Title: Professionals vs. Amateurs - 005

0:00:18 Andy: Hello, Andy Tanner here. Welcome to The Cash Flow Academy Show, it's great to have you, welcome, welcome, welcome. This is where we discuss all things cash flow and our mission is simple is to improve peoples' lives by giving them financial education, information that is transforming them, helping them do things today that they couldn't do yesterday and moving along and progressing. Our mantra is funds, simplicity and keeping it real, we've got to have fun, it's no fun if it's not fun, right? Got to have some fun. Simplicity, we wanna make this so everyone can understand even a guy like me. And then we want to be real, I hope that the things that you learned today can be placed in to your life and that you can use them to make decisions and commitments. One of the things I really hope for also is that determinations arise in your heart each and every time you listen that makes you wanna do more, be more, achieve your greatest potential, I love when those determinations in the heart start to stir.

So let's hop in and I want to continue from last week's episode on the asset classes and talk specifically about stocks, paper assets. We talked last week, we said, boy, you're going to business, there's an asset class, real estate, there is an asset class, commodities like oil, gold, silver, that's an asset class and paper assets like stocks and options and mutual funds, those are all paper assets.

And this is an important day, it's an important topic and the reason we're gonna single out paper right now and we'll include other asset classes in other episodes but we're gonna pick on paper and single that out right now for couple of reasons. Number 1: is I can't think of an asset class where there's more participation with the least education, let me say that again for emphasis, I can't think of an asset class when there are more people participating in the asset class with a lower level of education. And what I mean by that is if you wanna start a business like a big franchise, if you don't know what you're doing, they're not even gonna let you buy the franchise. If you wanna do a huge real estate deal and you wanna raise a few million dollars in capital, if you don't know what you're doing, you're not even gonna be able to raise the money and the same with oil and other credited investor type stuff. But when it comes to participating the stock market, people are doing it with literally no education, they pond it off to others to do it for them.

So a great example in my home country, The United States is the 401k, we have laws that are labeled as automatic enrollment which means a person shows up to their job, no education on investing, none and a portion of their money will automatically be put in to mutual funds, in to stocks that other people are managing and that's what I mean, they're participating without education, they're trying to do this by proxy and it's dangerous and it's gonna hurt a lot of people. So that's one reason why we're gonna focus on the advantages of the stock market today and the disadvantages of stocks, how amateurs do it, how pros do it because it affects your life. If you're in Japan listening, you have 401k-s, if you're listening from Australia as many of you are, we have many people that follows us in Australia, you are familiar with the Super and my friends in Canada have the RSP. So let's understand this, the stock markets of the world, paper assets, the stock markets of the world, they affect how we retire, they affect how our lives are gonna turn out because of how legislation and how laws of places buying these assets on autopilot so that's the first thing.

Now, let's talk a little bit about the pro versus the amateur, the pro versus the amateur and that would be a really good title for this podcast, what is the difference between someone investing in papers in amateur and someone who's a pro? Well, in the last episode, we talked briefly about some of the advantages of the stock market, let's review those quickly. First of all, it's liquid, isn't it? It's liquid meaning that you don't need to have sales skills. Now, when I do a real estate deal, you don't have to have huge sales skills there either but you're gonna negotiate some, you're gonna negotiate it with your contractors to rehab it, you're gonna negotiate with your lenders and people you're raising capital with, what do they want out of the deal, you can negotiate rent price, all this stuff is negotiable. And in business, it's all about sales and advertising and messaging. Well none of that happens in stock, none of it does, none of that stuff happens in stock because it's liquid, we push a button and off we go, buy or sell. And this creates in my opinion some hypocrisy of what the pros tell the amateurs.

Let me give you an example of this hypocrisy and see if I can explain this well. My great man, Robert Kiyosaki, he suggested, he said, Andy, you should really read this book Flash Boys by Michael Lewis. Now, Michael Lewis loves to write about markets and the Big Short and he makes these very dramatic. But the substance of what he's writing is on track and I won't steal the book, I won't be a spoiler but Flash Boys basically is about high frequency electronic trading, in other words, we don't need salesman to create the transaction, we don't need people to advertise, we click a button and bam, it's in a flash hence the term Flash Boys. These guys, their trading times are measured in nanoseconds, microseconds, faster than the blink of an eye. So here we have the pros on Wall Street trading in nanoseconds. How long are they telling us to hold the stock? For our whole life, for decades. So on one hand the amateurs being told: oh no, just go ahead and stick in this 401k, buy a stock and hold until you retire, hold it for 40 years, think long term, don't try to time the market up and down and the professionals behind your back or maybe not behind your back, they're creating algorithms, computer programs that are worth millions of dollars that simply look at technicals on charts that don't have time to run fundamental analysis and they're simply trading based on chart, patterns and trends and algorithms in nanoseconds, nanoseconds, microseconds faster than the blink of an eye. Look at that hypocrisy between the pro and the amateur, the guys on Wall Street is the ultimate example of do what I say not what I do, why not plug you in to an algorithm, why not do that where they want you to hold the money, they want you to hold the money, they want to keep track and have assets under management.

So when it comes to liquidity, the ability to buy and sell, whichever side you decide to be on, let's understand that there is an amateur pros to it of buy and hold and there's a professional pros to it of using technical analysis to buy and sell. And in whichever one you choose to do is fine but let's understand there is a difference there and think about this, liquidity can be a huge advantage, yes, it could be a huge advantage to be able to liquidate and get rid of something at the first sign of trouble, that's an advantage, the amateurs don't take advantage of that advantage, they just don't. So that's a clue, if one of the very things that the stock market brings to me is liquidity, if I'm not using that liquidity, if I'm not taking advantage of that liquidity is that something I like to change, is that something I'd like to consider to be able to take advantage. You don't need to be one of the Flash Boys to do this because you're not gonna trade the volume that they trade but are you taking advantage of liquidity? That's the big question, right? And are you educated buying large on liquidity? Hey, it can cost bottle markets, do you think that when the DOW went down to thousand points in today wasn't like our GDP had changed by that percentage but it's the Flash Boys at work, trading fast, boom, boom, boom algorithms, stop losses, getting hit, triggering others.

The second thing we talked about was the ability to be agile. Now think about this in terms of amateur and pro, I'll go short in the market in heartbeat meaning, what does that jargon mean? Well, going short means I'm gonna make money when the market goes down. So Michael Lewis wrote another book called the Big Short, talked about companies that made tremendous profits to the downside in the subprime meltdown, they were in what was called short position since the title of the book The Big Short. And there's nothing illegal about going short any more than is going long, it's just a different type of investing, it's no different than buying a bond or selling a bond or buying a stock or selling a stock, you're just doing it in different order for short position. Again, I point to the amateur who knows nothing about the stock market and has a 401k, are they ever shorting the market? Are they ever short the market or does the market have to go up for them to make money? Yet behind the scenes, out of their purview, the pros on Wall Street, Goldman Sachs in particular, they are replete with short positions, all kinds of short positions as am I in this market. I want to be able to make money when things are short.

And if nothing less, a good example would be on some indexes is I wish I was in some various positions, some short positions on some in many futures that help hedge my bet and protect us and our mental club against the drop in the markets so with the market were dropped, we'd actually make money. Do the amateurs make money when the market drops? The answer is no.

Do 401k-s become flash with cash when the market drops? The answer is no, they lose their cash value, they lose what's called the net liquidation, just your basic cash value in those accounts. So again, we look at these 2 things, the advantage of liquidity. Do the pros use it? Yes, they do. Do the amateurs use it? No, they don't. We look at the idea of agility, making money when something goes down, the pros, do they make money when it goes down? Yes, they do. Do the amateurs? No, they don't. So these are big clues that in the last episode if we talked about the advantages the stock market brings to an investor, the amateurs don't exploit those advantages.

Now let's talk about leverage. When we think of leverage, we generally think of debt, that's how it works in real estate but in the paper asset markets, leverage often means a contract like an option or a future where we get a little leverage or even a leveraged ETF, an exchanged traded fund that might have some leverage to it. And so we're not using debt or using a contract, we're using choices and promises of a contract to give us leverage about something we may do in the case of the options. Choice, another word for option is choice. And so again, let's look at the amateur and the pro, are pros like Warren Buffet using options? Absolutely, it's called the derivative market, absolutely, does George Soros use these? Yes. Does Goldman Sachs use these? Yes. Even the guys like the Nigerians on CNBC, they use options, yes they do and yet the amateur in the 401k is not using an option to hedge nor they're using them for cash flow and we see a start contrast between the amateur and between the pro. The pros are not, even the amateurs often don't even use a margin account which is a form of leverage and yet the pros do it all the time.

So here's a question, if I'm gonna buy a car, if it has a tilt steering wheel, I'm gonna use that feature, if it has a sun ref, I'm gonna use that feature, if it has breaks, I'm gonna use those features, if it has a reverse gear, I'm gonna use those features. But if you're not gonna use the features, you're not getting the full use of the car. So if I am getting to take the risk of paper assets and I'm going to get in to paper assets, wouldn't I want to learn about how to use the very things that separate them from other asset classes such as liquidity, such as agility, such as leverage? And so these are huge, huge things.

The one thing I can say that might be similar is the agility, certainly you can get in to a mutual fund, they'll take whatever you got and buy you share of the mutual fund out of your paycheck and your 401k so I suppose in the idea of being scalable that amateurs and pros might do things fairly similar but the pros are generally gonna have more volume I think, they're gonna play a bigger game.

So think about that, liquidity, the ability to buy and sell quickly, Flash Boys are doing it in a microsecond, 401k people are holding for decades. When we look at agility, Goldman Sachs is gonna go short in a heartbeat if they think there's a buck to be made there, the 401k people are gonna wait out the bare markets and never profit a dime on them, they're gonna hope the market changes. When we look at leverage, professionals are gonna use options for insurance and for protection where the amateurs are gonna use this for diversification and that speaks to something my friend Robert Kiyosaki and I talked about. He was writing a book called The Unfair Advantage, it's a great book, I recommend it. The Power of Financial Education, The Unfair Advantage and in the book, his advisor wrote about some examples and some personal investments about how they use their financial education. Now, one of the questions he posed to me in the book is what is the difference between the amateur and the difference between the pro? And it's very, very simple, amateurs look to manage risk by diversifying, pros use guaranteed contracts. Amateurs buy a stock and they hope it goes up over the long term, pros are gonna use cash flow strategies and have other more creative ways to earn money. So there is a difference between the amateur, there is a difference between the pro and one of those differences is do they use the very things that make the stock market attractive and use them for their fullest potential or do they just buy and hold and hope things work out?

So I hope that's useful to you as you think about your own life, what does this mean to you? Are you in an RSP up in Canada, are you in a 401k or an IRF filled with mutual funds in the United States, are you in Australia or in Europe or in South America managing risk by diversification rather than contracts? What does this mean to you? Are you acting today as a pro in the market as an investor or as an amateur? And I'll tell you, it's tough to the amateurs because the pros, they're big sharks that swim in these markets.

So what is the benefit of today's podcast? I hope it gave you some things to think about in terms of how you wanna invest and how educated you wanna be. Do you wanna play like a pro or do you wanna play like an amateur? I hope you wanna play like a pro and that takes some work and it takes some learning but I think it's certainly worth in the long run. If not to increase your holdings and increase your cash flow but to at least protect your holdings and to have some wisdom on how to shield yourself against some of the rough times of the bare markets.

Well, nice short podcast, I hope this is valuable. The differences between the amateur and the differences between the pro. We'll catch you guys next time next podcast, keep it fun, keep it simple, keep it real, always look to get more cash flow and more financial education.

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