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The Goldman Guide

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How I Invest My Money

Every once in a while, someone asks me how I invest my money. When I tell them what I do, invariably, they are surprised and somewhat disappointed. What can I say? I subscribe to the KISS (Keep it simple stupid) method. Investors need to be smart, shrewd, and flexible. When you get cute or too sophisticated, you screw up.

I learned my first investing mistake by gambling at Pimlico Race Course in Baltimore 25 years ago. The 3rd race was a claiming race and had an 80-1 shot named Pop's Command. I loved the horses history, bloodline, jockey and trainer. It seemed to be a victim of tough luck. I exhorted all my friends with me to bet on it. I played all these crazy exactas and triples on the race. The horse won! My friends won big and I lost. How? They bet on the horse directly while I had to be the smart guy and won nothing.

Unless you are investing in index ETFs or options, you invest in companies, not the market. And the market is really confused. When the primary players are confused and there is uncertainty it goes in only one direction. Down.

It is obvious that the market sucks right now. Still, stocks are attractive, even if we can't get past the market issue. Let's review.

(cont'd)

Key Takeaways

- ⇒ Lifelong lesson
- ⇒ Why some think the market is down
- ⇒ Why the market is really down
- ⇒ Difference between the market and stocks
- ⇒ Trading and investing
- ⇒ How I play the market and stocks

How I Invest My Money (cont'd)

Some people believe the market is down because the country re-elected the Food Stamp President (Newt Gingrich's moniker) Barack Obama. Interestingly, right *after* the election, it was announced that the largest monthly increase in food stamps ever, just occurred in August, with 15% of the country on the entitlement program. In fact, in the past 5 years, food stamp usage has jumped by nearly 75%.

People are going hungry and even McDonald's (NYSE—MCD) is hurting as evidenced by its recent results that indicate sales were down for the first time in 9 years. Ohioans, who largely voted for Obama, will be sad to see that beginning in January 2013, nearly 900,000 recipients will see a $50/ month decrease. Shouldn't this hurt the market and consumer stocks? Yes, and it has.

That four letter word "Europe: has reared its ugly head again. That hasn't helped, either. There are times I just want to short the National Bank of Greece (NYSE—NBG) just for sheer spite. I better not get started.

The sell-off certainly has been fueled in part by a response to the new Administration. For example, coal investors sold stock faster than David Petraeus' mistress sent nasty emails to another woman. Meanwhile, Obama-friendly stocks have been lone positive performers.

Look, all in all, these issues are contributing factors, but not the real one. And when you see what the real reason is, you can see why you should invest the same way I plan to.

The real reason the market sucks is because of the uncertainty surrounding the fiscal cliff and the unknown behind the new capital gains and dividend taxes. Period. End of story. Thank you.

One major proof of this is the collapse of Apple (NASDAQ—AAPL). Investors have big gains in what is their largest holding. Of course they are taking profits? The talk about competition, and other issues hampering the stock? Baloney. Profit-taking. Pure and simple.

Another proof is low volume and all of the drifting. We know that the economy is slow but confidence is high, even though unemployment is high and entitlements are through the roof.

The Russell 2000 Index is down so far in Q4 (six weeks) by over 5% and financial forecasts are being reduced. Still, we are entering a key period for typical stock gains and although the fiscal cliff issues weigh stocks down, if you buy stocks, and not the market, you could be making some cake by year-end.

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Key Statistics

Index	Close	YTD
DJIA	12815	4.9%
S&P 500	1380	9.7%
NASDAQ	2903	11.4%
Russell 2K	795	7.3%

(figures are rounded)

How I Invest My Money (cont'd)

Okay, now that the teaser of the headline has outlived its use, here we go with some cold hard facts. I hardly own any stocks as of this writing, and what I do own would be classified as a penny stock that could see a good 2013. I waited until this election was over. But that is not important. What is important is what I plan to do.

I just transferred more cash to my investment accounts and I am waiting with baited breath to buy some stocks to trade and to invest. Notice I said *trade* and *invest*. There is a difference.

Here is what I am looking for from the trade perspective. I am looking to buy stocks that are announcing takeovers. Companies are looking to sell ahead of the fiscal cliff. You can't make a killing buying these things after the fact. But, it you buy them right after the announcement, 7-10% or more can be made—-in cash deals. I wouldn't touch deals for stock. Play the arbitrage (spread between announced cash price and stock price.)

When a small cap has a strong event or earnings, I like to trade that as well. In both cases, you will notice the move is reactionary. Trading is all about reacting. Investing is a different animal where other variables are drivers of success.

I plan to be all over Apple soon, buying early 2013 calls. That is an investment. Consumer stocks and tech stocks are all new buys as well, especially if they are in the small electronic device or software space. Look for companies with $ and making $.

When we get a better sense of the market's direction and this fiscal cliff nonsense, I will buy some S&P 500 calls.

Look, there are a lot of plays out there to make money. There is a reason why the top 6 performers of *The 30-30 Report* are up an average of 64% in less than 6 months. By the way, out of 16 stocks profiled, 8 have hit that magic number in no more than 90 days, despite the market downturn.

Finally, how's this for out of the box? I am trying to take advantage of the new cannabis laws in CO and WA. Something tells me people will be flocking there for R&R, as in "reefer and relaxation." Please email me ideas, folks. Could generate *high* returns, lol.

Until next week…

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