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Chapter 17
Epilogue

It has been a real labor of love writing this book. It is taken me eight years under fairly difficult conditions. I have written parts of this book all over the world including Korea, Belgium, Germany, and Texas. I truly believe that for all us small investors this is the best way to invest and make money. Life is getting harder and you truly can't count on anyone but yourself to get ahead. I have tried to show you how. It's up to you to put into use what I have shown you. Don't procrastinate, start today. Buy a stock and start charting it.

I have started a monthly newsletter talking about the AIM system and recommending stocks, ETF's, LEAPs to buy. Remember you will get a free one-year subscription to my newsletter because you were nice enough to buy my e-book. I would be glad to hear any comments you have on the book. Investing has truly become a passion for me. I now have truly found my calling in life and have found a way to help people in the best way possible – this is truly a good way to succeed in life. Now use the advice I've given you and succeed for yourself and your family.

Please write to me as follows:

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Please tell your friends about the book. They can buy a copy by going to the Smashword.com webpage and since I haven't put the book up on the Smashword site yet just tell your friends to search either my name Jeffrey Weber or the title of the book which will be *Jeff's AIM Way to Big Investing Profits– Buy Low Sell High*. The book will be selling at a very low price. I think I will price the book at $3.99. I'm doing all of my promotion of this book on a shoestring. Any help you can give me will be greatly appreciated by me and your friends who benefit. If you like this book, please tell your friends, and hopefully they will tell their friends, who will tell their friends.

I want to thank you for buying my book. I truly wrote it to help you succeed. I have always wanted to help people and believe God led me to do it this way. May God bless you and always take care of you.

Chapter 18

Bonus

As I've worked on this book I have thought of some ideas and others have given me good ideas I'd like to share. Some of these ideas that may have mentioned already but it won't hurt repeating them.

Here's the best way to play the system:

1 – Buy your stock initially when it is at or near its 52-week low

2 – Start looking up the prices of your stocks a few days before it's time to buy or sell

If one or more of your stocks shows strong price changes, then postpone your buy or sell decision and follow the stock closely. I will give you an example: I owned Cray Computer and the day I was about to see if I should buy or sell, Cray went up $2 a share from $8.00 to.$10.00. I waited a day; Cray went from $10.00 to $11.50. I waited another day; it went from $11.50 to $13.00. I waited another day, it went down $.50 a share and I sold based on the system. You can play this game too. If your stock is sharply going up or down, follow it day to day and get the maximum move before you buy or sell.

3 – Here's the key to increased profits (notice I explained earlier that I didn't use it in the seven year averages). Play your stock the regular way until it hits his 52–week high (the high should be at least 150% higher than your original purchase price). If you originally bought your stock at $5 a share, then $12.50 is 150% higher. When the stock hits the 52-week high, sell all the remaining shares and use the money to buy another stock at its 52-week low and repeat the process. You can always buy the same stock back when it's back at its 52-week low.

I envision you should have enough money to buy at least $1,000 words of a new stock with the money you get from selling all remaining shares. Don't worry if you find out you now own $1, 180 worth of your new stock. You can set up your new spreadsheet the same as you have in the past. Cash is now 1/2 of $1,180 or $590, which remember is, also 1/3 of your PORTFOLIO TOTAL, if this is a conservative stock – otherwise use 50% CASH – 50% shares.

4 – Again readjust your cash/stock ratio at least once a year. More often would be better. Check your ratio after you have a large sale. Remember you make your money buying and selling

stock, not earning interest on your money market account with your broker. And in the days of 2011, your stockbroker is paying a mighty low percent of interest probably 1% or less.

5 - Keep some of your regular savings money in your money market account. You will make slightly higher interest on your money and you have a little extra cushion in case the system needs a little extra money to make some especially good buys at low prices. We're playing it close to the vest keeping our cash at 1/3 of our PORTFOLIO TOTAL and run the possibility of running out of cash occasionally just when the system is giving us great buys. Having that extra cash there will give you peace of mind. Now you can lend yourself money and you'll be playing the system the way you should. You'll quickly pay back that loan with your profits.

I hope this bonus section also showed you that you too can figure out some ideas on your own that will increase your profits. If so, please share them with me and I'll add them to a revised version and give you credit. Again good investing and to all the best.

Chapter 19
Jeff's Cardinal Rules for Investing

Now we know how to use these databases, formats and reports. Now you will learn how to use them to find stocks that are worth buying. This database will help you narrow down the stocks to a manageable level. You will find several good online places, Yahoo Finance for one, where you can type in various criteria you're interested in to narrow the range of stocks you want to consider. It is outside the scope of this book to go into great detail into that but if you hunt around on Google and just do searches for stock financial planning help or something like that I'm sure you can find several sources and again I mentioned ways to search for stocks in my newsletter when I give you my favorite website of the week to help you be a better investor. I have several references to places to search somewhere in my previous monthly newsletter sent if you're really interested in it just e-mail me and I will try and find you a couple of good places to look for stocks. Again my e-mail is jeffee13@hotmail.com

First reread Chapter 8 of this book, to refresh your memory on how to select the right stocks. I'll hit some important points again. First if you're serious about investing, get a subscription to *Barron's* – it's better than ever because now along with your weekly paper subscription you get an online subscription, can't beat that. It's the best source of information I found on good stocks to consider to buy. Every issue will show you many good stocks to consider – from various articles, from the Winners and Losers page in the back of the data section showing you what stocks fell the most that we, or from reviewing the stock tables themselves. Reading *Barron's* will quickly make you a knowledgeable investor. And you can check one out at your local library to see if you like it.

Below are my cardinal rules for picking stocks that they will explain later in this chapter.

The Cardinal Rules for Investing

1. **Thou shalt only buy a stock that is at or near its 52-week low**
2. **Thou shall usually buy a stock that is selling for $10 or less**

3. **thou shalt usually buy stocks with weekly volume over 1 million shares**
4. **Thou shalt only buy stocks found on the New York Stock Exchange, American Stock Exchange and NASDAQ Stock Exchanges**
5. **Thou shalt look for stocks with large institutional and/or insider ownership**
6. **Thou shall buy stocks that have favorable futures and good pasts**
7. **Thou shall usually buy stocks that pay no or a very small dividend**
8. **Thou shalt only buy riskier stocks after thou hast bought several more stable stock first**
9. **Thou shalt usually buy stocks that have long term debt less than 1/3 of the latest revenues**
10. **Thou shalt buy stocks in industries with the future (for example gambling, biotech, computers, not stagecoaches)**
11. **Every once in a while you got a break the rules!**

These are my 11 Commandments and they will help you make the right choices. As you can see, you will have to take the stocks you found from the databases and do a little more research on them. Research is very easy to do. I will give you the best sources – some are free and some cost a modest amount. You will do better if you have done the research. I'll explain how to use the various research tools to help you choose. But first an explanation of the basic rules.

Rule 1 – Thou shalt only buy a stock or ETF or LEAP or closed-end fund that is at or near its 52-week low

Remember the saying, "it's not what you buy, but when you buy it". This is the most important rule and the ruled that will help you the most. Following this rule will make you the biggest profits.

The easiest way to find the high and low price is to go to a good financial website like Yahoo. Yahoo's website is http://www.yahoo.com then just click on Finance in the left column and type in any symbol for any stock or ETF you want information on. Also *Barron's* has a very good website if you want to look at all the stocks on the New York and NASDAQ stock exchange. Their website is http://www.barrons.com – just scroll down to the bottom and look for the link to stocks which is way down on the bottom.

Also you will find a good list of potential AIM stocks, ETF's and LEAPs in my monthly newsletter that you will receive for free for being kind enough to buy my book.

Other services have good information if you're willing to pay for it. Check out the beginning sections of Value Line – they have a summary listing stocks with lowest price/earnings (P/E) ratios, lows book value, stocks with the highest estimated future returns etc. They also show a section showing high-growth stocks and worst-performing stocks (biggest % drops). Every issue of *Barron's* does the same thing in the Winners and Losers section. For additional free info, send off for the latest annual report from the company. When you scroll down the stocks in *Barron's*, any stock that you see the symbol for clubs next to, you can easily e-mail through *Barron's* and obtain a free annual report.

Remember at or near its 52-week low – it's the Cardinal Rule for Profits.

Rules two, three, and four are self-explanatory.

Rule 5 – Thou shalt look for stocks with large institutional and/or insider ownership – at least 40%

For this rule and the rest of our rules, we must look to outside research. Just following rules one through four will make us a good profit. But little extra research that doesn't take that much additional time or money and will help us make even bigger profits.

A free source of information is the Standard & Poor's Reports. Remember like I said earlier you can easily find them in the research section of most online stockbrokers. I know that TD Ameritrade does have Standard and Poor Reports, Zack's Reports and some other research report so you can literally OD on research for free and find out all the information you'd ever want at any particular investment.

Why does owning a stock with a large institutional and/or insider ownership help us? This helps us for several reasons. When a large company holds a big block of stock, that block can actively trade. When institutions buy in big blocks the price will go up, when institutions sell in big blocks the price will go down sharply. This will help us AIM investors to get the volatile swings that help us make money with AIM. For example one stock I own, US Surgical, plunged $15 a share in one day because analysts downgraded the stock because they felt revenues wouldn't grow as fast as they had in the past. That caused many institutions to dump the stock (it wasn't my 33 shares that caused the drop).

Normally when stocks go up or down, the volume traded goes much higher. A stock may average 1 million shares traded a month, then it goes way up or down in price and you see it traded 2 million shares in one week! These volume numbers show the big players were involved. You can take advantage of this – you buy when they sell and you sell when they buy.

Another and better way to find institutional ownership info and wealth of other valuable information for free is again like it been telling you the eight-page Standard & Poor's Report available for free from most online brokers.

For now were only interested in the institutional ownership info in the Standard and Poor Reports. I'll tell you how to use the reports for other information we want. The place to find Institutional ownership is at the top of page 1. Look for the line "% held by institutions". For example, I'm looking at Jan CF Pharmaceuticals, on the NASDAQ exchange and the % of institutional ownership is 66%, very good.

S&P research reports give you additional related info – insider holdings. If the company has a large block of stock owned by the company officers and directors, it will be listed here. One reason I bought US Surgical (high – $114, low – $28, I bought at $30) was because institutions owns 62%, officers and directors own 31%; leaving only 7% trading with us, the general public.

The place to look for insider holding information is in the eight-page Standard & Poor's Report. You will quickly find out that Standard & Poor's literally uses the same standard in every report so once you get familiar with the reports will find the same type of information you are looking for in exactly the same place in the report. The S&P Reports are really excellent sources of up-to-the-minute info and again I highly recommend them.

Rule 6 - thou shalt buy stocks and closed–end funds and ETF's that have favorable futures and pasts

What does this mean? Again remember investing is an art not a science. For a favorable past, I like to look at the price history, P/E, revenues, profits (earnings). Let's use US Surgical as an example. In the Standard and Poor's research report is a section called "Income Component Analysis". Look at the bottom and you see five years of prices and P/E (Price/Earnings) history. The P/E ratio is the ratio between share price and earnings per share. If the stock sells at $10 and earned $1 a share, the P/E is 10. If the stock earned $.50 a share, the P/E is 20.

When I looked at the price and P/E history of US Surgical, here's what I found:

Stock Price	**1988**	**1989**	**1990**	**1991**	**1992**
High	$8.62	$15.31	$35.87	$116.37	$134.50
Low	$6 62	$$7.68	$12.06	$31.25	$69.00

P/E ratio	**1988**	**1989**	**1990**	**1991**
High	17.3	23.6	40.5	73.7
Low	13.3	11.8	13.6	19.8

No P/E for 1992 because the year wasn't finished at the time I was typing.

Now the price history looks pretty good doesn't it? Well it gets even better. Another item must be checked – stock splits. You will find stock splits highlighted on the chart showing the price movement of any particular stock you are looking at in the Standard and Poor's research reports and maybe elsewhere in the report. When I wrote this about 20 years ago stock split information was under the category "key statistics at a glance", you could find any stock splits in the last five years .Also shown in the chart on front page

Looking again at US Surgical, we find 2-for-1 stock splits in 1990 and 1991. Thus if you owned 50 shares; after 1990 you now own 100 shares and after 1991 you owned 200 shares. Stock splits usually mean the company has been doing well and investors are eagerly buying the stock, pushing the price up. Most companies want to keep their stock prices lower to encourage more people to buy and thus split the stock. I regard stock splits as favorable.

However reverse stock splits (such as 1 for 10), I regard as a warning that this is a risky stock. I also regard this when it comes to leveraged ETF's as a warning but also a chance for profits because the price on the ETF must've come way down in order to institute a reverse split. For example your US Surgical would've gone from 50 shares to 5 shares if a 1 for 10 split occurred. This usually happens in companies where share prices are pretty much near their 52-week lows. For example, one of my stocks, Saachi and Saachi had a 1 for 10 split and my holdings went from 600 shares to 60 shares and the stock price rose from $.75 to $7.50. Company barely made me a profit, and I got rid of it when it showed a slight profit.

Looking at the P/E high and lows shows you that the stock was profitable all five years. Stocks only have P/E's if the company was profitable. Thus in *Barron's*, if you see a stock with a blank P/E, the company lost money in the last measurable period. Looking at the P/E, US Surgical was profitable all five years. Looking at the P/E's showed people were willing to buy with a P/E as high as 73.7.

I bought US Surgical at $30.25 when it showed a P/E of 13. Looking at the five-year history shows me that buying US Surgical was a good deal with a P/E of 13. Normally I like stocks with low P/E's; any stock at 10 or less I want to know more about.

Also in the Standard & Poor's Report, you'll find revenue and income info. Here is what I found for US Surgical: (M = millions):

Year	1988	1989	1990	1991	1992
Revenues	291 M	345 M	514 M	843 M	N/A
Income	23 M	31 M	46 M	91 M	

The rise in revenues and income shows a good pattern to me. This is a good semi – aggressive stocks with great high/low swings. This is the type of stock to start with and build on. Notice buying the stock violated the rule about buying stocks costing more than $10 a share. As rule 11 says, sometimes you gotta break the rules.

Now the future. Read the Business Summary and Important Developments in the Standard and Poor’s Report. Towards the back of the S&P Report you'll get an industry Outlook on the industry your company is in. This will show you whether you have a "stagecoach industry" company or one in an industry with a good future. Also you'll find summaries of the latest newspaper articles that talked about your company. You will also find those on the Yahoo Finance website after you put in the symbol for any particular stock. Always a good idea to look at the latest newspaper articles about any company you're considering buying.

Now after reading all this and Value Line will have pretty much of the same info, do you feel good about the stock? Does it give you a warm fuzzy?

I think if you have done this a few times, that you'll have the ability to decide what stocks are good buys. Your hardest problem will be picking from a group of good buys. Remember you only want a good buy, don't agonize trying to pick the stock of the year. And when you do, you must stick with your stock through thick and thin – don’t wimp out and sell at a loss unless there is absolutely no chance the stock will rise again.

Rule 7 – Thou shalt usually buy stocks (doesn't apply to closed-end funds) that pay no dividend or a small dividend

Most stocks that pay large dividends will never appear in your searches because they don't fluctuate 100% a year and usually cost over $10 a year. One group of buy candidates, closed-end funds, usually do have large dividends. And low prices and 100% price fluctuations. Have your cake and eat it too! Over the years I've relaxed my rule of trying to only buy stocks that are $10 or less. I have expanded my range to try and give you the best stocks every month and my newsletter regardless of what their price is in terms of absolutely higher or lower than $10.

If any stocks that you do own pay a dividend or same with the closed-end fund, I recommend you tell your stockbroker to reinvest your dividends into your money market account and not to automatically buy more shares. Let AIM determine the price you buy shares at and it will make tax time a lot easier for you.

Rule 8 – Thou shalt only buy riskier stocks after thou hast bought several more stable stocks

Each of you knows what level of risk you feel comfortable with. A good book on the subject is *The Nature of Risk* by Justin Mamis. I recommend you read it.

Stocks come with different risk levels. I'll give you an idea of what I consider "safer" stocks. Then I'll give you an idea of what I consider "riskier" type stocks. You can decide for yourself if riskier stocks have a place in your portfolio. Riskier stocks can offer you for greater profits than safe stocks, but are not for the faint hearted.

Safer stocks are companies with:

– At least $100 million in revenues;

– Companies making a profit;

– Companies with share prices higher than $3 share;

– Companies with high/low swings less than 300%.

For example, if the low is $5 a share in the high is $15 this is a safer stock. A riskier stock would be one with a low of $1 and a high of $12. Safer companies would show steadily rising revenues and income such as US Surgical. Riskier companies often have a bad year or two, lose money and thus the stock drops way down. I bought Synergen, a biotech on the NASDAQ after the price went from $67 to $11. Riskier stocks can easily rebound and the thus make you bigger profits. If Synergen discovers a hot new drug, the price could shoot back up quickly.

Riskier stocks include stocks in bankruptcy, stocks trading for less than $3, and stocks with high/low differences greater than 300%. Stocks in bankruptcy usually have the symbol "VJ" in front of their name or on the NASDAQ Exchange, the fifth letter in the stock symbol will be Q. This means the company is in Chapter 11 bankruptcy. The courts give the company 3 – 5 years to straighten themselves out. This usually means that creditors have agreed to smaller or no payments on debts owed them for a period of time. Normally companies in bankruptcy trade for less than $3 share, many times they trade under $1 a share. Looks through *Barron's* and you'll see many stocks trading at $.25 or less. You might see a high of $1 and a low of $.12. That's a great percentage spread and offers great profit potential but with a greater risk.

I'd advise you to wait until you own three or four safer stocks before you add a riskier stock. Now since the stock is riskier and since it's low priced, you don't need to invest the usual $1,500 per stock. Cut this in half, put $500 into the stock and $250 into your money market and then follow the regular guidelines for setting up the stock. I have changed my tune on this and feel if you are going to go with riskier stocks definitely you need to keep the CASH/SHARE VALUE at 50-50%. Later on I'll give you a really wild strategy for playing riskier stocks after you've gotten rich from the system. I'd recommend one – two riskier stocks in a 10 stock portfolio for the average investor.

Rule 9 – Thou shalt usually buy stocks with a long–term debt less than 1/3 of current revenues

Stocks with 1/3 or less long–term debt are safer stocks and stocks with high debt levels are riskier stocks. You can find the long–term debt amount under Capitalization in the Standard and Poor Report. An example of a riskier stock is RJR Nabisco holdings – earnings were $15.7 billion but long–term debt is $13.5 billion.

Rule 10 – Thou shalt buy stocks in industries with a future

This goes along with rule 6. Look for industries and products of the future. Right now a product of the future that has several stocks at very low prices is solar energy products. The solar energy companies have really taken a dive lately so they may be worth looking at as good investments if you can take a long term view. Off the top of my head biotech, medical, gambling, Internet, social networks, are a few I like.

Right now the medical/drug industry is very depressed because of uncertainty over what President Clinton will do with healthcare. Déjà vu now the meta-health/drug industry is concerned with Pres. Obama will do about healthcare. A little research will reveal very good bargains. But watch out for companies in a dead-end position in a good industry. Right now IBM fits that bill (1980s) –

mainframe computers are dying out. But later IBM was smart enough to reposition itself and has stayed a very successful and profitable company and you will see just how well you would've done buying LEAPs on IBM through the years when you look at my model LEAPs portfolios that you can find on my webpage http://www.jjjinvesting.com

If you keep informed about financial information either on the web or in a financial newspaper, you'll find articles showing you industry trends. Read *Barron's* regularly and you'll have no trouble seeing the good industries of the future.

Rule 11 – Every once in a while you gotta break the rules

When a great opportunity comes along, you can ignore one or more rules (except rule one!). I violated my rule of only buying stocks under $10 when I bought US Surgical at $30.25. Why? It was selling at 25% of its high for the year. It offers low – cost alternative surgical procedures, and revenue growth was still excellent. I recommend that you also do the same and scan stocks over $10 for outstanding buys. My monthly list of good buy stocks in my newsletter always includes a few stocks over $10.

Always remember investing is an art not a science. You make the best choices and then play the system and be patient. You're in this for the long term.

Now I promised you a riskier strategy. This will not be for most of you but I want to get you thinking about exploring the possibilities of the system and this is a good way to do that.

Search stocks and look for all stocks selling currently for $.50 share or less. Then do the same thing you do with any stocks you're thinking of buying. Find the current high/low and current price and only consider stocks selling at or near their year's low. You could also use this strategy to find one or two riskier stocks to put in your 10 stock portfolio.

Here's the risky strategy. Buy 10 risky stocks selling for $.12 or less now. Just about all of them should be stocks in bankruptcy. And you know how to check for bankruptcy. Put $100 into each stock and do nothing until the stock hits $.50 a share and then sell all of the stock. This is very easy to do with your online broker. All you have to do is leave a limit order to sell all of your shares at the $.50 price that is good until canceled. Good until canceled limit orders usually will run for three months so you don't have to worry about missing that one magic day when your stock hits the $.50 plateau. Your broker's computer will automatically take care of you and make sure you get that sale.

If only four of your 10 stocks do this, that means go from $.12 to $.50, you'll be ahead 60% even if the other six go completely bankrupt. Look at the math below:

4 X $400 =	$1,600
6 X 0 =	$ 0
	$1,600

So you started with $1,004 and 4 of your 10 went up to $$.50 so your portfolio went from $1,000 to $1,600 pretty good, and probably quite exciting watching the roller coaster ride on those 10 stocks.

I nicely ignore commissions, phone calls, etc. because they lower your profits.

If a risky strategy doesn't appeal to you, stick with whatever strategy you feel comfortable with. My strategy, my 11 commandments are designed for the small investor who wants to put $1,500 into stock.

If you are large investor and would like to put $100,000 into 10 different stocks – please call me immediately. I'll quit my job and work for you and design a perfect strategy for you. Bigger investors can go with more conservative stocks that don't fluctuate 100%. Reread Chapter 9 of my book and learn the conservative strategy to see how successful you can be with really conservative stocks as a large investor.

I hope this gives you some help in picking stocks. By following these ideas, you'll be able to take good stocks with just a little practice. Treat this as a rewarding hobby that will pay you big profits. Keep it fun and remember the system will always tell you the right thing (buy, sell, or do nothing). Just be patient and remember you're going to make a heck of a lot more money from stocks than from banks.

My monthly newsletter soon begins its 18th year. It gives you a list of stocks, ETF's, LEAPs, that I like, ideas for improving the system, and other useful info I think will help you. Please share my flyer with your friends for information and prices.

I truly hope and believe you'll be successful. I want you to achieve your dreams and goals. Use the system to obtain the future you want and deserve.

Postscript

I received a very nice letter from a four former student who followed my Mark Twain advice and lavished praise on me. But more importantly he took the time to send me a list of rules he devised for selecting stocks that I'd like to share with you. I'd like to publicly thank Steve Donahue of Georgia for sharing these rules and I now hope they will benefit you also. And Steve if you're out there I'd love to hear from you; we have lost touch for far too long.

He prefaced his list of rules with a few comments he gleamed from six months of learning about stock selection (May you all be so dedicated).

Steve had several ideas on determining the health of a company. He said my idea of simply looking at long–term debt as a percent of revenues was a rather weak measurement of debt and quite deceiving at times. He said *Barron's, Forbes, Business Week*, etc. all refer to **Debt to Equity Ratio**. But Steve found each publication used a different formula to determine the ratio. (See *Barron's Finance and Investment Handbook* for three different types of debt/equity ratios). Steve decided to use the following definition:

Debt to Equity Ratio: Long-Term Debt plus Total Current Liabilities divided by Total Common Equity

Steve says the lower this percentage the better, anything below 40% he feels is good.

Steve found earnings to be of paramount importance. Very often, publications refer to the Earnings to Equity Ratio. This is a good measure of how efficient and productive a company really is. This is also a measurement of growth in earnings and control of costs. The ratio was also found using several different formulas. Steve felt *Value Line* had the best formula noted as % Retained Net Worth on its statistic page of each company (third to bottom column). The higher this percentage the better (12% is about average for an average company). *Value Line* uses this formula:

% Retained New Worth (Earnings to Equity Ratio): Net Profit (Net Income after Taxes) divided by Net Worth (common equity)

Steve Rules for Stock Selection Value Investing

1. Select a stock at or near its' 52-week low - Here, here!

2. The difference between the high and the low share price should be 100% or more. Normally the beta of such shares is 1.0 or more (beta compares the ups and downs of the stock's price relative to the general market. A stock with a beta of 1.5 tends to move 50% more than the total market, a stock with a beta of 0.5 move 50% less. A stock with a beta of 1.0 moves exactly as the market does).

3. Select stocks with at least 200,000 shares traded weekly on average. 150,000 shares is acceptable for smaller companies.

4. Select low P/E ratio stocks. The Price/Earnings ratio should be well below the P/E of the market as a whole, see *Value Line*, Part 1.

5. Select a company with a Debt to Equity Ratio of less than 40%. Debt to Equity Ratio equals Total Current Liability plus Long-Term Debt, divided by shareholder common equity. The smaller the company, the smaller this ratio should be.

6. Select a company with Earnings to Equity Ratio of 15% or better. Earnings to Equity Ratio equals net income after taxes divided by shareholder common equity.

7. Select stocks with at least $100 million market capitalization. Market capitalization equals common stock outstanding multiplied by the current share price.

8. Select companies with a history of earnings growth. Avoid a company with an earnings deficit unless you are sure this is a strong company with a promising future.

9. If possible, check out the company's product. Steve checked out Liz Claiborne and hated the product, I believe women's dresses.

10. Find out the stocks' knock. The prices low for a reason. The best choice will be a good company in an out-of-favor industry.

11. Avoid stocks rated a buy any newsletter (including *Value Line*). I totally agree, the newsletters usually take a short-term outlook and generally favor stocks that are their years high, not low. Of course this rule would never apply to Jeff's newsletter because I

am always picking the type of stocks that you should be consider buying at the current time.

12. Pick stocks with at least 35% institutional ownership.

I really like Steve's final comments. "Sometimes you can overanalyze the stock. Sometimes the gut feeling is the best formula."

I'd really like to thank Steve for sharing his ideas and I encourage you to do the same so I can share them with other readers. We are all in this together. Let's help each other achieve our dreams.

Chapter 20
Simple Options Strategies

I attended a 3-day investing seminar in February 2006 and learned some very simple options strategies that I am adding to my AIM strategy. Options offer excellent ways to vastly increase your profits while you wait for your stocks to rise and make you profits using AIM. First I want to give you the basics about options. I strongly recommend you go to Amazon or eBay and buy a couple of basic books on options. Options and knowledge of trading them is the key to wealth.

Two books I recommend:

Getting Started in Options by Michael C. Thomsett

Options Trading for the Conservative Investor by Michael C. Thompson

I will start with some basic information so you will have an idea of what I'm talking about later.

Options: An option is a contract (each contract = 100 shares of the stock) between a buyer (option holder) and the seller (option writer) that gives the buyer the right, but not the obligation, to buy (call) or to sell (put) specific stock at a specific price on or before a specific date in exchange for a market premium. If you buy or sell 10 contracts then you control 1,000 shares of a specific stock for a limited period.

Option Holder; Option Writer – The option holder is the person who buys the right conveyed by the option. The holder of a cash settled option has the right to receive an amount of cash equal to the cash settlement amount upon exercise prior to the expiration of the option. The option writer sells the option to the option holder.

Cash Settlement Amount – The cash settlement amount is the amount of cash that the holder of the cash–settled option is entitled to receive upon exercise of the option. It is the amount by which the exercise settlement value of the underlying interest of the cash–settled call exceeds the exercise price of a cash–settled call, or the amount by which the exercise price of a cash–settled put exceeds the exercise settlement value of the underlying interest, multiplied by the multiplier for the option.

Here's an example of the cash settlement amount:

Assume that the holder of a cash–settled option on XYZ stock that has an exercise price of 80 exercises it when the exercise settlement value of the stock is 85. If the multiplier for XYZ stock is 100 (1 contract), the assigned writer would be obligated to pay, and the exercising holder would be entitled to receive, the cash-settled amount of $500 ($85 minus $80 multiplied by 100 = $500).

Exercise Price – The exercise price, also called the "strike price" is the price at which the option holder has the right either to purchase or to see the underlying stock.

For example: A physical delivery XYZ 40 call gives the option holder the right to purchase 100 shares of XYZ stock at an exercise price of $40 a share. A physical delivery XYZ 40 put option gives the option holder the right to sell 100 shares of XYZ stock at an exercise price of $40 a share. The exercise price of a cash–settled option is the base for the determination of the amount of cash, if any, that the option holder is entitled to receive upon exercise.

Expiration Date – This is the date on which the option expires. If an option has not been exercised prior to its expiration, it's worthless – that is the option holder no longer has any rights and the option no longer has any value. The expiration dates are fixed by the options market on which the series trades. Very important you know and understand what the expiration date is for any options you buy.

When you look options up on the on the web, and again Yahoo Finance is a great place to find all the information you need on options such as the expiration date current price etc. For example you might see XYZ stock options with March, April, July dates listed. These are the months when the option expires. Almost all options expire on the third Friday of the month listed as the expiration month. For regular options normally there are monthly expiration dates extending out for five or six months. You will see later on that our strategy is very concerned with the month our options expire in.

Unit of Trading, Contract Size – The unit of trading, also called the contract, of a physical delivery option is the amount of the underlying interest that is subject to being purchased or sold on the exercise of a single option contract.

For example: a physical delivery XYZ 50 call will give its holder the right upon exercise to purchase 100 shares of XYZ at $50 per share. If the option is trading at a premium (profit) of say, $4 per share, then the aggregate premium for a single option contract would be $400, 100 shares X $4 a share.

Multiplier – The multiplier determines the aggregate value of each point (dollar) of the difference between the exercise price of the option and the exercise settlement value of the underlying interest. Almost all of our multipliers will be 100 because each contract contains 100 shares. So a multiplier of 100 means that for each point or dollar by which a cash–settled option is in the money upon exercise, there is a $100 increase in the cash settlement amount. So for example, if an option with a multiplier of 100 is trading at a premium of say $4, then the aggregate premium for single option contract would be $400.

Exercise – If the holder of a physical delivery option wishes to buy (in the case of a call) or sell (in the case of a put) the underlying interest at the exercise price – or, in the case of the cash-settled option, to receive the cash settlement amount, he must exercise his option. To exercise an option, option's holders usually give exercise instructions to their brokerage firm in accordance with the firm's policy.

Premium – The premium is the price that the holder of an option pays and the writer of an option receives for the rights conveyed by the option. It is a price set by the holder and writer, or their brokers, in a transaction in an options market when the option is traded. The premium is not a down payment. It is simply an entirely nonrefundable payment in full – from the option holder to the option writer. The holder pays the writer of the right to hold the option for a specific period of time.

Just like with stocks, the premium trades after the initial sale – it can go up or down based on what XYZ stock is doing. The factors that mostly generally affect the pricing of an option include such variables as the current value of the underlying interest (current XYZ stock price) and the relationship between that value and the exercise price, the current value of related interests (e. g. futures on the underlying XYZ stock or interest related to XYZ stock) the style of the option, the individual estimates of market traders on the future volatility of XYZ stock, the historical volatility of XYZ stock, the amount of time remaining until the option expires, cash dividends payable on the underlying stock, exchange-rate in the case of foreign stocks, current interest rates.

You see that many factors can affect your option – but don't worry about this too much. We will be using simple option strategies that don't require us to look at these many factors. The above explanation covers all options strategies – we are just concerned about three options strategies.

Opening Transaction – This is the purchase or sell transaction which opens our position or increases our position in the call or put option.

Closing Transaction – This is the transaction we make at some time prior to the expiration of our call or put option. Here's what we do: we make an offsetting sale of an identical option, or the option writer makes an offsetting purchase of an identical option. A closing transaction in an option reduces or eliminates an investor's previous position as the holder or the writer of that option.

For example: in June an investor buys December XYZ 50 call at an aggregate premium of $500. By September the market price of the option has increased to $700. To gain his $200 profit, the investor can direct his broker to do an offsetting December XYZ 50 call in the closing transaction. On the other hand, if by September the market price of the option has decreased to $300, the investor might still decide to see the option in a closing transaction thereby limiting his loss to $200. Remember the option will expire the third Friday of December – on that date the option is worthless.

Although option holders have the right to exercise at any time before expiration, holders frequently elect to realize their profits or losses by making closing transactions because the transaction costs (commissions) of the closing transactions may be lower than the transaction costs associated with exercises, and because closing transactions may provide an opportunity for an option holder to realize the remaining time value (described below) of the option that would be lost in an exercise (why wait until December when you can sell and buy or sell another option in September and start making money with that option!)

Combination; Spreads and Straddles – Combination positions are positions in more than one option at the same time. Spreads and straddles are two types of combination positions. A spread involves being both the buyer and writer of the same type of option (puts or calls) on the same stock, with the options having different exercise prices and/or expiration dates.

Covered Call Writer – If the writer of a physical delivery call option owns or acquires the amount of the underlying stock that is deliverable upon exercise of the call, he is said to be a covered call writer. This is one of the simple option strategies I will teach you! You will use this with one or more of your stocks. You will use this only on stocks that show little bullish or bearish movement, basically the price is staying around the same amount.

For example: an investor owns 100 shares of XYZ, stock. If he writes one physical delivery XYZ call option – giving the call holder the right to purchase his 100 shares at a specified price – this would be a covered call. Unless you're an expert, NEVER do "naked calls" – that means an investor who writes a call but does not own the stock – if you are wrong you could lose a lot of money!!

At the Money – This term means that the current market value of the stock is the same as the exercise price of the option. If the stock is selling for $25 a share in the exercise price of the option is 25 that stock is "at the money".

In the Money – A call option is said to be "in the money" if the current value of the underlying stock is above the exercise price of the option. A put option is said to be "in the money" if the current market value of the underlying interest is below the exercise price of the option.

For example: if XYZ stock is selling at $43, a XYZ 40 call would be in the money by $3. If X YZ stock was selling at $37, a XYZ 40 puts would be in the money by $3.

Out of the Money - If the exercise price of a call is higher than the current value of the underlying stock or the exercise price of the put is below the current market value of the underlying stock, the option is said to be "out of the money".

For example: with a current market price of XYZ stock at $40, a call with an exercise price of $45 would be out of money by $5. With the current market price of $35, a put with an exercise price of $30 would be out of the money by $5.

Intrinsic Value and Time Value – It is sometimes useful to consider the premium of an option as consisting of two components: intrinsic value and time value. Intrinsic value reflects the amount, if any, by which an option is in the money. In the examples, the call options had an intrinsic value of $5

Time value is whatever the premium of the option is in addition to its intrinsic value – this is the "emotions" in the market – based on what people emotionally think the stock will do. And option will normally never be expected to trade for less than its intrinsic value prior to expiration, although occasionally this would happen.

Here's an example of a call with intrinsic value: when the current market price of XYZ stock is $46 a share, a XYZ 40 call would have an intrinsic value of $6 a share for each contract or each contract (100 shares) has an intrinsic value of $600. If the market price of the stock were to decline to $44, the intrinsic value of the call would be only $4 a share or $400 per contract. Should the stock dropped below $40, the call would have no intrinsic value.

Here's an example of a put with intrinsic value: When the current market price of XYZ stock is $46 a share, a XYZ 50 put would have an intrinsic value of $4 a share or $400 per contract. The price of the stock climbed above $50 share, the put would have no intrinsic value.

Example of Time Value – When XYZ stock is $40 a share, XYZ call may have a current market value of say, $2 a share or $200 per contract. This is entirely time value – someone out there wants the right to be able to buy XYZ stock at $40 a share say any time in the next three months because he or she thinks XYZ stock will go up and they will make a profit.

An option with intrinsic value may often also have some time value as well – that is, the market price of the option may be greater than its intrinsic value. This could occur with both a call and put option.

For example: the market price of XYZ stock at $45 a share, a XYZ 40 call may have a current value price of $6 a share ($600 per contract), reflecting an intrinsic value of $5 a share and a time value of $1 share.

An option's time value is influenced by several factors (as described under "premium") including the length of time remaining until expiration. And option is a "wasting" asset; if it is not sold or exercise prior to its expiration, it will become worthless.

From the little bit of glancing I've done looking at options, I'd say that emotion rules and you will find plenty of options that you can buy that could be traded and are a good choice. We will look for these kinds of options in using our covered call strategy.

Transaction costs – The transaction costs of options investing consists primarily of commissions (which are charged for opening and closing transactions just as with stocks. If you are a riskier trader and use margin (borrow money from your broker) then you will incur interest costs as well. I am NOT recommending anyone use margin until they feel very comfortable using option strategies. And even then I think it's a bad idea. Always realize options are riskier than buying stocks – don't get in over your head until you are an expert swimmer!!

Principal Risks of Option Positions

Here I will discuss the potential risks with options trading. It is very important that you understand all the possible risks before you start options trading!

Biggest Risk – An option holder runs the risk of losing the entire amount paid for the option in a relatively short time – several months or several years. This risk reflects the nature of an option as a wasting agent that expires in a short time and becomes worthless when it expires. An option holder who neither sells his option in the secondary market nor exercises it prior to expiration will necessarily lose his entire investment in the option.

The fact that options become valueless upon expiration means that an option holder must not only be right about the direction (up or down) of an anticipated price change in the underlying stock but must also be right about when the price change will occur. If the price of an underlying stock does not change in the anticipated direction before the option expires to an extent sufficient to cover the cost of the option (premium) the investor will lose all or a significant part of his investment in the option. This contrasts with that investor buys a stock directly and may continue to hold the stock forever hoping it will move in the direction he wants.

The significance of this risk to an option holder depends in large part upon the extent to which he utilizes the leverage of options to control a larger quantity of the underlying stock than he could have purchased directly with the same investment amount. The example below compares the consequences of three different approaches to investing the same of amount of money in stock or options, with each approach involving a different degree of leverage.

Example – Assume that investors A, B, and C each have $5,000 to invest and that each anticipates an increase in the market price of XYZ stock, which is currently $50 a share. Investor A invests is $5,000 in 100 shares of XYZ. Investor B invests $500 in the purchase of XYZ 50 call option (one contract for 100 shares of XYZ at a premium of $5 a share) and invests the remaining $4,500 in relatively risk–free investments such as Treasury Bills. (We'll assume in this example that all of the calls are purchased when they have six months remaining until expiration and that the risk-free investment bears interest at an annual rate of 3.25% - which means that a $4,500 investment will earn approximately $73 and interest over six months). Investor C invests his entire $5,000 in 10 XYZ 50 calls (10 contracts @ $500 each – $5,000).

If each option is held for six months and, if it is profitable, is either sold or exercised immediately before it expires, the following illustrates the dollar and percentage profit or loss that each investor would realize on his $5,000 investment depending upon the price of XYZ stock when the option expires. Increased leverage ($5,000 worth of options controls 10 contracts which controls 1,000 shares) results in greater profit potential on the upside and greater risk of loss on the downside. Investors C, as the most leveraged investor, would realize the highest percentage return if the price of XYZ increased to $62, but would suffer up 20% loss even if XYZ increased to 54 (assuming he did not sell his options while they had significant remaining time value, and would lose all of his investment if the price of XYZ stayed at or below 50.

The more an option is out of the money and the shorter the remaining time to expiration, the greater the risk that an option holder will lose all or part of his investment in the option. The greater the price movement of the underlying interest necessary for the option to become profitable (that is, the more the option is out of the money when purchased and the greater the cost of the option) and the shorter the time within which this price movement must occur, the greater the likelihood that the option holder will realize a loss.

This does not necessarily mean that an option must be worthwhile to exercise in order for a holder to realize a profit. Instead, it may be possible for the holder to realize a profit by selling an option prior to its expiration for more than its original cost even though the option never becomes worthwhile to exercise. (The shorter the time remaining until expiration, the less likely it is that this will be possible – don't expect to make much if you sell your option a day before it expires!

Risks of Option Writers

An option writer may be assigned an exercise at any time during the period the option is exercisable. Starting with the day it is purchased, an option is subject to being exercised by the option holder at any time until the option expires. This means that the option writer is subject to being assigned an exercise at any time after he has written the option until the option expires or until he has closed that his position in a closing transaction.

If an option that is exercisable is in the money, the option writer can anticipate that the option will be exercised, especially as expiration approaches. Once he is assigned an exercise, the assigned writer must deliver (in the case of a call) or purchase (in the case of a put) the underlying stock (or pay the cash settlement amount in the case of an in the money cash–settled option). The consequences of being assigned an exercise depend upon whether the writer of a call is covered or uncovered, as discussed below. We will only use the covered call strategy.

The writer of a covered call forgoes the opportunity to benefit from an increase in the value of the underlying stock above the option price, but continues to bear the risk of a decline in the value of the underlying interest.

Unlike a holder of the underlying stock who has not written a call against it, the covered call writer has (in exchange for the premium) given up the opportunity to profit from an increase in the value of the underlying stock above the exercise price. If he is assigned an exercise, the net proceeds that he realizes from the sale of the underlying stock pursuant to the exercise could be substantially below its prevailing market price.

Example: when XYZ stock was $45.00 a share the investor collected $4 a share premium by writing an XYZ 50 delivery call. As expiration approaches, the stock has risen to $58 a share and he is assigned an exercise. His total return, in addition to any dividends received, will be the $5 per share gain (from $45.00 to $50.00) plus the $4 premium per share collected when the option was written – $8 a share less than the $58 he could've sold the stock for if he had not written the option – but still a very nice profit!

On the other hand, if the value of the underlying stock declined substantially below the exercise price, the call is not likely to be exercised and, depending upon the price paid for the underlying interest, the covered call writer could have an unrealized loss on the underlying stock. AIM would then tell you it's time to buy more shares and you will pocket the option premium paid by the buyer of your option.

Long-Term Options – LEAPs

In addition to normal options, about 10% of optionable stocks also have LEAPs options available for trading. LEAPs is an acronym for Long Term Equity Anticipation Securities. LEAPs are no different from normal options, except their expiration dates are for a much longer time span. All LEAPs are January options which means they expire on the third Friday in January of whatever year they expire. LEAPs are usually available for the January of the following year and maybe the year after that. For example, even as I write this in November 2011, January 2014 LEAPs have been issued on many stocks and more will be issued the rest of this month so you could have a LEAP with a time span of over two years.

Normal options have an expiration date of one to six months at maximum – usually on most options you can get expirations as short as one month on a new option. Like I said above some LEAPs are good for even longer than one year. You can find what stocks have LEAPs by going to http://www.cboe.com and clicking on the top bar I believe you will find a button that will say LEAPs and it will identify all stocks (equities) that have LEAPs from A to Z.

Sometime between the sixth and eighth month point from its expiration date, the LEAP will be converted to a normal option.

Bid and Ask Price

Somebody has to sell you the option and make a market in options. They like to get paid for doing that. They like to get paid very well for doing that. They are paid very well for doing that. So that is why when you see an option quote, notice that there is a bid price as well as an ask price.

So you might see XYZ 50 call June with the bid price of $2 and an ask price of $2.15. The bid price (lower one,) is the price that we can sell our option for. The ask price (the higher one) is the price that we can buy the options for. The difference between the bid and ask prices is called the bid–ask spread. This is how floor traders get rich. This is the (cost of doing business) like commissions, don't worry about it. Look at the option tables and you'll see the differences between bid and ask is now very small – sometimes just a penny. Losing money on the bid and ask difference will not put a dent in your profits.

Volatility of the Stock

Volatility of the stock will be an important factor in our covered call strategy. Options tend to have an amplified impact by the movement of the stock. The more a stock fluctuates, the higher the volatility of that particular stock. A stock can fluctuate both up and down.

Here's an example:

ABC stock moves up and down in the $10 range each day. However, this particular stock closes at or near the same price every day.

XYZ stock moves in a $1 range each day. However at the end of the trading day, the stock moves up $1 dollar each time.

Even though the end-of-day price differences are larger each day for XYZ, the amount of intraday fluctuation is much greater for ABC; therefore ABC tends to have a much higher volatility.

When we use our covered call strategy described later, we want stocks that are very conservative, not volatile. We just want a steady, boring monthly income for our calls that we sell backed up by the stock we own.

The' Delta' of Change

There are a lot of good Greek words in investing – beta of a stock means how volatile the stock is. A big beta means big price swings. Here we are concerned with the "Delta" of an option which the rate of change for our option compared to the increase in the stock price.

An example should explain this for you.

Let's say we buy a call option on XYZ stock at the strike price – so if the stock is $80 a share, we buy a $80 strike price call.

If our stock goes to $81, our call was likely to go up $.50 for a Delta of .5.

If our stock goes to $82, our call is more likely to go up $.75 for the $1 stock increase or a Delta of .3.

If our stock goes down to $79, our option is likely to lose $.50 in value for a .5 Delta (or your option value goes from $1.00 to $.50 share or from $100 to $50 per contract.

If our stock goes down to $78, it is likely to lose another $.30 or your option went down to $.20 or each contract is now worth $20.

If our stock goes down to $77, likely to lose another $1.00 or your option goes down to $.10 and each contract is worth $10.

If our stock was down to $76, your option is likely to be worth $.03 or $3 per contract.

Important Points

3 basic trends:

– **bullish** – stock will go up

– **bearish** – stock will go down

– **stagnant** – stock doesn't go up or down, just stays near same price.

A trend is different from a pattern – look for patterns within trends.

Continuation Trend – the Trend is Your Friend

Support and resistance run parallel

Support – price point where stocks stops going down

Resistance – price point where stock stops going up

If bullish – price will go up

If stagnant – price will stay the same

If bearish – price will go lower

To determine what trend is for a stock – look at charts for at least 12 months – what is the stock doing? Going up? Going down? Going sideways? (Stagnant?)

Also look for news about the stock – is it good? Bad? Things happening to the company? Are earnings forecast to go up? Down? Are revenues growing? I may add to my newsletter some recommendations for potential stocks that I feel will work for the option strategy I will give you. And I have started identifying which stocks I am recommending for the month that have LEAPs.

But you really need to learn to do research on your own to make the most profits with options. You really need to be able to give yourself a good reason why you are optioning a particular stock.

Check the sentiment on the stock. Are analysts saying buy, sell? The Standard and Poor Reports are an excellent source for this info. Get familiar with the free research your broker has that you can look at. My broker, TD Waterhouse, has excellent research to let you bring up charts on stocks, look at S&P reports and Reuter reports and many other research tools. The more you know the better you will do with options.

Again check the overall economy, how is the U.S. economy doing, our jobs being created? Maybe they were being created when I first wrote this in the 80s but they sure as hell aren't being created in 2011 as I write this and edit it.

Key to Success

Get core groups of stocks – say 5 – 10

Become intimately familiar with them

Know as much as possible

Then trade them over and over

Change strategy as needed

Keep losses small

Have a plan

Perfect Trading System

Simple

Time efficient

High returns

Low to no risks

Repeatable

Consistent

Low capital (funds) needed

Fun

Low fees

Remember 85% of all options expire worthless – this statistical make you feel good when I explain our covered call strategy.

Options as a Trading Vehicle

With options you get the right to control a stock for a limited period of time. You also gain leverage as you can control the stock with an option for far less money than if you buy the stock. Remember our examples – 100 shares of XYZ stock at $50 a share costs $5,000. We can probably buy an option call on XYZ Strike 55 call with five–month expiration for $1.00. So for the same $5,000 we could buy 50 contracts (I'm ignoring commissions here) or control 5,000 shares for the same money we can buy 100 shares.

That's the principle of leverage. And a small movement in the price of the stock will give us a large percentage increase. Earlier I told you that when a stock is at its strike price, it goes up quite sharply. Even on an out of the money option, the XYZ option will probably go up at least $.25 if the stock goes from $50 to $51 at the beginning of the option. So you will be up 25% if the stock just goes up $1.00.

I may repeat myself at times in this chapter and that's good. I want to hammer home many points about options and repetition is a good way to do that. Please make sure you understand this whole chapter well before you start trading options because as I said earlier – it is riskier than trading stocks or ETF's because of the time expiration factor.

Below I will show you again the great profit potential of options and their great leverage.

Be sure you understand what commissions you will be paying to your broker for options before you begin trading. Also make sure you completely understand how to buy the correct option of the correct stock before you start trading. If you don't understand how to do that from the broker's website, call your broker and have him or her explain how to you. From my experience brokers have made it very easy to identify exactly what option you want to buy. They'll be glad to help you. And in no time at all, you will feel comfortable buying options yourself from the broker's website.

One other thing before we get into the covered call options. The Securities and Exchange Commission is concerned for investors investing in options and they want you to read a pamphlet basically called the risks of options and your broker will want you to sign something saying you have read this pamphlet and do understand that options are risky.

Strategy #1 – Buy Call Options

ABC stock is selling at $26; you buy one call contract option at $30 and pay $.75 per option share or pay $75 for one contract of 100 shares. The commissions are very low so I'm ignoring them in these examples.

The "buy call option" gives you the right but not the obligation to buy ABC at $30 a share for a specific period of time (we will use 5–6 months' time period for this strategy.)

For example: if you buy the call option in March 2006, you will be buying the call option expiring in August 2006 or September 2006 (remember they expire the third Friday of the month when they expire).

Below is potential for profits of options.

Remember you always want long time periods at least five – six months if you buy a call option, and if you want for longer, maybe even years, then buy LEAPs.

And

A short time if you sell a call option.

You buy the call option at $.75 for one contract. If you lose all of your investment, you lose $75 – so this strategy meets our goal of limited losses. We may decide to buy 2–3 contracts if we really feel bullish about this stock over the next 4–5 months. A couple of months ago Google would've been a good stock to buy call options on – now it seems to be a good stock to buy puts on again this was written 20 years ago so it might not be true today.

Let's say the price is $28 a share three days after we buy our option. The stock owner is ahead 7% on the increase in the stock price. Option owners are now 100% (your option bought for $.75 is now $1.50 per share or $150 per contract. You can sell the contract for the $150 because there is someone else willing to buy your option because he or she feels ABC will continue to go hire – the trend is bullish.

Let's say a week later stock price rises from $28 to $30 – bullish trend continues. Stock prices ahead 15% but option premium has risen from $1.50 per share to $2.50 per share or each contract rose from $150 to $250. You are ahead 233% on your options. Than a month later stock goes to $32. The stock is ahead 23% but the option is ahead 466%! You see the power of options.

I recommend the buy call options (gives you the right to buy a stock at a certain price for a specific period of time) for stocks you are bullish on, stock you feel will go up. Remember that my newsletter is giving you stocks at or near their 52-week lows. The stocks are definite candidates for buying a call. This is a low dollar amount risk that could lead to good profits. I will start identifying stocks I think are possible stocks that you may want to buy an option on.

Again remember that the normal options are usually good for as long as six months or so. But also there are long-term options – LEAPs which will expire in the third Friday in January of whatever particular year they expire in. I will suggest possible option candidates but I don't have the time to determine if all of my choices are even optionable. You can look at any I suggest in my newsletter by going to Yahoo Finance and typing in the symbol and seeing what options are available for that particular stock. You will find a nice example of an option listing I took from an earlier issue of *Barron's* but it's just too big and bulky to put in an e-book so again go to your free Adobe Acrobat version to look at this spreadsheet.

Barron's Option Listing Example

DuPont	Mar	12.50		1558	5658	0.20	0.10	0.15	+0.05	
41.00	Mar	12.50	p	222	659	2.60	1.75	1.75	-0.30	
Company Exch Close			Strike Price				Sales Vol		Open Int	Weeks High
	Weeks Low		Last Price		Net Chg					
41.00	Mar	35.00		119	78	5.80	5.10	5.50	-0.30	
41.00	Apr	35.00		104	695	6.40	5.30	6.40	-0.40	
41.00	Mar	37.50		573	1808	3.50	2.70	2.95	+0.05	
41.00	Mar	37.50	p	270	1030	0.10	0.05	0.05	-0.05	
41.00	Apr	37.50		2271	4784	3.50	3.00	3.43	+0.03	
41.00	Apr	37.50	p	159	6059	0.30	0.15	0.15	-0.15	
41.00	Jul	37.50	p	1863	8474	0.90	0.60	0.60	-0.20	
41.00	Oct	37.50	p	337	371	1.35	1.00	1.00	-0.35	
41.00	Mar	40.00		2187	5543	1.40	0.70	1.30	+0.30	
41.00	Mar	40.00	p	4720	4989	0.70	0.20	0.20	-0.35	
41.00	Apr	40.00		3180	11414	1.95	1.25	1.85	+0.28	
41.00	Apr	40.00	p	711	10200	1.05	0.55	0.55	-0.35	
41.00	Jul	40.00		533	5596	2.65	2.20	2.50	+0.10	
41.00	Jul	40.00	p	173	7787	1.90	1.45	1.45	-0.20	
41.00	Oct	40.00	p	132	219	2.10	1.85	1.85	...	
41.00	Apr	42.50		4221	15456	0.65	0.35	0.60	+0.15	

41.00	Apr	42.50	p	420	8364	2.70	1.80	1.80	-0.60
41.00	Jul	42.50		1004	8087	1.45	1.05	1.45	+0.20
41.00	Oct	42.50	p	223	262	3.70	3.20	3.30	+0.20
41.00	Apr	45.00		238	10285	0.15	0.05	0.15	+0.05

The above gives an example of how *Barron's* list options. The above shows the put and call options available on DuPont. They list weekly option prices after the market closes every Friday. This is a good way to see how your option is doing. Once you own an option you should track it daily as far as I'm concerned. And again time to radically change for the better for investors because now you don't have to think about looking them up in a paper publication you can easily check the option prices for any stock very easily in Yahoo Finance. Remember the prices are per share so you have to multiply the price you see in Yahoo Finance X 100 to get the value of your contract.

If any stock you buy a call option on hasn't moved in two – three months, you should strongly think of selling your option and only incurring a small loss. Remember that options have the time value. The closer an option gets to its expiration date, the less it is worth. You can't win every battle with options. Cut your losses and try again – you can even sell your option that has only two – three months remaining in likely buy another option on that same stock that doesn't expire for six months and that option will be cheaply priced because of the downward trend.

Normally stocks in the $20 price range have strike prices set $2.50 apart. So on a stock selling for $20, you will find options with strike prices of say $20, $22.50, $25 and maybe even $27.50 or $30. The higher the strike price, the cheaper the call option. I would recommend paying a little more and getting a call option that is only slightly out of the money.

For example, if the stock is selling at $20, I would recommend buying a call option with a strike price of $22.50 or $25 but not higher.

2nd Strategy – Covered Calls

A covered call means you own the stock when you "sell" a call giving the buyer the "right" to buy your stock for a set period of time at the strike price. Use this strategy when you feel your stock is stagnant or bearish in the short term. When you "sell" a call, you ARE OBLIGATED to sell your stock to the buyer at the strike price.

You ask yourself – why am I doing this? You are doing this because you get to keep the premium from the buyer of your call option. Remember that call options are sold as contracts and each contract is for 100 shares – so if you own 325 shares do not sell more than three contracts (300 shares) worth of call options. You do not want to be "naked" when you sell call options (not own the stock that you are selling calls on).

Here's an example of what I propose you do:

Determine your outlook on the stock – you must feel the stock is stagnant, not likely to have a large price increase in the near future. You can look at your AIM spreadsheets and see what the price of the stock has been for say the last five or six months. And again you can always go to Yahoo Finance, type in the symbol of your stock, and then look up the historical prices of your stock on a weekly or monthly basis to see if it has been stagnant, not likely to have large price increases. You can look at your AIM spreadsheets and see what the price of the stock has been for say the last five or six months. And if there is no dramatic news that will boost the stock in the next month, then that is the stock you should sell call options on.

Sell call options against the stock – remember don't sell more call option contracts than you own stock on - see the above example - pick an expiration date – for this strategy we want a short strike price date. Pick the next month's expiration date. So if this is March 6, 2006, sell call options within April 2006 strike date – one month or so is the right time. You want – you want these options to expire worthless.

Pick strike price "out of the money". Pick the first one that is out of the money. So if your stock is selling at $18 a share, the first strike price out of the money is $20. Thus the stock has to go up to at least $20 before the option has intrinsic value to the buyer

So here's our example:

XYZ stock currently selling at $18 a share – you own 200 shares.

You sell 2 call option contracts (all 200 shares) to the buyer, giving the buyer the right to buy your stock for $20 a share (strike price). Notice the option is out of the money.

For selling the buyer 2 option contracts, the buyer pays you a premium of $1.25 a share on 200 shares X $1.25 = equals $250. THE $250 IS YOURS TO KEEP FOREVER!

Three possible things can happen to your stock – goes up, stays stagnant, or goes down.

Let's say it goes up: say it goes from $18 to$20 – here's how you did:

Goes to $20 (unlikely you even have to fill the order – likely your broker just fills the order since it is at market price). Here's how you did:

- Made $250 from the option buyer
- Made $400 if you had to sell the stock

You made $650 which works out to a rate of return of 18% in one month and your stock only went up 11%!

Let's say the stock stays stagnant (doesn't go up or down very much):

- Stock still at $18
- Keep $250 from call buyer
- Then sell another call option for the following month May 06 for another $250
- Make 7% profit in one month on a stock that didn't move!

Let's say the stock goes down:

– Say stock is selling at $16.75

- You have broken even – the stock is down $250 but you made $250 from selling the 2 options. And your "loss" is a paper loss. AIM might tell you to buy some more shares because AIM feels that long-term the stock will go up. So you really didn't lose any money!

Always use short-term options not – LEAPs (long–term) options for the covered call strategy.

Remember with our strategy you want to sell "out of the money" calls (strike price is higher than stock currently selling for). You use out of the money options because the purpose of this strategy is to generate income from the premium you receive for selling the call.

You do not have to wait until an option expires to close it. You can close it and roll it over with options at a higher strike price.

You want to roll over your options. You want the income you earn from selling calls to continue month after month. So you want to roll over your calls. So as soon as one of your covered calls expires worthless because the stock did not go high enough for the buyer to exercise the option, you figure out a good strike price for next month and sell to more options against the shares you still own.

This lets you make a steady income from the premiums and let you hold onto your stock while waiting for it to go up. If you choose to have a short call and that call got exercised (very unlikely) then you would make profits both on the premium and on the rise in the stock. You can then either buy another stock that is at or near its 52-week low or rebuy the original stock if you still like it. But if you don't want to have to sell the stock, you can avoid that by rolling over your options for higher strike price options.

For example: you sell a call with a strike price of $25 when your stock is $21. Let's say your stock has risen to $24. You can close out your 25 call option and buy another option with a strike price of $27.50. You can often roll forward and up and gather higher net premiums.

Third Strategy – Aggressive

This is a good strategy for stocks that are stagnant, mildly bullish. We have the same outlook for XYZ stock – we feel the stock is stagnant and unlikely to go up much. XYZ is selling for $18 a share in February 2006.

- Buy the right to buy the stock (the call)
- Buy as close to the money as possible (for $18 stock, buy the $17.50 strike price call – by more time, get a five-month call – expires July 2006, the third Friday of the month. Let's assume the call costs 44 a share. For this example will assume you buy 12 contracts for $4,800 (1,200 shares X $4 a share).
- Then sell 20 call options at same Strike price of $17.50 expiring in March 2006 (you sell for $1,200 (1,200 shares times X $1 share premium = $1,200.

Three Possible Outcomes

Stock goes up:

Say stock goes to $20.

- Keep $1,200 selling premium – obligation to sell ends third Friday in March 2006
- Make $2,400 more – sell call options which are worth $2 each more than you paid, now worth six dollars).

Keep $1,200 premium

Make $<u>2,400</u> on stock

= $3,600 profit

75% return on stock you never owned.

Stock stays stagnant:

- Keep $1,200 (25% return in one month).
- Still own long term buy option

- Sell another one month sell option (probably bring in $1,150)

Stock goes down:

(Must go down $1.50 a share for you to lose money):

If the stock starts to go down – buy $17.50 put option (gives you the "right" to sell the stock at $17.50 a share no matter how far down it goes. Probably you had to pay a premium of $.90 a share. Buy the same number of contracts you previously had call options on – 12 contracts.

Doing that gives you a profit of 3%. You keep $.10 a share. You make $1 a share on the premium you sold ($1,200) and you paid $1,080 for the 12 put contracts to eliminate your risk on the 12 call contracts you bought earlier.

Recommended Broker

At my class where I learned about options, our instructor strongly recommended using Options Xpress for trading options – visit their website at http://optionsxpress.com

Their rates appear quite reasonable to me. They charge a $1.50 per contract so in the above example 12 contracts would cost you $18. It's easy to place an order according to our instructor – I haven't tried to yet. You don't need to be a computer expert. Their site does have a lot of educational material to help explain options.

Please read all the information you can on options – there are fortunes to be made and you become familiar with all the various options strategies. With the right strategies you can practically eliminate risk. Once you open an account it is very easy to get a current quote. Just type in the stock symbol and Options Xpress will give you all the put and call opens and their current prices for any stock if that stock trades options.

Also, Steve, our instructor, said that Options Xpress will let you "paper trade" as a game with no real money involved. Again, you need to open an account and you can open an account for no money and fund it later. There is a hotlink right at the top of the Options Xpress homepage that you click to paper trade. Again I haven't tried that yet either. I'm too busy typing away so you get this chapter sooner rather than later!!

I would highly recommend that you paper trade for a month or two before doing this for real. But don't be like the guy Steve told us about. This guy told Steve he was making $100,000 a year trading options on paper. Steve asked him: "How long have you been paper trading"? The guy said: "15 years"! Sad, very sad.

Again remember is very easy to find out current quotes on any options by using any of numerous websites including Options Xpress to check on option prices.

Useful Websites for Option Prices

My favorite is again that very useful site Yahoo Finance. Again all you have to do is click on Finance and type the symbol in the box click, enter and when the summary page for the stock appears, just look on the left and click on the options button and you will see all of the various options listed. The option prices always defaults to the most current option or the one that will expire in the shortest period of time. When you look above the prices for that option you will see hot links to other months and even other years as they organize the option prices by the shortest of the longest. So LEAPs which will say for example now include January 12, January 13, January 14, will always be on the far right side at the top of the current option prices at all you have to do is click on either say January 13 or January 14 and you will suddenly see all of the prices for those particular options it is very easy.

Our instructor said roughly 1/3 of all stocks have options. Usually there are options on the better-known, higher volume stocks. There are no options on stocks trading for less than $5 unless originally that stock was trading much higher at the times the options were sold, for example Citibank.

I recommend you scroll through the options listing and get a feel for which stocks trade options and what prices for options are like. And it isn't only stocks that can have options, many ETF's also have options and could prove to be an excellent trading vehicle for options. You will see more about ETF's in a later chapter.

Chapter 21
How to Use LEAPs with and without AIM

Now you have read my book and you see how AIM operates. You see that it works best with volatile investments – ones that have good high/low swings so AIM can do its buying and selling. Well, now after many years of searching, I have found the perfect investment for AIM – LEAPs.

LEAPs are long-term options on many of the stocks and ETF's that are household names and many others. About 1,000 stocks on both the New York Stock Exchange and NASDAQ National Stock Market have LEAPs and again many ETF's also have LEAPs.

Here's Jeff's quickie review on LEAPs. LEAPs are derivatives – they "derive" their value from their parent’s stock. LEAPs only have value if the stock has value. And as the stock goes up and down, the LEAP goes up and down. All LEAPs are more than a year away from ending – as of November 4, 2006 the two classes of LEAPs you can buy are either one's expiring in January 2008 or January 2009 – the January 2010 expiring LEAPs will probably come out in early 2007.

You need to understand some basic option knowledge. All options, including LEAPs have basic terminology you need to know. You need to understand this terminology. Don't worry; I won't overwhelm you – just the basics. Here are the four terms you need to know: "in the money" "out of the money", "at the money" and "strike price". I'll go over these terms briefly, you will find them listed and explained in the previous Chapter, Chapter 20.

Regarding Strike Price, you need to understand that each LEAP can have many strike prices – some are "in the money", one could be "at the money" and some could be "out of the money". Below is an example:

Let's say Yahoo is currently selling at $26.16 (it is on November 3, 2006).

Below are the call LEAPs available with the January 2008 expiration and their current price (note: price below was for one share – LEAPs are sold in 100 share lots called contracts so multiply the price below 100 to get the price of one contract.

Calls	**Last**	**Chg.**	**Bid**	**Ask**	**Vol.**	**Open Int.**	**Strike**
@YHQKC	11.00		11.10	11.30	0	222	15.00
@YHQKW	9.10		8.60	8.80	0	324	17.50
@YHQKD	6.10	- .50	6.10	6.30	20	2,325	20.00
@YHQKX	3.70	.20	3.70	3.80	242	13,923	22.50
@YHQKE	1.45	- .25	1.40	1.50	2223	69,237	25.00
@YHQKY	.25	- .10	.20	.25	3191	44,810	27.50
@YHQKF	.05		.00	.05	690	14,085	30.00
@YHQKZ	.03		.00	.05	0	2,127	32.50
@YHQKG	.05		.00	.05	0	134	35.00
@YHQKU	.05		.00	.05	0	2	37.50

Since the price is $26 16, any strike price higher than $26.16 is "in the money" and any strike price lower than $26.16 is "out of the money". And when you look today in 2011 at Yahoo Finance option prices, you will see that the symbols for options have legally changed and are much different than the symbols you see above under the call's column. Strike price merely means the price you have a "right" to buy the stock at for the term of the LEAP. With call LEAPs, the option will go higher when the stock goes higher.

			Jan 09	Dell	Call	LEAPS				
		Stock								
Stock	**Symbol**	**Price**	**Strike 10**	**Strike 15**	**Strike 20**	**Strike 25**	**Strike 30**	**Strike 35**	**Strike 40**	**Strike 45**
Dell	DELL									
LEAP	WDQ									
28-Jul-06		$22.03								
29-Jul-06		$22.16								
1-Aug-06		$21.37								
2-Aug-06		$21.98								
3-Aug-06		$21.76	$13.40	$9.20	$6.30	$4.20	$2.50	$1.35		
7-Aug-06		$22.03	$13.40	$9.20	$6.30	$4.20	$2.50	$1.35	$0.50	$0.20
9-Aug-06		$21.50	$13.40	$9.30	$6.30	$4.00	$2.50	$1.20	$0.50	$0.20
10-Aug-06		$20.93	$13.40	$9.30	$5.60	$3.70	$2.50	$1.25	$0.75	$0.45
11-Aug-06		$21.09	$13.40	$9.30	$5.60	$3.70	$2.50	$1.25	$0.75	$0.45
21-Aug-06		$21.89	$14.50	$9.00	$6.50	$3.80	$2.20	$1.25	$0.60	$0.45
22-Aug-06		$21.61	$14.50	$9.00	$6.50	$3.80	$2.20	$1.25	$0.60	$0.45
23-Aug-06		$21.64	$13.00	$9.00	$5.90	$3.80	$2.15	$1.25	$0.60	$0.45
25-Aug-06		$21.75	$13.00	$9.00	$6.00	$3.80	$2.15	$1.25	$0.60	$0.45
28-Aug-06		$22.24	$13.00	$9.00	$6.00	$3.90	$2.25	$1.25	$0.60	$0.45
29-Aug-06		$21.96	$13.00	$9.00	$6.00	$3.90	$2.25	$1.25	$0.60	$0.45
30-Aug-06		$22.63	$13.00	$9.00	$6.60	$3.71	$2.50	$1.25	$0.60	$0.45
18-Sep-06		$21.30	$12.70	$9.30	$5.90	$3.50	$2.05	$1.10	$0.65	$0.45
21-Sep-06		$21.19	$12.70	$9.30	$5.80	$3.30	$1.95	$1.05	$0.60	$0.30
22-Sep-06		$21.28	$12.70	$9.30	$5.70	$3.30	$1.95	$1.05	$0.60	$0.30
25-Sep-06		$21.74	$12.70	$8.80	$5.70	$3.50	$2.00	$1.20	$0.60	$0.30
26-Sep-06		$22.31	$12.70	$9.70	$5.70	$4.00	$2.00	$1.20	$0.60	$0.30
28-Sep-06		$22.51	$12.70	$9.70	$6.60	$4.00	$2.00	$1.45	$0.60	$0.30
2-Oct-06		$23.28	$12.70	$9.70	$6.90	$4.50	$2.50	$1.60	$0.85	$0.30
3-Oct-06		$22.92	$12.70	$9.70	$7.20	$4.20	$2.50	$1.60	$0.85	$0.30
5-Oct-06		$22.95	$14.40	$9.70	$7.00	$4.20	$2.50	$1.60	$0.85	$0.30
6-Oct-06		$23.00	$14.40	$9.70	$7.00	$4.60	$2.50	$1.60	$0.85	$0.30
16-Oct-06		$24.61	$14.40	$10.40	$8.10	$4.90	$3.30	$1.75	$1.05	$0.30
18-Oct-06		$24.63	$14.40	$11.90	$8.10	$5.20	$3.30	$1.75	$1.10	$0.30
19-Oct-06		$23.16	$14.40	$11.90	$7.60	$4.40	$2.70	$1.85	$0.85	$0.30
20-Oct-06		$23.52	$14.40	$11.90	$7.00	$4.40	$2.55	$1.45	$0.85	$0.30
24-Oct-06		$23.36	$14.40	$11.90	$7.30	$4.40	$2.55	$1.45	$0.85	$0.30
25-Oct-06		$22.99	$14.40	$11.90	$7.30	$4.60	$2.55	$1.45	$0.85	$0.30
26-Oct-06		$23.27	$14.40	$11.90	$7.30	$4.60	$2.55	$1.40	$0.75	$0.30
31-Oct-06		$23.95	$14.40	$11.90	$7.30	$4.60	$2.55	$1.65	$0.75	$0.45
1-Nov-06		$24.52	$14.40	$11.90	$7.30	$5.30	$2.55	$1.85	$1.00	$0.60
2-Nov-06		$24.81	$14.40	$11.90	$8.30	$5.20	$3.20	$1.85	$1.00	$0.60

You can see that LEAPs become cheaper in price the higher the Strike price is out of the money. But realize that the stock doesn't even have to go higher than the Strike price for you to make profits. If other investors think the stock could possibly go up, then the price of the LEAP will go up. I'll show you that when you see how price movements have gone on several LEAPs I have been tracking have done in the last several months. You will see "deep out of the money" LEAPs that have at least doubled in price even though the stock price is nowhere near the strike price.

All you need is the possibility that another investor thinks the stock could go way up. That's all it takes. All you need is to be smarter than the other investors and have a plan and a strategy is up as I am giving you and you will make very high profits. Again look in your free Adobe Acrobat version of my investing book and you will see a nice spreadsheet showing how prices on a LEAP for Dell computers did over a period of several months.

Looking at the spreadsheet I just told you about that you can easily see in the Adobe Acrobat version of my book you can see that even the Strike 45 LEAP doubled in price from October 26, 2006 to November 1, 2006 even though the stock only went up in price from $23.27 to $24.81. You see the power of LEAPs as investing vehicles! Also you can see why I am suggesting an AIM strategy for LEAPs. Looking over the Strike 45 LEAP over the short period shown above (August 7, 2006 two November 2, 2006) here's the price swings you see:

7 Aug price is $.20	10 Aug price is $.45	125% gain!	We sell!
10 Aug price is $.45	21 Sep price is $.30	50% drop	We buy!
21 Sep price is $.45	31 Oct price is $.45	50% gain!	We sell!
31 Oct price is $.45	1 Nov price is $.60	33% gain!	We Sell!

Below you will see how just checking the LEAPs price once a month – not even following the above price swings still has major tremendous profits. I will be showing you several ways to play LEAPs so you can pick the method that is best for you.

Below I will show you how one LEAP model portfolio has done:

Yearly Gains (Losses) for Jan 09 In the Money LEAPs

LEAP	Starting	Current	% Gain	Time
Portfolio	**Port Value**	**Port Value**	**(Loss)**	**Period**
Jan 09 in the $	$495,000	$648,397	31%	Aug – Dec 06

I still keep track of this model portfolio so if you wanna see how it is currently doing just go to my website http://www.jjjinvesting.com and near the top of the page click on the hot link to how model LEAP portfolios are doing. Every month in my newsletter that you will be getting for free, you will see the latest up-to-date detailed information on the two model LEAP portfolios and two other model portfolios – one showing how bear ETF's are doing, and one showing how the most conservative of blue-chip stocks are doing under the AIM system.

Here are the stocks that I picked LEAPs on for the above model LEAP portfolio:

AMD Strike 20, Amazon Strike 25, Citibank Strike 40 (only real bomb I picked for the model portfolio), Dell Strike 20, DR Horton Strike 20, Ford Strike 5, eBay Strike 25, Intel Strike 15, Symantec Strike 15 and Yahoo Strike 25. You will see when you look at the modern portfolio as of November 2011, that the stocks have changed. Again you are not married to either stocks or LEAPs and can always sell an old one and replace it with a new one if you like the new one better and I will help you decide when you will want to get a better new one.

This portfolio is up 31% in just two months and all I did was look at the price for each of the 10 LEAPs listed above and make buy and sell decisions just like I would with AIM stocks – 31% in 4 months just by checking the LEAPs once a month is pretty impressive to me. Only takes about one hour a month to manage this way and you still make very impressive profits.

The other way that would take more time but would result in more profits is to monitor your LEAP prices at least once a day and on any day you see a large rise or fall in your LEAP price, you use AIM and make either a buy or sell. You would probably be trading 5 – 10 days a month but would be rewarded with even higher profits. I'll do the above price switches on the example above to show you. I'll assume we started with 50 contracts as is used in the above 31% gain example. You'll see that just by making the few trades are listed in the in the example you accomplish two important things:

- First you made big profits – went from $1,500 to $3,211 – a 114% gain in less than three months which works out to an annual gain of 456% – not too bad!
- Second you reduce your risk – we went from owning 5,000 shares or 50 contracts to owning 2,000 shares or 20 contracts.

Strategies for LEAPs

I am going to give you some strategies for playing LEAPs. You know your situation – the amount of money you want to invest, your risk level. I will let you know if the strategy I suggest is risky, conservative or somewhere in the middle.

First of all, while LEAPs are volatile, overall I don't consider them risky... Unless you let your emotions rule your investing. If you can't handle LEAPs going up and down 50% in short periods of time, then LEAPs are not for you. Because they're going to do that. (My investor's Jan 13 Strike 5 LEAP on Bank of America went from $3.70 a share to $1.75 a share and so we made our first buy (following my rule – don't any more LEAP contracts until a LEAP has dropped 50%!) But if you understand the complete strategy and where you will be way down the road investing in LEAPs, then you will not worry and be quite happy because you're going to make huge profits.

First, what are the best stocks to buy call LEAPs on? Well, I apply the same rules I employed with what are the best stocks to invest in – namely ones that are at or near their 52-week low. I have started focusing on stocks at or near their lows in my monthly newsletter - this will give you a starting point for good stocks I feel that will go up. And if the stock goes up, the LEAP really goes up. Since I originally wrote this I have added a new feature to my monthly newsletter and you will find that I list whether or not the stock has LEAPs for all the stocks and ETF's I recommended in my newsletter.

Now the stocks are a little more risky. If you want to be conservative and still use LEAPs then do LEAPs with conservative stocks, with Dow Jones stocks. Every month I bring you the Dow Jones stocks and you see they have done very well over the last 13 years as I wrote this probably longer today. And they will keep doing well over the long term. So if you want to be conservative, stick with them. If you wish to see if a stock has LEAPs, then go to http://www.cboe.com, click on Products at the top and then click on LEAPs, then click on Equity and you will get an A to Z list of stocks with LEAPs.

And if you're really obsessive-compulsive like I am, you can download the file of all of their LEAP options to an Excel spreadsheet, then you can laboriously go through that list and delete all the options that do not have LEAPs. Then you could put break page breaks at the end of each letter of the alphabet so each new letter starts at the top of a new page, then you can print out the entire list of LEAPs from A to Z and put them in a spiral binder with letter tabs to identify each letter of the alphabet. That's what I've done and it makes it much easier every month to check the stocks I am recommending in my newsletter and find out whether they have LEAPs or not.

Strategy #1

Strategy #1 is for investors to have larger sums of money and are risk takers and willing to make large profits. Here's what the strategy entails: you have 10 LEAPs, each LEAP has anywhere from 10 to 50 contracts, and you make buys and sells as AIM tells you either monthly or setting stops and limits. The only difference between selling stocks and LEAPs is that when you sell LEAPs you have to sell contracts not shares. So basically when AIM gives you a buy or sell signal you check the amount of money to buy or sell and divide by the price of a contract to see how many contracts to buy or sell. For example if AIM gives you a MARKET ORDER (SELL) for $1,800 and a contract is worth $600, then you would sell three contracts.

As I showed earlier, the best way to manage a portfolio like this is to check prices daily or leave limit orders for both buys and sells and again any limit orders would be "good till closed”. For example, if your LEAP is selling at $.50 – then you could have a sell at $.75 and a buy at $.25. When either of these occurs, then you set up new buy and sell limits.

You won't have to do this a lot. If you look at the above example, we had 4 buys and sells over a three month period. And you can do this with two basic types of portfolios – "in the money" and "out of the money". I think but cannot prove yet which one will do better. The main difference is that LEAPs are much cheaper when they are out of the money so that portfolio would have a lot more contracts than a portfolio of LEAPs in the money. I think both would do well and you can see both are doing well when you check my webpage and see the up-to-date information on the model LEAP portfolios. I will show you how the two January 2008 in the money and out of the money portfolios are doing and how the two January 09 in the money and out of the money portfolios are doing.

The advantage of the out of the money portfolios is that it is much cheaper. Look at starting dollar amount of that in the money and out of the money portfolios below and you will see that out of the money is substantially cheaper. Also the portfolios below started with 50 contracts each. I think you could do this with a minimum of 10 contracts each (though I feel more contracts is better). Look at these portfolios and again all I did was arbitrarily make buy and sell decisions once a month. You would've made even more money by checking prices daily or setting stops and limits and leaving standing by in sell orders with your broker. Look below at the model portfolios for January 2008 and January 2009.

Yearly Gains (Losses) for Jan 2008 In the Money LEAPs

LEAP	**Starting**	**Current**	**% Gain**	**Time**
PORTFOLIO	**Port Value**	**Port Value**	**(Loss)**	**Period**
Jan 08 in the $	$402,000	$551,761	37%	Aug-Dec 06

The January 2008 in the money portfolio consists of: AMD Strike 17.50, Amazon Strike 25, Citibank Strike 45, Dell Strike 20, (and actually I'm dictating/typing this book revision on a Dell) Inspiron 530 desktop computer!), DR Horton Strike 20, eBay Strike 22.50, Ford Strike 5, Intel Strike 17.50, Symantec Strike 15, and Yahoo Strike 25.

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Yearly Gains (Losses) for Jan 08 Deep Out of the Money LEAPs

LEAP	Starting	Current	% Gain	Time
Portfolio	**Port Value**	**Port Value**	**(Loss)**	**Period**
Jan 08 out of $	$34,125	$73,001	114%	Aug-Dec 06

The January 08 Deep Out of the Money portfolio consists of: AMD Strike 50, Amazon Strike 55, Citibank Strike 70, Dell Strike 40, DR Horton Strike 45, eBay Strike 50, Ford Strike 15, Intel strike 30, Symantec Strike 30, and Yahoo Strike 50.

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Yearly Gains (Losses for Jan 09 In the Money LEAPs

LEAP	Starting	Current	% Gain	Time
Portfolio	**Portfolio**	**Port Value**	**(Loss)**	**Period**
Jan 09 in the $	$495,000	$648,397	31%	Aug-Dec 06

The Jan 09 In the Money portfolio consists of: AMD Strike 20, Amazon Strike 25, Citibank Strike 40, Dell Strike 20, DR Horton Strike 20, Ford Strike 5, eBay Strike 25, Intel Strike 15, Symantec Strike 15, and Yahoo Strike 25.

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Yearly Gains (Losses) for Deep Out of the Money LEAPs

LEAP	Starting	Current	% Gain	Time

Portfolio	Port Value	Port Value	(Loss)	Period
Jan 09 Out of $	$102,375	$154,248	51%	Aug-Dec 06

The Jan 09 Deep Out of the Money portfolio consists of: AMD Strike 40, Amazon Strike 45, Citibank Strike 70, Dell Strike 40, DR Horton Strike 30, eBay Strike 60, Ford Strike 10, Intel Strike 30, Symantec strike 30, and Yahoo Strike 40.

$$

The above gains in only two months are impressive – if you project them out for the whole year you have an annual rate of return of around 150%. Would you be happy averaging 150% a year for many years? I sure would! And again this is only spending an hour a month checking that once prices and then making buys and sells. I will post some spreadsheets showing what LEAP spreadsheet looks like – it's just slightly different than a stock spreadsheet. And again all these spreadsheets will be found in your free Adobe Acrobat version of my book. The only difference is on a couple of the headings to identify contracts and not shares are traded. And I like adding a column showing how many contracts are owned.

Below I'm going to show you the spreadsheets for the January 09 "out of the money" portfolio. Then I will show you how strategy #1 will work. Remember you can either just check the prices once a month or you can set limits and stops and then you will always have buys or sells said when the price of the LEAP makes a move. Overall if you have the time and want higher profits, you should check daily.


WALL ST

DATE	REMARKS AMZN 1/09 Strike 45 Out of Money	SHARE PRICE	SHARE VALUE	10% SAFE	CASH	Contracts BOUGHT (SOLD)	SHARES OWNED	PORT CONTROL	BUY (SELL) ADVICE	MKT ORD (SELL) BUY	6 % INT	Con Owned	PORTFOLIO VALUE
8/06		2.25	11250	1125	5625	-	5000	11250	-	-	-	50	16,875
9/06		3.00	15000	1500	5653	(8)	5000	11250	(3750)	(2400)	28	42	20,653
10/06		3.00	12600	1260	8093	-	4200	11250	(1350)	Ign (90)	40	42	20,693
11/06		9.45	39690	3969	8133	(26)	4200	11250	(28440)	(24440)	40	16	47,823
12/06		7.20	11520	1152	32867	-	1600	11250	(270)	-	164	16	44,387

DATE	REMARKS Citibank 1/09 Strike 70 Out of Money	SHARE PRICE	SHARE VALUE	10% SAFE	CASH	Contracts BOUGHT (SOLD)	SHARES OWNED	PORT CONTROL	BUY (SELL) ADVICE	MKT ORD (SELL) BUY	6 % INT	Con Owned	PORTFOLIO VALUE
8/06		.45	2250	225	1125	-	5000	2250	-	-	-	50	3,375
9/06		.50	2500	250	1131	-	5000	2250	(250)	-	6	50	3,631
10/06		.50	2500	250	1137	-	5000	2250	(250)	-	6	50	3,637
11/06		.50	2500	250	1143	-	5000	2250	(250)	-	6	50	3,643
12/06		.70	3500	350	1149	(13)	5000	2250	(1250)	(910)	6	37	4,649

DATE	REMARKS Dell 1/09 Strike 40 Out of Money	SHARE PRICE	SHARE VALUE	10% SAFE	CASH	Contracts BOUGHT (SOLD)	SHARES OWNED	PORT CONTROL	BUY (SELL) ADVICE	MKT ORD (SELL) BUY	6 % INT	Con Owned	PORTFOLIO VALUE
8/06		.50	2500	250	1250	-	5000	2500	-	-	-	50	3,750
9/06		.65	3250	325	1256	(7)	5000	2500	(750)	(455)	6	43	4,506
10/06		1.05	4515	451	1720	(15)	4300	2500	(2015)	(1575)	9	28	6,235
11/06		1.00	2800	280	3311	-	2800	2500	9300)	-	16	28	6,111
12/06		1.25	3500	350	3328	(5)	2800	2500	(1000)	-	17	23	6,828

DATE	REMARKS DR Horton 1/09 Strike 30 Out of Money	SHARE PRICE	SHARE VALUE	10% SAFE	CASH	Contracts BOUGHT (SOLD)	SHARES OWNED	PORT CONTROL	BUY (SELL) ADVICE	MKT ORD (SELL) BUY	6 % INT	Con Owned	PORTFOLIO VALUE
8/06		2.75	13750	1375	6875	-	5000	13750	-	-	-	50	20,625
9/06		3.40	17000	1700	6909	(5)	5000	13750	(3250)	(1700)	34	45	23,909
10/06		3.60	16200	1620	8652	(2)	4500	13750	(2450)	(1660)	43	43	24,852
11/06		3.80	16340	1634	10564	(2)	4300	13750	(2590)	(760)	52	41	26,704
12/06		4.70	19270	1927	11180	(8)	4100	13750	(5520)	(3760)	56	33	30,450

DATE	REMARKS Ebay 1/09 Strike 60 Out of Money	SHARE PRICE	SHARE VALUE	10% SAFE	CASH	Contracts BOUGHT (SOLD)	SHARES OWNED	PORT CONTROL	BUY (SELL) ADVICE	MKT ORD (SELL) BUY	6 % INT	Con Owned	PORTFOLIO VALUE
8/06		.80	4000	400	2000	-	5000	4000	0	0	0	50	6,000
9/06		1.00	5000	500	2010	(5)	5000	4000	(1000)	(500)	10	45	7,010
10/06		1.50	6750	675	2523	(14)	4500	4000	(2750)	(2100)	13	31	9,273
11/06		1.20	3720	372	4646	-	3100	4000	280	-	23	31	8,366
12/06		1.25	3875	387	4669	-	3100	4000	125	-	31	23	8,544

DATE	REMARKS Ford 1/09 Strike 10 Out of Money	SHARE PRICE	SHARE VALUE	10% SAFE	CASH	Contracts BOUGHT (SOLD)	SHARES OWNED	PORT CONTROL	BUY (SELL) ADVICE	MKT ORD (SELL) BUY	6 % INT	Con Owned	PORTFOLIO VALUE
8/06		1.15	5750	575	2875	-	5000	5750	-	-	-	50	8,625
9/06		1.70	8500	850	2889	(11)	5000	5750	(2750)	(1870)	14	39	11,389
10/06		1.75	6825	682	4783	(2)	3900	5750	(1075)	(350)	24	37	11,608
11/06		2.05	7585	758	5159	(5)	3700	5750	(1835)	(1025)	26	32	12,744
12/06		.90	2880	288	6215	29	3200	5750	2870	2610	31	61	9,095

DATE	REMARKS Intel 1/09 Strike 30 Out of Money	SHARE PRICE	SHARE VALUE	10% SAFE	CASH	Contracts BOUGHT (SOLD)	SHARES OWNED	PORT CONTROL	BUY (SELL) ADVICE	MKT ORD (SELL) BUY	6 % INT	Con Owned	PORTFOLIO VALUE
8/06		.80	4000	400	2000	-	5000	4000	-	-	-	50	6,000
9/06		.95	4750	475	2010	(3)	5000	4000	(750)	(285)	10	47	6,760
10/06		1.35	6345	634	2306	(13)	4700	4000	(2345)	(1755)	11	34	8,651
11/06		1.25	4250	425	4081	-	3400	4000	(250)	-	20	34	8,331
12/06		1.00	3400	340	4101	-	3400	4000	600	Ign 260	20	34	7,501

DATE	REMARKS AMD – 1/09 Strike 40 Out of Money	SHARE PRICE	SHARE VALUE	10% SAFE	CASH	Contracts BOUGHT (SOLD)	SHARES OWNED	PORT CONTROL	BUY (SELL) ADVICE	MKT ORD (SELL) BUY	6 % INT	CON Owned	PORTFOLIO VALUE
8/06		1.50	7500	750	3750	-	5000	7500	-	-	-	50	11,250
9/06		4.10	20500	2050	3769	(27)	5000	7500	(13000)	(11070)	19	23	24,269
10/06		3.50	8050	805	14913	-	2300	7500	550	-	74	23	22,963
11/06		1.95	4485	448	14988	13	2300	7500	3015	2535	75	36	19,455
12/06		1.65	5940	594	12515	14	3600	8768	2828	2310	62	50	18,455

DATE	REMARKS Symantic 1/09 Strike 30 Out of Money	SHARE PRICE	SHARE VALUE	10% SAFE	CASH	Contracts BOUGHT (SOLD)	SHARES OWNED	PORT CONTROL	BUY (SELL) ADVICE	MKT ORD (SELL) BUY	6 % INT	Con Owned	PORTFOLIO VALUE
8/06		.65	3250	325	1625	-	5000	3250	-	-	-	50	4,875
9/06		.80	4000	400	1633	(4)	5000	3250	(750)	(320)	8	46	5,633
10/06		1.50	6900	690	1963	(20)	4600	3250	(3650)	(3000)	10	26	8,863
11/06		1.05	2730	273	4988	2	2600	3250	520	Ign 210	25	28	7,718
12/06		1.05	2940	294	4802	-	2800	3355	415	Ign 121	24	28	7,742

DATE	REMARKS Yahoo 1/09 Strike 40 Out of Money	SHARE PRICE	SHARE VALUE	10% SAFE	CASH	Contracts BOUGHT (SOLD)	SHARES OWNED	PORT CONTROL	BUY (SELL) ADVICE	MKT ORD (SELL) BUY	6 % INT	Con Owned	PORTFOLIO VALUE
8/06		2.80	14000	1400	7000	-	5000	14000	-	-	-	50	21,000
0/06		3.10	15500	1550	7035	-	5000	14000	(1500)	-	35	50	22,535
10/06		1.75	8750	875	7070	25	5000	14000	5250	4375	35	75	15,820
11/06		2.30	17250	1725	2708	-	7500	16188	(1062)	-	13	75	19,958
12/06		1.85	13875	1387	2722	5	7500	16188	2313	925	14	80	16,597

You see that just checking the prices once a moth produces some pretty good returns. But on the next page, check out how monitoring the prices did.

DATE	REMARKS Dell 1/09 Strike	SHARE PRICE	SHARE VALUE	10% SAFE	CASH	CONTRACTS BOUGHT (SOLD)	SHARES OWNED	PORT CONTROL	BUY (SELL) ADVICE	MKT ORD (SELL) BUY	6 % INT	CON AMT	PORTFOLIO VALUE
7 Aug		.20	1000	100	500	-	5000	1000	-	-	-	50	1,500
10 Aug		.45	2250	225	503	(23)	5000	1000	(1250)	(1035)	3	27	2,753
21 Sep		.30	810	81	1546	3	2700	1000	190	90	8	30	2,356
31 Oct		.45	1350	135	1463	(4)	3000	1045	(305	(180)	7	26	2,813
1 Nov		.60	1560	156	1651	(6)	2600	1045	(515)	(360)	8	20	3,211

You have to remember just like using AIM with stocks that every time you make a buy or sell you MUST fill out your AIM spreadsheet. You may have to fill out your sheet a couple of times a month. It's no big deal as you know how easy it is to fill out an AIM spreadsheet. It's still simple arithmetic – adding, subtracting, multiplying and division. If I can do it, you certainly can do it.

You will quickly see the power of AIM when you see the spreadsheets. Since I am new at this, I plan to be conservative. So when you see big cash amounts on the sheets, know I am leaving the cash there and NOT going to get back quickly to 1/3 CASH and 2/3 LEAP. I will be conservative until my research tells me not to be and shows me that I should be putting the cash back into LEAPs. And I will have no problem supplying the Chapter 2A bear strategy to LEAPs if I need to either.

I haven't figured out when I should get out of the JAN 08 LEAPs. Remember they will expire worthless on the third Friday of Jan 08. I plan to be out of them long before that. Right now I think my idea is to sell all the Jan 08 LEAPs and buy the Jan 10 LEAPs when they come out – not sure when that is, probably early in 2007. Please check out the spreadsheets after only three months and you will see what a great match AIM and LEAPs are. Again you will find lots of spreadsheets showing exactly what the LEAPs did in the free Adobe Acrobat investing book.

Check the Dell Strike 45 LEAP in this chapter and you will see that the price went from $.20 to $.60 so if you had just bought and held (our infamous lump-sum investor, you would have to "paper" value of $4,500 and would be higher the $3,211 you see above. But (1) you would still own 50 contracts – above we have reduced our risk and now only own 20 contracts. (2) When do the "lump sum" investors sell? He or she doesn't know – maybe too late! Since the above LEAP as easily more than doubled in three months, that's plenty of "real" profits – real profits are always better than "paper" profits.

Strategy #2

Let's say you like the idea of LEAPs but think having a portfolio entirely of LEAPs is a bit extreme. That's a perfectly valid viewpoint also; everybody has a different level of risk and different investing objectives. Different strokes for different folks. Well, then why not have 8 stocks and 2 LEAPs or 7 stocks and3 LEAPs? You can sleep at night because you are comfortable with that risk level. I just want to encourage you to have at least 1 or 2 LEAPs in your portfolio because as you see they do so well.

Strategy #3

Remember how I told you every once in a while you have to break the rules? Well, for some friends of mine I am doing a different strategy. They wanted to invest $500 each for their two daughters. So I helped them by recommending 3 different LEAPs they could buy for their $500. Since they wanted to invest $500, I concentrated on "out of the money" LEAPs which are cheaper. I came up with the following:

- Yahoo – Jan 08 – buy 3 LEAP contracts at Strike Price 45 = $45 times X 3 = $135
- Citibank – Jan 09 – buy 1 LEAP contract at Strike Price $170
- Dell – Jan 09 – buy 2 LEAP contracts at Strike Price $60 X 2 = $120

That's a great way to invest $500. I gave them a rule of thumb to sell any of the contracts when they double in price. Then take the principle of profits and invest in more LEAPs. You can see the power of compounding with LEAPs.

I am no options or LEAP expert. But just by applying simple AIM investing techniques, you can make substantial profits with LEAPs – much higher profits then you could make just by using stocks alone. I feel very comfortable using LEAPs because they overcome one of the problems with options – they exist for very long periods of time. Heck, under AIM, you should be selling many of your stocks when they hit their highest in less than two years and replacing them with other stocks selling at or near their lows.

Bottom line, I hope I've convinced you that LEAPs are great way to use AIM to its maximum potential. Again I am willing to manage portfolios for people who want to buy LEAPs.

Again I always wish you happy investing and rising profits!

DATE	REMARKS AT&T WFE Jan 09 S 35 VFEAG	SHARE PRICE	SHARE VALUE	10% SAFE	CASH	Contracts BOUGHT (SOLD)	SHARES OWNED	PORT CONTROL	BUY (SELL) ADVICE	MKT ORD (SELL) BUY	Com (Int)	# of Conts	PORTFOLIO VALUE
11/13/06		3.12	10920	1092	5460	-	3500	10920	-	-	37	35	16,380
11/15/06		2.45	8575	857	5460	6	3500	10920	2345	1590	15	41	14,035
11/29/06		3.31	13571	1357	3855	(3)	4100	11670	(1901)	(993)	13	38	17,426
12/1/06		3.30	12540	1254	4848	-	3800	11670	(870)	-	-	38	17,388
12/8/06	Sold at 3.99	4.10	15162	1516	4848	(6)	3800	11670	(3492)	(2394)	16	32	20,010
12/12/06		4.20	13440	1344	7278	-	3200	11670	(1770)	Ign (426)	(36)	32	20,718
12/21/06	Sold at 4.40	4.60	14720	1472	7278	(3)	3200	11670	(3050)	(1320)	13	29	21,998
12/29/06		4.40	12760	1276	8585	-	2900	11670	(1090)	-	-	29	21,345
1/8/07		3.49	10121	1012	8585	3	2900	11670	2100	990	15	32	18,706
1/12/07		4.00	12800	1280	7618	-	3200	12165	(635)	-	(38)	32	20,418
1/18/07		4.21	13472	1347	7618	(7)	3200	12165	(1307)	(2947)	16	25	21,090
1/24/07		5.88	14700	1470	10549	(2)	2500	12165	(2535)	(1176)	10	23	25,249
2/13/07		5.70	13110	1311	11774	-	2300	12165	(945)	-	59	23	24,884
2/15/07		5.70	13100	1311	11833	-	2300	12165	(945)	-	-	23	24,933
3/5/07													
3/14/07		5.70	13110	1311	11833	-	2300	12165	-	-	(59)	-	24,943
3/20/07		6.09	14007	1400	11833	(2)	2300	12165	(1835)	(1218)	10	21	25,840
3/21/07		6.70	14070	1407	13041	(4)	2100	12165	(1905)	(2680)	11	17	27,111
3/23/07	Stop $6.00	6.90	11730	1173	15710	-	1700	12165	435	-	-	17	27,440

How to Guarantee Profits on Profitable LEAPs

Look at the above LEAP (spreadsheet will be on the page before this in the Adobe Acrobat version) and you will see it has been very successful and profitable. The LEAP has gone from $3.12 on November 15, 2006 to its current price of $6.90, more than double. And you will see that you have started with 35 contracts (3,500 LEAP shares) and now own only 17 contracts, or 1,700 LEAP shares left. AIM is doing what it's supposed to – selling profitable shares for you.

And we still have until January 2009 before this LEAP expires. How can we guarantee that we keep these (paper) profits on the remaining 17 contracts without selling now? How can we hold on and see if we will get even more profits in the future, to protect ourselves if AT&T has a sudden downturn? This simple answer and it's called a "stop loss".

Below I will give you the formal definitions of several types of orders and stop losses and explain how we can use them to protect earned profits and let us still strive for higher future profits.

Market Order

A market order is a buy or sell order to be executed by the broker immediately at current market prices. As long as there are willing sellers and buyers, a market order will be filled.

A market order is the simplest of the order types. Once the order is placed, the customer has no control over the price at which the transaction is executed. The broker is merely supposed to find the best price available at that time. In fast-moving markets, the price paid or received maybe quite different from the last price quoted before the order was entered. And you can't place a market order after the market is closed the night before. I favor only using limit orders when you're dealing with LEAPs.

Limit Order

A limit order is an order to buy a security at no more (or sell at no less) than a specific price. This gives the customer some control over the price at which the trade is executed, but may prevent the order from being executed (filled).

A buy limit order can only be executed by the broker at the limit price or lower. For example, if an investor wants to buy a LEAP but doesn't want to end up paying more than $4 for the LEAP, the investor can place a limit order to buy the LEAP at any price up to $4. By entering a limit order rather than a market order, the investor will not be caught buying the LEAP at $4 or higher if the price rises sharply.

A sell limit order can only be executed at the limit price or higher.

A limit ordered to buy may never be executed if the market price surpasses the limits before the order can be filled. Because of the added complexity, some brokerages will charge more for executing a limit order than they would for a market order. I haven't found that to be true nowadays. And you can execute limit orders that are "good till canceled" which means the broker will keep the limit order open for three months automatically so you don't have to worry about missing a limit order buy or sell because you were watching the ticker every minute.

Stop Order

A stop order (also stop loss order) is an order to buy (or sell) a security once the price of the security climbed above (or dropped below) a specified stock price. When the specified stock prices reached, the stop order is entered as a market order (no limit).

With a stop order, the customer does not have to actively monitor how we stock is performing. However because the order is triggered automatically when the LEAP price is reached, the LEAP price could be activated by a short-term fluctuation in a security's price. Once the stop price is reached, the stop order becomes a market order. In a fast-moving market, the price at which the trade is executed maybe much different than the stop price. The use of stop orders is more frequent for stocks, and futures, that trade on an exchange rather than in the NASDAQ stock market.

A sell stop order is an instruction to sell at the best available price after the price goes down below the stop price. A sell stop price is always below the current market price. For example, if an investor holds the stock currently valued at $50 and is worried that the value may drop, he/she can place a sell stop order at $40. If the share price drops to $40 for whatever reason, the broker will sell the stock at the next available price. This can limit the investor's losses (if the stock price is at or below the purchase price) or lock in at least some of the investors profits (if the value of the security has risen between when the security was originally purchased and the stop order placed).

A buy stop order is typically used to limit the loss (or to protect an existing profit) on a sale. A buy stop price is always above the current market price. For example, if an investor sells a stock short (selling short) hoping the stock price goes down in order to give the borrower shares back at a lower price (covering), the investor may use a buy stop order to protect himself against losses if the price goes too high.

Stop orders are the complement of limit orders. In a stop order, a desired selling price (ask price) is always below and a desired buying price (bid price) is always above the current price. In limit orders it is the other way around; the desired selling prices above and the desired buying price is below the current price.

Stop-Limit Order

A stop limit order combines the features of a stop order and a limit order. Once the stop price is reached, the stop–limit order becomes a limit order to buy (or to sell) at no more (or less) than a specified price.

As with all limit orders, stop–limit order may never get filled if the security's price never reaches the specified limit price.

A trailing stop loss is a slightly more complicated version of the stop loss order in which the stop loss prices set at a fixed percentage or value below the market price. If the market price rises, the stop loss price rises proportionately, but if the share price falls, the stop loss price doesn't change. That method allows the investor to set a limit on the maximum possible loss without setting a limit on the maximum possible gain, and without requiring paying attention to their investment on an ongoing basis.

A trailing stop order is similar, but based upon the stop limit order. With a trailing stop limit, once the price drops below the stop, a limit order is executed with the limit price equal to the final stock price.

The difference between the two is that the order executed with the trailing stop loss is a market order. If the share price continues to fall after the stop price is reached, but before the shares are sold, they can be sold at a lower price than the stop price. With a trailing stop limit, the shares will not be sold at less than the stop price (but with any limit order, it is possible that the limit price will never be reached).

Trailing-Stop Order

A trailing-stop order is an order entered with the stop perimeter that creates a moving or trailing activation price, hence the name. This parameter is entered as a percentage change or actual specific amount of rise (or fall) in the security price.

Here's the example explaining how trailing-stop limit losses work:

Example: You're long 100 shares of XYZ with the current market price of $10.00. You set up trailing stop limit sell order with these perimeters:

Trail Amount = 1
Stop Price = $9.50
Limit Price = $9.45

Your trailing stop order calculates a limit price "Delta" using:

Stop Price – Limit Price = .05

The market price rises to $12.00; now your trailing stop price has risen to $11.00, and your limit price is at $10.95. The price drops to $11, and your limit order for $10.95 is submitted.

I hope that wasn't too technical for you. Basically what we did to keep it simple for AT&T is to put in the "stop loss" at $6.00 when the price was $6.90. That stop-loss order is only good for 60 or 90 days (brokers don't like keeping long–term stop or limit orders on the books – too complicated). What our stop loss order means is that our broker will sell those 17 contracts at $600 a contract or 17 X $600 equals $10,200. We have protected our profits. And we can copy the trailing stop loss. Say AT&T goes to $10.00 on April 5, 2007 – we can cancel our stop loss at $6.00 a share and put in the new one at $9.00 a share. Then if AT&T slips from $10.00 to $9.00, the broker will sell our LEAPs contracts at $900 a contract or 17 contracts X $900 equals $15,300. Pretty neat way to protect profits!

Chapter 22

How to Use LEAPs in a Severe Bear Market

It's now the end of January 2008. The stock market has had a pretty severe bear market for the past half year or more. And this bear market has severely affected our model LEAP portfolio. I have found that LEAPs react quite severely in a bear market. Also LEAPs react quite strongly when a stock becomes a dog that isn't going to recover. Based on actual real world experience, I am writing this chapter to see what we can do about severe bear markets that will improve the performance of our LEAPs. Also what can we do to prevent ourselves from being stuck with the dog that offers little or no hope of a recovery. I will start off by showing you two examples of what we want to prevent. Below are the spreadsheets again in the Adobe Acrobat free version showing how Advanced Micro Devices (AMD) and Starbucks have done in the current bear market.

DATE	REMARKS AMD WVV Jan 09 S 30 VVVAF	SHARE PRICE	SHARE VALUE	10% SAFE	CASH	Contracts BOUGHT (SOLD)	SHARES OWNED	PORT CONTROL	BUY (SELL) ADVICE	MKT ORD (SELL) BUY	Com (Int)	# of Conts	PORTFOLIO VALUE
11/13/06		3.45	11734	1173	5867	-	3400	11734	-	-	28	34	17,601
12/1/06		3.10	10540	1054	5839	-	3400	11734	1194	-	-	34	16,379
12/12/06		2.95	10030	1003	5658	-	3400	11754	1704	Ing 701	(29)	34	15,898
12/13/06	Buy at 2.67	2.70	9180	918	5868	6	3400	11734	2554	1602	15	40	15,048
12/29/06		3.20	12800	1280	4251	-	4000	12535	(265)	-	-	40	17,051
1/9/07		2.65	10600	1060	4251	3	4000	12535	1935	795	15	43	14,851
1/12/07	int $3	2.03	8729	872	4251	19	4300	12535	3806	3857	25	62	12,980
1/13/07		1.96	12152	1215	371	7	6200	14340	2188	1372	16	69	12,523
1/22/07		1.77	12265	1226	(1001)	8	6900	15026	2761	1416	14	78	11,264
1/24/07		1.25	9750	975	(2431)	40	7800	15729	5979	5000	38	118	7,319
2/8/07		1.15	13570	1357	(7469)	29	11800	18229	4659	3306	29	147	6,101
2/9/07		1.13	16611	1611	(10804)	11	14700	19882	3271	1243	13	158	5807
2/13/07		1.08	17064	1706	(12060)	21	15800	20504	3440	2268	24	179	5,004
2/15/07		1.09	19511	1951	(14332)	-	17900	21638	2127	176	-	179	5,159
2/21/07		1.00	17900	1790	(14352)	19	17900	21638	3738	1900	22	198	3,548
3/05/07	30%s – 4989	.84	16632	1663	(16274)	12	19800	22588	5956	1008	17	210	358
3/05/07	BE – 1.64	.78	16380	1638	(17299)	-	21000	23092	6712	-	-	-	(919)
3/07/09	30%S – 4914	.79	16590	1659	(17299)	23	21000	23092	6502	1817	25	233	(709)
3/15/07	30$ - 5241	.73	17009	1700	(19141)	17	23300	24001	6992	1241	21	250	(1,666)
3/16/07	40%S – 6500	.65	16250	1625	(20404)	29	25000	24622	8372	1885	30	279	(4,154)
3/20/07	MKT -.50					30 con							
3/23/07		.55	15345	1534	(22319)	-	27900	25565	10220	Ign 8686	-	279	(6,974)
3/30/07	Order	.50	13950	13950	(22319)	30	27900	25565	11615	1500	30	309	(8,369)

	50@.30												
4/17/07		.55	16995	1699	(23850)	-	30900	26315	9320	-	-	309	(6,855)
5/3/07	70%s – 10164	.47	14523	1452	923850)	30	30900	26315	11792	1410	31	339	(9,327)
5/4/07		.40	13560	1356	(25291)	-	33900	27020	-	-	-	-	(11,731)
5/16/07		.45	15255	1525	(25291)	-	33900	27020	-	-	-	-	(10,036)
6/5/07		.35	11865	1186	(25291)	30	33900	27020	15155	1050	31	369	(13,426)
6/12/07	110%S 13046	.32	11808	1180	(26372)	69	36900	27545	15737	2208	60	438	(14,564)
6/15/07		.29	12702	1270	(28640)	-	28649	28649	-	-	-	-	(15,938)
7/6/07	85%S - 13031	.35	15330	1533	(28640)	-	43800	28649	13319	Ign 288	-	438	(13,310)
7/21/05	45% S - 8870	.45	19710	1971	(28640)	-	43800	28649	8939	Ign 69	-	438	(8.930)
8/20/07		.43	18834	1883	(28640)	-	43800	28649	-	-	-	438	(9,806)
9/19/07		.30	13140	1314	(28640	-	43800	28649	15509	-	-	438	(15,500)
10/17/07		.27	11826	1182	(28640)	-	43800	28649	-	-	-	438	(16,814)
11/11/07		.23	10074	1007	(28640)	-	43800	28649	-	-	-	438	(18,566)
11/21/07		.27	11826	1182	(28640)	(50)	43800	28649	16823	(1350)	46	388	(16,814)
11/29/07		.18	6984	698	(27336)	(100)	38800	28649	21665	(1800)	83	288	(20,352)
12/02/07		.14	4032	403	(25619)	(150)	28800	28649	24617	(2100)	105	134	(21,587)
12/03/07	Sold all	.13	1742	174	(23629)	(134)	13400	28649	26907	(1742)	86	0	(21,973)

DATE	REMARKS Starbucks Jan 09 S 40 VPRAH	SHARE PRICE	SHARE VALUE	10% SAFE	CASH	Contracts BOUGHT (SOLD)	SHARES OWNED	PORT CONTROL	BUY (SELL) ADVICE	MKT ORD (SELL) BUY	Com (Int)	# of Conts	PORTFOLIO VALUE
3/09/07		2.23	11596	1159	5798	-	5200	11596	-	-	47	52	17,394
3/14/07		1.90	9880	988	5746	7	5200	11596	1716	1330	13	59	15,626
3/21/07		2.85	16815	1681	4403	(7)	5900	12261	(4554)	(1995)	13	52	21,218
3/23/07		2.55	13260	1326	6385	-	5200	12261	(999)	-	-	52	19,645
4/17/07		2.25	11700	1170	6417	-	5200	12261	561	-	(32)	52	18,117
5/4/07		2.10	10920	1092	6439	-	5200	12261	-	-	-	-	17,359
5/7/07		2.00	10400	1040	6439	6	5200	12261	1861	1200	13	58	16,839
5/13/07		1.80	10440	1044	5256	8	5800	12861	2421	1440	14	66	15,696
5/14/07		1.50	9900	990	3802	15	6600	13581	3681	3681	22	81	19,702
5/15/07	20%S – 2106	1.35	10935	1093	1533	16	8100	14706	3771	2160	20	97	12,468
5/16/07		1.30	12610	1261	9627)	-	9700	15786	-	-		97	11,983
5/17/07	25%S- 2910	1.23	11931	1193	9627)	10	9700	15786	3855	1230	16	107	11,304
6/5/07		1.25	13375	1337	91873)	9	10700	15786	2411	1125	15	116	11,502
6/6/07	15%S- 2001	1.16	13456	1345	93013)	9	11600	16349	2893	1044	15	125	10,443
6/8/07	20%S– 2624	1.12	14000	1400	(4072)	11	12500	16871	2871	1232	16	136	9,928
6/14/07	20%S– 2720	1.00	13056	1305	(5320)	12	13600	17487	4431	1152	17	148	7,736
6/15/07		1.00	14800	1480	(6489)	-	14800	18063	-	-	-	-	8,313
6/21/07	40%S – 4736	.75	11100	1110	(6489)	19	14800	18063	6953	1425	23	167	4,611
7/6/07	60%S – 7014	.70	11690	1169	(7937)	-	16700	18776	7086	Ign 72	-	167	3,753
7/21/07		.95	15865	1586	(7937)	14	16700	18776	2911	1470	19	181	7,928
8/20/07		.95	17195	1719	(9426)	-	18100	19511	-	-	-	-	7,928
8/29/07	25%S - 3620	.80	14480	1448	(9426)	18	18100	19511	5031	1440	22	199	5,054
9/19/07		.70	13930	1393	(10888)	-	19900	20231	6301	ign 4908	-	199	3,042

9/26/07	50%S 5970	.59	11741	1174	(10888)	33	19900	20231	8490	1947	33	232	853
10/18/07	70%S 8120	.57	13224	1322	(12868)	30	23200	21205	7981	1710	33	262	356
11/07/07	55%S 7205	50	13100	1310	(14611)	35	26200	22060	8960	1750	34	297	(1,511)
11/09/07	110%S 11429	.45	13365	1336	(16395)	32	29700	22935	12540	1440	32	329	(3,030)
11/11/07		.45	14805	1480	(17867)	-	32900	23655	-	-	-	329	(3,062)
12/14/07		.20	6580	658	(17867)	-	32900	23655	-	-	-	329	(11,287)
12/20/07		.15	4933	493	(17867_	-	32900	23655	-	-	-	329	(12,932)

You can see that both AMD and Starbuck's LEAPs have been big losers. Now we want to prevent ourselves from getting hurt at by future AMDs and Starbucks. How can we do that?
The first thing to think about is should we have bought AMD and Starbucks in the first place? With the benefit of hindsight, I think we should not have bought AMD. AMD has always been volatile and frankly computer chips are not a hot business right now when I wrote this. Even Intel hasn't done that well lately or when I wrote this 15 years ago. Frankly I thought Starbucks was a good buy when bought. It was down and to me prospects for the future look good. BUT if we had held onto AMD and Starbucks and rolled over the LEAPs to longer-term LEAPs we would have made a lot of money – again be patient and in this for the long haul. So we have to acknowledge we will make mistakes in these high risk areas. But we can minimize them and hang in there till things get better. Basically we got to buy time for our LEAP to get better.

But since I am editing this several years later if we had the courage to help hang onto the Starbucks LEAPs we would've made a ton of money. Like a told you earlier; go to Yahoo Finance and do historical prices on Starbucks say from January 2008 to the present and see how much up-and-down action you got and the stock didn't gain or lose nearly as much as the LEAP did. That's why if you're only buying a few LEAPs, stick to the "blue chip" LEAPs like the ones I now featured my newsletter. Again we all know what level of risk we can handle and if you can handle a LEAP like Starbucks going up and down like it did you will make a great deal of money if you are patient. And the same thing happen with Crocs, a unique type of Shoe Company that went all the way down from say $22 to $1 and is and then went back up into the $30s. See the attached spreadsheet for Crocs in Chapter 25 of Adobe Acrobat free book to see just how powerful AIM is if you hang in there!

In reviewing how I handle AMD and Starbucks, I find I wasn't aggressive enough in waiting to buy when the price of the LEAP went down. I just wasn't aware that LEAPs could sink so far in a bear market. In the future when you own a LEAP, you must really analyze when to buy and how much to buy. In the future I will take a much stronger stands and will wait to buy initially in the down market. A good rule of thumb would be to wait until your LEAP drops 50% before making your first buy. So for example if you bought a LEAP that was $4 a share or $400 a contract then you wait until the LEAP drops to $2 a LEAP or $200 a contract and then you make your first buy. And also use an aggressive bear SAFE to make a minimum buy of around $1,000 worth of new LEAP shares or even less.

You'll see looking at AMD that it was originally bought at $3.45 a share. This was a low price at the time comparing the LEAPs high/low history. But as hindsight shows, we bought new shares too soon. The first buy was made at $2.70 and following the history of AMD, you will see many other buys were made too soon. Since AMD was a risky LEAP, I should've waited until it dropped the 50% before making the first buy or set up an automated sell order at say 50% of the initial price. You can see that by not doing that we set ourselves up for a big loss that has very little chance of ever being recovered in the short term but a good chance to be recovered over the long-term.

Based on my experiences with AMB and Starbucks, I decided that you should limit yourself to "blue chip" LEAPs initially or really understand how volatile a non-blue-chip could be before you purchase it as an initial LEAP in your portfolio and be able to handle the emotional and financial risks. Even if you buy a conservative LEAP, that doesn't mean you will eliminate the risk entirely. The nature of the beast is that a LEAP will always be a lot more volatile than the stock it derives its value from. Even on very conservative stocks, LEAPs can fall sharply. Take a look at Citigroup: again you will find this spreadsheet in your Adobe Acrobat version.

As you can see Citigroup has fallen quite sharply but not as bad as either Starbucks or AMD. I have hope for Citigroup (boy was that hope misplaced, several years after writing this Citigroup has basically become a penny stock and shows no signs of ever recovering even close to what it originally was). I always think they will rise but that is not always true.

DATE	REMARKS Citigroup Jan 10 S 45 WRV	SHARE PRICE	SHARE VALUE	10% SAFE	CASH	Contracts BOUGHT (SOLD)	SHARES OWNED	PORT CONTROL	BUY (SELL) ADVICE	MKT ORD (SELL) BUY	6 % Int Com	Con Owned	PORTFOLIO VALUE
9/27/07		7.68	15360	1536	7589		2000	15360	-	-	20	20	22,949
10/17/07		6.75	13500	1350	7625		2000	15360	-	-	(38)	20	21,125
10/18/07		6.45	12900	1290	7625	2	2000	15360	2460	1290	10	22	20,525
10/25/07		5.80	12760	1276	6325	2	2200	16005	3245	1160	10	24	19,085
11/2/07	20% S 2568	5.45	13080	1308	5155	2	2400	16585	3505	1090	10	26	18,235
11/05/07	30%S 3666	4.70	12220	1222	4055	2	2600	17130	4910	940	10	28	16,275
11/7/07	35% 4312	4.20	11760	1176	3105	2	2800	17600	5280	840	10	30	14,865
11/11/07	40%S 4960	4.20	12600	1260	2255	3	3000	18020	5420	1260	10	33	14,855
11/12/07		4.10	13530	1353	1623	-	3300	18650	-	-	(8)	33	15,153
11/29/07	60%S 6432	3.40	11220	1122	1623	3	3300	18650	7430	1020	10	36	12,843
12/12/07	75%S 7830	2.90	10440	1044	593	4	3600	19160	8720	1160	11	40	11,033
12/14/07		2.55	10200	1020	(578)	-	4000	19740	-	-	-	40	9,622
12/20/07		2.26	9040	904	(578)	-	4000	19740	-	-	-	40	8,462

Remember my cardinal rule for investing – buy at or near the 52-week low. But even with that strategy, you can't guarantee that you will buy at the absolute bottom. So even with the "conservative" LEAPs, you run the chance of a sharp drop before the LEAP recovers. Again be cautious on when to make the buys and be cautious on how much you buy. When you see that 75% S above in the REMARKS column, it means that instead of a 10% SAFE (or 10% of the SHARE VALUE) I used a 75% S (or I used 7.5 times the amount of the 10% SAFE or I used 75% of the SHARE VALUE price for the SAFE amount.

Thus in the example above which you'll find somewhere in that spreadsheet PORTFOLIO CONTROL $19,160 – SHARE VALUE $10,440 = $8,720 - 75% SAFE $7,830 = about $1,000 worth of new LEAPs to buy. Thus I only bought $1,160 worth of new LEAPs at $2.90 a LEAP or bought 4 more contracts. I wanted to be very cautious in case Citigroup went down further. As you can see from the spreadsheet Citigroup did go down further. But I feel a small buy at $2.90 was still warranted because we don't know what the bottom will be and $2.90 to me is still a good price to buy some more Citigroup LEAPs at.

I am also changing the initial CASH/LEAP ratio I recommended for LEAPs. Let's be conservative in the future and go 50% CASH and 50% LEAPs instead of 2/3 LEAPs and 1/3 CASH. It will be better to have that extra cash to make buys with.

So let's summarize the advice I'm giving you for LEAPs in bear markets:

1. Analyze the parent stock very closely before buying the LEAP. Have a look at historical prices in Yahoo Finance. Stick with more conservative, blue-chip stocks in the beginning until you get experienced with LEAPS. They can still be risky but will offer greater upside potentials when the market goes back to the bull.

2. Don't make the first buy until the LEAP price has dropped 50% from what you initially bought it at. Make future buys using high bear SAFE amounts like I talked about above. Try to keep your actual buys around $1,000 saving your CASH for future buys if the LEAP goes lower.

3. Start with 50% CASH, 50% LEAP ratio. Better to be more conservative and have more CASH for buys.

4. Ignore small changes both up and down. When we buy a LEAP in a bear market, we are expecting a big decrease sometime in the short-term, two years until the LEAP expires.

Thus we don't want to buy or sell too quickly but rather get more LEAPs as cheaply as possible and sell those LEAPs for good profits from the parent stock recovers from whatever drove down. We must be patient.

5. It's best to start with say 10 LEAPs (if you're a big risk taker type of investor) so we can have a variety. But in a bear market, most if not all of your LEAPs could go down from your initial purchase price even though you bought them thinking all the bad news was out. A way to prevent is to mix call LEAPs with put LEAPs – then some will go up and some will go down. Look at how Citibank sank after its initial bad news. It still had more bad news and the market reacted to that bad news and drove the stock and LEAP even lower. That's why the 50% initial CASH is a good idea – use that extra cash and maximize our bear strategy for buys will leave us with the best chance of maximizing our cash to make cheap buys. Remember at some point the stock and LEAP will start going up and staying up. But not for all stocks and LEAPs.

6. Here's another trick I learned since I originally wrote this. Remember how I said that it LEAP will expire like it will expire in January of any given year. But really any LEAP you own never has to expire because you can always roll it over to the LEAP in the following year so for example if you own a January 13 LEAP, you can always roll it over to a January 14 LEAP and buy an extra year of time.

7. Another great idea as I edit this. You are not limited to only buying call LEAPs (make money when stock goes up). You can also buy put LEAPs (make money when stock goes down.) I have come up with a great way of implementing both a call/put strategy using LEAPs on ETFs. You'll get a free bonus explaining that strategy when you buy my e-book

This is not the perfect answer to LEAPs in a severe bear market but it offers you good ideas to increase profits with LEAPs in a bear market. If you have any other good ideas for improving this chapter I'd love to hear them. E-mail your ideas to me at jeffee13@hotmail.com

Chapter 23
Using ETF's with AIM

Electronically Traded Funds (ETF's) are a simple but brilliant idea. Each ETF is a basket of stocks like an open mutual fund but trades like a stock and closed-end fund. You can buy or sell an ETF through your broker anytime just like a stock. You can also do things with ETF's that you can't do with mutual funds – short them, put in limit orders and buy or sell them any time without waiting for the end of the day like with mutual funds.

Shares of ETF's are traded with other buyers and sellers. If you want to buy, there's another investor who wants to sell and vice versa. Basically the price you see is the agreed to price for both buying and selling. There is a bid and ask range but usually it's only a couple of cents and not worth worrying about. You will see another excellent way I recommend to play ETF's with AIM in one of the free bonuses I will e-mail you after you give me your e-mail address after buying my e-book.

I will only touch on the basics of ETF's and then get into the nitty-gritty of using them with AIM. There are two excellent books that will tell you everything you want to know about ETF's. The first book is *The ETF Book* by Richard A. Ferri. The second book is *Investing with Exchange-Traded Funds Made Easy* by Marvin Appel. Read these two books to get a good overview of ETF's.

Use Limit Orders with ETF's, Stocks, Closed-End Funds and LEAPs

We all know that the stock market is in a free-fall as of October 10, 2008 when I'm writing this. We also know the prices for ETF's and other investments could go lower. So when do we buy? Do we buy now? Do we wait? Well, we can have the best of both worlds. We can buy now but put in a limit order. That means if we like an ETF like iShares FTSE/Xinhua China 25 Index Fund – FXI, here's what I recommend you do.

You can easily get the current 52-week high, low and current prices by going to Yahoo Finance or the New York Stock Exchange website which is http://www.nyse.com and typing in the ETF symbol box in the quote box at the top of the page. As of October 9, 2008 checking FXI tells us the following: 52-week high – $73.19; 52-week low – $26; current price $26. Well that certainly meets my definition of buying at or near the 52-week low. But can I do even better than buying at the 52-week low? Yes I can.

My instincts and readings tell me we will have a continuing downturn for anywhere from 3 to 6 months. Now is still a good time to buy. So what do we do? Well, I realize that ETF's are not as volatile as a stocks or LEAPs which is good if I am not an extreme risk taker. But still ETF's are volatile enough for AIM – all the ones you'll see listed here have very good high/low spreads – most over 100%.

So here's what I do with FXI and other ETF's and other investments I want to buy now. I put in a limit order with my broker. It's very simple to do and a limit order stays on the books for I believe 90 days. So for FXI, I see the current price is $26. I can place a buy order with my broker at say $23 or $21 or even lower and wait to see if the price drops enough for my buy to be made..

You will see many ETFs suffered the same fate in this bear market – they are all at or near their 52-week lows. Basically when you buy an index ETF you are betting on the direction of the market. Buying these ETFs is like buying the indexes and the stock itself. Going down and start going up. You're betting that the market will soon swing from bear to neutral and then to a bull market By putting in the limit order you don't have to worry about watching the stock ticker all day so you don't miss buying at the lower price you want to buy at. Using limit orders is very good strategy for making more money when the bull market finally comes around. And it will!

The Dow actually dipped to about 6,500 before it rebounded and currently it is that about 12,000 so you see AIM would've made you good profits on ETF's if you had bought on the way down to 6,500 and eventually you would've gotten some sells on the way back up to 12,000.

Types of ETF's I Recommend

After reading Richard A. Ferri's book, *The ETF Book*, I was convinced to buy ETF's that are mirror images of established indexes, buy ETF's related to countries, buy ETF's related to industries, and buy ETF's related to Real Estate Investment Trusts (REITs). These are considered passive ETF's which means there is no fund manager making the decision. The ETF mirrors the index it tracks, so theoretically if the Dow Jones Industrial Average goes up 5%; your ETF tracking the Dow Jones Average goes up 5%. Vice versa, if the Dow Jones Average goes down 5%, then ETF goes down 5%.

I think you see from the below sample of large index ETF's (again you will find several spreadsheets listing these ETF's in your free Adobe Acrobat version of my investing book) that they are all down at or near their 52-week lows just like their big brothers the indexes themselves at the time I wrote this).. When the indexes go back up, the ETF will go back up. Take a look at the sample of index funds listed below. You'll see the vital info on them including the 52-week highs, lows, current price and yields. These index ETF's don't pay large dividends like the REIT ETF's you'll see a little further down in this chapter.

On the next page you'll see a sample of index ETFs. You will see they have all suffered the same fate in this bear market – they are all at or near their 52-week lows. Basically when you buy an index ETF you're betting on the direction of the stock market itself. Buying these ETFs is a bet that the indexes and stock itself will stop going down and start going up. You're betting that the market will soon swing from bear to neutral and then to a bull market. Remember that life and stock markets go in cycles. At the bottom of the Great Depression in 1931, the Dow Jones Industrial Average hit its all-time low of 31. Even with this bad bear market, it's still around 8,200. And I don't think it will go that much lower before it starts turning around. With the benefit of hindsight as I rewrite this in 2011 we know that the Dow Jones Average went down to around 6,500 and has since rebounded and is now around 12,000.

I will also give you examples of global, industry, and REIT ETF's and you will see they look pretty similar to the index ETF's. I think ETF's are an excellent way to invest in a severe bear market because they are conservative, are balanced among many stocks, pay good dividends for the most part, and have good high/low swings. Look over the different spreadsheets I think you'll see ETF's can play an important part in your AIM portfolio.

Category	Market ETF Name	Symbol	Index ETFs Index	52-Week High	52-Week Low	9 Oct 08 Price	Yield
Large Blend	SPDRs S&P 500	SPY	S&P 500	$156.48	$83.58	$88.80	3.11%
Large Blend	iShares S&P 500	IVV	S&P 500	$281.80	$83.78	$88.69	3.07%
Large Blend	iShares S&P 100	OEF	S&P 100	$73.57	$39.85	$42.12	3.77%
Large Blend	iShares S&P 1500 Index	ISI	S&P 1500	$69.83	$37.51	$39.64	2.93%
Large Blend	Rydex Russell Top 50	XLG	Russell Top 50	$117.11	$65.05	$68.65	3.44%
Large Blend	iShares Russell 1000	IWB	Russell 1000	$85.18	$45.41	$47.76	2.83%
Large Blend	Vanguard Large Cap	VV	MSCI U.S. Large Cap	$69.99	$37.48	$39.73	2.87%
Large Blend	iShares Morningstar Large Core	JKD	Morningstar Large Core	$140.48	$47.23	$52.40	2.79%
Large Growth	iShares R1000 Growth	IWF	Russell 1000 Growth	$68.53	$0.17	$36.57	1.59%
Large Growth	iShares S&P 500 Growth	IVW	S&P 500 Growth	$499.99	$31.97	$42.96	1.79%
Large Growth	Vanguard Growth	VUG	MSCI U.S. Growth	$67.39	$37.53	$39.31	1.40%
Large Growth	iShares Russell 3000 Growth	IWZ	Russell 1000 Growth	$51.74	$26.67	$29.54	4.77%
Large Growth	iShares Morningstar Large Growth	JKE	Morningstar Large Growth	$75.74	$38.91	$42.45	0.97%
Large Growth	SPDR DJ Large Growth	ELG	DJ Large growth	$61.20	$32.98	$35.79	1.26%
Large Value	iShares R1000 Value	IWD	Russell 1000 Value	$499.99	$44.39	$47.29	4.25%
Large Value	iShares S&P 500 Value	IVE	Russell 1000 Value	$400.18	$41.98	$44.72	4.23%
Large Value	Vanguard Value	VTV	MSCI U.S. Value	$74.67	$37.23	$38.62	4.74%
Large Value	iShares Russell 3000 Value	IWW	Russell 1000 Value	$114.31	$57.26	$61.90	3.93%
Large Value	iShares Morningstar Large Value	JKF	Morningstar Large Value	$89.30	$42.65	$45.47	0.51%

Category	Market ETF Name	Symbol	Country ETFs Index	52-Week High	52-Week Low	8 Oct 08 Price	Yield
Developed Mkt	iShares MSCI Australia	EWA	MSCI Australia	$34.83	$15.18	$15.54	8.24%
Developed Mkt	iShares MSCI Austria	EWO	MSCI Austria	$40.89	$14.86	$15.06	4.91%
Developed Mkt	iShares MSCI Belgium	EWK	MSCI Belgium	$28.23	$9.69	$9.75	21.33%
Developed Mkt	iShares MSCI Canada	EWC	MSCI Canada	$36.68	$19.50	$19.92	1.15%
Developed Mkt	iShares MSCI France	EWQ	MSCI France	$40.74	$20.52	$20.75	11.95%
Developed Mkt	iShares MSCI Germany	EWG	MSCI Germany	$36.71	$18.15	$18.26	12.60%
Developed Mkt	iShares MSCI Hong Kong	EWH	MSCI Hong Kong	$24.29	$10.58	$10.58	4.63%
Developed Mkt	iShares MSCI Italy	EWI	MSCI Italy	$36.40	$16.71	$16.96	13.03%
Developed Mkt	iShares MSCI Japan - has LEAPs	EWJ	MSCI Japan	$14.64	$8.45	$8.46	1.42%
Developed Mkt	iShares MSCI Netherlands	EWN	MSCI Netherlands	$32.97	$15.41	$15.52	9.73%
Developed Mkt	iShares MSCI Singapore	EWS	MSCI Singapore	$15.93	$7.71	$7.85	3.44%
Developed Mkt	iShares MSCI Spain	EWP	MSCI Spain	$71.85	$38.00	$38.27	5.96%
Developed Mkt	iShares MSCI Sweden	EWD	MSCI Sweden	$38.63	$15.49	$15.68	16.07%
Developed Mkt	iShares MSCI Switzerland	EWL	MSCI Switzerland	$27.76	$17.00	$17.16	4.60%
Developed Mkt	iShares S&P TOPIX 150	ITF	S&P/Tokyo Stock Index 150	$63.90	$38.00	$38.00	2.58%
Developed Mkt	DJ STOXX 50	FEU	Dow Jones STOXX 50	$56.00	$29.18	$29.18	2.74%
Developed Mkt	SPDR Russell/Nomura Prime Japan	JPP	Russell/Nomura PRIME	$56.59	$32.52	$32.52	5.20%
Developed Small	SPDR Russell/Nomura Small Cap Japan	JSC	Russell/Nomura Small Cap Japan	$49.41	$28.47	$30.02	1.90%
Emerging Mkt	PowerShares Golden Dragon Halter USX China	PGJ	Halter USX China	$38.85	$14.65	$14.65	3.62%
Emerging Mkt	SPDR S&P China	GXC	S&P/Citigroup BMI China	$113.55	$40.25	$40.25	1.57%
Emerging Mkt	iShares FTSE/Xinhua China 25 Index - has LEAPs	FXI	FTSE/Xinhua China 25	$73.19	$26.00	$26.00	4.31%
Emerging Mkt	iShares MSCI Brazil - has LEAPs	EWZ	MSCI Brazil	$102.21	$33.75	$35.71	3.56%
Emerging Mkt	iShares MSCI Malaysia	EWM	MSCI Malaysia	$14.05	$7.48	$8.09	5.07%

Emerging Mkt	iShares MSCI Mexico - has LEAPs	EWW	MSCI Mexico	$64.17	$30.85	$31.29	3.52%
Emerging Mkt	iShares MSCI South Africa	EZA	MSCI South Africa	$76.90	$34.50	$34.50	8.20%
Emerging Mkt	iShares MSCI South Korea - has LEAPs	EWY	MSCI South Korea	$75.05	$28.23	$28.38	4.30%
Emerging Mkt	iShares MSCI Taiwan	EWT	MSCI Taiwan	$18.19	$8.61	$8.82	4.42%
Emerging Mkt	Market Vectors - Russia	RSX	DAX Global Russia + Index	$59.58	$16.20	$16.22	0.68%

Category	Market ETF Name	Symbol	Global ETFs Index	52-Week High	52-Week Low	8 Oct 08 Price	Yield
Global - Dev. Large	iShares S&P Global 100	IOO	S&P Global 100 Index	$86.09	$50.57	$53.70	4.28%
Global - Dev. Large	SPDR DJ Global Titans	DGT	Dow Jones Global Titans	$83.20	$48.19	$51.33	2.84%
Int'l Broad Mkt	SPDR MSCI ACWI - ex-U.S.	CWI	MSCI ACWI ex U.S.	$45.39	$22.76	$24.75	3.11%
Int'l Broad Mkt	SPDR S&P World ex-U.S.	GWL	S&P/Citigroup BMI World - ex-U.S.	$35.70	$19.55	$20.12	2.83%
Int'l Broad Mkt	Vanguard FTSE All World ex-U.S.	VEU	FTSE All World ex-U.S.	$63.72	$34.00	$35.02	1.46%
Int'l Developed	iShares MSCI EAFE	EFA	MSCI EAFE	$86.50	$46.30	$46.80	5.60%
Int'l Dev. Growth	iShares MSCI EAFE Growth	EFG	MSCI EAFE Growth	$83.90	$46.36	$47.18	1.91%
Int'l Dev. Value	iShares MSCI EAFE Value	EFV	MSCI EAFE Value	$82.00	$41.70	$42.20	7.13%
Int'l Dev. Large	BLDRs Dev. Markets 100 ADR	ADRD	BNY Dev. Markets 100 ADR	$34.50	$17.50	$19.10	3.77%
Int'l Small Cap	SPDR S&P Int'l Small Cap	GWX	S&P/Citigroup BMI World - ex-U.S. Small	$39.87	$19.33	$19.68	1.52%
Regional Mkt	BLDRS Asia 50 ADR	ADRA	BNY Asia 50 ADR	$39.00	$18.96	$20.56	5.01%
Regional Mkt	BLDRs Europe 100 ADR	ADRU	BNY Europe 100 ADR	$36.14	$17.29	$18.90	3.55%
Regional Mkt	iShares MSCI EMU	EZU	MSCI EMU	$63.69	$32.26	$32.62	11.13%
Regional Mkt	iShares MSCI Pacific ex-Japan	EPP	MSCI Pacific Free ex-Japan	$60.97	$26.56	$28.20	1.03%
Regional Mkt	iShares MSCI England	EWU	MSCI United Kingdom	$27.38	$14.05	$14.21	6.69%
Regional Mkt	iShares S&P Europe 350	IEV	S&P Europe 350	$62.54	$33.43	$33.85	7.74%
Regional Mkt	iShares S&P Latin American 40	ILF	S&P Latin American 40	$61.58	$23.21	$26.55	3.99%
Regional Mkt	DJ EURO STOXX 50	FEZ	Dow Jones EURO STOXX 50	$66.00	$35.31	$35.88	1.62%
Regional Mkt	Vanguard MSCI European	VGK	MSCI European	$82.09	$43.96	$44.41	5.31%
Regional Mkt	Vanguard MSCI Pacific	VPL	MSCI Pacific	$79.80	$42.29	$42.99	3.88%

Emerging Mkt	BLDRS Emerging Mkts 50 ADR	ADRE	BNY Emerging Mkts 50 ADR	$60.31	$26.02	$28.54	4.17%
Emerging Mkt	Claymore BNY BRIC	EEB	BNY BRIC Select ADR	$58.29	$22.00	$24.60	0.98%
Emerging Mkt	iShares MSCI Emerging Mkts	EEM	MSCI Emerging Mkts	$55.83	$25.15	$26.20	3.93%
Emerging Mkt	SPDR S&P Emerging Mkts	GMM	S&P/Citi BMI Emerging Mkts	$86.42	$39.80	$41.10	1.61%
Emerging Regional	SPDR S&P Emerging Latin America	GML	S&P/Citi BMI Latin America	$100.49	$39.51	$42.69	2.23%
Emerging Regional	SPDR S&P Emerging Middle East & Africa	GAF	S&P/Citi BMI Middle East & Africa	$80.19	$43.15	$45.06	2.26%
Emerging Regional	SPDR S&P Emerging Europe	GUR	S&P/Citigroup BMI Europe	$76.24	$30.10	$31.85	1.16%
Emerging Regional	SPDR S&P Emerging Asia Pacific	GMF	S&P/Citigroup BMI Asia Pacific	$104.81	$44.24	$48.09	2.14%

Category	Market ETF Name	Symbol	REIT ETFs Index	52-Week High	52-Week Low	8 Oct 08 Price	Yield
U.S. REITS	Vanguard REIT	VNQ	MSCI U.S. REIT	$75.68	$42.50	$42.76	7.23%
U.S. REITS	Dow Jones Wilshire REIT	RWR	Dow Jones Wilshire REIT	$85.55	$46.99	$47.12	7.24%
U.S. REITS	iShares Dow Jones U.S. Real Estate	IYR	Dow Jones U.S. Real Estate	$150.40	$43.74	$44.24	5.74%
U.S. REITS	First Trust S&P REIT	FRI	S&P REIT Composite Index	$19.56	$11.12	$11.31	3.71%
Int'l REITS	SPDR DJ Wilshire Int'l Real Estate	RWX	DJ Wilshire Ex-U.S. Real Estate	$66.07	$28.74	$28.90	6.37%
Sector U.S. REITS	iShares FTSE NAREIT Residential	REZ	FTSE NAREIT Residential	$59.05	$31.14	$31.97	7.51%
Sector U.S. REITS	iShares FTSE NAREIT Industrial/Office	FIO	FTSE NAREIT Industrial/Office	$47.94	$26.29	$26.29	6.24%
Sector U.S. REITS	iShares FTSE NAREIT Retail	RTL	FTSE NAREIT Retail	$47.15	$23.22	$23.61	6.78%
U.S. REITS	iShares Cohen & Steers Realty Majors	ICF	Cohen & Steers Realty Majors	$98.40	$52.43	$52.43	6.79%
Int'l REITS	WisdomTree Int'l Real Estate Sector	DRW	WisdomTree Int'l Real Estate	$56.55	$22.11	$22.11	8.82%

Industry ETFs

Category	Market ETF Name	Symbol	Index	52-Week High	52-Week Low	8 Oct 08 Price	Yield
Consumer Discretionary	Consumer Discretionary Select Sector SPDR	XLY	S&P 500 Industry Sector	$37.98	$21.52	$21.67	1.94%
Consumer Staples	Consumer Staples Select Sector SPDR	XLP	S&P 500 Industry Sector	$30.29	$23.38	$23.40	3.25%
Energy	Energy Select Sector SPDR	XLE	S&P 500 Industry Sector	$91.42	$45.25	$45.25	1.90%
Financial	Financial Select Sector SPDR	XLF	S&P 500 Industry Sector	$35.55	$13.68	$13.69	5.55%
Health Care	Health Care Select Sector SPDR	XLV	S&P 500 Industry Sector	$37.89	$25.00	$25.25	2.26%
Industrial	Industrial Select Sector SPDR	XLI	S&P 500 Industry Sector	$41.74	$24.00	$24.32	2.92%
Materials	Materials Select Sector SPDR	XLB	S&P 500 Industry Sector	$46.54	$26.10	$26.30	3.23%
Technology	Technology Select Sector SPDR	XLK	S&P 500 Industry Sector	$28.60	$15.30	$16.00	1.75%
Utilities	Utilities Select Sector SPDR	XLU	S&P 500 Industry Sector	$44.66	$26.85	$26.85	4.47%
Consumer Discretionary	Vanguard Consumer Discretionary	VCR	MSCI U.S. Investable Market	$61.82	$33.61	$34.06	1.35%
Consumer Staples	Vanguard Consumer Staples	VDC	MSCI U.S. Investable Market	$80.42	$50.10	$58.29	1.99%
Energy	Vanguard Energy	VDE	MSCI U.S. Investable Market	$132.74	$68.64	$69.04	1.36%
Financial	Vanguard Financials	VFH	MSCI U.S. Investable Market	$63.19	$27.33	$27.80	4.71%
Health Care	Vanguard Health Care	VHT	MSCI U.S. Investable Market	$63.99	$44.00	$44.39	1.85%
Industrial	Vanguard Industrials	VIS	MSCI U.S. Investable Market	$78.42	$44.67	$45.04	2.18%
Info. Tech.	Vanguard Info Technology	VGT	MSCI U.S. Investable Market	$64.78	$36.82	$37.46	0.48%
Materials	Vanguard Materials	VAW	MSCI U.S. Investable Market	$98.50	$51.88	$52.42	2.44%
Telecom	Vanguard Telecom	VOX	MSCI U.S. Investable Market	$83.94	$40.93	$41.80	4.78%
Utilities	Vanguard Utilities	VPU	MSCI U.S. Investable Market	$91.80	$55.31	$55.93	4.45%
Aero/Defense	iShares Dow Jones U.S. Aerospace & Defense	ITA	Dow Jones U.S. Select	$73.00	$39.99	$40.23	0.82%
Basic Materials	iShares Dow Jones U.S. Basic Materials	IYM	Dow Jones U.S. Select	$89.64	$42.31	$42.74	2.32%
Consumer Goods	iShares Dow Jones U.S. Consumer Goods	IYK	Dow Jones U.S. Select	$71.88	$47.37	$48.16	1.58%
Consumer Services	iShares Dow Jones U.S. Consumer Services	IYC	Dow Jones U.S. Select	$69.38	$41.78	$42.65	0.84%

Energy	iShares Dow Jones U.S. Energy	IYE	Dow Jones U.S. Select	$52.69	$27.80	$30.11	1.56%
Financial	iShares Dow Jones U.S. Financial	IYF	Dow Jones U.S. Select	$113.79	$48.00	$48.48	4.21%
Health Care	iShares Dow Jones U.S. Health Care	IYH	Dow Jones U.S. Select	$73.53	$51.06	$51.91	1.89%
Industrials	iShares Dow Jones U.S. Industrial	IYJ	Dow Jones U.S. Select	$77.16	$44.59	$45.13	1.93%
Technology	iShares Dow Jones U.S. Technology	IYW	Dow Jones U.S. Select	$67.25	$37.81	$38.39	0.42%
Telecom	iShares Dow Jones U.S. Telecom	IYZ	Dow Jones U.S. Select	$33.95	$15.13	$15.18	4.15%
Transportation	iShares Dow Jones U.S. Transportation	IYT	Dow Jones U.S. Select	$99.09	$65.39	$66.46	1.40%
Utilities	iShares Dow Jones U.S. Utilities	IDU	Dow Jones U.S. Select	$106.76	$63.52	$64.49	3.83%
Global Consumer Disc.	iShares S&P Global Consumer Discretionary	RXI	S&P Global Sector	$61.31	$30.18	$32.38	4.69%

Chapter 24

Right Ratio for Shares and Cash

Robert Lichello, the inventor of the AIM system, originally came out with the idea of using 50% cash and 50% shares when you start an AIM investment. So for example if you're investing $10,000 into a stock you would start with $5,000 worth of cash and $5,000 worth of stock.

I went along with the 50-50 split for many years until I finally encountered a severe bear market around the year 2000. When you have a severe bear market your cash ratio can go down substantially. And if you look in Chapter 12 of my book, and look at how Campbell Resources did for 3 years you will see that you might need very deep pockets to come up with additional cash that AIM calls for if you started with the 50-50 arrangement and also you are using the 10% SAFE amount to determine buys and sells.

Since I have been playing with AIM for many years I have done considerable thinking on good ways to tweak the game to help you make maximum profits. And one way you can make additional profits is by the wise use of the ratio of shares and cash.

Different kinds of investments call for different kinds of ratios between the share amount and the cash amount. I'll give you some examples below so that you have a better idea of what I am talking about.

Closed-End Fund

A closed-end fund is a special type of mutual fund. The biggest difference between a closed-end fund and a regular mutual fund is the fact that a regular mutual fund can constantly add to the fund as new investors put money into the fund. For example Fidelity Magellan many years ago was considered one of the top mutual funds in the United States. It grew and grew from a small amount to I believe over $5 billion. Basically all mutual funds are open which means they can continue to grow as new investors put money in. But also they can shrink if mutual fund investors start taking their money out of the fund.

I have never liked regular mutual funds to use for AIM investing because of many restrictions on buying and selling and many fees and I always felt that closed-end investments were a better way to use AIM than open mutual funds were.

Here's a quick way to explain what a closed-end fund is. Somebody decides on an objective for a closed-end fund for example they could represent all the good companies in Brazil, China, or it could be designed to bring in high levels of dividends – there are many different objectives you'll find with a closed-end fund.

The nice thing about closed-end funds is this. And I would use as an example one that I have recommended in the past and still recommend called HYF. Let me explain how the mutual fund is set up and works and why it is good for AIM investing.

When a fund like HYF is set up, they issue let's say for example 10 million shares at $10 each. The shares are issued just like shares in a stock. So these 10 million shares are bought by investors and the closed-end fund gets listed on one of the stock exchanges normally the New York Stock Exchange. Once the 10 million shares are sold, the only way for a new investor to buy shares in that closed-end fund is to buy shares on a stock exchange from somebody who owns the shares. Basically just the same way you would buy shares of stock you traded on the stock market and you buy somebody else's sells.

The advantage is now that a closed-end fund trades on the stock exchange you can buy and sell instantly you don't have to wait for the end of the day and for the net asset value to be determined. Also closed-end funds are much more likely to have better highs and lows than regular mutual funds. And closed-end funds are just as conservative as an open mutual funds but without any of the drawbacks.

Let's go back to our example of HYF. This is a great closed-end fund for investors that are looking for a monthly dividend and a high monthly dividend to boot and also a little up-and-down action using AIM at the same time. This fund is at a very low price and in the last year the high was around $2.66 and the low was $1.83. And HYF pays a dividend of a little over 10% a year.

If you look at how it traded in the last year you will see that I was way too conservative for one of my investors in Houston who started with $20,000 in HYF because he wanted to have a high income monthly dividend on one of his investments. I started him out with $10,000 worth of cash and $10,000 worth of shares in HYF. He bought his initial shares in August of 2011 and with his $10,000 he was able to buy 5,000 shares at $2.12 or he originally bought $10,600 worth of HYF. Again investing is an art and not a science so we don't have to buy exactly $10,000 worth of shares so I set up a spreadsheet to show $10,600 worth of shares of HYF and $9,400 worth of cash in HYF so again he started off with a round some of $20,000.

Since the original buy in August 2011, the only AIM action he has had was one buy that I recommended to him that actually didn't exceed the AIM threshold for a buy but HYF was at a 52-week low so I thought it was a good idea to buy more shares of HYF and I had him buy 200 more shares at $1.83 so he grew from 5,000 shares to 5,200 shares.

Remember he started off with $9,400 worth of cash in August 2011. This investors called me yesterday and we were having a very nice chat about AIM and I got to thinking about the ratios between cash and shares of the investment because my investor brought up the subject.

He was asking me if I thought it was a better idea to use two thirds of the money to buy the shares or the stock or the closed-end fund or the LEAP and one third to put into cash. If an investor started with $21,000, then what my investor was suggesting was let's use $14,000 of that $21,000 to buy shares in the stock, closed-end fund, LEAP, and put the other $7,000 into cash.

I told him that for about the first 10 years I was using AIM I always recommended blindly to use two thirds shares and one third for cash. But that was before the great bear market of 2000, 2001, 2002. Then I worked on developing bear strategies to help investors conserve their cash when the market was in a severe bear turn and everything was going down.

The first thing I did was to return to Robert Lichello's original concept of 50% cash and 50% stock. But as you will see in Chapter 12 of my book, *Why the System Works*, you will see that just using the 50% cash and share ratio will not prevent the depletion of your cash when your investment has a severe bear turn. But if you have deep pockets the best system to use is the 50% cash 50% stock ratio and I'll explain it to you quickly.

Campbell Resources started off around $6.40 and about two years later was selling for $.85. Naturally AIM was gobbling up lots of cheap shares as Campbell Resources went down and down. For that example I used the mythical starting $10,000 that was split into 5,000 CASH and 5,000 SHARE VALUE.

When you look at the spreadsheets in Chapter 12 you will see that you had to put in an additional $25,000 worth of cash to make all of the buys that AIM told you to make as Campbell Resources went down and down. There was a three month stretch when Campbell Resources was selling below $1.00 and AIM just gobbled up lots of cheap shares buying over 1,000 shares in each of those three months at extremely cheap prices.

But faithfully following AIM with the 10% buy amount and the 10% sell amount that Robert Lichello recommended, you eventually finished with a profit of 38% despite the fact that Campbell Resources finished down 62% after the three years.

So putting in all that additional money did pay off in the long run but not everybody has deep pockets and can put in additional cash when AIM calls for it. I realized that so I said I have to guide my AIM strategy to be more conservative and try and save cash as an investment goes steadily down.

As I was talking to my investor, it suddenly occurred to me that we could use different ratios depending on the different types of investments that he owns. He is invested into 3 LEAPs (a long-term option investment that expires in January of every any given year, so for example now you have LEAPs that expire in January 2013 and January 2014.) He owns like I said the one closed-end fund HYF and another ETF or electronically traded fund with the symbol BOE. He also owns a very aggressive ETF from Direxion called the China Bull (YINN) (3X) leveraged that follows the Chinese market. This fund is leveraged so if the Chinese stock market or the Dow Jones Industrial Average for example goes up 3%, this fund with the symbol YINN would go up 9%.

When I talked to him yesterday he got me thinking about the ratios between cash and stock or shares and I decided to tell him that with the conservative closed-end fund HYF he did not really need to have a 50% cash and 50% share ratio. Like I said earlier he's owned HYF since August 2011 and since August 2011 his CASH account on that closed-end fund has gone from $9,400 down to $9,034 because we bought the 200 shares in October at the 52 week low of $1.83.

I told him right on the phone that HYF is a great dividend payer and the $9,000 in the CASH account with his broker in the money market is paying virtually 0% interest. I told him we could be more aggressive owning shares in HYF and right off the top of my head I recommended on Monday he buy another 1,000 shares at the market price of $2.16. He just doesn't need to have $9,000 worth of cash sitting with his broker earning no interest when this investment is very conservative, HYF will never need a very large amount of cash to make additional buys in the future. It's just a different kind of investment so now I'm going to be more aggressive on conservative investments and recommend to my investors that they put more money into shares and less money into cash.

He has another closed-end fund with the symbol BOE and I'm also going to check that one out and recommend to him that he put more money into shares and less money into cash.

Stocks

Stocks are mixed bag. There are some stocks that are very conservative and then there are some stocks that can have pretty wild swings. In my original book *I Guarantee You Will Buy Low Sell High and Make Money*, I identified the two types of stocks - conservative stocks and semi-aggressive stocks. Conservative stocks to me are more like the traditional 30 stocks you find in the Dow Jones Industrial Average stocks that are have big names that are basically household words like AT&T, IBM, Boeing, General Electric, American Express, etc.

Semi-aggressive stocks on the other hand have wilder high/low swings; you can find stocks that might have a low of $3 and a high of $30. You would want to keep a 50-50 ratio for stocks that do have wild swings but you really could decrease the amount of cash in stocks that are conservative. I can't really make a blanket statement on any stock but from now on in the future with my investors I will definitely advise them that I think you could have less cash sitting in in your brokers money market account because of the type of stock or closed-end fund or ETF that you own.

LEAPs

LEAPs, like I said earlier, are long-term options on either a stock or ETF. Even LEAPs on very conservative stocks such as American Express, General Electric, IBM, can be extremely volatile. I would always recommend a blanket rule to keep 50% CASH and 50% LEAPs anytime you buy LEAPs. I even have a basic rule that you'll see in my other book that I don't even consider buying more LEAPs for one of my clients until the LEAP has gone down at least 50%. That means for example if we bought a LEAP at $4 or $400 for one contract as you have to buy contracts with LEAPs you cannot just buy 25 LEAPs, then I would wait until the LEAP went from $4 to $2 and then I would advise my client we should buy some more contracts.

I think LEAPs should be in everybody's portfolio because they pay a much higher rate over the long term than the underlying derivative or stock or ETF that they follow. LEAPs are as safe as the stock or ETF that you buy them on. And you can always roll over LEAPs from one year to the next so really they would be indefinite not expiring; like most people think that they are only an expiring investment that's not really true.

ETF's

ETF's are recent invention and have really only been around for about the last couple years. And I think there are a great new invention to the world of investing. ETFs have all the advantages that closed-end funds have which means they trade on the stock market and you can instantly buy and sell them and they give you an expanded range into many different types of investments including some from Direxion and others that are leveraged which means they can go up and down at faster rate than non-leveraged ETF's. And to compound the felony, you can even get LEAPs on some ETF's I'll talk about that in another chapter.

With most ETF's I do not feel you need to have 50% cash and 50% ETF ratio when you initially start with the investment. Any investment that is a combination of other investments is always going to be safer than if you buy one stock or one or one LEAP. It's just the nature of the beast that something that is a collection of things can never be affected greatly by anyone of the multiple investments that is in the fund or the ETF. Also both closed-end funds and ETF's have management that went into the creation of and sometimes the continuing evolution of the ETF into the future. So you are actually getting a little bit of management when you own an ETF or a closed-end fund. So you can afford to be more aggressive owning shares in the fund or the ETF and have less CASH on your spreadsheet for that particular investment.

I want to emphasize that one size does not fit all when it comes to investing and that's why I think it helps you to have somebody like me advising you on how much CASH and how many shares should be in the ratio for any particular investment that you thinking of owning.

Some investors are very conservative, some investors want some income, some investors want to go for larger returns; maybe they're older in life and they don't have a lot of time to sit there and wait 20-30 years for their investments to make them lots of money and that's fine. AIM can handle any type of investor from the most conservative to the most risky. And again AIM will faithfully tell you exactly how much to buy, how much to sell, or to do nothing.

And the other beauty of AIM is that you can decide if you have me manage it for you. That means you will have me looking at your investments on a daily basis and advising you whether to sell whether to buy or whether to do nothing. It's always better to actively manage investments than just buy them and forget them.

So I hope this helped you decide and give you a little information at least on the questions to ask when you start investing in AIM about how to maximize your profits with the minimal risk.

Chapter 25

How to Find Investments to Consider

As you read in my first investing book I have 10 cardinal rules of investing that I feel help you make the most profits on your investments. And rule number one is one that should be your starting point when you're considering investments to buy at any particular point in time.

And that basic rule is to only consider investments that are at or near their 52-week lows. And it is very easy to find investments at their 52-week lows in several different ways. The basic way I find investments at or near their 52-week low is the old-fashioned way of looking at all stocks on the New York Stock Exchange and the NASDAQ stock exchange and seeing which stocks, ETF's, closed-end funds that are at or near their 52-week lows

Investments at their 52-week lows should be your starting point before you apply any other criteria to them. Some of the other basic criteria I do apply to an investment is I like one in a solid company, that shows revenue growth, EPS growth and large trading volumes, typically I like to look for ones that trade is least 10 million shares a week.

And of course with any investment that is at or near its 52-week low, I want to see some volatility. So basically I will only look and consider investments that are at their 52-week lows only if the investment shows a 52-week high low difference of at least 100%. So for example if I find the stock that has a high of 15 a low of 5 and is currently trading at 6 that would be one I would consider.

There are many fine tracking tools such as Value Line, Yahoo financial analysis, where you can plug in various factors and narrow down the general list into a few choices. I don't basically do that mainly because I grew up without computers and so I don't find that the most friendly way to do it and I basically like the old-fashioned approach of looking at them considering them and then deciding if him and put him on my monthly newsletter of investments I am recommending for the month.

I basically marry the old way with the new way because even though I'm letting my eyeballs look at all these stocks I am also doing it on a computer. The best place to me to find all of the information

I'm talking to you about above like the 52-week highs and lows, the trading volume, whether the EPS is going up is in the Barrons stock tables.

You can find the Barron stock tables very easily at the bottom of their webpage, http://www.barrons.com

Here's what I do every month so you could do the same thing if you want to. Actually rather than doing that I would recommend you become a subscriber to my newsletter is only $15 the year and let me do it for you (and remember your first-year of my newsletter FREE!

I go down to the bottom of the Barron's website and I find stock tables hot link in blue area way at the bottom. Then I click on the stock tables and then the page comes up that shows the New York Stock Exchange and the NASDAQ Stock Exchange and I believe the American Stock Exchange.

Underneath the New York Stock Exchange and the NASDAQ Stock Exchange you will see hot links to the entire alphabet from A to Z. I click on the A on the New York Stock Exchange and look at all of the stocks that start with A that comes up on the screen with lots of other good information including their 52-week highs and lows, the percent of dividend they pay if any, and the EPS for about three years, and the trading volume (typically I look for investments trading at least 10,000,000 shares a week)..

That gives me enough information to decide ones that I would consider good buy candidates as I say in my newsletter. Doesn't mean that's the end of it but it's a good starting point and basically what I recommend after you've decided on a couple that you like is go to your stockbroker's website, the one I always use is TD Ameritrade and you'll find when you do research on stocks and other investments that it's very easy to find lots of additional information.

I highly recommend the S&P Reports that follow a definite format and give you tons of information about any stock that you could ever want to buy. All you have to do once you've put the stock symbol that you want to research into the TD Ameritrade website is scroll down and you'll see the S & P Reports and other reports such as Zach's and they'll even give you a quick ranking show you what they think of the stock. S & P uses one to five stars with five stars being the highest rated stock.

I don't just blindly go by the number of stars that S & P uses but it is one of the things I will consider. Many times ranking services may downgrade a stock because most research reports are geared to a very short-term period of time. If you can take the long range view you can find many bargains that even analysts are rating low because they don't expect them to do well in the immediate short-term but if you take the view how will they do in the long term you can make a lot of money.

Let me give you another way to check on a stock for the long term so you can get the historical perspective that you need and realizing that history does repeat itself you will feel less wary of looking at the short term prescribed specs of the various stock and you will see that many stocks have risen from the dead and made investors tons of money if they were patient.

Here's the perfect stock to check out and once you see how it did you will be amazed and you will see how using AIM you could have made a ton of money off of the stock. The stock I'm talking about is Crocs which has the symbol CROX. A quick rule of thumb is that if you see a stock with a three letter symbol it is on the New York Stock Exchange and if you see a stock with a four letter symbol it is on the NASDAQ Exchange.

Here's the quick way you can check the history of the stock by checking the monthly prices for say three or four years to see how that particular stock bid over a long period of time. You go to the website – http://www.yahoo.com

When you get to the Yahoo website look on the left-hand side and you will see Finance. Click on Finance. After you click on Finance and the Finance Yahoo website opens up, you will see at the top a little white CGI box that says "Get Quote". And all have to do is type in the symbol for the stock or ETF which in this case is the symbol CROX and then the summary page for that stock will appear on your computer screen.

The summary screen gives you lots of good information about the stock including the 52-week highs and lows the current selling price of the stock, target price for the year which is basically what analysts think the stock of the selling out within the next year and whether the stock pays dividends and the average daily trading volume a wealth of information.

But like I used to tell investors in my classes the key to making profits is what the price of the stock does, not what they actually make, not any fundamentals, not the industry it's in but what does the price do? Is it a volatile stock that tends to be a roller coaster stock which means it goes up goes, down, goes up, goes down, because on all of those down trips you gonna be buying and all of those up trips you gonna be selling and that is the way you make a ton of money.

Okay now you're on the home summary page for Crocs on Yahoo Finance website. If you look on the left you will see a hot link to historical prices. Click on that. You will see that you can check daily, weekly, monthly, or any dividends that the stock or other investment has paid for any length of time that you want. So look at the two dates - the starting and ending date - and pick an appropriate starting date to check the price history.

I recommend you check the monthly stock price for say 4 or 5 years of the stock if the company has been around that long. That will give you a much better indication of how well you can do with a particular stock using AIM over the long-term. Because I always emphasize in my teaching classes and to any investors I have that you have to think of AIM as a long-term investment not a short-term investment. That's not saying you can't make some good profits in the short term but take a long-term view and you will not be disappointed.

Well I will spoil the suspense a little and tell you when you look at the monthly prices for the symbol CROX you will find a great roller coaster. You will find this the stock went from like the $30 price range down to the $1 price range back up to the $17-$20 price range off and on over those 4 or 5 years.

Look at it and you will see the perfect kind of AIM stock that I recommend.

It's been a pleasure writing this for you and finally after 15 years I have upgraded the book and that is thanks to Dragon NaturallySpeaking voice recognition software. Now the book meets my high standards because you deserve the best. I wish you all the best in investing and always remember you have any questions or I can help you please e-mail me at jeffee13@hotmail.com

Crocs Shoes - CROX from February 2006 to October 2011 using AIM 10% SAFE

Negative Cash Balances

Date	Remarks	Share Price	Share Value	SAFE	Cash	Shares Bought (sold)	Shares Owned	Portfolio Control	Buy (Sell) Advice	Mkt order Buy (Sell)	6% Interest 0.005	Portfolio Total
2/8/2006		$13.74	$5,153	515	$4,847	0	375	5153	-			$10,000
3/1/2006		$12.57	$4,714	471	$4,871	0	375	5153	439	0	24	$9,585
4/3/2006		$14.95	$5,606	561	$4,895	0	375	5153	(453)	0	24	$10,501
5/1/2006		$11.45	$4,294	429	$4,919	40	375	5153	859	458	24	$9,213
6/1/2006		$12.57	$5,217	522	$4,483	0	415	5382	165	0	22	$9,700
7/3/2006		$13.84	$5,744	574	$4,505	0	415	5382	362	0	22	$10,249
8/1/2006	Readjust C/S	$13.51	$5,607	561	$4,528	0	415	5382	225	0	23	$10,135
9/1/2006		$16.98	$7,047	705	$4,551	(55)	415	5382	(1665)	(934)	23	$11,598
10/2/2006		$19.81	$7,132	713	$5,512	(45)	360	5382	(1620)	(891)	27	$12,644
11/1/2006		$21.48	$6,766	677	$6,435	(33)	315	5382	(1384)	(709)	32	$13,201
12/1/2006		$21.60	$6,091	609	$7,180	0	282	5382	(709)	IGN (100)	36	$13,271
1/3/2007		$25.17	$7,098	710	$7,216	(40)	282	5382	(1716)	(1007)	36	$14,314
2/1/2007		$24.36	$5,895	590	$8,264		242	5382	(513)	0	41	$14,159
	Readjust C/S					49				1194		
3/1/2007		$23.62	$6,873	687	$7,115	0	291	6576	(297)	0	35	$13,988
4/2/2007		$27.94	$8,131	813	$7,151	(25)	291	6576	(1555)	(699)	36	$15,282

5/1/2007		$40.72	$10,832	1,083	$7,889	(78)	266	6576	(4256)	(3176)	39	$18,721
6/1/2007		$43.00	$8,084	808	$11,120	(16)	188	6576	(1508)	(688)	55	$19,204
7/2/2007		$59.32	$9,610	961	$11,867	(35)	162	6576	(3034)	(2076)	59	$21,477
8/1/2007		$59.04	$7,498	750	$14,013		127	6576	(922)	IGN 172	70	$21,511
	Readjust C/S					55				3247		
9/4/2007		$67.25	$12,240	1,224	$10,810	(18)	182	9823	(2417)	(1211)	54	$23,050
10/1/2007		$74.75	$12,259	1,226	$12,081	(16)	164	9823	(2436)	(1196)	60	$24,340
11/1/2007		$39.03	$5,776	578	$13,343	89	148	9823	4047	3474	66	$19,119
12/3/2007		$36.81	$8,724	872	$9,918	53	237	11560	2836	1951	49	$18,642
1/2/2008		$34.79	$10,089	1,009	$8,007	41	290	12536	2447	1426	40	$18,096
2/1/2008		$24.32	$8,050	805	$6,614	181	331	13249	5199	4402	33	$14,664
3/3/2008		$17.47	$8,945	894	$2,223	321	512	15450	6505	5608	11	$11,168
4/1/2008		$10.21	$8,505	850	-$3,385	872	833	18254	9749	8903	0	$5,120
5/1/2008		$10.21	$17,408	1,741	-$12,288	348	1705	22706	5298	3553	0	$5,120
6/2/2008		$8.01	$16,445	1,644	-$15,841	798	2053	24483	8038	6392	0	$604
7/1/2008		$4.44	$12,658	1,266	-$22,233	5664	2851	27679	26413	25148	0	-$9,575
8/1/2008		$4.15	$35,337	3,534	-$47,381	333	8515	40253	4916	1382	0	-$12,044
9/2/2008		$3.58	$31,676	3,168	-$48,763	1704	8848	40944	9268	6100	0	-$17,087
10/1/2008		$2.51	$26,486	2,649	-$54,863	5920	10552	43994	17508	14859	0	-$28,377
11/3/2008		$1.27	$20,919	2,092	-$69,722	22372	16472	51424	30505	28412	0	-$48,803

12/1/2008		$1.24	$48,167	4,817	-$98,134	10198	38844	65630	17463	12646	0	-$49,967
1/2/2009		$1.20	$58,850	5,885	-$110,780	6015	49042	71953	13103	7218	0	-$51,930
2/2/2009		$1.22	$67,172	6,717	-$117,998	1371	55059	75562	8390	1673	0	-$50,826
3/2/2009		$1.19	$67,152	6,715	-$119,671	2178	56430	76399	9247	2592	0	-$52,519
4/1/2009		$2.25	$131,868	13,187	-$122,263	(18216)	58608	77695	(54173)	(40986)	0	$9,605
5/1/2009		$2.91	$117,541	11,754	-$81,277	(9654)	40392	77695	(39846)	(28093	0	$36,264
6/1/2009		$3.40	$104,509	10,451	-$53,184	(4813)	30738	77695	(26814)	(16364)	0	$51,325
7/1/2009		$3.42	$88,664	8,866	-$36,820	(615)	25925	77695	(10969)	(2103)	0	$51,844
8/3/2009		$6.35	$160,719	16,072	-$34,717	(10544)	25310	77695	(83024)	(66954)	0	$126,002
9/1/2009		$6.65	$98,194	9,819	$32,393	(1606)	14766	77695	(20499)	(10680)	156	$130,587
10/1/2009		$6.08	$80,013	8,001	$43,288	0	13160	77695	(2318)	0	215	$123,301
11/2/2009		$4.87	$64,089	6,409	$43,504	1479	13160	77695	13606	7203	216	$107,593
12/1/2009		$5.75	$84,174	8,417	$36,483	0	14639	81297	(2877)	0	182	$120,657
1/4/2010		$7.35	$107,597	10,760	$36,666	(2114)	14639	81297	(26300)	(15538)	183	$144,263
2/1/2010		$7.05	$88,301	8,830	$52,465	0	12525	81297	(7004)	0	261	$140,766
3/1/2010		$8.78	$109,970	10,997	$52,727	(2013)	12525	81297	(28673)	(17674)	262	$162,697
4/1/2010		$9.66	$101,546	10,155	$70,753	(1045)	10512	81297	(20249)	(10095)	354	$172,299
5/3/2010		$10.35	$97,983	9,798	$81,252	(666)	9467	81297	(16686)	(6893)	404	$179,235
6/1/2010		$10.58	$93,115	9,311	$88,586	(237)	8801	81297	(11818)	(2507)	441	$181,701
7/1/2010		$12.83	$109,876	10,988	$91,548	(1371)	8564	81297	(28579)	(17590)	455	$201,424
8/2/2010		$12.48	$89,769	8,977	$109,684	0	7193	81297	(8472)	0	546	$199,453
	Readjust C/S					798				9959		

9/1/2010		$13.00	$103,883	10,388	$99,725	(176)	7991	91256	(12627)	(2288)	494	$203,608
10/1/2010		$13.93	$108,863	10,886	$102,523	(482)	7815	91256	(17607)	(6714)	510	$211,386
11/1/2010		$17.55	$128,694	12,869	$109,783	(1400)	7333	91256	(37438)	(24570)	546	$238,477
12/1/2010		$17.12	$101,573	10,157	$135,025	0	5933	91256	(10317)	0	672	$236,598
1/3/2011		$16.39	$97,242	9,724	$135,703	0	5933	91256	(5986)	0	678	$232,945
						1173				19225		
2/1/2011		$17.65	$125,421	12,542	$117,054	(136)	7106	110481	(14940)	(2400)	582	$242,475
3/1/2011		$17.84	$124,345	12,434	$120,051	(80)	6970	110481	(13864)	(1427)	597	$244,396
4/1/2011		$20.11	$138,558	13,856	$122,085	(707)	6890	110481	(28077)	(14218)	607	$260,643
5/2/2011		$22.73	$140,540	14,054	$136,985	(704)	6183	110481	(30059)	(16002)	682	$277,525
6/1/2011		$25.75	$141,084	14,108	$153,752	(641)	5479	110481	(30603)	(16506)	765	$294,836
7/1/2011		$31.33	$151,575	15,157	$171,109	(828)	4838	110481	(41094)	(25941)	851	$322,684
8/1/2011		$27.39	$109,834	10,983	$198,035	0	4010	110481	647	0	985	$307,869
	Readjust C/S					1340				36703		
9/1/2011		$23.68	$126,688	12,669	$162,139	331	5350	147184	20496	7838	807	$288,827
10/3/2011		$17.24	$97,940	9,794	$155,073	2312	5681	147588	49648	39859	772	$253,013

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