July 5, 2010: Where to Invest Your Money?

Over the past year I've had hundreds of people ask me where they should invest their money. Who could really know such a thing? So I'm not going to tell you what to do. Rather, I'm going to tell you what I'm going to do.

First, let me state what I think will happen in the public stock market over the next six months. Right now, the P/E multiple for the S&P is pushing 20, based on a formula developed by economist Robert Shiller that removes the constant gyrations that can under or overstate the ratio. A fallback to a historic P/E of around 14 would require a 29% correction, taking the S&P from its current level of 1,100 to around 770, or a Dow in the 7,000's.

And I think this return to reality will occur before 2011. Whether you agree with this assessment or not, you have to admit the public stock market is akin to a dangerous casino game – with major retirement ramifications. So we're back to the question of where to invest.

Timing is Everything

Modern portfolio theory states that we should hold baskets of all asset classes and that over time we will diversify risk and receive an acceptable average return. That is, certain asset classes will go way up, certain will go way down, and the rest will return something in the middle. So what's wrong with this Goldilocksian investment strategy? A few things. First, it's almost impossible to hold all asset classes…it's just not feasible for the relatively small investor. Second, what if most asset classes are falling in value at the same time – as is the case these days? Finally, even if you can fully diversify, can you meet your goals by earning a 6% average return over the next 10 years? I thought so.

So we need a different approach. Let's call it a Midas approach.

Midas Managers know that if you go with the pack, you'll get pack returns. And 6-8% returns are pack returns. And they just don't impress. So here's how I'm playing it.

Get Ready for the Fall

Many people smarter than me have recently said to get liquid. Why? So you can get ready for the next round. Assuming the Dow falls into the 7,000-8,000 range (a gigantic "if" in many people's eyes), that will create numerous '3x' opportunities…meaning you will be able to triple your money in just a year or two. That's an acceptable Midas return.

I believe there are 6-8 mega-cap stocks that will be punished somewhat unfairly in this scenario (during the last meltdown I bought GE at less than $6 per share…it went back to $15 per share in less than 6 months). These mega-caps will all have several things in common. First, they are so big and well-diversified globally that they are highly unlikely to fail (think GE,Wal-Mart, Siemens, etc.). Second, they pay a dividend rate greater than Treasury's…so the stocks have a zero opportunity holding cost. Finally, since the companies are global players, they will figure out a way to sell something to somebody over the next few years. When the time comes, I'll name the mega-caps that fit the bill.

Niche-aholism

The second part of the Midas investment strategy is to focus on private investment niches. I have seen a fair number of private real estate, timber, and operating company investments that are real and earn 12-25% per year. These companies are exploiting niches that the markets will yield, and typically accept investments of $50,000 and up. They tend to be 3-5 year plays, but there's nothing wrong with that, as long as at least 1/3 of the return is paid-out annually.

It takes some work to find these opportunities, as they tend to be local/regional – and not offered through the normal investment channels. But this should not be discouraging, as you should be doing a high level of due diligence on your public fund investments as well.

Buy, Buy, Buy

In 2012-2013 I plan on acquiring hundreds of companies. This is one of the key ways that I'll monetize MidasNation. In essence, MidasNation is a one-of-a-kind value-creation machine. Already we have the capability of "10x-ing" the value of basic businesses. We'll continue to provide mentoring services to other people's companies going forward – but the big bucks are mentoring our own companies. Why 2012? See my transfer timing chart below. If history comes anywhere near repeating itself, the time to acquire private companies will be in 2012-2013.

Ten Year Private Transfer Cycle

Deal Recession (Value Enhance/Acquire)	Prime Selling Time (Seller's Market)	Almost Recession (Uncertain Market)
1980	**1983**	**1988**
1990		
1990	**1993**	**1998**
2000		
2000	**2003**	**2008**
2010		
2010	**2013**	**2018**
2020		

So, how should you invest your money going forward? I have no idea. It's taken me 5 years to figure out how I'm going to invest mine.

-Rob

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