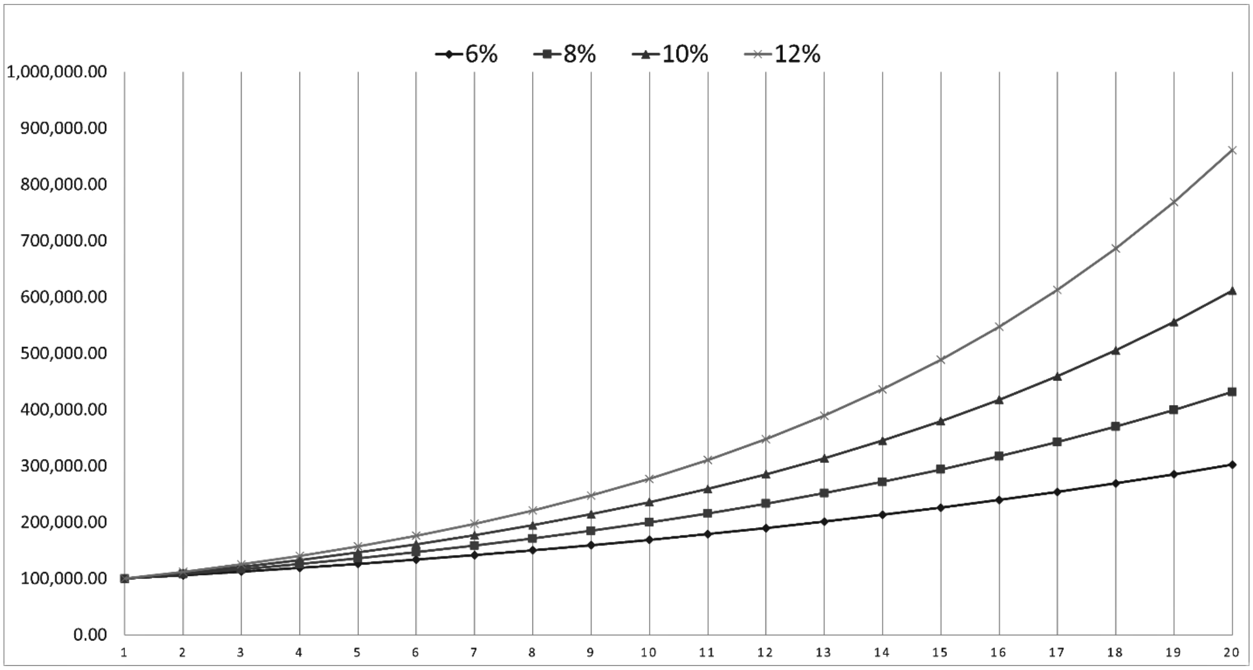
Excerpt: Chapter 1

Historically speaking, equities are one the best asset classes when it comes to providing returns in excess of inflation over time. For those with a very long time horizon and no inclination to be involved in portfolio management, a passive index fund approach is perfectly suitable for obtaining market like returns. However, investors who have pools of money with a less than a 'buy and hold forever' time horizon, the time, desire, as well as the ability (which we seek to teach you in this book), can tap into the benefits an active trading program may provide. These include enhancing income beyond yields like those offered by the S&P 500, reducing volatility, and potentially outperforming the market. Regarding the latter, let's look at the difference in seemingly small return variations over time shown by Figure 1.1.

Two accounts each starting with $100,000 will have dramatically different balances twenty or even ten years later with one account earning a seemingly small two or three additional percentage points per year on average. This is the power of compounding at work. Incremental differences that would not get your attention in the near term can mean the difference between having to extend your working years and retiring early with security, or the difference between taking a cruise and owning a yacht. Investor holding periods are often a lot longer than realized. Even if you are investing for retirement five, 10 or 15 years away, the money must still last another 10 – 30 years or more beyond that. So returns matter over time, especially long investment periods. With that in mind, there are often several year intervals when individual stocks, or the market as a whole, go approximately nowhere. There can be many ups and downs along the way (volatility that you can take advantage of in a profitable way), but a buy-and-hold strategy during these periods would have left your brokerage account essentially flat, especially when you factor in inflation. Adding even a small level of intelligent trading can help get you up the return curve, which, over the years, can make a material impact on the size of your account.

Among the four major sources of stock-related gains - long-term capital appreciation, dividends, short-term trading, and income from the sale of options—the latter three sources can add reliable incremental gains. The goal is to show you how to make the most of the market's natural fluctuations and to profit from the magic of compounding.



"Compound interest is the Most Powerful Force in the Universe."

Certainly, one of the world's great investors must have uttered this weighty and telling quote. Was it the wise and venerable Warren Buffett? Perhaps the irascible but entertaining Jim Cramer? The legendary and honored Ben Graham? Actually, it was not an investor at all, but a scientist, a particularly famous and important one at that. The man who proclaimed that compounding was more powerful than gravity, electromagnetism, or even atomic friction was none other than Albert Einstein.