THE PRINCIPLES OF PROFITABLE INVESTING

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Trieste

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CHAPTER I

THE PRINCIPLES OF INVESTING

MONEY CAN BE MADE in two ways. It can be earned by labor. It can be multiplied by investment. Every man can be a successful investor, if he adopts the same plan as used by people of considerable means. This plan eliminates all chance or speculation, and is a step in the right direction to financial independence. The degree of success, of course, depends on carrying out the plan without stop or hesitation.

INVESTING A BUSINESS

People are coming to realize more and more that investing money is a business in itself. It calls for a special knowledge of the investment field—a knowledge of the particular investment under consideration. This in turn calls for an analysis of the corporation back of the security; its present physical and financial condition; the volume of business done; the demand for its product, market conditions, etc.

From this it should be seen that unstudied or guesswork methods in buying securities are dangerous. The investor is buying more or less blindly, and the security of the principal is in jeopardy.

The investor is a buyer. Securities are a commodity, the same as merchandise. If the investor's knowledge, or the advice upon which he acts, is sound, he buys to advantage; if it is meagre, faulty, or if he is illy advised, he is apt to buy unwisely.

EFFICIENCY IN INVESTING

Every intelligent man knows what "efficiency" means. He knows that efficiency is the application, without stint or reserve, of competent knowledge; that to be efficient is to be able to do the thing in hand well, carefully, intelligently, properly; to produce the best possible results.

Neglect or failure to apply efficient safeguards in the conduct of man's personal finances is almost certain to result in disaster. If alluring promises of wealth from a small sum in some new and unproven business cause him to invest, he is most likely to regret his poor judgment—when it is too late; just as countless others, whom, in the aggregate, have lost vast sums of money in the same manner.

The realization that competent knowledge in financial matters is essential for safety and to insure a maximum return on the investment, is growing clearer every day. Every man knows that money makes money; that it can be made to increase rapidly only when properly invested.

This thought, then, should always be uppermost whenever investing is seriously considered.

CHAPTER II

THE LURE OF THE SMALL INVESTOR

TO THE SMALL INVESTOR, the temptation to ignore the safety first principle is strong. Hence, the great numbers of investors who lose their money on what they were led to believe was "a good thing," but which in reality was just plain gambling, with the odds, in most cases, hopelessly against them.

HOW MONEY IS LOST

The desire to "make money hand over fist," is as natural as the act of breathing. People are easily influenced by stories of great wealth from small investments. The wily stock-promoter knows the psychology of the human mind. Therefore, when a new "corporation" is to be "financed" that will "loosen the flood-gates of wealth," records of Standard Oil, International Mercantile Marine, American Telephone and Telegraph, and a host of other companies that have made fortunes for their stockholders, are tabulated, with the usual glittering comments on their earnings on the original investment.

The reader is now interested. Then follows a glowing tale of "tremendous possibilities" of the stock the intended victim is allowed to buy on a "ground floor" basis, or some other equally alluring term that will separate him from his money.

"BUYING NOTHING FOR SOMETHING"

As long as society exists and men have to struggle for a living, fraud will continue to be practised. Glittering propositions will continue to lure the savings of those who want to grow rich over night. And because of this unrelenting attempt to sell nothing for something, it is necessary that the prospective investor be on his guard all the time.

The Post Office Department is doing a good work in closing up dishonest concerns who are swindling the public, yet the government is unable to reach many of them.

LEGISLATED PROTECTION

Several states have legislated to protect the savings of their citizens. They have enacted "blue sky" laws which make it more or less difficult to sell questionable stock. Yet, in spite of all this, worthless securities continue to be bought. The gambling instinct is strong. Men are willing to "take a chance" with the elusive hope of making a lucky strike.

BUYING ON MARGINS

Too frequently it happens that a type of securities' houses unduly tempt, and in fact, encourage, people to buy on margins. They constantly flaunt before the prospective buyer spectacular profits that have been made on certain stocks, with the subtle inference that the reader, also, can do likewise.

The injustice of this sort of publicity is great; its evil influence is far-reaching. It encourages hazardous speculation—pure gambling; and when financial loss does not follow, it often happens that the stock shows such little activity (or none at all) that the investor becomes discouraged. The percentage of winners in this type of gambling is very, very small.

Such methods may swell the volume of business for the firm at the expense of the victim, but it does not increase the number of permanent customers. And after all, a successful investment business is measured by the percentage of regular customers, rather than by great financial gains from dissatisfied, disappointed people.

THE INVESTOR'S PROBLEM

The investor's problem, then, is always to obtain the greatest degree of safety and largest earning-power consistent with sound business principles.

To him the field of finance is mysterious, and he may either be ultra conservative, and miss many splendid investment-opportunities, or be ignorant of values and conditions and lose money.

The man of moderate means has the same strong desire to make his surplus funds grow rapidly as has the man of unlimited means. Heretofore he has had only three avenues open to him, viz.:

1—The bank, paying three or four per cent.

2—Buying stocks on margin, with the odds almost hopelessly against him.

3—Putting money in wildly exploited propositions that seldom ever get beyond the stock-selling stage.