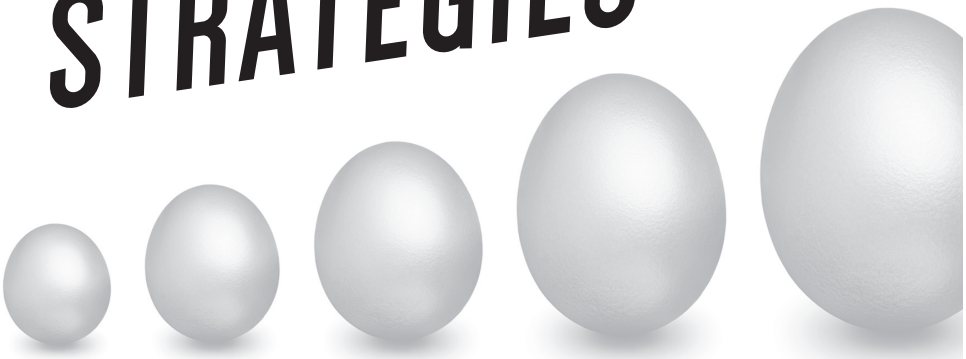
COMMON SENSE INCOME STRATEGIES

COMMON SENSE INCOME STRATEGIES

Simple Step-by-Step Ways to Maximize Your Retirement



Michael Eastham, CPA, PFS

ADVISORS' ACADEMY PRESS

COMMON SENSE INCOME STRATEGIES

Published by
ADVISORS' ACADEMY PRESS
Pompano Beach, Florida

ISBN 978-0-9975441-4-5
Ebook ISBN 978-0-9975441-5-2

FIRST EDITION

Book Design by Neuwirth & Associates
Jacket Design by Tim Green

Manufactured in the United States of America

10 9 8 7 6 5 4 3 2 1

To my parents who set a wonderful
example for me to follow.

CONTENTS

• FOREWORD •

David Scranton

Despite what some brokers and financial advisors might try to tell you, there is no single "secret" or "key" to successful saving and investing. Yet I know, just as Michael Eastham knows, from years of experience that there are certain ingredients or elements that can greatly improve your odds of success, and it just so happens that three of them are mentioned in the main title of Michael's book: common sense, income and strategy.

It's amazing to me how many smart people manage to neglect common sense when it comes to managing their money. (Well, maybe not so amazing when you consider the culture we live in, where aggressive marketing and slick salesmen can often distract consumers from their own good instincts, their "gut feeling," in other words.) Here is just one example of what I'm talking about: common sense *should* dictate that the closer one gets to retirement, the more important it is, to put protecting your existing wealth ahead of acquiring more wealth as a priority. Not that the second doesn't remain important, just no longer *more* important as the first!

The reason for this is fairly obvious: As you've been building your existing wealth over 30-to-40 years, you've been steadily losing another valuable commodity: *Time*. You no longer have "plenty" of it to recoup a major financial loss if you should suffer one within

ten or fifteen years of retirement. Consequently, you might end up having to dramatically alter your retirement plans, abandon some of your retirement goals, or even put off retirement. (The common extreme example some advisors like to use is that you might end up "eating cat food." I don't think it actually comes to that very often, but you get the point!)

Thus, common sense *should* tell you that protecting your assets becomes increasingly important after age 50. Yet I know from experience that many people well into their 60s are still focused more on growth, than on protection. For whatever reason, be it Wall Street hype or a bad advisor, they are ignoring common sense and running an unnecessarily high risk of facing one of more of those unfortunate consequences I mentioned above.

How do "income" and "strategy" factor into it? Well, that question actually speaks to the genius of Michael's book. Because once you embrace common sense and make protection your top financial goal, you quickly realize that the key to achieving that goal lies in having an investment *strategy* specifically designed to generate dependable, sustainable retirement *income*. Wa-la! All three ingredients are interconnected—and there you have it.

Well, you really just have the beginning of it. Fortunately, you are also holding a book written by a man uniquely qualified to explain all the details. I'm talking about details that have actually changed lives, and allowed thousands of everyday investors, just like you, to avoid financial disaster and achieve their retirement goals with fearlessness and peace of mind.

To me, Michael Eastham is first and foremost a friend, but he also happens to be one of the most knowledgeable investment experts I know and one of the most engaging and effective communicators I have ever met. I'm thrilled that he's finally sharing his gifts with a broad, national audience through this book—particularly in light of the unprecedented levels of uncertainty and

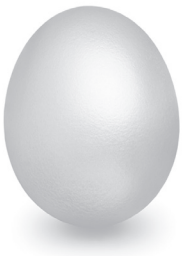
instability we're seeing in the global financial markets today. To put it simply, the need for investors over 50 to understand and focus on "Common Sense Income Strategies" has never been more important!

David J. Scranton, CLU, ChFC, CFP, CFA, MSFS
Host of *The Income Generation*
Author of *Return on Principle: Seven Core Values to Help Protect Your Money in Good Times and Bad*

COMMON SENSE INCOME STRATEGIES

SECTION I

MAKING SENSE OF COMMON SENSE



1

What Investors Want Most

What do more mature investors want?

Is it roller-coaster ride stocks? Fee-laden mutual funds? Paltry interest payments on bank CDs? Or secure investments where they will know what they're contractually expected to receive?

As I begin writing this book, the stock market, as measured by the Standard and Poor's 500 Index (S&P), has just broken another record high and the Dow Jones Industrial Average has surpassed the 20,000 mark. At the same time, many market indicators, including corporate returns and year-over-year sales of all U.S. goods and services (GDP), are way down. The market and the economy are at a huge disconnect. There are many reasons for this, and we will cover them in the coming chapters. We first need to understand the risks today's record-breaking stock market presents to everyone. Even more importantly, we need to understand what the market presents to investors who are either past or almost past their working years—investors who are reliant on their savings to carry them through the rest of their lives.

As a financial advisor serving the older, wealthier clients who make Central Florida their home, I'm trusted with tens of millions of dollars for clients of age and beyond. These are clients who never want me to call them to say, "You just lost 20 percent of your value in a correction, but stay the course anyway." And that's good, because I try to position them so I never have to make that painful call.

As today's stock market highs mathematically create more potential for loss, investors ought to consider making a paradigm shift away from traditional of "buy and hold" strategies and stock market outperformance.

This change in thinking is particularly true for more mature investors who don't have 7 to 10 years or more to wait out a large stock market drop—a drop that history suggests is all but certain.

For decades, professionals told investors that while stocks might be a little rocky from one day to the next, over the long run, they offer a return of 8 to 10 percent. Historically, there have been periods where this was true. There have also been periods where they crashed and were down, and only got back to their starting point after 16 years. This, I argue, makes holding a high percentage of stock market investments the wrong strategy for anyone who can't wait 16 years. What's worse is that the crawl back to the starting point, after more than a decade, is never certain and entails its own rocky path. It becomes even harder on the retiree if they use any of the investments to pay bills or to buy something. That would mean they now have less money available to grow when the market returns.

As Americans get older, they need to consider a paradigm shift to the type of investments that tend to not topple like stocks. Even younger Americans should make a paradigm shift, because the traditional thought is fraught with holes that could easily sink your portfolio.

The world has changed, unfortunately. Investments and stocks,

during the first decade of the new millennium, reflected a changing investment climate. Here are five realities that now should be on the top of your list of considerations:

1. The financial crisis that started in 2008 kicked off unprecedented emergency measures that have a long-term depressive effect on growth.
2. High-speed trading and engineered financial tools throughout the world tend to enhance and multiply the risk of problems.
3. The nation is getting older. When Social Security first started, there were 42 workers paying in for each retiree. Today, only three workers support each retiree. With an aging population and longer life expectancy, one can only expect that the ratio will get worse.
4. The United States is no longer the undisputed center of the economic universe. Developing nations with lower wages and younger workers are creating increased levels of competition against American companies.
5. The Sandwich Generation* carries a particular burden, with their grown kids still living at home and their parents having moved in with them so they can get by on their budget. Three generations living under the same roof is becoming much more common than it was in recent history.

Your responsibility is to recognize these realities and not sit idly by.

* http://www.pewresearch.org/daily-number/the-sandwich-generation-burdens-on-middle-aged-americans-on-the-rise/

A SECURE RETIREMENT IS POSSIBLE— YOU JUST NEED TO ADJUST

As a financial advisor, I've made a concerted effort to make sure more people discover that Wall Street doesn't tell you everything. When you discover some of those things on your own, it changes the picture dramatically. There are investment options they don't want you to know about. Many of these are prudent solutions to the "five realities" described, but they aren't presented as methods to fulfill your investment goals because the professionals might earn less money than the stock market–based strategies. The media is a willing participant in keeping people in the dark as well. Advertising dollars are what keep them in business. If the advertisers are stock trading platforms, brokerage firms, and mutual fund companies, then these are the guests they bring on their shows. In my opinion, in many instances, the media doesn't even know there are better solutions. They get their information, in large part, from the Wall Street companies themselves. This is why what gets almost all the attention will continue to get all the airtime, advertising space, and articles written, even if it goes against the real purpose that retirees are invested.

What I tell people when I'm a guest on CNBC, Fox Business, or any of the top business shows, and when I'm at my public speaking engagements, is this: *You CAN help protect your money. You are NOT completely at the mercy of the financial markets and economic surprises.*

I'll explain that it's really not difficult for most people to grasp a better strategy. It's really more common sense than you might think. The best approach I find is to begin by asking:

- Do your investments suit your purpose?

- If they don't fit your purpose, are you open to shifting the way you think about investments?

If you are, then each of the chapters in this book will put you on a much more confident path to avoiding investment problems than anything I've found being taught anyplace else.

The first part of this book discusses ever-increasing dangers and how the old watchdogs are failing small investors. The second part discusses my own values and how to find the right investments without being encumbered by dangerous methodologies. The last section lays out timeless principles and the Truth (with a capital 'T") about how to always have the money you need in retirement. It's my hope that readers will experience an "aha!" moment as they visit each chapter. The "aha" moment is when you suddenly make the shift in thinking away from what Wall Street bombards you with, and toward what you need. Some people take longer than others, but, when you finally get it, the reaction—the *aha!*—will cause you to never think about your investments traditionally again. Investment expectations permanently shift, and you can begin investing with a more common sense approach that supports your financial goals.

In my advisory practice, this "aha" moment usually happens when someone attends one of my financial classes. There are hot buttons and trigger points that most people don't give much thought to until they learn about them and how they impact them directly. Often, they can't believe they took as long as they did to discover this knowledge. In my classes, I discuss what should be on their financial "front-burner" and why. They discover important elements to their financial security that they wish someone had told them about long ago. The next eight chapters will help you with these front-burner considerations and lead you to experience your own *aha!* moment.

I provide useful and valuable information to people because I find it deeply rewarding. People are often outwardly grateful that

someone showed them strategies and concepts that will make a large impact on their lives. The comfort level I have with all of my clients is extremely high. When I explain the pitfalls of what others, including those on TV, have shown them, and the benefits of what I can do, it creates a sacred bond—a bond of honesty and trust that has them sending their good friends and close family to my office.

People who come to my office and my classes, and some who never do business with me, express how thankful they are for the "better" way of thinking and for pointing out areas that have been ignored for too long.

The concept is like being the Mother Teresa of the financial world and trying to do only good. It may sound silly, but when something becomes a *calling*, I want to show it to as many people as I possibly can and help them through their challenges, long-term. This creates a permanent solution.

So, I bet right about now you just want to skip to the last section on *Income Strategies to Last a Lifetime*. Trust me, the understanding will come quicker if you take this one chapter at a time. You may be wondering how it could be so easy, and if so, why doesn't everyone invest in his or her future this way? I admit, I do have an ulterior motive; it's to help people through education or directly as clients. Doing what is best for people who come to my office is my greatest reward.

WE'RE ALL SHAPED BY OUR EXPERIENCES

I grew up in a close family in Maryland. I'm the only boy of three children, and we are all near in age. In fact, Mom was bringing a new Eastham into the world every 13 months for 3 years. Helping each other made life easier, and coordinating everything from taking showers before school to whose turn it was to wash the dishes helped shape my being. I didn't grow up rich. We lived in a suburban community and were a middle-class family. My dad provided for the

family as a computer programmer, and my mother was a stay-at-home mom for the majority of my school life. We had everything we needed, and we lived a comfortable life. My dad taught us about having a good work ethic by example. He didn't tell us we had to work hard; he just did it, and impressed upon us the importance of being well-educated not just from books, but from life.

I spent much of my childhood plugged into music, and I've always been a musician at heart. I played the drums in the marching band and naturally gravitated toward the drum set and rock 'n' roll. For a time, I felt certain I was headed toward a career as a professional musician. Music was always a main focus of mine growing up. In fact, I even started out in college as a music major. Obviously, I chose a different path, as market rhythms eventually became my passion.

They say that music is math, and at some point, the mathematical or, more specifically, the "common sense" portion of my brain realized that I should probably have a plan to fall back on beyond my musical inclination. I needed something I could count on for providing income, rather than hoping and praying that my music career would be successful. It was after a life-changing conversation with my dad that I began to add business courses the following semester. I quickly gravitated toward accounting. It might seem like a huge shift from drumming, but, instead of counting beats, I was counting "beans." The transition was actually quite easy for me. I graduated and began my career at a CPA firm almost immediately—not as exciting as the life of a rock star, but, it gave me a steady income. Consistent, reliable income is very enabling, and it helped me purchase the TAMA Superstar Series Drum Kit I had always dreamed of playing.

Today, reflecting on my childhood, I realize that I very much had a mindset of entitlement as a kid. I felt like I deserved a lot of

good things, and I was lucky enough to have parents who provided a high level of comfort and compassion. This mindset changed quite suddenly, and although I did not enjoy it at the time, within what felt like a complete wreckage, I found my true self.

FINDING MY TRUE SELF

I was newly married, planning our family, and dreaming of all the possibilities in our future. Without warning or being married for even a year yet, I lost my job and didn't see it coming. I learned a very big, very important lesson along the way.

I wondered, "How could this injustice happen to me?" This was my first reaction. "I just got married, we were settling in, I left playing music to live this 'responsible' life. That was my mindset. I never thought it was ever going to be like this, and it was both scary and infuriating.

Thankfully, the responsibility of providing for a family lights a fire under you to find a solution in a way that living in a comfortable home with your parents never could. A light started to flicker in my head, and that light quickly became painfully bright, allowing me to see. It was hard to admit to myself that I was acting as though someone should be taking care of me and making sure bad things didn't happen. No one was there to make things better; it was up to me to help myself. This recognition of self-reliance brought a new understanding to my world. It was actually a blessing.

I understood that I had to go back to the basics. Rebuild my whole life in a way that recognized that I'm the one responsible for seizing my own opportunities. I reap the result of my own efforts. I had to take everything I'd learned and restart my journey in a positive way.

I decided to start doing the blocking and tackling required in life to get out there and figure out what I wanted, and then

implement the steps it would require to get there. This was the lesson I needed to understand so I could commit to achievable goals. It was why I put so much emphasis—in both my life and my clients' accounts—into taking purposeful steps and leaving as little to chance as possible. I could sit here today and say I wish somebody had taught me all of this when I was in junior high school, high school, or even college. But after this, I've learned that some of life's lessons have to be experienced. If I had been told how to overcome this situation, me doing so would have been far less effective, or even completely ineffective.

I came to terms with the fact that it's my responsibility to gain the knowledge I need, and that's what really changed my thinking. Now, I am grateful to God I lost my job back then. It pushed me to be the self-reliant man I am today. It shaped every part of my business. It shaped what I do for others and how I want to offer services that best fit their purposes, rather than just doing what everyone else is doing. I have too much regard for planning and executing to blindly follow models created under different circumstances. Every working day of the week, I offer facts and statistics that Wall Street powerhouses and the financial "talking heads" don't want you to hear.

When you find something that is better than other strategies and that truly benefits people, share it. I learned while growing up that helping others is always fulfilling. Be passionate, and establish your business in a way that you are the best you can be. Then, continue to refine it for as long as you are helping others. I have a purpose-driven life philosophy and a purpose-driven business model to help my clients get to where they need to go. I have a contract, or "covenant" if you will, with my clients. I will seek the best answers for their purposes and make sure the road they take is as smooth as possible.

WHY BECOMING A FINANCIAL ADVISOR DEALING IN INVESTMENTS WAS A BETTER PATH

I worked at a CPA firm in public accounting in my early years, primarily in audits and consulting, and I enjoyed being involved with corporate executives and entrepreneurs. I gained a lot of experience and knowledge by seeing how people were able to start businesses and make them work.

While there, I learned there was a need for financial advisory services and I passed the test for a securities license (Series 7) in 1987.

That environment created a natural interest in self-employment to some degree, and more so in doing things on my own terms so I could make more room for what I was passionate about, like writing and teaching.

Early on it was taboo in the CPA world to mix CPA work with financial planning and investing. I had a real interest in finance and the stock market, so I started talking to one of the firm partners about it, and the idea was immediately rejected.

However, as years went on, I actually transitioned to the corporate side of the business. I had some corporate positions as a financial executive, but as often happens in the profession, I decided I needed to become independent in order to accomplish what my heart told me was right. There is no such thing as the perfect time, so I weighed all my options and quickly implemented my plan. I left everything I knew, and the stability that went along with that life, for the opportunity to build the life I enjoy today as the owner of my own successful firm. I can honestly say, I don't regret anything that followed.

MY LIFE TODAY IS NOTHING SHORT OF A BLESSING

Today, thank God, both my parents are still alive and still married—going on 56 years now. They couldn't be happier with their 12 grandchildren between my sisters and me. My children are 22, 21, 16 and 9. They keep us very busy, and we are extremely grateful to be parents of such great kids.

My biggest fear for my children, when I look at today's mounting problems, is the economy. We all live in the shadow of $20 trillion of federal debt. That's an unfathomable number. It will continue to weigh heavily on the economy, and yet, few people want to take action to begin to fix the problem.

I try to teach my kids the things that I had to learn the hard way. Parents are the primary teachers for their kids, but there is only so much coaching and parenting you can do. There are some obstacles they have to figure out on their own, many of which were never anticipated by the teacher. You teach the foundational things like integrity, character, humility, discipline, and self-reliance, to name a few. You show them you have to be willing to do the hard thing when your mind or body doesn't want you to.

Perseverance is something you learn when you learn a musical instrument, a sport, a profession or anything that must be *mastered*. It's the same with your financial life. In my case, I had to keep practicing the drums, even when my arms hurt or my fingers had blisters. Success didn't come easily but the journey was well worth it. Even after all the effort to execute my plan to be a musician, I had to make sure I had a plan B. Today, I talk to my kids about the importance of having their plan B and helping you find yours is a big reason I wrote this book.

I realize that with kids, there's a small window of time to influence them and to help them find answers to tough questions before they start doing their own thing, where Mom and Dad aren't part

The Eastham Family

Michael with his first love, drumming.

of their lives on that level anymore. That's one of the things that drove me to focus hard on helping them understand what the important things were in life and how they factored into the quality of life they would live. You have to decide who you are, determine what you want, and make a plan to accomplish those dreams. What are the things in your life that are non-negotiable?

A LIFE WORTHY OF BEING REPLICATED

There are multiple reasons why I wrote this book for you. The primary driving force was that there weren't enough people teaching this investment philosophy. Yet, I've seen it not only transform my own financial future, but also impact many others in a positive way. I've focused on developing it over the last several years, but in reality, it's been cultivated over the course of my entire life. I know it's powerful and it works, so how can I not share it with everyone who will listen?

2

Fact-Checking Wall Street

About 20 minutes southwest of my office is a place many consider to be the greatest theme park in the world. Disney World attracts about 47 million people each year who travel to Lake Buena Vista to visit Mickey Mouse.

Mickey is the recognized symbol of this land of magic and make-believe, and people expect that when they enter the park they'll be swept away to fantasy land. That experience may include roller-coaster rides, odd characters, fake castles, flying elephants, trips through Tomorrowland, and a large magical kingdom where happiness abounds. But I'm sure almost everyone entering Disney knows it's make-believe.

Wall Street—and by Wall Street I mean the broader providers of investments, securities, and mutual funds (not just New York)—also has a recognized animal symbol. Appropriately enough, that symbol is a bull. The Wall Street experience can suspend reality for its visitors as it tries to sweep you off to its own fantasy land of consistent double-digit growth. Often, in the case of Wall Street, that might result in putting your investments on a roller-coaster

ride and charging you a hefty price for admission. Once people understand how all the characters interact with the public and each other, I find they never look at Wall Street the same way.

Wall Street has a specific business model. Not unlike any other industries, decisions are driven by profit.

Imagine that you're the CEO of one of the big Wall Street firms. As CEO, what's your objective? Is it to make sure the customer has the lowest price and best product, or is it to make sure you return as much money as possible to the "bottom line?" The CEO has a fiduciary responsibility to shareholders and cares about doing what's best for the customer only to the extent that it provides maximum shareholder value. If they behaved any other way, they would not be acting in accordance with their position.

So, in that position, let's say there are two different investment options to sell to the public. The first is extremely profitable for the company. The second is less profitable to the firm, but provides a better outcome for the customer. Which of the two is the company going to try to promote and distribute most broadly? In the interest of the stockholders, more marketing energy will be put behind the most profitable option for the firm, even though it is the less desirable for you, the consumer. If you, as CEO, acted in any other way, your bonus could be slashed or you could be terminated. Earning the most for the owners (shareholders) is, after all, your responsibility.

So, the marching orders from the top ranks of most large Wall Street firms is obviously "earn the most profit." You see, there is an inherent conflict of interest that exists here that does not bother you if you are buying soap or toilet paper, but it really makes you mad when it has to do with your finances. In other words, your interests are more in sync with the CEO's if you own the stock of the Wall Street firm than if you have a brokerage account there. This goal enters into the company culture and everything they develop or recommend. For instance, take the staff in the research department; they know to look through the more profitable

offerings to find recommendations. They may not ever bother researching the least profitable, even if it better serves clients. Branch managers are under the same mindset. They are not only aware of the corporate objectives, but their income—including bonuses—that could vary widely based on maximizing profits.

That is the overall dynamic of a large Wall Street firm, it has far-reaching effects on other related businesses. Since we are talking about Wall Street in the broadest of terms, let's look at how your neighborhood financial advisor might be affected. It's rare for a local advisor to have an independent research department. The research they rely on is often adopted from the major firms that we identified at the top of the chain, so their advice and information actually is also disseminated down through smaller, local firms as well. As mentioned, these recommendations are often skewed by the "big guys" and their own profit motives.

And it goes further. The same biased Wall Street information is also disseminated to the people we all rely on for information: the news. Imagine you're a reporter for the financial media. It doesn't matter if it's print or broadcast, your background is likely to be in journalism or other writing. Most reporters of financial news are not analysts and have no background in analysis. If they were analysts, that would be a full-time job by itself. They wouldn't have time to also do the job as a writer or reporter. In fact, many aren't hired because of their investment knowledge; they are hired because they can write. You'd be surprised at how many writers were at one time employed as, let's say, science writers one year, sports the next, and then they'd find their way into writing for a financial outlet. Don't expect them to be experts at anything but writing.

Here is what you should expect from the media. The company they work for is also focused on bottom-line profit. This comes in the form of advertising dollars. Rather than doing raw research, media outlets will interview spokesmen from the firms that advertise with them or ones they would like to have advertise with them.

It makes sense for them on many fronts. For one, it allows them to be a little lazy, because it's easier. This allows them to satisfy the constant hunger for 24-hour news, and, over time, it will especially help their advertising profit.

When they interview an advertiser or potential advertiser as a news story, the person being interviewed is often in the driver's seat because the news outlet has a profit motive. This allows them to publicly hawk, under the guise of financial news, whatever message or product is best (most profitable) for their firm. If this doesn't sound probable, think about it in reverse. What if your TV station or magazine reported something that made it more difficult for your advertiser to sell their products? It's likely that your advertisers would begin to reallocate marketing dollars to other venues.

It's business as usual and you must, as an investor, be aware of it. The media is just making a good business decision based on profit to take story shortcuts and maximize their profit stream. The stories they are reporting are the stories that the big Wall Street firms want told. They are telling you what they want you to hear because it is most profitable to them. Even if facts are checked, the expertise of the journalist may be insufficient to determine if the advice is bona fide.

To make matters worse, there are very few competing firms for news. In fact, 90 percent of all traditional media outlets are owned by only six companies.

The long tentacles of the mega Wall Street firms also infect other important institutions. Unfortunately, the educational outlets that teach investments are also tainted. As a CPA, I have a habit of immediately crunching numbers for my own determination of value. Even when I get to this point, I'm not finished. I have to run my results through another filter. That filter is the more

COMPANIES THAT OWN MEDIA OUTLETS

Major Holdings of the Six Conglomerates

GE	NEWSCORP	DISNEY	VIACOM	TIME WARNER	CBS
COMCAST	FOX	ABC	MTV	CNN	SHOWTIME
NBC	WALL STREET JOURNAL	ESPN	NICK JR.	HBO	SMITHSONIAN CHANNEL
UNIVERSAL PICTURES	NEW YORK POST	PIXAR	BET	TIME	NFL.COM
FOCUS FEATURES		MIRAMAX	CMT	WARNER BROTHERS	JEOPARDY
		MARVEL STUDIOS	PARAMOUNT PICTURES		60 MINUTES

Six conglomerates own 90 percent of all traditional media outlets.

Source: http://www.businessinsider.com/these-6-corporations-control-90-of-the-media-in-america-2012-6

emotion-driven, financial market reality filter. It took me a little while to understand that the human factor of emotions often makes the math involved inconsequential. I learned this as I was earning my Financial Industry Regulatory Authority (FINRA) registrations and immersing myself in investment and market analysis and strategies. What people experience in real life is quite a bit different from the expectations based on the math and logic in the classroom. It's important to study how markets have behaved historically under certain situations to do the complete analysis.

This is because the markets, in actual ebb and flow, are very often fueled by human emotion. When the strategies and truisms being taught are back-tested, over time, they tend to fit the advice being given. However, when investors need reliable guides on what to do in certain situations, the math and rules go out the window. They offer no protection at all because under extreme conditions

(the most profitable or costly), the market loses all rationality. Emotions take over. This emotional effect occurs in both directions. It has driven markets up well beyond what schools teach as reasonable valuation, and they go down in the same way. In fact, emotions have caused markets to come crashing down to prices below where every investor using conventional teaching would be scooping up shares. And yet, they're still selling at that point.

There's a reason I believe the schools are still teaching financial advisors analytical techniques including ratios, valuation methodologies, diversification strategies, and holding periods: The entities that finance, provide material, or otherwise own the educational material are linked to Wall Street firms. It's often (not always) in the best interest of these big firms to provide information to advisors that help them maximize their profit. As a result, reality and common sense are often lacking in financial education.

The small investor is confronted with another confusing ploy. With every long-term run-up I've seen in stocks, as soon as people begin to question how long the bull market can last, the experts from large Wall Street firms show up on TV singing a tune that has been used through the ages. As investors begin to question whether the market can sustain its high level, the so-called experts, or hired voices from Wall Street, suddenly appear all over the news to calm them by saying, "This time, it's going to be different." They try to explain why the overvaluation of stocks using traditional benchmarks is not applicable in this case. They suggest "new realities" that never existed during other periods in history. "This time, it's going to be different," to my knowledge, has never held—not in the period leading up to the years 1899, 1929, 1966 and 2000.

The stock market cannot continue to go up indefinitely, as we'll confirm in later chapters. There is a rhythm to market moves that history has validated time and time again. When you hear

someone representing Wall Street say those seven words, common sense suggests that we ignore them.

The dissemination of information from the large Wall Street firms actually influences smaller money managers. It creates bias in media reporting, and it creates partial financial education. Then, when investors might think about taking some money out of the market, highly paid "experts" tell them, "This time, it's going to be different." This all causes average investors to believe the bias and limit their own options to only those they are being bombarded with. The universe of investments, including those that may better suit their investing purposes, is significantly broader. Most of them just don't compete well for airtime or print.

In fact, the average investor at home who watches the business channel and reads the financial news in magazines is only getting a small glimpse of the picture. They aren't learning what they need to about market cycles, and they aren't even aware of what their investment options are. All along, they are only seeing what the large firms want them to see, because that is what those firms make the most money with. Small investors are being steered and may even believe that their only choices are stocks and mutual funds. The reality is, it simply isn't true.

OTHER DANGERS POSED BY WALL STREET

When it comes to larger firms, there is a cold disconnect between the firm they are dealing with and themselves. I believe this creates an environment less conducive to fair play. The person creating the investment, the seller, and the investor are all faceless. They don't interact in any way where the familiarity of a handshake and direct eye contact breeds more honest transactions. Once the face has been taken out of the various parties in a transaction, it's easier to sell a more profitable product, even if it isn't the best fit. The inside

circles of Wall Street call this "increasing the return to broker." Faceless transactions make you, the investor, just a number, and it's much easier to fleece a number.

When you're sitting across from and looking into the eyes of your financial advisor, the recommendations, as far as I can tell, improve. I suggest you deal with local people you know. You're more likely to get a fair shake from Main Street (part of your community) than Wall Street. But still, be very selective when choosing a Main Street advisor.

ALL ADVISORS ARE NOT THE SAME

Just like any industry, there are some bad apples in the investment advisory business. Very often, it isn't even their fault. What's crucial for you is to make sure your advisor is competent. (We will discuss vetting an advisor in the second section of this book.)

Financial advisors are not always given the right tools. As you'll see, many advisors have their clients' best interests at heart but, that may not be enough. Their education and mentoring may not have been at firms that serve the client first. Most financial advisors either work for a large firm or get their start at a larger firm before starting their own advisory practice. The large firms invest a great deal of money to recruit and train new advisors. The training is twofold. It helps the new advisors obtain the proper registrations or licenses, and it teaches the selling culture of that firm. The dropout rate is high—somewhere around 91 percent. These firms know before they bring anyone onboard, they'll lose about 9 out of 10 trainees. Out of those who remain, it only takes one to do so well, that they more than cover the training cost of all those who didn't work out.

To increase the likelihood of finding someone who succeeds, firms usually don't screen for recruits with the most investment

knowledge. They may not even pay any attention to integrity or to applicants with the intelligence to become great investors. What most large Wall Street firms seek is aggressiveness. For many of these firms, the ideal candidate is a twentysomething who wants to buy expensive toys. They look for a "stop-at-nothing" attitude and a person with a long list of wealthy connections, including family and friends they aren't afraid to call. More than anything, they want someone who will do as they're told and adopt the culture and process as it is spoon-fed to them. A very high percentage of financial planners began at one of these firms. They were trained to be aggressive salespeople, not to have investment smarts. If this doesn't sound like a recipe for informed advice, you're right. We'll learn how to check your advisor's background later on.

Most advisors actually get their education from the same places consumers do—TV, magazines, and newspapers. So, they repeat the same advice that they've gotten from the news, which is the same narrative that the advertisers ingrain into the public's head, the axioms of "buy and hold":

"It's not about timing the market, it's about time IN the market."

"60/40 diversification based on the rule of 100."*

These axioms are often taught as if they are reality, so Wall Street repeats it from so many places that they don't question whether it's great advice. It's just accepted as conventional wisdom.

These axioms are, in themselves, part of the problem and should be fact-checked. Here's one worth expounding upon: "Buy and hold" is touted by Wall Street as the best way to invest. They say you won't miss the good days if you stay in for the long term. This is overheard so often that most accept it as fact and don't question

* http://www.investopedia.com/articles/financial-advisors/011916/why-6040-portfolio-no-longer-good-enough.asp?lgl=bt1tn-above-textnote

it. The reasoning given since 2008, when market participants were very fearful, has been, "You don't want to miss the 10 best days." The large Wall Street firms and their public relations departments found this was a way to keep you invested. They turned fear of investing into "there is a cost to succumbing to fear." Unfortunately for investors who believed them, this only placed half the data into view. When all the details are viewed, the message is literally the reverse of the truth. It proves that there is a cost to succumbing to the public relations spin disseminated by Wall Street. After all, they get paid when you're invested, not when you're on the sidelines. This demonstrates once again that you can't rely on what you hear or read. It's important to fact-check on your own or find an advisor you trust—someone you trust with literally almost everything you own.

Alternatively, what they didn't tell you is how well off you would be if you missed the 10 worst days. Using their own logic, this would cause you not to "buy and hold," but instead to trade the market. If you were to have missed the 10 best days each year since 1928, an investment of a dollar would have grown to $23.62 in 2011. If you missed the 10 worst days over that same period, you'd be almost 10 times better off than if you had missed the 10 best days. That's not where the fact-checking stops, because if you had missed the 10 best along with the 10 worst over that period, you'd still be three times better off than if you had missed the 10 best. But, they still tell you to "buy and hold," and it sounds logical. It certainly serves Wall Street's profit motives, but it may not serve yours.

WALL STREET'S "MARKETING AGENT"—THE MEDIA

As further evidence that the media is not the best place to get your news, I'll highlight actual examples of their dismal track record:

- On March 11, 1996, the cover of *U.S. News and World Report* blared "Investors Beware!" But, from March 11, 1996 to the end of that year, the Dow gained about 17.3 percent. The following year it gained 22.8 percent.

- In August 1997, while the market was rising by 19.4 percent, *Money* magazine insisted you "Sell Stock Now!" However, the Dow rose for the next two years; 15.3 percent in 1998, and 25.2 percent in 1999.

- *Fortune* magazine felt so sure the market was going to "CRASH" that it warned you on September 28, 1998 in big red letters. As it turned out, the market did not crash—in fact, prices continued to rise until April of 2000.

- From April 11, 2000 until October 9, 2002, the stock market had finally fallen. The decline was the first wave down after the "Goldilocks*" economy, and it took a 35.4 percent chunk out of the Dow.

* http://www.investopedia.com/terms/g/goldilockseconomy.asp

- The "Money" section of *USA Today* on October 2, 2002 wrote about the decline, telling readers there was "No end in sight. . . ." In hindsight, the experts from *USA Today* could not have been more wrong. On October 10, 2002, the stock market began heading back up.

It's important to note that it's not only the "trusted experts" in the print media who get it so wrong. There are many popular financial TV shows that are created more for entertainment than sound financial advice with their sound effects, bells, whistles and loud monologues about individual stocks. *Barron's* did a study of those recommendations before the 2008 financial meltdown. *Barron's* is a high-caliber weekly financial news publication. They looked at Jim Cramer's recommendations in 2006 and 2007 and concluded that his picks gained an average of 12 percent. They also found that, for the exact same period studied, the S&P gained an additional 10 percent for a total of 22 percent. Cramer was about half as good as just passively investing in the index.

Jim Cramer and others have a huge following. Television personalities report with confidence and develop a flock who seem genuinely star-struck. What's remarkable is that the followers repeat what they've heard their favorite TV star "stock guesser" say. They tell it to friends as though it's preordained. A quick Google search of each of these stock market spokesmen will unveil an uncanny ability for them to be exactly wrong. They keep their jobs because people watch, not because they have accurate insights or forecasts.

Meanwhile, there are people who successfully manage the billions of investment dollars for Wall Street firms, banks, insurance companies, and corporations. These hidden stars don't publicly discuss their successful investment methods outside of their quiet circle. We'll get to their methods and how to implement them for

your own household in the last section of the book. It is important to first lay the groundwork in order for you to get the most out of my common sense approach and the other discoveries you will find as you read my book.

3

Stock Market History

". . . the one thing they (my clients) all agree on, is that history tends to repeat itself."

As you may recall, at the outset (in Chapter 1) I said that as a financial advisor, I make every effort to make sure more people discover that "Wall Street doesn't tell you everything." There will be several ideas and realities in this chapter that are very important to investors everywhere, yet Wall Street firms, although they use this information themselves, have no incentive to share it.

In my discussions with clients, it's clear that people, even in the same age group and from the same community, have a very broad array of different views and ideas on topics such as the best way to spend free time, political leanings, child-rearing, religious beliefs, etc. The one thing their years of experience has taught them—the one thing they all agree on—is that history tends to repeat itself. I think as we get older, we see more and more that it does, so this is no longer merely a concept; we take it as a reality.

In fact, my close friend and business associate is host of the Newsmax TV show *The Income Generation with David J. Scranton*. Dave has had Steve Forbes on as a guest, and I heard Forbes describe the phenomenon this way: "History is people. While times and circumstances change, human nature does not." It's human activity that drives human circumstances. Economic change and market price movement is the result of human input. This input includes emotions such as fear and characteristics like greed, and it's also dependent on perception of value at any given moment. Price movements in any market are determined by supply and demand factors.

In this chapter, I'm discussing overall stock market dynamics, although the concepts can easily be applied to individual corporate shares.

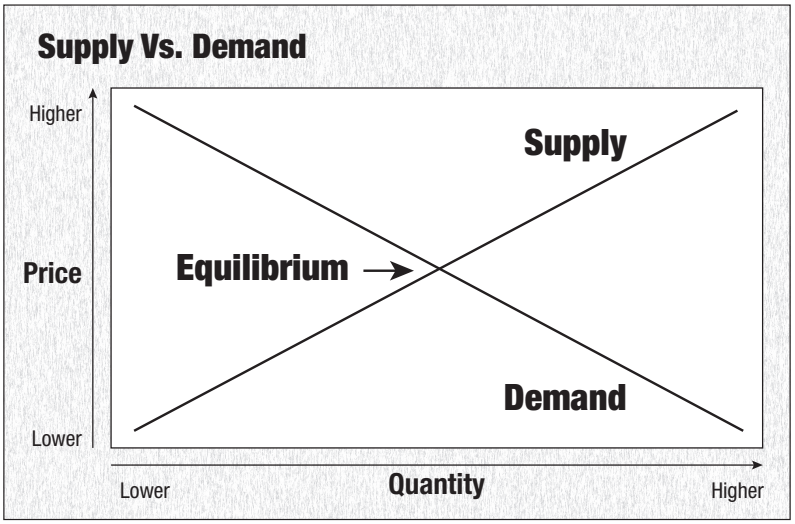
Supply, when we're talking about the stock market, is the amount of stock offered for sale at a given time. The number of available shares for sale can increase or decrease based on changes in competing investments, such as interest being paid on bonds. If interest rates go up, typically some investors will move money from stocks to bonds. The effect is that alternative or competing investments will affect the amount of supply available for investors. There could also be other reasons for increased or decreased supply of stock offered for sale. If future expectations change, the number of sellers will change. The absolute number of shares in existence also changes as new shares enter the market. One common way this happens is with an increase in public offerings of new stock, which increases shares available. As I'll explain in Chapter 4, shares can be taken out of the market, which reduces supply and puts upward pressure on prices. Relatively speaking, the supply of stock does not change dramatically and is much less of a factor in price changes than demand.

Demand for stock can and does fluctuate dramatically, even within the day. The reasons include economic reports that are

released, which cause investors to either view future earnings for better or for the worse; demand from overseas, depending on the economic climate shifts away from home; and lower interest rates increasing demand, which would place upward pressure on stocks.

Small investors do not often consider it this way, but the markets are a culmination of human activity and human decision making. And, as mentioned earlier, human nature does not change over time.

EQUILIBRIUM BETWEEN PRICE, SUPPLY AND DEMAND



How Price is Determined by the Populace.
Picture the demand curve moving higher. The price would rise as supply increases to meet that demand. As quantity rises, the supply curve moves to the right and prices fall.

This is an author creation investopedia was used as a Source reference: http://www.investopedia.com/university/economics/economics3.asp

The chart above shows how prices are determined in a free market. If the demand curve should rise, prices will rise along the demand curve to reach equilibrium (and vice versa). If supply (quantity)

should increase, the supply curve will intersect with the demand curve at lower prices (and vice versa). The graph demonstrates how market incentives affect each other to determine price levels.

AVERAGE HISTORICAL RETURN OF STOCKS

When my kids were younger, I was extremely involved in every aspect of youth soccer. At the end of each season all the players and their parents would get together to honor teams that had the best record or were standouts in other ways. The unfortunate reality about statistics: Whether they are team stats or any other category, they can often be used to tell completely different stories. As a CPA I tend to take a 360-degree view each time I look at numbers used to measure success or failure. One year, I came across such peculiar stats on one of the soccer teams that I wasn't sure whether they deserved to be honored. The team's statistics were so contradictory that I sometimes use the story when discussing the success and failure of the stock market.

When six to seven-year-olds play soccer, the teams average between four to five goals per game. I always kept track of statistics and other key numbers for the league. One year, one of the teams had scored an average of 6.2 goals per game. This was far more than the average for all the other teams combined, which was 4.4 goals per game. On the surface, you would think that they must have dominated the field that year. One would think they must have had a winning season and that they probably came in first.

Well, the truth was anything but evident from these numbers. The team that averaged 6.2 goals per game had actually come in dead last out of the eight teams in the league. In fact, every other team in the league had a better record. How can that be? After all, they scored more goals throughout the season than any other team. Well, as I mentioned, statistics can be deceiving. Here's what happened: During the full season, the team was not very good at scoring points. In their

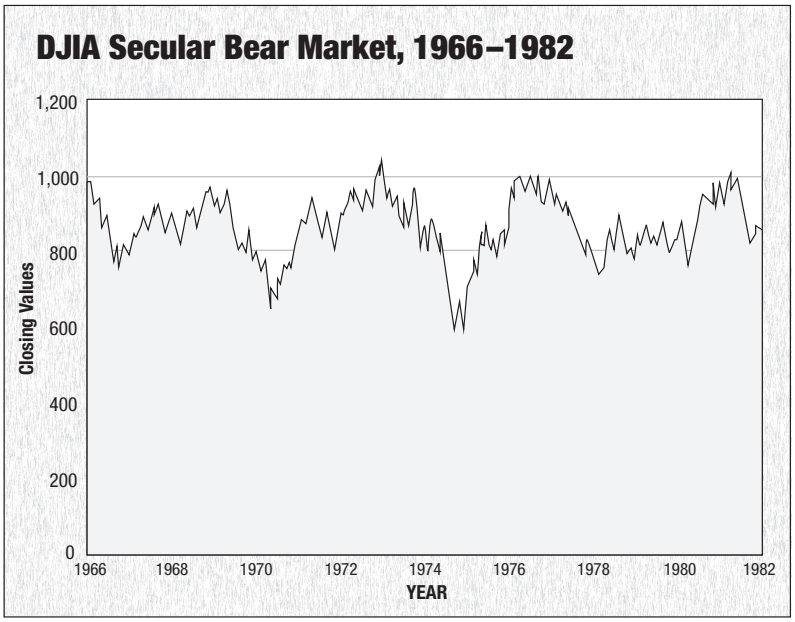
very first game, they scored 27 goals against the opposing team. The final score was 27 to 4. I wasn't at the game, so I don't know the reason, but for the remainder of the season, the same team rarely scored more than 3 points in a game. They had the worst record of the league, but the highest amount of points scored, which, when divided into the number of games, gave them the highest average.

I relay this story occasionally to clients who come to my office—especially those who tell me the stock market returns on average 10 percent—then ask if they should be invested in stocks. Not unlike the soccer team with the highest average, the truth is, by at least one measure, the stock market does return 10 percent. By other measures, 12 percent, and by others, as low as 7 percent. These numbers are averages, and they're taken over time. It's not a set return that you earn each year, just as 6.2 goals is not what the soccer team scored each game. There were at least three games where the team did not score at all. In fact, they only won two games that season. Despite the proclaimed statistical average returns of stock market, many retirees find they lost their whole "retirement season" waiting for that one big game to pull them through.

BULL AND BEAR CYCLES

The idea that history repeats itself is evident in the chart on the next page, of the Dow Jones Industrial Average for the period 1966 to 1982.

The patterns on this graph are actual stock market movements that occurred during this period. Stock prices may appear random, but there are repeating price cycles that are clear when charted. The cycles, which are driven by the total of market supply and investor demand, build and wane in a way that creates price trends. Over very long periods of time, the investor who has stayed invested has earned an average return of between 7 and 12 percent.



After 16 years, The Percentage of Growth in Stocks was Zero. Although there may be Bullish and Bearish periods within a Secular Bear Market, over time investors may not gain at all.

Source Data: https://measuringworth.com/DJA/result.php

In the chart, you'll notice that during this particular 16-year period, the return to the investor of Dow stocks was close to zero percent. In other words, individuals who retired at the beginning of this period at age 65, fully invested in stocks, found themselves at age 81 with no investment growth.

The reason is that the cycles you see in the chart are viewed as shorter cycles within a long-term or "secular" bear market cycle. There are bull and bear periods within a secular cycle, just as a child with a fever may experience his temperature dropping, only for it to spike back up. He may occasionally rally and appear

better, but it doesn't mean he's cured. These secular bear market cycles can last around 20 years, sometimes a little shorter, and others a little longer.

Wall Street and the media that provides the public with news and ideas prefer to speak about the shorter cycles. However, investors near or in retirement should pay most of their attention to longer cycles that may keep their money on a roller-coaster ride for a long period—a roller-coaster that never provides the average growth they were looking for and, as we'll see, may take them for 30 percent or more without warning. Well, almost without a warning.

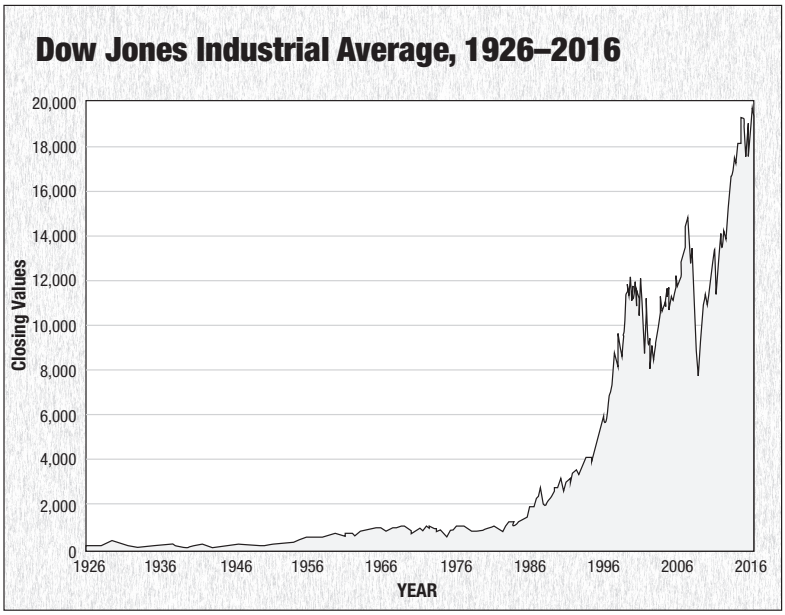
HERE'S YOUR WARNING

Stocks and ownership in companies have been trading on the New York Stock Exchange for more than 200 years. That's a very long history from which a numbers person, like myself, can derive information about what has happened in the past. Although, as they say, this is no guarantee of future direction, I'll presume that spring will always follow winter, and summer will always follow spring. Some years, spring weather will start a little behind the calendar, and other years it will come early, but we're all confident enough in the patterns to act on them. We put away our winter clothes and schedule more outdoor activities as we move past late March. We don't bet against it. When we look at the much longer history of stocks than is often presented to investors, we'd also be reluctant, to say the least, to bet against it.

Unfortunately, any longer history is very difficult to find. Most often, TV reports on how the market is doing in the current year. Top sites on the internet aren't much better. If you try to generate a long-term chart on Yahoo Finance, you'll find it difficult if not impossible to go back beyond 10 years. Bloomberg, CNN, Money, and even CNBC Online will take you back only

five years. That isn't enough information on which to draw any kind of trend conclusion when secular cycles can last 20 years or more. The best of the bunch is probably Google Finance. If you draw a stock chart on Google Finance and hit "MAX," it will draw a chart with 40 years of history. That's still only the late 1970s, and it does not include enough visual data for anyone to see where we are in the longer secular cycle. It's the secular cycle that a retiree expecting to live up to 20 or 30 years longer should consider.

If you only consider a chart that goes back five or 10 years, you will see a chart of a market that has a mostly upward slope. If you go back 40 years, you'll get the same impression. It's easy to view the stock market as something that only keeps growing. I won't accuse the information source as intentionally setting a positive



The Famous Mountain Chart – Seeing is not believing. Brokers show this chart to their clients in order to hype a market which is far more up and down than indicated in this long period.

Source Data: https://measuringworth.com/DJA/result.php

bias toward stocks, as much as I will point out that there is a precedent for providing only partial information to the small investor.

In the 1990s, when the internet was foreign to most and only very slow dial-up was available, investment brokers kept a chart handy or posted it up on their wall. It portrayed a very carefully selected set of data points. It was dubbed the "mountain chart" because of its shape. This chart only covered the period from 1926 to 1996. The brokers' apparent intention was to get investors caught up in the hype of the massive increase the chart appeared to demonstrate. Not highlighted were the ups and downs along the way. Even this chart demonstrates that the longer trends are 35-year cycles. That is to say, if you invested at the wrong time, you may sit at a financial loss or, at best, have missed out on other opportunities. There's a very good chance you may have to wait years to see any growth in your portfolio.

This manipulation of trusting people frustrates me, and frankly, it's one of the reasons I teach classes, make national TV and radio appearances, host my own radio show and ultimately, what encouraged me to write this book.

U.S. STOCK MARKET, THE DISMAL YEARS

I don't have to stretch your memory too far back to highlight some very dismal years for investors. They were particularly bad for retirees who planned on "average" returns for stocks. The 10-year period ending in 2009 was one of those periods. If you had a retirement account invested to earn the average of the New York Stock Exchange during this period, you would have lost, on average, 0.5 percent per year during that calendar decade. What's even worse is that when inflation is taken into consideration, the buying power of the retirees' stocks would have declined 3.3

percent per year on average. Many who expected to retire at the beginning of the new millennium postponed their plans, and others who were in retirement postponed plans for vacation and other nonessential purchases.

If we travel back a bit further to the decade of the 1970s, the market, as measured by the S&P 500, lost buying power of 1.4 percent per year when accounting for inflation. As for non-decade 10-year periods, those ending in 1937 and 1938 were much worse than the 1970s or 2000s. Fortunately, not as many people invested in stocks back then.*

The first decade of the millennium was particularly devastating to households. During the 1980s, mutual funds had become a popular way for the average person to have diversified stock market exposure. The cyclical bull market that began in the late 1980s saw even higher gains during the 1990s. The 17 percent average gain in stocks during the 1990s made it the second-most lucrative decade (after the 1950s) for stock market investors. The period saw a growth in discount brokers, which allowed small investors to stock-pick for minimal charges, and stock mutual funds were considered the conservative investment. With the general mindset that stocks only go up and 17 percent returns were normal, many retirees entered year 2000 fully invested in the stock market.

WHAT HISTORY SUGGESTS IN THE COMING YEARS

An accepted definition of "secular bear market" is an extended period when the stock market has risen and fallen. At the end of the period, historically lasting 15 to 20 years, the market is left with growth approximating zero percent. This investor roller-coaster

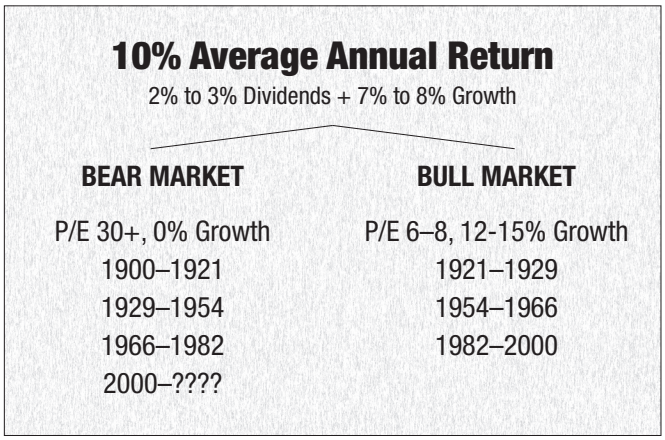
* Source: http://www.wsj.com/articles/SB10001424052748704786204574607993448916718

ride historically includes at least three large drops and many smaller ups and downs in between.

Extended Periods of Zero Percent and Above-Average Stock Market Growth

The diagram here illustrates that although stocks return around 10 percent on average a year, secular bear market cycles have prevented many "buy and hold" investors from experiencing any growth at all during bear markets, which have lasted as long as 25 years. That's a lifetime for someone retiring today who is planning on growth in their retirement account to provide for some of their needs over a couple of decades or more. It doesn't even keep up with inflation, so it is actually worth less to them despite the risks taken investing the savings.

If, for example, we looked at the period from 1899 to 1921, "buy and hold" investors had more than two decades with no growth. This was followed by eight years of strong price growth



The Investor Roller-Coaster Ride by Period. The often quoted 10% average returns includes up to 3% dividends and long bearish periods offsetting the bullish periods.

from 1921 to 1929. The market crash, which helped cause the Great Depression, occurred in 1929 and left investors who held on waiting until 1954 to break even at around zero percent. After 1954, stock prices picked up and served anyone invested for the 12-year period ending in 1966 quite well. Most of my clients have some memory of the stock market from 1966 to 1982 as a dangerous place to invest, and judging by the zero percent growth investors received, they are correct. The period following 1982 and ending in 2000 is the period that has shaped my clients' and many Baby Boomers' paradigms on stocks. This was a very profitable period with stocks consistently returning well above average returns and with participation in the investment markets reaching new highs.

Another important piece of information we can learn from this graphic is that the price-earnings ratio (P/E) of the market can be used to determine the next direction. Understanding what P/E measures is relatively simple. The P/E ratio of a stock is a method investors use to determine a stock's value. As it's used in the graphic (and for the remainder of the book), I'm quoting the average of the overall stock market. To understand P/E, I'll explain how it would work in a rental property. If an investor bought a house at a price of $120,000 and in renting it collected $1,000 a month, they collect $12,000 per year. It would take 10 years to cover the initial cost of the home. The house has a P/E ratio of 10. If that same house costs the investor/landlord $360,000, and they still collect only $1,000 a month, it would take 30 years to cover the purchase price. The house has a P/E of 30. This measuring tool is used extensively to find value in stocks.

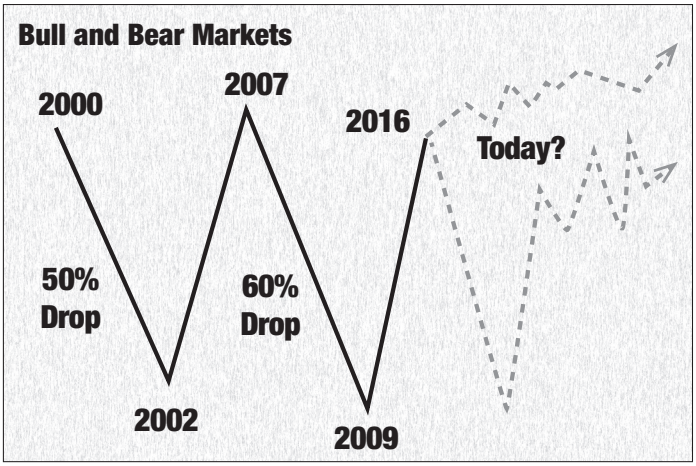
Viewing the P/E ratio adds further historical detail to help determine the next direction of the market. As touched on previously, each time a secular bull market cycle has exhausted itself—1929, 1966, 1999–2000—P/E ratios have been near or above 30. This is a warning sign that one ignores at their own peril.

The number 30 seems to be when market players stop chasing and decide that they would be overpaying if they kept buying. It's where many decide to take profits, which causes the market to stall, if not fall.

On the secular bear market cycle side, use P/E ratios as a forecasting tool to determine if it has reached its conclusion. Typically, as the end of a secular bear market approaches, P/E ratios fall below 10, very often to between a P/E of 6 to 8. At 10, stocks are a third of what they were at 30. At 6 to 8, bears seem to wake up and decide that they want to be bulls for a while.

We are currently in the 20-year period since the last bull market, and it has all the attributes of a classic secular bear market. The future is never certain, but we can be certain of this: There are only three things the market can do. It can go up, it can move down, or it can continue to move sideways.

UP, DOWN, OR SIDEWAYS?



The Historic Pattern that You Should Not Bet Against. Through 2016 the market has not yet started on it's typical path downward because of the government stimulus. That period we're told is drawing to a close. Will the market resume it's downward historic pattern?

We've established that the average bull or bear market cycle is 15 to 20 years; this adds to 30 or up to 40 years for the market to go full cycle. As I mentioned earlier, the secular bear investor roller-coaster ride historically includes at least three large drops and many smaller ups and downs in between. So, the question now is one of probabilities. Will the market ignore history and keep rising past the 20-year period starting in 2000? Or is it much more probable that the next three years include a period where stocks again fall 20 to 50 percent and take an extended period of years to recover?

Don't place your bets yet, because there is a bit more information I haven't covered yet. In February 2013, stocks did reach a level slightly higher than their highs in 2000 and 2007. This, some would argue, broke the pattern. The market broke new highs again immediately after election day, as the market breathed a sigh of relief knowing the election had been settled one way or the other (the markets dislike uncertainty, so a Mitt Romney win may have also caused a relief rally). I'd argue that both events are special circumstances that don't change the overall pattern. In fact, in 2013, the government was throwing an unprecedented amount of stimulus into the economy; this level was unsustainable, borrowed from future years, and since late 2014, as we'll discuss in Chapter 4, is being removed very slowly.

Based on all these conditions, I tell my clients that the probable direction of stocks from here is dramatically down. And, based on history, investors will take years to recover.

My reasoning is primarily based on these three details, supported by history:

1. If a new market cycle began in 2013, it would be the *first time* in its history that the market recovered from a secular bear market in only 13 years.

2. If we have a complete and permanent recovery from 2000 without three large drops, it would also be the *first time* this happened.
3. If we experience a full recovery before another huge drop, it would be the *first time* the markets acted this way while the P/E ratio is not below 10 percent. The S&P 500 is currently above 24 percent.

How likely is it that we have three "first-time ever" situations in history? Anything can happen, after all the Chicago Cubs won the world series after more than 100 years; but when your future depends on being right, my advice is: Don't bet on it.