

*How to Invest Like
the Very Rich*

Andrew Ferraro

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How to Invest Like the Very Rich

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For Sandy

Who correctly exhorted:

Stay Focused- Stay with the Dream

Acknowledgement

Sometime during 1994, I was deeply engrossed in writing a 200-word article for my newsletter, "*Notes from Suite 402*". The subject was private banking. Researching the subject was rather challenging; research material was skimpy and published information was simply not available. Gaining entrance to Fort Knox would be easier than penetrating the mahogany-stained walls of private banking as I rapidly found out. Personally, this was an intriguing matter. Why was private banking such a closed affair? Who were these so-called private bankers? How did they operate? Those questions intrigued me then... and intrigue me now. Since 1994, the 200-word piece expanded to 10,000 words and has been revised and rewritten many times. Believing as I did that the subject would be of interest to the investing public-at-large, the piece developed into a small booklet that I used as a sales giveaway.

During a tax interview, (timeline: March, 2000), in what proved to be an arduous tax season, I muttered something to a client across my desk about there not being enough hours in the day to edit the newly revised piece, and sanely prepare all these tax returns. Well, the client, Linda Sax, volunteered her services. In effect she came across like Batman rescuing Robin in a moment of peril. Her skill and tenacity in editing and proofreading was just the sort of medicinal vigor the publication required. Thank you, Linda.

Her endeavors caught the attention of her husband, Professor Boria Sax. After tax season Professor Sax and I met in my office to discuss taking the sales piece to a higher level, perhaps a small book. How could one say no! Boria had just completed his eighth book and possessed the editorial skills that I lacked. Together we estimated that the small book would be completed by summers' end. Presently, it is the winter of 2000, and I now estimate completion by winter of 2001. Writing is as thorny a task as investing.

Nonetheless, without apology, here is my work in progress.

Introduction

It is fairly accurate to assert that most of us live vicariously. We enchantingly admire and envy the beautiful and the rich; we read captivantly about Movie Stars (not movie people), the lives and escapades of royalty, and of the “filthy” rich, an uncomplimentary term suggesting that those who have amassed great fortunes are unclean.

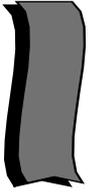
Many of us in some manner or to some degree, are in pursuit of both beauty and wealth. How else can one explain why women spend billions in pursuit of an elixir that will miraculously transform them into the Venus de Milo; or men, ravenously scour the business pages of the Wall Street Journal in quest of the next stock that will propel them to the land of plenty. Trying to unearth both has become a full-time endeavor for many Americans. Ponce de Leon failed in his venture to discover the Fountain of Youth... Day-Traders have lost billions in a misdirected shortcut to wealth.

Remarkably, soap and water works wonders... and a sound disciplined investment strategy is without question the linchpin to increasing and preserving your individual fortune, no matter what the size.

The next few chapters will explore the history, the psychology, and the methods of investing by the “Very Rich” and the not so very rich.

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Legends and Dreams of Money

A Jewish legend tells that the pious Rabbi Eisak of Krakow, then a small village near Prague, once had a dream in which a voice told him, "Go to the bridge leading to the castle in Prague to dig, and you will find a great treasure." The dream hauntingly came to him three nights in a row; Eisak, with sweating palms, decided to follow the advice of the dream. When he



arrived in Prague, however, he found the bridge was guarded by sentinels day and night, and there was no chance to dig. One of the guards noticed the rabbi lingering sadly by the bridge and asked, "Have you lost something?" Since the stranger seemed friendly, Eisak related his dream. "So you have worn out your shoes simply because of a dream!" said the guard. "Myself, I have recently had a dream in which a voice told me that there was a great treasure buried behind the stove in the home of a certain Rabbi Eisak of Krakow." Eisak bowed very politely, hurried home, and sure enough, he found a great treasure.

In the Middle Ages when Rabbi Eisak lived, there was no stock market, and bankers only served kings and lords- that is, the "Very Rich". The only way that most people could keep money safe was to bury it.

Quite a lot has changed since then, but other things have not. Is it still a good idea to trust your dreams? The means to wealth may be already in your home. But you may need a little assistance in uncovering it. You do not, however, have to go to Prague or even the Internet to dig for "treasure". You first need a dream transformed into a goal.

“Money doesn’t always bring happiness. People with ten million dollars are no happier than people with nine million dollars.”

Hobart Brown

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Wealth: What is it?

No two people will ever understand a word like “wealth” in quite the same way, so you might start to think about what it means to you. Interestingly, the Bible has more references to money than to salvation: 783 direct references are made to silver, gold and money. Originally, the English word “wealth” meant something like “well-being” and only with the rise of Capitalism did people gradually come to think of it as a



matter of money. We probably all think of “wealth” as owning a lot of something. Cash in the bank, a home or two, a car, a yacht, a great portfolio of stocks, what bankers and accountants call assets, what you may call: *lots of stuff...* However, the quantity of that stuff is the principal measurement of wealth.

The earliest measure of wealth was probably cattle. Our word “pecuniary” comes from the Latin “pecus,” meaning “head of cattle.” When the Bible describes the wealth of Job, it does not even mention money. Instead, it tells how many sheep, camels, oxen, and other animals he had. The earliest Greek and Roman coins were minted with pictures of cattle, clearly indicating the value of livestock in the production of wealth, especially in an agricultural society. The more livestock, the “wealthier” you were. More is the operative word. More becomes abundance. Abundance equals wealth. The other key concept is ownership. Whether you are a Texan with a large herd of cattle, or a Shepard with a few sheep and chickens at the time of Moses, the more you own, the wealthier you are.

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The Origin of Money

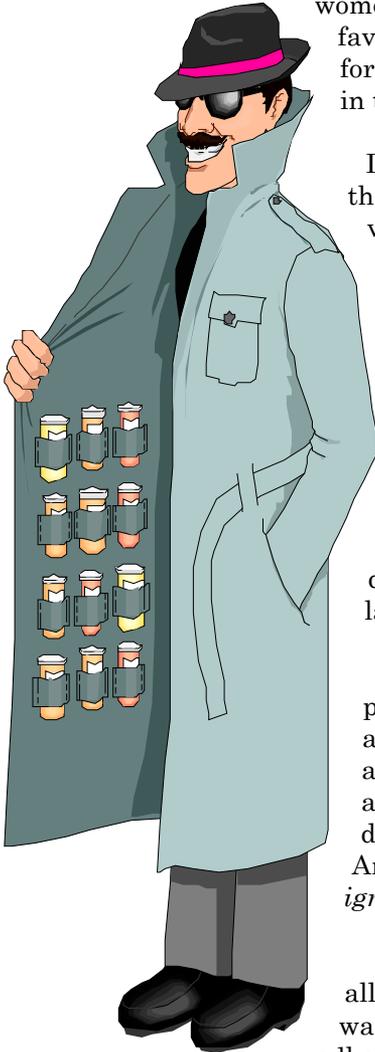
Money was first coined in about the 7th century; 6,950 years later came the American Express credit card. Our word “money” comes from the Latin goddess Moneta, in whose temple the mint was kept. Even today, banks look rather like houses of worship with their large domes and pillars. But throughout the middle Ages, most transactions were conducted not with money, but by means of barter.

The Mongols introduced paper money in China during the thirteenth century. It was first issued in Europe by the bank of Sweden in 1661. For a lot of people, the bills just didn't seem real, but their complaints did not prevent paper money from being gradually adopted by the rest of Europe. When official currency was not sufficiently available, people used all sorts of things as a medium of exchange. In the American Colonies, wealth was occasionally measured in tobacco or in apples.



The American Indians frequently used wampum, a currency made out of shells drilled and strung together. Since the Bank of England did not allow the American Colonies to coin their own money and European currency was in short supply, the Colonists often adopted Indian currency for their own transactions. In 1761 they even set up a factory to manufacture wampum in New Jersey.

At the end of World War II, there was no official currency in Germany or Japan, and cartons of American cigarettes; (Chesterfield, Camel and Lucky Strike were the preferred brands), coffee, sugar and women's nylons became the favorite medium of exchange for an American GI stationed in those countries.



In the vast black market of the former Soviet Union, vodka, Marlboro cigarettes, Sony TVs and Levi jeans had become the means of exchange. Even today a Mercedes auto is highly prized on the Russian black market. So we see that wealth has been measured in a lot of different ways. Today, one may measure it in dollars, yen, gold, stocks, land, and lots of other ways.

You can also, if you prefer, try to measure it in an intangible manner such as *security* or *contentment* and *happiness*. Or you can do what millions of Americans choose to do: *ignore the whole thing*.

For the moment, let's forget all about the cattle, the wampum, the cigarettes, the vodka and the yen. Let's follow the current conventions in America and think of wealth in terms of assets that can be measured in dollars.

The “net worth” of someone is said to be the value, generally measured in dollars, in which a person’s assets might bring in if sold, less any liabilities. The term is a bit unfortunate since it erroneously suggests an attempt to measure the value of somebody in terms of dollars only. *Spiritual, societal* and *family* values are excluded from this calculation. It can also be misleading in another way; it fixes the value on assets, whose price may fluctuate constantly from one month (or even day) to the next. Today, in the American lexicon, net worth measures the individual as well as industry.



Why do I have to show your father my net worth statement on our first date?

*“The safest way to double your money is to fold it
over and put it in your pocket.”*

Kin Hubbard

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How much is Rich?



How much do you need to be “Very Rich”? It depends on many things: such as your needs, your drive for wealth, and your aspirations. In the end, you must answer that question for yourself. For the moment let’s just say—a great deal. As you consider the matter of your personal finances, it will be useful to articulate just what you understand by “wealth”. More precisely, how much do you feel you need? How much would you require to accomplish your goals, for example: to retire in comfort and security without worry.

A millionaire by definition is an individual with assets exceeding one million dollars. Someone who earns one million dollars a year but has assets under one million is not a millionaire. Net worth, (not your earnings) determines who may be called a millionaire. Millionaires have become a growth industry in the United States. In 1999, approximately seven million Americans were millionaires. That figure is up roughly one million souls from 1998. The United States is minting one million new millionaires a year, the highest ever in our history. Moreover, the term millionaire is passé; high-net-worth individual is the term of choice.



Billionaires Row:

Five Richest People in the World

Bill Gates	\$60 B.
Larry Ellison	\$47 B.
Paul Allen	\$28 B.
Warren Buffett	\$25 B.
Karl Albrecht	\$20 B.

Salary Row:

Five Biggest Paychecks

Michael Eisner	\$5.8 M.
Mel Karmazin	\$4 M.
Sanford Weill	\$7.4 M.
Steve Case	\$1.1 M.
Craig Barrett	\$2.2 M.

Portrait of a Millionaire:

Who is he?

- Male, age 57, married, three children
- Two-thirds own their own business
- Average income: \$250,000
- Average net worth: \$1.6 million
- 97% are homeowners, average value: \$320,000
- 80% are first-generation millionaires
- Four out of five are college graduates
- Two-thirds work between forty-five and fifty-five hours per week.
- 20% of their annual income is invested each year
- 95% of millionaires have a net worth between \$1 million and \$10 million
- Owns last years model car, always buys; never leases.

“Don’t gamble. Take all your savings and buy a good stock, and hold it until it goes up, then sell it. If it don’t go up, don’t buy it.”

Will Rogers

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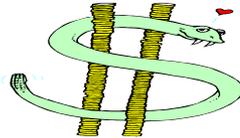
Are the “Very Rich” different?

In the middle of the fifteenth century when Philip the Good of Burgundy wished to convince people that he was solvent enough to wage war, he opened his books fifteenth-century style. He sponsored a great public festivity at which he displayed his treasures. Along with jeweled cups and finely embroidered robes, were two hundred thousand lions of solid gold. They lay in two chests, and anybody, whether peasant or nobleman, was invited to lift them if he could.

Wealth isn't as colorful as it used to be. Princes no longer wear robes of brightly colored velvet, sewn with gold or silver thread. Although, the wealthy still indulge in conspicuous consumption

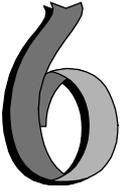
During the Roaring Twenties, people would light their cigars with five-dollar bills. These days, successful Rap Stars adorn their bodies with heaps of gold jewelry, while the more conservative wealthy people discreetly sport their \$25,000 Rolex wristwatches. For the most part though, the very wealthy now look more-or-less like other people. They risk public resentment if they don't, since that would go against the egalitarian ideals of America.

Well, what about their hidden lives? Are they glamorous, wicked, conniving and ambitious? That, of course, is what the soap operas tell us. A lot of novels, movies, and television shows also make them out to be constantly scheming and conniving for power and even greater wealth. Others show the very rich as hard workers to the point of being obnoxious. The very rich may be puritanical as John D. Rockefeller, as neurotic as Howard Hughes, or as seductive as Cleopatra.



*“Money isn’t everything, but it ranks up there
with oxygen.”*

Zig Ziglar



Money Values in American Life



We Americans have very complicated and conflicted attitudes towards money. On the one hand, we distrust it. After all, we are a comparatively religious nation. Moreover, doesn't the Bible say, "The love of money is the root of all evil"? The early Puritan settlers mistrusted money and preached against it. Even Ben Franklin, that icon of American Capitalism, admonished people to remember that they could not take money to the grave.

On the other hand, we admire money. We look up to tycoons such as Donald Trump, a nice German Lutheran (*family name: Trumpf*) boy who attended parochial school, or Bill Gates, who appears self-effacing and shy in public, yet with a steely determination has built a software empire and amassed a fortune that even the oil sheiks admire. "*The Donald*" is quite crafty because he makes us feel "Very Rich" when we frequent one of his splendiferous casinos. Meanwhile at the end of the day, "*The Donald*" has the contents of your wallet in his pocket. State lotteries know how to work the money mind-game: The dream of becoming a millionaire for only a *buck*. What a powerful incentive! "*Hey*" goes the New York State commercial, "*You never know.*" Both techniques provide an almost cocaine-driven rush in consummating the dream of immediate opulent wealth.

We can feel guilty about being rich or about being poor, even about being middle class. A surprising number of us even manage to feel guilty about all three at once. If we save, we feel guilty. If we spend, we feel guilty. The psychology of using credit cards is that it doesn't feel like spending, therefore: no guilt... and more spending! In fact, when it comes to money, people are likely to feel guilty about nearly everything. To make things even worse, people may feel guilty about feeling guilty.

*The greatest part of our happiness depends upon our
dispositions, not our circumstances.*

Martha Washington

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Money Conflicts

If this country were a person, a psychologist might say she had a neurotic obsession. America has been struggling with these conflicts for centuries. Humanity has been struggling with them for thousands of years, possibly since money was first used. Money is a major conflict in marriage and the chief reason for divorce in this country.

John W. Schott, a medical doctor, specializing in psychiatry and a money manager, emphasizes in his book *Mind over Money*, that one should avoid blame and subsequent guilt. For example: If the market tanks, avoid saying, “*I should of known the market would go down the minute I invested.*” or “*I never should of gone with that broker, I know more than he does.*” Avoid *should of* in your vocabulary. It is indicative of guilt and blame. Guilt is counterproductive in money management.



■ Mind-Bits ■

Many couples will start to fight as soon as the subject of money is raised.

Some people will find money so exciting as to gamble away their paychecks at the casinos.

Others will find money so threatening that they refuse to even think about it and never budget or invest. Money can evoke very intense, confusing emotions that many people have not learned to deal with. Quite often, these feelings can even prevent people from talking about money in any constructive way.

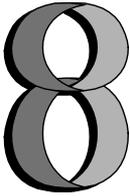
We might learn something from the classics of literature. Take, for example, the descriptions by Leo Tolstoy in his classic novel *War and Peace*, of life in the high aristocracy of Russia during the nineteenth century. This was an entire class of people so wealthy that they rarely needed to even think about financial matters, as they spent most of their time planning the next ball. Interestingly, the aristocrats of Russia were linguistically out of touch with the common peasant who spoke a dialect of Russian. The Czar, princes and dukes of the court were schooled in classic French. *Does that remind you of conversations with your broker?*

The Russian aristocracy was so troubled by the boredom and senselessness of their existence that young men filled their lives with duels and drunken escapades. *No long-term retirement planning here.*

The very rich usually will not need to be told about the limitations of money. One of the perennial problems for the Very Rich is the inability to live up to the unrealistic expectations of other people for glamour or accomplishment. It is a well-known truism that the sons and daughters of the Very Rich lack the verve, drive and motivation to eclipse the monetary scorecard etched by their parents.

In a paradoxical way, the problems of many people who are very rich resemble those of people with humble means. Both groups feel helpless about money, and not in control of their lives. Some people feel controlled by their money, others by their lack of it. In both cases, the solution can be the same—to understand money so it does not appear as an anonymous inscrutable force controlling our lives.





Fear of Money

Many are afraid of money management for much the same reason as many individuals are afraid of either writing or mathematics. Each of these subjects has been obscured by a mystique. People think that you always need special inspiration to write or that a special sort of mind is required for math. As to personal finances, they are likely to think a little of each. Actually, all three reasonably straightforward skills may be learned like anything else, if the individual is not too intimidated.



There is a lot we can do to overcome our feelings of helplessness about money. First, we can openly acknowledge our uncertainties. Then we can strip away some of the fear and glamour from money to enable us to deal with it in constructive ways. We can look for ways of handling money that are consistent with our values and personalities.

Finally, we can decide to seek assistance if we lack the expertise, the desire, or the emotional distance to manage our own money.

When to seek help

1. You lack the expertise.
2. The desire is lacking.
3. Emotional distance.

*A study of the stock market clearly indicates that
the best time to buy anything is last year.*

Marty Allen



Invest like a Pharaoh



Very long ago, the richest man in the world was probably the Pharaoh of Egypt. The Bible tells us that the Pharaoh once had a very disturbing dream. He was standing along the Nile River and saw seven cows, all of them fat and healthy, walk and feed contentedly on the grasses. Then seven other cows, all of them thin and misshapen, approached and devoured the healthy ones. The Pharaoh called all of his magicians, astrologers, and wise men, but none could interpret the dream.

Finally, the Pharaoh heard of a slave named Joseph, a Hebrew, who had shown great skill in the interpretation of dreams and decided to summon him. Joseph told Pharaoh that the seven fine cows were seven good years, while the seven gaunt cows were lean years that would come after them. So that the land of Egypt would not starve, the Pharaoh should store up one fifth of all food collected in the good years and distribute it to people during the famine to come. In those days, remember, people measured wealth in cattle, but today we generally measure it in money. If we update this Biblical story, Pharaoh might be a very rich man, and Joseph might be his financial advisor.