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How To Develop A Winning Investing Strategy For Your Situation

Dan Eggertsen: Hi everyone this is Dan Eggertsen. I want to thank everyone for being on the call. I am here with my father, Karl Eggertsen. How are you doing today Dad?

Karl Eggertsen: I'm doing good Dan.

Dan Eggertsen: Hey great. Okay so we've been getting a lot of questions lately about investing strategies and I've taken some time to summarize the top three questions we keep seeing over and over again and thought we could take a few minutes to answer these questions for everyone today. So Dad I'm just kickoff the call now. We're going to dig right into the first question. The first one is, "What kind of investing strategies do you recommend in terms of growth investing, value investing, and commodity investing?"

Karl Eggertsen: Okay. Most all of these strategies have a place in most portfolios with one exception.

Dan Eggertsen: Okay.

Karl Eggertsen: And I will explain that later. Growth investing, growth strategies involves investing in assets that can experience very rapid growth in sales and profits during good economic times. However they carry with them a certain degree of risk and they can be very volatile when times are not so good economically.

Examples are to rapid growth in companies like Apple and Microsoft have experienced in the past. There are companies that just take off because they have products that are in huge demand. They have a new way of doing things that has huge demand, whatever. They can have very rapid growth.

Dan Eggertsen: Right.

Karl Eggertsen: They typically reinvest their profits to fuel further growth. Therefore they don't spinoff a lot of income to stockholders, to people who hold these growth stocks. Some don't spinoff any income. To some degree, a growth strategy in a portfolio is important for all investors.

Younger investors more so because they've got a longer period of time for the ups and downs that are naturally going to occur with growth companies. But over the long haul, growth is something that they're looking for that they can have over a number of decades with a minimal amount of risk.

Dan Eggertsen: Right.

Karl Eggertsen: Whereas older investors have a shorter time horizon. It's more important for them to have less volatility, less risk of having their investment portfolio drop a large degree and also they have to keep up with inflation because especially when they become retired they're going to need income and it'd be taking income from their portfolios and they want to keep a growth element there so it'll keep growing, the portfolio will keep growing.
[03:17.5]

Dan Eggertsen: Right.

Karl Eggertsen: Okay value investing, value strategy is more focused on assets of stocks that are priced really cheap relative to the company's real assets, their profits, and their profit potential. They're found in mature industries like General Electric and companies like that have been around for a long time. They've grown huge. Coke's another one. Their growth is more modest but on the other hand they're more stable and they can spinoff good income.

They typically do spinoff good dividend income for people who require that. The stock value can also go up modestly. There's other value stocks that can be what you call bargains and these are the ones that are having temporary financial problems but are expected to recover quickly. Warren Buffet was a master at this; finding companies that were down and out. But he could see what was wrong and knew that they could be turned around.

Dan Eggertsen: Right.

Karl Eggertsen: So that basically is what value stocks are all about. They're great for income; they have less volatility than growth stocks. In fact, over the long-term, historically they've edged growth stocks in growth, in performance.

Dan Eggertsen: Oh really?

Karl Eggertsen: Yeah. Both growth and value are pretty close, but value, since they drop less during bad times and they always are providing income. They have a total return that is kind of protected through the natural ups and downs of the economy and the investment market. So in the long-term they can be at least as good as growth if not actually surpass them. Okay? So both value and growth in varying degrees are important for most investment portfolios.

The growth aspect is important for most every portfolio which you get from growth stocks and the value stocks can provide income, modest growth with lower volatility to kind of stabilize their portfolio. They're all important, both sides are important in varying degrees depending on

age and the goals of the investor. This is another aspect of portfolio diversification is value and growth.

Dan Eggertsen: Right.

Karl Eggertsen: Okay?

Dan Eggertsen: Thanks Dad.

Karl Eggertsen: So that has to do with value and growth investment strategies. Now for commodity investing, they're based on the value of various natural resources, things like natural gas, oil, steel, aluminum, soy beans, ethanol, and other raw materials.

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In most recent years they've really got a lot of attention and become quite popular because of the sky high prices of oil that we've seen and other raw materials. And it was similar in the 1970s when there was a high inflation and oil was scarce because of issues we were having overseas with some of our providers of oil and they kind of cut off the oil.

So oil prices skyrocketed and there was a lot of attention back then. As a result it's become easier for the average investors to invest in commodities through ETFs and mutual funds that have popped up like crazy because of the popularity of commodities.

Dan Eggertsen: Right.

Karl Eggertsen: From all appearances, they would appear to be a great diversification tool as a piece of your portfolio because they have low correlation with stocks and bonds. However, there're several problems with this that are not good. One is a desirable investment tool, it needs to have positive expected returns.

It's important to have positive expected returns over the long haul. Historically commodities have not provided that. There's no strong agreement among financial economists that commodities have positive return in the long run. In fact, zero expected return, despite all the volatility, the high ups and downs and the lows, they do not provide any expected positive return in the long run.

They go in opposite directions from most every other type investment, bonds and stocks, real estate. Commodities have their own path of the ups and downs and so therefore they are diversified, but they themselves, commodities have not provided any degree of any positive return. And they're also typically high cost. To invest in them is high cost and a much higher cost than investing in stocks and bonds in general. So my recommendation is do not do commodities.

Dan Eggertsen: At all? For most people?

Karl Eggertsen: Yeah unless you want to – it's more like gambling and if you want to go with a commodity trader you can do that but I'll give you a little story that's a true one. There was a broker who was advising 1,000 clients on commodity investing. None of them made a dime. Only one person did and that was the broker that got the commissions. Okay? So that's about commodities. Things can get popular and people forget and they don't understand. If you look over history and you listen to the true experts who don't have any special interest in commodities, you know you get the real story.

Dan Eggertsen: Right. So with commodities you're basically betting on a short term spike and if you were to hold on for your whole life, you'd probably lose out.

[09:26.1]

Karl Eggertsen: Right. If you want to make bets that when the commodities reach the peak or when you think it's a good time to sell, fine but you know you're going to lose more than you're going to win. It's just like trying to forecast what's going to happen tomorrow on the investment markets. You never know what's going to happen and commodities are an extreme example of that.

Dan Eggertsen: Great advice Dad. Okay let's move on to question number two. "What is the difference between long-term investing and short-term investing and when should each one be used?"

Karl Eggertsen: Okay to start off, time – and this is very important for everybody to remember is – time is a single most powerful factor and consideration in any investing program. If the investor has a long-term time frame, a long-term investor, he should invest in higher return investments with the intent in higher risk. The more return you can expect, the higher risk you're going to have that's just the way it is.

But over the long-term it makes sense because long-term is like a three to five year and beyond period. Three, five years out to ten, twenty, thirty years, that's long-term. Most investors want to get a good return and if they're a long term one why not go with those good long-term investments which would be investing in things like growth stocks, growth funds, mutual funds, exchange-traded funds that have a lot of equity and stocks in them.

So for long-term goals like college for your kids, maybe your kids are very young right now and you're looking another 10 or 15 years it makes sense; long-term investing. Or planning for retirement; those kinds of things. For the investor with a short time frame, they should avoid these equities, the more aggressive investments.

Dan Eggertsen: Right.

Karl Eggertsen: They should go more short-term like in a money market fund, like short-term bonds, or intermediate-term bonds. This would be like for emergency money. That money that

you're saving for in an emergency, something that comes up you don't expect where you need some cash quickly.

Dan Eggertsen: Right.

Karl Eggertsen: Also for near term needs for example, a vacation. Or if your kids are older, you know maybe 14 or 15 and just a few years away from college then maybe for college, or for a down payment on a house that you're going to making in the next year or two. Those kinds of things, short-term investment purposes, that would be for short-term investing.

Dan Eggertsen: Now is short-term investing more risky? Are you putting more of a bet down?

Karl Eggertsen: Short-term investing?

[12:16.5]

Dan Eggertsen: Yeah.

Karl Eggertsen: No.

Dan Eggertsen: Oh okay.

Karl Eggertsen: No. It only gets risky if you keep it longer than one or two years because you could be losing out to inflation. You're not going to be getting a lot of growth. It's mainly giving you a lot of liquidity and money you can get to quickly and it's safe. Treasury bonds, all those are backed by the Federal government and money market funds, they're extremely safe too.

Dan Eggertsen: Okay.

Karl Eggertsen: Okay? Now the most important thing that needs to be made about all of this short-term and long-term is the longer the time frame or the time period the investments are held, the closer the actual returns will come to the expected average.

Dan Eggertsen: Right.

Karl Eggertsen: Now let's take stocks. Let's take a mutual fund that contains all stocks, 100% stocks. So if you invest for the long-term, three years, five years and beyond, every year that you go out in time, from the time you make that initial investment, the more and more likely you are to achieve the long-term average of stocks which is like 10% to 12% every year.

Which is a great return compounded over decades. It's a great return. But in the short-term you can hit a really bad market like we have the last few years and that would not be the time that you would want to be liquidating, taking money out of your portfolio for any needs that you have for the moment. You want this to be going out to when you retire.

Dan Eggertsen: Right.

Karl Eggertsen: Okay? So the shorter-term impact of volatility due to bear markets and recessions is evened out over time. The longer the time is the more evened out it becomes. The less volatile and the greater the expectation is that you're going to achieve the long-term average that you want to get out of your growth investments, out of your stocks for example.

Dan Eggertsen: Okay.

Karl Eggertsen: So the less risk for high return investments the longer time frame it is. Short-term risk on the other hand is, there is no risk for investing in these money market funds and short-term bonds for example.

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Dan Eggertsen: But you don't want to leave your money in there forever because inflation will beat you.

Karl Eggertsen: No this is money that you put in there for short-term goals. Now emergency money you always want to have and you should always have it in a safe place. That you've got to give away return on that money because you want that liquidity for unusual circumstances but for other purposes, other goals, short-term goals you want to keep it less than two years or you're going to be losing out to inflation.

Dan Eggertsen: Okay makes sense Dad.

Karl Eggertsen: Okay time transfers certain investments from the least attractive to the most attractive. Stocks could be construed as the least attractive for a one to two year hold because of their volatility.

Dan Eggertsen: Yes.

Karl Eggertsen: On the other hand, for long-term hold stocks are more attractive than bonds because they're return over bonds is like two to one.

Dan Eggertsen: Wow.

Karl Eggertsen: Whereas bonds would most likely lose to inflation for the long-term. So that's what long-term investing and short-term investing is all about.

Dan Eggertsen: Okay. Well thanks for the breakdown there Dad. We've got a lot of people that are asking a question similar to this. This is our third and final one of the call. "I feel like I'm getting started way too late. When is it too late to start investing and will my age affect what investing strategies I'll use?"

Karl Eggertsen: First and foremost, it's never too late to start. You can always make your financial situation better.

Dan Eggertsen: And who wouldn't want that right?

Karl Eggertsen: Right. If you start today and I want to qualify that, if you start now. There's many, many examples of people who started later in life but then at some point who learned a few basic principles that changed their lives and enabled them to achieve their financial goals and financial security.

One major secret, and this is probably the one most important secret to at least work on first, is spending less. The key to financial goals and independence is not earning more but spending less. Amazingly how much you earn has little to do with building wealth and achieving financial security.

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There are many people who have made a million but they spent a million and they went bankrupt. You'll see this in professional athletes a lot. They just don't understand, they start out young, they become heroes, they make millions, and they blow millions. Many, many of these people who made so much money so young, they lost it all.

Dan Eggertsen: Right.

Karl Eggertsen: And they had to go file for bankruptcy. This doesn't just happen with athletes, it happens with average people too. They can make a lot of money over a period of many years, but they're not saving any of it. So a key is to find out – it's called the Latte factor, the luxury things you do becomes kind of a habit – is to identify those.

Look at your budget very carefully over several months and take a look at where you're putting your money and then identify those things that you don't really need or you don't really need as much as you've been putting out money for.

Dan Eggertsen: Right.

Karl Eggertsen: The key is to identify these things, save it and invest it for the future. Here're a couple of examples. There was a family on Oprah Winfrey several years ago. They identified that they were spending \$6,000 a year total, two dinners out every week. They stopped doing that. They saved and invested it at about a 10% return. Okay?

They put it in their retirement accounts. In 10 years just from saving that \$6,000 a year, which is \$500 a month. They had \$103,300 in 10 years. They had \$383,000 at 20 years and at 30 years, they had \$1,140.

Dan Eggertsen: Wow.

Karl Eggertsen: Now these people were pretty close to 40 years old. Okay? They had maybe \$20, \$25,000 saved. But they found out what they were doing. Other examples are a lady who was spending \$1,100 a month in massages, manicures, premier cable channels, fancy cell phones, new clothes just about every month or two, very lavish presents for special occasions like birthdays, I mean overly lavish and for Christmas.

She cut back on this \$1,100 a month and it would allow her to achieve this other couple did saving \$6,000 a year. If this lady cut back this \$1,100 a month to only spending \$500 a month on these things, she'd be able to save that \$500 and accomplish the same thing in 10 years that the previous couple I just mentioned, accomplished. So the point is it's not how much you make, it's what you do with the money.

Dan Eggertsen: Yes.

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Karl Eggertsen: It's just an amazing thing and a lot of people think that you got to make a lot of money to invest and becoming financially secure and financially independent. That's not entirely true. It's what you do with your money that counts. So control your spending and everything becomes easier. Now, one other little thing I'll just add very quickly is the second secret of course, would be to try to increase your income.

Dan Eggertsen: Yes.

Karl Eggertsen: There're many ways to do that that I can't get into here. But we can get into later and other ways with other, at other times. But there are various ways that people can work their present job with a focused approach and methods to increase what they're making. You could also start your own business, a side business. It could direct selling, it could be Internet marketing, it could be franchising, it could be even investing in real estate which could be a weekend job.

Dan Eggertsen: Yes.

Karl Eggertsen: And just one good properly purchased investment and properly managed could create as much as \$500 to \$1,000 a month increased income. At the same time, the value of that property properly managed over time will also go up in value. Just that one investment could turn your life around to provide money to you that you could then invest in additional real estate in the coming years and/or contributing money into a retirement account at the same time you have real estate. So you kind of have a two-pronged approach to your investing. You're investing into a retirement account and you have some real estate, some real property that is also spinning off income for you. It takes work.

Dan Eggertsen: Right.

Karl Eggertsen: But these are things that you can do. Number one is to save money and invest it; find ways that where you're spending money you don't need to spend. Cut back on that and look at ways to increase your income and it can totally change your life and turn things around very quickly. It sounds easy but most people are not aware, don't think about it, just flat out don't do it.

Dan Eggertsen: And most people don't even have a budget. So if you don't have a budget, the first thing you've got to do is get a budget and then just small changes in your lifestyle can make a huge difference down the road; just small subtle changes. Maybe you cut back on your Starbucks. Instead of five days a week you only go two days a week and just the added savings to that over time, putting into a solid investment strategy will reap huge benefits in the future.

Karl Eggertsen: That's exactly right Dan. It's just becoming conscious of these basic principles and these are two very simple things but it turns out that some of the most simple principles are the most powerful, in fact, they usually are.

[23:33.2]

Simple ideas that can be implemented, very straight forward, it's not that they're always easy but once you get into the habit, it can totally change your life and believe me it's worth it. It's worth it than not having anything when you get too old to work.

Dan Eggertsen: Right.

Karl Eggertsen: Or it's not accomplishing and living the life that you want because you're always strapped for money because you have some bad spending habits and you're not doing all else you could to increase your income at the same time. So the second part of your question, will age affect how you invest? Yes and it should.

The most important thing is you need to think about time, your time horizon, time to your goals, time to retirement and one easy way to do it for example, with stocks and bonds and an investment retirement account for example, is look at your age, if your age for example is 40, subtract it from 100 that gives you 60.

That number should be for example 60% stocks and the other part should be 40% bonds and cash. That is one simple way. There are many different ways of doing it but the most important thing of all is to look at your risk tolerance, what you're comfortable with and there are tables that show on mixes of bonds and stocks, as you change the mix how the volatility increases.

You know when bear markets hit and when the economy, we get into a recession, how those different mixes go up and down, the degree that they do. One should also look at those too. But this is an easy way to start is to just take a look at your age, subtract it from 100 and whatever that number is, that's the amount you should have in growth assets like stocks.

Dan Eggertsen: That's a great rule of thumb and an easy calculation too.

Karl Eggertsen: Yeah so the key is it's never too late to start and you'll be much better off in the coming years.

Dan Eggertsen: And you could always better your financial situation if you start now.

Karl Eggertsen: Oh absolutely and the principles are easy. There are methods there for you to use and it's worked for me and it's worked for a lot of people. So I think that answers your questions Dan.

Dan Eggertsen: It sure does. Well I'd like to thank everyone for being on the call and again thank you Dad for taking your time to answer these questions. We will talk to everyone again next time.

Karl Eggertsen: Okay Dan.

Dan Eggertsen: Thanks very much Dad.

[26:10.9]

Karl Eggertsen: Take care.

Dan Eggertsen: Okay bye.

Karl Eggertsen: Bye.

Dan Eggertsen: Hey Dad?

Karl Eggertsen: Yeah.

Dan Eggertsen: Okay. So we're done with that.

[26:15.1]