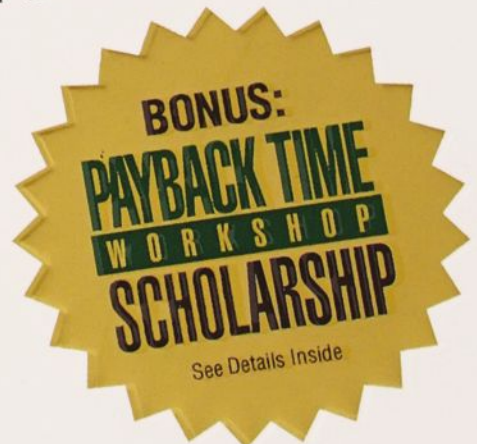


PAYBACK TIME



BIG
MAKING MONEY IS
THE BEST REVENGE!



PHIL TOWN

Stockpiling & Playing With House Money

"There are risks and costs to a program of action. But they are far less than the long-range risks and costs of comfortable inaction" – John F. Kennedy

When a Stock Goes Down, We Get Rich.

When a stock price drops and I know the value of the stock is unchanged, it's time to load up the truck, or as I like to say, "Stockpile."

Stockpiling can also be referred to as "Stashing", "Accumulating" and "Collecting."

Simply put it is piling up on your stock. The essence of stockpiling is to buy stock in a business you'd be excited to own all of, with hopes that the price of the stock drops so you can stockpile as much of it as possible. When the price goes down, we buy more and when it goes back up, we get rich.

Remember, the key to stockpiling is knowing that price does not equal value.

The only secret to stockpiling is to make sure the value of the business is substantially greater than the price you are paying for it. Be sure to look beyond the stock price and look at the value of the company.

If the value of the thing you bought is greater than the price you paid than you are guaranteed to make money, but keep in mind if you buy at a price well below the long-term value you won't be able to sell it for a profit immediately.

Playing With The House's Money.

When investing into a business, you should be asking yourself, “How long before I get my money back?”

In other words, what is the Payback Time? If you buy the whole business and pocket all the earnings, Payback Time is just the time it would take you to get your money back.

Once you get all your money out of the business you have no more risk and you're essentially playing with the house's money (in casino terms). And the good news is there are tools and strategies that can lower your payback time and get your money off the table faster.

I also refer to this as reducing our basis – meaning we reduce our risk by taking our original investment (our basis) off the table. Here are a few examples:

Dividends - Dividends are paid by public businesses for two reasons, only one of which is a good reason. The good reason is the business has more cash than it knows what to do with. A good CEO knows that this excess cash belongs to you, so they return it to you in the form of a dividend. The only justification he has for keeping it is if he can use it to grow the business at a rate high enough to justify keeping the money.

Buybacks – Buybacks are one way a CEO can get rid of excess capital – she can invest it by buying back stock from current investors at the market price. This is a great allocation of capital if the stock is selling at a discount to its value. Here's why: Let's say the value of a lemonade stand is \$100 and there are 100 shares of stock owned by 5 people, 20 shares each.

Each of those shares has a value of \$1 but the market for lemonade stands is depressed and the shares are offered for only \$0.50. If the CEO has an extra \$20 she can try to invest that in a way that produces a 20% Return on Equity by expanding the business or, in this case, she can just buy back some stock and get the same result without all the work. She pays \$0.50 per share with \$20 and buys back 40 shares.

Now the company only has 60 shares left and now is worth only \$80 (since \$20 cash is gone to pay for the stock). After the buy back, each share of stock has a value of \$1.33 ($80/60$). That means the shareholders who didn't sell saw the value of their stock go up from \$1 per share to \$1.33 per share overnight. That's an instant 33% return for them.

Buybacks when done right create instant great returns for the remaining shareholders.

Derivatives (options) - Essentially, a call option example is a coupon to get cheap milk. There are two sides to this coupon. There's the grocery store, which is essentially selling the coupon at a very, very, cheap price and there's the buyer of the coupon who is getting a right to go buy this milk.

So, when we use the coupon between the store, the store has an obligation to sell the milk at a set price and the buyer of the coupon gets the right to buy that milk at a set price. That's just a coupon and we're used to using them all day long.

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Call options are just like that. Basically, if you sell a call option to someone, you are now obligated to sell them your stock at that price. If you buy a call option you now have a right to buy that stock at that set price for a set amount of time.

Selling Call Options

Why would we do that as Rule #1 Investors? If we own this company, and we sell someone the right to buy our stock at a price higher than we think it's worth, then we have almost no risk whatsoever. Because, if the stock price goes up to that super high price, we want to sell it anyway. We want to sell into greed and we want to buy into fear.

If there is greed going on and the stock price is shooting up like a rocket, we want to be a seller of that stock. We can pick up cash flow, by putting out and selling call options, which basically gives someone the obligation to buy our stock at that higher price so that they buy it from us. They pay us a premium and we can put that money in our pocket.

If the stock price doesn't go up we get to keep our money. If the stock price does go up, then we sell the stock. Either way we win.

Attend my 3-Day Transformational Workshop

REDUCING our basis is one of the key strategies to Rule #1 investing and reaching nirvana in retirement. These strategies can be somewhat advanced, especially options trading, but they are critical to us reaching our goals. That's why I cover them in depth at a live 3-day workshop I teach. I'd like to invite you to join me for free for this 3-day workshop.

"I'll be there teaching you the entire time... no guest speakers and no selling. You have my word." - Phil Town

For more information on this once-in-a-lifetime opportunity, please below.

[Click Here To Sign Up To My Workshop!](#)

