

# "The 25 Essential Investment Secrets I Passed On To My Son"

AAII Portland Chapter

September 9th, 2017



# Gatis Roze



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**Swarthmore College**, Economics and Psychology, B.A.

# As the program says...

- The 25 money management secrets that you need to succeed in the market at any age
- What gives us an “edge”, how you can find yours and how doing so will allow you to thrive as an individual investor
- How a father motivated his son to take an interest in investing at a young age



Wiley Trading Series

+ WEB  
SITE

# TENSILE TRADING

THE 10 ESSENTIAL STAGES  
OF STOCK MARKET MASTERY

GATIS N. ROZE  
GRAYSON D. ROZE

WILEY

A detailed **10-stage roadmap**  
to help investors develop  
their own consistently profitable,  
**high-probability** investment system

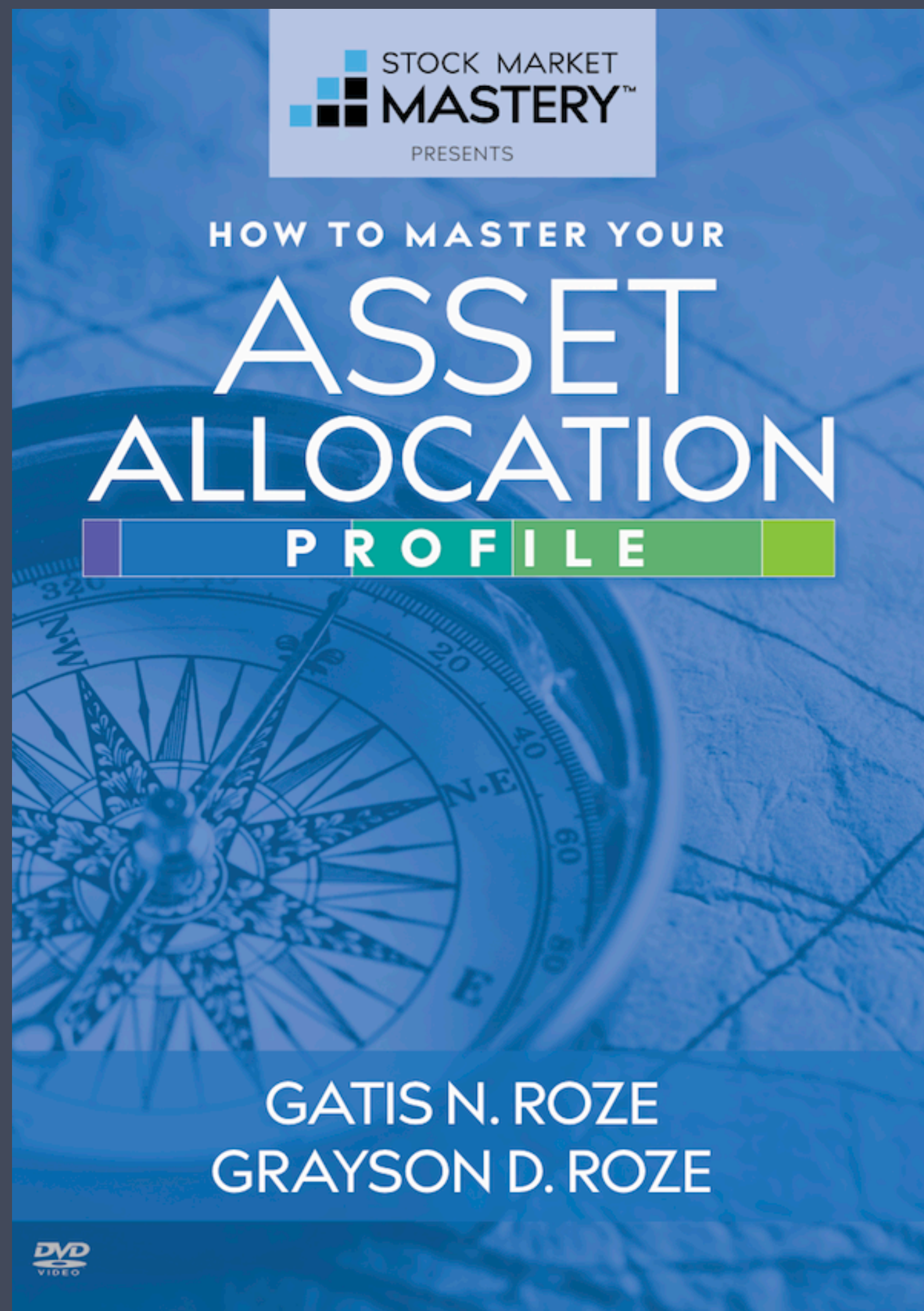
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# Your Roadmap to Success





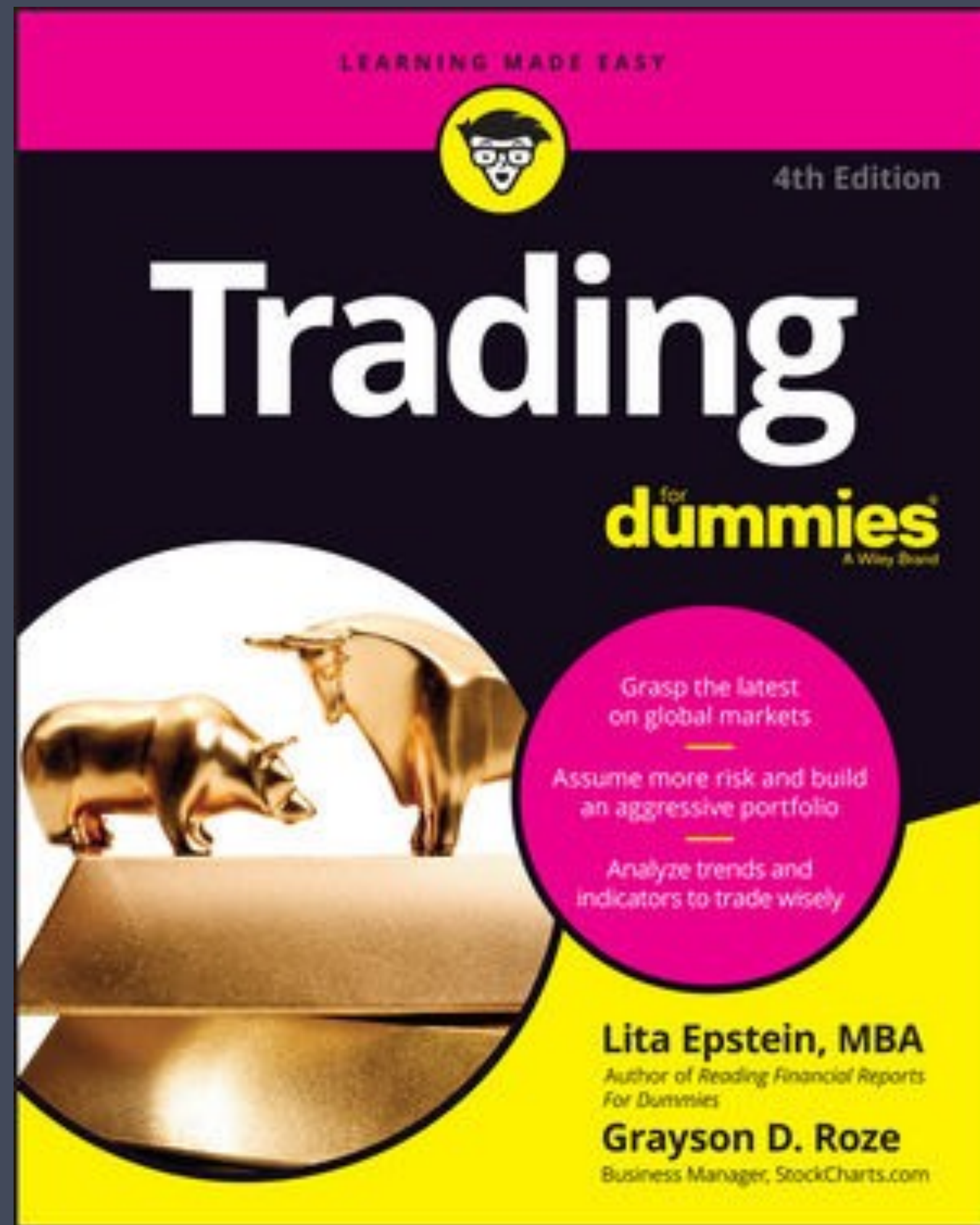
# How to Master Your Asset Allocation Profile

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Complete, 6-hour DVD seminar

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# Trading for Dummies

(4th Edition)

—  
Trade your way to a  
more **profitable** portfolio

Available Online, in Stores and as an eBook

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MSFT Microsoft Corp. Nasdaq GS  
17-Aug-2016

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Open 57.54 High 57.68 Low 57.23 Close 57.56 Volume 18.9M Chg +0.12 (+0.21%) ▲





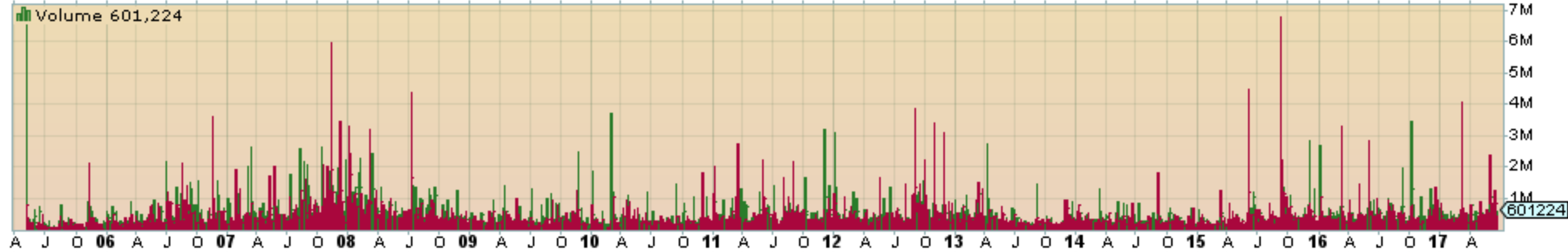
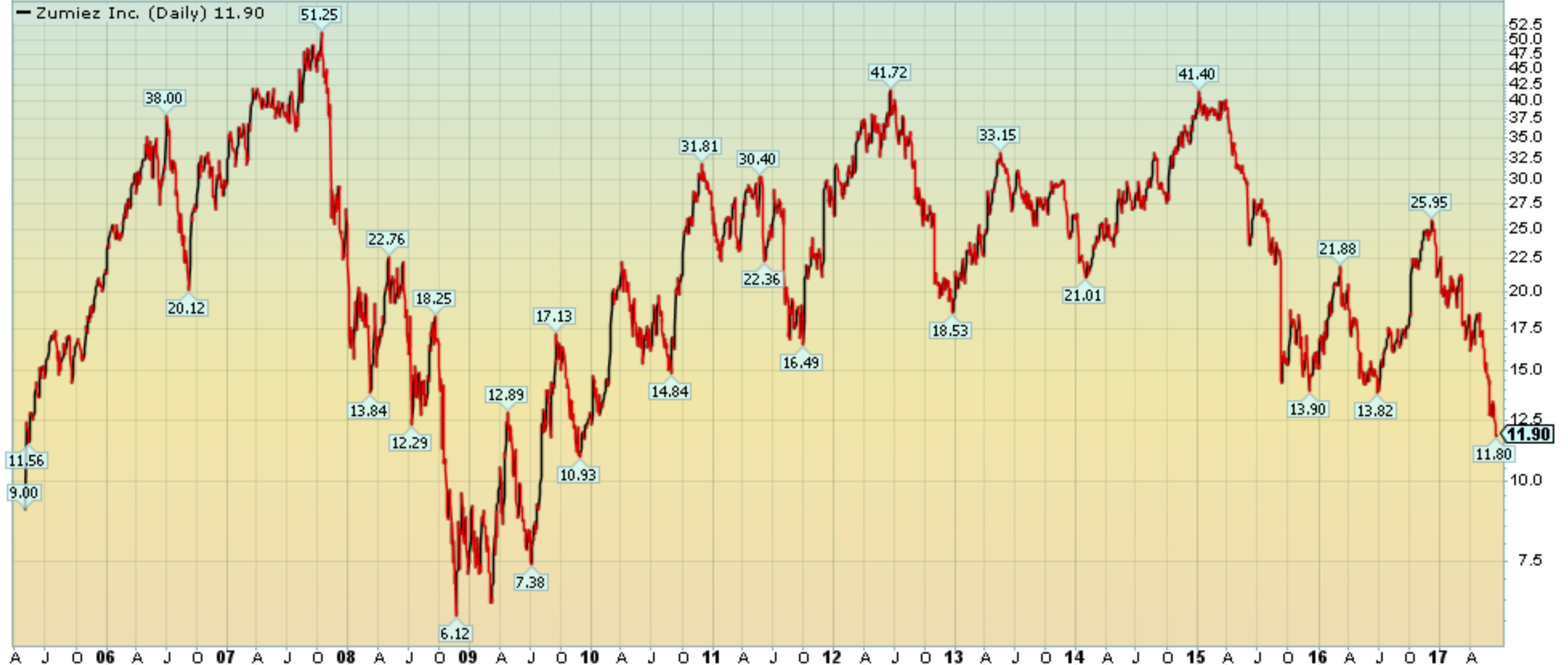
zuimmerz

Cyclicals / Apparel Retailers

Thursday 22-Jun-2017

Open:	<b>11.75</b>	Ask:		P/E:	<b>12.53</b>	Options:	<b>yes</b>
High:	<b>12.15</b>	Ask Size:		EPS:	<b>0.95</b>	Annual Dividend:	<b>N/A</b>
Low:	<b>11.65</b>	Bid:		Last Size:	<b>9761 shrs</b>	Yield:	<b>N/A</b>
Prev Close:	<b>11.80</b>	Bid Size:		VWAP:	<b>11.93</b>	SCTR (Small):	<b>3.3</b>

▲ **+0.85%**  
 Chg: **+0.10**  
 Last: **11.90**  
 Volume: **601,224**



# What Hooked Me . . .

- A new reason to care
- *“Voting with your money”*
- Charting made it easy
- Two unique displays of freedom
  - Income as a teenager
  - Income as an adult
- Applied Academics



So...  
what are  
these **lessons?**





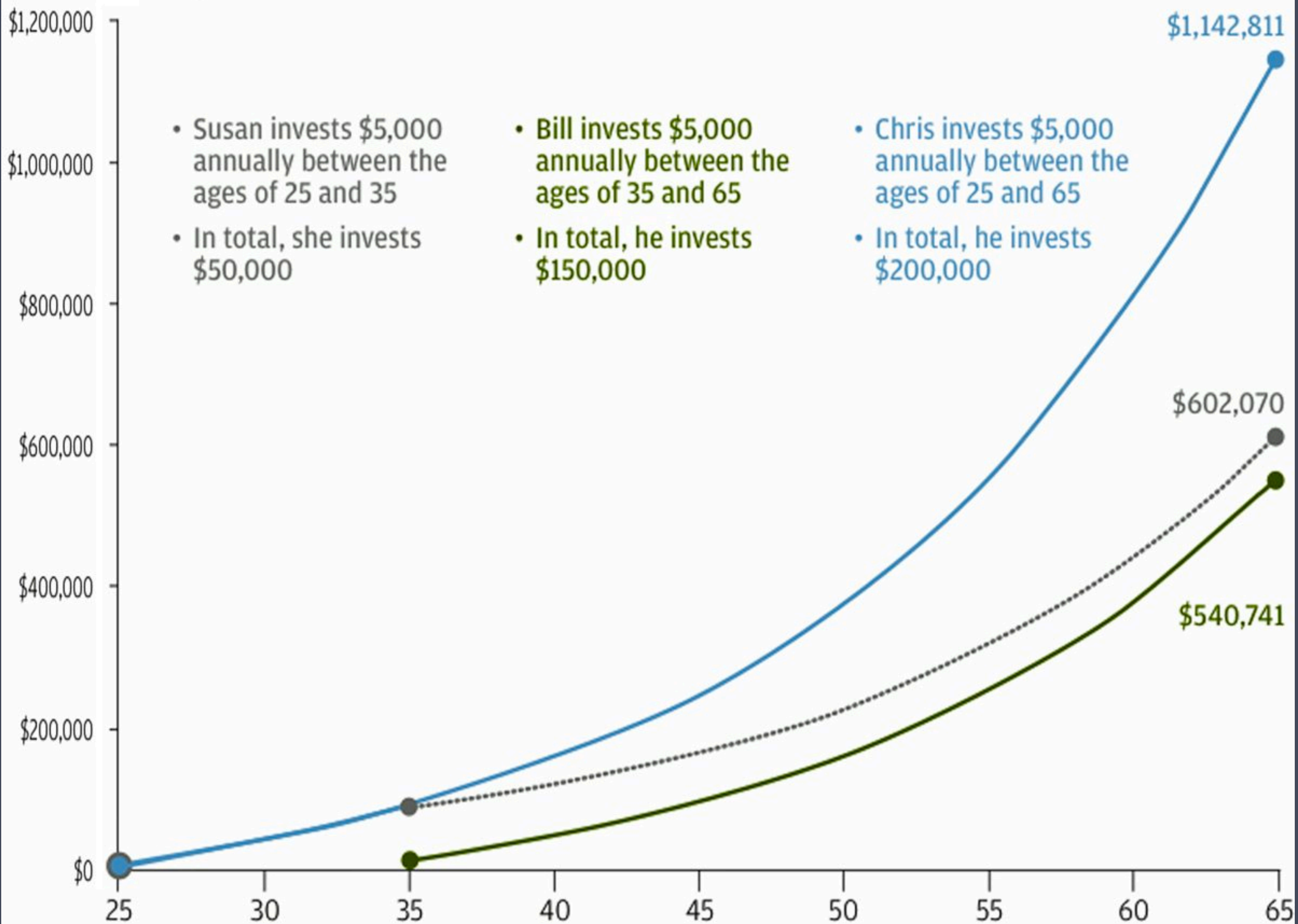
Lesson 1:

# Compounding

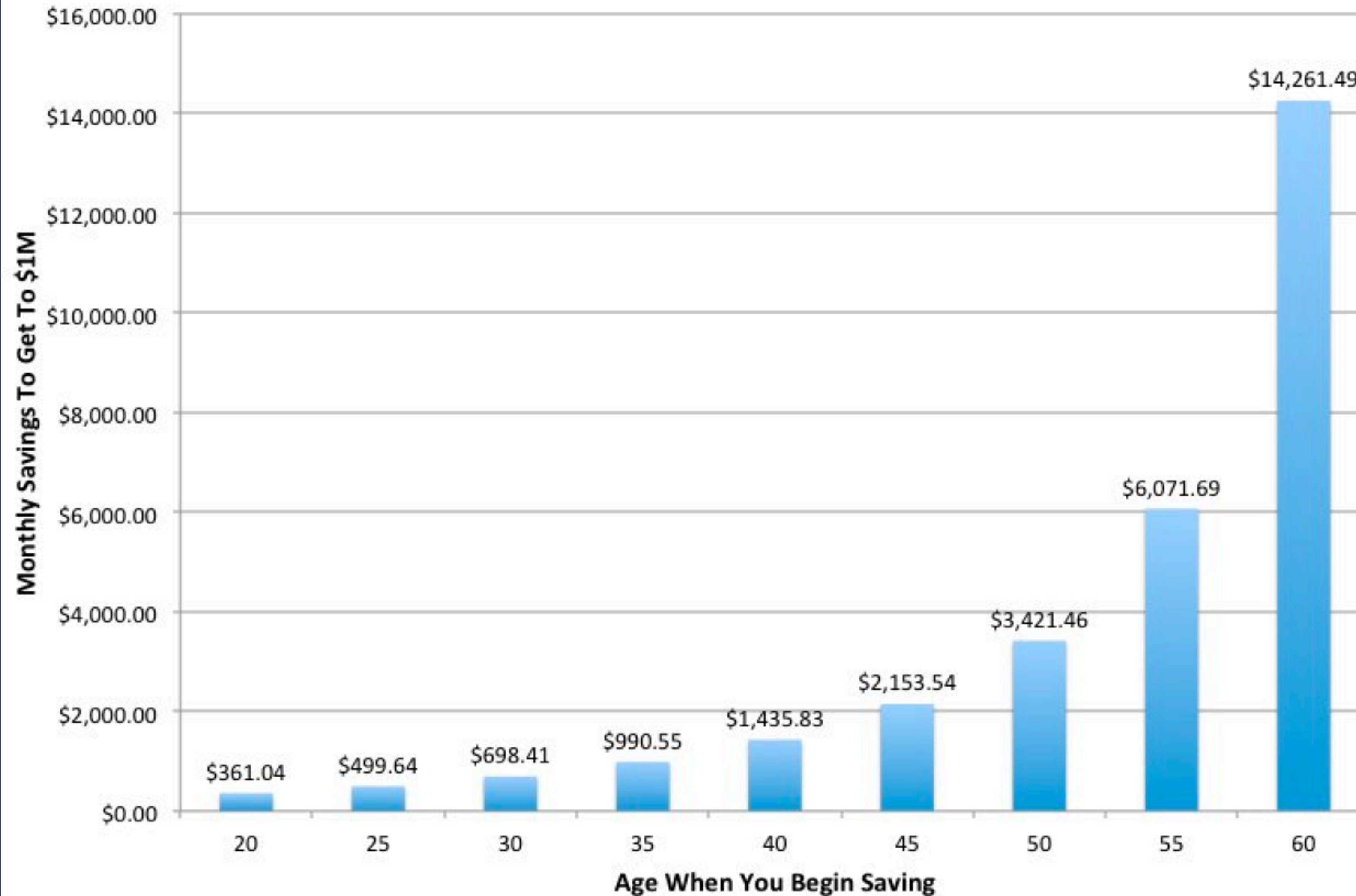
- The miracle of compounding is a powerful thing
- Invest early, invest often, invest for the longterm
- The younger you start, the better off you'll be



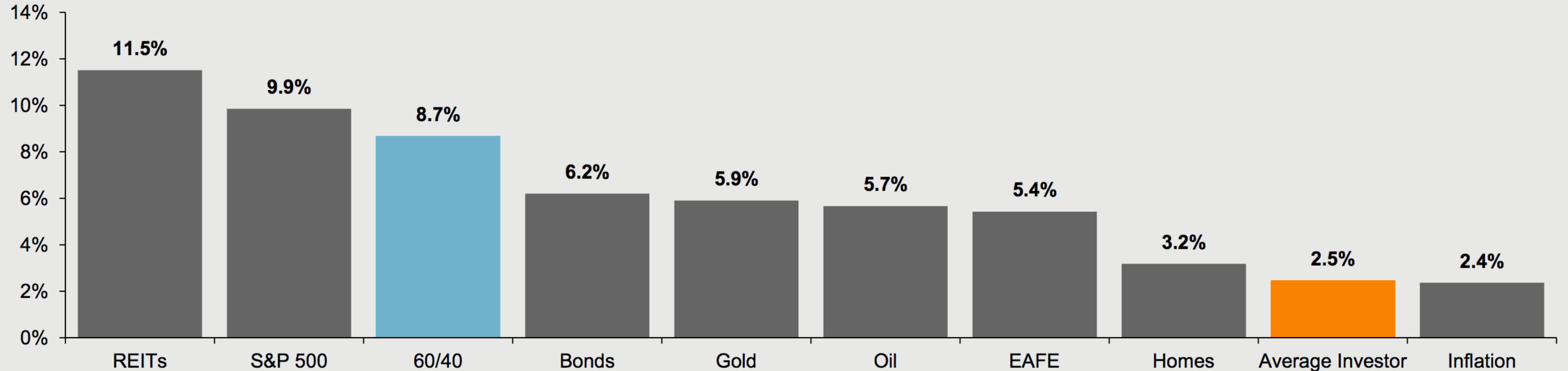
### Growth of savings accounts



## How Much You Need To Save To Get To \$1M At Retirement (6% Return Rate)



## 20-year annualized returns by asset class (1995 – 2014)



Source: J.P. Morgan Asset Management, (Top) Barclays, FactSet, Standard & Poor's, (Bottom) Dalbar Inc.

Indexes used are as follows: REITS: NAREIT Equity REIT Index, EAFE: MSCI EAFE, Oil: WTI Index, Bonds: Barclays Capital U.S. Aggregate Index, Homes: median sale price of existing single-family homes, Gold: USD/troy oz, Inflation: CPI. 60/40: A balanced portfolio with 60% invested in S&P 500 Index and 40% invested high quality U.S. fixed income, represented by the Barclays U.S. Aggregate Index. The portfolio is rebalanced annually. Average asset allocation investor return is based on an analysis by Dalbar Inc., which utilizes the net of aggregate mutual fund sales, redemptions and exchanges each month as a measure of investor behavior. Returns are annualized (and total return where applicable) and represent the 20-year period ending 12/31/14 to match Dalbar's most recent analysis.

Guide to the Markets – U.S. Data are as of September 30, 2015.

**J.P.Morgan**  
Asset Management

# From the Traders Journal

The Traders Journal

## Essential Rules to Share with Your Friends: The Financial Simpletons

Gatis Roze | June 02, 2017 at 02:00 PM



I had a shock recently. I met a couple who was in the midst of what I considered to be a personal financial coronary, yet they were totally oblivious to the perils facing them. Both husband and wife were professionals with advanced graduate degrees. Despite their intelligence and educations, neither of them had ever taken the slightest interest in any kind of financial education or investing. They'd led successful careers, yet they were absolute simpletons when it came to anything financial. For the sake of this analogy, I'll call them Fred and Wilma — a nod to the Flintstones.

There's no polite way to put this. Fred and Wilma both displayed a financial illiteracy that left me stunned

## Lesson 2:

# Investing is a Business

- Investing is a business
- It is your responsibility to treat it as such



# From the Traders Journal

The Traders Journal

## Tensile Trading: Stage #2 Finding Probability Points: Investing like a Business

Gatis Roze | August 02, 2013 at 11:30 AM



2



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We investors are always searching for extra “probability points” which will increase the likelihood of us trading for profits. Stage #2 is where you have big leverage and garner lots of points. I’ve scraped my knees on your behalf as an investor, so there is no need for you to do so if you pay attention. I know I’m accused of being a list junkie, but I can assure you that the following 10 lessons were won over many charts and battlefields in stock market wars that frankly I don’t ever intend to fight again! A lot of investors have learned these same lessons, but it’s not enough until *you* have personally learned them.

The essence of Stage 2 is that it requires an emotional and mental paradigm shift. It’s fine to view your investing as a hobby, but now I challenge you to embrace the mentality of a *professional* investor. Treat investing like a business.

1. Build your own “trading place”. My office in downtown Seattle is 20 minutes from my home. When I

## Lesson 3:

# Have a *System* (and write it down!)

- Again... **WRITE. IT. DOWN.**
- **BATTLE V methodology**





You find  
your edge  
by crafting  
your **system**



You sharpen  
your edge  
by fine tuning  
and **tailoring**



# What's a *system*?

- Intentional
- Describable
- Repeatable
- **Appropriate**



# From the Traders Journal

The Traders Journal

## The Secret of Making an Investment Methodology Produce Consistent Profits

Gatis Roze | March 02, 2017 at 02:00 PM



21



1



30

*“I have heard many men talk intelligently, even brilliantly, about something – only to see them proven powerless when it comes to acting on what they believe. Investors must act in time.” -- Bernard Baruch*

There is a fine line between embracing your methodology, trading it, trusting it, understanding all its nuances, strengths and weaknesses versus never truly trusting your methodology. Suspecting that your methodology is flawed and therefore constantly tinkering with it and needing to reinvent it will not lead to success.



## Lesson 4:

# Personalized Approach

- Embrace an investment approach that is appropriate for you
- It should be tailored to your specific needs, your interests, your timeframe, your objectives, etc.
- Understand the true you!



# FACT

There is **no such thing as optimal asset allocation** because one size definitely does not fit all investors.

Your asset allocation profile must reflect your **personality**, your individual **needs**, and your specific **risk tolerance**.



# From the Traders Journal

## The Traders Journal

# One Way - My Way!

Gatis Roze | April 25, 2014 at 08:30 AM



There is only one Albert Einstein and only one Warren Buffett. There is only one race – the human race. There is only one life you can live. There is only one God. Some say there is only one way to avoid criticism – do nothing, say nothing, be nothing. Many claim there is only one right way in many arenas. With cars and with investing, this is certainly not the case.

I was once again boldly reminded of that fact this past weekend in Las Vegas while celebrating the 50<sup>th</sup> anniversary of the Ford Mustang with a couple thousand of my closest friends. It's hard to believe but I did not see any two Mustangs that were alike. All of the owners had added various **personal** touches to make their cars their own. When you consider that since 1964, over 9,000,000 Mustangs have been sold, it speaks to people's proud passion for their cars.

Similarly, with one's investing **methodology** – as with their Mustangs – there is no “one size fits all”. It's all about finding the ‘one way’ that best fits your trading **personality** and lifestyle.

When you trade investment vehicles that you understand and enjoy, when you trade the timeframes that suit your lifestyle, when you use a **methodology** that is indeed appropriate for your **personality**, then you'll find that “your way” begins to produce consistent profits.

It's not about finding the one right way to invest. It's all about finding the right way for *you* to invest.



## Lesson 5:

# Asset Protection

- Asset protection always comes before asset growth
- Insurance
- Estate planning
- Asset allocation
- Risk management

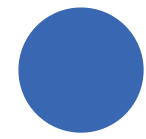
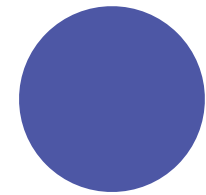
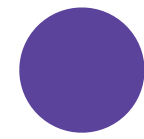




Step 1



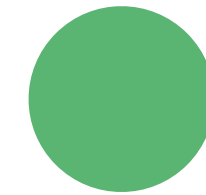
Asset Creation



Step 2



Asset Protection



Step 3



Asset Growth



# From the Traders Journal

The Traders Journal

## Your Canary In the Trading Room

Gatis Roze | May 11, 2012 at 12:00 PM



In the sports world, parties debate whether a premiere defense defeats a premier offense or whether great hitters beat great pitchers. Successful long-term investors have no such debate. They know that after making sacrifices to accumulate their assets, they build a premier defense first and then they focus on offense or asset growth. Most of the reasons are apparent. Others are less obvious but perhaps even more important.

One of the keys to maintaining and growing wealth is avoiding anxiety. Since I manage only my own family money, I am often asked by extremely accomplished business school classmates for my impartial advice about managing their assets. They've succeeded in their careers and mastered asset accumulation, which is **Stage 1**, so now they are anxious to plunge into the stock market, not realizing that, in fact, that's **Stage 3**. At this point, we sit down over a beer and I pull out my **Stage 2** "sermon". I try to explain that before they can jump into the "exciting stuff", they have to address the mundane basics of asset protection.

Can you remember back to a time when your life was discombobulated by some negative event? Can you recall its impact on your life then? Most of us also have acquaintances who've fallen apart because of some unusual catastrophe or who've spent months trying to recover their identity after it was stolen. Just as coal



2



12



## Lesson 6:

# Discipline

- Impulsiveness is deadly to your financial wellbeing
- Your investing system is only as strong as your discipline to stick to it
- It doesn't matter how smart you are or how clever your trading strategies are
- If you don't have the discipline to stick to your routines, you will fail



# From the Traders Journal

The Traders Journal

## A Trader's Discipline: How I Stay the Course

Gatis Roze | December 26, 2015 at 12:00 PM



*“A disciplined mind leads to happiness and an undisciplined mind leads to suffering.”*

--Dalai Lama XIV,

[The Act of Happiness](#)

Investors don't always have the discipline to act like a Nike 'Just do it' advertisement. I recently had a trading buddy of mine lament about his struggles to stay motivated. He held me up as his model of a well-disciplined trader. I was both flattered and intimidated by his statement, but it's hardly a secret that one of

## Lesson 7:

# Routines

- Routines matter, and they are the key to consistency
- Routines are the complement to discipline
- **WRITTEN** routines



# From the Traders Journal

The Traders Journal

## Tensile Trading: Stage #5 The Stairway to Reproducing Profits - Routines

Gatis Roze | August 23, 2013 at 11:30 AM



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Look around you. Anywhere you see the pursuit of excellence happening, you discover the same set of recurring universal truths. Great athletes make greatness look effortless. Great traders make trading seem natural. The fact is that those who've achieved mastery make greatness look easy. When I was a young investor, I first wanted to know *why* and then *how* I, too, could achieve this mastery.

Part A was about *why*. I realized that these masters of the universe focused on 3 elements:

1. They looked at how to minimize their failures by addressing their weaknesses.
2. They optimized the time available to them in executing this mastery.
3. Once achieved, they were able to replicate their successes.

In other words, they were able to do whatever was necessary to purge those bad habits that were not

Lesson 8:

# Organization

- Organization is integral to your success
- Good organization puts both time AND money in your pocket



# From the Traders Journal

The Traders Journal

## A Day in the Life of a Stock Market Trader: The First 3 Hours

Gatis Roze | May 31, 2013 at 11:30 AM



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I've known a lot of great traders. Yes, they are out there. Some eventually became money managers, and then their careers evolved into more client hand-holding and less real trading. Clients can kill an exceptional trader. That's the qualifier. A day in *my* life is a day with no clients. *Contra mundum*. I have a need to exercise my own ideas without the baggage of others.

The best traders make it look easy. It's not. Great trading is the result of years of consistent effort, disciplined routines and cultivating an intuition for the markets. You learn to manage what is in your control, accept the uncertainty built into every investment, acknowledge that you can never totally defeat uncertainty and then quickly put behind you the inevitable bad decisions.

Having said that, I'll share with you how a typical market day begins for me. Understand that I live in Seattle, and my time references relate to that orientation. The other pertinent fact here is that I have 2 offices – each a mirror image of the other. One is in my home; the other is downtown. I am a morning person and operate at my best by getting up early. As I've written many times before, to be a profitable trader, you must "*know thy self*." The markets open at 6:30 AM west coast time and that suits me fine



## Lesson 9:

# The Investor Self

- Foster a keen (and ongoing) understanding of your "Investor Self"
- Successful investors know themselves — their strengths, their weaknesses, their advantages and their shortcomings
- Most importantly, they are brutally honest with themselves and use their self-awareness to their advantage



# Your Roadmap to Success



# From the Traders Journal

The Traders Journal

## Tensile Trading: Stage #3 The Real Market You're Trading is the Investor Self

Gatis Roze | August 09, 2013 at 11:30 AM



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The average investor would be totally discombobulated if they witnessed the effortless manner in which money sometimes just flows into the accounts of exceptional traders. The fact is that these consistently profitable investors are different from most people. The good news is that modern behavioral finance can tell us with certainty and specificity what the ideal investor/trader looks like. Behavioral finance also proves that it is possible to model particular behavioral and psychological attributes in order to actually incorporate these into one's own style and enhance one's own investment record. Don't be intimidated by the fancy label the academics gave this study of the investor self which basically integrates cognitive psychology with investing. Its foundation is rooted on the premise that we make financial decisions based on a combination of facts and what we believe about those facts.

Emotions enter into the equation big time whether you are a novice, an advanced beginner, a competent, proficient or expert investor. Everyone falls into one of these 5 stages of investor growth, and without

Lesson 10:

# Emotional Control

- Emotional control is half the battle
- Keep your emotions in check, and your profits will soar



# COGNITIVE BIASES

// The innate tendencies of the human mind to think, judge, and behave in **irrational** ways that often violate sensible **logic**, //  
sound **reason** or good **judgement**.



# CONFIRMATION BIAS

// The tendency to over-weight, seek out, or more readily recall information in a way that **confirms** our **preconceived beliefs**, while simultaneously undervaluing or **ignoring** information that **disproves** our // preconceived beliefs.



# AVAILABILITY HEURISTIC

// A common mental shortcut that causes individuals to rely on **immediate information** or examples that come to mind **first** when evaluating a specific topic, //  
concept, method or decision.



# SUNK COST FALLACY

// The tendency to irrationally include **sunk costs** (costs that have already been incurred and are irrecoverable) as a factor in our forward **decision making.** //





# ENDOWMENT EFFECT

“ The tendency to place greater value on a good that we **own** than that which we place on an identical good we do not own. ”



# Why does this matter?

Understanding these psychological inefficiencies is the first step towards combating and overcoming their adverse effects.

**PLUS** . . . their relevance to investing in the financial markets is profound!



# From the Traders Journal

The Traders Journal

## How I Maintain Emotional Consistency and Behavioral Intelligence Trading the Markets

Gatis Roze | November 04, 2016 at 02:00 PM



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I heard an insightful interview with a judge talking about the transformation she goes through in her chambers as she puts on her black judicial robes and enters the courtroom.

It reminded me of my own physician who I know socially and who I've seen experience a similar conversion when he dons his white doctor's coat before we discuss my medical well-being. Stay with me; there is a powerful and profitable lesson here for us investors.

## Lesson 11:

# Choice Overload

- Keep your options limited to remain focused
- Your mental bandwidth is only so large
- Don't spread yourself too thin across too many markets, too many asset classes, too many countries, too many positions, etc.



Let's take a  
quick pit stop  
in **psych class**



Barry Schwartz:

# The paradox of choice



TEDGlobal 2005 · 19:37 · Filmed Jul 2005

44 subtitle languages ?

View interactive transcript



Watch later



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Psychologist Barry Schwartz takes aim at a central tenet of western societies: freedom of choice. In Schwartz's estimation, choice has made us not freer but more paralyzed, not happier but more dissatisfied.

Interactive transcript



Barry Schwartz

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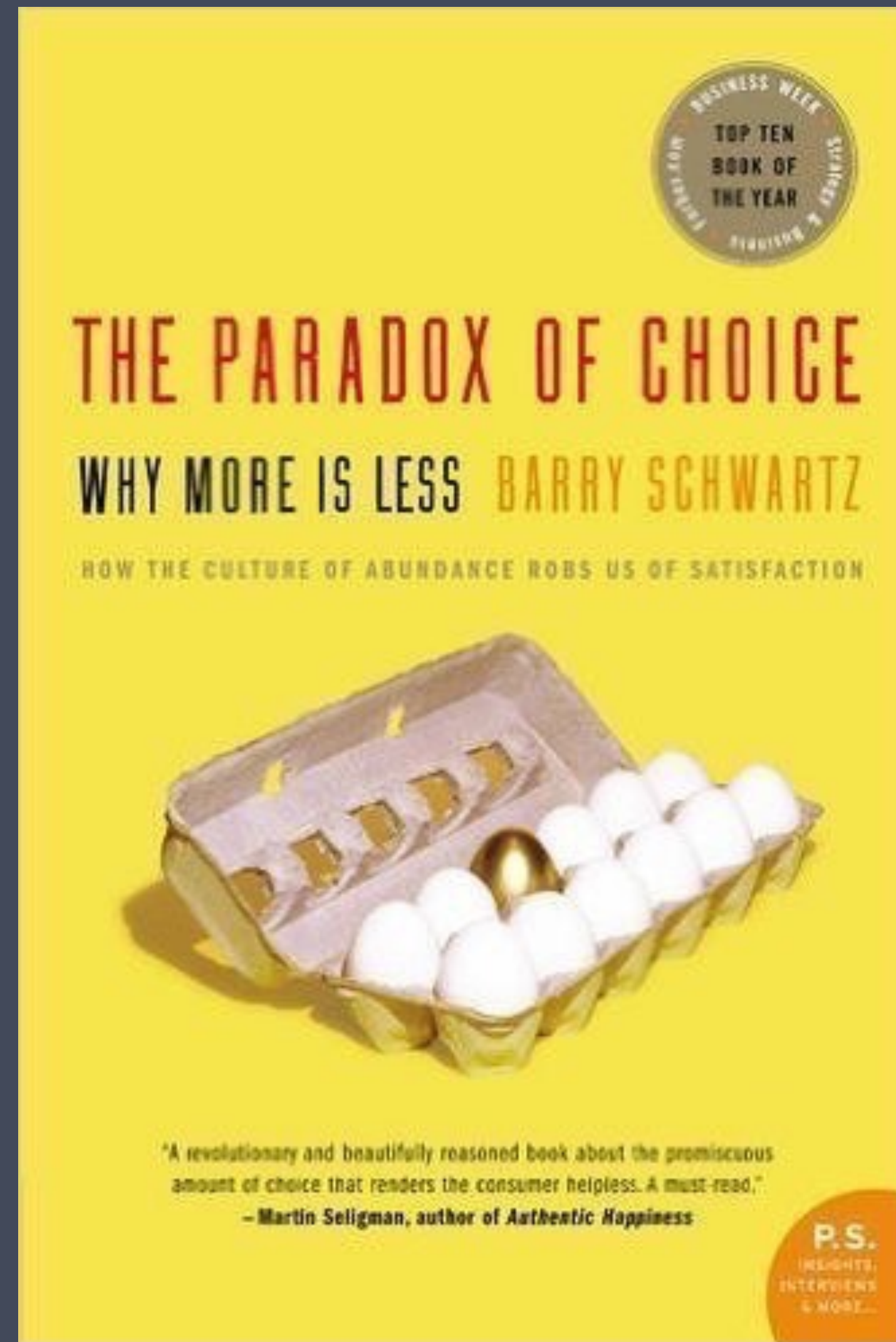


# WESTERN INDUSTRIAL SOCIETY

// The way to maximize the welfare of our citizens is to maximize individual freedom, and the way to maximize freedom is to maximize **choice** //



# The Paradox of Choice



Barry  
Schwartz





# THE JAM STUDY

**24 choices** vs. **6 choices**



**30% purchase rate**

**10x INCREASE**

Soup of the day  
Red pepper, and Tomato  
Soup  
Served with bread and butter

Special of the day  
Goats cheese and  
Vegetable frittata,  
with carrots, mushrooms,  
sugar snap peas and tomato.  
Served with a side salad  
and homemade  
Chutney

# NEGATIVE EFFECTS

- **Paralysis** rather than liberation
- **Dissatisfaction** in high-choice environments



# CHOICE OVERLOAD



# From the Traders Journal

## The Traders Journal

# As Easy As 1, 2, 3...or 4?

Grayson Roze | April 15, 2016 at 12:00 PM



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What does it take to succeed as an investor? That's a broad question but nonetheless a supremely important one. Let's stop, think about this for a minute and see if we can boil it down to a few core elements. First off, it takes genuine curiosity. It requires a thirst for knowledge, a willingness to continually seek out education and expand your intellectual capital. This is the learning part of the equation. I'm confident that you have this checkbox covered because you're displaying that curiosity right now just by reading this blog. You've come here to satisfy that thirst for knowledge, hoping to learn something new or uncover something insightful. So what's next?

Well, it takes an analytical mind. Despite what the pessimists say, investing isn't a game of darts at the bar down the street. Successful investors don't simply throw aimlessly at the board hoping that something

Lesson 12:

# Traders Journal

- Maintain a traders journal
- Brutal honesty is crucial here!
- Regularly kept
- Discipline



# From the Traders Journal

The Traders Journal

## Trading the News: Lessons From My Personal Trading Journal

Gatis Roze | July 24, 2015 at 01:00 PM



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The motto in the news business seems to be *“If it bleeds, it leads.”* Investors must appreciate that our news is packaged by the news media in a manner to motivate the audience to tune in. It is thus sold for the benefit of sponsors, not for the benefit of the public. The headline *“Dog Bites Man”* is not news, but one reading *“Man Bites Dog”* surely is.

I have my own filtered definition of news. I consider hard news to be earnings announcements which occur on a predictable calendar basis and are reported as data points. The gossip before earnings are announced and the commentary afterwards are the soft news reports which I completely ignore. Reported earnings, in my book, are relevant data points and I do pay attention. My personal description of news is that certain unexpected events, such as merger rumors, labor strikes, management changes and accounting

## Lesson 13:

# Rational Analysis

- Combine fundamental analysis and technical analysis strategies to form a stronger, more balanced, more objective analysis approach: Rational Analysis
- Synergistic benefits arise, as both disciplines enhance and empower the other





**Fundamental  
Analysis**

**YOU!**

**Technical  
Analysis**



What is

# Technical Analysis

Anyways?

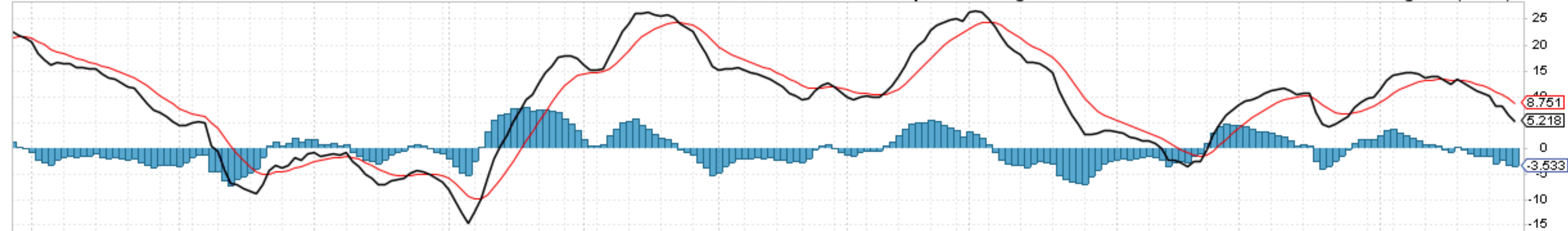


# TECHNICAL ANALYSIS

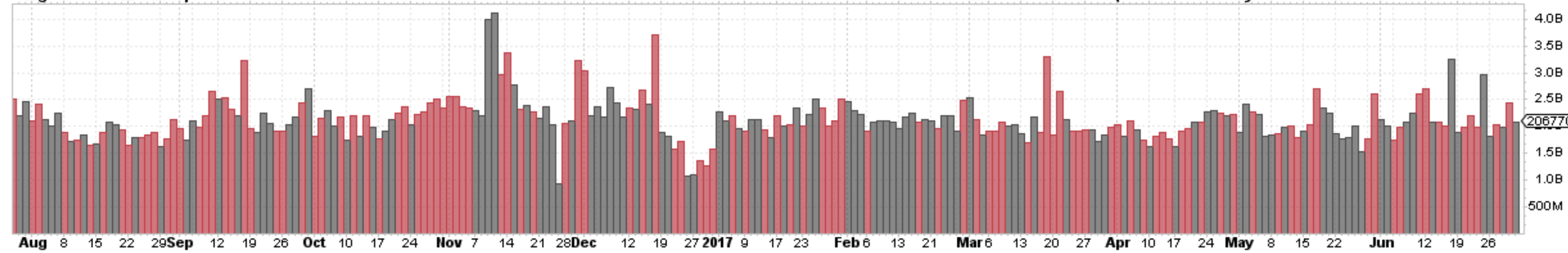
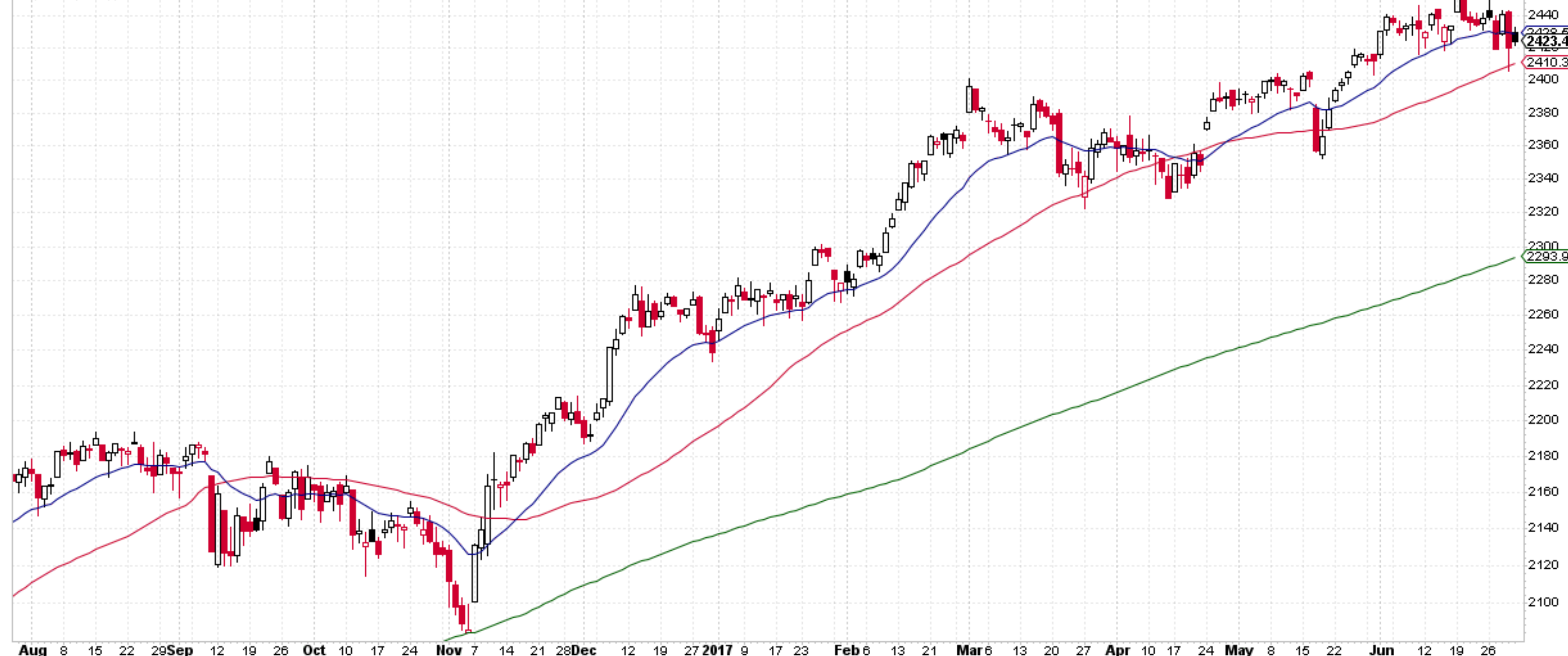
- A broad collection of tools and strategies
- At its core: **Data Visualization**







\$SPX (Daily) 2423.41



# Why and how do we use TA?

- To watch **what** is **happening**
- To remain **consistent + unbiased**



# From the Traders Journal

The Traders Journal

## Stock Market Mastery: Blending Fundamental & Technical Analysis Part I

Gatis Roze | November 21, 2014 at 06:45 AM



The Harvard Business Review (November, 2014) just published its list of the Best Performing CEOs. This list should interest investors since these top 50 CEOs have been undeniably effective in delivering total shareholder returns which averaged 1,350% while on the job. That translates into a 26.2% annual return!

One classic example of why investors should hitch their wagons to these “best” CEOs, such as Warren

## Lesson 14:

# Bubblegum

- Financial news is bubblegum for the mind
- The talking heads on the TV or in the money magazines are for your entertainment
- Advertising is their business, not your financial well being







# From the Traders Journal

The Traders Journal

## Why Stress is Like Kryptonite for Investors

Gatis Roze | September 25, 2015 at 03:35 PM



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13

Years ago when I was a novice investor, I'd exhaust myself trying to figure out why things were happening in the markets. I would struggle to comprehend it all, and when there were market forces I couldn't understand or explain, it would simply eat away at me. I was burning emotional energy and feeling frustrated at every turn. How could I trade equities when I did not fully grasp all the reasons for my stocks' rallies and reactions?

Eventually, I came to realize that I needed to stop marinating in stress by trying to achieve perfect knowledge. The "eureka" moment came to me when I finally recognized that I didn't need to fix my analysis – I just needed to fix myself. And herein lies the misconception most investors hold about stock

## Lesson 15:

# Buying is Stage 7

- Investing is about much more than just picking stocks
- You need the foundation in place to set you up for successful trading



# From the Traders Journal

The Traders Journal

## What I Learned from 30,874 Trades

Gatis Roze | January 15, 2016 at 01:00 PM



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Thomas Edison said “*Vision without execution is hallucination.*” Real estate experts love to claim that success is based on “*location, location, location.*” For his recent book, *The Art of Execution* (Harriman House 2015), Lee Freeman-Shor analyzed over 30,000 trades by 45 professional investors and concluded that success in the stock market comes down to “*execution, execution, execution.*”

Freeman-Shor groups investors into five tribes – Rabbits and Raiders whose behaviors put them on the losing side, and Assassins, Hunters and Connoisseurs who are winning tribes due to superior behaviors and strategies.

It all comes down to the quality of the execution of their investment decisions, whether financial or

## Lesson 16:

# It Pays To Be An Optimist

- Over the past 50 years, the optimists have outperformed the pessimists
- Why? Because the long-term trend of the financial markets is up
- Play the long side, not the short side
- Investing with a positive attitude is more fulfilling than investing with a negative one



# 100 Years of the Dow

**\$INDU** Dow Jones Industrial Average INDX

6-Sep-2017 3:58pm

© StockCharts.com

Open 21981.77 High 22038.97 Low 21709.63 Last 21816.35 Volume 596.3M Chg -131.75 (-0.60%)

— Dow Jones Industrial Average (Monthly) 21816.35  
— MA(50) 17939.52  
— MA(200) 12724.83



# Market Recovery

\$SPX S&P 500 Large Cap Index INDX

17-Aug-2016

© StockCharts.com

Open 2186.08 High 2193.81 Low 2168.50 Close 2182.22 Volume 5.6B Chg -1.83 (-0.08%)

— S&P 500 Large Cap Index (Weekly) 2182.22  
— MA(50) 2041.95  
— MA(200) 1884.17  
— MA(425) 1501.85



# From the Traders Journal

The Traders Journal

## Academics Prove that Trading the Markets Contributes to Your Longevity

Gatis Roze | December 12, 2014 at 06:45 AM



Yes, the fountain of youth really does exist, and academic research is increasingly proving it to be found amidst your investment portfolio. A growing body of scholarly research shows that, in many ways, life can get better as we get older and being an active investor can contribute in significant ways.

As I write this, I'm 62 years young, and without a doubt, I'm a far more profitable trader today than I was 10 years ago. I expect to be even more skilled in another 10 years as my expertise deepens. It's as if the "intuition gap" that separates me from the market continues to narrow. I've worked all my life to make that gap smaller and smaller. I chose to believe that is why they refer to them as the 'golden years'. Without getting too metaphorical, it's like the distance between me and the market has become a relatively narrow





## Lesson 17:

# Ask What

- Ask "what", not "why"
- No one pays you extra to answer the "why"
- The market rewards the investors who know WHAT and pull the trigger, not those who ask WHY and wait on the sidelines until they find an answer



# The Bear Markets

\$SPX S&P 500 Large Cap Index INDX

17-Aug-2016

© StockCharts.com

Open 2186.08 High 2193.81 Low 2168.50 Close 2182.22 Volume 5.6B Chg -1.83 (-0.08%)

— S&P 500 Large Cap Index (Weekly) 2182.22  
— MA(50) 2041.95  
— MA(200) 1884.17  
— MA(425) 1501.85



# 2000s

\$SPX S&P 500 Large Cap Index INDX

17-Aug-2016

© StockCharts.com

Open 2186.08 High 2193.81 Low 2168.50 Close 2182.22 Volume 5.6B Chg -1.83 (-0.08%)

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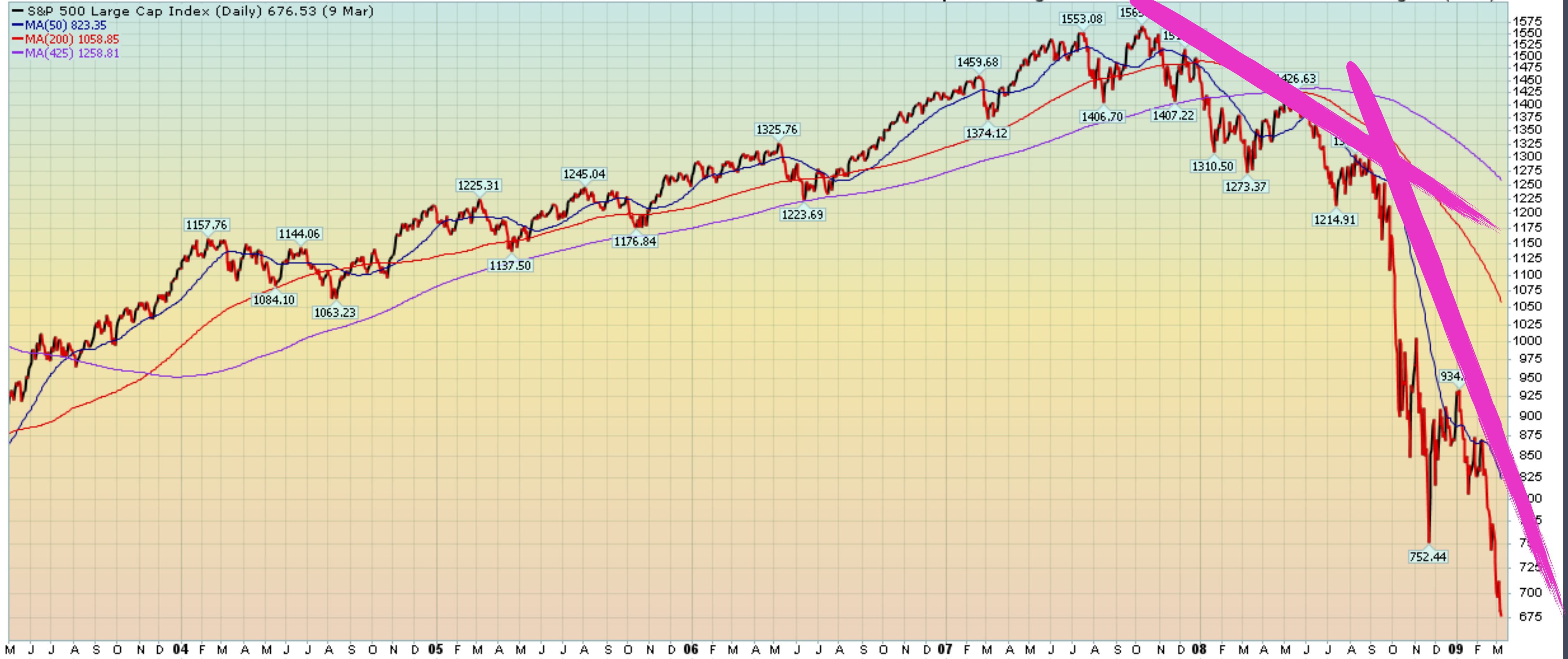


**\$SPX** S&P 500 Large Cap Index INDX

9-Mar-2009

© StockCharts.com

Open 680.76 High 695.27 Low 672.88 Close 676.53 Volume 5.3B Chg -6.85 (-1.00%)



# From the Traders Journal

The Traders Journal

## Believe Your Eyes, Not Your Brains Ask Yourself What, Not Why

Gatis Roze | December 20, 2013 at 11:30 AM



Seventeen thousand money managers around the globe pay to use BlackRock's Aladdin risk assessment platform to manage \$15 Trillion. Therefore, nearly 7% of the world's \$225 Trillion in financial assets are being managed by people who all ponder the markets using the same tools. As a result, 30,000 of the world's most significant investment portfolios are kept track of by Aladdin. And so, by default, any flaws in the system matter to every investor, not just to Aladdin subscribers.

It is my belief that there is no professional out there who truly understands the truckloads of reports and analysis that Aladdin regularly produces. Certainly there is no way for individual investors to do their own legwork and come up with the equivalent of Aladdin's risk models, but I submit to you that this should never be our focus. Instead, let your eyeballs do the work. What matters most is not why these 17,000 money managers vote with their dollars in a particular manner. What matters most is that we see where they are deploying their assets and what they are voting for. Believe your eyes and not your brains. It's their gigantic footprints that they leave all over our charts that really matter.

## Lesson 18:

# Analysis Paralysis

- No matter how much research you do, you will never have 100% of the information
- Don't be crippled by analysis paralysis
- This applied to both the buy and sell sides



# From the Traders Journal

The Traders Journal

## The Paralysis of Perfection: The Investor's Ongoing Challenge

Gatis Roze | March 28, 2014 at 11:30 AM



investment arena.

The brilliant novelist Isabel Allende once wrote, *"Fear is inevitable, I have to accept that, but I cannot allow it to paralyze me."* Similarly, far too many investors are reluctant to trade because they believe every puzzle piece of their complex methodology must be in place before they can act. They are frozen into inaction by the misguided need to do it perfectly right or else not do it at all. While this is commendable in many vocations, what they fail to acknowledge is that this is virtually unachievable in the

A more reasonable approach is to commit to making the best choice you can at that moment, using the tools and methodology at hand, knowing you can go back and make changes or improvements. This will move you in the right direction as an investor and towards what amounts to an acceptable personal definition of perfection that you can live with. We traders must be content with eagerly seeking the promise of perfection while knowing in the back of our minds that like a greyhound at the racetrack, we'll never actually catch the rabbit.

## Lesson 19:

# Take Action

- Selling is all about pulling the trigger, and if you're unable to take action and pull the trigger, you're not ready to trade stocks
- There will always be a million reasons not to sell a stock, but at the end of the day, all that matters is what's happening on the chart
- "Only price action should determine what, when and how you sell"





**\$SPX** S&P 500 Large Cap Index INDX

9-Mar-2009

© StockCharts.com

Open 680.76 High 695.27 Low 672.88 Close 676.53 Volume 5.3B Chg -6.85 (-1.00%)



# The 3 Peaks Approach

A simple **watch and react** selling strategy

If a stock prints 3 lower highs (lower peaks) on consecutive rallies, it's time to **sell**



# From the Traders Journal

The Traders Journal

## Pulling the Trigger: Six Essential Rules

Gatis Roze | February 19, 2016 at 12:00 PM



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Make no mistake about it: these are internet days and news circles the globe at the speed of light. Couple that with the fact that Wall Street is the world's most sophisticated disinformation machine ever devised and you'll appreciate why I believe technical analysis is an individual investor's primary defense against the dark arts of disinformation.

Okay...I'll lighten up. How about a few clichés? **The trend is your friend. Snooze and you lose.**

Both of these common sayings encourage you to be nimble and focus on reacting to changes promptly. It fosters the strategy of winning by not losing. Markets move fast, and you must be capable of pulling the

## Lesson 20:

# Buy Strength

- Catching a falling knife is nearly impossible
- Rather than trying to call a bottom and predict the next historic recovery, invest in what's currently working, the stocks and funds that are leading / outperforming the market
- Don't discount leadership because you're too scared to be late to the party



# From the Traders Journal

The Traders Journal

## Paul Merriman's Essential Investor Challenge Questions: The Answers by Gatis Roze

Gatis Roze | June 09, 2017 at 02:15 PM



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At a May 20th presentation to the Seattle chapter of the AAI, Paul Merriman confirmed to me his standing as a respected elder of investment management. Since selling his multi-billion dollar advisory firm in 2012,

Lesson 21:

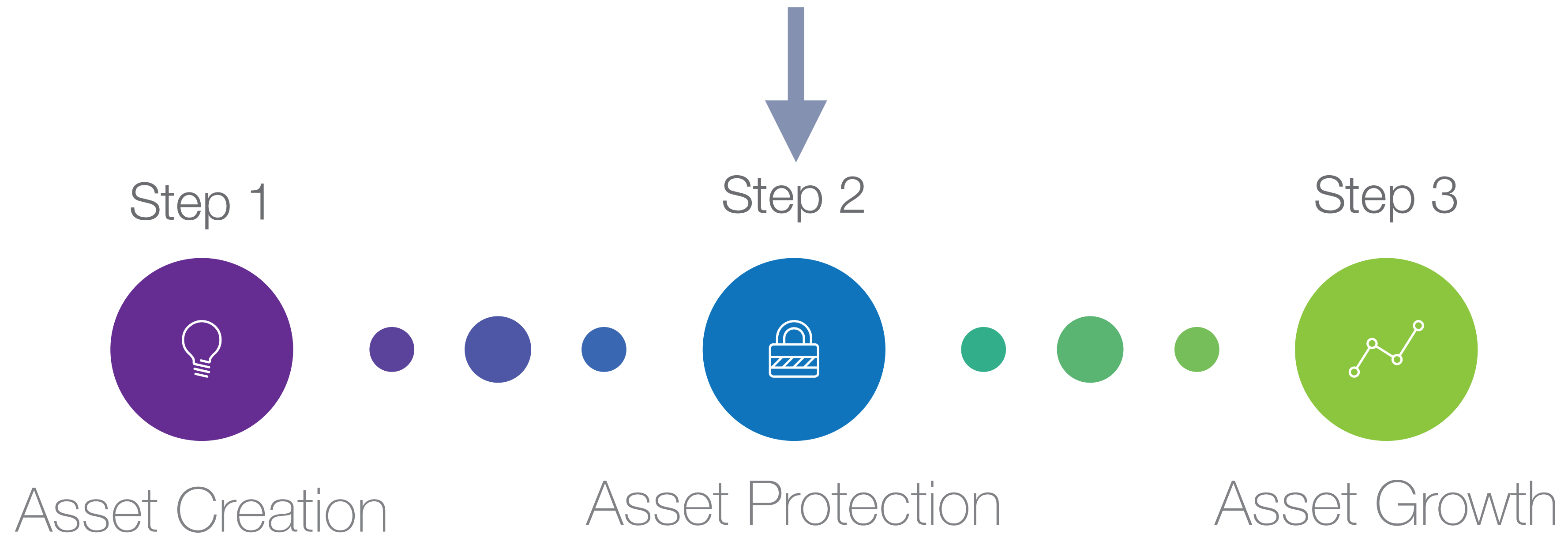
# Core and Explore

- Core and Explore (and Super Explore)
- 3 essential asset allocation classifications



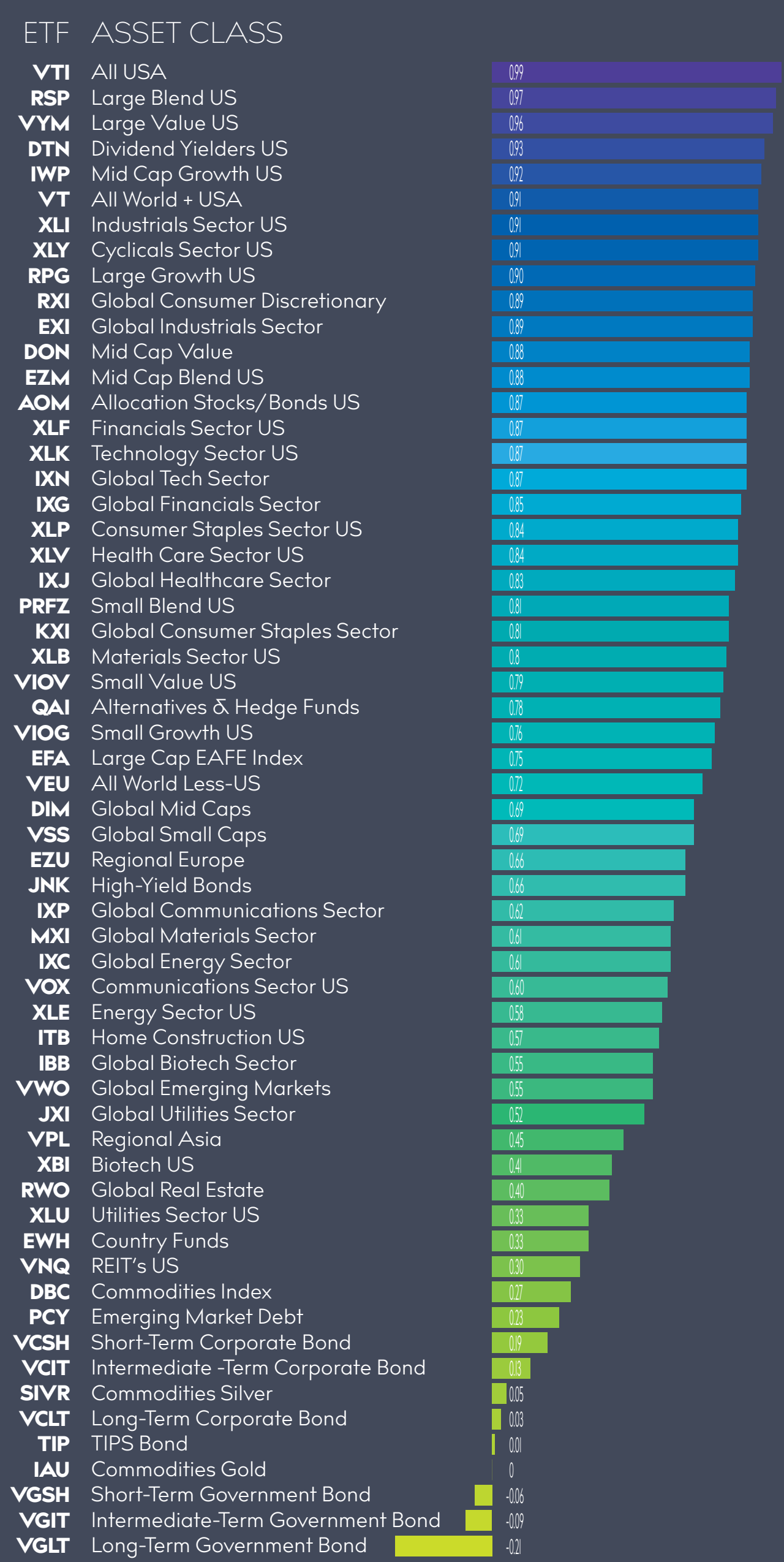
# WHERE DOES IT FIT?

Your CORE portfolio fits **here.**



Your EXPLORE portfolio fits **here.**





# CORE

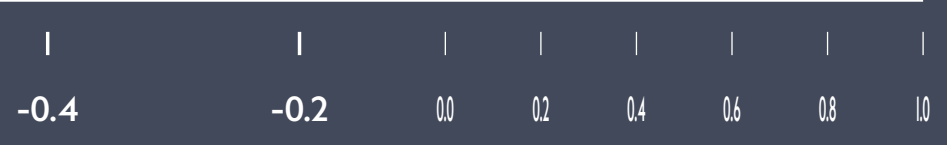
20 ASSET CLASSES

- US LARGE GROWTH
- US TOTAL MARKET
- US LARGE VALUE
- US MID CAPS
- US SMALL CAPS
- US ALLOCATIONS STOCK / BONDS
- US UTILITIES
- DIVIDEND YIELDERS
- INTERMEDIATE BONDS
- WORLD (plus US)
- INTERNATIONAL (w/o US)
- INTERNATIONAL SMALL CAPS
- EMERGING MARKETS
- EUROPE
- ASIA
- HEALTH
- BIOTECH
- TELECOMMUNICATIONS
- PRECIOUS METALS
- UNIQUE

# EXPLORE

US LARGE GROWTH  
10 STOCKS

- Amazon AMZN
- Netflix NFLX
- Google GOOGL
- Visa V
- Mastercard MA
- Apple AAPL
- Facebook FB
- Equifax EFX
- Tesla TSLA
- Starbucks SBUX





# CORE PORTFOLIO

The asset protection investments

- The foundation of an investor's portfolio
- 80 - 100% of your portfolio
- Objective is **asset protection**
- Market indexed core holdings
- Satellite Core – lower correlation assets
- Prerequisite before pursuing the EXPLORE portfolio



# EXPLORE PORTFOLIO

The **ego** investments

- 0-20% of your portfolio
- Objective is **growth**
- Maximum equity positions 1-10
- Constant vigilance is the price of profits
- Pick asset class you most relate to
- Personally, I picked large cap growth stocks.



# EXPLORE PORTFOLIO

sample investments

**Amazon** (AMZN)

**Netflix** (NFLX)

**Google** (GOOGL)

**Visa** (V)

**Mastercard** (MA)

**Apple** (AAPL)

**Facebook** (FB)

**Equifax** (EFX)

**Tesla** (TSLA)

**Starbucks** (SBUX)



# From the Traders Journal

The Traders Journal

## My 3-Prong Recipe for the Safe Growth & Outperformance of Your Portfolio

Gatis Roze | May 19, 2017 at 01:15 PM



There is a seismic generational displacement happening in the investment landscape. Many investors are shifting their assets into indexes and ETFs as they move away from stocks and mutual funds. Due to this



## Lesson 22:

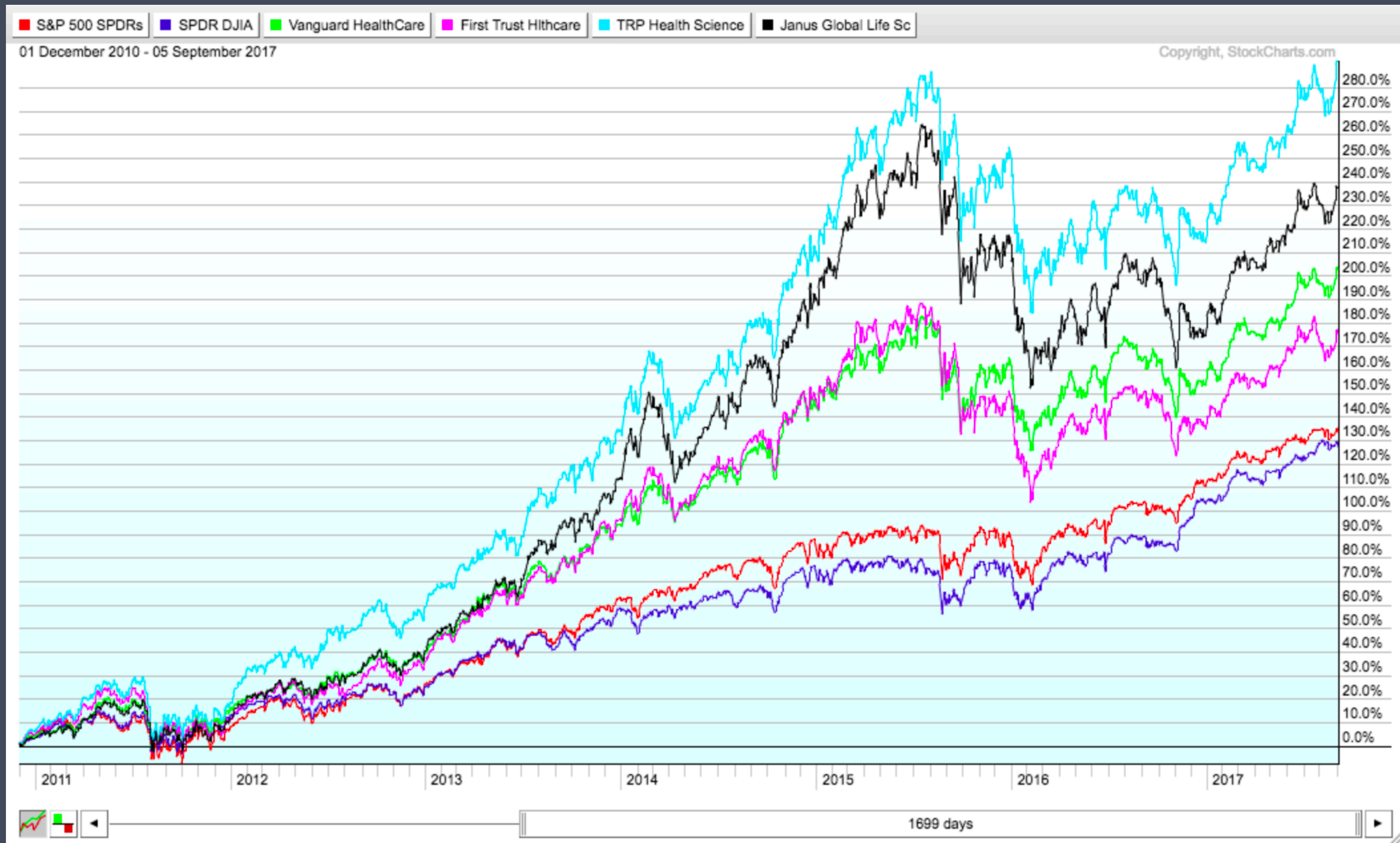
# Best of the Breed

- Utilize the “Best of The Breed” approach to keep yourself invested in the top performers
- Use PerfCharts for each asset class



1 chart, 6 symbols

SPY  
DIA  
VHT  
FXH  
PRHSX  
JAGLX



# 6 KEYS TO TRADING ETFs

- Avoid trading during fast-moving flash markets
- Monitor NAV - trading at premium or discount? (use [ETF.com](https://www.ETF.com))
- Watch bid-ask spreads
- Use **LIMIT ORDERS**, not market orders
- Consider your trade size vs. ETFs trading volume and possible impact
- Trade ETFs only when the underlying assets are actively trading and overlapping US market hours



# ETF Analysis Tool ETF.com

## BBH Market Vectors Biotech ETF.com Segment: Equity: Global Biotech



### Fund Description

The Market Vectors Biotech fund tracks a market-cap-weighted index of the 25 largest biotech firms globally.

### ETF.com Insight

While the global biotech industry is heavily concentrated in the US (over 60% of benchmark), BBH is even more concentrated here, with 94% of fund assets in US firms and access to just two other countries (Ireland and the Netherlands). The fund was converted from the now-defunct HOLDRS structure by Van Eck, going from a grantor trust to a 1940 Act open-ended fund. In so doing, the fund is now bound by diversification requirements that have forced it to decrease its weighting to key holdings like Amgen, Gilead and Biogen, whose weights in our benchmark are in excess of 8% each. This, combined with the fund only holding US-listed firms and ADRs, makes BBH's portfolio look much different from the global market. It's a popular strategy that can be easily accessed thanks to a significant asset base and high liquidity.

### Index Data

Index Tracked	Market Vectors US Listed Biotech 25 Index
Index Weighting Methodology	Market Cap
Index Selection Methodology	Market Cap
Segment Benchmark	Thomson Reuters Global Biotechnology & Medical Research

### EFFICIENCY



### ETF.com Efficiency Insight

BBH's expense ratio seems reasonable, but a bit high for a fund that holds just 25 US-listed firms and ADRs. It has been tax efficient to date, however, removing one worry for investors, and is popular enough that it's at no risk of closing. It has also been very well managed, tracking its index tightly and without much variation.

### Total Returns



Performance	1 Month	3 Month	YTD	1 Year	3 Years	5 Years	10 Years
BBH	-6.70%	-14.55%	0.71%	13.22%	27.65%	--	--
BBH (NAV)	-6.76%	-14.56%	0.68%	13.25%	27.70%	--	--
Market Vectors US Listed Biotech 25 Index	--	--	0.86%	13.54%	28.00%	--	--
Thomson Reuters Global Biotechnology & Medical Research	-5.05%	-12.28%	15.19%	31.73%	30.53%	25.97%	--

All returns over 1 year are annualized. All returns are total returns unless otherwise stated.

### Overall Rating



### Rating Details



as of 10/08/2015

T Segment Average

### Summary Data

Issuer	Van Eck
Inception Date	12/20/11
Assets Under Management	\$662.16 M
Average Daily \$ Volume	\$26.17 M

### Portfolio Data

Price / Earnings Ratio	33.62
Price / Book Ratio	7.94
Distribution Yield	0.00%
Next Ex-Dividend Date	12/21/15

### Related ETFs

Top Competing ETFs	IBB, XLJ, IXJ, PPH
--------------------	--------------------

### Portfolio Management

Expense Ratio	0.35%
Median Tracking Difference (12 Mo)	-0.40%
Max. Upside Tracking Difference	-0.26%
Max. Downside Tracking Difference	-0.49%

### Tax Exposures

Max LT/ST Capital Gains Rate	20.00% / 39.60%
Capital Gains Distributions (3 Year)	0.15%
Tax on Distributions	Qualified dividends
Distributes K1	No

### Fund Structure

Legal Structure	Open-Ended Fund
OTC Derivative Use	No
Securities Lending Active	Yes
Securities Lending Split (Fund/Issuer)	100% / 0%
ETN Counterparty	N/A
ETN Counterparty Risk	N/A
Fund Closure Risk	Low
Portfolio Disclosure	Daily



# From the Traders Journal

The Traders Journal

## Stalking the "Best of Breed" Equities

Gatis Roze | May 20, 2016 at 12:00 PM



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The same investment analysis seldom yields consistent conclusions over a period of time. As much as investors would like to believe they are predictably consistent in their analysis, I'd be willing to wager that this is seldom the case.

This is especially true if you are stalking similar equities, ETFs or mutual funds in the same industry or asset class. I find when I review my asset allocation baskets and focus on the "top" options (which I inventory on asset specific perf charts), my preferences for "best of breed" may vary from month to month.



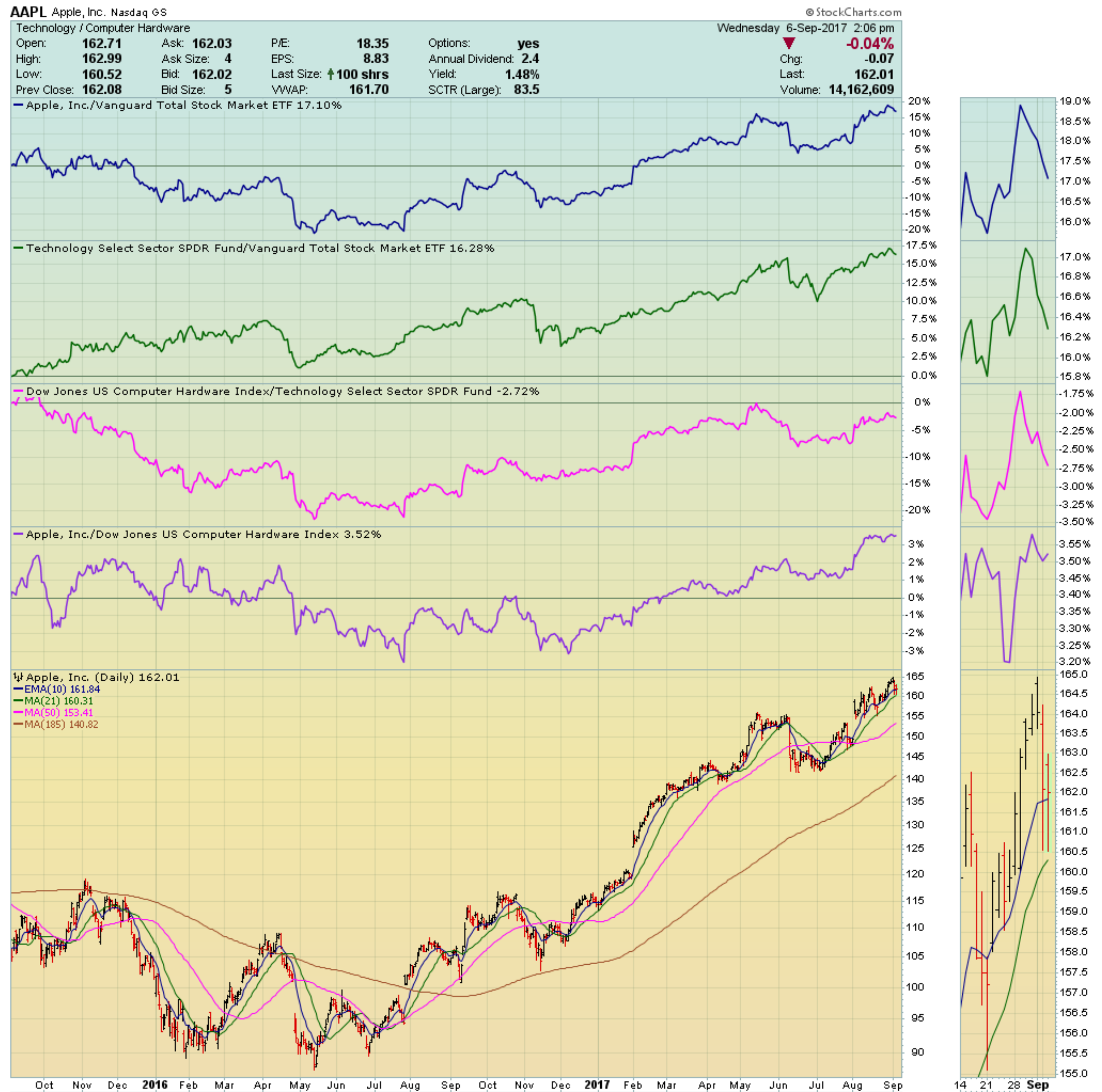
## Lesson 23:

# Relative Strength

- Use relative strength!
- Utilize a top down analysis approach, from the market to the sectors to the industry groups to the individual stocks, to find and invest in the market's leaders



# Relative Strength Charted



# From the Traders Journal

The Traders Journal

## Precisely How I Bought the 4 'FANG' Stocks Before Their Run-Up

Gatis Roze | June 03, 2016 at 01:45 PM



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Put your hands up if you can remember the big money we made in the 'Nifty Fifty' – those stocks from the '60s and '70s. Or what about the Four Horsemen from 1999 to 2001? The famous FANG stocks of 2015 – Facebook, Amazon, Netflix and Google – had many of the same similarities. More on that in a minute.

Tensile Trading is a methodology that teaches you how to metabolize your investments and digest your profits. Let me explain. It's been my experience that new investors rush to lean their financial ladders immediately against the growth stocks' wall. They don't appreciate that this ladder tends to get you to the wrong place fast. They are often disappointed when I suggest that their financial ladders be leaned against the asset protection wall first. Their personal narrative seems to get in the way. They have a vision of big gains to quickly grow their assets.

## Lesson 24:

# Telescope to Microscope

- Telescope: 10 years
- Binoculars: 2 years
- Magnifying glass: 6 months
- Microscope: 1-minute data



# From the Traders Journal

The Traders Journal

## Tensile Trading: Stage #4 How to Put the Winds at Your Back with Stock Market Analysis

[Gatis Roze](#) | August 16, 2013 at 11:30 AM



15



Don't ever try to stand in front of a fire hydrant to quench your thirst – you'll hurt yourself! The same holds true if you try to trade the stock market without a clear methodology. Global internet stock markets offer 24/7 temptations to those investors with no control. The big fish tell the little fish to come on in – the water's just fine. The big fish know that if you operate without a personally appropriate well-designed investment approach, they can make a quick tasty morsel out of you. The truth is

that if you take the time to build a methodology and have the discipline to follow it, then you'll be able to significantly shift the probabilities to your advantage and not become someone else's lunch.

In my *Tensile Trading* seminar, I make a concentrated 10-point effort to show you why you should put your trust in your charts. Believing 100% in what you see – not in the chatter from the Wall Street disinformation machine – impacts in a big way the probability that you'll become a consistently profitable trader. As Bernard Baruch loved to say, “show me the charts and I'll tell you the news.”

Lesson 25:

# The Sisters Strategy

- The law of groupings
- Market
- Sector
- Industry Groups
- Sister Stocks



# The Sisters Strategy

There's never just one cockroach in the kitchen...

If one sibling gets sick, chances are the whole family will catch whatever is going around.

<https://StockCharts.com/freecharts/perf.php>





# From the Traders Journal

The Traders Journal

## Why Successful Investors Embrace the Laws of Grouping

Gatis Roze | December 05, 2014 at 06:45 AM



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Fish swim in schools. Birds fly in flocks. Humans follow grouping principles too. Gestalt psychologists describe these as the Laws of Grouping and the stock market most definitely acknowledges these laws at its core.

My own trading methodology leans heavily on these principles to such an extent that I actually named my version the “sisters strategy”. In the most elemental form, it endorses and embraces the fact that equities tend to move together on four legs:

Group 1: We’ve all heard the cliché “*a rising tide lifts all boats.*” When markets trend up, the majority of equities participate in the uptrend.

Group 2: The market is divided into nine large sectors. Up-trending markets are lead by a number of

# BONUS Lesson 26:

## Monitoring

- Buying is great, but...
- What's more important is monitoring your positions once you've entered them
- You bought it... Now you must take responsibility for it!



# From the Traders Journal

## The Traders Journal

# Tensile Trading: Stage #8 You Bought It - Now What?

Gatis Roze | September 20, 2013 at 11:30 AM



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*“Yesterday is a cancelled check, tomorrow is a promissory note, today is all about the equity in your hand so watch it closely.”*

I twisted around a famous quote to make my point. It’s understandable human nature that after the excitement of the hunt (i.e. stalking), and the satisfaction of a capture (i.e. buying), that digestion (i.e. monitoring) is simply not an activity most investors want to dwell upon. But the price of ignoring this crucial activity will lead to issues that are more serious than indigestion.

The Achilles heel for most novice investors is that they are reluctant and slow to acknowledge the importance of the “Investor Self” and the need to exercise control over many complicated inner struggles as they pertain to the complex equation of successful investing. Stock market mastery is achieved only when discipline and consistency become part and parcel of an investor’s trading personality – especially these days when information circles the globe instantaneously via the internet. You must be disciplined in your monitoring efforts or the cliché *“you snooze, you lose”* will apply.

**BONUS** Lesson 27:

# Personal Data Mining

- Every mistake you make is a lesson waiting to be learned
- Lessons learned and applied are simply tuition paid to the market. Lessons ignored, however, are true losses
- Learn and move forward. Never dwell on the past and hold it as baggage.

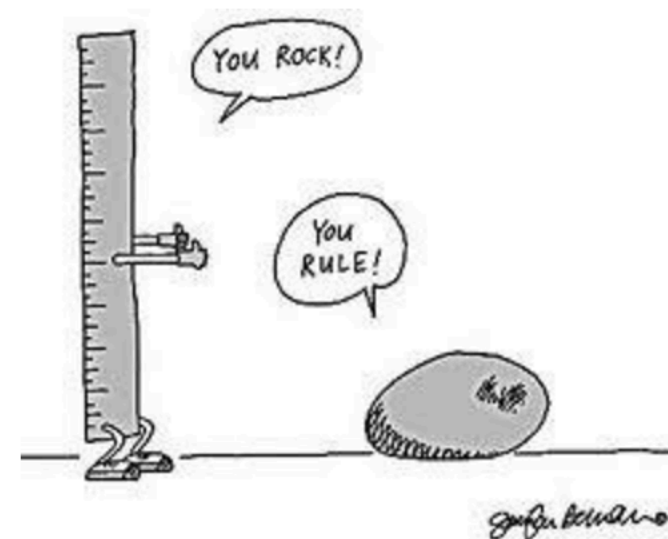


# From the Traders Journal

## The Traders Journal

# Investing Lessons & Trading Rules

Gatis Roze | November 23, 2012 at 11:30 AM



The stock market has always attracted a disproportionate number of exceptional intellectuals and uniquely independent souls. By their nature, they are reluctant to live by the lessons of others and tend to be rule breakers instead of rule keepers. In his book *Trading Rules: Strategies for Success*, William Eng talks about the learning curve for these investors. As he says, “the smarter you are, the longer it takes to win.”

Economist Pierre Lemieux described self-enforcing lessons that are in each individual’s interest to obey. For example, once more than 50% of car operators drive on the right side of the road in a particular area, more and more drivers will notice that adapting to this behavior reduces their risk of an accident. Both the reluctant lesson learners and the rule breakers will soon realize that if you do otherwise, you will incur a very high cost.

Similarly, the stock market also has vital survival lessons –many so aptly articulated by Warren Buffett. Buffett’s basket of fundamental lessons is the pillar of investment survival – homilies such as spend wisely, focus on the long term, no one will care for your money as much as you do, and always sell losing stocks. The Internet is chock full of these “Buffettisms”. If you don’t have these survival basics down pat, get on the Web and start trolling. But rather than focus on stock market survival lessons, this blog instead concerns those self-imposed rules that are more often than not in one’s own interests. Stock market



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**BONUS** Lesson 28:

# Costs and Fees Matter

- Costs and fees may seem insignificant, but they add up to big money over time
- Paying attention to costs and fees can put free money in your pocket



# COSTS MATTER

## 3 SMALL CAP ETFs

Fund	Symbol	Expenses*	Total Assets	Average Daily Trading Volume	Bid Ask Spreads**
Vanguard Small Cap Fund	VB	0.09%	\$11 B	500,000 shares	0.02%
Schwab Small Cap Fund	SCHA	0.09%	\$3 B	200,000 shares	0.06%
Guru Small Cap Fund	GURX	0.75%	\$1.2 M	2,000 shares	0.38%

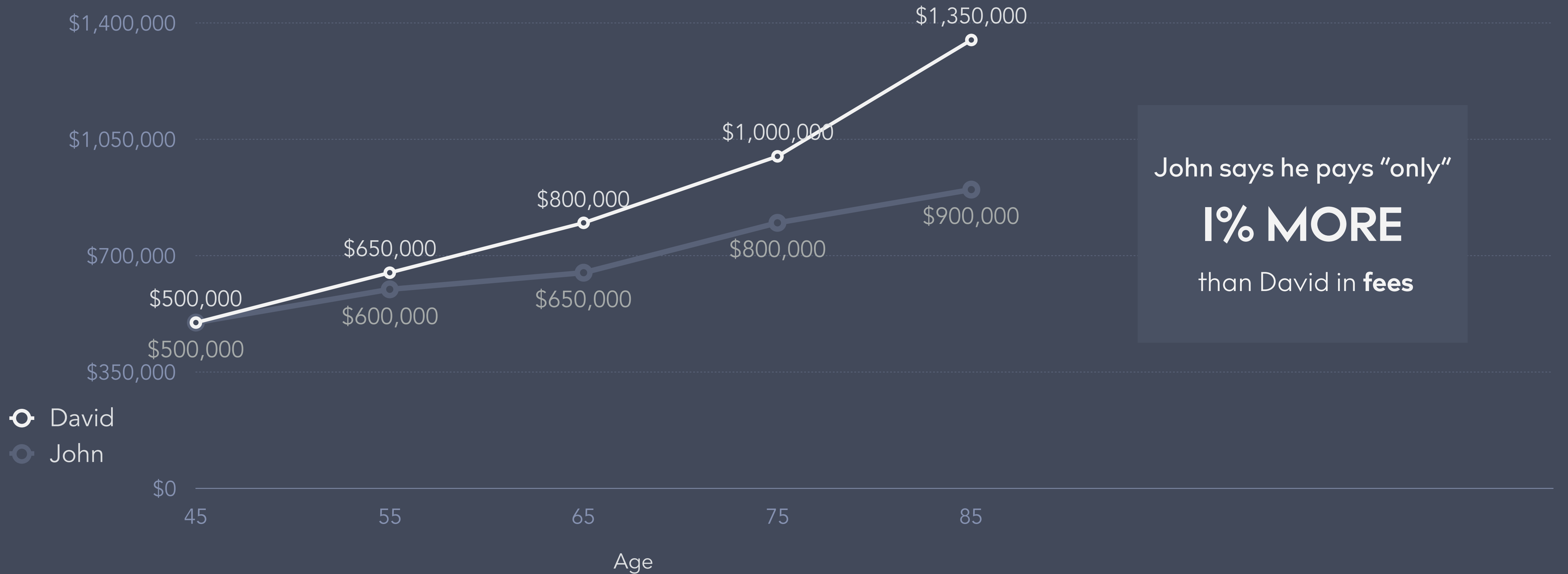
\* On Going Costs

\*\* Trading Costs



# FEEES MATTER

The story of twins John and David



John says he pays "only"  
**1% MORE**  
than David in **fees**





# From the Traders Journal

The Traders Journal

## Wall Street's Free Lunch... But Investors Must Still Read the Menu

Gatis Roze | April 01, 2016 at 12:00 PM



To paraphrase Bill Murray from the movie “Aloha,” the future is not something that just happens. It’s a brutal force with a great sense of humor that will nickel and dime your investments until it’s totally steamrolled your portfolio if you aren’t watching.

I will concede that it’s a personal rant of sorts, as I have been on the receiving end of excessive charges and fees. As a market observer, I constantly bear witness to many creative examples of the “steamrolling” force so eloquently cited by Murray.

A perfect example came from an attendee at the Asset Allocation seminar that Grayson and I taught a few months ago. I’ll call the investor ‘Ned’. In his survey comments, Ned wrote that he was guilty of ignoring

So...  
how do  
you find  
**your edge?**



# Well fortunately...

- You care.
- You know yourself.



# But ask yourself

- Are you putting your knowledge to work?
- Do you have a **system** in place? A methodology? An organized approach to investing? Have you written it down?



You find  
your edge  
by crafting  
your **system**



You sharpen  
your edge  
by fine tuning  
and **tailoring**



# What's a *system*?

- Intentional
- Describable
- Repeatable
- **Appropriate**



Thank you

for joining

us today!

