

8 Strategies for Successful Investing

By John V. Kamin

1. Why wait until April 15th to figure out a tax strategy? Most CPAs and millionaires that I know plot smart, legal tax strategy all year long, month to month. Then, in December, the CPA and the client will usually have a “sit down” and see which income gains and losses and deductions they wish to push into the following year, and which to take in the current year.
2. Contrarian Strategy: The Theory of Contrary Opinion states, “The public is right most of the time, but wrong at the wrong time (major turning points).” Contrarians are always measuring, evaluating, and analyzing on a daily, weekly and monthly basis “what the public thinks”.

Actual example: During the 1960's, I got a nasty letter from the President of the Chicago Coin Club. He was disturbed that we were recommending a choice Brilliant Uncirculated \$20 gold pieces at \$38 to \$40 each, recommending “cherry-picking” the better condition and better dated \$20s, which contained nearly one ounce of gold. “How can you do that?” he complained. “The government has fixed the gold price at \$35 per ounce and \$20 Double Eagles will never go up!” That's the way he felt and that's the way most members of the public felt.

Even though gold later went to \$800 per ounce and Mint State 63 \$20 Libertys shot up to \$1,500 per ounce, I never received an apology.

What does this mean? It means that you must think long term in terms of cycles, not short term. If you don't even recognize cycles, trends, charting, breakouts and fundamental analysis, how can you possibly make smart moves tax-wise or otherwise?

Flippers and Dippers – Long Term vs. Short Term Strategy

3. Here's another example of tax strategy. Long-term capital gains are taxed at about one half the rate of short-term gains on property and Wall Street. CPAs define long-term gains as “held more than one year”. Short-term gains are anything less.
4. Here's the tax strategy that coincides in long-term cyclical trend thinking. If you are successful, or you want to be successful, you must go for the long-term gains, not the short-term gains. That's the simple truth; tax strategy.
- 5.

I often wonder how analysts, traders and others can push people on Wall Street and in real estate in and out quickly of commitments. Most anyone who is consistently successful would end up paying nearly twice as much tax or more if they were short-term gains instead of long-term gains.

Bluntly, how can you run in and out of a commitment over a few weeks or a few months and pay commissions and end up giving one third of the gains when you are successful to Uncle Sam, as the law requires. You and your CPA must have a long-term tax strategy, designed to take advantage of the 15% max Federal long-term rate (or less).

Contrarian Risks vs. Rewards Planning

I wonder even more about “property flippers” and “house flippers” who are trying to get in and out of property in less than 12 months! Any gains they make over a shorter period of time will be taxed to the hilt. In addition, their states will levy a harsh income tax (in most states). In California, the state tax is 9.2% plus an extra 1% if you have a large income.

How can the flippers and dippers run in and out of commitments, take all the risks and pay all the highest tax rates as well as commissions, state and federal and still end up with a big chunk left over? That seems like a good road map for “what not to do”.

Better Way

6. Therefore, the Forecaster Moneyletter, for decades has suggested not only tax strategy, but long-term planning and Contrarian strategy strengthened by cyclical studies of movements. (E.g. you want to buy property at the bottom of the real estate cycle when everyone hates it instead of at the top of cycle when everyone loves it, when real estate is most risky, because prices have boomed and boomed again!)

Tax-Free Profits Up to \$500,000!

Another example – if you are buying and selling homes for profit (such as your home), you can pass-through up to \$250,000 in profits tax-free if single and up to \$500,000 profits tax-free for couples, provided you have lived in that residence for at least two out of the last five years. Why overlook this huge tax break? Then, when you have sold your residence for \$100,000s in profits tax-free after two years as your legal residence, then you can move to another place and do it again! All legal.

Please pardon me if I am a little bit skeptical of traders who move in and out of tangible asset markets on a monthly, weekly or even daily basis. Merchants maybe, but not individuals. I don't advise on commodity future trades. It's hard for short-term trades to qualify for long-term (over one year) gains when you're trading in and out.

What Else?

Rare coins do not lend themselves to short term in and out trading; neither do recognized artworks.

- A. It's hard to find the recognized rarities in the grades you need, at favorable prices and low commissions in and out.
- B. Since it takes time and effort to locate proven rarities, to negotiate and to realize the most when you sell them, it also takes time and effort to find the best buyers, get the best price and out for your benefit. If you just walk into your local coin dealer with your 1916 Standing Liberty 25 cent or your 1895 Proof 65 \$1, he may not have the money to pay you what it's worth. And even if he did, he may offer you only 50% of what it's worth.

Selling rarities takes time, effort and knowledge. If you consign coins to an auction, you may have to do it many months before the auction and then wait 45 to 60 days after the auction to get paid. So, even the auction method may take a minimum of four to six months for a solid transaction. Just sending coins to the grading companies (slabbers) might also take more than a month to get back, or prove extra costly for faster service.

For maximum benefits, think long-term. Allow plenty of time for a purchase and for resale. Deal with reputable people who have been in business for at least 25 years.

- C. Same with recognized artworks. If you want a Monet or a particular Van Gogh, it can take a long time for acquisition, then resale, authentication and grading.

Double Your Money or Step Away?

7. Therefore, one successful strategy Forecaster has evolved for properties and tangible assets might be stated as follows: Don't go into a particular commitment unless it has the minimum potential for at least 100% to 200% gains in a reasonable period of time – (over one to seven years or more). This rule doesn't guarantee that you will make money but the "100% gain potential" rule will indeed keep you out of many goofy situations, dead money-tie-ups and outright losers where you would be chasing minimal profits of 15 to 25 percent.

The “100 gain potential” rule does not mean that all of your gains will be 100% or higher, (though many may be). The 100% rule will, however, cause you to take a precise look at the potential of individual situations and prevent you from tying up much big money for puny gains.

More Strategy

8. The late Gerald Loeb, a Forecaster subscriber, one of my mentors and nicknamed “The Fox of Wall Street” used to discuss “Keeping your losses small and letting your gains run”.
9. For the average person or speculator, assuming they will be right about half of the time and wrong about half of the time, they can still make lots of money by keeping their losses small and keeping their capital from eroding while shooting for big gains on the times they are correct.

The Long-Term Trend is Your Friend!

For example, suppose you set some sort of parameter, such as 15% to 20% losses on any individual transaction means that you automatically dump it? You may have many small losses, but the big gains will more than make up for it, assuming you are right 50% or more of the time. Since all of us are often operating on less than 100% of information than we would like to have, keeping our losses small (many small losses and dumps) and pushing for big gains at lower long-term tax rates is a prudent strategy.

I’ve already related the story of how one neighbor worked night and day and every weekend on their house then sold it for \$180,000 (though they had plenty of monetary resources). Their goal? To build a smaller, cheaper house in Washington State. Shortly after they sold it, the house quickly went to \$225,000 then \$350,000. Today, the same house with the third owner is now worth over \$900,000 to \$1,000,000!

By merely delaying its sale for a very few years (perhaps renting it out for cash flow of \$30,000 per year in the interim), they could have made nearly \$1 million extra profit plus the monthly and yearly rental income! Instead, even though the lady was a real estate broker, they missed out on their big capital gain.

These were very well educated and very experienced people, but they weren’t thinking long term! Also, they missed out on the \$500,000 profit pass-through free of taxes (because that measure passed the Congress just about two years after they sold).

Proper tax strategy says, “Think long-term” on tangible assets such as residences.

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