

INVESTING
ON
AUTOPILOT



Strategies That Really Work . . .
and How You Can Profit From Them

Robert S. Cable



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“A ship in port is safe—but that is not what ships are for.” – Rear Admiral Grace Hopper

Chapter 1

Let's Make a Deal

I'm going to start this book by making you an offer. Let's assume you own a house that is currently worth about \$300,000 and you're thinking about renting it. I come along and make you this offer: I'll rent your home for \$1,000 a month, every month for the next 20 years. The rent I pay you never goes down and never goes up. In addition, as part of the deal, 20 years from now you are obligated to sell your home to me for the same \$300,000 it's worth today.

Got it? I get the use of your home for the next 20 years for a fixed monthly fee, and 20 years from now, I get to buy your home for the same price it's worth today.

Deal or no deal?

I don't know you, but I do know what your answer is likely to be. You'd consider this deal for no more than a few seconds and you'd turn it down.

Why? First, that rent of \$1,000 a month might be OK today but it's got to go up at least a bit each year to cover costs, right? A thousand dollars a month 10 or 15 years from now just won't cut it. And what's with the deal to buy your house 20 years from now at *today's* value? The house is bound to be worth more—at least \$500,000, maybe over \$1 million by then. Why in heaven's name would you agree to sell it for \$300,000?

Well, let me tell you something amazing. Every single business day, thousands upon thousands of people fall all over themselves to make precisely this kind of deal. They don't just walk, they run as fast as they can to buy Certificates of Deposit (CDs), Guaranteed Investment Certificates (GICs) and all kinds of bonds and bond funds, government-backed or otherwise. They give their money away for a fixed return (equivalent to the monthly rent) and they agree that on maturity five, 10, or 20 years from now, the most they can get back is what they invest today. It's exactly like the \$300,000 home on which the rent stays the same and whose value never goes up.

I can guarantee you this: you or someone you know is doing this.

Bonds are the “employees” of the investment world. (In this book, I use the words *bond* and *bonds* to cover all fixed-income instruments whether they are actually bonds or other investments such as CDs and GICs.) Employees and bonds are alike in two ways. Where bondholders lend their money for a fixed return, employees give their time and effort for a fixed, or relatively fixed, regular income. Both the bondholders and the employees have a relatively secure income, but they do not participate in the growth of the company in any way.

Stocks, on the other hand, are the “owners” in the investment world. A company’s owners pay the costs of running the business, and if they run a profitable business, they prosper. They take regular, salaried income, and they get to keep the profits and retain any increase in value of the company. Think about it. Nearly everyone you’ve ever known who achieved real wealth owned a business or was a shareholder in a business. That’s the way it’s supposed to work, and in a capitalist economy that’s exactly how it does work. It’s worked that way for a long time, and the system isn’t likely to change any time soon.

Because this is such an important point, I want to run this by you one more time. You’ve probably heard the expression “be an owner, not a loaner.” Maybe you don’t own a business and maybe you’ve never invested in common stock, but you probably do have experience with ownership versus loanership. As a typical homeowner, you bought your \$300,000 house some 25 years ago for \$50,000, which seemed like all the money in the world back then. You scraped together \$10,000 for your down payment and borrowed the other \$40,000 from the bank, agreeing to pay it back over 25 years.

In this deal, you were the owner and the bank was the loaner. Here’s how each fared. The loaner (the bank) put up \$40,000 and got back exactly \$40,000 plus interest. The owner (you) put up \$10,000, paid an additional \$40,000 plus interest, and you now have a home valued at \$300,000. The loaner did OK. You, as the owner, because you owned an appreciating asset, did *very* well.

Both stocks and bonds have a place in most portfolios. Very few investors should put 100% of their portfolio into stocks. Since you’ll probably be investing in some bonds, Chapter 2 looks at a simple and effective way to do it on autopilot.