

Become a Better Investor: 3 Essential Steps

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Everyone tells me they would love to be a better investor - but how do you start? Most people have had bad experiences listening to bad advice. They don't know whom they can trust and many have given up altogether.

The good news is that the strategies, tips, and advice I'm going to share with you, along with Marketocracy's online tools can help anyone become a better investor. Based on the investment approach I developed to help me become the No. 1 ranked mutual fund manager in the country, our program is practical, doable, and dramatically different from anything else you've seen.

Many of the tools I developed over the last 10 years are available *for free*, to use on Marketocracy's website www.marketocracy.com. More than 70,000 people have already used our website to improve their skills to become better investors and many have proven to be some of the best investors in the world.

Just how good? We compared the 3-year returns of our members with the top mutual funds in the country. When we ranked them all together, 68 of the top 100 funds were our members. Even more significant, 9 of the top 10 were from Marketocracy.

The Quick Take

These are highlights of the core concepts from my investment approach to become a better investor.

Step 1: Practice, Practice, Practice

Investing is a skill. Like most skills you have to practice to become better. That means you need to buy and sell lots of stocks so that you can evaluate your decisions to see what worked and what didn't

WARNING - don't practice with real money! Marketocracy has developed the most realistic virtual stock trading system that allows you to safely trade real stocks, at real prices, at real volumes, but with virtual money. Now, anyone can manage his or her own \$1 Million virtual stock portfolio and practice investing.

Step 2: Focus on What You Do Best

If you focus on what you're good at and stop doing the things you're not – you will become a better investor. Simple and powerful; but, most people don't know what their investing strengths and weaknesses are so they keep making the same mistakes. Marketocracy's portfolio management tools help you discover what your strengths and weaknesses are so you can focus on what works and stop doing the things that don't.

Step 3: Find Good Investment Ideas You Can Trust

The reality is that good investment advice is hard to find. That's because investing is a rare skill and to evaluate skill you need to see someone perform over time. You need to see their track record. Have you ever wondered why almost none of the people offering you investment advice show you their *real track records*?

Practice, Practice, Practice

Any skill, whether it is playing the piano, driving a car, or riding a bicycle, requires some practice to get started and even more practice to maintain one's skills. Even though pure physical ability plays a large part, no athlete would be able to compete at world-class levels without lots of practice.

Investing is a skill too and it takes practice to get better. It is a world-class competition against some of the best investors in the world. Before jumping in with your life savings to compete in the stock market you should practice making lots of investment decisions. Only then can you make an honest evaluation of your skills and where you are weak, try to improve them.

Safety First: Start Investing with Virtual Money

Most people decide to start investing in the stock market and just jump in with real money. That's an expensive way to learn how to invest. Nobody would ever think about flying a plane before they've practiced on a flight simulator first. Don't gamble with your life savings.

Marketocracy has developed a way so anyone can practice investing. We've developed the most realistic virtual stock trading system in the world - an investing "flight simulator," which allows you to safely trade real stocks, at real prices and at real volumes, but with virtual money. Now, anyone can manage his or her own \$1 Million virtual stock portfolio and practice making lots of real investment decisions.

When you become a member of Marketocracy, you get an online trading account with \$1 Million of virtual money for each of up to 15 portfolios. You place buy and sell orders and Marketocracy executes them by matching your virtual trades with actual trade prices and volumes via real-time data feeds from the NYSE, AMEX, NASDAQ, and OTC exchanges. We apply realistic virtual commission charges and SEC fees for sales proceeds so you experience the cost of trading. Cash earns the money market rate and portfolios are adjusted for stock splits and dividends.

The reason we've developed such a realistic stock market simulation is to find the best portfolio managers in the world. We track and rank the investing performance of our members and manage real money based on our ability to select the top model portfolios. Therefore, we want the simulation to be as accurate and fair as possible.

Don't risk your real money while you're learning how to become a better investor.

How Good Are You?

On Marketocracy's website, we provide you with a Net Asset Value (NAV) Chart of your *Investment Portfolio*. This shows you a lot more than a brokerage statement. The NAV Chart shows you how well your overall investment portfolio has performed in the same way that mutual funds are measured. Now you can calculate accurate return numbers and compare your performance against any index and any mutual fund using an apple-to-apple comparison and find out how good you are.

Focus on What You Do Best

Waiting for the "fat pitch," is how Warren Buffett compared investing to Ted Williams approach for hitting a baseball. Ted Williams is arguably the greatest baseball hitter of all time. In his book, *The Science of Hitting*, Ted Williams describes how he mapped the strike zone into 77 cells the size of a baseball. He knew his batting average in each cell. He would avoid balls in his worst cells, even though it was a strike and aggressively go after the pitches in his best cells. That's how Ted Williams became such a great hitter.

Ted Williams' "cells" are similar to different types of investments: strategies, situations, profiles or scenarios that you can invest in. For example: small-cap technology growth stocks, companies that generate transaction fees on mortgages, or software companies with low P/E ratios. These are the investing zones that you should evaluate your performance on. When you see an investment that is in

your best investing zones, you should have the confidence to not only step up to the plate, but to go after it aggressively.

The more experience you have in successful investing in a particular investing zone the more confident you should be when you see your “fat pitch.” Marketocracy gives you the opportunity to practice investing and to find your investing zones without risking your own money. Waiting for “your pitch” is what we mean when we say, “focus on your investing strengths.” If you only invest in opportunities that you’re best at you’ll be more successful than if you invest in everything.

Discovering Your Strengths

Don’t be surprised if you under-perform the market. Most professional money managers under-perform too. What the industry doesn’t tell you is that everyone is probably good at something. The key is to find out what that something is that you’re good at.

A common mistake that I often see investors making is they think they have to make money on every investment decision. That’s one of the reasons so many investors hold on too long to a losing position, hoping they can sell when it comes back and at least break even.

Marketocracy’s website provides you with a “Stratification” report that shows the performance of all the positions in your portfolio ranked from top to bottom. Use this tool to look for patterns to your performance. Try to identify the investment profiles, e.g., styles, sectors, strategies, etc. that tend to fall within the top segment of the “Stratification” report.

If there are investing scenarios or profiles that you don’t do well in - approaches that don’t work well for you – stop doing them! If you just stop doing the things that don’t work or that you’re not good at, you will become a better investor.

Find Good Investment Ideas You Can Trust

I was the co-founder and CEO of Firsthand Funds. When the Firsthand Technology Value Fund became the No. 1 mutual fund in the country, Firsthand Funds grew to \$8 Billion under management.

When you become that successful, you get bombarded with stock ideas from brokers, consultants, investment bankers, public companies, etc. I was confronted with the issue, whom should I trust for investment advice?

Sound familiar? How do you decide whom to listen to for investment advice?

Generally, most investment advice sounds good and most investment advisors – brokers, financial planners, advisers, and analysts – generally look good, sound intelligent, and have impressive credentials. The mutual fund industry is filled with portfolio managers and analysts that were hired because they interviewed well, knew someone, or had a great resume.

The reality is that good investment advisors are hard to find. That’s because investing is a skill and to evaluate skill you need to see someone perform over time.

One day, I was watching a baseball game and it occurred to me that stock-picking is a skill just like pitching. If I wanted to recruit a pitcher I wouldn’t start by looking at resumes. I’d put him up on the mound and watch him pitch against the best batters I could find.

That’s why I founded Marketocracy. To track, analyze, and evaluate the investing performance of anyone that wants to try. Through our web site you can track anyone offering you investment advice. Set up a model stock portfolio for each of them. Whenever they call you with an idea put it into their model portfolio

so you can see how they do. Marketocracy will help you track and evaluate their performance. If they are performing well, then you should pay attention. If they aren't, then stop listening.

When your broker calls with a stock tip, buy it with virtual money. When you receive an investment newsletter with investment ideas, buy them with virtual money. When you hear a financial wizard on CNBC giving you their top 3 stocks they like, buy them with virtual money.

Now you have ideas of what to buy, but generally, you'll have to make judgments about *how much* to buy and *when to sell*. For example, when a Wall St. equity research analyst recommends Cisco is a "Buy" how much should you buy? At today's price? If you already own stock in Cisco should you hold or buy more?

Every advisor has good stock picks and bad picks. They tend to tell you only about the good ones. The only way to judge an advisor is to look at the whole picture over time making sure to include all the bad stock-picks as well as the good ones.

Once you know who is giving you good advice, you can improve your returns by getting rid of the people who are wasting your time and costing you money and giving more of your time and attention to the people whose advice is making you money.

Final Thoughts

Everyone wants to become a better investor, but like any skill, it takes practice to get better. Once you discover what investing approach or areas you're best at, focus your efforts there. And before you listen to anyone offering you investment advice, evaluate their performance.

If you take these three essential steps, you'll be well on your way to becoming a better investor.