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THE PERFECT PORTFOLIO



**A REVOLUTIONARY APPROACH
TO PERSONAL INVESTING**

Leland B. Hevner

President, National Association of Online Investors

The Perfect Portfolio

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“Do not believe in anything simply because you have heard it. Do not believe in anything simply because it is spoken and rumored by many. Do not believe in anything simply because it is found written in your religious books. Do not believe in anything merely on the authority of your teachers and elders. Do not believe in traditions because they have been handed down for many generations. But after observation and analysis, when you find that anything agrees with reason and is conducive to the good and benefit of one and all, then accept it and live up to it.”

Buddha (Hindu Prince Gautama Siddharta,
the founder of Buddhism, 563–483 B.C.)

Foreword

I first met Leland Hevner in 2002 at my former job as a *Wall Street Journal* reporter for CNBC. I interviewed Leland for a televised investor education segment, and soon found myself calling him frequently for interviews because his advice was always both insightful and immensely practical. Most of all, Leland was a welcome addition to the discussion because he was an advocate for Main Street, not Wall Street. His goal in these interviews was to translate the investing topics being discussed into plain English and to make them relevant to the average person with money to invest.

When I wrote my first book, *Investing Success*, published in 2004, I again drew upon Leland's wisdom to explain common investing mistakes that people make—and how they could fix or avoid those mistakes. As we maintain contact over the years, I have come to appreciate Leland's dedication to providing individuals with comprehensive, objective, and actionable investing education. The study courses he has created for the National Association of Online Investors are a resource that I often recommend to people when I conduct my own investment workshops and investor empowerment activities.

In *The Perfect Portfolio*, Leland does more than simply show readers how to navigate the personal investing landscape as it exists today. He goes one step further and boldly advocates making significant changes to this landscape. He challenges the validity and relevance of existing investing concepts such as asset class definition, portfolio design theory, and even the very definition of investing risk. And in doing so he presents new ways of thinking and new methods that make the world of personal investing simpler and less intimidating to individuals seeking to take more personal control of their portfolios.

I applaud the author's willingness in this book to challenge conventional investing concepts that have been taught by "experts" as indisputable facts for decades. I also applaud his recognition that

individuals are truly capable of making their own investing decisions if given the appropriate knowledge, structure, and resources. Readers will undoubtedly appreciate his innovative use of an online supplement that makes *The Perfect Portfolio* more than just a book but rather a total learning experience.

Today's markets are rife with challenges that confound novice and professional investors alike. Thankfully, *The Perfect Portfolio* provides the type of outside-the-box thinking that can enable individual investors to not only cope with these challenges but also to view them as profit making opportunities. I firmly believe that anyone with money to invest will benefit from reading this book. *The Perfect Portfolio* is an easy-to-follow road map to being a successful investor in up and down markets.

LYNNETTE KHALFANI-COX
The Money Coach
www.TheMoneyCoach.net

Preface

The investing environment that we, as individual investors, face today is not a friendly place. Equity prices are buffeted by factors that were inconceivable just a few years ago. Yet while markets have changed dramatically, the investing theories, methods, and resources we have available to cope with them have not. We are essentially stuck using twentieth-century tools for dealing with twenty-first-century investing challenges, and these tools no longer work.

The time has come to pause, take a deep breath, and rethink the totality of how we view and interact with equities markets. It is time to recognize that much of what we have been taught about how to invest has become obsolete. To survive and thrive in today's new investing environment, a completely new approach to personal investing is needed. Providing this new approach is the purpose of this book.

The New Face of Investing Today

In the good old days (not many years ago), investors had a reasonable chance of predicting stock prices by analyzing company financial statements. Not too long ago, we could trust with some degree of confidence what a CEO was saying about the health and earnings potential of his or her company. And most of us can remember a time when news items in the financial media had at least been fact-checked. In other words, in the not too distant past, we had a legitimate chance of being successful investors by doing some good old-fashioned homework using basic equity analysis methods and tools. Unfortunately, those days are gone.

Today, a host of factors influence stock prices that have nothing to do with corporate fundamentals. And these factors are almost impossible for us to analyze using the resources available to us. What are these new factors? Let's look at just a few.

- **The Web.** This vehicle of mass communication has changed everything. Some of the effects are good, and some are bad. Among the good effects are that individuals have access to massive amounts of investment-related information, and they can use this input to trade equities from the comfort of their homes. Among the bad effects are that much of the information investors are exposed to on the Web is misleading at best and fraudulent at worst. Anyone can post rumors, opinions, and bogus analysis on the Web that can be made to look like legitimate news. The Web then proliferates these postings with the speed of light, and they are read by millions of people who often place trades without questioning what they read. By creating and spreading misinformation on the Web, anyone with a computer and an Internet connection can cause millions of people to make uninformed trading decisions and in this manner manipulate stock prices easily and cheaply.
- **The short attack industry.** Short selling is now a major factor that can dramatically influence the price of any stock. In today's markets, major traders such as hedge funds are making tens of billions of dollars through the practice of borrowing shares of a company stock and immediately selling these shares at current market prices. They hope that the stock price will go down so they can buy back the shares at a lower price, return the borrowed shares, and pocket the price difference. This is called shorting a stock and it is a legal activity. What short attackers do, however, is abuse this activity by orchestrating a massive smear campaign against a stock they have shorted in order to rapidly drive down its price. As a part of this effort, they may spread false rumors about the stock on the Web, create and distribute bogus financial analysis reports, and even influence mainstream media reporters to write negative articles about the company they are shorting. A short attack can destroy the value of a stock, and there is no way for us as individual investors to predict which companies are in the crosshairs.
- **Government activism.** As I write these words, the government is rampaging through the equities markets like a bull in a china shop. Legislators have voted to inject hundreds of billions of dollars into the financial system without a clear

plan for how the money will be spent. This is all in response to a problem that the government itself created by insisting (under threat of prosecution) that banks give home mortgages to people who could not afford them (subprime loans). Anytime the government interferes with the free market, bad things happen; and unfortunately signs currently point to increasing government activism. This is another factor that can dramatically affect stock prices, but that defies analysis using investing tools and analysis techniques currently available to us.

- **Speculation.** In commodities markets, the activity of speculators has a significant effect on the prices of such assets as gold, oil, and food, all of which are vital to the health of our overall economy. Speculative price swings in these commodities affect the earnings and thus the prices of a full range of stocks. As I write these words, in the past six months the price of a barrel of oil has moved from \$80 to \$140 and back to \$60. Such violent price movements are not totally attributable to factors that can be analyzed, such as supply and demand. Much of this price volatility is due to speculation, and this is yet another factor that cannot be analyzed and quantified with any degree of confidence.

These are only a few examples of stock price influences that we, as individual investors, cannot analyze with the methods and tools we have at our disposal today. Fundamental stock analysis does not and cannot take into account any of the factors discussed above and this is why it is very difficult, if not impossible, for individuals to make informed investing decisions in today's markets. This is why a comprehensive new approach to investing is desperately needed in today's new and challenging market environment.

A New Approach to Investing

In the face of these new market dynamics and the inability of existing investing tools to deal with them, what can we do? We have three choices.

One option is to whine, complain, and say that the factors listed earlier, and others like them, are illegal or unfair and that government regulators should step in and make everything right. This

course of action and \$5 will buy you a cup of coffee. It is not going to happen.

A second option is to develop revised theories, methods, and tools that will enable us to analyze the new market influences such as those just described. But this would be an unbelievably difficult task to accomplish, if it were even possible at all. The new problems that plague the market today simply defy any type of rational analysis. This option is a dead end.

The third choice is to develop an updated, and improved approach to personal investing. This approach would recognize the new factors influencing equity markets and provide an updated set of tools, concepts, and methods for dealing with them.

This third option, consisting of creating a completely new approach to personal investing, is the only viable choice for enabling us to succeed in today's markets. This is the option presented in *The Perfect Portfolio*.

Why Should You Complete This Book?

As I write these words soon after the stock market crash of 2008, panic reigns in markets. Stock prices have collapsed based on a number of factors that I have just discussed and others. It is understandable that individual investors don't know what to do in current chaotic market conditions. What is more interesting to me is that financial advisers and market mavens don't know what to do, either.

The current market malaise is shining a bright light on the financial services industry. We are discovering that the so-called experts are really no more capable of creating and managing an effective portfolio of investments in today's new market environment than you are, and that placing absolute trust in financial professionals to manage your investments is a very risky strategy indeed.

What is becoming increasingly clear is that it is up to you to take more personal control of your portfolio in order to protect and grow your wealth. To do so, you must have the knowledge, structure, methods, and tools needed to make effective investing decisions in current markets. By reading *The Perfect Portfolio* you will gain all of these elements necessary for investing success.

Regaining personal control of your portfolio and becoming empowered to succeed in today's personal investing environment

are two of the many reasons why you should, and must, complete this book.

How Is This Book Organized?

I have taught personal investing at the college level for more than 10 years. During this time, I have created dozens of lesson plans. Input from hundreds of students has shown me the presentation design that is most effective. The organization of this book is based on this feedback.

The Perfect Portfolio is divided into three Parts, each containing several chapters, and a Summary. An overview of how the book content is organized is presented in the following paragraphs.

Part I: The Problem, the Solution, and Getting Started—Chapters 1 to 3. I start in Chapter 1 by illustrating the problems faced by individual investors today. For this purpose, I present actual questions from students in the classes I teach. With the problems defined, I then discuss a comprehensive approach for solving them in Chapter 2. Here I explain the Perfect Portfolio Methodology (PPM). It calls for your portfolio to be divided into two segments, a Core Segment and a Target Market Segment. Chapter 3 shows you how to start building the Perfect Portfolio by designing its Core Segment, which serves as the foundation of your portfolio and sets the stage for the more powerful Target Market Segment.

Part II: Supercharging Your Portfolio with Target Market Investing—Chapters 4 to 9. While the purpose of the Core Segment is to provide stability to your portfolio, the purpose of the Target Market Segment is to supercharge its returns. In Chapter 4, I provide an overview of this Segment and describe the process used for its design. It will contain five Asset Building Blocks: gold, energy, agricultural commodities, real estate, and emerging markets. These are assets that can have annual returns of 20 percent, 30 percent, 40 percent, and higher! I show you how to invest in these assets in a manner that enables you to take advantage of their incredible returns potential without excessive risk. Chapters 5 through 9 then go into significant detail on how to identify, analyze, select, and monitor investments for each Target Market asset type.

Part III: Creating and Working with Your Perfect Portfolio—Chapters 10 to 12. At this point in the book you will have the knowledge, structure, and tools needed to construct a Perfect Portfolio that meets your investing goals, your unique investing profile and

current market conditions. Chapter 10 walks you, step by step, through the total portfolio design process. In Chapter 11, I show you how to monitor, manage, and modify your portfolio on an ongoing basis. And in Chapter 12, I show you areas of the PPM where you can strive for even higher returns by becoming more involved in the investing process. The PPM enables you to aim for virtually any level of return that you are willing to work for.

Summary: Reviewing, Teaching, and Experiencing the Perfect Portfolio Methodology. I end *The Perfect Portfolio* with a review of why I have the audacity to call the PPM approach to investing *revolutionary*. It is an adjective that I don't use lightly. Then I discuss the reactions I get from students in my classes when they are first exposed to the PPM. Your reactions will probably be similar. Next I present a real-life story told to me by a student who actually used the PPM to build her own portfolio. I think you will find this story interesting and the perfect way to illustrate the benefits of using the PPM approach to portfolio design. I close by presenting a final note that asks you to step back and review what you have just learned in *The Perfect Portfolio* and to consider how this knowledge can enable you to become a confident and successful individual investor in markets as they exist today and as they will exist in the future.

A Prerequisite for Continuing: An Open Mind

Many students enter the classrooms where I teach the Perfect Portfolio Methodology (PPM) with a host of preconceptions. They believe that they are about to learn how to find and analyze stocks, dissect mutual funds and fund styles, build portfolios with three asset classes, and be shown why buy-and-hold is the preferred investing strategy. Who can blame them? For years they have been taught that these activities form the very foundation of effective personal investing.

As my classes begin, therefore, they are literally stunned when I kick to the curb much of conventional investing "wisdom" and replace it with a dramatically different and simpler method for designing a powerful portfolio. They are, at first, skeptical when I teach none of the traditional investing activities they thought they were about to learn. But as classes progress, they see the logic of the PPM and their skepticism gradually turns to excitement. They

begin to realize that the investing concepts they have been taught for years have been stifling their ability to become effective investors and that there exists a far better and more logical way for growing their wealth.

It is therefore appropriate for me to give to you the same advice that I give to my new students. Before starting this book, clear your mind of any preconceptions you may now have about how personal investing works. Forget much of what you have been taught for years. Start with a clean slate. In the PPM, you are about to learn an approach to investing that enables you to view the world of personal investing from a totally different angle, one that defies tradition. You will need an open mind to appreciate and absorb this paradigm shift. Allow yourself the freedom to consider and accept change.

Author's Note

The logistics of publishing dictate that the content of a book be completed months before the release date. When dealing with a topic as dynamic as equities markets, this can pose a challenge. In the pages of this book, I walk you through a detailed explanation of a revolutionary approach to investing that I call the Perfect Portfolio Methodology (PPM). To illustrate how to implement this new approach, I have used price charts for various market sectors and asset classes as they existed in July of 2008, when I created the content. At that time stock markets were trending down but not dramatically, and certain market sectors were moving up strongly—as you will see in the example charts presented.

Alas, as I write this note in December of 2008, market conditions have significantly changed. Stocks, both domestic and international, have suffered a significant setback, and sectors/asset types that were moving up when I created the examples in this book have tumbled.

In light of the new market environment that may exist when you read this book, you may be tempted to think that the portfolio creation methodology illustrated here is no longer valid.

Nothing could be further from the truth.

In the time between when I created the illustrations used in the content of this book and now, the PPM has worked perfectly for a portfolio I am managing. As markets began deteriorating, it guided me to decrease my portfolio allocation to stocks, both foreign and domestic, and it also completely eliminated from my portfolio investments in energy, agricultural commodities, and emerging markets. At the same time, the PPM directed me to increase my allocations to cash and gold.

The PPM also enabled me actually to earn significant returns using “short” Exchange Traded Funds for various asset types as they

began falling in price. These are investment vehicles that go up in value in direct proportion to the decrease in value of the underlying asset or market index. You will learn how to use them in this book.

Thus, while many investors were being advised to buy-and-hold during the 2008 crash and were losing their collective shirts by so doing, the PPM was automatically moving a portion of my portfolio into an extremely defensive stance with a substantial cash allocation, positioning it perfectly for reentry into equities at the first signs of market recovery. At the same time, another portion of my portfolio was earning returns of 20 percent and higher by taking carefully monitored short positions on the S&P 500 index and specific asset classes as they rapidly declined.

So, as you move through this book you may see positive charts for investments that have since been decimated. Don't worry; the PPM principles you will learn are sufficiently flexible to handle *any* set of market conditions, not just those illustrated in this book. The performance of my own portfolio is proof of this fact.

Market conditions will change. A good portfolio design methodology recognizes and takes advantage of these changes and that is exactly what the Perfect Portfolio Methodology has done for my portfolio. The PPM has proved to be relevant and effective before, during, and after that market crash of 2008. And it will be just as relevant and effective when you read this book, regardless of current market conditions.

—LELAND B. HEVNER
December 1, 2008

The Perfect Portfolio Online Supplement

*T*he Perfect Portfolio is more than simply a book. It also includes a supplemental component that you access on the Web. The use of this supplement is not required, yet I encourage you to do so to take full advantage of a richer and more convenient learning experience.

Throughout the book, I will alert you to instances where you will benefit from accessing an online resource found in the supplement.

Accessing the Online Supplement

To access the online supplement enter the following Web address:

www.perfectportfoliobook.com

This entry takes you to a page on the site of the National Association of Online Investors (NAOI), the organization that hosts the supplement. The Web page will display the URL www.naoi.org/members/pportlogin.asp. Don't worry, this is not an error. I have set up the Web address presented above to point to the supplement home page simply because it is easier to remember.

On The Perfect Portfolio supplement's sign-in page, you will be prompted for a User ID and Password. Simply enter the following for each:

- *User ID:* Perfect
- *Password:* Portfolio

Neither of these entries is case sensitive. After logging in, a Home Page will display with these selections:

- *Links by Chapter:* When you click on this link, you will be taken to a page that displays the book's Table of Contents. Clicking

on a Chapter link shows you a list of links for the resources that are referenced in the corresponding chapter in this book. Clicking on a link in this list takes you to a resource that can be a worksheet, a calculator, or a third-party Web site.

- *Calculators and Worksheets.* Click on this link to access an area of the site where I have collected all of the calculators and worksheets referenced in this book. They are presented here, all in one place, for your convenience so you do not have to remember in which specific chapter a resource of interest is referenced.
- *Web Link Compilation.* When you click on this link you will access a list of all of the third-party Web sites that I have referenced throughout this book. They are listed here, all in one place, for your convenient access.

Benefits of the Online Supplement

The following is a description of the resources and benefits that you will find in the online supplement.

- *Worksheets:* At various stages of this book, I will suggest that you go to the Web and collect data. For this purpose, you will use specially designed data collection worksheets. You can easily create these worksheets on your own or, for greater convenience, you can access each in the form of a PDF file found in the online supplement and print it.
- *Calculators:* At various points in this book, I show the use of calculators for purposes such as determining the expected returns for various portfolio configurations. These are easy calculations that you can do with your own calculator. A more convenient method, however, is to simply access the online calculators in the supplement.
- *Expanded Information and Education:* This book covers a lot of ground, and if I discussed every topic in detail, it would be over a thousand pages in length. I therefore provide Web sites in the online supplement where you can find more detailed discussions of specific topics. For example, while I discuss in this book the definition of Exchange Traded Funds (ETFs) and how they are used, you may wish to learn more about them. For this purpose, I provide one or more

Web links in the online supplement where you can go to get additional information on ETFs.

- *Updated Web References:* Anytime a hardcopy book lists a Web site address, there is a danger that by the time you read the material, the link is out of date. To guard against this, the online supplement contains Web references that are constantly updated. If a Web site mentioned in this book seems to be no longer valid or doesn't work as described, you can go to the supplement to get updated information.
- *Third Party Tools and Resources:* Everything you need to design, implement, and monitor your unique Perfect Portfolio is presented in this book. The techniques and the tools are easy to understand and simple to use. However, there exist Web-based tools and resources that you may wish to consider to assist you at various steps of the portfolio development process. You will find a list of these resources in the supplement. Keep in mind that these resources are presented only for your consideration and are not a requirement for you to develop your Perfect Portfolio.

It is important to repeat that use of the supplemental online component is optional. It exists for your convenience only. Having said this, I truly believe that a book combined with a closely integrated online component is the future of all financial publications. *The Perfect Portfolio* is at the vanguard of this exciting and inevitable new trend in financial publishing.

Acknowledgments

The inspiration and knowledge required to create a truly effective book on personal investing cannot come from the secretive backrooms of Wall Street insiders, the brightly lit stages of TV pundits/celebrities, or the sterile halls of academia.

No, a book that has the potential to instill widespread confidence among the investing public can only originate from the people it is designed to help—namely, the average person with money to invest.

The Perfect Portfolio was created based in large part on my interaction with individual investors. Fortunately, I have access to a host of them through the personal investing classes I teach and via the multi-thousand-member organization I run, the National Association of Online Investors.

In writing this book, I spent countless hours interviewing people who are faced every day with investing decisions that they are not prepared to make and with financial offerings that they are not prepared to evaluate. They told me of the challenges they encounter as they try to navigate the chaotic world of personal investing in an effort to protect and grow their wealth. They expressed to me their feelings of frustration, despair, and even anger as they watched their savings melt away in portfolios designed by credentialed advisors. And they told me that they would be willing, in fact eager, to become more involved in the investing process if they only knew how.

The almost universal desire of people to cut the cord of dependency on the financial services industry and to regain personal control of their investments, and thus their quality of life, inspired me to create *The Perfect Portfolio*.

I would like to acknowledge the great debt of gratitude that I owe to the many, many people who were willing to share with me their personal investing stories along with suggestions on how their

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investing lives could be made better. In essence, they told me what to write in this book.

I also wish to thank Ms. Rachelle Cohen, a superb editor and a tremendously supportive friend for her valuable assistance in reviewing the content of this book.

PART I

THE PROBLEM, THE SOLUTION, AND GETTING STARTED

Our journey toward creating the Perfect Portfolio is divided into three Parts as briefly described in the Preface to this book. Part I consists of three chapters.

I start in Chapter 1 with a description of the problems that face individual investors on a daily basis. I illustrate these problems with discussions I have had with students in the college classes I teach.

With the problem defined, I then lay out in Chapter 2 a solution to these problems using a revolutionary new approach to investing that I call the Perfect Portfolio Methodology, or PPM for short.

We begin in Chapter 3 the process of creating a Perfect Portfolio by building its Core Segment, consisting of the traditional asset classes of Cash, Stocks, and Bonds.

After completing Part I of *The Perfect Portfolio*, you will understand the problems that need to be solved, you will understand the new approach to personal investing I am proposing for addressing these problems, and you will know how to build the foundation of the Perfect Portfolio in the form of its Core Segment.

Then in Part II of *The Perfect Portfolio*, you will learn how to supercharge the portfolio's returns potential by adding a Target Market Segment consisting of five new asset classes that I have defined for this approach.

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And finally, in Part III, we bring the Core Segment and the Target Market Segment together to form a Perfect Portfolio that meets your unique goals, matches your personal investing style, and works in current market conditions.

CHAPTER 1

The Woeful State of Personal Investing and the Need for Change

A VIEW FROM MAIN STREET

As I fiddle with the overhead projector at the front of the room, people start to file in for the first session of an investing class that I teach at Montgomery College just outside of Washington, D.C. They find their seats, and as I turn to face the group of about 20 people, I see a cross-section of the U.S. public. Most are older and probably retired. Many are middle-aged and in their peak earning years. There are a surprising number of younger people who look like they are fresh out of college and just starting their earning careers. And, as usual, there are more women than men.

I know that these students are not day traders and few, if any, are experienced personal investors. These are average people with money to invest and they simply don't know how to navigate the world of personal investing. I note that many have brought folders with them that I suspect contain broker statements they do not understand. At some point, either before or after class, they will spread these statements in front of me hoping that I will be able to decode them.

The overwhelming majority of people who attend my classes have off-loaded their portfolios, some of which are quite substantial, to advisers and brokers because they have no confidence in their

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own ability to make investing decisions. But as they have watched their portfolios stagnate or erode while being charged significant fees, these individuals have reached a breaking point. They have had enough of standing on the sidelines and watching their hard-earned savings fade away without understanding how or why. They want to understand and have more personal control of their portfolios, either by making their own investing decisions or at least being able to challenge their adviser's recommendations, but they don't know how. They have found their way to my class hoping against hope that it will be their first step toward becoming a more confident and independent investor.

Yet, students enter the class skeptical. Many believe they are about to hear a sales pitch from a broker or a financial adviser. They have experienced this many times before and are fully prepared to be disappointed if it happens again. Others believe they are about to learn new ways to pick stocks and mutual funds based on an incredibly successful trading system I am promoting. Still others believe I will be trying to persuade them to buy specific stocks or funds on which I receive commissions.

Therefore, my students are typically surprised when I tell them that I am not selling anything, that I am not going to give them specific investment recommendations, and that I will not reveal to them a shortcut to investing riches.

I tell them that I am a professional educator, not a professional salesman, and that what I am about to teach in this class is nothing short of a totally new approach to personal investing. They look at me with surprise when I tell them that this new approach will require that they forget most of what they have learned about investing to this point. I tell them that the only prerequisite to taking this class is that they clear their minds and be open to new investing methods that most of their advisers or brokers will look upon with the utmost of disdain. I tell them that what they learn over the next 12 hours of class work will enable even the least experienced among them to become confident, independent and successful investors. At this point, while many facial expressions show disbelief, I at least have their attention.

What I teach my students in the classroom is what I will teach you in this book. I therefore give you the same advice that I give to my students. Clear your mind of preconceived notions of how personal investing works. Open your mind to new ideas. Don't compare

what you read here to what you have read or been told elsewhere until you finish the book. Then decide if this new approach makes sense for you.

You are now a student of a radically new way of investing that takes the power out of the hands of salespeople and third party “experts” and puts it squarely into yours. By picking up *The Perfect Portfolio* you have shown that you are ready, willing, and able to accept the challenge.

The Current State of Personal Investing

Why is a new approach to investing needed? The answer is, unfortunately, because the world of personal investing today is broken. The financial services industry is not meeting the needs of people who are seeking to learn how to take more personal control of their portfolios. As a result, the investing public wants, needs, and demands change.

In my position as a teacher of personal investing and as President of the multi-thousand-member National Association of Online Investors (NAOI), I have the opportunity to interact with the investing public on a daily basis. I talk with hundreds of individual investors every year. I can see in their faces and hear in their voices that they are confused and often intimidated by the world of personal investing as it currently exists. When seeking to learn how to cope with this world, they are confronted with hundreds of investing books, countless newsletters, nonstop seminars for trading systems promising instant success, sales pitches from hoards of financial advisers, and a constant barrage of information from the financial media. The world of personal investing today is simply overwhelming for the average person trying to protect and grow their savings.

When confronted with this chaos, most people simply give up in despair and give their portfolios to financial advisers to manage. In essence, they are entrusting their financial futures to strangers who are far too often salespeople with fancy financial credentials. This situation is clearly unacceptable. But what can we do? What can we change?

I realized early in my teaching career that people did not simply need more investing tools, more information, or more expert financial advice. Rather, the public told me that they needed nothing less than a totally new approach to investing. They wanted a greatly simplified approach that would enable them to take more personal

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control of their portfolios and to effectively manage their investments on their own with confidence. To meet this goal, I developed the revolutionary Perfect Portfolio Methodology (PPM) approach to investing which I explain in this book.

The PPM greatly simplifies the investing process. It shows you how to create an incredibly powerful portfolio using only nine key Asset Building Blocks. It frees you from the tedious process of analyzing individual stocks and mutual fund styles. And it gives you a logical structure for designing a portfolio that meets your unique needs and is responsive to changing market conditions. In short, it fixes what is broken in today's personal investing market.

But before presenting a solution, it is beneficial to understand the problem the solution is designed to address. The purpose of the next section of this chapter is to shine a bright light on the obstacles that individual investors face today. In doing so, I hope to convince you that a new approach to personal investing is needed. I also show in this first chapter that a new approach is possible and what it will look like.

I begin by illustrating the problems faced by average people with money to invest using the words of students in the personal investing college classes I teach.

Questions from the Classroom

It is 9 P.M. on a blustery March night. I have just finished a three-hour session of my class, titled "Effective Investing Using Online Resources," at Montgomery College on the outskirts of Washington, D.C. This is one of four weekly sessions that make up the entire program.

While the class is officially over for the night, I know that it is not finished. Students are lining up at my desk to speak to me one on one. Each wants to discuss a personal finance issue that they do not feel comfortable raising during class. Even though it is late, everyone is tired, and they are missing *American Idol*, they stand patiently, folders in hand, waiting for their turn to engage in a private conversation about their mysterious financial situation.

My students know that I am not a registered financial adviser. I told them at the beginning of the class that I cannot give them specific investment recommendations. But this is not what they are seeking. They simply want to talk to a knowledgeable and objective