



The 7 Reasons Why Investors

(and their Financial Advisors)

LOSE Money in the Stock Market

They Believe in “Buy and Hope”
They Don’t Use Charts
They Own Too Many Stocks
Failure to Understand Equity Mutual Funds
Failure to Understand Bond Mutual Funds
Not Investing in Preferred Stocks
Not Selling Covered Calls

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Byron L. Studdard, CFP®

My Story:

In 1990, during my junior year of college, my mom was diagnosed with breast cancer and given 2 years to live; however, she didn't tell me about the latter. I would have never taken the job in Tampa had I known. I guess that is why she chose not to tell me - she wanted me to go after my dreams.

In 1992, I was asleep on the floor of Crestwood hospital in Huntsville, Alabama. My mom was in the next room dying of cancer and I had arrived on a late flight from Tampa. This was a normal Friday night in my life during that time. Every couple of weeks she would go back to the hospital and I would come in late and crash on the floor of the room next to her.

As was our routine, I had sent my father home to shower, empty the junk mail from the mailbox, and bring some more clothes. I put my sister in charge of watching mom, and I found my favorite napping place in the room next door.

After what seemed like 2 minutes, my sister woke me up to tell me dad was not back. I don't remember my exact choice of vocabulary, but I probably couldn't repeat it in public anyway. Something to the effect of, "get out of here, I'm sure he's fine and I'M TRYING TO SLEEP!" Did I mention that I was cranky from air travel? And, that was back in the old days before they strip searched you!

Well, another few minutes went by, and here she comes again. In her highest voice, “Dad’s still not back.” Before she could finish this time I tried to throw the little cushion-like thing that they call a pillow at her. Don’t know if I hit her with it or not. I think I fell asleep mid throw.

Then, after what seemed like another 2 minutes later, the phone woke me up. I knew it was the phone ringing and not my sister bothering me, but at this point I was accustomed to yelling at her, so I turned toward the door to hurl another brotherly insult. She had run into my room when she heard the phone ring and there was fear in her eyes.

My heart sank, when the voice on the other end of the phone turned out to be the emergency room downstairs. My father had been in a head on collision. My sister saw the look on my face because she took off down the stairs. Now, she was my younger sister, only 15 at the time. I was supposed to keep her from seeing things that might scar her for life. But, I had to catch her before she got to the emergency room which was 4 long flights of stairs away.

Did I mention that she was a better athlete than I was?

By the time I got there, huffing and puffing, she had already seen my dad strapped to a board and covered in blood. He said he was okay, and didn’t want my mother to worry. He didn’t look okay. My 15 year old sister and I now had our only living relatives on 2 separate floors of the hospital. I was no longer in denial. I feared that I was going to lose them both.

By the grace of God, he walked away from that accident and was able to come up to the room a little while later. Growing up, I had always been taught to look for the positive in all situations; but, for the life of me I was having a hard time finding anything positive about losing my mother.

A few days later, after seeing my dad’s mangled minivan, it hit me like a ton of bricks. For the first time, I was able to find the positive in the situation. That day, I realized many people lose loved ones and never get to say goodbye. I had been so full of pity that I was wasting that opportunity with my mom. During her final days, I said my goodbyes,

spoon fed her when she was too weak to eat, and was there for her last breath.

I tell this story because it changed my life. I tell it to you because you might have loved ones in your life that you haven't told how you feel. Tell them. Write it down and send it to them. If you can't tell them, write it down and put it with your will to be delivered to them at your death.

That night, I realized that I could have lost them both and I had no clue about my family's financial situation. I had no clue if I would be given custody of my sister or how I would pay for her college. Most of these thoughts were flashing through my mind on my sprint down 4 flights of stairs. Don't wait to talk to your loved ones.

The following weeks would change my life forever. I buried my mother, and had my family's financial life opened up before my eyes for the first time. My grandmother, on my mother's side, had passed away the month before. In less than 2 months, a whole generation had passed, and I begin to understand just how short life really is. I was 23 years old and because I had chased the biggest paycheck out of college, wasn't following my dream profession. I vowed to start following my dreams as the future is promised to no one.

As I sat down with my dad to wade my way through all of the financial literature for widows and beneficiaries, I realized that my lifelong study of wealth was incomplete until that moment. You see, I always concentrated on accumulation, not preservation. My father had an accountant, an insurance agent, and a stockbroker; but, no coordinated plan to protect what he had accumulated and pass it on.

As I poured over my family's financial plans, or lack thereof, I realized that my Finance professor was wrong. He had told me that trying to get licensed as a CERTIFIED FINANCIAL PLANNER™ right out of school would be a mistake. He recommended that I take the best job I could find, get some gray hair and some "real world" experience and then hang a shingle as a CFP® once I had my retirement and benefits guaranteed. I'm sure he meant well; but, after burying two generations, I realized that my

family could have benefited from my knowledge no matter my age. I created a 5 year plan and begin studying to follow my dreams the very next week.

Five years later, I was a licensed CERTIFIED FINANCIAL PLANNER™ ranked in the top 20% of my company nationwide and had won the President's Recognition Award for Quality of Advice for outstanding planning and recommendations made to clients. I began teaching night classes to those interested in becoming financial planners and class attendance grew to record numbers.

I enjoyed teaching my own curriculum of strategies for building wealth to new advisors, but my practice was also growing. By 2000, I was ranked in the top 8% of advisors across the country and was the acting Associate Vice President in charge of new advisor development.

In 2001, I received an offer I couldn't refuse and became Regional Vice President for The Legend Group, a subsidiary of Waddell and Reed. I opened regional offices across the Southeast and was the keynote speaker at countless seminars.

In 2003, I realized my dream by founding Studdard Financial with offices in Germantown, Tennessee and Sarasota, Florida. I'm proud to be listed in the "Guide to America's Best Financial Planners" which is published each year by Consumers' Research Council of America, an independent research company. I've also been named, "The Best of the Best" and "The Top 1% in Their Field" by America's Top Advisors.

I have now spent the better part of my life studying investments. I have studied all different types of strategies and styles. I've reviewed the investment philosophies of successful people that have done well, and those that haven't done so well. Most of all, I learned firsthand from my family's situation, it's not just about fundamental and technical analysis, but also having an overall plan to preserve your wealth and pass it down to the next generation. I tell you about these experiences because they led me to write, "The 7 Reasons Why Investors (and their financial advisors) Lose Money." I hope it makes a difference in your life.

1. They Believe in “Buy & Hope”

The first reason many investors (*and their financial advisors*) lose money is that they subscribe to the Wall Street propaganda of “buy and hold,” which I call “buy and hope.” Anyone that believes in that theory should look back at previous market corrections. How long did it take to recover from the 1929 stock market crash? On January 2, 1929 the Dow Jones Industrial Average (DJIA) closed at 307.01. It would be 1954 before the DJIA saw that level againⁱ. That's 25 years of waiting for your loss to be recovered. Yet, the great Wall Street propaganda machine tells us all to “buy and hold.” I don't know about you, but 25 years of hoping I will get my money back is not how I want to spend my retirement.

That bear market followed the roaring 20's bull market. There have been many other bear markets since then. On September 1, 1967, the DJIA closed at 901. Fifteen years later, on August 31, 1982, it again closed at 901.ⁱⁱ Many people lost thousands of dollars during the 1973-74 crash and vowed never to invest in the stock market again. And, of course, everyone remembers the bear market that followed the dot.com crash.

Most investors don't have the discipline to set a stop loss and stick with it. Emotion gets in the way. They get excited about a stock and if it drops in value, they buy more of it. Or, in the case of financial advisors, they don't want to admit that they are wrong and try to save face in front of the client by buying more shares to lower the basis. Throwing good money after bad is a quick way to lose money.

If a stock falls through its 20 day and 50 day moving averages on above average volume, it usually means that the “big money” like mutual funds and institutions are probably selling their shares. These guys rarely will sell all the shares to exit a position over the course of just one day. They have so many shares that they will usually sell their position over several weeks or months. This means if you continue to hold this position you are likely to suffer more losses as they continue to exit the trade gradually. Successful investors use a strict 8-10% stop loss limit and stick to it.

Markets don't always rise, so why only invest hoping they will. A market correction occurs when there are more sellers than buyers in the overall markets and money has been flowing out in heavy volume for 5 - 8 days. Why not take advantage of the market's direction by shorting it or investing in inverse Exchange Traded Funds (ETFs)? No matter how long the bear market lasts, there is no reason to fight the tape and be invested long or in cash, when the market is continually going down.

For example, the ETF issued by ProShares, the Short Dow30 (ticker: DOG), seeks results that correspond to the inverse daily performance of the Dow Jones Industrial Average. ProShares also has an ETF that is Short S&P500 (ticker: SH) which seeks daily investment results that correspond to the inverse of the daily performance of the S&P 500 Index. Or, if a particular sector of the market is in a correction, like say financials, the ProShares Short Financials (ticker: SEF) which seeks daily investment results that correspond to the inverse of the daily performance of the Dow Jones U.S. Financials Index could be added to your portfolio. As a professional trader, I use these techniques, called hedging, to protect my client's portfolios.

2. They Don't Use Charts

The second thing that causes most investors to lose money is that they buy and sell based on emotion, not charts. Chart analysis is the key to know when to buy and when to sell. Stock prices, because they are traded in the open market, are a function of supply and demand. Like anything else, the more people that are buying, the more it will rise and vice-versa.

Think of it this way. Let's assume you have decided to sell your home, auction style, this Sunday night to the highest bidder. If only 1 person shows up to bid, you probably won't get your asking price. If, however, 20 people show up, then they will most likely bid the price higher. The stock market works the same way, every day with hundreds of thousands of shares changing hands. Doesn't it make sense to know if there are more buyers than sellers for the stock you are considering? You bet it does.

3. They Own Too Many Stocks

I got hooked on investing at an early age. When I was 10 years old, my dad came home from work one day and announced that he had us a new job. By “us” he meant me. It turns out that his boss was looking for someone to clean the office as the janitorial services were costing too much. I listened carefully as my father explained the duties of this job. There were 13 offices, and 3 bathrooms that all would need to be cleaned twice a week. At first I was mildly interested, and then he got to the good part – the pay. I would receive \$68.75 per month for my services and he was willing to drive me there twice a week for free! After promising my mother that he would help me with my duties of Chief Trash Officer (CTO) on nights that I had heavy homework, we had a deal and I was rich!

Well, I felt rich anyway. I loved that job and did it with great pride. I kept it even after I turned 16 and could get a “real” job. In fact, I kept it until I went off to college and hated to give it up then. Eight years of my life were spent there twice a week. As an added bonus, I got to impress the girls at school by telling them I was a janitor.

I blew most of my first couple of paychecks, but as I approached my teenage years I decided to save up for an awesome stereo system. I picked out a stereo that would make me the envy of all of my neighborhood friends. It was in the Service Merchandise catalogue for only \$700! And, it had a digital radio station display next to the knob and needle. Remember this is the early 80’s and you had to pay extra for that kind of leading edge technology!

After saving for months, I finally had enough money. The big issue was that Service Merchandise was on the other side of town, so I had to wait until one of my parents could drive me. Not being one of patience, I decided to ride my bike down to a neighborhood store just to see if they had anything. I was shocked to see the same Panasonic stereo for \$300 less! On further review, it didn’t have the digital display, and it had a little

less power, but other than that it looked the same. Now, I had a dilemma. Could I live without the nifty digital display?

Although I had no way of knowing at the time, that decision would change my life. After discussing it with my parents, I decided to forego the digital display and pocket the cash. The store that had the cheaper stereo was called Wal~Mart Discount City. My entire family was impressed with our experience at this store.

The following week, with some encouragement from my parents, I rode my bike to the library to do some more research on this company. I became very interested in Sam Walton and his little chain of Bentonville, Arkansas discount stores. So much so, that I decided to invest my newfound stereo savings in some of his stock. I had to get my dad to open the brokerage account for me because of my age. Based on my research and enthusiasm, he decided to buy some for his account as well.

Back then, Wal-Mart had only been a publicly traded company for around 10 years and had less than 500 stores. I was impressed not only with Mr. Sam, but also with the employees and their love of the stock. They even posted the stock price everyday right there in the front of the store on a big sign. I loved going into that store and seeing my money climb.

Once I became old enough for a “real” part-time job, I went to work for Wal-Mart. I signed up to have \$25 taken from each paycheck to buy shares of the company. The stock kept going up and splitting as Wal-Mart raced to open more and more stores. By the time I graduated from high school, they had over 1,000 stores and were opening more each day. I was getting rich! In fact, I almost failed Algebra because I was calculating how long it would take me to become a millionaire instead of paying attention in class. I was hooked on investing.

Most of my stock was held with a brokerage company that had contracted with Wal-Mart to allow payroll deduction for share purchases. When I went off to college, I changed my address so that I would get my statements at school, and was assigned a broker closer to me. He called to tell me that he had been assigned my account and thought I should

diversify into a mutual fund. I told him of the big plans Mr. Sam had, and how well the stock had done for me.

In an effort to get him off the phone, I had him send me the prospectus anyway and told him I'd take a look at it. Upon skimming the prospectus, I was shocked to find two companies, Sears and Kmart, that Mr. Sam was intent on putting out of business. Why would I not just own Wal-Mart, which was the best in the category? Many funds own so many stocks that it dilutes the investor's returns while they are holding because they try to own every stock in an industry.

Wal-Mart stock made me and my family a tremendous amount of money because it was a relative new company focused on growing at 20% or more per year. It's hard for established companies, even companies in the same industry like Kmart and Sears, to grow at that pace for any length of time.

Many financial salespeople try to convince investors that they should own stocks in all of the different market capitalization (cap) style boxes to be properly diversified. I personally don't care how big or small a company is if they are growing profits! Why anyone would invest in companies that are losing money just to fill out a style box is beyond my understanding. Also citing diversification, these salespeople will try to get you to invest in many different industries. I don't know about you, but if the housing industry is in a severe downturn and money is flowing out of that sector causing the stocks to drop in price, I certainly don't want to invest there.

4. Failure to Understand Equity Funds

One time while I was in college, a few friends and I decided to blow off some steam after exams by giving white water rafting a try. None of us had any experience and decided that hiring a guide might be wise. The guide told us there would be others in the boat with us and went over the basics of how to row together and the importance of everyone pulling their weight. As we navigated the waters together, I couldn't help but think back to the financial salesperson that had tried to get me into mutual funds.

When you buy a mutual fund, you are essentially hiring a guide (a portfolio manager) to help you navigate the rough waters of the stock and bond markets. You pool your money together with other investors and each of your fates is determined, in part, by how the others in your boat (mutual fund) pull their weight. If everyone rows together and stays in the boat, things usually work out all right. If, however, some people get out of the boat when the going gets tough, then you could crash and capsize.

The same can be said if a large number of people sell out of the fund that you are investing in. When the mutual fund receives a lot of sell orders, the portfolio manager sometimes has to raise cash. That means that he or she is selling stocks that you own whether or not you even want them sold.

Think back to Black Monday in October 1987. Mutual funds, which had boomed since the 1982 creation of the 401(k) had more investors than ever before. As the market crashed that fateful October morning, many of these investors cashed in their mutual funds thinking that by selling when they were only down 10%, they would be out of the market. Unfortunately, open ended mutual funds just don't work like that. If you put in an order to sell at 10:30 a.m. (Eastern Time), you still are stuck with the 4:00 p.m. price. Mutual funds don't determine the share value, referred to as the net asset value (NAV), until the end of the trading day.

Sometimes, during a stock market crash, portfolio managers have to sell stocks to raise cash to meet the sell demands that come pouring in. So, because other people that you have pooled your money with in this mutual

fund are selling, you are sold out. Unfortunately, you do not sell at a 10% stop loss as I would recommend, but you get the closing price. On Black Monday, the closing price of the DJIA was about 20% less than it was at the open and many open ended stock mutual fund investors lost money.ⁱⁱⁱ

5. Failure to Understand Bond Mutual Funds

I find many of my clients come to me with 50% or more of their portfolio invested in bond mutual funds. When I inquire as to why this is, I'm usually told the old Wall Street myth about being more conservative as you get older. These folks even have a nifty formula to help you figure it out. Subtract your age from 110 to figure out how much to invest in stocks. So, if you are 70 years old, you would invest 40 percent in stocks. Stay with me here, this formula was designed to make someone look like they know what they are doing. Now, take that number and subtract from 100 to figure out how much you should invest in bonds ($100-40=60$). Did you arrive at 60% bonds?

If your doctor used some kind of formula to determine which drugs you should take, would you stay with him? Here's a question to start with. Are interest rates increasing or decreasing? If rates are low, as they are at the time of this writing in 2013, then bonds will suffer as rates rise. Why allocate 60% of your portfolio to a category that has nowhere to go but down? This makes no sense, yet most "financial advisors" will recommend that you diversify your portfolio this way.

This formula is nothing more than a sales tool used by "financial salesman" to sell bond mutual funds. Furthermore, bond mutual funds don't behave like individual bonds. You see, if you buy an individual bond, then you know what the maturity value will be and as long as you hold the bond until maturity (and it doesn't default) you will receive the full value. The coupon rate on the bond is also usually fixed for the entire duration.

However, if you buy a bond mutual fund, the portfolio manager will buy a lot of bonds diversifying across many different industries and credit ratings. Unfortunately, the portfolio manager is required by prospectus to invest a certain percentage of the portfolio in bonds no matter where interest rates currently are or are headed. This means most portfolio managers have to buy bonds on the secondary market to help them keep most of the portfolio invested.

The secondary market is where bonds trade after issue. Most people think of buying a bond as getting a new issue at par (\$1,000) and having it mature at a future date at par (\$1,000). In a fund, bonds are always being bought and sold. In addition, the bonds in the portfolio can be traded at a premium (more than it will mature at) or a discount (less than it will mature at).

So, if you were retiring today, and your “financial salesman” used Wall Street’s trusty formula to sell you some bond mutual funds, you would most likely be buying bonds at a premium. You would have to look at the holdings of the particular mutual fund to find out.

I did an analysis of a lady’s portfolio not long ago that fell for the “financial salesman’s” bond mutual funds. A majority of the bonds in the portfolio were trading at a premium. Some were trading as high as a 5 – 7.5% premium. The real scary thing was that many of them matured in the next couple of years. So, she was essentially buying a fund that was guaranteeing her she would lose that 5 – 7.5% at maturity.

She even showed me the 5 star track record of the fund that the salesman had given her. I had to explain that the fund isn’t making 6% per year, it already had made that; and, if rates go up, or those bonds mature before the manager sells out, she would lose money. Furthermore, if the manager sells at a profit, she will get a capital gain distribution and have to pay tax on that gain even though she wasn’t even invested in the fund at that time!

As rates have dropped over the past several years, bond prices have increased to a point where it is very hard to find anything that makes sense to buy or hold. I met with a gentleman that came to a seminar in the fall of 2010. He had a corporate bond from a large, diversified American company that was paying a 5.5% coupon with a maturity date in 2 years. He was so happy that his \$100,000 bond that he bought at par was now worth \$107,500; and, was paying him 5.5% per year. He said he’d like us to do an analysis on the rest of his portfolio, but there was no way he would even consider selling this one.

I held my breath as I had to explain to him that he was earning 1.75% per year, not the 5.5% that he thought. Let's take a closer look.

| | |
|-----------|--------------------------|
| \$107,500 | Current Value |
| \$100,000 | Maturity Value (2 years) |
| (\$7,500) | Loss at Maturity |

So, we know that over the next 2 years his bond WILL lose \$7,500. During that same time he will earn interest of \$5,500 each year, for a total of \$11,000.

| | |
|---------------|-----------------|
| \$100,000 | Face Value |
| 5.50% | Coupon |
| \$5,500 | Interest Income |
| x | 2 |
| | Years |
| Equals | \$11,000 |
| | Interest Earned |

So, if you take the interest he will earn and subtract the loss of value that will occur as the bond matures, he is left with a total return of \$3,500.

| | | |
|---------------|-----------------|---------------------|
| | \$11,000 | Interest Earned |
| Minus | \$7,500 | Lost Value |
| Equals | \$3,500 | Total Profit |

So, his total real return is \$3,500 divided by his \$100,000 investment equals 3.5%. Not bad when you consider current CD rates, but that is for 2 years. Once you divide the 3.5% by 2 years, he is only earning 1.75% per year. He quickly shared with me that he was under the Wall Street illusion that he was making 5.5% on his money before he came to see me and that he wasn't about to settle for 1.75%.

I used our software to search the securities database to see what other debt securities this company had issued and found something interesting. I found that the same company that had issued these bonds had also issued some preferred stock. That brings us to the next reason why investors lose money.

6. Not Investing in Preferred Stocks

Preferred stock is like a combination of a bond and a stock. It usually pays a dividend that is fixed and linked to the original issue price; however, the share price will usually fluctuate more than a bond, but less than the common stock. If the company goes bankrupt, preferred stockholders will usually be paid after bondholders (if there is any money left), but before common stockholders.

Anyway, back to the gentleman from the seminar in the example above. I found that this company had also issued some preferred stock at \$25 per share with a 7.25% interest rate that could be called in the next 3 years and if the company didn't call it due then would mature in the next 7 years. The best thing about it was that this preferred stock could be bought for around \$22 per share.

There are two ways to buy preferred stock. The usual way is when the financial salesperson calls a client up and tells them about this great deal on a 7.25% preferred that is being issued in the near future. Typically, he only has a limited supply available so you should get in on it as soon as possible. This is usually a bad deal for the client. The selling commissions that are wrapped inside this offering can eat up several dollars of the offering price.

As soon as it is listed on the exchange, the markets will determine the fair price for this security and usually that's when the price will drop some. Many other factors will affect the price of this security, but it's usually best to buy them after they are listed on the exchange when they can be bought and sold the same way you would buy or sell any other stock.

In the case above, this gentleman could sell his bond that was going to gradually lose money as it matures and invest in a preferred from the same company, but at a higher rate. If the company calls the preferred due in 3 years, then they have to give my client \$25 a share. If the company lets it go until maturity, they will have to give my client \$25 at maturity. He could buy it at \$22 and have a 12% capital gain when it matures or is

called. That's in addition to the 8.24% in dividends that he will collect each year while he waits.

Yes, I said 8.24%, not 7.25%. The best part of buying preferred stock at a discount is that the dividend rate is based on the issue price of \$25, not the price you buy it at. So, since we only have to spend \$22,000 to buy \$25,000 of this preferred, our true rate is higher.

It's important to remember that we are taking a little more risk. Preferred stocks can be thinly traded subjecting them to wide swings in price, so it's important to know what you are doing. Stop loss limits have to be approached a little different too; especially, if you are using one that doesn't trade many shares daily. The one in the example trades close to 70,000 shares a day, which is a fair amount for a preferred. Still, nothing is guaranteed but at least the client is being compensated well for the increase in risk.

I'm not suggesting that everyone should sell all their bonds and move to preferred stocks. All I am pointing out is that it is important to evaluate what your security *IS* making, not what it has already earned. Harvesting gains is a skill requiring the discipline to always be looking forward at what an investment might earn in the future, and not being complacent with prior profits. I am amazed at how seldom I see preferred stocks used by investors and their financial advisors. Investing in bonds at a premium virtually guarantees that you will lose money if you hold until maturity. That doesn't make any sense to me; especially, if you can get a preferred stock from the same company at a discount.

7. Not Selling Covered Calls

I have had many clients come to me over the years with a portfolio that is under-diversified in only one or two companies. Usually, this is a result of them knowing some good things about a company because they used to work there. Behavioral finance experts call this “familiarity bias.”

This includes people like me (with my Wal-Mart) who receive stock from their employer as part of their compensation. Of course, I wasn't retiring anytime soon. I did so well with Wal-Mart, that I thought this investing thing was easy and eventually bought some other stocks. I quickly learned that I had a lot to learn about investing and begin to read every book I could find on investing, fundamental analysis, and most importantly, technical analysis. Over the past 30 years, I've learned that the best way to make money in stocks is to use fundamental analysis to find companies that are growing their earnings, technical analysis to determine when to buy or sell that company, and options to potentially enhance my portfolio.

In the early 2000's, I had a client come to a seminar and request a second opinion meeting afterwards. Most of his net worth was tied up in one stock. He had “familiarity bias” as he had worked there for most of his career. The stock had done well for him; and, because he also was able to buy it at a discount, he had a very low cost basis. His concern was that he would be retiring soon, and would need more income than his dividends provided.

I did a retirement income analysis based on his expenses and inflation. It turns out that he wouldn't need to sell all of the stock to reach his goals. I recommended that he sell enough to fund his retirement, but to hold the rest due to his low basis and attachment to the stock. I did suggest that I add an alarm on my trading system to alert me if the stock fell more than 10%, so we could revisit selling more shares.

He asked how much my custodian would charge to sell the shares. I replied that it shouldn't cost anything; and, in fact I could probably get

them to pay him a premium to sell. He gave me a look of disbelief. I proceeded to explain covered calls to him.

A covered call is an option contract that gives you cash (called a premium) in return for your obligation to sell a stock at an agreed-upon price within a set time period. If the stock reaches the agreed-upon price, you must sell – but you get to keep the premium. If the stock doesn't reach the agreed-on price, you get to keep both the premium and the stock. For a large position like his, I wrote covered calls every month for the better part of a year and he collected thousands of dollars in premiums as we gradually exited the agreed upon number of shares.

If you have stocks in your portfolio that you're thinking of selling anyway, why not collect a premium by selling a covered call? You'll eventually sell the stock; and, you can collect premiums in the meantime.

Conclusion

Successful investing is a complex endeavor involving myriad factors. These errors and omissions are related to only a few of these factors, yet the principles they entail are among the most critical affecting investing success. By avoiding these blunders – and taking the right proactive measures instead -- you can go a long way toward increasing your returns.

It is my sincere hope that my thoughts in this report will cause you to take proactive action in your financial life. Something caused you to request this free report. Now that you've had a chance to read about my philosophies, I invite you to experience my FREE "Second Opinion" consultation. Most of us wouldn't think of having major surgery without a second opinion. Doesn't it make sense to invest 1 hour of your time with me so that I can offer you a thorough, independent second opinion? I hope so. Give me a call at **(800)989-3806** for a no pressure, no obligation, "Second Opinion" consultation. I can also be reached at:

Byron@StuddardFinancial.com

Thanks for reading. I wish you and your family all the best!

Byron

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Disclaimers & Endnotes

All information contained in my articles, reports, newsletters or on my websites should be independently verified with the companies mentioned, and readers should always conduct their own research and due diligence. I may hold positions for myself or my clients in the securities that are discussed in my articles, reports, newsletters, or on my websites. While I believe the information in all of these to be reliable, I cannot and do not guarantee the adequacy, accuracy or completeness of any information, the suitability or profitability of any particular investment, or the potential value of any investment or informational source. All information should be independently verified.

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Past performance may not be indicative of future results. Therefore, no current or prospective client should assume that the future performance of any specific investment, investment strategy will be profitable or equal to past performance levels. You should consider the investment objectives, risks, and charges and expenses carefully before investing in any security.

Prior to buying or selling an option, investors must read a copy of the Characteristics & Risks of Standardized Options, also known as the options disclosure document (ODD). It explains the characteristics and risks of exchange traded options. You can download it here <http://optionsclearing.com/about/publications/character-risks.jsp>.

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ⁱ Source: The Dow Jones Industrial Average. Total return includes reinvested dividends. Indexes are unmanaged, and one cannot invest directly in an index. Past performance does not guarantee future results.

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