DISTILLING EVERYDAY NOISE
INTO CLEAR INVESTMENT SIGNALS
FOR BETTER RETURNS

COCKTAIL INVESTING

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WILEY

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Distilling Everyday Noise into Clear Investment Signals for Better Returns

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Preface

A man must defend his home, his wife, his children and his martini.
— *Jackie Gleason*

Happiness is … finding two olives in your martini when you're hungry.
— *Johnny Carson*

My focus sharpened as I ascended the steps to the presentation platform. I may have some generous delusions about myself, but I am pretty clear that seeing me trip backside-over-tea-kettle in a skirt and stilettos when trying to mount the all-of-five steps up to the stage where the other panelists were sitting would not exactly give the audience the image of a highly competent woman I'd like to convey.

Hating to be the first to speak, I always try to sit farthest from the moderator in the hope that he or she will get to me later on and give me a chance to come up with something funny or memorable in response to what another panelist has stated with total conviction: my inner–Conference Katniss gets competitive. Damn it, though, some guy with a cocksure grin had taken the spot I covet. I grumbled internally and took the seat next to him. Nonchalant chit-chat ensued, as usual, between the panelists as we waited for the presentation hall to fill. In my Katniss-mind, this lull before the action is akin to that of the Roman gladiators prior to their entrance into the Coliseum. With my usual level of pre–public speaking adrenaline flowing, the reality that the average fitness level of those of us on stage was somewhere around that of *The Big Bang Theory*'s Sheldon Cooper was irrelevant.

Finally, the hall was sufficiently full and the moderator asked us to take our seats on stage. He grabbed his microphone and introduced us Investment Gladiators with a *Cliff's Notes* version of our respective resumes, giving each of us the opportunity to try and smile wisely to the crowd and offer appropriate glances of modesty ... as if we hadn't sent those bios in ourselves. A bit of throat clearing and water sipping followed. I haven't yet met a speaker at one of these things who isn't secretly at least a little nervous that when he or she first opens their mouth, their voice will come out sounding squeaky like a boy in the tumult of pre-pubescence.

The moderator thankfully began with the gentleman seated immediately to his left, who launched into a clearly well-practiced diatribe, painfully monotone, on his favorite asset class, with a series of statistics and proclamations, clearly intended to exact awe as to his technical prowess and engender confidence in his ability to read through all that analysis to find the "truth." All of us on that stage seek to be useful truth tellers, financial diviners in suits, toting iPads.

As the first panelist gets momentum going in his spiel, Mr. Seat Stealer to my left slid an innocuous sheet of paper with some rough scrawls on it toward me. I glanced down, as I nodded my head, hopefully sagely, along with the speaker's various points. The scratchy text read, "Has he taken a single breath yet?" I barely managed to suppress an entirely undignified giggle, face flushing a telltale pink as I was painfully aware of the some thousand or so individual investors watching us all on stage. Those in the audience giving us their time are each hoping that if they pay attention and focus hard enough, they'll learn "The Secret" that will give them the ability to invest safely and successfully—or at least learn a few "hot" stock tips that they can "ride to big profits." Who doesn't want that? They deserved my utmost attention and A-level effort, but I'm a sucker for an irreverent sense of humor, and speaker #1's droning was like a high-powered Unisom.

With brows furrowed in an attempt to appear as though I was taking thoughtful notes, I quickly jotted back, "My yawn is just a silent scream for coffee." SS stifles a laugh and writes back, "So I've been wondering what my dogs have named me." I responded with, "I have a suspicion that my inner child is never moving out." So began a friendship and eventually a partnership that has spanned years, continents, oceans, and eventually led to the writing of this book.

The truth about investing and the markets is that no one knows where the market is going to close today, this week, this month, or this year. No one. People can come up with all kinds of fancy models that arguably have some value, but the truth is it is a guess. It may be a well-thought-out guess, an educated guess, a mathematically beautiful and sound guess, but at the end of the day it is still a guess. When you run across anyone who tells you differently, be careful. Also, be careful of the talking heads on TV who speak with such confidence about the direction of the market or a particular company within a specific time frame. There are some talking heads that are more than helpful, offering up helpful insights and data points, but there are also those that gloss over details and focus on less than helpful and in some cases outdated indicators. Look below the headline and do a little research of your own. It isn't nearly as tough as it sounds, and we can show how fun it really can be! Also realize the more supporting data you have, the more clear the investing picture will be and the better off you are going to be.

The heart of *Cocktail Investing* recognizes the intersection of several powerful forces—economics, demographics, psychographics, technology, policy, and more we will discuss—that, when combined, give way to a powerful force that shifts the *what, where*, and *how* people and businesses go about their daily activities. Much like a tailwind that pushes a plane faster across the United States or the Atlantic Ocean, these shifting forces can propel a company's business or slow it down dramatically if it is ill-prepared to deal with the changes it faces, much like a headwind. The great thing about these trends is that they are often evident in things you observe every day and arise in conversations you have with friends over cocktails—you just need to recognize them.

We wrote this book to give you a lens through which you will be able to clearly see the actionable, observable, and recognizable trends that surround you every day to help you build a profitable portfolio for the long run. Unlike most every other book on investing, though, this book is written the way most people like to learn, with stories that you will find (we hope) not only informative but entertaining and relatable.

We will give you **a process that will allow you to successfully build and maintain a portfolio** and avoid the all-too-common errors caused by emotional investing. Thinking like a successful investor will become as routine as tying your shoes, and before you know it, you'll be walking through the mall making mental notes of the must-have items and the hot retailer, all without stepping foot inside a store.

We also wrote this book in such a way as to **allow you to quickly get to the heart of the material**, avoiding the majority of the related stories, although you're missing out on some serious entertainment, but we might be slightly biased here. If you want to read just the bones, avoid the areas in gray. Don't worry, we only have one shade of gray in this book. We've also written up chapter summaries that highlight the key points and finish every chapter with a Bottom Line section to call out key concepts.

We will talk about how to find specific investments, but we will not talk about theories on what combinations of investments you ought to have in your portfolio, as that is highly dependent on each individual's circumstance. That being said, here are a few **good rules of thumb** to keep in mind as you build an investment portfolio:

- Your portfolio should **never have more than 5 percent invested in one security** (e.g., a stock, bond, mutual fund, or ETF). You can give yourself a little more room if you are dealing with a widely diversified mutual fund or ETF, meaning one that holds a lot of individual securities. In practice, this usually means that you'll want to buy less than 5 percent of any one security; otherwise, if it goes up disproportionately relative to the rest of your portfolio, you'll need to sell some more quickly than would likely be prudent given the current tax code's treatment of long-term gains versus short-term gains.
- Before you start buying securities for your portfolio, decide **how much cash you need to keep on hand**. You should have at least three months' worth of your typical living expenses on hand in case of an emergency. If your primary source of income is unpredictable and/or volatile, you should have more. You've probably heard people

talk about need for liquidity, a term that is widely bandied about and often misunderstood. We'll talk more about what it means, how to figure out just how liquid a security may be, and why you care.

- Once you've identified a security you want to add into your portfolio, you need to decide **if you should buy then and there or hold off doing so. If it's time to buy that security, how should you do so, up to what price should you buy, at what price would you back up the truck and buy more, and later when the time is right, how should you sell it?** We'll cover how these decisions can be even more important than deciding what to buy.
- Finally, when it comes to your portfolio, **be cold-blooded**. Fall in love with your partner, a song, a good book, a gorgeous sunset, or luscious Bordeaux, but never, ever with one of your investment picks. We'll talk about ways to stay cool as a cucumber, even when the markets get wobbly.

So without further ado, let's talk about one of the most emotionally charged words in the world—*Money*.