

Special Report

The Cornerstones of Investment Success

**“Four Secrets Every
Investor Must Know”**

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Greetings and welcome to my world! I'm Chuck Hughes. I've been trading now for over twenty-two years. These years of experience have allowed me to accumulate millions of dollars in trading profits. As a special bonus, I am allowing my readers a glimpse into my world of trading and winning. Here is a peek at some of my favorite money management and trading techniques that have allowed me to amass a fortune and provide my family with financial security. Hopefully these techniques will allow you to do the same!

Secret # 1 Use a Discount Broker

The average investor has benefited tremendously over the last several years with the proliferation of discount brokers. These discount brokers have been competing vigorously with each other and this competition has driven down commission rates, improved services and has provided investors with many tools to help them invest. I have made thousands of stock and option trades over the years using a discount broker with a commission rate of \$15 or less. These low commissions have really reduced investment costs to the point that they are almost insignificant. The excerpt below from my brokerage account statement totals my recent profits and commission costs. My recent profits total \$274,562 and the total commissions and fees required to produce this profit were \$4,310.45. My total commissions and fees amount to only 1½ % of my total net profits.

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Portfolios: Gains & Losses

Total Long-Term Gain/(Loss): \$0	Total Short-Term Gain/(Loss): \$274562	Total Commissions/Fees: \$4310.45
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Positions: # - Lot edited by firm +- Lot edited by customer

Symbol	Quantity	Opening Transaction			Order	Closing Transaction			Gain (Loss)	Gain Term	Action
		Date	Price	Net Amount		Date	Price	Net Amount			
JECGJ	9	05/23/2007	0.00	0.00	S	07/17/2007	15.20	13669.25	13669	Short	Edit
JECGJ	9	06/13/2007	7.50	6764.74	S	07/17/2007	15.20	13669.25	6905	Short	Edit
JECHJ	5	06/19/2007	9.00	4511.74	S	07/24/2007	16.30	8141.26	3630	Short	Edit
JECHJ	3	06/19/2007	9.00	2702.25	S	07/24/2007	16.30	4884.75	2182	Short	Edit
JECHK	9	07/03/2007	5.70	5144.74	S	07/24/2007	11.40	10250.48	5106	Short	Edit

I think there will always be a need for full service brokers as they can provide a valuable service to investors who do not make their own investment decisions and need investment advice. But if you make your own investing decisions then online trading using a discount brokerage company is the way to go.

There is a hidden cost to investing, however, that can easily exceed commission costs. Most investors are not aware of this hidden cost. Using a discount broker can help reduce this hidden cost of investing.

Secret # 2 How to Reduce The Hidden Costs of Investing

Whenever you buy/sell a stock or an option on one of the major exchanges you are dealing with a 'market maker' for that stock or option. The market maker takes the other side of your buy or sell transaction. For example when you 'buy' the market maker is selling you the stock or option. When you 'sell' the market maker is buying your stock or option. The market maker realizes a profit for each buy/sell transaction from the 'bid/ask' spread. Normally an investor like you or me will pay the higher 'ask' price when buying a stock or option and will sell at the lower 'bid' price when selling a stock or option. This allows the market maker to be compensated for the risk of taking the other side of the transaction.

The bid/ask spread varies considerably depending on the liquidity or trading volume of a stock or option. Today there were 18,275,300 shares traded in General Electric common stock. The 'bid' price is 33.26 and the ask price is 33.28. This would be considered a very liquid stock with a narrow bid/ask spread. The 'cost' of the bid/ask spread to buy or sell this stock would only be 2 cents per share and is not much of a factor in the overall investment return for this stock.

Shares of Wake Forest Bancshares (WAKE) on the other hand would be an example of a thinly traded or illiquid stock. WAKE is currently trading at 21.00 per share with a bid price of 20.50 and an ask price of 21.70 (see price quote table that follows). The bid/ask spread cost to 'buy' this stock is 70 cents per share price. The bid/ask spread cost to 'sell' this stock is 50 cents per share. The total spread cost to buy and sell this stock would be 1.2 points which is about 5.7% of the share price. ***If you invest in this stock you must have a 5.7% increase in the stock price just to break even from bid/ask spread cost!***

WAKE FOREST BANCSHARES INC (OTC BB:WAKE.OB) Delayed quote data		Edit	
Last Trade:	21.00	Range:	N/A - N/A
Trade Time:	Feb 23	52wk Rang:	20.00 - 26.50
Change:	0.00 (0.00%)	Volume:	0
Prev Close:	21.00	Avg Vol:	727.419
Open:	N/A	Market Cap:	24.23M
Bid:	20.50 x 200	P/E (ttm):	17.99
Ask:	21.70 x 200	EPS (ttm):	1.17
1y Target	N/A	Div & Yield:	0.68 (3.20%)

Use Limit Orders to Discover the Best Price

I have often heard the argument that using a full service broker will result in better trade executions compared to a discount broker. But my experience has been that using limit orders usually results in getting the best executions. A limit order specifies the highest price you are willing to pay to 'buy' a stock and the lowest price you are willing to accept to 'sell' a stock.

In the previous example if you wanted to buy shares of WAKE you could enter a limit order to buy WAKE at 21.35. This order specifies that you are willing to buy WAKE at 21.35 or lower and will not pay more than 21.35 per share to buy the stock. This limit order could be entered as a Good Until Cancelled (GTC) order which means the order remains in effect until you cancel it.

If your limit buy order is executed at 21.35 it could be the result of the price of the stock trading lower or it could be the result of a market maker who is willing to sell you the stock at a lower price than the published 'bid/ask' spread. In the case of the latter you have effectively cut the transaction cost of the bid/ask spread in half. I have actually invested in WAKE shares and in other similar thinly traded stocks using limit orders and more often than not there is a market maker willing to buy/sell at a better price than the published bid/ask spread. You can not determine this unless you use a limit order. Finding a market maker that can buy/sell at a more favorable price than the published bid/ask spread can save you significant transaction costs. Using a discount broker can make this bid/ask spread price discovery easy as you can change your limit price as many times as you like without incurring extra costs or fees.

The cost savings realized by using limit orders for buying and selling options can be dramatic as options have a much wider bid/ask spread compared to stocks.

CBOE Option Price Quotes for Health Net (HNT), Freightcar America (RAIL) and International Security Exchange (ISE):

HNT				48.88 -0.74			
Feb 24 @ 15:12 ET (Data 20 Minutes Delayed)				Bid N/A Ask N/A Size N/AxN/A Vol 1480800			
Calls	Bid	Ask	Open Int	Puts	Bid	Ask	Open Int
06 Mar 45.00 (HNT CI-E)	3.30	5.30	0	06 Mar 45.00 (HNT OI-E)	0	1.25	37
06 Mar 47.50 (HNT CW-E)	1.70	2.95	850	06 Mar 47.50 (HNT OW-E)	0.15	1.40	69
06 Mar 50.00 (HNT CJ-E)	0.25	1.50	210	06 Mar 50.00 (HNT OJ-E)	1.30	2.55	134
06 Mar 55.00 (HNT CK-E)	0	1.25	775	06 Mar 55.00 (HNT OK-E)	5.00	7.00	16
06 Apr 40.00 (HNT DH-E)	8.10	10.60	76	06 Apr 40.00 (HNT PH-E)	0	1.25	229
06 Apr 42.50 (HNT DV-E)	5.90	8.40	1020	06 Apr 42.50 (HNT PV-E)	0	1.25	102
06 Apr 45.00 (HNT DI-E)	4.00	6.00	2435	06 Apr 45.00 (HNT PI-E)	0.30	1.35	245
06 Apr 47.50 (HNT DW-E)	2.30	4.30	712	06 Apr 47.50 (HNT PW-E)	0.95	2.20	356
06 Apr 50.00 (HNT DJ-E)	1.25	2.50	2685	06 Apr 50.00 (HNT PJ-E)	1.95	3.20	225

RAIL				69.77 +2.66			
Feb 24 @ 15:00 ET (Data 15 Minutes Delayed)				Bid 69.73 Ask 69.77 Size 2x1 Vol 251327			
Calls	Bid	Ask	Open Int	Puts	Bid	Ask	Open Int
06 Mar 40.00 (RQN CH-E)	28.90	30.90	0	06 Mar 40.00 (RQN OH-E)	0	0.60	0
06 Mar 45.00 (RQN CI-E)	23.90	26.00	5	06 Mar 45.00 (RQN OI-E)	0	0.60	4
06 Mar 50.00 (RQN CJ-E)	19.10	20.80	12	06 Mar 50.00 (RQN OJ-E)	0	0.60	0
06 Mar 55.00 (RQN CK-E)	14.20	15.10	71	06 Mar 55.00 (RQN OK-E)	0	0.25	83
06 Mar 60.00 (RQN CL-E)	9.70	11.00	54	06 Mar 60.00 (RQN OL-E)	0.05	0.65	82
06 Mar 65.00 (RQN CM-E)	5.50	6.70	61	06 Mar 65.00 (RQN OM-E)	0.85	1.45	0
06 Mar 70.00 (RQN CN-E)	2.40	3.40	12	06 Mar 70.00 (RQN ON-E)	2.40	3.60	

ISE				42.76 +0.61			
Feb 24 @ 15:16 ET (Data 20 Minutes Delayed)				Bid N/A Ask N/A Size N/AxN/A Vol 368700			
Calls	Bid	Ask	Open Int	Puts	Bid	Ask	Open Int
06 Mar 25.00 (ISE CE-E)	15.40	20.20	0	06 Mar 25.00 (ISE OE-E)	0	0.10	10
06 Mar 30.00 (ISE CF-E)	10.40	15.20	24	06 Mar 30.00 (ISE OF-E)	0	4.80	131
06 Mar 35.00 (ISE CG-E)	5.50	10.30	352	06 Mar 35.00 (ISE OG-E)	0	1.80	382
06 Mar 40.00 (ISE CH-E)	2.50	5.90	2700	06 Mar 40.00 (ISE OH-E)	0	4.80	180

Option Bid/Ask Spreads Can Vary from 10 to 100% of the Total Value of the Option

We can see from the preceding option quote tables that options can have wide bid/ask spreads depending on the strike price selected. In the first example the Health Net March 45-Strike call option has a bid price of 3.30 and an ask price of 5.30. If we were selling this option using a 'market' order we would expect to receive 3.30 points (\$330) and if we were buying this option with a 'market' order we would expect to pay 5.30 points. The bid/ask spread cost to invest in this option would be \$200 which is considerable for an option that requires a total investment of \$530 to purchase.

A much better approach would be to use a limit order that specifies the highest price you are willing to pay to buy an option (lowest price to sell). I recently made 195 option trades that produced \$1,023,174.93 in open and closed trade profits. I used a limit order on almost every one of the 195 trades and received a better price than the published bid/ask spread. This enabled me to reduce the cost of the bid/ask spread by about 30% to 40% on average. This was due mainly to the fact that the five or six major option exchanges have a lot of market makers. I have discovered that these market makers tend to specialize in certain options. They trade more volume on the options that they tend to specialize in and usually can give you a better price than the published bid/ask spread. On most of the 195 trades I made last month I had to change the limit price several times to adjust to changing prices. Changing the limit price was quick and easy to do as I trade online using discount brokers. There are no charges for changing these orders. Options normally trade in .10 point increments but you can see from my brokerage confirmation below that these options traded in .02, .03, .01 and .08 increments as a result of using limit orders to get the best price. Getting a better price by using limit orders has increased my profits by tens of thousands of dollars.

<i>Daily Account Activity</i>						
Trade Date	Settlement Date	Activity	Quantity	Trade #	Currency	Price
PURCHASES AND SALES						
USD - US DOLLAR						
+CAMFL:		Cameron International Corp Jun 2007 60.00 Call				
06/14/2007	06/15/2007	Sell to Close	-10.0000	41927606	USD	12.420000
+CAMFN:		Cameron International Corp Jun 2007 70.00 Call				
06/14/2007	06/15/2007	Buy to Close	10.0000	41927604	USD	2.520000
+RIOFG:		Companhia Vale Do Rio Doce Sponsored Adr Jun 2007 35.0				
05/31/2007	06/01/2007	Sell to Close	-10.0000	41283207	USD	10.530000
+RIOFH:		Companhia Vale Do Rio Doce Sponsored Adr Jun 2007 40.0				
05/31/2007	06/01/2007	Buy to Close	10.0000	41282838	USD	5.610000
+TEXGP:		Terex Corp New Jul 2007 80.00 Call				
06/04/2007	06/05/2007	Buy to Open	10.0000	41392494	USD	8.380000
+TEXGR:		Terex Corp New Jul 2007 90.00 Call				
06/04/2007	06/05/2007	Sell to Open	-10.0000	41392492	USD	2.680000

Secret # 3 A Non-Custodial Retirement Account is an Active Trader's Best Friend

As an active trader one of the most important discoveries I made recently was to trade as much as possible in a qualified retirement plan brokerage account. There are many different types of retirement plans available today such as IRAs, SEP IRAs, 401Ks, 403Bs, Profit Sharing and Money Purchase Keogh Plans and Defined Benefit Plans.

Most discount brokers will allow you to open what is called a 'non-custodial' brokerage account for these various retirement plans. I currently have three different types of non-custodial retirement plan brokerage accounts in which I now do most of my trading. Non-custodial retirement brokerage accounts have many advantages compared to taxable brokerage accounts:

- 1) You don't have to account for every trade on your tax return. Every trade in a taxable account has to be reported to the IRS as a short or long term capital gain/loss and is subject to wash sale rules. This reporting can be onerous, time consuming and expensive if your accountant does all the work especially if you are an active trader. It also requires you to keep records of trade dates, cost basis and sales proceeds.
- 2) You don't have to pay taxes on capital gains (taxes are deferred until retirement). Achieving a high rate of return without paying taxes allows you to compound your profits and turn a small amount of money into a large amount of money in a short period of time. Also, paying taxes on capital gains can sometimes force you to sell some of your stocks or options to pay for the taxes. These sales can disrupt your trading plans.
- 3) In general your brokerage firm does not have any reporting requirements to the IRS. With my non-custodial retirement accounts I act as the custodian for the account. This allows me to transfer funds from one qualified retirement account to another without my brokerage firm having to report the transfer of funds as a distribution.
- 4) I can trade options in my non-custodial retirement brokerage account. Most discount brokers allow options trading in non-custodial retirement brokerage accounts. I can buy put and call options, write covered calls and trade option spreads in my non-custodial retirement brokerage account. This allows me to trade all of the *MVP* option strategies in my retirement account.

Note: This general overview of non-custodial retirement brokerage accounts should not be construed as tax advice. Tax laws are extremely complex and are constantly changing. It is recommended that you consult a qualified tax attorney before establishing any retirement brokerage accounts.

Building Financial Security

As previously mentioned, I recently made \$1,023,174.93 in open and closed trade profits over a 26-day period. The vast majority of these profits were made in my retirement accounts. Trading my strategies in my retirement accounts has allowed me to compound my profits and build my retirement accounts into mid-seven figures ensuring my and my family's financial security. The copy of my brokerage statement below shows that I currently have \$147,886.02 in open and closed trade profits in my trading account which equates to a 93.3% return. This account is a non-custodial retirement account in which taxes are deferred. I do not have to pay quarterly estimated income tax payments on my profits and I can let my profits compound.

Account Reports: Profit/Loss Report		PRINT					
<p>Give your accountant a break. View profits/losses for all trades executed on one specific date or during a range of dates. Track by position, whether it's closed, or still opened. Download to a spreadsheet for easy manipulation, processing and tax reporting.</p>							
* To see all transactions within specified date range leave symbol blank		Guide to the Profit/Loss Report					
<p>Click here to download data</p>							
Realized P&L on Closed Positions							
Symbol	Date Bought	Date Sold	Shares	Cost Basis	Sales Price	Gain-loss	
+GOPHO	7/5/2007 3:53:51 PM	7/9/2007 9:30:25 AM	2	\$9,914.50	\$10,025.33	\$110.83	
+MROGY	6/18/2007 11:59:59 PM	7/12/2007 2:28:53 PM	10	\$0.00	\$5,775.39	\$5,775.39	
+MROGY	6/19/2007 11:59:59 PM	7/12/2007 2:28:55 PM	10	\$0.00	\$5,787.39	\$5,787.39	
+MROGZ	7/12/2007 2:26:53 PM	6/4/2007 11:36:43 AM	10	\$1,568.50	\$7,475.36	\$5,906.86	
+MROGZ	7/12/2007 2:26:53 PM	6/19/2007 11:59:59 PM	10	\$1,568.50	\$0.00	-\$1,568.50	
+UEXHH	7/5/2007 3:57:41 PM	7/9/2007 12:40:28 PM	10	\$7,024.50	\$7,475.36	\$450.86	
Total Realized Gain-Loss:						\$16,462.83	
Unrealized P&L on Open Positions							
Symbol	Description	Position	Avg Price	Cost Basis	Market Value	Type	Unrealized Val.
+APVHE	Apple Inc Aug 2007 125.00 Call	10	\$11.7245	\$11,724.50	\$16,800.00	Stock Option	\$5,075.50
+BGCHN	General Cable Corp Del New Aug 2007 70.00 Call	10	\$11.0245	\$11,024.50	\$14,000.00	Stock Option	\$2,975.50
+FCXGO	Freeport-Mcmoran Copper & Gold Jul 2007 75.00 Call	10	\$8.4945	\$8,494.50	\$16,800.00	Stock Option	\$8,305.50
+FLRHT	Fluor Corp New Aug 2007 100.00 Call	10	\$10.0245	\$10,024.50	\$20,200.00	Stock Option	\$10,175.50
+IHHHK	Intercontinentalexchange Inc Aug 2007 155.00 Call	7	\$18.6296	\$13,040.75	\$12,600.00	Stock Option	-\$440.75
+JECHJ	Jacobs Engr Group Inc Del Aug 2007 50.00 Call	10	\$8.5245	\$8,524.50	\$15,600.00	Stock Option	\$7,075.50
+MALGH	Mastercard Inc Cl A Jul 2007 140.00 Call	10	\$12.9645	\$12,964.50	\$29,200.00	Stock Option	\$16,235.50
+MDRHO	Mcdermott Intl Inc Aug 2007 75.00 Call	10	\$9.0245	\$9,024.50	\$17,200.00	Stock Option	\$8,175.50
+NOVGR	National Oilwell Varco Inc Jul 2007 90.00 Call	10	\$12.3245	\$12,324.50	\$22,200.00	Stock Option	\$9,875.50
+PCPHB	Precision Castparts Corp Aug 2007 110.00 Call	10	\$10.0245	\$10,024.50	\$24,000.00	Stock Option	\$13,975.50
+PCUHQ	Southern Copper Corp Aug 2007 85.00 Call	10	\$10.0245	\$10,024.50	\$25,200.00	Stock Option	\$15,175.50
+RFYHT	Research In Motion Ltd Aug 2007 200.00 Call	10	\$22.1565	\$22,156.50	\$32,700.00	Stock Option	\$10,543.50
+RIGGA	Transocean Inc Ord Jul 2007 105.00 Call	-10	-\$2.4249	\$2,424.94	-\$1,850.00	Stock Option	\$574.94
+RIGGS	Transocean Inc Ord Jul 2007 95.00 Call	10	\$7.9750	\$7,975.00	\$10,800.00	Stock Option	\$2,825.00
+UFBGS	Foster Wheeler Ltd Shs New Jul 2007 95.00 Call	10	\$11.0245	\$11,024.50	\$22,400.00	Stock Option	\$11,375.50
+XTQGW	Express Scripts Inc Jul 2007 47.50 Call	20	\$0.0000	\$0.00	\$13,200.00	Stock Option	\$13,200.00
+XTQGX	Express Scripts Inc Jul 2007 52.50 Call	-20	\$0.0000	\$0.00	-\$3,700.00	Stock Option	-\$3,700.00
Total Unrealized Gain-Loss:						\$131,423.19	

When these options expire I will be investing in new options using the *MVP Option Strategies*. This is known as 'rolling over' my option positions.

The Magic of Compounding

Let's assume that I 'rolled over' my option trades and was able to achieve a 93% return twice a year and left my profits in my trading account and let them compound. I know that losing periods are inevitable with any strategy and that every month cannot produce a 93% return but for the sake of demonstration just stay with me for a moment. If you started with \$10,000 and made a 93% return twice a year it would only take four years for your \$10,000 investment to grow to over 1.9 million dollars and after five years your \$10,000 investment grows to over seven million dollars demonstrating the 'magic of compounding'.

Year	Starting Value	Percent Return	Profit	Ending Value
1	\$10,000.00	93.0%	9,300.00	\$19,300.00
	19,300.00	93.0%	17,949.00	37,249.00
2	37,249.00	93.0%	34,641.57	71,890.57
	71,890.57	93.0%	66,858.23	138,748.80
3	138,748.80	93.0%	129,036.38	267,785.18
	267,785.18	93.0%	249,040.22	516,825.41
4	516,825.41	93.0%	480,647.63	997,473.03
	997,473.03	93.0%	927,649.92	1,925,122.95
5	1,925,122.95	93.0%	1,790,364.35	3,715,487.30
	\$3,715,487.30	93.0%	3,455,403.19	\$7,170,890.49

Secret # 4 Use a Rule Based Strategy to Make Investing Decisions

If you follow a rule based strategy you can make your own investment decisions and you do not need advice from a full service broker. This allows you to use a discount broker instead and save on commissions and fees. I use 4 different discount brokers; E*Trade, Terra Nova, Investrade and Wachovia. All of these brokers offer good service with low commissions. My average commission is about \$12 to \$13. I never understood how a discount broker can make a profit on a low commission until I discovered that they make most of their profits from interest they collect on your deposits and order flow.

Once I decide how much money I am going to allocate to a particular strategy I try to divide my funds up equally into as many different stocks or options as possible. This diversification helps reduce risk. You don't want to concentrate your investing funds in just a few different stocks in case one of your stocks suffers a big loss. Also, spreading out your funds into many different stocks and industries increases your chances of finding a big winner.

Using a rule based strategy doesn't require advice from a full service broker. A rule based strategy can free investors from emotional decision making which can prevent investors from making sound decisions and achieving an acceptable rate of return on their investments. Rule based strategies remove the reliance of making investing decisions based on guesswork or trying to predict the future. Investors instead make buy and sell decisions determined by strategy rules.

In the past when I used full service brokers, most of my time spent on the phone with my broker was spent discussing 'what to buy'. Very little time was dedicated to discussing what to sell. Knowing 'when to sell' is one of the more difficult investing decisions and can prevent investors from realizing consistent investment returns if they sell too early because of fear or sell too late because of greed. A good rule based investing strategy will alleviate the problem of knowing when to sell with rules that include 'sell' instructions with every trade.

Investors Hate to Lose More than They Love to Win

Investors hate to lose more than they love to win. It is human nature. This fear of losing causes investors to hold on to losers too long and to sell winners too early. This is just the opposite of sound portfolio management. Investors tend to hold on to losing investments hoping that they will come back so that they can 'breakeven'. When investors have a winning trade the fear of the winner turning into a loser causes investors to sell winners too early and miss out on future gains.

Holding on to losing trades can devastate your portfolio returns if you let small losers turn into big losers. Remember it takes a 100% gain to make up for a 50% loss. Selling winning trades can also hurt your portfolio returns. In a typical diversified portfolio of 10 stocks normally one or two of your stocks will be big winners and account for most of the profits in your portfolio. The problem is you can't predict which stocks will be the big winners so you have to hold on to winning trades.

Investing with the rule-based strategy has allowed me to follow a disciplined approach to investing. The buy and sell rules allow me to practice good portfolio management and I no longer need a broker's advice on when to buy and sell my investments. When my brother-in-law asks where is Apple heading? I tell him I don't know and his guess is as good as mine. But I can tell him that using the *MVP Option Strategy* I purchased Apple call options and closed them out for a 268% return in 35 days. I hope that you are able to invest using the *MVP Strategies* so that you can make independent investing decisions. This will allow you to use a discount broker and take advantage of the big commission savings.