

CONTENTS

How I Learned the Hard Way and Became My Own Financial Advisor / 1

PART I — WHAT YOU NEED TO KNOW ABOUT ... YOURSELF AND MONEY / 9

Chapter 1 What Is Wealth? / 11

Wealth and Happiness	11
Habits of the Wealthy	13

Chapter 2 The Psychology of Investing / 15

Crowds	18
Fear and Greed	21
Ego	22
Risk — How Much Can You Tolerate?	23

PART II — WHAT YOU NEED TO KNOW ABOUT ... THE FINANCIAL INDUSTRY / 27

Chapter 3 How the Markets Work / 29

Economics 101 — A Crash Course	29
Predicting the Market	29
Often Misunderstood Terms	32
<i>Deflation</i>	32
<i>Inflation</i>	33
<i>Stagflation</i>	34
<i>Recession</i>	34
Business Cycles — Here We Go Round & Round	37
Market Phenomenon	38
Market History	39
Coping with the Changing Economy	40
Market Bubbles	41
Foreign Markets	42

The Financial Markets	42
The Stock Market.....	43
The Bond Market.....	43
The Commodities Market.....	44
<i>Gold – “All that Glitters”</i>	44
Trading Currencies	45
The Money Market	46
The Indices	46
<i>How the S&P/TSX Works</i>	47
<i>How the Dow Average Works</i>	47
<i>How the S&P500 Works</i>	48
Bear and Bull Markets	48
Stock Market Cycles.....	48
Indicators.....	50
Investment Age Groups and the Market	53
You Don't Need to Be an Expert	54
Chapter 4 The Business of Investing / 57	
The Efficient Market Theory	57
The Players.....	62
Stock Analysts.....	63
Market-Makers	66
Brokers	67
Financial Planners and Advisors	68
Do You Have A Complaint?	69
Government Protection?.....	71
PART III — WHAT YOU NEED TO KNOW ABOUT ...	
 INVESTMENT PRODUCTS / 73	
Chapter 5 Investing in Equities / 75	
What Are Stocks?.....	75
The Basics of Stocks	76
<i>Company Performance</i>	76
<i>Insiders</i>	78
<i>Mergers and Acquisitions (M&A)</i>	80
<i>Stock Options</i>	81

Stock Categories	82
Small Cap Stocks	83
<i>Small Cap Selection Criteria</i>	85
Preferred Shares	86
Real Estate Investment Trusts (REITs)	87
Chapter 6 Fixed Income Products / 91	
Bonds	91
What Are Bonds?	92
The Particulars	92
Buying and Selling	93
The Yield Curve	95
Taxes	96
Bond Duration	97
Types of Bonds	97
<i>Strip Bonds</i>	97
<i>Corporate Bonds</i>	98
<i>High-Yield Bonds (Junk Bonds)</i>	98
<i>Real Return Bonds</i>	99
<i>Canada Savings Bonds</i>	99
Ratings	99
Investment Strategies	99
GICs, T-Bills, etc.	100
Savings Account	101
Guaranteed Investment Certificates (GICs)	101
Treasury Bills (T-Bills)	102
Chapter 7 The Mutual Fund Industry / 103	
How Mutual Funds Work	103
Advantages of Mutual Funds	104
The Dark Side — Scandal Sheet	105
<i>Regulations — or Their Lack Thereof!</i>	105
Governance	106
Portfolio Managers	109
Costs — Fees	109
<i>Commissions</i>	109
Fees Versus Performance	111
Funds, Funds, Everywhere A Fund	115

Bond Funds.....	115
<i>Investing Strategy</i>	116
Money Market Funds.....	116
Balanced Mutual Funds.....	117
Labour-Sponsored Mutual Funds.....	118
Specialty Mutual Funds.....	119
Hedge Funds.....	120
Segregated Mutual Funds.....	122
Equity Mutual Funds.....	123
Mutual Fund Selection.....	124
Mutual Fund Fees.....	124
Performance.....	128
Manager.....	132
Risk-Adjusted Returns.....	133
Taxes.....	134
Foreign Content.....	134
Tactical Asset Allocation.....	134
Turnover.....	135
Number of Stocks.....	137
Purity.....	138
Performance Ratings.....	138
Fund Size.....	139
Closet Indexers.....	140
The Mutual Funds Selection Process Summary.....	141
<i>Selection Criteria in Descending Order of Priority</i>	142
<i>Discard Criteria for Mutual Funds</i>	143
Mutual Funds Versus Direct Stock Investing.....	144
Investment Styles.....	145
Growth.....	146
Value Style.....	146
Sector Rotators.....	148
Momentum Style.....	149
Ethical Style.....	149
Growth at Reasonable Price.....	149
Buffett Style.....	150
Contrarian Style.....	150
Top-Down Style.....	150

Bottom-Up	151
Summary	151
<i>When to Sell a Mutual Fund</i>	152
Recommended Portfolio of Mutual Funds	153

PART IV — WHAT YOU NEED TO KNOW ABOUT ... INVESTMENT STRATEGIES AND SELECTING PRODUCTS / 155

Chapter 8 Investment Strategies — Why You Need One and How You Get One / 157

Risk	159
Systemic Risk	162
Beta Risk	163
Currency Risk	164
<i>Risk Index</i>	165
<i>Sharpe Ratio</i>	166
Stock Quantities	167
Market Timing	167
Missing the Best Days	169
Asset Allocation	170
Recommended Asset Allocation Process	174
1. <i>Set Up the Mix</i>	174
2. <i>Deal with the Cash Portion of the Portfolio</i>	175
3. <i>Sort Out the Fixed-Income Selection</i>	175
4. <i>Manage Equities Based on Specific Parameters</i>	175
5. <i>Guarantee a Varied Portfolio</i>	176
6. <i>Create a Geographical Mix for Your Stock Purchases</i>	176
Income Planning	176
Annuities	178
Industry Sectors	179
Asset Allocation for Retirees	180
Summary	180
Market Correlations	181
A Working Example	183
Other Correlations	184
Rebalancing	186

Indexing — Bye, Bye, Big Boys!	188
Indexing Products – Index Mutual Funds, ETFs	190
Historical Performance of the Indexing Strategy	191
Fundamental Indexers	200
Advantages of Indexing	200
Disadvantages of Indexing	201
My Conclusion on Indexing	203
How Much to Index?	204
Portfolios Built for the Do-It-Yourselfers	204
Effortless Strategies	206
Dogs of the Dow	206
Two-Minute Portfolio	207
Understanding the Market Almanac	207
The Seasonal Market Pattern	207
Stocks in the Worst Six Months	208
Stocks in the Best Six Months	209
The January Effect	209
The Monday Effect	209
The American Presidential Election Cycle	210
Interest Rates	210
A Hypothetical Case	211
Options, Short Selling & Futures — Covering All Bets	211
Put Options	212
Call Options	212
Short Selling	213
Futures — Derivatives	214
The Warren Buffett Way	215
28 Rules for Successful Investing	220
Chapter 9 Stock Selection — Eeny, Meeny,	
Miny, Moe? / 231	
Performance Indicators	232
Price to Earnings Ratio (P/E)	233
Price to Book Value	235
Price to Sales Ratio	236
Debt to Cash Flow	236

Dividend Payout Ratio	237
Stock Price	239
Value Investing Rule	239
Management	240
Invest in Good Quality Companies	240
Cyclical Industries	241
Company Appraisal	242
How to Spot a Takeover	242
How to Spot a Winner	243
How to Spot a Loser	244
Spin-Offs	245
Thinly Traded Stocks	246
Initial Public Offerings — IPOs	246
Diversify or Perish	249
When to Sell a Stock — Timing Is Everything	251
Other Reasons to Sell a Stock	255

PART V — WHAT YOU NEED TO KNOW ABOUT ... SELECTING A FINANCIAL ADVISOR / 257

Chapter 10 Not a DIYer? / 259

Choosing Your Financial Advisor	259
Advisor Qualifications	261
What You Should Expect from a Financial Advisor?	264
<i>20 Things You Should Expect from your Advisor</i>	264
How Financial Advisors Are Compensated	271
Commission-Based Advisors	272
Fee-Based (Fee-Only) Advisors	272
The Bottom Line?	274
What to Look for in a Broker	276

Better Prepared and Better Educated, Now You Can Do It Yourself / 279

References / 281

Glossary / 287