

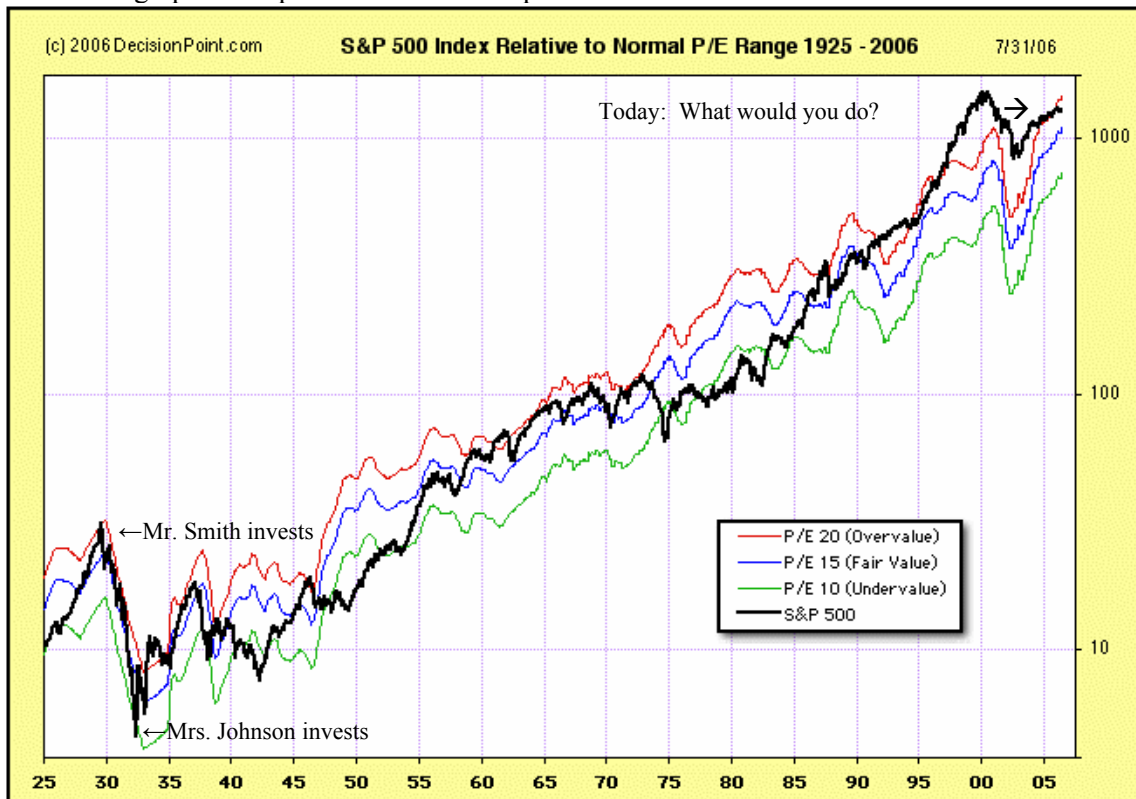
Simply put, the essence of successful investing is buying at low prices and selling at high prices. Although this phrase is relatively simple for investors to understand, it is very difficult to practice. With most investments, including real estate and stocks, profit is determined by the purchase price. Two different investors can purchase the same investment at different times and ultimately experience dramatically different investment results.

To illustrate this point, imagine two investors, Mr. Smith and Mrs. Johnson, both with money to invest in 1929. Mr. Smith is primarily concerned with “getting his money invested” and not with the purchase or sales price. Mrs. Johnson, on the other hand, wants to buy shares at low prices and to sell them at high prices.

Mr. Smith meets with his advisor and “gets his money invested” satisfying his primary goal. Mr. Smith puts his money into the stock market near its peak in 1929; just prior to the stock market crash that led to the Great Depression. By the time the market bottoms out in 1932, Mr. Smith has lost approximately 80% of his initial investment.

Mrs. Johnson, however, has handled her investments differently. Instead of using Mr. Smith’s “get my money invested” strategy, Mrs. Johnson decides to use the “buy low-sell high strategy.” Doing so, she judged stocks as being very expensive in 1929, and instead exercised *patience* (def. Patience: 1. the power of suffering with fortitude; uncomplaining endurance of evils or wrongs, as toil, pain, poverty, insult, oppression, calamity, etc. 2. A personality trait absent in 99.92% of investors!) Instead of investing in 1929 like Mr. Smith, Mrs. Johnson decided to wait and instead invest her money in 1932, when buying stocks was cheaper. Mrs. Johnson’s investments resulted in a 300% gain in just a few short years; compared to Mr. Smith’s loss of 80%.

Below is a graphical depiction of what took place:¹



¹ Chart provided courtesy of “DecisionPoint.com” www.decisionpoint.com©

As you can see, investments made near the red line (points at which stocks are expensive and the stock market is considered overvalued) such as in 1929 were a disaster. On the other hand, investments made when the stock market is near the green line (and the stocks are inexpensive and the market is considered undervalued) can be tremendously rewarding.

Can we learn from Mr. Smith's mistake?

As you can see, the stock market today is very close to that red line, or the overvalued area. In fact, the stock market's current overvaluation is on par with the same famous peaks as those it showed in 1929 and 1973.

Most investors reading this letter will witness the stock market eventually dropping lower towards the green line: It always does. In fact, it appears the process of moving from overvalued to undervalued marketplace is already underway. This is not an argument for timing, but for pricing.

It would be a good guess that Mr. Smith, "get my money invested"-type investors are heavily invested in today's stock market. The Mrs. Johnson, "buy low-sell high"-type investors are patiently sitting and waiting for lower stock prices before buying more. In fact, one of the most patient investors of all time, Warren Buffett, for instance, has one of the highest cash balances in his famed investment career.

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