The DAILY RECKONING *presents...*

TRADE SECRETS *from* INVESTING LEGENDS

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Daily Reckoning Exclusive:

Trade Secrets From Investing Legends

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Don't be drawn into the suckers rally: Listen to the guys who have beaten the market!

The study of crowds has always fascinated people in finance. It's not hard to understand why. Markets can go to crazy extremes, extremes no one can make sense of. So one favorite way to explain it away is to say that crowds do dumb things that individuals, upon cooler reflection, would never do. In a sense, a crowd becomes its own kind of organism — stupid, clumsy, emotional, etc.

This is basically the thesis of a longtime classic of the genre, *The Crowd: A Study of the Popular Mind* by Gustave Le Bon (1841–1931). The book came out in 1895. It seems to never be out of print. Financial people love to quote from it, probably because it flatters their worldview. If you have unpopular opinions, Le Bon makes you feel as if you are above the rabble.

Here is a marked passage:

> By the mere fact that he forms part of an organized crowd, a man descends several rungs in the ladder of civilization. Isolated, he may be a cultivated individual; in a crowd, he is a barbarian — that is, a creature acting by instinct. He possesses the spontaneity, the violence, the ferocity and also the enthusiasm and heroism of primitive beings, whom he further tends to resemble by the facility with which he allows himself to be impressed by words and images — which would be entirely without action on each of the isolated individuals composing the crowd — and to be induced to commit acts contrary to his most obvious interests and his best-known habits. An individual in a crowd is a grain of sand amid other grains of sand, which the wind stirs up at will.

H.L. Mencken wrote about Le Bon's thesis in *Damn! A Book of Calumny.* Mencken, as is often the case, is pretty funny about it all:

> [Le Bon's] theory is probably too flattering to the average numskull. He accounts for the extravagance of crowds on the assumption that the numskull, along with the superior man, is knocked out of his wits by suggestion — that he, too, does things in association he would never think of doing singly. The fact may be accepted, but the reasoning raises a doubt.

People act goofy in crowds, Mencken says, because their suppressed goofiness can function safely in a crowd. But not everyone loses their cool. And here Mencken doubts Le Bon's thesis. There is always an intelligent minority. "They usually keep their heads," Mencken writes, "and often make efforts to combat the crowd action."

I am inclined to think Mencken is right about that. Not everyone was fooled by the subprime mortgage mania. Indeed, some saw the problems quite early. (And even fewer made huge profits when it all came undone.) Not everyone was fooled by Internet stocks before 2000. There have always been a few watchful sages in markets who issue warnings when the silly season begins.

Now I turn to two who have definitely not lost their heads. They are excellent investors: Seth Klarman at Baupost Group and Paul Singer at Elliott Associates. I had peeks at the quarterly letters both published at the end of April. **And both are full of warnings.**

"Investing," Klarman writes, "when it looks the easiest, is at its hardest." He points to the long list of fundamental challenges that make this environment risky — the crisis in the EU, recession in Japan and a slowdown in China. Beyond this, the Fed is juicing the market and keeping interest rates low. The only way anyone can get any yield is in the stock market. Hence, there are all kinds of distortions as investors hunt for yield. You can see the stretching in the valuation of some master limited partnerships, real estate investment trusts and other yield vehicles.

Yet being patient and picky probably means you've trailed the market a bit. Klarman has so far. It doesn't bother him. He knows that short-term underperformance is sometimes the price you pay for long-term outperformance.

So you should continue to do the right things:

1. **Avoid leverage.**
2. **Buy only undervalued securities.**
3. **Hold fewer stocks and bigger concentrations of what you like.**

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All these can lead to underperformance in the short term… but pay off in the end. Klarman's letter was all about the importance of maintaining discipline and patience in the face of markets like these.

While Klarman wrote a taut five-page letter, Paul Singer released a 21-page treatise. But the themes were remarkably similar. **The markets are too optimistic. And there are many risks and problems out there.** Singer took lingering and dark looks at the EU, the Fed's policies and more. Safe to say Singer doesn't like what he sees.

Singer was almost apologetic in talking about these things. "We are not whining," he writes, "just describing an environment beset by thoroughly confused investors, severely distorted by government policy and driven by money flows chasing hyperbolic news reports and brokerage firms' 'themes of the day.'"

These gents have very long track records of success in markets. Reading over their letters had a salutary effect on me. It was like a sanity check. I also see the market as too optimistic. I see that bargains are hard to find. I see stocks that I didn't buy because they were too expensive later soar ahead.

But I will continue to be picky in this market and look for low-risk ideas. When I can't find them, we'll sit on our hands. **I would warn you, too, not to get swept up in the party atmosphere of the stock market.**

By the way, the Mencken piece on Le Bon is part of a book called *Three Early Works*. It includes *A Book of Prefaces*, with an outstanding essay on Joseph Conrad that is worth the price of admission by itself. It also includes *Damn! A Book of Calumny*, made of many witty shorter pieces. (Check out "The American Philosopher," in which Mencken eviscerates Williams Jennings Bryan in a paragraph that will leave you laughing.) It also has *The American Credo*, which begins with a lengthy and perceptive essay on American habits of thought at the time.

Sosnoff's Law and Other Valuable Investment Lessons

Sosnoff's law. This comes from a book called *Humble on Wall Street*, published in 1975 and still one of the best books on the experience of investing. Its author, Martin Sosnoff, wrote that "the price of a stock varies inversely with the thickness of the its research file.

The fattest files are found in stocks that are the most troublesome and will decline the furthest. The thinnest files are reserved for those that appreciate the most."

In other words, the best ideas are often the simplest.

If I find myself working really hard to justify keeping or buying a stock, I think of Sosnoff's law. This was not always the case. I've wasted countless hours on bad stocks that I should've just sold at the first sign of trouble or ignored altogether.

Many great investors have some version of this truism. (Peter Lynch comes to mind. "Never invest in any idea you can't illustrate with a crayon.") Simplicity is best.

Beware of "fixed ideas." Max Stirner was a German philosopher who wrote a bombshell of a book published in 1845. English speakers know it as *The Ego and His Own*. It is a difficult book, but full of powerful concepts. Stirner contends that people do not have ideas. Rather, their ideas have them. These "fixed ideas" then rule over their thinking.

Stirner wrote that a thought was your own only when you "have no misgiving about bringing it in danger of death at every moment." He actually looked forward to having his own ideas tested and knocked down:

I shall look forward smilingly to the outcome of the battle, smilingly lay the shield on the corpses of my thoughts and my faith, smilingly triumph when I am beaten. That is the very humor of the thing.

In markets, you see many people with "fixed ideas." They are the ones that always recommend gold, no matter what. They are the ones always expecting the market to crash, forever obsessed with the Fed or the theories of dead economists. They are the ones always expecting the dollar to crash. They are the ones who can't change their mind.

I have learned, painfully, to think like Stirner. I have no attachment to ideas. I have no problem changing my mind. In fact, I look forward to doing so, and actively try to poke holes in my own ideas and theories.

Be suspicious of abstractions. I here borrow from another favorite sage, that corncob pipe-smoking disheveled man of letters, Paul Goodman. "I can't think abstractly," he wrote. "I start from concrete experience." He cracked that because he stuck so close to concrete experience, he "cannot really write fiction."

People take easily, though, to big ideas. The New Economy. Peak Oil. The Chinese Century. The Great Moderation. All of these things are just abstract ideas. They are predictions about how the world might look. But they are far from concrete experience — and, hence, likely to lead you astray. And each of the abstractions I mentioned has led investors astray.

"Investment," author John Train once wrote, "is

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the craft of the specific." It's about why A is a better investment than B. "It's extraordinary how much time the public spends on the unknowable." I've learned to identify and accept the unknowable. I've learned to distrust grand theories.

Investing is a people business. Early on, I relied on reported numbers and screened for statistical cheapness. I'd look for low P/E stocks, for example. Everyone can see these numbers. Yet these methods can still work well. Over time, however, I've learned that a good situation is worth more than any statistic.

A good situation is one where the story is not obvious from the numbers alone. Something else is going on in the business that makes it attractive. These are rare, but the rewards of investing with them are often great.

To find a good situation requires a lot of reading and networking. I talk to a lot of people in the course of a year — investors, executives, analysts and economists. Ideas can come from anywhere. But my best ideas often come from people. Hidden stories exist. And there is a person, somewhere, who knows that story. I want to find to those people and their stories.

Eight Unusual Rules for Becoming a Better Investor

Where do great investors come from?

I'm not sure what the hurdle rate for greatness is, but Guy Spier has put up impressive results.

His Aquamarine Fund has returned 463% since inception in 1997, versus just 167% for the S&P 500 (a broad proxy for the market). Put another way, $1 million invested at the fund's inception is worth about $5.6 million today, versus $2.7 million for the market.

In his new book, *The Education of a Value Investor*, Spier gives you his eight rules for better investing. Unlike with most such advice, Spier is quite qualified to give it. Below are some thoughts on the book.

As the title hints, Spier is a value investor, which doesn't tell you much. It's a vague term, but in general, it conveys the big tent of ideas normally associated with its ringmaster, Warren Buffett. Your editor is from the same troupe.

I saw Spier speak recently at the Value Investing Congress, and I just finished reading his book. Spier takes you through the early trials and wrong turns of his own career. The subtitle of the book is *My Transformative Quest for Wealth, Wisdom and Enlightenment,* which goes to show you it's about more than just stock picking.

Instead, the focus is more on thoughtful advice about how to become a better investor. Much of this is not at all conventional advice, such as the discussion about creating an ideal workplace and controlling your interactions with other people. There's also just a lot of thinking about thinking. Investing is a game that goes on largely in your head.

Spier does offer eight concrete rules, which are worth a look:

1) Stop checking stock prices so much. You probably check your stocks every day — probably several times a day. The problem with checking stock prices so frequently is the effect it has on your brain. It's a call to action. It makes you impatient.

Spier checks his stocks no more than once a week! "It's a wonderful release to see that your portfolio does just fine when you don't check it," he writes. Instead, he can focus the limited resources of his brain on more productive ends.

This is also a matter of style. Spier, like us, invests in long-term outcomes that seem inexorable. In that case, it's not important to know what's going on every day.

2) If someone tries to sell you something, don't buy it. This is an attempt to ward off all sales reps and ads. "I soon began to see that I made lousy decisions when I bought things that salespeople were hawking to me," Spier writes.

The reason, he says, is again about the limits of our poor brains. They have a hard time resisting a "detailed pitch from a gifted salesperson." So he simply adopts the rule that he doesn't buy anything from anyone who has a self-interest in him buying.

3) Don't talk to management. This one is something I've wrestled with for years. CEOs are often charismatic people. This is part of why they are where they are. They have the gift of charm, the ability to win over audiences. This is not to say they are bad people. It's just to recognize their skills and the effect they can have on your brain.

As investors, we want to get a realistic look at a stock. It can be harder to be impartial if you like the CEO. Spier does make an exception to this rule. There are a small number of investor-CEOs he cites as worth talking to, including Warren Buffett at Berkshire. I would second that. I've found talking with managers who are investors and have a close-up view of what's going on in their markets helpful.

4) Gather investment research in the right order. The basic idea here is to start your research with the most impartial information. Look first at public filings — 10-Ks, 10-Qs, etc. After he digests those,

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Spier works his way toward "less objective corporate documents" — such as press releases and transcripts of conference calls. His analogy for doing it this way is that it's like eating your meat and vegetables before you eat dessert.

"These ideas about the sequencing of information may seem trite," Spier writes. "But minor shifts in how we operate can have a major impact." The idea again is to try to manage the influences hitting your brain. "I don't want my mind's chain being yanked," he writes. It's all an attempt to stem the bright lights and candy-colored lures that distract sober analysis.

5) Discuss your investment ideas only with people who have no ax to grind. If I had to sum it up, I'd say this rule is about sharing your knowledge with a circle of people you trust. And these should be people who won't tell you what to do. You just want to have reliable like-minded people in your circle who will help clarify your thinking about your ideas.

6) Never buy or sell stocks when the market is open. Well, I can hear you saying, "When the hell am I supposed to buy or sell stocks?" Here, Spier really means don't make the decision while the market is open. Cooler heads prevail and all that. Detach yourself from the market and give it a good think.

The idea is similar to not watching your stock prices. It's a way to calm down and act less. As Spier says: "What I need to do is simply invest in a handful of great but undervalued businesses and then stay put. Wall Street is rewarded for activity. My shareholders and I are rewarded for inactivity."

7) If a stock tumbles after you buy it, don't sell it for two years. It sounds weird and arbitrary, but Spier swears by it. He got the idea from fellow investor Mohnish Pabrai, a good friend of Spier's and a fine investor in his own right.

The rule makes you much more careful about what you'll buy, because you know if it drops, you'll have to sit with it for years. "In fact," Spier writes, "before buying a stock, I consciously assume that the price will immediately fall by 50% and I ask myself if I'll be able to live through it."

Most of Spier's rules, as you can tell by now, are essentially mental circuit breakers. They aim to get you to stop doing anything impulsive.

8) Don't talk about your current investments. Again, it is because of the effect this has on our low-wattage brains. If you talk, you become more invested in the idea than otherwise. Spier writes about doing an interview and giving out a stock tip. He felt more committed to it afterward, which prevented him from selling it when he should have.

As a newsletter writer, I believe I've mastered the weakness this one aims to cover. I have no problem changing my mind. I have done so many times before. But you should be aware that when you talk about your investment idea, it could have an undesirable side effect in changing the way you look at the stock.

Of course, I've given you just the basic summaries of Spier's rules. The book has more to offer. There is an interesting discussion on the use of investor checklists, for example. Spier also doesn't hide from writing about his own inadequacies. My main criticism is that he lays on the praise of Buffett and Pabrai way too thick.

I also have to say Spier comes across as kind of neurotic and weak-minded. He is a guy who is a blue blood all the way, a product of privilege. He screws up in unsympathetic ways early on, only to get bailed out by daddy's money. It's not easy to relate to him or feel sorry for him when he stumbles.

Nonetheless, if you enjoy reading about the art of successful investing, you'll like Spier's book. It's a quick read and quite accessible.

Sage Advice for "Bored Investors"

Boredom was invented in 1768.

Well, not the concept, but the word bore first appeared in the English language in print in that year. So says my copy of *The Oxford English Dictionary.* (And yes, I have the physical copy — all 20 volumes!) The OED defines the word *bore* in this way: "To be weary by tedious conversation or simply by the failure to be interesting."

Funnily enough, the first usage appeared in a letter by an Englishman to a fellow Englishman complaining about the French. "I pity my Newmarket friends who are to be bored by these Frenchmen." Classic.

"Boredom" — as in "the state of being bored" — came along much later. In 1852, Dickens used it in *Bleak House:* "the malady of boredom."

Author Tom Hodgkinson would agree with Dickens. In his *The Freedom Manifesto*, he devotes a whole chapter to boredom. He writes:

"If contemporary science were more sophisticated and subtle, then I'm absolutely certain that it would rank boredom as one of the central killers in the modern world… It would not surprise me one jot if boredom were one day revealed to be a carcinogenic."

Read in the proper lighthearted spirit, Hodgkinson's book is terrific. He talks about all the ways in which modern life creates boredom — especially in the workplace. Mechanical, boring jobs "require just

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enough concentration to prevent you from going off into a dream but not enough really to occupy your mind."

As a result, we have boredom on a mass scale. People are bored. And they do all kinds of things to alleviate the boredom. They act like idiots. They dress like fools. Anything to kill the boredom. They may even commit acts of sabotage.

In the financial markets, people often wind up sabotaging their own portfolios out of sheer boredom. Why else put money into tiny 70 cent share "mining" companies that have virtually no chance of being anything at all? Why bother chasing hyped-up biotech companies that trade at absurd levels based on flimsy prospects?

Because people are bored! It seems exciting to lose your money in this way. It's no different than going to a casino. (And just like in a casino, these bets pay off often enough to keep people coming back.)

Why do people buy and sell stocks so frequently? Why can't they just buy a stock and hold it for at least a year? Why can't people follow the more time-tested ways to wealth? I'm sure you can guess my answer by now.

I think people often do dumb things with their portfolio just because they're bored. They feel they have to do *something*. (Here I recall that bit of wisdom from Pascal: "All men's miseries derive from not being able to sit in a quiet room alone.")

I know I get bored, but in a different way. For example, it's incredible to me that people spend so much time talking about the Federal Reserve. My newsletter peers, people in the media. It's unbelievable. Don't these people get bored? Or do they do this because they're bored?

I'm so bored with the Federal Reserve. I know it was in the news this week with another pronouncement on interest rates. Boring. And thankfully, it is largely irrelevant to you as an investor. Warren Buffett himself once said, "If Fed Chairman Alan Greenspan were to whisper to me what his monetary policy was going to be over the next two years, it wouldn't change one thing I do."

I read every day where somebody, somewhere writes about QE or interest rates or the dollar. They are mostly rehashing the same old narrative. "When QE stops, stocks will fall." "The dollar is going to collapse!" "When interest rates go up, stocks will fall." I mean for crying out loud, how much more can you read about this stuff? And for how many years on end?

It's just the same old crap, heated up and re-served again and again and again…

This is part of the reason why I travel. That way I don't have to write about what the Fed said this week or go over some garbled macro scenario I drew up in my head. ("Let me tell you about Zero G-Day, Oil Doom, 13-X… You see, very few people know about this secret government document, but you could make blah, blah, blah…")

Instead, I can write about what I see… in Greece, hopefully overlooking stunning cliffs and deep-blue water. Ha. Or in Germany, sitting at a long wooden table under oak trees drinking beer at a thousand-year-old brewery. Not boring!

But seriously, at least it actually has something to do with the real world. I'm almost desperate to find something new, something different, something interesting… You don't need me to repeat what is in the newspapers. You don't need me to add the chorus of noise you already hear.

In fact, taking advantage of the noise is a simple arbitrage. Sometimes you'll hear (smart) people talk about "time arbitrage." The idea is just that most investors have a hard time looking out even just a year or two. They focus on now. And so, the idea goes, all you have to do is think out a year and you can pick up stocks that are cheap today because others can't look beyond the current quarter or two or three.

I think the same kind of arbitrage exists with boredom. People get bored holding the same stock for a long time — especially if it doesn't do much. They see other shiny stocks zipping by them and can't stand it. So they chase whatever is moving and get into trouble.

As the famed money manager Ralph Wanger used to say, investors tend to like to "buy more lobsters as the price goes up." Weird, since you probably don't exhibit this behavior otherwise. You usually look for a deal when it comes to gasoline or washing machines or cars. And you don't sell your house or golf clubs or sneakers because someone offers less than what you paid.

Speaking of Wanger, he wrote an investment book called *A Zebra in Lion Country*, published in 1997. It's an entertaining read, and I recommend it. In it, he gets to the boredom arbitrage:

"Usually, the market pays what you might call an entertainment tax, a premium, for stocks with an exciting story. So boring stocks sell at a discount. Buy enough of them and you can cover your losses in high-tech."

That was in 1997, *before* the 2000 bubble popped. Good advice from Wanger, as usual. (I met him once in his office in Chicago, in 2005. He was generous with his time and spent almost two hours

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with me, just sharing his wisdom.) Today, the market seems bored with just about anything that isn't tech, biotech, social media or Tesla.

Anyway, if you can find ways to fight boredom and not take it out on your portfolio, I think your returns will benefit.

Hope you didn't find this boring.

"How to Get Rich" is Not What You'd Expect

I'm going to impart one the world's most colorful entrepreneur's secrets to building lasting wealth. I'll also bid him adieu.

His name is Felix Dennis. He died on June 22, 2014, at the age of 67 from throat cancer. If you've never read his book, *How to Get Rich*, you're missing out on the best book of its kind. But more on that in a bit.

Felix Dennis was one of the richest self-made men in Britain. He started with nothing. No capital and no college education. Dennis made his money publishing hobbyist and lifestyle magazines, beginning with *Kung-Fu Monthly* in 1974. He then added many more titles, including Maxim and *The Week*.

In the early years, he blew a lot of money on booze and women and drugs. But he eventually cleaned up his personal life. He became fond of planting trees and created a charity that planted its millionth tree last September. He was also fond of poetry and wrote his first poem in 2001. Since then, he's written a number of well-regarded books of poetry.

I've read a bunch of obituaries on the man. These relate all kinds of funny anecdotes. Dennis was of a typecast you might have in your mind — the outspoken rich guy who says what he thinks, does what he wants, spends what he wants and doesn't care what anyone else thinks.

One of my favorite anecdotes comes from David Cherry, who used to work for Dennis. "When NYC banned smoking in workplaces in the late 1990s, Felix's response was simply, 'Let me know what the fine is.'" Ha!

And in an interview with *The Guardian* in 2010, Dennis said that the most important lesson life had taught him was this: "Fear nothing — failing that, fake it!" Asked how he would like to be remembered, he said, "Truly, I could not care less."

Just how rich was Felix Dennis? He said he didn't know, nor does any really rich person. He owned many businesses, houses, cars, thousands of acres of land, bronze statues, art on the walls and libraries stuffed with first editions. "Oh, and thousands of bottles of fine wine in the cellars," he said. "Never forget the wine."

Who knows what all that stuff was worth? He liked to quote J. Paul Getty, who once said, "If you can actually count your money, then you are not really a rich man." Forced to guess, Dennis put his fortune between $400–900 million. "I honestly cannot fix a number any closer than that."

With Dennis, you can count on a refreshingly honest opinion delivered with panache. And that brings us to his book *How to Get Rich*. It is a little gem of a book.

For one thing, unlike a lot of such books, Dennis wrote it himself. There is no co-author or ghostwriter. A good thing, too, because it turns out Dennis is a pretty good writer.

Second, of course, he *did* get rich *before* he wrote the book. Which is more than you can say about some of these kinds of books.

More importantly, though, the tone of this book is entirely different than anything in the genre because Dennis writes a lot about the personal costs of getting rich. He tells you how hard it is. He points out how it changes your relationships with people. He never lets you forget how much time it will take out of your days and nights.

There are plenty of places in the book where he — well, I won't say he discourages you per se, but he really forces you to be honest with yourself about what you value. Because in the quest to get rich, getting rich must be at the top of the list.

That means you can't care about what your neighbors might think. You can't care about worrying your loved ones. He says if you have "artistic inclinations and fear that the search for wealth will coarsen such talents," you'll never get rich. If you are not prepared to work more than anyone else, you won't get rich.

You have to forget about the idea of having a "career" or working for someone else. You have to forget about the idea of being part of a team. "Team spirit is for losers, financially speaking," he writes. "It's the glue that binds the losers together." (*The Economist* obituary noted: "Somewhere in the hearts of all self-made wealthy people, said Felix Dennis, is a 'sliver of razored ice.'") This is just a sample.

Some might not like having their rosy portraits of getting rich smashed by the spiked mace that is Dennis' prose. But if you shrink from it, then your odds of getting really rich are that much less.

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As he says:

> If anything, *How to Get Rich* is something ever-so-slightly new in the world, or at least I have tried to make it so. It is an "anti-self-improvement" book — because it admits openly that the chances of anyone reading it and then becoming rich are minuscule. The vast majority of you are far too nice. And comfortable. And sensible.

All is not despair, however. In the course of the book, Dennis tells you how he did it. There are all kinds of tidbits in there about mistakes he made, too. (Studying the mistakes of others is an underrated pastime.) And he passes on lots of advice about everything from negotiating to the joys of delegation.

Dennis says the No. 1 thing that prevents people from getting rich is fear of failure. He notes the world is full of people incessantly telling you why something won't work and who seem to delight in spreading their outlook of doom. "How many millions upon millions of man-hours are wasted annually, I wonder, in all this doom-mongering?" Dennis asks. "Personally, I've had a bellyful."

In the stock market, there is never any shortage of people calling for a big crash and the end of days. Is that a safe way to be? Of course, it is. Will it ever make you any real money in markets? No. (Investing itself is an optimistic act when you think about it.)

Dennis sums up:

> And looking back, I have to say that I regret the majority of times I acquiesced in shilly-shallying and a retreat to safety. I would rather have tried and failed, in most cases, than have taken the safer course that so often appears wiser in the abstract.

Lack of fear is a good start, but there is much more. Dennis has a good chapter on ownership. He says it isn't the most important thing — it is the only thing. "To become rich, you must be an *owner*." And never give it away.

He's talking about owning your own business. But the same idea applies generally to investing in capitalistic societies. Those who get rich own things. It is to the owners of capital that go the spoils. That's the reality of it. If you don't have any, you have no shot at getting wealthy.

Another idea is focus. Dennis says if you want to get rich, then that must be your focus. It's not to become famous.

It's not to take on Rupert Murdoch. It's not about a political crusade. Dennis got rich publishing magazines. Was it because he loved magazines? No. He didn't care what the subjects of his magazines were. He was in the business because he found out that he could make a lot of money publishing them.

"And so I became a magazine publisher," he writes. "That was OK, but I forgot to keep my eye on the ball. The ball was to get rich. Instead, I decided to become one of the world's best magazine publishers. Not smart."

Cynical? Probably.

Admirable? I don't think so.

Effective? At least in his case, the answer seems to be yes.

The most important part of the book is found on Pages 238–242. It's in a chapter called "A Recap for Idlers." The key point is that the richest are those with the most time. "If you are young," Dennis writes, "you are infinitely richer than I can ever be again."

So think carefully if you want to spend that time getting rich, he advises. No matter how wealthy you get, you cannot reclaim the lost time. These pages of the book are the most poignant and memorable. Here is a passage:

> I have been very poor and I am now very rich. I am an optimist by nature. And I have the ability to write poetry and create the forest I am busy planting. Am I happy? No. Or, at least, only occasionally, when I am walking in the woods alone, or deeply ensconced in composing a difficult piece of verse, or sitting quietly with old friends over a bottle of wine. Or feeding a stray cat… I could do all those things without wealth.

As should be clear by now, you to don't have to make yourself a slave to getting rich to take some lessons from Dennis. Investing well does not require an all-consuming obsession. Our style is, in fact, one of leisurely acquiring companies and watching them grow. Yet investing well can make you very well off indeed, as well as enrich your life in many other ways as you learn about the world around you and all kinds of interesting people.

Dennis is one of those interesting characters whom I think we can learn something from. And so I recommend his book to you. I would also say that it makes a great book to pass on to a young person bent on getting a lot of money. He or she should know what the game is all about. I mean, what it's really all about. For that, How to Get Rich is most valuable.

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Why You Shouldn't Rely on Long-Term Market Trends

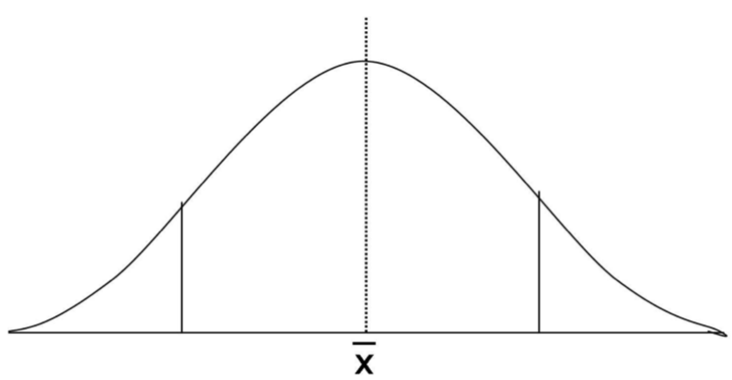
"If you are going to use probability to model a financial market, then you had better use the right kind of probability. Real markets are wild." – Benoit Mandelbrot (1924-2010)

I'm going to show you a different way of looking at the world of finance.

Most people assume that things like stock prices and interest rates tend to bounce around some kind of long-term average. Outliers, most think, will tend to draw back to some middle ground of past experience.

For example, the 10-year Treasury pays 2.5% today. People look back and see what rates have been for the last 20 or 30 years. They were much higher. So the assumption is that rates in the future will pull toward something closer to that experience.

This is a common way of looking at the world. It's a Gaussian perspective, named after the famous mathematician Carl Friedrich Gauss. It is perhaps most known by the simple bell curve:



But a 19th-century French mathematician named Augustin-Louis Cauchy had a different idea. It is best told by using the story of the blindfolded archer. Cauchy's idea better represents the reality of financial markets. It also shows you the folly of using models that rely on long-run averages of the past.

Before I get to that, I want to point out the bell curve assumes a stable average (or x). It also defines the odds. Outliers are rare events under the bell curve. The odds of events happening at the end of the tails approach zero.

The problem is the markets are far, far wilder than the model suggests. Wacky, extreme events occur far more than the bell curve says they should.

Now, for the blindfolded archer…

The story comes from Benoit Mandelbrot, in his book The *(Mis)behavior of Markets*. Imagine a blindfolded archer. He stands before an infinitely long wall with a target on it. Now assume he takes many, many shots at the target.

Most of these shots will miss. Some won't even hit the wall. Some will miss by hundreds of yards. Now tally up his shots and distances from the target. What will the average look like?

Here is Mandelbrot:

> "Our archer is not in the land of the bell curve… His scores for blindfolded archery never settle down to a nice, predictable average and a consistent variation around that average. In the language of probability, his errors do not converge to a mean."

With a seeing archer, you'd expect his shots to bunch up around the target. Wild shots would be rare. And you'd expect they wouldn't be all that far off. But Cauchy's view of the world has the wild shots occurring frequently. And the misses can be wide.

"The difference between the extremes of Gauss and of Cauchy could not be greater," Mandelbrot writes.

Mandelbrot maintains — and I think proves — that markets are closer to Cauchy than Gauss. There are many small movements, the sort of day-to-day nickel-and-dime trading. But there are very large movements mixed in. Wild shots off by hundreds of yards. And the impact of these is huge.

A couple of examples from Mandelbrot:

- In the 1980s, 40% of the positive gains on the S&P 500 came from just 10 trading days
- From 1986–2003, half of the decline of the U.S. dollar against the yen came on just 10 trading days out of 4,695 days.

Thus, relying on an average is a tricky business in finance. There really isn't a meaningful average when the extremes can have such a huge impact.

Three Words That Will Help You Become a Better Investor

Though you may not want to admit it, you tend to see what you want to see. And you tend to believe what you want to believe. It's true in life and in finance.

"This means," Ned Davis wrote in his 2003 book, *The Triumph of Contrarian Investing*, "what feels right, easy and obvious in your gut is quite often wrong." (Conversely, what feels wrong, hard and counterintuitive is quite often right.)

What follows is an exploration of this human tendency to create our own faulty narrative — and

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some advice on how to avoid it.

I thought about all of this when reading stories of the flight shot down over Ukraine. What's most interesting is to read the stories coming out of the Russian media, most of them owned or controlled by the state.

In their telling, Malaysia Airlines Flight 17 was a deliberate attempt on the part of the U.S. to frame Russia and provoke a war.

The story from that side has weird and grisly details. The flight was full of corpses. It was on autopilot. The passports of the victims at the crash site all look brand-new, as if dumped there after the fact. And the passengers all had Facebook pages created in one day. And on and on it goes.

It reminds me of what Izzy Stone wrote about the Soviet Union in the 1950s:

> "If you believe everything you read in the papers, lack imagination, and feel no need to think for yourself, you can be very happy in the Soviet Union and engage in useful devoted work… But for the journalist, the writer, the artist, the thinker, the man who cares deeply about the basic questions of humanity and history, the USSR has been a hermetically sealed prison, stifling in its atmosphere of complete, rigid and low-level thought control."

This is from Stone's *The Haunted Fifties*, the fourth volume in his six-volume *A Nonconformist History of Our Times*.

Some things never change. But there is also reality distorting on our side, too. The Western press makes Putin, Russia's head of state, out to be a demon of the worst sort.

Maybe he is, or maybe he isn't. In any event, demonizing Russia's leaders is also old hat. Here is Stone again:

> "It is essential to Cold War policy to allow nothing to disturb the endlessly inculcated view that the Kremlin always has and always will be occupied by monsters until the evil is finally exorcised by nuclear fission and holy water."

There are certainly interested parties that would like to keep Russia as a "bad guy." Oil companies? The military? The neocons? Who knows? The point is that an objective reality is hard to get at. People will believe what they want to believe.

Davis has several interesting examples from his book. Prisoners who don't believe they did anything wrong or gamblers who insist they lost money only because they got unlucky.

Or take the O.J. Simpson case. Simpson's guilt or innocence seemed to hinge on whether you were white or black. After the verdict, according to one poll, only 36% of whites thought he was innocent, compared with 73% of blacks.

Or consider Sept. 11. Even after ample evidence had come public identifying the hijackers and linking them to al-Qaida and the Arab countries they came from, 61% of Muslims in a Gallup poll still checked that "they did not believe Arab groups carried out the Sept. 11 terrorist attacks."

As I say, we believe what we want to believe. Our perspectives can warp our sense of reality. I often think of the classic Akira Kurosawa film *Rashomon*. In the film, four characters tell the story of the same event from their own perspectives. The viewer sees widely varying accounts. You're not sure what really happened.

As historian John Tosh says, "The facts are not given, they are selected." As a result, all historical recreations rely on our imagination. We piece together our own narrative. And we read into it what we want. The only objective journalism, Hunter S. Thompson used to say, was the box score and closed-circuit TV.

Given all this, how is it possible for an investor to act? Here's my own tiny manifesto:

- Never trust a consensus
- Never trust a forecast — no matter from whom
- Always question your own views — especially your core beliefs
- Don't assume the experts know what they're doing
- Read the news with a skeptical eye. (As David Shaw once said, "Any time I read anything in the paper that I know anything about, it's wrong.")
- Train yourself to think past the obvious.

I recently spoke at a conference in France in which my main message was this: Nobody really knows anything. On this point, there's a wonderful interview with Rory Sutherland, a behavioral economist — "The Thing for Which We Have No Name" in *Edge* magazine. You can find it online. In it, Sutherland says:

> "Most of the progress that's made in business is made through a kind of trial and error where you accidentally stumble on something that's successful. Of course, the way

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> business works quite well is that things that are unsuccessful get killed off fairly quickly and things which are accidentally successful get invested in; a very crude feedback system but it kind of works, broadly speaking."

In other words, most of the time, no one has the faintest idea why the things that work actually work. I believe this is profoundly true. And so I start my investing process with an admission of ignorance.

In fact, the "CODE" is an investment philosophy built on a foundation of ignorance:

C –We buy Cheap because we don't know what future will bring, so we hedge our bet.

O — We invest in Owner-operators because we know incentives matter. (I have a whole presentation I do on the idea of investing with owner-operators and how they tend to outperform. There is lots of research to back this idea.)

D — We want transparent businesses — the "D" is for disclosures — because we're outsiders and invest knowing we can be fooled. And…

E — We want Excellent financial conditions as a bulwark against adversity and so our companies can take advantage of new opportunities that come their way.

In the end, it comes down the three little words: *margin of safety*. If you have a thick margin of safety, you can get a lot wrong and still come out OK. The best defense against your own illusions is to build in lots of room for error. That's what I try to do with every investment I make. I recommend you do too.

How the American Dream Can Make You Up to 14 Times Your Money

You surely have an idea of what the American dream is all about. In essence, it's the idea that anybody can get ahead in America through hard work.

The thing is that has nothing to do with the original American dream as described by the guy who coined the phrase. In fact, today's version of it reflects what he feared would happen.

In what follows, I'll reveal to you the original American dream. I think you'll find it surprising. It is also easy to reclaim. And since I am, after all, the editor of an investment newsletter, I'll show you an easy way to reclaim this dream to better your investing portfolio.

First, let's get to the origin of the term. An American writer and historian named James Truslow Adams coined the phrase in the 1930s. He wrote:

> "The American dream that has lured tens of millions of all nations to our shores in the past century has not been a dream of merely material plenty, though that has doubtlessly counted heavily. It has been much more than that."

The genuine American dream was about one big thing: having free time.

Last year, professor Benjamin Hunnicutt wrote a book called *Free Time: The Forgotten American Dream*. He re-presents the traditional American dream and takes up Adams' cause. "Over the last two or three decades," he writes, "Adams' 'American dream' has been virtually forgotten, his fears largely realized." Adams worried that "in our struggle to 'make a living,'" we were forgetting "to live."

Adams' vision of the American dream is the older vision. Even the Founding Fathers believed in it. John Adams wrote about how he had to study politics and war so his grandkids would have the time to study painting, music, poetry, architecture and other leisurely pursuits. Benjamin Franklin wrote about his vision for a society where people would work four hours a day "and the rest of the 24 hours might be leisure and happiness."

The Founders were aristocrats, in their way, but the vision of the American dream ran deep to the lowest rungs of the economic ladder. As Hunnicutt shows, for working men and women across the country, the American dream meant "getting out from under the boss's thumb a little sooner each day, having a few additional minutes down at the saloon with friends and finding a little extra time at home with the family."

The American dream became a centerpiece of the American labor movement, which fought for shorter working hours. Throughout the 19th century, American writers, religious leaders, politicians and many others supported labor's vision of reducing working hours — and creating more free time.

This idea transcended left-right politics and was still powerful into the 20th century. Conservative business people also believed in defining progress and the American dream as one of more leisure. The cereal king W.K. Kellogg instituted six-hour workdays, for instance. So did Goodyear. There were others.

It was a "chorus of voices" Hunnicutt writes, "of diverse visions of how abundance and increasing freedom from work would soon open the original American dream to all."

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For a time, that was how society was going.

For over a hundred years, from the early 19th century to about the 1930s, American working hours steadily fell — "cut in half, according to most accounts."

This trend was a given for most. If you read the leading thinkers of the day, they all thought the future would be one of very little work. Everyone from John Maynard Keynes to Frank Lloyd Wright predicted a world of abundant leisure. Doomsayers fretted about what people would do with all the time they'd have on their hands.

But the trend stopped in the Great Depression… and reversed itself.

Working hours have been creeping up, year after year. Some stats from Hunnicutt's book:

- The salaried middle class have seen their work hours rise to 660 hours — an increase of 20% in the last 25 years
- About 40% of these people work at least 50 hours a week
- We average five weeks more of work than in 1973
- There has been no increase in leisure time since the Great Depression.

We've lost the original American dream. How we got here would take us too far afield. (It is in the book if you really want to know. The New Deal, ironically, emerges as one in a cast of bad guys.)

But I believe in the value of that original American dream.

Time is our most precious asset. No matter what you do, you can't get it back. That should be obvious.

So the first step to reclaiming the American dream is to be a jealous guardian of your time.

Here we come to investing.

Fortunately, the best way to invest for the long haul is also one that eats the least amount of your time. I have never really understood the appeal of people making daily or weekly trades in the stock market. They will never make any serious money. (I guess they could get lucky. Or be freaks.)

And who envies the life of these people? They are often crouched over their computers, watching the minute-by-minute action. It seems to me a frenetic and stressful way to live.

Why not spend more time studying companies at your leisure? And when you find one you like, you buy it. Then you sit on it. And do nothing — for years.

This gets to my No. 1 American dream investing idea: The Coffee Can Portfolio.

The idea is simple. You create a portfolio of six or seven or 10 carefully chosen stocks. Then you leave them alone for 10 years. Enjoy your leisure time. At the end of 10 years, you'll likely have some monster winners.

The idea originally comes from Robert Kirby, a money manager. He wrote about it in 1984. He observed a portfolio that followed his buy and sell advice and another that never sold a share. At the end of a decade, the second portfolio had a single position worth more than the entire actively managed portfolio. It killed, in other words.

This shouldn't come as a great surprise or need great proof. This is what Warren Buffett is all about. If you compound, say, a 15% return for 10 years, you're up about fourfold. After 20 years, you'll have more than 14 times your original investment. The math of compounding does not lie.

Tom Phelps' study of stocks that went up 100-fold led him to one conclusion: "Buy right and hold on." Stocks, like wine and cheese, need aging to really pay off. Not giving them a chance to mature is like pulling up your garden plants before the veggies come in.

Buying right is key. You need stocks that compound capital surely and inexorably over time. And you can't pay absurd prices for them.

If executed correctly, the coffee can portfolio can help you enjoy the fruits of the original American dream — free time!

The Coffee Can Portfolio

"Have you ever heard of the coffee can portfolio?"

I was having lunch with Preston Athey, the outstanding investor behind T. Rowe Price's Small-Cap Value Fund (PRSVX), when he asked me this question.

I had heard of it, which I think surprised him a little because I was only 12 years old when it came out, and it is not a mainstream idea. I knew all about it, though, because the coffee can portfolio is one of those classic ideas that aficionados of finance don't forget.

I want to tell you about the coffee can portfolio in what follows. You won't find an easier or more effective way to manage your stocks than this. I also want to enlist your help in a little project that Preston suggested.

It all began with Robert Kirby, then a portfolio

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manager at Capital Group. He first wrote about the coffee can idea in fall 1984 in *The Journal of Portfolio Management*. "The coffee can portfolio concept harkens back to the Old West, when people put their valuable possessions in a coffee can and kept it under the mattress," Kirby wrote. "The success of the program depended entirely on the wisdom and foresight used to select the objects to be placed in the coffee can to begin with."

The idea is simple enough: You find the best stocks you can and let them sit for 10 years. You incur practically no costs with such a portfolio. And it is certainly easy to manage. The biggest benefit, though, is a bit more subtle and meaningful. It works because it keeps your worst instincts from hurting you. In his paper, Kirby told the story about how his idea came about.

"The coffee can idea first occurred to me in the 1950s," Kirby writes. Then he worked for a big firm that counseled individuals on their investments. He had a client he worked with for 10 years whose husband died suddenly. She inherited his stock portfolio, which she moved to Kirby's care. Looking at the portfolio, Kirby writes:

I was amused to find that he had been secretly piggybacking our recommendations for his wife's portfolio. Then I looked at the size of the estate. I was also shocked. The husband had applied a small twist of his own to our advice: He paid no attention whatsoever to the sale recommendations. He simply put about $5,000 in every purchase recommendation. Then he would toss the certificate in his safe-deposit box and forget it.

In doing this, a wonderful thing happened. Yes, it meant his portfolio had a number of broken stories worth $2,000 or so. Small positions. But he also had a few large holdings worth $100,000 each. The kicker, though, was this: He had one jumbo position of $800,000 that alone was bigger than the total value of his wife's portfolio. As Kirby writes, "[It] came from a small commitment in a company called Haloid; this later turned out to be a zillion shares of Xerox."

That is an inspiring tale, a triumph of lethargy and sloth. It shows clearly how the coffee can portfolio is designed to protect you against yourself — the obsession with checking stock prices, the frenetic buying and selling, the hand-wringing over the economy and bad news. It forces you to extend your time horizon. You don't put anything in your coffee can that you don't think is a good 10-year bet.

Poor Kirby had been diligently managing the wife's account — keep up with earnings reports, trimming stocks and adding new positions. All the while, he would have been better off if he followed the idler's creed and just held onto his ideas.

This example reminds me of the work of Thomas W. Phelps, much-forgotten investment thinker who has since become one of my favorites. I praised this remarkable investor about a year ago, right here in *The Daily Reckoning*. (If you missed it the first time, you can check it out here: The Value of a Thief). Like Kirby, Phelps also believed in the power of "buying right and holding on."

Why don't more people hold fast? Phelps writes that investors have been conditioned to measure stock price performance on a quarterly or annual basis, but not business performance. One memorable example he uses (among many) is Pfizer, whose stock lost ground from 1946-49 and again from 1951-56. "Performance-minded clients would have chewed the ears off an investment adviser who let them get caught with such a dog," Phelps wrote. But investors who held on from 1942-1972 made 141 times their money.

Phelps shows that if you just looked at the annual financial figures for Pfizer — ignoring the news, the stock market, economic forecasts and all the rest — you would never have sold the stock. It was profitable throughout, generating good returns on equity, with earnings climbing fitfully ever higher. Pfizer was a good coffee can stock.

I am giving more thought to the coffee can portfolio and what I'd stash in it. What about you? What stock (or stocks) would you put in your coffee can?

Is It Evil to be Rich?

Franklin Delano Roosevelt famously used the term "forgotten man" in a 1932 speech to describe those at the bottom of the economic pyramid whom, he felt, government should aid.

But the originator of the phrase "forgotten man" — William Graham Sumner (1840-1910) — had a whole different meaning in mind. Sumner aimed to expose the seemingly good intentions of government to reveal the truth of what was really happening. He boiled it down to a simple schematic: A and B decide what C should do for X.

Note the usually overlooked little matter of the fellow in position C. All the focus of political discourse is on what A and B should decide and the wants and needs of X, whether just or not. But what about C?

Here we come to a universal truth that forms a core part of the argument of Sumner's great book *It Is Not Wicked to Be Rich:* "The State cannot get a cent for any man without taking it from some other man,

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and this latter must be a man who has produced and saved it. The latter is the Forgotten Man."

Sumner was a Yale professor and something of a polymath of the social sciences. *It Is Not Wicked to Be Rich* was originally published way back in 1883 as *What Social Classes Owe to Each Other*. It is a tightly argued, powerful little book that gets right to the heart of the nature of political relationships — of the nature of rights and duties. Sumner argues for a society based on contract and associations forged by men of their own volition who cannot forcibly extract something from another.

It may be hard to believe that something written so long ago can be so relevant to the complexities our own day. But this book is essentially about the timeless principles and ageless logic of a free society. In our era of bailouts and gigantic government budgets, we need this book now more than ever.

No doubt there are many other books that put forth similar ideas. So why republish this one? I have an easy answer: Because Sumner was such a darn good writer and clear thinker. His book is fun to read. He turns over many ideas in memorable ways. As a result, it is a powerful statement of libertarian ideas. His book deserves more attention than it gets. My own cherished copy is well marked with favored passages.

"History is only a tiresome repetition of one story," he writes in one of those passages. That story is one of people trying to control the reins of government power for their own ends. This is not a weakness confined to generals or priests, to businessmen or scholars. It does not strike certain ages or races of people. It is not a matter of who rules or what type of government exists. (Democracies too can be tyrants.) The weakness is a universal trait, Sumner maintains, rooted in human nature.

For Sumner, the aim of laws and institutions ought to be to protect men against these vices of human nature and against arbitrary power. They ought to guarantee liberty. There are to be no compromises. "All institutions are to be tested by the degree to which they guarantee liberty," Sumner writes.

It is not to be admitted for a moment that liberty is a means to social ends, and that it may be impaired for major considerations. Anyone who so argues has lost the bearing and relation of all the facts and factors in a free state.

To Sumner, it is a profound injustice when government uses its powers to arrogate rights from one group for another. Unfortunately, this is not a common view today. A simple illustration comes right out of the political dialogue in our own times. The "right to health care," for instance, is a topic of much debate.

Sumner would have been appalled. As he makes plain, the "right to health care" is simply the enforcement of a duty on someone else to provide it to you. All government efforts to provide free or subsidized health care — as well as education and retirement, two other perennial hot topics — are in the same ugly moral position. They represent a kind of theft.

Often, people will justify such takings by appealing to the democratic process. This, in fact, is a key danger of democracy, Sumner felt. People are eager to assume rights at the expense of others. "That is, that they will use the political power to plunder those who have," Sumner writes. "Those who have" often includes that murky term "the rich." But for Sumner, the accumulation of wealth was not something to fear or to seek to erase.

Sumner has some great lines about wealth and the efforts to limit it. Wealth in a free society is earned by serving the wants and needs of your fellow men. People are rewarded on the basis of demand for their goods or services. Here is one of the passages that I've marked in my copy:

> "If we should set a limit to the accumulation of wealth, we should say to our most valuable producers, 'We do not want you to do us the services which you best understand how to perform, beyond a certain point.' It would be like killing off our generals in war."

It would be a mistake to think of Sumner as some sort of crude defender of privilege or some uncaring social Darwinist. Sumner is eminently practical. He is a realist. He emphasizes repeatedly that life is full of uncertainties. No one can make guarantees against hardships. Moreover, one man's hardships and misfortunes do not create a moral claim on another man's efforts.

I also think of Sumner as a true gentleman. He is aware of the plight of humanity on this lonely planet and sympathetic to the human story, while adhering to an honorable code of conduct that, sadly, seems almost quaint today. The only duties men owe to each other, Sumner believes, are "respect, courtesy, and goodwill." He is eloquent on this point:

> "Men, therefore, owe to men, in the chances and perils of this life, aid and sympathy, on account of the common participation in human frailty and folly. This observation, however, puts aid and sympathy in the field of private and personal relations, under the regulation of reason and conscience."

What a simple and beautiful life philosophy! Yet few see how often government power inspires a totally different set of assumptions.

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The existence of government power sets man against man. It sets those who would achieve and create against those who would steal through elections and laws and taxes. In the end, the burden of government falls on that Forgotten Man, that real Forgotten Man. It is he who has worked and saved and done the right things to take care of himself and his family. Yet now he is told he must pay again for others who have not worked and saved as he.

I've often thought the most powerful arguments for a free society were the moral arguments, the ones that appeal to our simple sense of fair play. Sumner's book does just that, with a cracking style and an unerring eye for the realities of life. My guess is that you won't be able to put it down once you start. And I'm sure you'll have lots of choice passages of your own.

Lose the News

Our next topic is "the news." Specifically, how consuming it can turn your brain into soft cheese and make you a lousy thinker and investor.

I think the message here is important — and potentially life-changing. Does it sound like I am exaggerating? Hang in there and keep reading. You tell me what you think after you've read what I've got here.

The impetus for this is an essay by Rolf Dobelli, a Swiss entrepreneur, titled "Avoid News." Dobelli makes the case that news makes us distracted, wastes time, kills deeper thinking, fills us with anxiety and is toxic to our mental health. His analogy: "News is to the mind what sugar is to the body."

I shared the essay with my wife Carol after I read it. It made an impact. Carol offered to cancel her electronic subscription to *The New York Times* if I would cancel my print subscriptions to *The Wall Street Journal* and *The Financial Times.* (We already ditched *The Washington Post.* I got tired of contributing to the salaries of Steven Pearlstein and Ezra Klein, who must be the worst writers on economics in America still getting paychecks.)

Neither of us watches TV news.

I had to think about this offer. I love reading the newspapers every morning over breakfast and tea. I also passed on the letter to a buddy of mine who is in the business of advising institutional clients where to put their money. Dobelli had him convinced too, and the next day, he told me he left his *WSJ* and *FT* unread.

So what is Dobelli saying? Let me hit some high points.

Dobelli's analogy with food is a good one. We know if you eat too much junk food, it makes us fat and can cause us all kinds of health problems. Dobelli makes a good case that the mind works the same way. News is brightly colored candy for the mind.

News is systematically misleading, reporting on the highly visible and ignoring the subtle and deeper stories. It is made to grab our attention, not report on the world. And thus, it gives us a false sense of how the world works, masking the truer probabilities of events.

News is mostly irrelevant. Dobelli says to think about the roughly 10,000 news stories you've read or heard over the past year. How many helped you make a better decision about something affecting your life? This one hit home.

Last year, I wrote 58 emails to my subscribers under the *Capital & Crisis* banner. I looked back and counted only five in which a news story was front and center. Even then, I used the news more to make what I was saying seem relevant and timely. But I could've excised the news and nothing would've been lost.

We get swamped with news, but it is harder to filter out what is relevant — which gets me to another point that hit home. Dobelli talks about the feeling of "missing something." When traveling, I sometimes have this feeling.

But as he says, if something really important happened, you'd hear about it from your friends, family, neighbors and/or co-workers. They also serve as your filter. They won't tell you about the latest antics of Charlie Sheen because they know you won't care.

Further, news is not important, but the threads that link stories and give understanding are. Dobelli makes the case that "reading news to understand the world is worse than not reading anything." In markets, I find this is true. The mainstream press has little understanding of how markets work. They constantly report on trivia and make links where none exist for the sake of a story, or just for the sake of having something that "makes sense."

In markets, reporters try to explain the market every day. "The market falls on Greek news" is an example. Better to not read anything if you're going to take this kind of play-by-play seriously at all.

The fact is we don't know why lots of things happen. We can't know for sure why, exactly, things unfolded just as they did when they did. As Dobelli writes, "We don't know why the stock market moves as it moves. Too many factors go into such shifts.

Any journalist who writes, 'The market moved because of X'… is an idiot."

You contaminate your thinking if you accept the neat packages news provides for why things happen.

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And Dobelli has all kinds of good stuff about how consuming news makes you a shallow thinker and actually alters the structure of your brain — for the worse.

News is also costly. As Dobelli points out, even checking the news for 15 minutes three times a day adds up to more than five hours a week. For what? He uses the example of the Mumbai terror attacks in 2008. If a billion people spent one hour of their attention on the tragedy by either reading about it in the news or watching it, you're talking about 1 billion hours. That's more than 100,000 years. Using the global life expectancy of 66 years means the news consumed nearly 2,000 lives!

Pretty wild, right?

So what to do? Dobelli recommends swearing off newspapers, TV news and websites that provide news. Delete the news apps from your iPhone. No news feeds to your inbox. Instead, read long-form journalism and books. Dobelli likes magazines like *Science* and *The New Yorker*, for instance.

As an investor, I'd add some of mine own:

- Ignore any news chatter that attempts to explain or predict what is happening in the stock market
- Stop checking your stock portfolio multiple times a day
- Don't try to find reasons for every dip and rise in the prices of your stocks. Instead, accept that the vast majority of the time, nothing important happens
- Ignore the drumbeat of economic news. If you must read news, try a perusal of the weekly *Economist*
- Ignore, especially, the drumbeat of economic data — the unemployment report, GDP, the trade balance and all the rest. As Peter Lynch once wrote, "If all the economists of the world were laid end to end, it wouldn't be a bad thing."

Instead:

- Read the shareholder letters of successful investors. I like reading Steve Romick at FPA, for instance. I also enjoy the shareholder letters of the Third Avenue family of funds. There are many others. Read any research such investment houses share
- Spend little or no time trying to guess where you think the market and economy will go. Instead, focus on finding good deals and winning teams of entrepreneurs and investors that you can invest alongside
- Listen in on the conference calls of your favorite companies and investors
- Check the stories and prices on your stocks once a quarter
- Read books written by successful investors. Then read them again. Some of my favorite authors include Martin Whitman, Seth Klarman, Peter Lynch, Ralph Wanger, Benjamin Graham and Joel Greenblatt. I'm sure I'm leaving a bunch out, but you can put together a truly awesome library of successful investors for little money
- Read books that deepen your understanding of markets and how they work. Read Louis Lowenstein and James Grant, for two of my favorites.

My fundamental problem with the news is that it makes it seem as if important things happen every day. The vast majority of the time, nothing of any significance happens whatsoever — which is good for you. If you avoid a lot of the news, you will have a lot more time to dedicate to other things. Feed your brain good food and you'll get better results. It seems that simple.

Dobelli himself has sworn off the news. And he reports he feels much better for it: "less disruption, more time, less anxiety, deeper thinking and more insights." I can't do the whole idea justice here. If you want to read Dobelli, check out the full essay here.

Print it out. Turn off the smartphone. Stop checking email for 25 minutes. And just read it. Be forewarned: It might just change your life.

The 5 Greatest Investment Books You've Never Heard Of

Some time ago, a reader asked me for a list of favorite investing books. I emailed him back that on a slow day I'd write one up. Well, today is that slow day.

Below are some notes on a handful of my favorite investing books. To make things more interesting, I'm leaving off those books widely considered as part of the canon. So you won't find anything by Benjamin Graham, Warren Buffett, Seth Klarman or Joel Greenblatt, for example.

All of the below are lesser known titles, but they are truly my five favorite books on finance. These are books I've read more than once and that I find myself dipping into again and again.

With that, here we go…

1. *Humble on Wall Street* by Martin Sosnoff

This came out in 1975. It's a Wall Street memoir of

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Sosnoff's adventures managing money in the 1960s and '70s. The main gist is that intellectual effort does not solve stock market problems. The market humbles all.

Sosnoff is a conceptual stock picker who does the work on earnings and the like but knows the limits of analysis. A running theme is the futility of relying too heavily on facts and figures. His first law is "the price of a stock varies inversely with the thickness of the research file." The point being that the really good ideas are often the simplest and cleanest.

The chief appeal here is Sosnoff's style. He has a gift for metaphor.

He writes about stocks sinking gradually over time. "This is like Venice slipping gently but proudly into the mud over 400 years. In the end, the mud wins, but there have been some memorable masked balls in between." Or when he writes that the speculator's credo is "he will trade in any kind of sardines, as long as the ice lasts."

Or when describes how the slow reaction times of large pools of money are "comparable to the time it took a species of grass-eating dinosaur to transmit a brain impulse to its tail asking it to thrash out a Tyrannosaurus rex who was busy crushing its backbone. When the message arrived, the herbivore lay dying."

There is a lot of that kind of writing, and it is great. There are also many other quotable lines. "A great speculation always entails more tension than all but a few can withstand." "Stocks are pieces of paper with stories attached to them." "A meaningful insight can be attained at the cost of burnt fingers."

Funny, cynical and wise…

2. *Silent Investor, Silent Loser* by Martin Sosnoff

Sosnoff followed *Humble on Wall Street* with this book in 1986. It is just as good if not better. He extends his usual themes here, but the main theme is this:

> "The disenfranchisement of all shareholders by rapacious managements with kept boards… has cost shareholders billions upon billions…"

Sosnoff fingers the lack of real owners as the main culprit and also as a cause of weak results:

> "The sociology of token ownership of equity by both officers and directors of almost all big businesses reinforces an anti-entrepreneurial style that is considered normal behavior, even by the professional investor."

What to do? Sosnoff comes out forcefully for investing in owner-operators:

> "My experience as a money manager suggests that the entrepreneurial instinct equates with sizable equity ownership… If management and the board have no meaningful stake in the company — at least 10-20% of the stock — throw away the proxy and look elsewhere."

Silent Investor, Silent Loser is another terrific book filled with colorful writing. I find myself often dipping into these books and rereading them in their entirety every few years — just for inspiration and a good dose of humility. I don't know anything about Sosnoff's track record, but I love his books.

3. *Sense & Nonsense* in Corporate Finance by Louis Lowenstein

Louis is the father of Roger Lowenstein, who wrote such best-sellers as *Buffett: The Making of an American Capitalist and When Genius Failed: The Rise and Fall of Long-Term Capital Management*. The elder Lowenstein died in 2009. He had a varied career. He was president of Supermarkets General. He was a corporate lawyer for 20 years. And he was a professor at Columbia.

He wrote three books — all good. This one, which came out in 1991, is my favorite. If you ever wanted to understand corporate finance — buybacks, dividends, buyouts, stock splits and more — then this is the book you should get. Lowenstein writes well about finance and its limitations. He skewers the nonsense. His basic principles of finance — there are 12 of them — are worth the price of the book.

Here's an excerpt from No. 4, which is another reason to invest in financially strong companies:

> "Opportunity knocks primarily on the door of the rich… All over the industrial landscape, there are once-strong companies that now must sit on their hands while better-financed competitors use the current recession to seize additional market share. But then, the rich have always had their pick of opportunities."

Lowenstein's book is an old-school corporate finance book, the kind more common before the Second World War. It is rich in anecdote and logic, but bereft of mathematical modeling. Lowenstein criticizes efforts to make finance a hard science: "The price of this mathematical elegance is that it obscures hard, practical questions."

For Lowenstein, finance is a "modestly useful discipline." There are some principles and rules, but otherwise, humility is what's called for in finance. There are too many unknowable things to aim for precision.

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4. Modern Security Analysis by Martin Whitman and Fernando Diz

This is the newest book on this list and the only one in print. It came out in 2013. Whitman is the founder of Third Avenue Management and has been investing for more than 50 years. This book is a culmination of everything he's written. It's his magnum opus.

This book is not an easy read. It is almost 500 pages of closely cropped text. But I have learned more from Whitman than perhaps any other investor. I think he's advanced the ideas of Benjamin Graham and David Dodd — who wrote the classic *Security Analysis* in 1934 — more than any other thinker.

Whitman advocates investing in companies with strong financial conditions acquired at prices "that represent meaningful discounts from readily ascertainable net asset values (NAVs)." His focus is on thinking of managers as "investors (dealmakers) and financiers."

As he says, "These activities can be orders of magnitude more important than operations in the generations of wealth, and are summarized in the saying, 'One good deal may create more wealth than 10 years of brilliant operations.'"

This has become a cornerstone of my own approach as I look for companies that can "do deals" and make things happen through their investing activities (buying and selling assets).

A focus on creditworthiness is another hallmark of Whitman's approach. "Call it overkill," he writes, "but it is also quite comfortable to be invested in common stocks of companies whose solvency is not close to ever being in question." I certainly agree.

There is a lot to this book. If I had to cite a bible of investing, this would be my pick.

5. *100 to 1 in the Stock Market* by Thomas W. Phelps

Another out-of-print book, this one from 1972. Phelps was a security analyst, former partner at Scudder, Stevens & Clark and was once The Wall Street Journal's Washington bureau chief. Phelps' book has a great premise. He draws lessons from studying all the stocks that went up 100-fold. He distills some of the traits you'll want to look for in finding these monster winners.

His main advice, though, is to "Buy right and hold on." Phelps advocates an extreme buy-and-hold mentality. Humongous returns come only with time. And the book is great in hammering home the power of compounding.

He walks you through simple examples about how return on equity works and how book value compounds over time and how these (and other factors) manifest themselves in the return you get. I think these lessons are very important. I'm always a little amazed to see how even professionals — even my peers — don't do the simple math to get a sense for the returns they'll likely earn.

Besides the wisdom, the charm of the book is in Phelps' prose style.

On relying too much on numbers and computers:

> "Some of us are here today because one of our ancestors started running when the birds stopped singing, instead of waiting until he could count the Indians."

On investors buying and selling too much:

> "When I was a boy, a carpenter working for my father made this sage observation: 'A lot of shavings don't make a good workman.'"

On stock manipulation:

> "But for the gullible, there would be no more manipulations. In Africa, where there are no antelope, there are no lions."

On solving problems:

> "Every human problem is an investment opportunity if you can anticipate the solution. Except for thieves, who would buy locks?"

On investing abroad:

> "For most people, investing abroad amounts to fleeing from hazards they can see to hazards they can't see."

As I say, it's one of my favorites.

So there you have it, my top five. My copies of these books are well marked and used. If

I could take only five investment books on a desert island, these would be my choices.

I recommend them all to you.

Sincerely,

Chris Mayer
for *The Daily Reckoning*